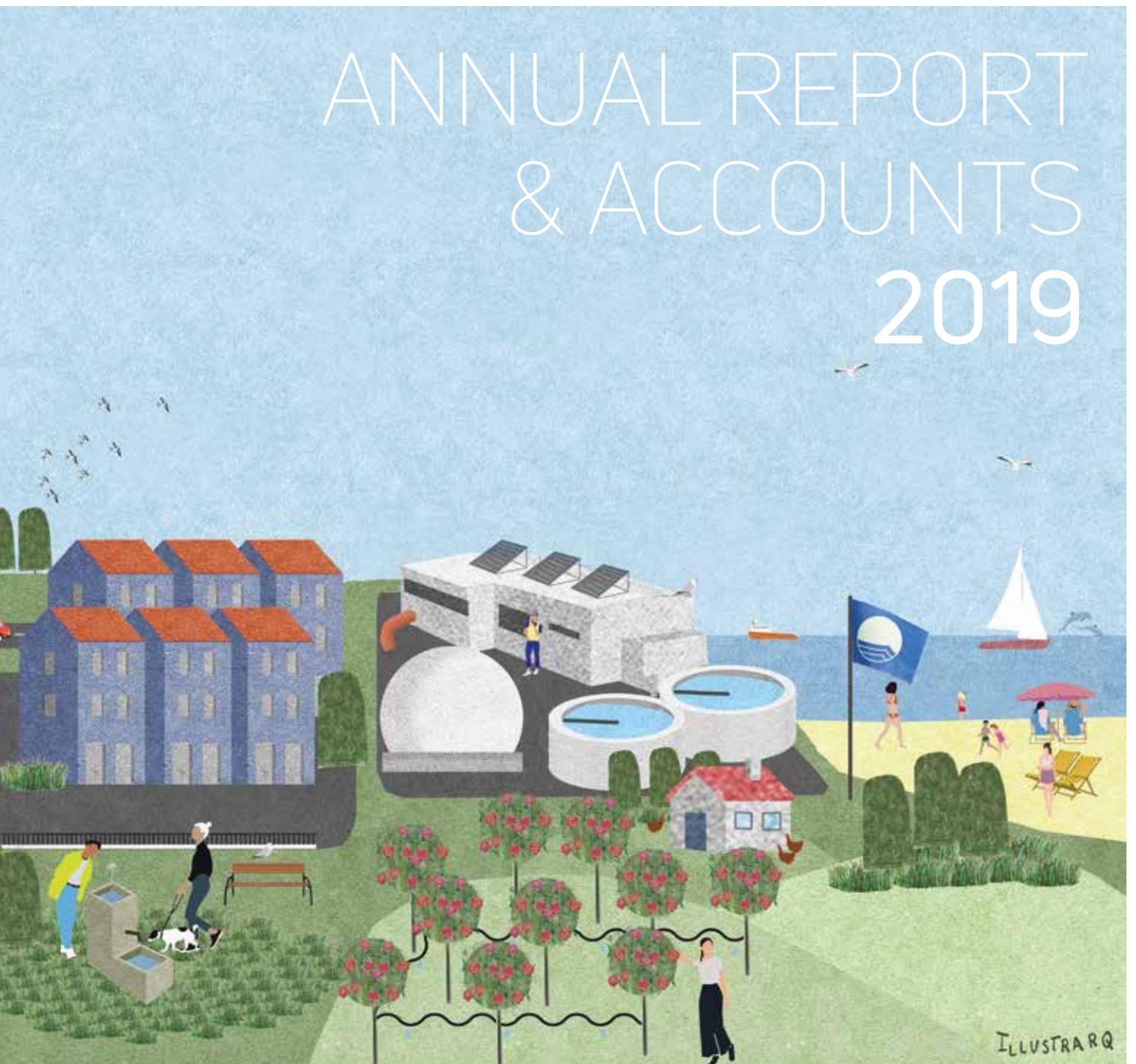
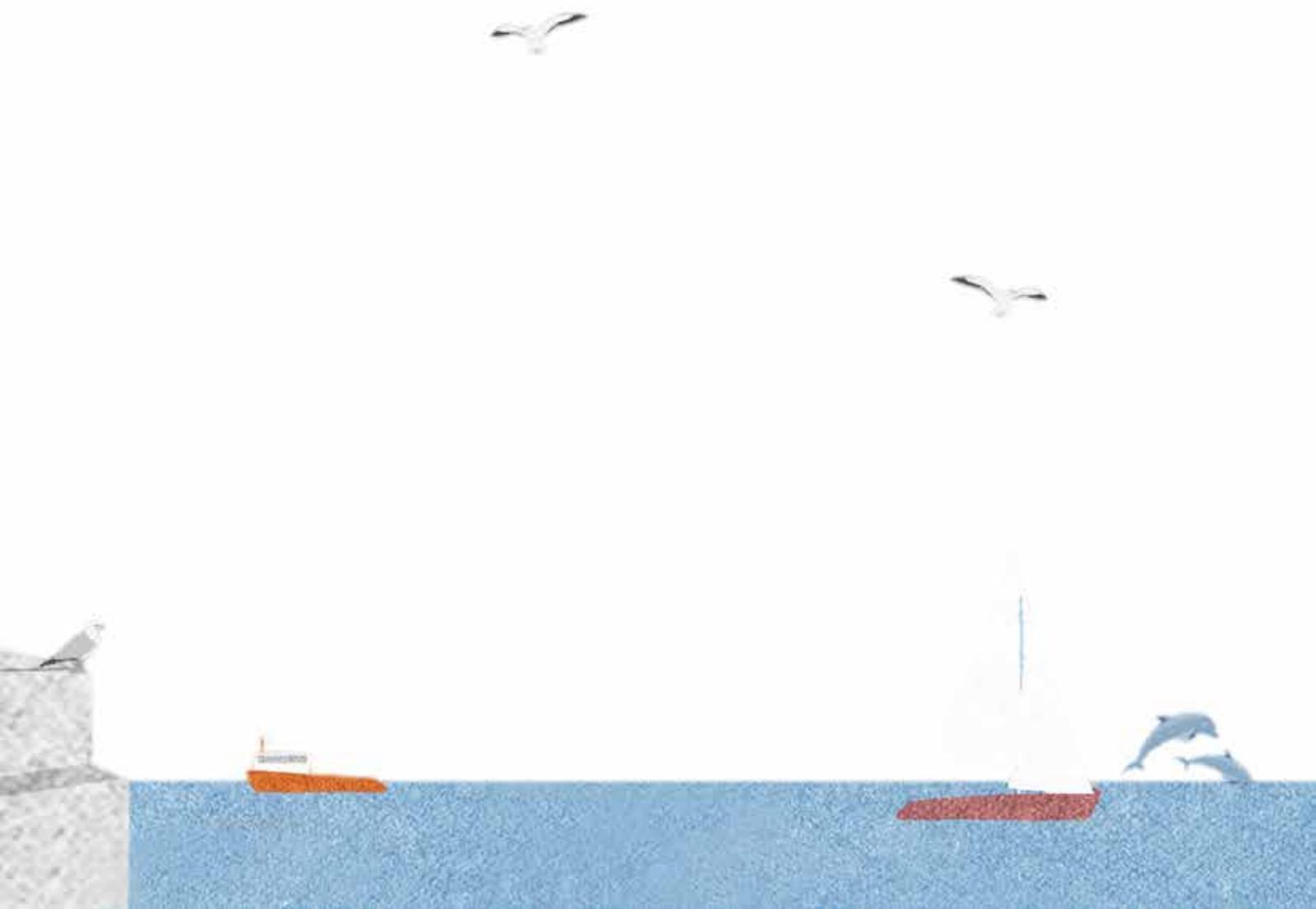


ANNUAL REPORT & ACCOUNTS 2019





ANNUAL REPORT & ACCOUNTS **2019**



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MESSAGE

Board of Directors _ *AdP - Águas de Portugal, SGPS, S.A.*

Within the framework of its mission and vision, the AdP – Águas de Portugal Group develops its activities through striving for universality and the continued improvement in services it provides based on financial consolidation and operating efficiency in partnership with our respective stakeholders and under the auspices of sectoral policies, especially the national commitment towards the sustainability of public water supply and sanitation services.

The 2019 financial year confirmed the path that was opportunely taken towards the goal of sustainability and that has enabled us to implement measures, attain objectives and build platforms that support us in taking the steps necessary to continuing with the consolidation of interventions as the largest group of public companies operating in the environmental field in Portugal.

For the second consecutive year, the AdP Group turned in a surplus on cost recovery deviation in consolidated terms. This indicator, in conjunction with the significant reduction in gross client debt, conveys a very positive evolution towards the reduction of risks stemming from the two greatest threats towards our sustainability.

We should duly reference the debt settlement agreements reached with our clients in 2019, especially as these also represent the normalisation of our relationships with the municipalities, the objective that we have striven for with great determination in keeping with how we are all partners in missions with a public interest through our companies in the various regions.

As regards the economic-financial indicators, they also confirm the recovery in investment, which grew 7.8% year-on-year, and the debt reduction trajectory of the Group that saw a 7.0% dip in new financial debt.

This naturally highlights the significant improvement achieved in EBITDA that, adjusted for the cost recovery surplus, surged

6.6% on 2018, above all due to the rise in turnover (+ 5.1%). The net result for the year, for the amount of EUR 83.1 million, declined by an annualised 4.8% due to the effect of the slide in the respective interest rate (10-year treasury bonds) and by the non-repetition of the investment capital gain registered in 2018.

At the operational level, and within the framework of the climate change adaptation and mitigation strategy, among the initiatives ongoing in 2019 in order to guarantee the continuity, quality and universality of the essential services provided by the AdP Group, we would highlight the progress made in expanding coverage, including examples such as the operational launch of various infrastructures in the Alentejo and beginning of activities of a new company in the Alto Minho region as well as interventions in the water supply systems so as to boost their capacity, resilience and operational functional performance, specifically in the Norte, Alentejo and Algarve regions. Within this scope, 2019 represents a landmark for the AdP Group with the awarding of the management of three dams out of the total of ten that are currently under the management of the Portuguese Environment Agency.

As regards the sanitation sector, complementing the investment plans of our companies, we would attribute particular emphasis to the continued implementation of the strategic lines of *PENSAAR 2020* and the *Circular Economic Action Plan*, especially through recovering value from the sub-products resulting from the treatment of wastewaters with a particular focus on the produce of water for reutilisation (ApR) from wastewaters within the scope of the *AdP Group Action Plan for Reutilisation* as well as seeking to boost the efficient usage of water and particularly within a context of shortage and climate change, valuing the sludges produced by water and wastewater treatment plants and recycling the nutrients present in wastewaters, embarking on a study on recovering value from livestock breeding and agro-industrial effluents and producing energy from renewable sources.

As regards this latter point, this throws a spotlight on the achievement of over 78% of the targets established for 2020 by *PEPE – the Energy Efficiency and Production Plan for the AdP Group* in 2019, including the reduction in CO₂ emissions even prior to the launching of a new solar power production project in 2020 that shall itself bring about an estimated cut of 36,000 tons/year of CO₂ emissions when fully operational in 2022 as well as starting on a plan to ensure the energy neutrality of the AdP Group.

Our commitment to the transition to a low carbon economic was also strengthened in 2019 by signing up to the “Business Ambition for 1.5°C” run by the United Nations Global Compact.

In terms of international activities, 2019 registered an expansion in our international presence following the emergence of new markets in Africa and Asia, especially highlighting India where the signing of a technical assistance contract with the Government of the State of Goa took place in February 2020.

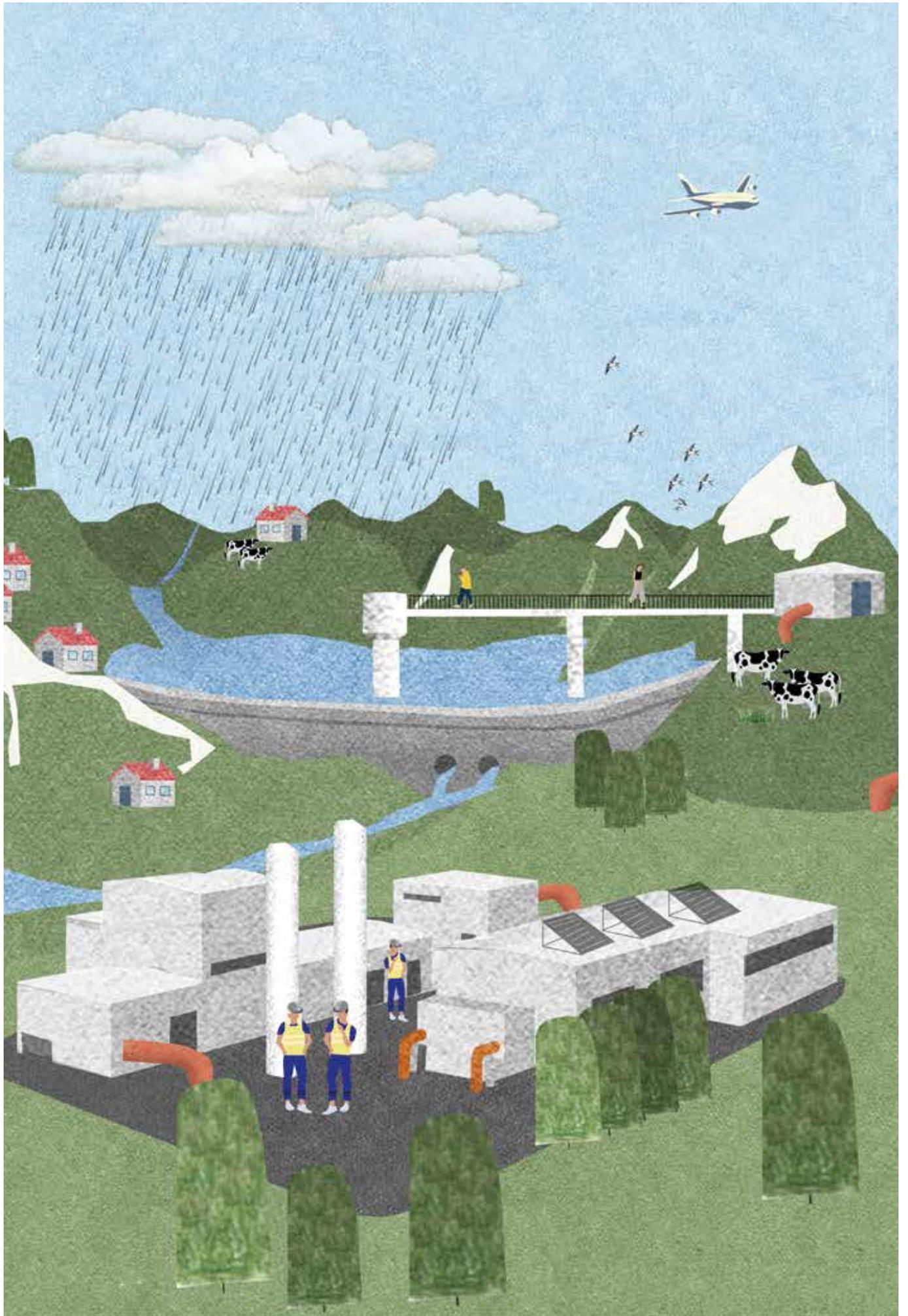
The international profile of the AdP Group was deepened by membership of the “Leading Utilities of the World” network, which brings together companies in this sector that stand out worldwide for their high performance standards and innovation capacities, as well as election to the Board of Water Europe, the European platform dedicated to promoting and disseminating research development and innovative projects in the water sector.

Due to its relevance in terms of external cooperation and also out of solidarity, the capacities and dynamics of our companies, we would necessarily point to the support rendered to the Mozambican authorities over re-establishing drinking water supplies to the population in areas afflicted by cyclone Idai, which devastated Mozambique in March 2019. Our expert teams were deployed in the terrain where they carried out the important work of surveying the conditions for the supply of water before identifying the priorities in terms of re-establishing supplies. The mission, which would never have been possible without the dedication, effort and solidarity of our teams of staff, also extended to the installation of a water treatment unit on the outskirts of the city of Beira that provided for the supply of drinking water to over 3 000 households.

Finally, and as a corollary of the work undertaken, the dedication and mission spirit that has always underpinned our professional activities, it is more than fair to highlight the role of our colleague who presided over the destinies of the Águas de Portugal Group for the last three years, João Nuno Mendes, and the financial director, Miguel Martin, who have done so much to contribute towards the high levels of performance turned in over this period.

To all of our members of staff, we would leave a final note of thanks for the exceptional performance, resilience and social awareness demonstrated in the performance of your functions. This recognition is now redoubled in relevance given the current context of the COVID-19 pandemic, an extreme situation in terms of public health and with impacts that at the time of writing, we remain unable to objectively describe across their many different levels. Nevertheless, we are confident that, taking into account the high level of preparation of our companies and the commitment of our employees, we shall be able to attain our public service mission and guarantee the continuity of our essential services of water supply and wastewater treatment. We salute all those that make up this great Águas de Portugal team.

THE GROUP



SUMMARY OF KEY INDICATORS (CONSOLIDATED)

ECONOMIC-FINANCIAL FIGURES

(in million EUR)

	2016	2017	2018	2019
Turnover ⁽¹⁾	609.9	626.8	657.9	691.5
Cost recovery deviation (CRD)	36.2	12.5	(15.5)	(38.1)
Turnover with CRD	646.1	639.3	642.4	653.4
Operational result ⁽²⁾ (OR)	166.5	172.4	165.3	160.9
EBITDA ⁽³⁾	306.3	316.5	343.0	365.7
Financial results	(45.9)	(31.2)	(26.8)	(30.4)
Net annual result	70.8	88.6	87.3	83.1

(1) Does not include the earnings of either construction (IFRIC 12) or CRD.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC 12).

(in million EUR)

	2016	2017	2018	2019
Operating assets (net) ⁽¹⁾	4 690.5	4 611.1	4 568.5	4 542.3
Investment (increases) ⁽²⁾	69.7	94.7	133.8	144.2
Client debts ⁽³⁾	338.9	338.0	348.3	276.4
Total assets	6 382.8	6 150.6	6 141.9	6 137.0
Financial debt ⁽⁴⁾ – Total	2 335.3	2 027.6	1 924.2	1 842.9
Financial debt – Net ⁽⁵⁾	2 044.3	1 909.4	1 797.4	1 671.9
Financial debt net/ EBITDA ⁽⁵⁾	6.7	6.0	5.2	4.6
Investment subsidies	1 636.1	1 600.7	1 563.3	1 523.1
Own capital ⁽⁶⁾	1 445.0	1 517.2	1 589.2	1 650.0
Non-controlled interests	292.0	301.3	312.8	316.6

(1) Intangible assets + Tangible assets + Right-of-use assets + Investment properties.

(2) Investment deduced from the Odelouca dam reclassification and Right-of-use asset.

(3) Refers only to the amounts billed for water and sanitation. In 2019, the amounts related to client debts falling under the auspices of the DSAs were reclassified as financial assets at fair value for income.

(4) Loans + Leasing liabilities with financial entities.

(5) Financial debt total – availabilities.

(6) Includes non-controlled interests.

(in million EUR)

	2016	2017	2018	2019
Financial structure ⁽¹⁾	1.6	1.3	1.2	1.1
Solvability ⁽²⁾	0.6	0.7	0.7	0.7
Financial autonomy ⁽³⁾	0.5	0.5	0.5	0.5
Growth in turnover ⁽⁴⁾	5.2%	2.8%	5.0%	5.1%
EBITDA margin ⁽⁵⁾	50.2%	49.5%	52.1%	52.9%
Pre-tax ORCE ⁽⁶⁾⁽⁷⁾⁽⁸⁾	3.8%	4.7%	5.3%	5.8%

(1) Bank debt/ Own capital.

(2) (Own capital + Subsidies)/ Liability.

(3) (Own capital + Subsidies)/ Asset.

(4) Net of CRD and IFRIC 12.

(5) EBITDA/ Turnover net of CRD.

(6) EBIT (7)/ Capital employed.(8)

(7) OR – CRD.

(8) Net total asset - Short term liability - Investment subsidies - CRD – Deferred tax asset.

ACTIVITY DATA

	Unit	2016	2017	2018	2019
Volume of water produced	M m ³	580.9	599.4	578.8	597.3
Volume of water acquired	M m ³	14.4	14.4	14.6	22.3
Volume of water distributed ⁽¹⁾	M m ³	74.9	77.9	69.9	71.5
Volume of water invoiced	M m ³	583.3	610.2	592.4	613.9
Volume of wastewater treated	M m ³	533.6	461.0	514.1	498.1
Volume of wastewater invoiced ⁽²⁾⁽³⁾	M m ³	476.1	462.4	484.3	491.0
Number of staff ⁽⁴⁾	N.º	3 257	3 173	3 290	3 308

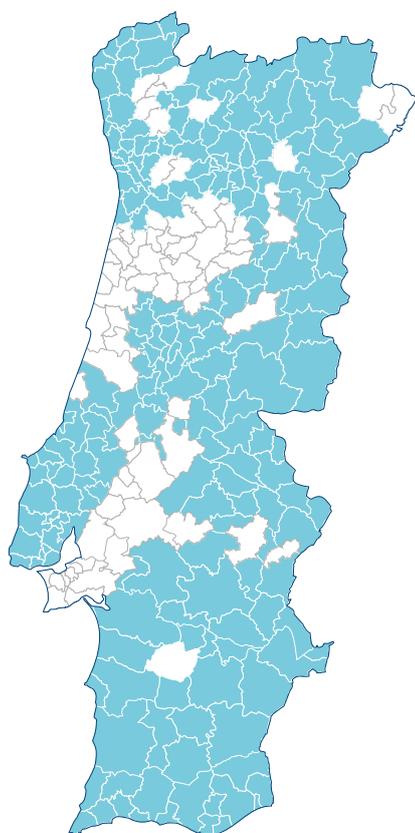
(1) Includes water distributed by EPAL, AdRA – Águas da Região de Aveiro and Águas do Norte.

(2) The volume of wastewater invoiced in 2017 was corrected by 6.8 million m³ on that reported in 2017 (annulment of the internal Águas do Norte sales).

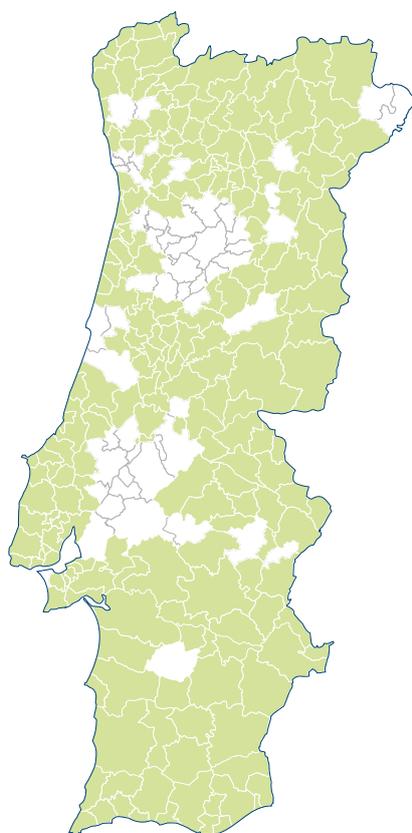
(3) Includes the effect of tariff income invoicing.

(4) Active employees + employees with suspended contracts.

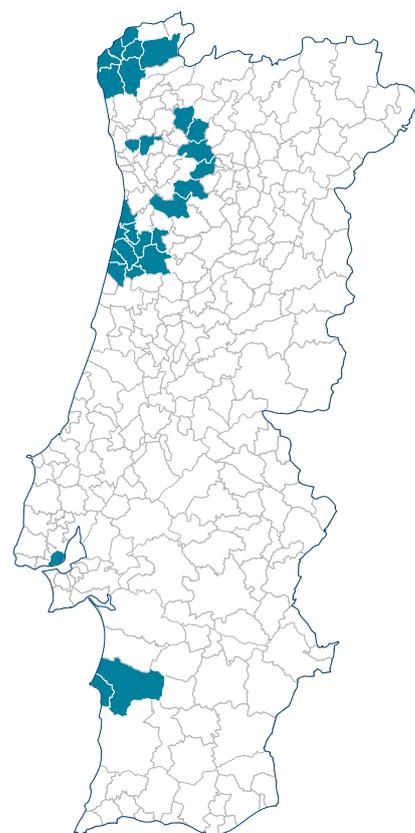
UPSTREAM WATER SUPPLY



UPSTREAM WASTEWATER SANITATION



DOWNSTREAM WATER SUPPLY AND SANITATION



WHO WE ARE

AdP - Águas de Portugal. SGPS, S.A. (AdP as a group or AdP SGPS as a separate holding company) was set up in 1993 to respond effectively to the major challenges facing the environmental sector. It 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.

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 usage 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.

1993

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

1995

Creation of the Multi-Municipal Wastewater System of Costa do Estoril and creation of SANEST. EPAL was in charge of the Multi-Municipal Water Supply System of the Greater Lisbon Area.

Creation of the first multi-municipal water supply Systems: for the North and South Greater Oporto Metropolitan Area, the Greater Lisbon Area, Eastern and Western Algarve [Decree-Law no. 379/93, 5 November].

1996

Receipt of European Union funding following the first applications to the Cohesion Fund, which enabled the Group to undertake the necessary investments in water supply and wastewater management infrastructures.

1997

Launch of AQUAPOR - Serviços, S.A. a company formed to participate in the municipal systems market and to 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.

Creation of the Multi-Municipal Wastewater System of Ria de Aveiro.

1998

First AQUAPOR Holding, in consortium with private companies, in a municipal system concession for exploration and management of the municipal water and sanitation system (Figueira da Foz).

Intensification of the activity in international markets, with the holding company investing in companies in Brazil (EBAL and Prolagos) and in Mozambique (AQUATEC).

1999

Creation of the Multi-Municipal Sanitation System of the Lis River.

International consortium for the concession of the water supply to the five main cities of Mozambique, giving rise to the Águas de Moçambique concessionaire. Entry into the Cape Verdean market, with the acquisition, in a consortium with EDP, of the majority of the capital stock of Electra, an electricity and water company.

2000

Integration of Empresa Geral do Fomento, S.A. (EGF) into the AdP Group as a sub-holding for the waste area.

Creation of three more Multi-Municipal Sanitation Systems: Baixo Cávado and Ave, Algarve and Greater Oporto.

Merger of the companies Águas do Barlavento Algarvio and Águas do Sotavento Algarvio and founding of Águas do Algarve.

Creation of the first Integrated Multi-Municipal Water Supply and Wastewater Systems: Zêzere e Côa, Norte Alentejo, Oeste and Minho e Lima and the establishment of the three respective concessionaires (Águas do Zêzere e Côa, S.A., Águas do Minho e Lima, S.A. and Águas do Oeste, S.A.).

Beginning of the cooperation project in East Timor.

2001

Creation of AdP - Águas de Portugal Internacional - Serviços Ambientais, S.A., (AdP Internacional), with the mission of managing the AdP Group's businesses outside the national territory.

Creation of new Integrated Multi-Municipal Water Supply and Wastewater Systems (of Trás-os-Montes e Alto Douro and Raia, Zêzere e Nabão) and the Wastewater Multi-Municipal System of the Tagus and Trancão rivers.

Establishment of Águas de Santo André, S.A., the concessionaire of the System for the Collection, Treatment and Distribution of Water for Public Consumption, Collection, Treatment and Rejection of Effluents and Collection, Treatment and Final Destination of Solid Waste of Santo André, formerly managed by Instituto da Água.

Acquisition of Luságua - Gestão de Águas, S.A. by AQUAPOR, which becomes the market leader for private concessions.

2002

Completion of the decommissioning, closure and environmental recovery process of about 300 rubbish dumps by EGF.

Creation of the Multi-Municipal Water Supply and Wastewater System of Vale do Ave.

Acquisition of 55% of the capital of AQUASIS - Sistemas de Informação, S.A. (AQUASIS), an information systems company designed for the water sector.

2003

Creation of the Multi-Municipal System of Water Supply and Wastewater Management for Centro Alentejo.

2004

Creation of the Multi-Municipal Wastewater System of the Setúbal Peninsula.

Creation of the Multi-Municipal Water Supply and Wastewater System of Baixo Mondego-Bairrada

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 minimising the effects of the drought.

2007

Restructuring of the AdP Group to ensure greater focus on the management of multi-municipal water supply and wastewater systems. Beginning of the AQUAPOR disposal process alongside other companies with complementary activities in international markets.

Beginning of studies by the AdP Group related to the integration projects for a set of more than 150 municipalities, including the definition of the state of municipal systems, the investment plan, the associated schedule and the estimated business turnovers.

Internationalisation in the waste sector, through an EGF consortium with the Mozambican company Neoquímica, to win the tender for waste collection in the urban area of Maputo, Mozambique.

2008

Sale of AQUAPOR and other companies in non-core activities (Recigroup and Electra).

2009

The new model for the integrated management of the urban water cycle based on the signing of partnership agreements between the State and municipalities is established, and the first partnerships established: in the region of Aveiro, involving 10 municipalities and having AdRA - Águas da Região of Aveiro, S.A. as the management entity, and in the Alentejo region, involving 21 municipalities and AgdA - Águas Públicas do Alentejo, S.A. as managing entity.

Creation of the Multi-Municipal Wastewater System of Greater Oporto.

2010

Creation of the Multi-Municipal Water Supply and Wastewater System of the Northwest by merging the Multi-Municipal water supply systems in the north of the Greater Oporto area and the Multi-Municipal Water Supply and Wastewater System of Minho-Lima and Ave Valley.

Founding the AdP Internacional subsidiary in Angola (AdP Angola).

2012

A set of territorial, organisational, regulatory and financing reforms of the water sector in general takes place to ensure continuity, universality, quality and sustainability in the delivery of these essential public services.

2013

The Public Partnership between the Portuguese State and eight Municipalities for the creation of the Water System of the Northwest Region and attributing its management to the Partnership thereby established.

Creation of the Integrated Energy Efficiency Plan of the AdP Group (PEPE) by AdP Energias.

2014

The new statutes of the Water and Waste Services Regulatory Body (ERSAR) and the detailed bill for water and waste services are published. The Operational Program for Sustainability and Efficiency in the Use of Resources (PO SEUR) 2014-2020, an instrument of the Europe 2020 Strategy for Sustainability and the Efficient Use of Resources, is approved.

2015

The Strategic Plan for Water Supply and Wastewater Sanitation is approved (*PENSAAR 2020*).

The territorial reorganisation of the AdP Group's upstream water supply and sanitation systems is legislated through a process of aggregation into larger systems that leads to the creation of three companies, Águas do Norte, S.A., Águas do Centro Litoral, S.A. and Águas de Lisboa and Vale do Tejo, S.A.

Establishment of AdP Guiné-Bissau and AdP Cabo Verde.

Sale of 95% of EGF's share capital.

2016

Approval, at the general shareholders meeting, of the creation of four additional companies, through the spin-off of Águas do Norte and Águas de Lisboa e Vale do Tejo, based on criteria of efficiency, fairness and solidarity between systems.

2017

Operational launch of companies Águas do Douro e Paiva, S.A., SIMDOURO - Saneamento do Porto Grande, S.A., Águas do Tejo Atlântico, S.A. and SIMARSUL- Saneamento da Península de Setúbal, S.A.

Sale of the remaining holding (5%) in EGF's share capital.

2018

Signing of the Collective Working Agreement with the CGTP-IN and UGT trade unions, establishing the terms and conditions relating to salaries, careers, fringe benefits and the organisation of work in the AdP Group company not yet covered by collective working agreements.

2019

AdP Group company bills for direct consumer services begin detailing the consumption of water in litres within the framework of fostering awareness about the consumption of water and raising awareness over its rational usage.

Establishing the partnership between the Portuguese state and seven municipalities for the founding of the Alto Minho Water System and attributing its operation and management to a new AdP Group company, AdAM - Águas do Alto Minho, S.A.

Awarding the management of three dams (Azibo, Apartadura and Odeleite-Beliche) to AdP Group companies following the entrance into effect of Decree-Law no. 160/2019, of 24 October.

Approval of the liquidation of MIESE - Vila Real/Alijó - Sistemas Energéticos a Biomassa, Lda.

Sale of the 55% stake in the equity capital of AQUASIS.

Commemorations of the 25th anniversary of AdP SGPS.

Celebrations of the 150th anniversary of EPAL.

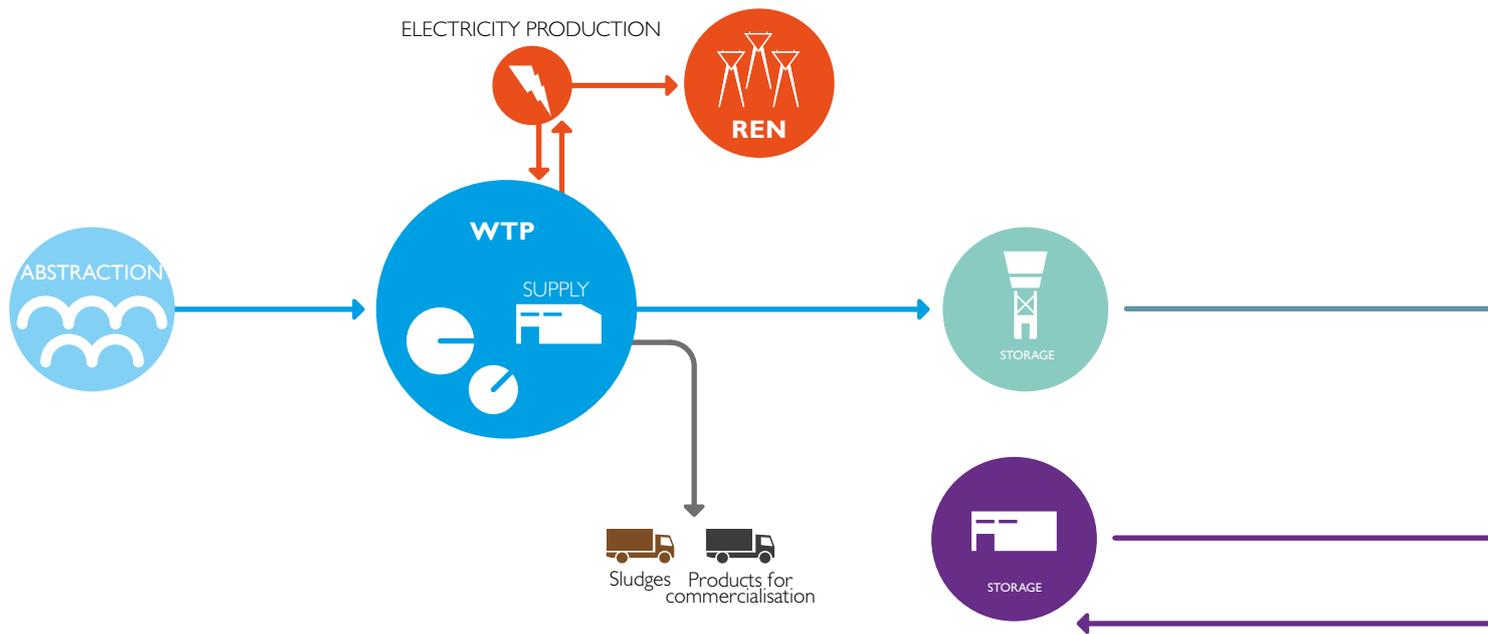
Inauguration of the Environment Education Centre "Water at 360°" by the AdP Group in Lisbon.



MANAGING THE URBAN WATER CYCLE

The AdP Group, through its subsidiaries, deploys a widespread presence across mainland Portugal, from north to south, with its core activity the integrated management of the urban water cycles throughout all of its phases, ranging from capture through to recycling and reutilisation while passing through the treatment and distribution of water for public consumption, collection, transport, treatment and the rejection of urban and industrial wastewaters.

Water and energy efficiency are strategic Group objectives within the context of managing water scarcity and adapting to climate change and fostering the circular economy, highlighting the production of water for reutilisation and valuing the sub-products resulting from water treatment processes, with examples including sludges and nutrients, and capitalising on the energy capacities of assets and endogenous resources, specifically biogas from anaerobic digestion and the installation of solar power production equipment at infrastructures.



Abstraction
Collection of water, both surface and subterranean, from the hydric environment. This may include pumping activities.



WTP - Water Treatment Plant

Treatment
Correction of the physical, chemical and bacteriological properties of water to render it fit for human consumption.

Supply
Transport of water upstream. May include pumping and storage activities.



Electricity production
Production of electricity from hydro, wind and solar sources.



Storage
Storage of water so as to enable the continual operation of the supply network.



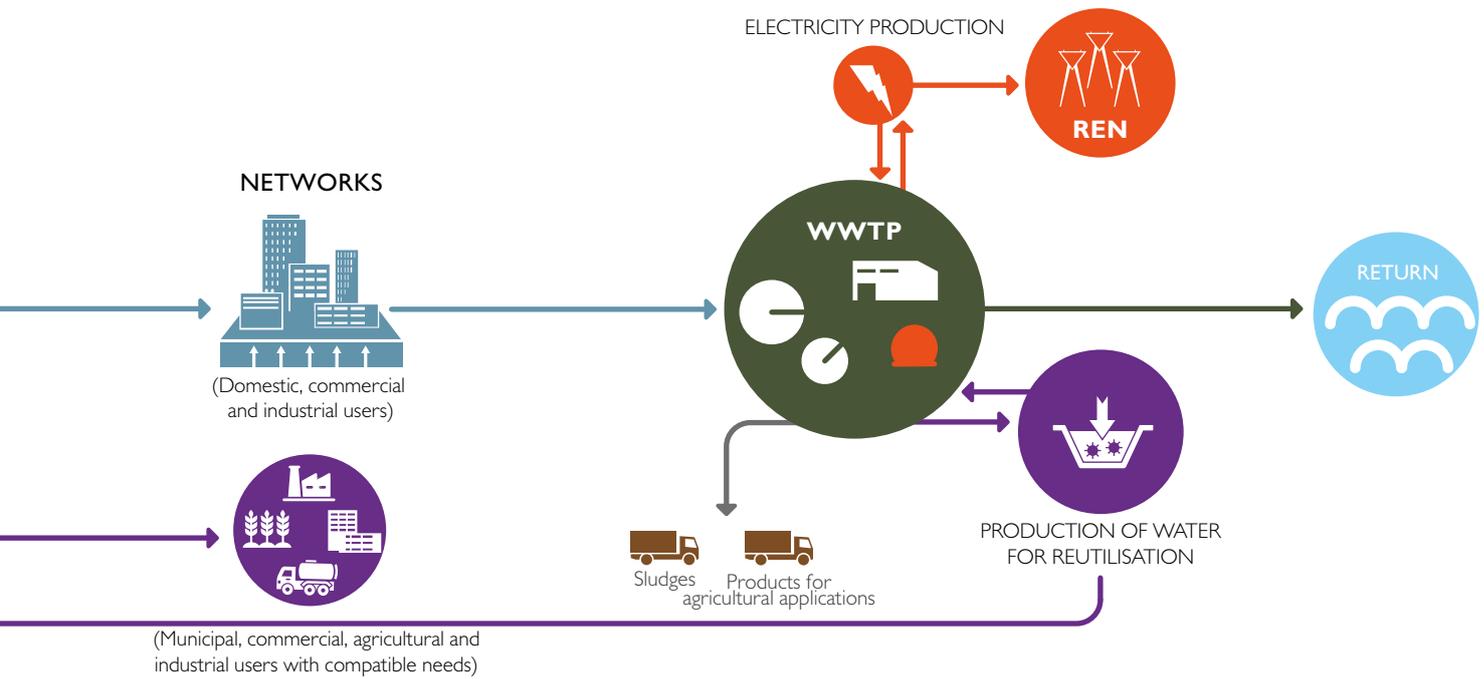
Storage
Storage of water for reutilisation.

UPSTREAM

DOWNSTREAM

These subsidiaries, when formed out of partnerships between the State and Municipalities, may take on concessionary company models for state owned systems (multi-municipal systems) or municipal system management companies under a public partnership regime, with the equity capital majority owned by AdP SGPS on behalf of the State.

The AdP Group also operates; **(i)** in the renewable energies sector with the objective of maximising the leveraged energy potential both of its assets and of endogenous resources, and **(ii)** in international markets, through the provision of services in accordance with local partners or Portuguese companies in this sector.



NETWORKS

Distribution
Distribution of water to consumers in the quantities and at the pressure required by their needs. May involve pumping activities.

Collection
Collection of the wastewater produced. May involve pumping activities

Transport
Transport of wastewater from their point of collection to the wastewater treatment plant units. May involve pumping activities.



WWTP - Wastewater Treatment Plant

Treatment and recovery
Correction of the physical, chemical and biological characteristics of the wastewater taking into consideration the final destination of the treated wastewater.
Recovery of the treatment process sub-products (energy value of the sludges, production of water for reutilisation, recycling of nutrients, etcetera).



Production of water for reutilisation
Production of water for reutilisation for internal and external usage.



Electricity production
Production of electricity through capturing the biogas produced by the anaerobic digestion of sludges, and from hydro, wind and solar sources.



Return
Return of treated waters that are not subject to reutilisation to the hydric environment.

DOWNSTREAM

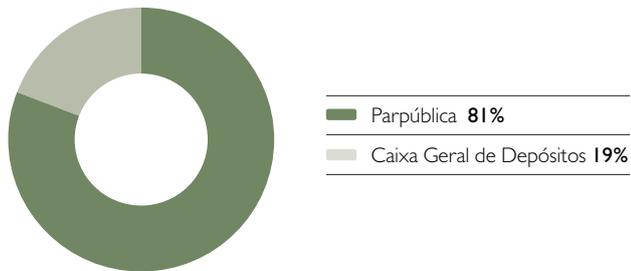
UPSTREAM

AdP GROUP ORGANISATION

OWNERSHIP STRUCTURE

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

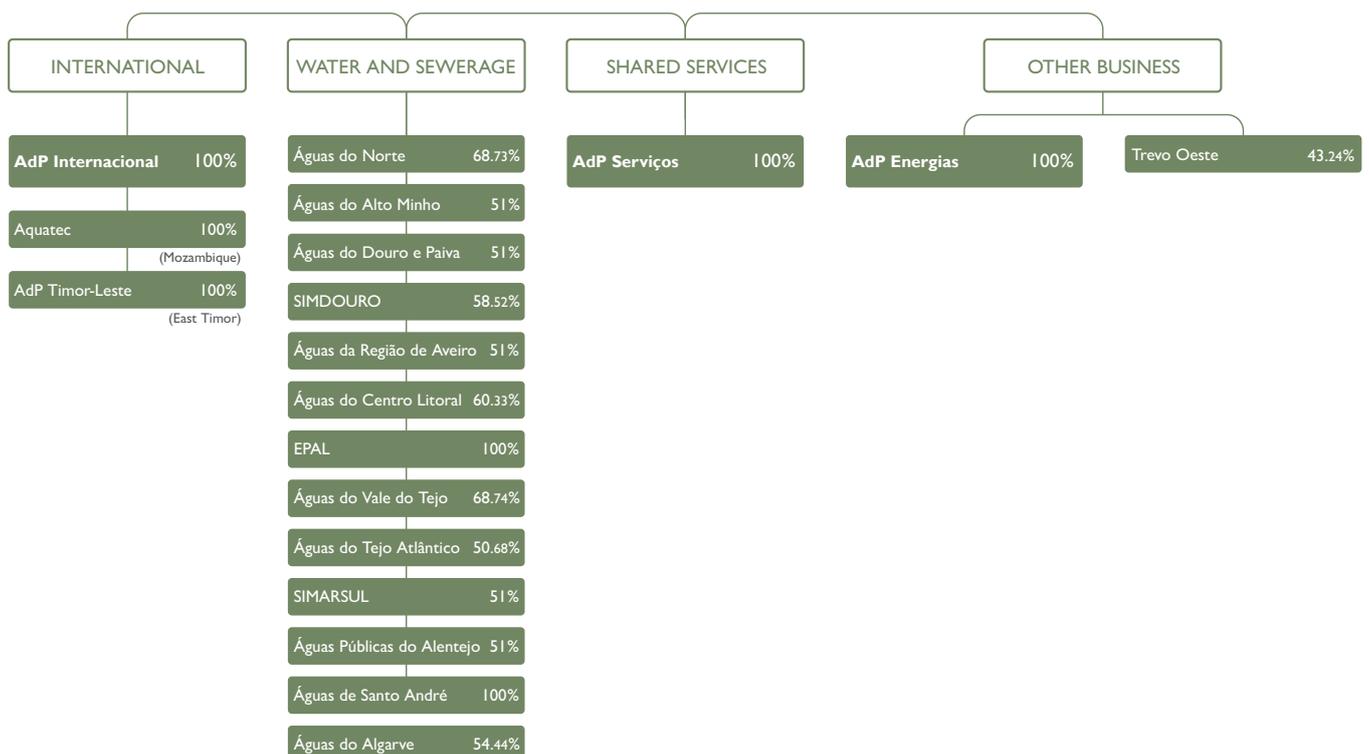
OWNERSHIP STRUCTURE



The ownership structure is held by Parpública - Participações Públicas, SGPS, S.A. (81%) and by Caixa Geral de Depósitos (19%).

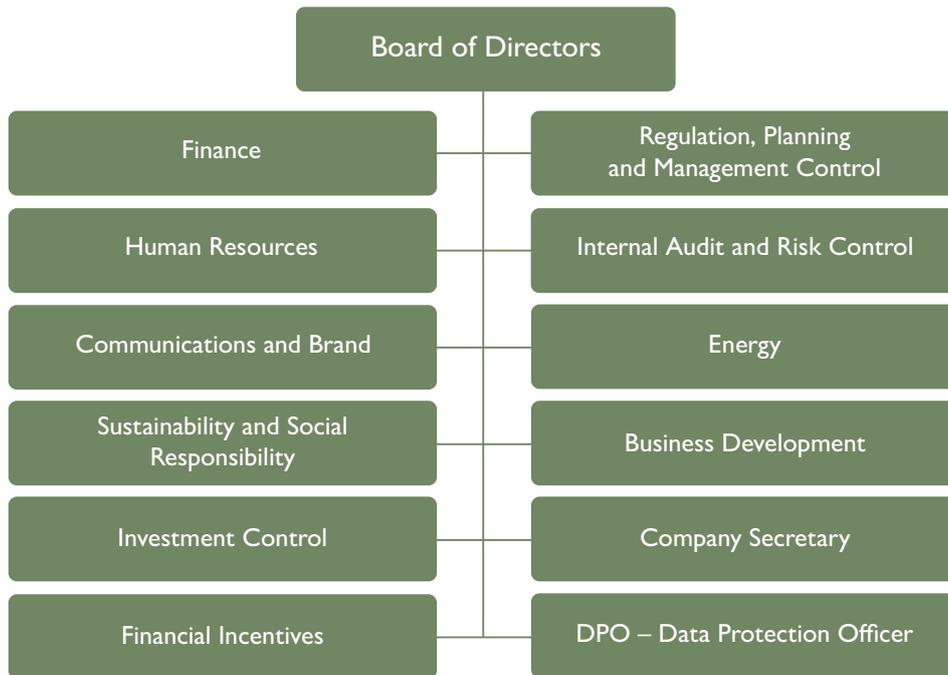
CORPORATE ORGANISATIONAL STRUCTURE

As at 31 December 2019, the Group incorporated 19 subsidiaries, 13 of which managed water supply and wastewater treatment services.



AdP SGPS FUNCTIONAL STRUCTURE

AdP SGPS is structured into functional areas to support both the implementation of the regulatory and financial guidelines for the sector and Group management, focusing its actions on the social, environmental, technical and economic-financial sustainability of the Group; its relationships with its respective stakeholders, optimising capital and human resources and on excellence.



GOVERNING BODIES, SUPERVISORY BODIES AND THE EXTERNAL AUDITOR

OFFICERS OF THE GENERAL MEETING

Chair João Manuel de Castro Plácido Pires

Vice - Chair Maria Helena Dias Duarte

Secretary (vacant position)

BOARD OF DIRECTORS

Chair João Nuno Marques de Carvalho Mendes ⁽¹⁾

Vice - Chair Carla da Conceição Afonso Correia

Director Cláudio Miguel André de Sousa Jesus

Director José Manuel Leitão Sardinha

Director Juan Miguel Martín Iglesias ⁽²⁾

Non-executive Director Miguel Jorge de Campos Cruz

(1) Left office on 30 November 2019.

(2) Left office on 30 June 2019.

EXECUTIVE COMMITTEE

Chair João Nuno Marques de Carvalho Mendes ⁽¹⁾

Vice - Chair Carla da Conceição Afonso Correia

Director Cláudio Miguel André de Sousa Jesus

Director José Manuel Leitão Sardinha

Director Juan Miguel Martín Iglesias ⁽²⁾

(1) Left office on 30 November 2019.

(2) Left office on 30 June 2019.

SUPERVISORY BOARD

Chair Carla Maria Lamego Ribeiro

Director Mário José Alveirinho Carrega

Director Rui Manuel Mendes Cabeças

Suppl. Director Sara Alexandra Duarte Ambrósio

STATUTORY EXTERNAL AUDITOR

Grant Thornton & Associados, SORC, Lda, represented
by Pedro Miguel Raposo Lisboa Nunes, ROC

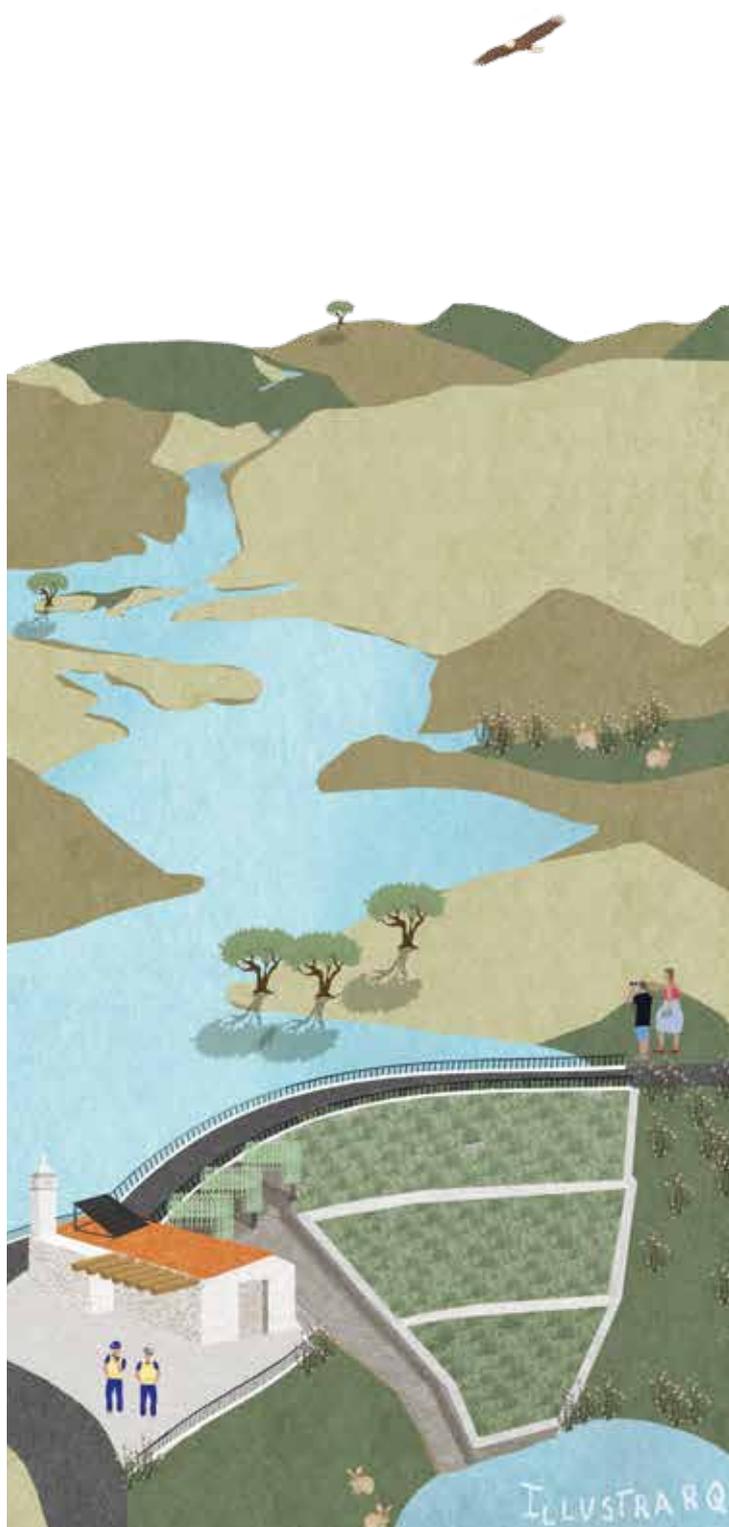
COMPANY SECRETARY

Appointed Cristina Rebelo Pereira

Supplementary Ricardo Cortes Ribeiro

EXTERNAL AUDITOR

Pricewaterhousecoopers, SROC, Lda.



HOLDING PORTFOLIO AS AT 31 DECEMBER 2019

MANAGING COMPANIES

Company	Holding ⁽¹⁾	Headquarters	Activity
Águas de Santo André, S.A.	100.00%	V.N. Santo André	Upstream and downstream water supply, sanitation and waste collection
EPAL-Empresa Portuguesa de Águas Livres, S.A.	100.00%	Lisbon	Upstream and downstream water supply
Águas do Norte, S.A.	68.73%	Vila Real	Upstream and downstream water supply and sanitation
Águas do Vale do Tejo, S.A.	68.74%	Guarda	Upstream water supply and sanitation
Águas do Centro Litoral, S.A.	60.33%	Coimbra	Upstream water supply and sanitation
SIMDOURO-Saneamento do Grande Porto, S.A.	58.52%	Vila Nova de Gaia	Upstream sanitation
Águas do Algarve, S.A.	54.44%	Faro	Upstream water supply and sanitation
AdRA – Águas da Região de Aveiro, S.A.	51.00%	Aveiro	Downstream water supply and sanitation
AgdA – Águas Publicas do Alentejo, S.A.	51.00%	Beja	Upstream water supply and sanitation
Águas do Douro e Paiva, S.A.	51.00%	Oporto	Upstream water supply
SIMARSUL- Saneamento da Península de Setúbal, S.A.	51.00%	Quinta do Conde	Upstream sanitation
Águas do Tejo Atlântico, S.A.	50.68%	Lisbon	Upstream sanitation
AdAM-Águas do Alto Minho, S.A. (***)	51.00%	Viana do Castelo	Downstream water supply and sanitation

(1) Percentage of subscribed capital.

(***) Company founded on July 2019.

OTHER SUBSIDIARIES

Company	Holding ⁽¹⁾	Headquarters	Activity
AdP – Águas de Portugal Internacional – Serviços Ambientais, S.A.	100.00%	Lisbon	International commercialisation of the IT and management systems and the provision of technical services in the water sector and to 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	Development of activities within the field of environmental management
AdP Timor-Leste, Lda.*	100.00%	Dili, East Timor	Provision of technical services to the water sector
Águas do Brasil, S.A.	100.00%	Cabo Frio, Brazil	Sub-holding for Brazil
AQUATEC, Lda.*	100.00%	Maputo, Mozambique	Provision of technical services to the water sector
Miese, S.A.**	40.00%	Lisbon	Development of a Forestry Biomass Electricity Power Plant
Trevo Oeste - Tratamento e Valorização de Resíduos Pecuários, S.A.	43.24%	Alcobaça	Treatment and valuation of livestock residues

(1) Percentage of subscribed capital.

* 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).

** Company dissolved with effect as of 22 January 2019, the date of the decision taken to close the sale of this company following its dissolution in accordance with the general meeting decision on 11 December 2018. The dissolution and nomination of the liquidator was registered on the permanent certificate of this company on 28 December 2018.

OFFICES

AdP Internacional, office in Angola (headquartered in Luanda, Angola).

AdP Internacional, office in Cape Verde (headquartered in Cidade da Praia, Cape Verde).

AdP Internacional, office in Guinea Bissau (headquartered in Bissau, Guinea Bissau).

AdP Internacional, office in Sao Tome and Principe (headquartered in Vila Maria, São Tomé).

KEY EVENTS

Entrance into effect of the legal diploma establishing the procedures necessary to settling the debts of local councils, municipalised services and inter-municipalised services and municipal and inter-municipal companies in the water and wastewater sanitation sector defined by Decree-Law no. 5/2019, of 14 January.

Signing of an Agreement-Framework between the EIB and AdP Group companies to regulate the terms for releasing the second instalment of a loan for the total amount of EUR 200 000 000 million (two hundred million euros) as well as the conditions for observing in the granting of credits to Group companies resulting from the provision of water supply and wastewater sanitation services that they are due under the auspices of the agreements reached on the settlement of debts within the framework of that stipulated by Decree-Law no. 5/2019, of 14 January.

Development of a methodology for compliance with the terms of Decree-Law no. 68-A/2015, of 30 April, submitted by the AdP Group and validated by the DGEG which enabled a reduction in the number of energy audits that AdP Group companies are subject to, down from 760 to 78, with a corresponding cut in expenditure of over one million euros.

The reorganisation of the Corporate Centre of the AdP Group with the merger of the human resources, marketing and communications and financial departments of AdP SGPS and of AdP Serviços enabling the focusing of the scope of actions of AdP Serviços on areas of greater added value, in particular public tender processes and the centralised procurement of various classes of product, specifically, reagents, electricity, fuels, insurance, communications and vehicle leasing and thereby capturing efficiency gains and minimising the non-recoverable costs incurred by AdP SGPS.

Throughout 2019, work advanced on establishing new public partnerships for water management, particularly in the Alto Minho region with the signing in January of a public partnership agreement for the management and operation of an integrated water supply and sanitation system for the Alto Minho between the State and the municipalities of Arcos de Valdevez, Caminha, Paredes de Coura, Ponte de Lima, Valença, Viana do Castelo and Vila Nova de Cerveira. Subsequently, AdAM - Águas do Alto Minho, S.A. was founded with AdP SGPS holding a majority stake and with the seven aforementioned municipalities serving as shareholders with this company correspondingly attributed

the management of the Alto Minho integrated water supply and sanitation system serving a population of around 204,000 inhabitants. AdAM began operational activities on 1 January 2020.

The Algarve water supply and wastewater sanitation systems were integrated into a single multi-municipal system with its management and operation concession awarded by the State, through Decree-Law no. 93/2019, of 15 July, to Águas do Algarve for a period of 30 years.

The AdP Group furthermore integrated three new dams, specifically that of Azibo, which is now under the management of Águas do Norte, Apartadura, with its management transiting to Águas do Vale do Tejo, and Odeleite-Beliche, integrated into Águas do Algarve. In total, this foresees the transition of the management of 10 dams, currently under the management of the APA - Agência Portuguesa do Ambiente, to AdP Group companies within the framework of Decree-Law no. 160/2019, of 24 October, which sets out the terms for choosing the managing entities and approves the special conditions for the concession contracts for the management of hydraulic infrastructures classified as equivalent to undertakings with multiple purposes.

The AdP Group provided support for the Mozambican authorities for re-establishing the supply of drinking water to populations in the zones affected by cyclone Idai that struck Mozambique in March 2019. This involved the sending of teams of experts to the terrain to carry out the survey of the conditions for supplying drinking water to the city of Beira as well as identifying the priority interventions for the short and medium term as regards re-establishing the supply. This mission also extended to donating, installing and operationally launching a water treatment plant in the suburbs of the aforementioned city and thereby guaranteeing the supply of drinking water to over 3 000 households.

Within the scope of the humanitarian mission to Mozambique, there was also the AdP Group participation, in conjunction with EDP and Lusíadas, in the project "Apoiar Moçambique" run by SIC Esperança and that brought about the collection from among their employees of "Mochilas de Esperança" ("Backpacks of Hope") containing essential goods for delivery to the population of Dondo, in Beira province, via the Portuguese non-governmental development organisation APOIAR – Portuguese Association for Support for Africa. In total, 5 000 such backpacks were dispatched with AdP Group members of staff contributing with 2 100 backpacks.

As regards the investments made during this year, these emphasised interventions in the water supply systems capable of boosting their capacity, resilience and operational performance, in particular:

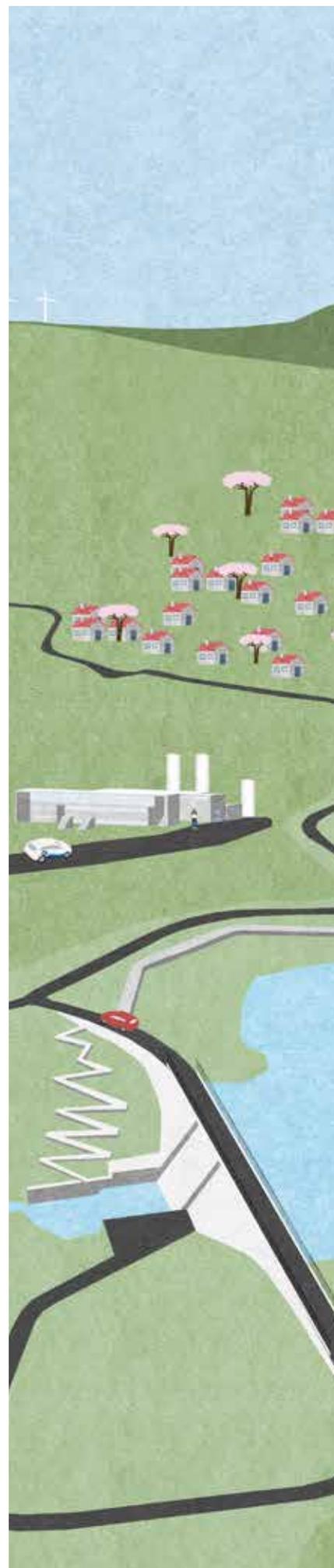
- In the Norte region, the launch of a public tender for the Pretarouca Dam in the council of Lamego with a view to boosting its storage capacity by 30% thereby making more water available and establishing a reserve for regional support in situations of extended drought, the intervention to strengthen the treatment capacity of the Areias de Vilar water treatment plant, the connection of the S. Jorge water supply system in the council of Viana do Castelo and the implementation of investment in strengthening and rehabilitating the household water supply networks.
- The entrance into operation of new infrastructures in the Baixo Alentejo region, in particular the inauguration of the Magra WTP in Beja, and boosting water storage in Vila Nova de Milfontes and connecting with São Luís in Odemira council and launching improvement works on the Roxo WTP in Aljustrel and constructing a new reservoir in Alvalade, in the council of Santiago do Cacém.
- In the Algarve, the beginning of improvement works to the treatment processes ongoing in the Alcantarilha WTP to strengthen the water supply capacity in this region.

In the sanitation sector, this spanned both the entrance into operation of new infrastructures and construction beginning on others, specifically:

- In the Norte region, the conclusion of wastewater treatment plants in the council of Amarante, the beginning of work on the wastewater Pumping Station in Preguiça, in Mirandela, and diverse investments in expanding the public sanitation network for the operations of Águas do Norte and AdRA - Águas da Região de Aveiro, highlighting the inauguration of the Sul de Sever do Vouga WWTP in the activities of the latter;
- in the Centro region, the conclusion of the Travanca do Mondego WWTP, in Penacova, and the inauguration of the Proença-a-Nova WWTP;
- In the Metropolitan Area of Lisbon, the conclusion of the Canha WWTP, in Montijo, and the A-do-Baço outfall, in Arruda dos Vinhos, and with construction beginning on the pumping systems of Moledo, Feteira, Reguengo Pequeno and Pena Seca, in the council of Lourinhã;
- In the Alentejo region, this highlights the inauguration of Beja WWTP and completion of the rehabilitation of the Amareleja WWTP, in Moura council, and the construction of the WWTP for Montemor-o-Novo, Grândola and São Teotónio, Odemira.

The recovery of the sub-products generated over the course of treating wastewaters, specifically the water, sludges and energy, constitutes an important strategic axis of *PENSAAR 2020* and the *Action Plan for the Circular Economy*. Within this framework, the following were among the leading developments for the AdP Group in 2019:

- Through Order no. 63212/2019, of 10 July, by the Ministers of the Environment and Energy Transition and of Agriculture, Forests and Rural Development, AdP Energias received authorisation for undertaking the technical and economic-financial studies necessary to establishing a new public service for the treatment and recovery of livestock and agro-industrial effluents within the scope of the National Strategy for Livestock and Agro-industrial Effluents.



- Work began on drafting the *AdP Group Action Plan for Reutilisation*, following the publication of Decree-Law no. 119/2019, of 21 August, that establishes the juridical regime for the production of water for reutilisation (ApR), obtained following the treatment of wastewater, as well as their respective utilisations.
- As regards the production of water for reutilisation in agriculture, a significant 2019 development encapsulates the REUSE project that seeks to promote the production and utilisation of water for reutilisation in the irrigation activities ongoing in the Alentejo region. This project, developed in a partnership between AdP SGPS, AgdA – Águas Públicas do Alentejo, EDIA, ISA – (Higher Agronomy Institute), EFACEC and COTR (Irrigation Operating and Technology Centre), involving the production of water for reutilisation through the solar disinfection of wastewaters treated by the Beja WWTP for subsequent usage in the irrigation of a pomegranate orchard with the objective of studying the impact on the plants, soil and water.
- In terms of the urban reutilisation of water, there was the continuity of the ongoing projects while highlighting the presentation of the Strategic Plan for Water Reutilisation in Lisbon in July 2019, the result of jointly working with the Lisbon Municipal Council and Águas do Tejo Atlântico and accompanied by APA, the Portuguese Environment Agency.
- As regards the recovery of sludges, this features the collaboration with the APA over the drafting of the Strategic Sludge Management Plan, in close coordination with the inter-ministerial group founded under the auspices of Order no. 2054/2017, of 10 March stipulating ENEAPAI – the National Strategy for Livestock and Agro-industrial Effluents and the development of the *AdP Group Action Plan for Sludge Management* for the 2019 – 2023 period.
- As regards energy management, 2019 saw the implementation of various measures foreseen under *PEPE – the Energy Efficiency and Production Plan*, highlighting the conclusion of the technical and economic study for the SOLAR III project, which spans the installation of 68 solar power plants with a total potential in excess of 21 MW, with 90% of the energy thereby produced (around 32 GWh/ year) destined for self-consumption by these installations. This project, which plans to begin construction in late 2020, shall enable a reduction in CO₂ emissions of 36 000 tons/ year when fully operational in 2022.
- Of further relevance under the auspices of PEPE, there was the early achievement of over 78% of the targets set for 2020 regarding the reduction in CO₂ emissions. Simply in terms of e-mobility, throughout 2019, the 127 electric vehicles in the company fleet prevented the emission of over 326 tons of CO₂ emissions and the consumption of over 173 000 litres of fuel in keeping with the over two million kilometres travelled.

Águas de Portugal subscribed to the United Nations Global Compact “Business Ambition for 1.5°C”, which seeks to reduce greenhouse gas emissions and contribute to the sustainability of our planet.

Within the scope of fostering the value of water and awareness around water efficiency, there were the following:

- As from January 2019, the bills issued by AdP Group companies directly serving the final consumer (EPAL, AdRA - Águas da Região de Aveiro, Águas do Norte and Águas de Santo André) began to detail water consumption in litres and thereby enabling clients to analyse their consumption in greater detail and gain a greater understanding of where they might save and thus contribute towards the responsible usage of this increasingly precious resource;
- There was the deepening of the awareness campaign for rational water usage “Water with a drop of conscience” with the launching of a set of short films, designed and starring the comedian Herman José, based on how the incorporation of humour for the conveying of messages was deemed a factor for increasing the effectiveness of awareness campaigns by participants in the National Study of Portuguese Attitudes and Behaviours towards Water that took place in 2018;
- The launch of the Aquaquiz game integrated into the portfolio of tools provided by the AdP Group to the school community for raising awareness and educating about the value of water within the context of the Sustainable Development Goals (SDGs);

The AdP Group joined the “Leading Utilities of the World” networks that brings together the leading companies in the water sector, those that stand out globally for their high performance standards and capacity for innovation.

Águas de Portugal was also elected to the board of Water Europe, a European platform dedicated to promoting and disseminating research, development and innovation projects in the water sector.

Every AdP Group company has subscribed to the Portuguese Anti-corruption Campaign, which responds to the call to action by the United Nations for the business sector and civil society within the scope of pressuring the Government to combat corruption and nurture integrity, ethics and transparency among its stakeholders and society in general.

AWARDS AND ACHIEVEMENTS

- In 2019, the AdP Group companies were distinguished in terms of Prizes, Awards and Quality of Service Seals for Water and Waste Services in an initiative from the regulator ERSAR, organised in partnership with the *Água & Ambiente* journal, which seeks to reward those entities obtaining special performance levels or significant improvements regarding tailoring their user interfaces to sustainability both in terms of service management and environmental sustainability.
- *Águas do Douro e Paiva* was awarded the “Seal of quality for public water supply.”
- EPAL received the “Seal of quality for public water supply” for its upstream and downstream services.
- *Águas do Tejo Atlântico* was distinguished with the “Seal of quality for the efficient usage of water.”
- *Águas do Tejo Atlântico* and EPAL were winners in the APEE – the Portuguese Association for Business Ethics awards in the categories of best practices for the Sustainable Development Goals and Social Responsibility – the Environment – Reducing Impacts.
- The award attributed to *Águas do Tejo Atlântico* highlighted the brand and the recycled water product “*água+*”, in the category SDG6 – Drinking Water and Sanitation in keeping with its contribution towards more efficient and sustainable management of water resources in establishing a benefit through an alternative source of water for non-drinking purposes.
- EPAL received recognition for the work undertaken within the scope of restoring the environment conditions of the River Tagus, specifically “Operation Tagus 2018” that involved a set of actions designed to improve the environmental conditions prevailing in the river following the occurrence of a peak in pollution following the long period of severe and extreme drought that afflicted Portugal, specifically the removal, treatment and disposal of organic matter and nutrients deposited along the watercourse. .
- The “Pipes of Gold” award, an initiative integrated into ENEG – the National Encounter of Water and Sanitation Entity Managers staged by APDA – the Portuguese Association for Water Distribution and Drainage, distinguished three AdP Group companies for actions within the framework of social responsibility, environmental communication and education and adaptation strategies for climate change.
- EPAL received the award “Best Social Responsibility Action” for the project “Drinking water for Mozambique” stemming from the intervention in the Southern African country in the wake of Cyclone Idai that provided for the donation of a mobile Water Treatment Station that ensured some 3,000 households in the city of Beira gained access to clean drinking water.
- *Águas do Tejo Atlântico* won the Pipe of Gold for the “Best Environmental Communication and Education Action” for the project “VIRAr (Changing) concepts and mentalities”, an initiative that sought to demonstrate just how treated wastewaters may be deployed as an alternative source. The project encapsulated the production of the craft beer VIRA through using recycled water (*água+*).
- In the category “Best Adaptation Strategy for Climate Change / the Circular Economy”, the jury decided to award honourable mentions to three of the projects submitted: *Águas do Douro e Paiva* - “Interconnecting the *Águas do Douro e Paiva* systems”; *Águas do Tejo Atlântico* - “Water Factories” and “*água+*”; EPAL - *Empresa Portuguesa das Águas Livres* - “Water: circular by nature – looking at consumption in a new way.”
- *Águas do Norte* was also honoured with an honourable mention in the category “Best Strategy for Asset Rehabilitation and Renovation “.
- The “Drinking Water for Mozambique” also received a Special Mention in the third edition of the PT Global Water Awards, a joint initiative by the *Água & Ambiente* journal and PPA – Portuguese Partnership for Water with the objective of distinguishing those companies and entities that make up the Portuguese water cluster and obtain significant success within the framework of the growing internationalisation of this sector of the Portuguese economy.
- EPAL received another two awards that represent recognition of the company in terms of its innovation within the context of digital transformation and responsible communication, specifically:
 - The “H2O Quality” application won an award in the “Best Digital Strategic Tools” category in the Portugal Digital Awards 2019.
 - The “Water on Wheels” project, implemented in partnership with the Lisbon Municipal Council and E-Nova Lisboa, was a winner in the APCE – Portuguese Association for Corporate Communication Awards in the category of “External Responsibility Campaigns – Responsible Management”.
- SIMARSUL was distinguished with an award in the “Environment” category in the 2018 edition of the awards “Faces of the Year”, staged by the Rostos newspaper in the district of Setúbal to honour entities in the region across different categories. The work carried out by the municipal council of Barreiro with the objective of connecting the entire sanitation networks to the Barreiro-Moita sub-system was one reason for this company winning this award.

THE BUSINESS



KEY INFRASTRUCTURES

WATER TREATMENT PLANTS

118

WASTEWATER TREATMENT PLANTS

980

WATER MAINS AND DISTRIBUTION NETWORKS

17 155 Km

SEWERS

9 692 Km

PUMPING STATIONS – Sanitation

2 106

PUMPING STATIONS – Water Supply

742

ABSTRACTIONS

1 216

RESERVOIRS

1 791

SUBMARINE OUTFALLS

19



THE BUSINESS

WATER INVOICED

614 Mm³

WATER INVOICED, intra-group operations

40 Mm³

WASTEWATERS INVOICED

491 Mm³

WASTEWATERS INVOICED, intra-group operations

11 Mm³

SLUDGES PROCESSED (water supply)

356 761
tons/ year

SLUDGES PROCESSED (sanitation)

17 849
tons/ year

ENERGY CONSUMED
(includes 23.5 GWh of self-consumption)

748.7 GWh/year

UPSTREAM COVERAGE RATE
(water supply)

94%

ENERGY PRODUCED
(solar, mini-hydro, biogas)

33.9 GWh/year

UPSTREAM COVERAGE RATE
(wastewater sanitation)

93%

ILLUSTRARQ

STRATEGIC GUIDELINES

AdP SGPS 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 Group is a 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; it 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 and Energy Transition, 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 services to be provided by companies and promoting the diligence necessary for their respective contractual acquisition.

DUTIES AND RESPONSIBILITIES OF THE BOARD

The carrying out of the functions of the Board of Directors of AdP SGPS 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; and
- (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 who sit on the Board of Directors of AdP SGPS 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, the prevention of conflicts of interest and respect both for the competition and for market actors.

GENERAL STRATEGIC ORIENTATIONS

The Board of Directors ensures that AdP, SGPS and its holding companies, without infringing on their own management autonomy:

- Fulfil their mission and exercise their activity in articulation with strategic sector policies defined by the Government, within a framework of business rationality, permanent optimization of efficiency, quality and safety of the service provided;
- Are socially responsible, pursuing social and environmental goals and promoting competitiveness in the market, consumer protection, investment in professional and personal enhancement, promotion of equality, protection of the environment and respect for ethical principles;
- Develop environmental awareness actions, promoting the efficient use and protection of water resources;
- Promote the appropriate balance between the quantitative and qualitative levels of public service to be provided, with a view to user satisfaction and economic, financial and environmental sustainability and behaviour;
- Adopt methodologies that enable the continuous improvement of the quality of the service provided and the satisfaction of the clients;
- Design and implement human resource policies aimed at enhancing the individual's motivation and boosting productivity and employee satisfaction, within a framework of balance and strict control over the associated costs, compatible with the respective dimension;
- Implement action plans aimed at promoting equal treatment and gender opportunities, eliminating discrimination and reconciling personal, family and professional life (promoting equality);
- Implement policies for scientific and technological innovation, promoting and stimulating research into new ideas, new products, new processes and new market approaches, to the benefit of the fulfilment of its mission and the satisfaction of the collective needs and oriented towards the economic, financial, social and environmental objectives;
- Adopt information and internal control systems appropriate to their size and complexity, covering all the relevant risks that may be permanently audited by entities competent for this purpose.

SPECIFIC STRATEGIC GUIDELINES

The Board of Directors ensures that AdP SGPS and its holding companies, following the important investment efforts in infrastructures and the set of more recent organisational changes, implement 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 Leveraging the strengths of the multi-municipal systems.
 - 2.2 Outsourcing policies for goods and services that also foster the development of regional economic activities.
 - 2.3 Establishing regional centres of competences, networked, in interactive environments, decentralised and collaborative, aligned with the prevailing territorial realities.
 - 2.4 Reorganising 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 about 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 change and security, specifically through:
 - 5.1 Defining infrastructure management policies.
 - 5.2 Organising the integration of the functions of design, construction and maintenance ongoing 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 change.
 - 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-sectorial 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 internationalisation, in this case, prioritising operations with low levels of financial commitment.

MACROECONOMIC CONTEXT¹

GLOBAL

Global growth in 2019 is estimated to have come in at approximately 2.4% (somewhat below the 2018 rate – 3%) as a result of the slower growth witnessed in Europe and Asia. The growth forecasts for 2020 and 2021 stand at 2.5% and 2.6% respectively, which reflects a continued slowdown in growth in both advanced economies and emerging economies.

The uncertainties about the impact of Brexit and the trends in international trade, especially as a result of the negotiation of international trade agreements ongoing by the United States and, more recently with the outbreak of the COVID 19 pandemic with an incalculable impact on the world economy at the time of writing this report, all condition the prospects for the future.

THE EUROZONE

Following weak economic growth in the second and third quarters of 2019, the real GDP growth is expected to remain moderate over the short term. The indicators for economic sentiment have declined to reflect the continued weakness in global trade within a context of continued global uncertainties (interrelated with an increase in protectionism, a slowdown in China and a hard Brexit). However, more recent indicators do show some stabilisation while sentiment in the construction sector and consumer confidence demonstrated greater resilience and with the employment market remaining favourable. The underlying moderation of real growth in GDP of 1.2% in 2019 to 1.4% in 2022 is explained above all by the rising shortage of labour in certain countries and slightly less favourable financial conditions over the course of the forecast timeframe. Inflation as measured by the Harmonised Consumer Price Index rose to 1.2% and is expected to rise gradually to 1.6% in 2022.

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

PORTUGAL

According to the forecasts from the INE – the Portuguese Institute of Statistics and the Bank of Portugal, the key economic indicators for 2019 are the following:

	Estimate 2019	Year 2018
GDP growth rate	2.0%	2.4%
Private consumption rate	2.3%	3.1%
Harmonised consumer price index	0.3%	1.2%
Unemployment rate	6.3%	7%
10-year Treasury Bond (OT) interest rate	0.76%	1.84%

According to the projections of the Bank of Portugal, the national economy is to continue with its trajectory of growth even while at a slower pace. The growth forecasts for Portuguese GDP (1.7% in 2020, 1.6% in 2021 and 1.6% in 2022) in overall terms align with those published for the Eurozone area by the European Central Bank (ECB).

Following significantly faster growth in 2017 and 2018, international trade is expected to return an evolution that more closely borders on global GDP, implying relative stability in the growth in external demand for Portuguese goods and service exports in the 2019-21 period. The other core variables in the external framework should also provide a relatively favourable context over 2020-2022 irrespective of the forecast beginning of the process of smoothly normalising monetary policy in the Eurozone.

The projections provide for a deceleration in private consumption within gross fixed capital formation in a context of increases in available income, the progressive improvement in working conditions and favourable financing conditions.

Throughout the period under analysis, the Bank of Portugal foresees growth in inflation amounting to a rate of 1.4% between 2020 and 2022.

As regards the interest rate, the European Central Bank expects to maintain negative reference rates through to 2022 and alongside the weighted average of nominal rates of return on ten-year state treasury bonds standing at 0.4% in 2019; 0.3% in 2020; 0.4% in 2021; and 0.6% in 2022. The Bank of Portugal predicts ongoing stability in the implicit interest rate for Portuguese debt, standing at just below 3%.

THE SECTOR ON A GLOBAL SCALE²

Water underpins every aspect of development and correspondingly interconnects with the Sustainable Development Goals (SDGs). However, there are a series of challenges — shortcomings in access to water and sanitation, rapid urbanisation and population growth, pollution, the impacts of climate change and patterns of economic growth that cause greater demand for more intensive water usage — render water insecurity one of the greatest threats to economic progress, reducing poverty and sustainable development.

To ensure water security exists on a global scale, there is a need to improve resource management, facilitate universal access to water and sanitation and optimise the utilisation of water resources in agriculture. This requires resilience through systems better able to withstand climate change events and simultaneously dealing with the fragility prevailing in countries facing water shortages.

The lack of access to (better) water supply and sanitation services imposes major costs on society, especially in poorer regions. In both developing and developed regions, where there is access, such services are characterised by bad management, inadequate financing and low levels of investment. Only a handful of companies in this sector at the global level cover their necessary operational costs and with a similarly small number able to service their outstanding debts.

Following due recognition of the importance of water to development by the World Bank, a large number of countries report lacking the finance to obtain the national goals established for access to drinking water. The uncertainties surrounding economic policy as well as climate change have driven an exponential deepening in the challenges faced in this area.

2 Fonte: <http://www.worldbank.org>; <http://oecdobserver.org>

Helping countries obtain greater levels of inclusion and sustainability in the water sector assumes investment in the institutions able to bring about the construction of and/or improvements to infrastructures within the scope of fostering universal access to the service and the efficient management of resources.

With the objective of ensuring the financing for investment determinant to obtaining the goal of global water security, various initiatives have been supported with partnerships established at the global level:

- World Bank Water Global Practice, that constitutes the new Strategic Plan launched by the World Bank in 2019 within the scope of striving for SDG6 (the Sustainable Development Goal for Water) based on: **i)** water resource sustainability, **ii)** accessibility and **iii)** the resilience of systems;
- Global Water Security & Sanitation Partnership (GWSP) that serves as the vehicle for a financial fund established by different donors;
- 2030 Water Resources Group (2030 WRG) destined to support the most urgent government reforms with the objective of ensuring the sustainable management of water resources over the long term alongside the economic growth of the respective countries.

WATER SUPPLY AND SANITATION IN PORTUGAL³

The rising availability of water supply and urban wastewater sanitation services throughout the extent of the national territory, accompanied by improvements to the quality in conjunction with accessible prices represents an important factor to the development of Portugal from the perspective of public health, quality and security of life for Portuguese families as well as environmental sustainability.

The sector is characterised by a large number of participants: in terms of administration, the regulatory entity and alongside the respective central government authorities and, for system management including the municipalities, the municipal associations, the municipal and inter-municipal companies, public companies (especially concessionary companies), the private concessionary companies and the private management service providing entities.

In recent years, there has been significant evolution in this sector and the vast majority of the Portuguese population now has access to good levels of water and sanitation services.

NATIONAL PANORAMA	
Water supply	Wastewater sanitation
• 9.6 million inhabitants served	• 8.6 million inhabitants served with drainage
• 96% of households served	• 85% of households served
• 192 litres: average daily consumption of water per inhabitant	• 8.5 million inhabitants with sanitation services
• Average weighted tariff: €0.4985/m ³	• 84% of households receive sanitation services
• Indicator of safe water standards on Mainland Portugal (upstream): 99.70%	• 1.7 million of m ³ of wastewaters treated daily
	• Average weighted tariff: €0.5296/m ³

Data RASARP 2018 - ERSAR

Constituting the strategic instrument for the sector within the scope of promoting, across the general population, access to a quality public water and sanitation service, appropriate to the needs prevailing, with socially acceptable costs, within the European and national legal frameworks and the scope of the European innovation policy for the sector, the Strategy Water Supply and Wastewater Sanitation Plan for mainland Portugal remains under implementation for the 2014–2020 period: *PENSAAR 2020 – A New Strategy for the Water Supply and Wastewater Sanitation Sector*.

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 (Permanente Drought Commission), which has undertaken the respective works in order to pre-empt the effects of water shortages and identifying the means for resilient solutions for coping with such situations. In November 2019, at the sixth meeting of the Permanent Drought Commission, which evaluated the prevailing meteorological and

³ Source: <http://www.ersar.pt/pt>; <https://www.apambiente.pt>; Official Gazette, 1st series

public irrigation situations and the measures that have been undergoing implementation to deal with the effects of drought, it was agreed to set up two working groups for drafting the Regional Plan for the Water Efficiency of the Alentejo and the Regional Plan for the Water Efficiency of the Algarve, integrating the public government organisms and the sectors most representative of each region and the AdP Group companies operating in the aforementioned regions, specifically AgdA – Águas Públicas do Alentejo and Águas do Algarve.

THE AdP GROUP

The AdP Group is the leading Portuguese corporate group with activities in the water supply and wastewater sanitation sector. Majority owned by the state, the Group represents a business instrument for implementing public policies and attaining national objectives across the fields of the environmental sector, seeking to foster the universality, continuity and quality of the service, the sustainability of the sector and the protection of environmental values.

The AdP Group acts across every phase in the urban water cycle, spanning the capture, treatment, transport and distribution of water for public consumption, the collection, transport, treatment and rejection of used waters, both urban and industrial, including their recycling and reutilisation. Through its companies, the Group holds an extensive presence on mainland Portugal and providing services to around 80% of the Portuguese population.

The Group also operates in the renewable energy sector with the objective of maximising the leveraging of the energy production capacities of its assets and their endogenous resources and operating in this field internationally in various different countries.

Under the auspices of *PENSAAR 2020* and the program of the XXI Constitutional Government, the water sector was subject to restructuring, which involved the reversion of the existing aggregations of multi-municipal water supply and sanitation systems, within the scope of Decree-laws no. 92/2015, 93/2015 and 94/2015, of 29 May. Hence, under the terms of Decree-law nos. 16/2017 of 1 February and 34/2017 of 24 March, the Águas de Portugal Group came to integrate four new companies managing multi-municipal systems.

As of 31 December 2019, the Group contained 19 companies of which 13 were entities managing the water supply and wastewater treatment systems that serve around 80% of the population on mainland Portugal.

The AdP Group has worked in close collaboration with the municipalities in constructing solutions aggregating downstream operations and applying its know-how to implementing the most efficient outcomes and with fairer prices for providing populations with water supply and sanitation services, correspondingly highlighting the July 2019 signing of the partnership contracts between the Portuguese State and the municipalities of Arcos de Valdevez, Caminha, Paredes de Coura, Ponte de Lima, Valença, Viana do Castelo and Vila Nova de Cerveira. AdAM - Águas do Alto Minho launched its operational activities on 1 January 2020.

As regards the management of hydraulic resources, the working group set up to manage dams and reservoirs developed a sustainable model for the integrated management of these assets (currently under the auspices of the APA) into the activities of different subsidiaries that culminated in the publication of Decree-Law no. 160/2019, of 24 October, which advances with the choice of the managing entities and approves the special terms and conditions of the concessionary contracts for awarding the management of these hydraulic infrastructures. Subsequently, in 2019, the AdP Group integrated three new dams, specifically that of Azibo, with its management transferred to Águas do Norte, Apartadura, transiting to Águas do Vale do Tejo, and the Odeleite-Beliche dam integrated into Águas do Algarve.

Through Order no. 63212/2019, of 10 July, the Ministers of the Environment and Energy Transition and Agriculture, Forests and Rural Development, AdP Energias was designated as the concessionary entity for operating and managing the new integrated system for treatment and recovering value from livestock and agro-industrial operations that shall take on responsibility for carrying out the technical and economic-financial studies necessary to establishing a new public service for treating and recovering these effluents.

Rendering continuity to the policies for environmental efficiency, Decree-Law no. 119/2019, of 21 August, was published to define the national strategy and objectives as regards water for reutilisation. Throughout 2020, the AdP Group is embarking on a series of initiatives designed to put into practice the strategy defined for such reutilisation.

Energy management also remains a core focus and a strategic priority for the Group within the scope of promoting the levels of efficiency that guarantee eco-efficiency and the sustainability of its water supply and wastewater sanitation operations while also underpinning a reduction in the associated costs.

Within the framework of implementing the measures and actions established by *PEPE – the Energy Efficiency and Production Plan*, the AdP Group has undertaken a reduction in the minimum contracted power supply for holding company infrastructures and driving a significant reduction in its electricity costs.

Águas de Portugal reaffirmed its commitment to a transition to a low carbon economy through subscribing in 2019 to the “Business Ambition for 1.5°C” initiative of the United Nations Global Compact, which seeks to reduce greenhouse gas emissions and contribute to planetary sustainability.

The Group also sits on the User Board of CLIM2POWER, a research project that establishes a link between complex scientific knowledge based on models reflecting climate data and IT tools in support of the operational management of energy generation power plants.

The development of its capacities and competences within the national market has enabled the international expansion of the AdP Group acting as a showcase for the competitive advantages that Portugal deploys in the environmental sector and developing technical assistance projects and partnerships in different countries.

A further significant event arises from Águas de Portugal having joined the “Leading Utilities of the World” network that brings together companies from the sector that have stood out at the global level for their high performance standards and innovative capacities and, for the first time, sitting on the Board of Water Europe, the European platform dedicated to promoting and raising awareness about research projects, development and innovation in the water sector.

REGULATORY FRAMEWORK

The management entities belonging to the AdP Group provide services in the water sector through activities involving the public supply of water and the sanitation of wastewaters, which may include, in addition to household discharges, industrial effluents and rainwater runoff. This sector is subject to regulation by ERSAR, the regulator pursuant to its articles of association, which were approved by Law 10/2014 of 6 March as regards the regulation of its financial policies, quality of service and the user interface with ERSAR also the competent authority for awarding the coordination and monitoring of the water quality regime for human consumption.

The services provided 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 aligned with the public policies and strategic national plans for the sector.

The AdP Group subsidiaries follow different management models (concession and delegation) in the upstream (EPAL; multi-municipal systems (MMS) and State-Municipality partnerships) and downstream (EPAL and State-Municipality partnerships) segments of the value chain of this sector.

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

ECONOMIC REGULATION

The Management Companies belonging to the AdP Group universe are subject to economic regulation by ERSAR, and are also governed by the respective constituent and statutory diplomas and in accordance with the related concession, partnership and management contracts. These contracts provide for the minimum public service obligations, the investment plan and contractual remuneration.

The ERSAR involvement in the economic matters of these Management Companies is delimited, depending on whether it is a state-owned entity (EPAL, MMS and AdSA), for which ERSAR sets tariffs and yields for tariffs, and for the municipal partnership owned systems (state-local government partnerships), for which ERSAR oversees compliance with contractual tariffs and verifies compliance with tariff regulation whenever so existing. For all entities, the regulator monitors other economic and financial aspects.

In the MMS case, in addition to setting tariffs and yields, ERSAR defines production efficiency scenarios and approves any variations in the cost recovery deviation (CRD) that the Management Companies of the multi-municipal systems register in their respective accounts.

Pursuant to Law no. 10/2014 of March 6, two specific advisory bodies (Advisory Board and Tariff Board) were set up on which the AdP Group continues to be represented.

Throughout 2019, the AdP Group remained actively involved in participating in the public consultations that ERSAR has promoted, as well as several other studies and works developed by this entity with material impacts on the development of activities and defining the tariffs and scenarios for operational and financial efficiency.

To this end, this highlights the contributions made to the public consultation process regarding the proposed RTA - the Regulatory Tariff for Water Services and the respective Complementary Document no. 1, in March 2019, with this procedure launched by ERSAR on 14 December 2018.

This important regulation provides a highly relevant tool for the water sector in terms of both economic regulation and the economic and financial sustainability of its management entities as well as on issues surrounding tariff equity and price efficiency.

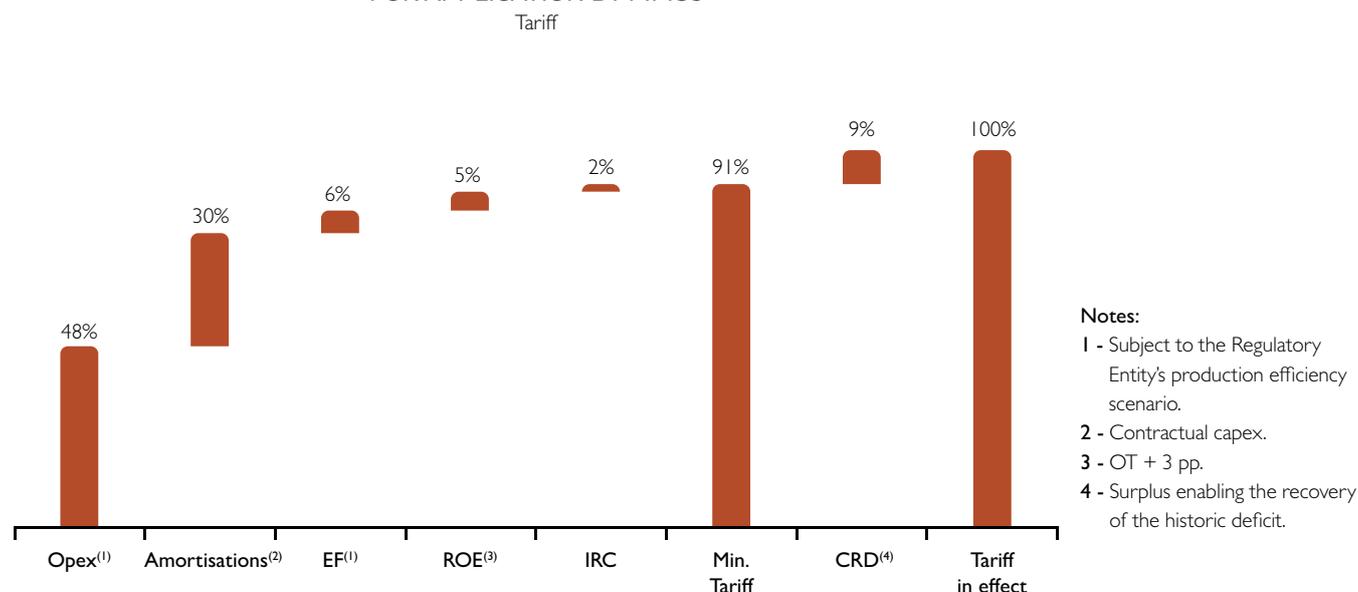
In 2019, work continued on reviewing the core diplomas determining the system of state ownership (Decree-Law no. 195/2009, of 20 August) and the municipally owned systems (Decree-Law no. 194/2009, of 20 August), with this process still ongoing but remaining instruments of great relevance to the definition of tariff regulations and quality of service.

MULTI-MUNICIPAL SYSTEMS (AdNorte, AdDP, SIMDOURO, AdCL, AdVT, AdTA, SIMARSUL and AdA)

The Management Companies belonging to the AdP Group, 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. (AdA), are multi-municipal systems (MMSs) that undertake, through concession contracts entered into with the State, the activities of upstream public water supply and wastewater management.

The upstream tariff rates and revenues, when applicable, charged by these multi-municipal systems are set by ERSAR and calculated based on the efficiency costs accepted by this entity.

SIMPLIFIED DEFINITION OF THE TARIFFS FOR APPLICATION BY MMSs



For the MMSs, tariffs and tariff revenues, when applicable, are established for the first tariff period in the establishment decrees and respective concession agreements. In this period, ERSAR validates the tariffs and updates tariff revenue, when applicable, based on the rate of inflation (HICP – Portuguese acronym).

Within the process of system aggregation, in 2015 a tariff corridor mechanism was set with an increased tariff component (CTA), which was reinforced in the spin-off processes that took place in 2017. These mechanisms are currently established between the coastal and inland systems for both services. The CTA of the first tariff period was established through the constitutive diplomas of the beneficiary systems and with its updating monitored by ERSAR.

Under the terms of the concession agreements, costs to be recovered through tariffs include efficient operating expenses, including investment amortizations net of subsidies, financial expenses, net of financial income, taxes on income and shareholder remuneration. Also considered as tariff charges are the recoverable proportion of CRDs, when applicable.

Throughout 2019, the tariffs, and the tariff earnings whenever applicable, and the CTA applied to the turnover of the management entities belonging to the AdP Group were subject to analysis and the opinion issued by ERSAR in 2018.

The concession agreements determine that the return on equity, to be recovered by tariffs, results from the remuneration of the share capital and the legal reserve at a rate equivalent to ten-year Treasury bills (OTs) plus a margin of 3% and the outstanding shareholder remuneration, at a rate equivalent to these ten-year bills.

In 2019, the average daily interest rate for ten-year Treasury bills stood at 0.75%.

The constitutive diplomas of MMS mergers and spin offs consecrated the methodology for the registration and recovery of CRDs, determining a maximum period of additional CRD generation of up to 10 years and a maximum period for the reintegration of these assets (or liabilities) of up to 25 years. According to this methodology, the current balance of the CRD recorded in the accounts of AdP Group subsidiaries will have been recovered by 2042.

In the case of the multi-municipal system managed by AdA under the auspices of the new concession contract signed in 2019, there was the initial registration of the CRD, as well as the CRD for 2019, with these hitherto reported in the consolidated accounts of AdP, SGPS.

In 2019, ERSAR analysed and approved the CRDs of multi-municipal systems created by aggregation and spin-off. Based on the gross CRDs, as determined by ERSAR, in March 2019, there were EUR 0.5 million of charges not accepted by that regulatory body.

As at 31 December 2019, approximately EUR 603.6 million of outstanding CRDs and approximately EUR 50.2 million of surplus CRDs were recorded in the accounts of the AdP Group as a result of the activities of the various multi-municipal systems.

PARTNERSHIPS BETWEEN THE STATE AND MUNICIPALITIES

(AdAM, AdRA and AdNorte – downstream and AgdA – upstream)

The Management Companies, AdAM - Águas do Alto Minho, S.A. (AdAM), Águas do Norte (AdNorte), AdRA - Águas da Região de Aveiro, S.A., (AdRA), and AgdA - Águas Públicas do Alentejo, S.A., (AgdA), carry out, through management contracts, the upstream and/or downstream public water supply and wastewater management in the context of partnerships between the state and local authorities.

These partnerships are governed by the provisions of Decree-Laws 90/2009 of April 9 and 194/2009 of August 20, for the partnership and management contracts awarded as well as by further legislation and regulations.

These Management Companies are subject to the regulation of ERSAR, pursuant to Law No. 10/2014, of March 6, and to the supervision of the Partnership Commission - an entity established under the partnership agreements signed, consisting of representatives of the state and of the municipalities, whose mission is to exercise the powers of direction, supervision and monitoring of municipalities over the municipal system managed under this regime.

Upstream or downstream tariffs under the terms of the management contracts, which comprise a fixed component and a variable component, are set at constant prices and for five-year periods. The tariffs are updated annually in accordance with the respective

contracts. The Partnership Commission is responsible for approving these tariffs and ERSAR is responsible for issuing a non-binding opinion.

These Management Companies are regulated at accepted efficient costs, which include the operating and maintenance operating costs of their systems, investment amortizations net of subsidies, financial expenses net of financial income, taxes on income and adequate equity capital remuneration.

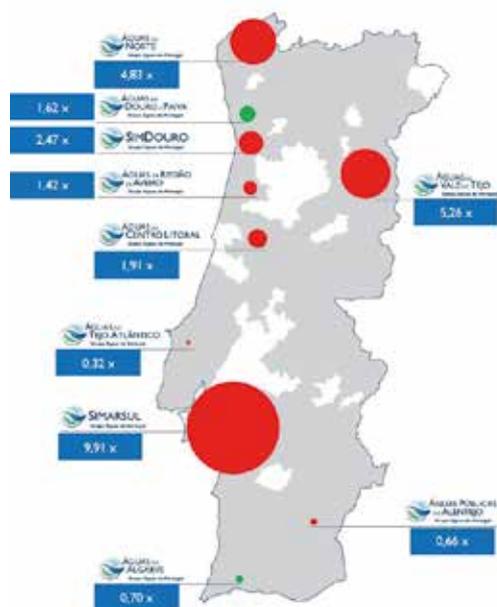
Throughout 2019, the tariffs applied in the billing issued by the management entities in the AdP Group were subject to the analysis and issuing of an opinion by ERSAR and approved by the Partnership Commission.

Partnership contracts generate the same remuneration as the MMS concession contracts.

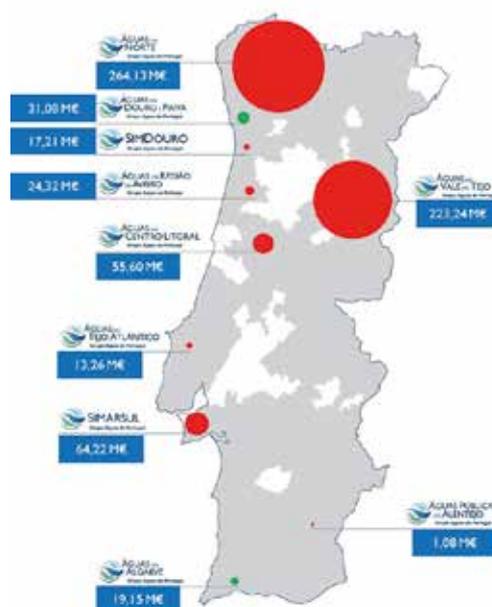
The contracts of these Management Companies establish that they are entitled to register and recover the CRDs generated by tariffs, calculated by the difference between the net results generated and the contractual remuneration of shareholder equity for the year.

As at 31 December 2019, some EUR 59.4 million of loss-making CRDs were recorded in the accounts of the AdP Group as a result of the activities of municipal systems operated in partnerships between the state and local authorities.

Gross accumulated CRD/ Adjusted EBITDA



Gross accumulated CRD



OTHER STATE OWNED SYSTEMS

ÁGUAS DE SANTO ANDRÉ (AdSA)

Through the concession contract entered into with the state, Águas de Santo André, S.A. (Adsa) carries out public upstream and downstream water supply and wastewater treatment activities as well as solid waste treatment in the industrial zone of Sines and in the parish of Santo André, in the municipality of Santiago do Cacém.

Although it is not a multi-municipal system as it is a state-owned system engaged in activities of public water supply and the sanitation of urban wastewaters and managing urban waste, whenever related to “human consumption”, AdSA is subject to the same ERSAR intervention as those systems.

The tariffs practiced by this management entity related to “human consumption” are approved by ERSAR, thus considering the costs of recovering, via the tariff, operating expenses, including investment amortizations, net of subsidies, financial expenses, net of financial income, taxes on income, and shareholder remuneration.

The concession agreement establishes that the shareholder remuneration to be recovered by means of tariffs is estimated based on the value of shareholder equity at a rate equivalent to those of the 10-year Treasury Bills (OTs), plus a minimum margin of 3%.

For this management entity, in the case of a minimum remuneration rate, no CRD is accounted for.

EPAL

The operating model of EPAL - Empresa Portuguesa das Águas Livres, S.A. (EPAL) is based on state-delegated management and covers the activity of upstream public water supply to 23 municipalities and downstream supply in the municipality of Lisbon.

EPAL is governed by the provisions of Decree-Law no. 230/91 of June 21, as amended by Decree-Law no. 94/2015 of May 29 and Decree-Law no. 34/2017, of March 24.

These regulations stipulate that water tariffs, as well as fees for the ancillary services provided by EPAL, must, in any case, ensure revenues to cover their operating expenses, as well as adequate levels of self-financing, risk and return on invested capital.

In 2015, EPAL was allocated the management of the Water Supply and Sanitation Multi-Municipal System, granted to AdVT.

Without prejudice to the tariff uniformity regime created by Decree-Law no. 94/2015, of May 29, EPAL is subject to ERSAR's intervention, with regard to the establishment of tariffs to be charged, in compliance with the criteria set forth in Law no. 58/2005, of 29 December (Water Law), amended by Decree-Law no. 245/2009, of September 22, no. 60/2012, of March 14, and no. 130/2012 of June 22, and other complementary legislation and regulations, taking into account the specificities and the risk associated with the system managed by EPAL as well as the contracts entered into.

Under the terms of EPAL activities, it is understood that the adequate remuneration of invested capital is ensured by applying a weighted average cost of reference capital to the value of property, plant and equipment and intangible assets, directly related to the public service rendered, net of amortizations and investment grants. This rate should: **(i)** reflect the specific increased risks associated with the management of the delegated management system; **(ii)** reference the financing of equivalent projects under market conditions; and **(iii)** take into account the Company's financing capacity in the capital market.

The rate is levied on all assets and resources and the capacity of existing infrastructures that are part of EPAL's public service activities, for security and reliability reasons, are part of the relevant and necessary asset base of EPAL and are valued at the book value recorded in the last approved accounts.

According to Decree-Law no. 94/2015, of May 29, as amended by Decree-Law no. 34/2017, of March 24, a system of tariff uniformity was defined between the AdVT and EPAL managed systems, which determines the uniformity of the tariff to be applied upstream between the two Management Companies for each five-year period. From this scheme, a CTA is delivered by EPAL to the system managed by AdVT.

With the publication of Decree-Law no. 94/2015, of May 29, the tariffs EPAL will charge for the 2015-2020 period, at constant prices, as well as the CTA, at constant prices, added to the rates charged by EPAL pertaining to upstream and passed on to customers downstream of the Company. The updating of these tariffs is subject to ERSAR validation.

Throughout 2019, the tariffs and CTA applied in the billing issued by EPAL were support to the analysis and the opinion of ERSAR in 2018.

REGULATION OF SERVICE QUALITY

The Management Companies belonging to the AdP Group are subject to ERSAR's quality of service intervention.

ERSAR's intervention in quality of service results from an annual evaluation based on indicators in which the results of this evaluation are an integral part of the Annual Report of the Portuguese Water and Waste Services (RASARP).

In December 2018, Volume 2 of RASARP was published and disseminated with the results of the Quality of Service evaluation system provided by Management Companies, whose reference date is December 31, 2018 and available to the public.

REGULATION OF WATER QUALITY FOR HUMAN CONSUMPTION

The management companies belonging to the AdP group that provide public water supply activities are essentially responsible for ensuring, under the supervision of the competent entities, the quality control of water for human consumption, in accordance with the legal and regulatory parameters applicable.

Pursuant to Decree-Law no. 306/2007 of 27 August, the Management Companies must annually prepare the Water Quality Control Program (PCQA), and submit it for approval by ERSAR, and this entity is responsible for carrying out enforcement actions on its implementation.

In compliance with the legislation, the Management Companies implement the PCQA, with non-compliance with the parametric values communicated to the competent entities.

The results of the water quality control test at delivery points and consumer faucets conducted by Management Companies are also included in RASARP.

In September 2019, Volume 2 of RASARP was published and disseminated with the results of water quality for human consumption with December 31, 2018 as the reference date.

REGULATING THE USER INTERFACE

The management entities belonging to the AdP Group universe are subject to the intervention of ERSAR as regards their user interfaces.

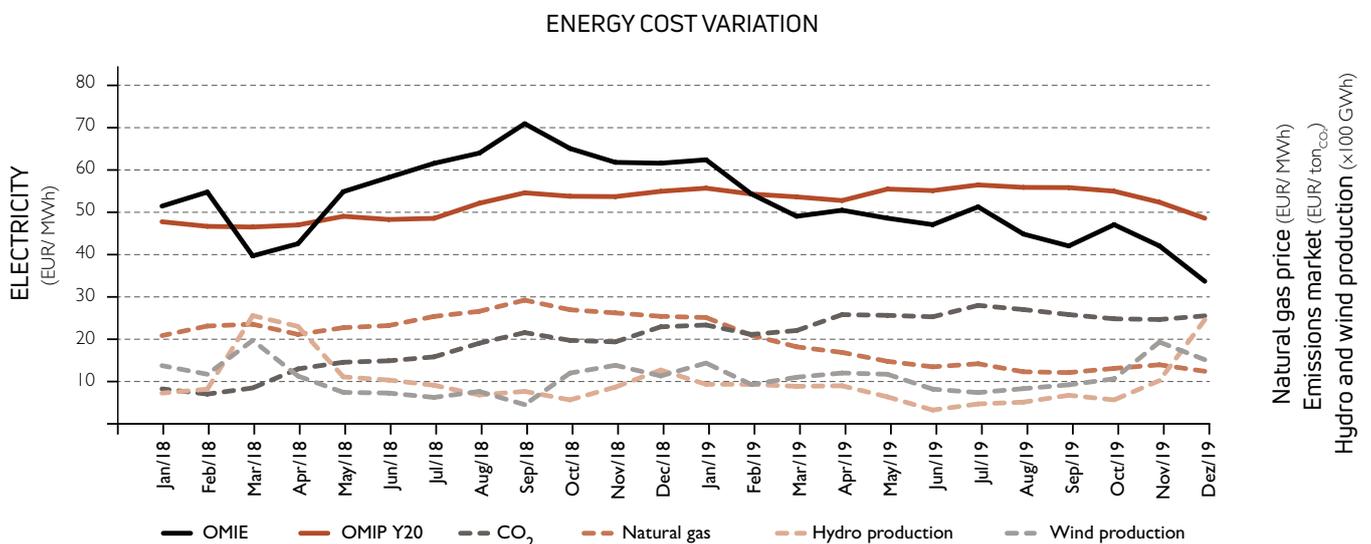
Requests for information and the complaints submitted by water service users are analysed by the regulator. To this end, the managing entities provide a physical book of complaints. This also extends to their respective Internet sites that provide an e-book of complaints.

ENERGY IN THE AdP GROUP

THE PRICE OF ELECTRICITY IN PORTUGAL

In 2019, the average price of electricity in Portugal, within the scope of the Iberian wholesale electricity market (OMIE), stood at 47.87 €/MWh (57.45 €/MWh in 2018).

This year-on-year drop stems from a combination of factors that especially includes the continued slide in the price of natural gas and the fall in the CO₂ emissions market price with particular impacts over the second half of the year.



The figure above reflects the trend in the energy price in the Iberian markets over the years of 2018 and 2019.

This duly reflects how the average price registered in 2018 corresponded to the highest level since 2008 and that hike in prices resulted from the combined effect of the rise both in the crude oil and in the CO₂ emissions market prices that registered annualised surges of 30% and 149% respectively.

In 2019, renewable production, the endogenous component that influences the electricity price, was around 8% lower than the level prevailing in 2018, despite only impacting on the markets in the last two months of the year when average monthly production advanced 76% on the average prevailing in 2019.

This reduction in the Iberian market electricity price was accompanied by the European daily spot markets with the following table setting out the variations taking place in Portugal, Germany and France.

Variation in the average price of the electricity market (daily market)	2019/ 2018
Portugal	-17%
Germany	-15%
France	-21%

The variation in electricity prices in the futures market (OMIP), for supply in 2020, experienced an inverse trend with the following table depicting the variations ongoing in Portugal, Germany and France.

Variation in the average price of the electricity market (futures market)	2019/ 2018
Portugal	+9%
Germany	+14%
France	+11%

In 2019, national consumption stood at 50 345 GWh, down 0.2% on 2018. 49% of this consumption was met by renewable energy production, slightly below the 52% achieved in 2018. Between 2018 and 2019, fossil fuel production recorded growth of 15% in natural gas and 3% in co-generation while coal based production fell back by 54%. There was a deficit of 7% in the electricity consumption balance to the contrary of the situation in 2018 when Portugal registered an export surplus of 5%. In meteorological terms, the average temperature in 2019 was 1.3° C higher than in 2018, which would have assisted in reducing the need for consumption for heating purpose while the hydro-electric productivity index dropped from 1.05 in 2018 to 0.81 in 2019, with an impact on hydro-electric production amounting to a drop of 25% over this two year period.

The consumer electricity price (the case for AdP Group companies) returns a relevant impact on the setting of the TAR – the Network Access Tariff by ERSE which, in the role of sector regulator, takes into account the costs of networks operation, including the costs of the energy, environmental or general economic interest policies (CIEG – Portuguese acronym), specifically for the recovery of the tariff deficit and the regional convergence tariffs.

The year of 2019 maintained the downwards dynamic of the TAR (2018 was the first year in the last five that experienced a reduction), which dropped -12.0% on 2018. Nevertheless, this decrease is not to persist through 2020 given that the TAR was again attributed average increases of +1.2% across all power tension levels.

As encountered in previous years, it remains unfeasible to predict variations in the electricity price for forthcoming years – currently, the energy procurement market for the next years has seen significant falls due to wind-based sources of production and the COVID-19 pandemic -, maintaining the uncertainties and major dependence on prices in accordance with trends in the global economy and the sources of production in the sector.

This comes in addition to the effects of any alterations to national and European legislation on the final price of electricity and regarding which we are unable to ascertain their future direct effects.

Due to the factors and adjustments to which the market is subject and conditioned by, and regarding which we are unable to estimate the effects on the price prevailing in electricity markets, coupled with the experience acquired by the AdP Group through

its continued monitoring of these markets, the most sustainable strategy necessarily involves the implementation of measures and actions that lead to:

- reductions in consumption levels resulting from the implementation of operational management, structural and other measures aimed at promoting the energy efficiency of infrastructures,
- reductions in costs, optimising levels of tension, cutting back on the contracted potential, eliminating reactive energy, adjusting the network's profile of energy consumption in accordance with the tariff periods and functional cycles in order to result in the more efficient management of energy,
- increasing in-house energy production for self-consumption, through means of leveraging the endogenous potential (in particular, boosting the production of biogas and leveraging the piezo-metric falls existing in the micro-hydric installations) and renewable sources (wind and solar power), reducing both the consumption of the network and the level of dependence on the markets.

In 2019, the Council of Ministers Resolution no. 107/2019, 1 July 2019 approved the Path to Carbon Neutrality (RNC 2050), which establishes the objective of reducing greenhouse gas emissions in Portugal by between 85 % and 90 % by 2050 when measured against 2005 and with the compensation of the remaining emissions through recourse to land and forestry initiatives and thereby obtaining a trajectory in the reduction of emissions of between 45 % and 55 % through to 2030, and between 65 % and 75 % through to 2040; all in relationship to the emissions produced in 2005.

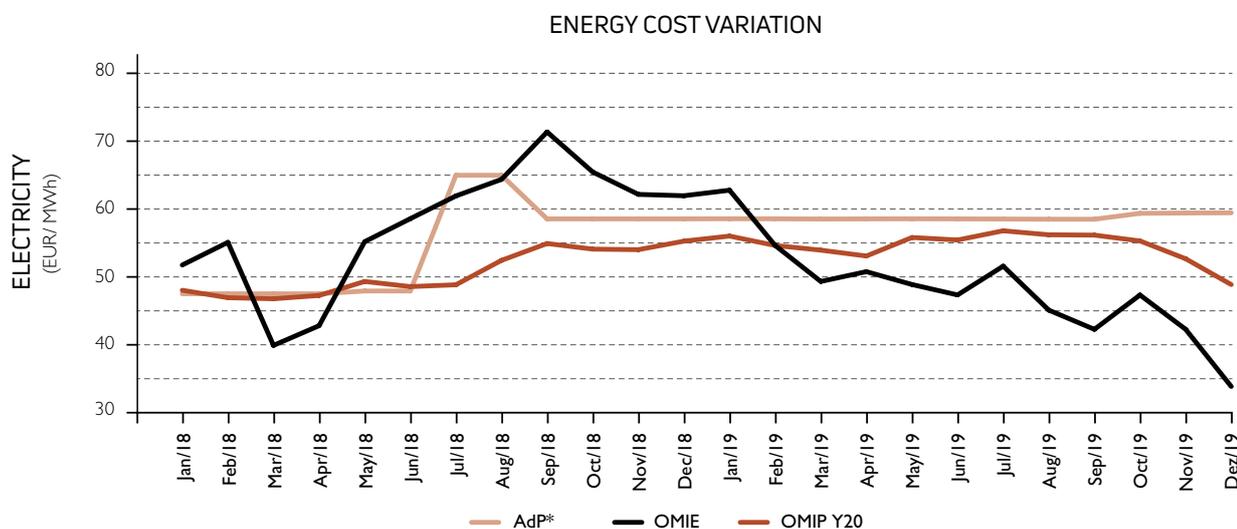
Furthermore, the RNC also sets out a set of vectors for decarbonisation and lines of action for a carbon neutral society as set out in the point above regarding the national energy strategy for 2030 that is to be taken into consideration in the definition of any energy related strategy.

Within the same scope, this highlights the project developing the Energy Neutrality Implementation Study for the AdP Group (and correspondingly also covering carbon neutrality) in accordance with that deliberated by the AdP SGPS Executive Commission.

This important development project, which began in January 2020, constitutes a relevant tool both for the AdP Group and for Portugal which, through returning significant reductions in energy consumption and boosting the in-house production of energy, shall see the Group make a decisive contribution towards obtaining the goal of a 50% cut in greenhouse gas emissions by 2030 measured against the emissions produced in 2010, which has been committed to at the United Nations level via the United Nations Global Compact – subscribed to on 6 November 2019 -, and to the country obtaining the ambitious objectives around carbon neutrality in 2050 as set out in the RNC.

ELECTRICITY CONSUMPTION AND COSTS IN THE AdP GROUP

The consumption of electricity is an inherent part of Águas de Portugal Group Company activities, making up a substantial proportion of the costs of the multi-municipal systems, holding a highly significant weighting in the FSE and with direct repercussions for the tariffs in effect for water and sanitation services.



* Average contract value, without network losses

As stated, in 2019 the average electricity price for Portugal in the Iberian wholesale market (OMIE) stood at 47.87 €/MWh (against 57.45 €/MWh in 2018). This drop on 2018 stemmed from a combination of different factors, including the continued slide in the natural gas price coupled with the decline in the CO₂ emissions market and other factors that especially came into play in the second half of the year.

The table above sets out the trend in energy prices across the Iberian markets and portrays the curve in energy supply contracts signed by the AdP Group over the years of 2018 and 2019.

This conveys how, based on the (almost complete) invoicing data, the AdP Group electricity consumption grew between 2019 and 2018 and closing the former year on 748.7 GWh (up 2.5% on 2018).

Of this total, 725.1 GWh were consumed directly from the RESP – the national electricity grid, which corresponds to a year-on-year increase of 2.3% and with 23.5 GWh based on self-consumption generated via endogenous and renewable sources (an annualised increase of 8.8%).

This highlights the internal production of energy, whether for supplying the national grid or meeting self-consumption needs. The 2019 data point to production having obtained almost 33.9 GWh/year (+11.2%), in keeping with the increased production registered in 2018 (30.4 GWh/year, +33.1%). In terms of energy self-sufficiency, the AdP Group supplied around 4.5% of its total energy consumption (4.2% in 2018).

This also records how the production of energy for sale to the RESP grid totalled 10.3 GWh (+17.2% on 2018) in 2019. In terms of the internal production of energy, the total registered in 2019 was 33.9 GWh corresponding to an 11.2% advance in annual production (30.4 GWh in 2018).

In general terms, the RESP balance of the AdP Group came in at 714.8 GWh in 2019 that reflects a 2.2% positive variation on 2018 when this balance was 699.7 GWh.

In terms of CO₂ emissions, the AdP Group's energy production enabled a reduction of 9,143 tons, which accounts for a decrease of 496 tons on 2018 (-5.7%).

In national terms and as regards 2019, the AdP Group features among the top five largest consumers of energy in the country and accounting for 1.44% of total electricity consumption, up from 1.39% in 2018, and the largest in terms of the number of grid connections.

On 31 December 2019, the AdP Group operated 6,065 connection points to the RESP grid (9 High Tension, 1,017 Medium Tension, 377 Special Low Tension and 4,662 Normal Low Tension points), which represents an increase of 1.5% on 2018 (+90 new connection points). Furthermore, a total of only 5,816 connection points registered consumption, representing an active rate of 95.9%.

In terms of the state sector, the AdP Group is the largest national state consumer both in terms of electricity consumption and in terms of connection points.

The annual 2019 electricity bill, including all the costs and charges, rose to EUR 74.7 million (up 0.2% on 2018), which reflects around EUR +0.2 million in additional annual costs, jointly resulting from the rise in the average procurement price of energy (up around 7.5%) and the reduction in the average TAR (-13.9%).

In terms of the costs of energy to AdP Group companies, the average global price in 2019 dropped slightly 103.00 €/MWh (105.18 €/MWh in 2018), corresponding to an average 2.1% reduction on 2018 with the energy acquisition cost standing at 61% (against 55% in 2018).

The average market energy price stood at 62.49 and 58.10 €/MWh respectively for 2019 and 2018 (+7.5%).

The total energy costs in 2019, in addition to reflecting the drop in TAR, also include the exceptional reduction in the contracted power supply that, achieved in 2018, underwent application over the course of the 2019 financial year.

For the year of 2020 (the AdP Group has its energy supply contracted through to 31 December 2020, with the exception of the BTN contract that extends until 31 December 2021), the average price is expected to come in at around 103.60 €/MWh (against 103.00 €/MWh in 2019), which reflects an increase of +0,6% on the previous year and practically entirely accounted for by the rise in TAR established for 2020.

The average cost of market acquired energy was 62.30 €/MWh, which compares with the price of 62.49 €/MWh in 2019 representing an average 0.3% decrease.

The totals estimated for 2020 were based on the current structure of AdP Group company energy consumption with any eventual alterations in their profiles generating effects on the average price of energy at both the company and Group levels.

Given the direct correlation between consumption and activity levels, the data hitherto available indicated that the volume of water supplies for human consumption and the flows of treated wastewaters totalled 1,118.7 million m³ (up 0.8% on 2018). However, the relationship between these activities is nevertheless differentiated given that this reflects a 4.2% increase in the water supplied flow (593.4 versus 569.3 million m³) and a 2.8% drop in the wastewaters subject to treatment (525.3 versus 540.2 million m³).

Hence, the preliminary specific consumption data point to a 1.7% rise in comparison with 2018 (0.6692 kWh/ m³ in 2019 against 0.6580 kWh/ m³ in 2018) and down 1.3% on 2017 (0.6778 kWh/ m³ in 2017).

When this evaluation takes into consideration only the energy consumed from the RESP grid, this variation stands at an increase of 1.5% (0.6482 kWh/ m³ in 2019 versus 0.6386 kWh/ m³ in 2018) and down 2.5% on 2017 (0.6651 kWh/ m³ in 2017).

A further note for the energy consumption resulting from electricity powered mobility. In 2019, the 128 vehicles that are 100% electric powered in the AdP Group service fleet (with 1 430 vehicles) travelled over two million kilometres and avoiding the consumption of over 173 000 litres of fossil fuel, representing a reduction of 582 barrels of equivalent oil. In terms of primary energy, this reflected a reduction of 57.5% (down 85.1 tep) and with electricity consumption totalling 293 MWh.

This should also emphasise how, in terms of CO₂ emissions, the reduction obtained over combustion energies amounted to -382 tons (down 82.9%).

Despite the increase in energy consumption through the usage of electric vehicles, this nevertheless remains dependent on increasing their number, which is expected to happen gradually over forthcoming years, with their effects always more relevant on the reduction of greenhouse gas emissions and on fossil fuel consumption than on raising the consumption of electricity.

In 2019, the AdP Group vehicle fleet (1 430 vehicles) consumed 2.849 million litres of fuel (diesel and petrol) and that represents a variation of -1.0% on 2018 – with the consumption of 2.879 million litres - and a variation of -1.9% against 2017 (with the consumption of 2.903 million litres), which in average daily terms reflects overall consumption of 7 806 l/day (against 7 888 l/day in 2018 and 7 954 l/day in 2017).

As regards 2015 (the *PEPE* year of reference), this 2019 variation represents a decrease of 9.4% (-3.145 million litres of fuel, equivalent to 8 615 l/day).

The 2019 fuel consumption accounted for a total cost of EUR 2.856 million (without VAT) which represents a year-on-year increase of 1.5% (EUR 2.81 million without VAT) and up 6.0% on 2017 (EUR 2.694 million without VAT).

In terms of distances, the AdP Group vehicle fleet covered around 41.5 million kilometres in 2019 (which is around 1 036 times the earth's perimeter).

With the consumption of energy inherently bound up with the activities of Águas de Portugal Group companies, and accounting for substantial proportion of the costs inherent to the supply of water and/ or wastewater sanitation and considering the uncertainties surrounding the trends in energy costs over time, there was an urgent need to define and integrated and harmonised energy strategy for Group companies so as to best optimise energy usages and thereby attempting to counter the prevailing trend.

Hence, improvements to the overall performance of AdP Group companies in terms of energy efficiency provides one of the great challenges from the corporate perspective, whether in terms of reducing operational costs or the decarbonisation of the economy and cutting the contributions made to climate change.

Having defined the strategy, there was the concerted agreement between AdP Energias and the AdP Group holding companies over the development and implementation of Energy Efficiency Plans with a view to the optimisation of consumption through means of the rational utilisation of energy and correspondingly identifying the new needs and priority areas of action both at the corporate level and at the operational company level.

PEPE – THE ENERGY EFFICIENCY AND PRODUCTION PLAN

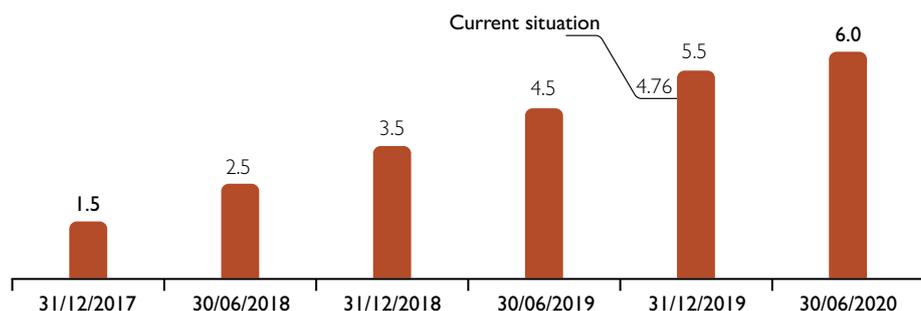
Hence, in May 2017, *PEPE – the Energy Efficiency and Production Plan* was approved and presented for the AdP Group for the 2017 – 2020 period. In this context, AdP Energias runs and coordinates, in addition to regularly undertaking scheduled monitoring, the implementation of the Energy Efficiency and Production Plan that the AdP Group companies have in the meanwhile duly approved.

In addition to promoting and dynamizing PEPE, the AdP Energias has been developing a vast and broad reaching range of initiatives, including the following highlights:

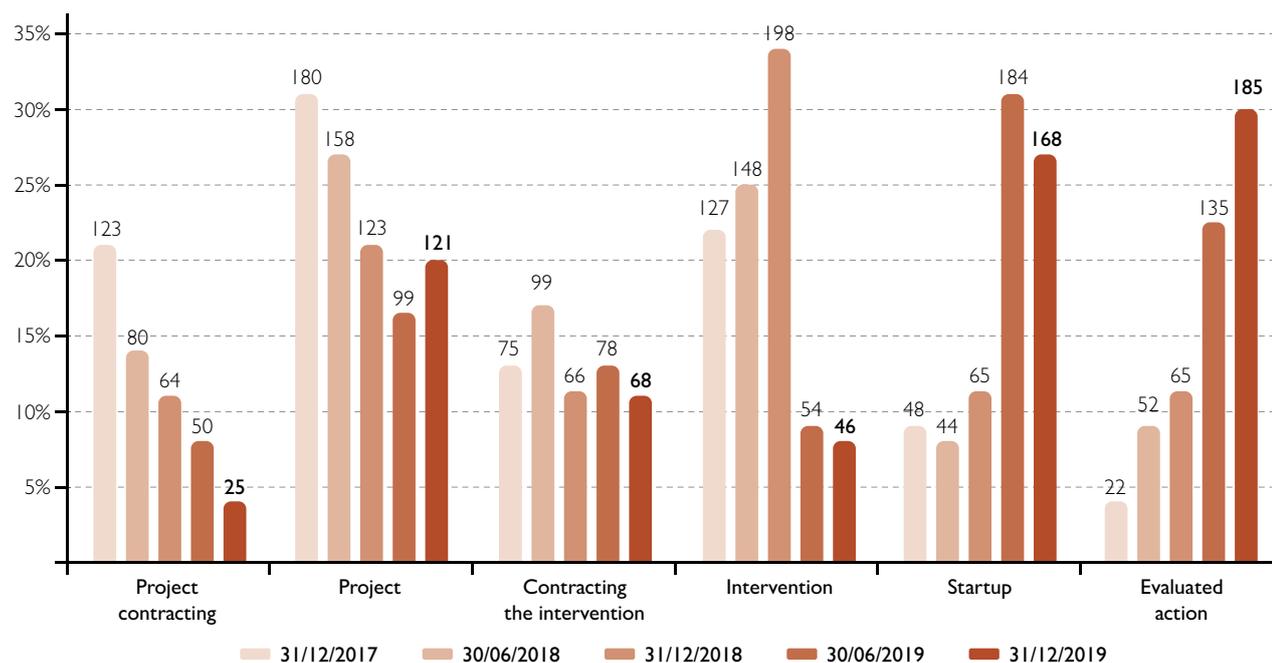
- Accompanying markets and participating in centralised negotiation processes for the acquisition of energy;
- Development of studies evaluating the potential for the production of solar power at AdP Group infrastructures;
- Support for improvements to energy production processes through recourse to endogenous sources, in particular biogas, micro-hydric and solar;
- Negotiations within the scope of the process of reducing the energy potential contracted for many of the AdP Group company infrastructures;
- Eliminating reactive energy usage across AdP Group company infrastructures;
- Alterations to the levels of power supply in effect at AdP Group company infrastructures.

The following figures set out the PEPE state-of-the-art for the AdP Group as at 31 December 2019.

PEPE STATE-OF-THE-ART



NUMBER OF MEASURES AND % IN EACH PHASE



PEPE Objectives	2019		Targets for 2020
Infrastructures included (No.)	305	96.5%	316 infrastructures
Measures implemented (No.)	588	95.9%	613 measures of efficiency / production ⁽¹⁾
Investment (million EUR)	12.091	⁽²⁾ 63.7%	28.150 MEUR
Reduce electricity consumption (GWh/year)	1.977	⁽²⁾ 54.2%	Less 30.4 GWh/year
Boost own electricity production (GWh/year)	⁽³⁾ 6.540	24.9%	Additional 26.278 GWh/year
Reduce the contracted power supply (MW)	⁽²⁾ 46.005	⁽²⁾ 460.1%	10 MW in 103 infrastructures
Reduce the contracted power supply (No.)	⁽²⁾ 655	⁽²⁾ 635.9%	10 MW in 103 infrastructures
Reduce the contracted power supply cost (EUR)	⁽²⁾ 0.895	⁽²⁾ 198.9	0.450 MEUR
Reduce the costs of reactive energy (million EUR)	⁽²⁾ 0.367	⁽²⁾ 73.4%	0.50 MEUR in 320 infrastructures
Alterations to the tension (GWh/year)	⁽²⁾ 62	⁽²⁾ 15.6%	0.50 MEUR in 320 infrastructures
Alterations to the tension (GWh/year)	0	0.0%	10 GWh/year in 63 infrastructures
Alterations to the tension (No.)	0	0.0%	11 GWh/year in 63 infrastructures
Reduce the carbon footprint (ton CO ₂)	⁽³⁾ 36 855	136.5%	27 000 accumulated tons of CO ₂
Introduction of e-mobility (No.)	128	128.0%	100 electric vehicles
Electric vehicle recharging posts (No.)	136	272.0%	50 recharging posts
Fleet energy certification (No.)	1 430	130.0%	1 100 vehicles
Certification under norm ISO 50 001 (No.)	102	104.1%	98 certified infrastructures
Infrastructures audited under the auspices of DL 68-A (No.)	132	169.2%	Over 78 infrastructures audited
Training of internal energy auditors (No.)	62	206.7%	30 energy auditors
Training for energy (%)	50%	50.0%	100% compliance
Communication for energy (%)	75%	75.0%	100% compliance
Annual electricity cost savings (million EUR)	2.659	⁽²⁾ 78.5%	6.640 million EUR

Notes:

The completed activities are shaded in grey.

(1) With the review of PEPE by some companies, the number of measures rose from 575 to 613.

(2) Accumulated total 2019 + 2018.

(3) Reduction on 2015.

In October 2019 (integrated into the AdP Group Days of Engineering program), there was a presentation as to the level of compliance with PEPE, having attributed an award to nine of the 13 AdP Group companies (with ten out of 13 companies in receipt in 2018) that obtained or exceeded the targets set for the end of the first quarter of 2019, which seeks to honour and motivate the energy teams of AdP Group companies.

AdP GROUP ELECTRICITY PRODUCTION

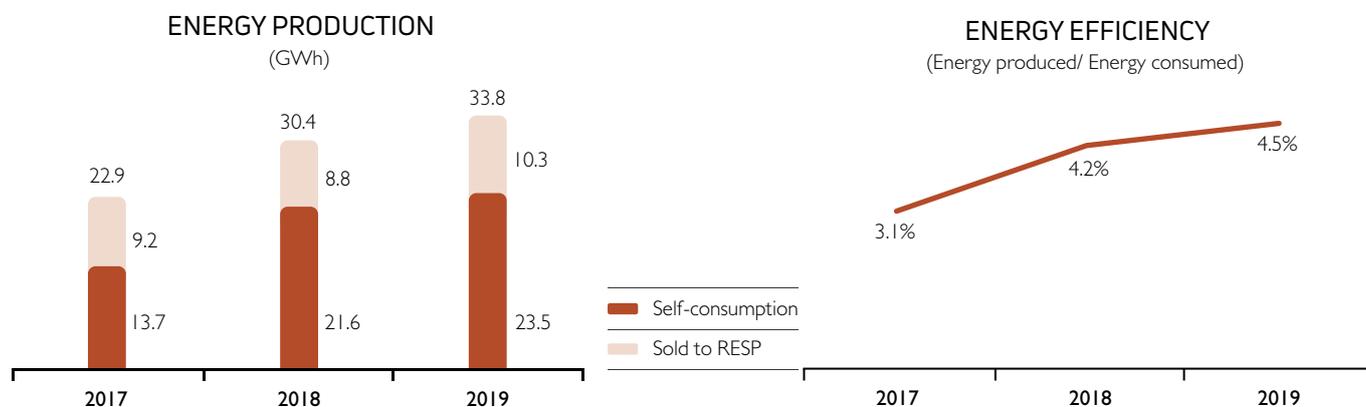
In the field of energy production from endogenous and renewable resources, AdP Energias has rendered support to AdP Group companies as they develop and improve their production processes in seeking to maximise their electricity production.

This highlights the resulting energy production, whether for injection into the national grid or for internal consumption. The 2019 data point to production reaching almost 33.9 GWh/year (+3.4 GWh/year and +11.2%), in keeping with the boost to production recorded in 2018 (+30.4 GWh/year, +33.1%).

In 2019, the production of electricity from biogas by the AdP Group totalled 29.6 GWh/year (+2.7 GWh/year and 10.2% higher than in 2018), while solar energy amounted to 4.1 GWh/year (+0.6 GWh/year and +12.2% on 2018) and with hydro-electricity rising to 163.1 MWh/year (+72.6 MWh/year and +80.2% on 2018).

This also records how energy production for sale to the RESP grid in 2019 rose to total 10.3 GWh (+17.2% on 2018). In general terms, the RESP grid balance of the AdP Group in 2019 stood at 714.8 GWh, which reflects a variation of +2.2% on 2018 when the balance stood at 699.7 GWh.

In terms of energy self-sufficiency, the AdP Group accounted for around 4.5% of its total energy consumption (4.2% in 2018). Furthermore, in terms of CO₂ emissions, the internal production of energy enabled a reduction of 9 143 tons, which represents a further fall of 496 tons on the result.



Throughout 2019, a survey took place of the existing situation with technical visits made to the production plants with the maintenance interventions of the telemetry teams resulting in the retroactive recovery of production totalling 97 MWh (10% of annual guaranteed production). As a result of this survey, a further 28 inverters were installed by the end of 2019 that shall enable the approximation of the guaranteed production values.

CENTRALISED ELECTRICITY PROCUREMENT

In 2019, AdP Energias made significant improvements to its market analysis model, in particular for analysing the OMIP market. Correspondingly, the GGE (Energy Management Group) was launched and maintaining regular meetings to analyse the energy markets and make comparisons with other sources of energy within the objective of finding the right timings to advance with medium term energy procurement procedures.

In 2019, the AdP Group opened up three tenders for the supply of electricity: Upstream tension supply (AT), Medium and Special Low Tension (MT+BTE) and Special Low Tension (BTN). Thus, for 2020, the average cost should come in at 103.60 €/MWh (against 103.00 €/MWh in 2019), which represents a year-on-year rise of 0.6% largely influenced by the rise in TAR set by the regulator for this year.

The average value of energy acquisition in the markets is 62.30 €/MWh, which compared to the value of 62.49 €/MWh in 2019, represents an average decrease of 0.3%.

Also, in 2019, this working group submitted a proposal to the AdP Executive Commission over the opening of a procedure for the procurement of electricity for the years of 2021 and 2022 following the results of the regular analyses of the energy markets.

ENERGY AUDITS UNDER THE AUSPICES OF DECREE-LAW NO. 68-A, OF 30 APRIL

The proposed methodology for complying with the stipulations of Decree-Law no. 68-A/2015, of 30 April, presented by the AdP Group (through AdP Energias) and validated by DGEG – the General Directorate of Energy and Geology foresees the reduction in the number of energy audits that AdP Group companies should undertake, down from 760 to 78, with a reduction in costs of over one million euros to the AdP Group.

Hence, AdP Group companies shall continue to undertake energy audits of their energy consuming infrastructures under the auspices of Decree-Law no. 68-A, of 30 April and having completed 379 audits by the end of 2019, which represents an increase on the 132 certified infrastructures (+53.4%) within the framework of PEPE.

ENERGY EFFICIENCY AND RENEWABLE ENERGY PRODUCTION APPLICATIONS TO PO SEUR

AdP Energias coordinated, in conjunction with the Financial Incentives department of AdP SGPS, the preparation of applications relating to energy efficiency for buildings under the scope of the PO SEUR Program and that involved Águas do Norte, AdP Serviços and EPAL (two applications).

In total, the investment in efficiency measures exceeds EUR 4.22 million and eligible for co-financing by a non-reimbursable loan of around EUR 1.95 million and thus reflecting an average co-financing rate of 46.1%.

AdP Energias furthermore coordinated, in conjunction with the Financial Incentives department of AdP SGPS, the preparation of applications relating to the production of renewable energy through innovative / poorly tested technologies in Portugal, generally for supply to the national grid but partially for utilisation for own infrastructure consumption.

The preparation work spanned five companies: Águas do Norte (thermal hydrolysis of sludges), Águas do Douro e Paiva (hydro), Águas do Tejo Atlântico (thermal hydrolysis of sludges), EPAL (hydro) and Águas do Vale do Tejo (gas turbines). Due to a series of setbacks, only the EPAL applications were submitted (two applications to install turbines).

CERTIFICATION OF INFRASTRUCTURES UNDER THE AUSPICES OF ISO 50001

AdP Group companies continue to be strongly committed to the certification process for infrastructures under the auspices of ISO 50001 relative to their energy consumption and with the constant support of AdP Energias.

Thus, at the end of 2019, there were already 102 infrastructures certified across AdP Group companies.

ENERGY CERTIFICATION OF THE SERVICE FLEET AND THE INTRODUCTION OF E-MOBILITY

Taking into consideration the energy dimension interrelated with its service fleet and the targets for the country as regards carbon neutrality, the AdP Group defined as an objective for PEPE – the Energy Efficiency and Production Plan, the energy certification of its company fleet by the end of 2020.

Thus, in 2019, the 13 AdP Group companies, which collectively run a total of 1 430 vehicles, have participated actively in the energy certification processes for their fleets within the scope of the pilot project developed by ADENE, which varies between Class B and Class D and with the AdP Group as a whole awarded an average classification of 57% - corresponding to Class C.

Throughout 2019, monitoring continued of the fleet of 127 100% electric vehicles (light passenger and light goods vehicles) which were first incorporated in January 2018 as well as the 134 vehicle recharging points that make up the AdP Group network.

REDUCTION IN THE CONTRACTED POWER SUPPLY LEVEL

Throughout 2019, AdP Energias put into practice the accompanying of the process of recovering the sums paid for contracted power supply unduly charged by ENDESA following the approval by EDP Distribuição to reduce the contracted power supply at 675 Group infrastructures following its proposal by AdP Energias (effects as from April 2018).

This action, through to the end of 2019, returned an extraordinary saving in the cost of the Group contracted power supply of EUR 693 000, a saving that has now become permanent.

TENDER FOR CORRECTING THE POWER FACTOR AT AdP GROUP INFRASTRUCTURES

In 2018, AdP Energias advanced with the survey of the costs of reactive energy and the investment associated with the installation of batteries to compensate for the reactive energy needs resulting in the identification of 320 infrastructures where there would be a relevant period for the return on investment. Out of these 320 infrastructures, the respective companies expressed an interest in participating in a centralised tender covering 207 of these infrastructures from six companies with the remainder undergoing interventions according to their own means.

Hence, 2019 saw the launch of the tender procedure for the "Acquisition of services for drafting the core projects and technical consultancy on systems for correcting the power factor at installations consuming electricity in infrastructures belonging to AdP Group companies". Work began in 2020 and it is forecast that this same year shall see the opening of the tender for the supply and installation of the equipment necessary for the elimination of the reactive energy charge in these infrastructures that accounted for costs of EUR 266 000 in 2019.

PROJECT SOLAR PHOTOVOLTAIC III

That there are such favourable conditions for solar power in Portugal, clearly solar power must take on a proportional relevance in the renewable energy portfolio of Portugal.

With the implementation of self-consumption projects by Group companies, this ensures a lower level of exposure to the variations in electricity prices and a corresponding reduction in exposure to the fluctuations in prices in the proportion of energy produced.

In 2019, AdP Energias remained heavily involved in the SOLAR III project, established under the auspices of PEPE (solar powered plants for self-consumption at Group infrastructures with a minimum potential of 10 MW_{peak}), having concluded the technical and economic studies necessary to launching the tenders for the installation of over 68 solar plants with an accumulated capacity of 20 MW_{peak}.

THE AdP GROUP ENERGY NEUTRALITY PROJECT

Taking into account the European and Portuguese government targets in terms of environmental sustainability and energy and carbon neutrality, and considering how the AdP Group represents the largest public consumer of electricity (over 700 GWh/year and equivalent to over 1.4% of national electricity consumption), with highly significant environmental and economic costs to its activities (and with risks associated with the volatility and swings in the global energy markets) and further taking into account the results of the project "EPAL 0%", AdP SGPS deliberated to develop an energy neutrality project spanning the entire AdP Group, including those companies with activities outside of Portugal, which should whenever possible prioritise energy self-sustainability based on the in-house production of 100% of energy needs from renewable sources.

ECONOMIC GAINS INDUCED

Based on the activities developed by AdP Energias in collaboration with the AdP Group companies, it was possible to establish a table of the economic gains induced by its activities, whether independently or in partnership with Group companies, in the financial year of 2019 and that is set out below.

Activity/ Project	Saving in 2019 (10 ⁶ EUR)
Annual electricity saving (shared with companies) ⁽¹⁾	0.204
Centralised electricity procurement (shared with AdP Serviços)	2.100
Reduction in fuel consumption [173 439 litres] (shared with companies)	0.204
Additional reduction from the change in contracted power (shared with companies)	0.502
Reduction in reactive energy (shared with companies)	0.201
Rise in internal energy production [6 540 MWh/year] (shared with companies) ⁽¹⁾	0.681
Reduction in CO ₂ emissions [-36 855 ton] (shared with companies) ⁽¹⁾	0.868
Total	4.759

Notes:

The amount utilised to quantify the electricity was 105.18 and 103.00 EUR/MWh for 2018 and 2019, respectively.

The amount utilised to quantify fuel was 1.25 and 1.35 EUR/l for 2018 and 2019, respectively.

The amount utilised to quantify the reduction in CO₂ emissions was 23.55 EUR/ton.

(1) Reduction on 2015.

The economic gains enabled by the activities carried out by AdP Energias over the course of 2019 stand at around EUR 4.8 million, which should be added to a proportion of the around EUR 8.4 million of gains returned in 2018 (some of the savings achieved in 2019 are accumulative), undoubtedly reinforcing the importance of this company and its initiatives both to the holding companies and to AdP Group.

CO₂ EMISSIONS IN THE 2019 FINANCIAL YEAR

In terms of CO₂ emissions, the AdP Group in 2019 made a negative contributions in terms of a slight increase in specific consumption and positive contributions to the increase in the in-house production of energy, the utilisation of the electric fleet and the reduction in the consumption of fossil fuels as respectively detailed in the table below.

Items for CO ₂ emissions	2019 (CO ₂ tons)	2018 (CO ₂ tons)	2017 (CO ₂ tons)	2015 (CO ₂ tons)
Energy consumption (RESP)	195 790	202 920	221 898	230 041
Correction to consumption versus flow (year _n)	-	1 706	9 087	21 627
Automobile fleet with combustion engines	7 578	7 657	7 721	8 364
Own production of energy (RESP + Self-consumption)	(9 143)	(8 647)	(6 818)	(8 607)
E-vehicle fleet (versus combustion engines)	(382)	(298)	-	-
Total	193 842	201 633	222 802	230 697

Variations in CO ₂ emissions			Δ Emissões de CO ₂	
			(CO ₂ tons)	(%)
Δ 2019/ 2018	-	-	(7 791)	(3.9%)
Δ 2019/ 2017	-	-	(28 960)	(13.0%)
Δ 2019/ 2015			(36 855)	(16.0%)

EMISSION FACTORS:

Electricity: 2015 – 0.315 kg CO₂/kWh | 2016 – 0.301 kg CO₂/kWh | 2017 – 0.298 kg CO₂/kWh | 2018 – 0.284 kg CO₂/kWh | 2019 – 0.270 kg CO₂/kWh.

Note: The emission factors for electricity were sourced from RNC 2050 (2015 and 2016), and the report “Energia and número”, a publication by the Observatory of Energy, DGEG, ADENE and APA (2017, 2018 and 2019).

Diesel: 2.660 kg CO₂/kWh.

Note: The emission factors for fuels are sourced from Order no. 17313/2008, of 26 June and the DGEG document “Densidades dos produtos de petróleo”.

In 2019, and specifically analysing the items referenced in the table above, the AdP Group registered a reduction of around 8 000 tons of CO₂ on the 2018 emissions (-3.9%), in keeping with the reduction verified in 2018 (-21,169 tons of CO₂, -9.5%). As regards the years of 2017 and 2015 (the PEPE reference year), this results in a reduction of approximately 29 000 and 37 000 tons of CO₂ and respective reductions of -13.0% and -16.0%.

As the objective set by PEPE involved establishing an accumulative reduction of 27 000 tons by the end of 2020, we may thus report that this objective had been achieved and exceeded by over 36% by the end of 2019.

SLUDGES AND OTHER WASTE MANAGEMENT

In 2019, the AdP Group waste management platform continued in operation under the responsibility and coordination of AdP Energias in partnership with the IT Department in order to guarantee the legal compliance of all AdP Group operational companies.

In 2019, this system managed 25 087 e-GAR deriving from the transport of all the water produced by 504 infrastructures and dispatching them to their final destination.

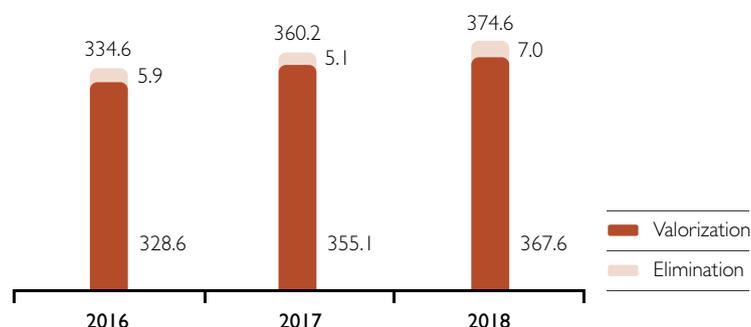
The quantity of sludges and other wastes generated by water treatment infrastructures are set out below.

WTP and WWTP Sludge	2019	2018	Δ 2019/ 2018	
	(ton)	(ton)	(ton)	(%)
WWTP sludges	356 761	345 805	10 956	3.2%
Valuation (%)	98.8%	99.0%	-	(0.2 p.p.)
Elimination (%)	1.2%	1.0%	-	0.2 p.p.
WTP sludges	17 849	14 432	3 417	23.70%
Valuation (%)	84.6%	88.60%	-	(4.0 p.p.)
Elimination (%)	15.4%	11.40%	-	4.0 p.p.

In terms of other wastes (graded, sands, fats and others) collected by the wastewater sanitation and water supply infrastructures in 2019, the totals stood at 18 070 and 33 tons, respectively.

WTP AND WWTP PRODUCED SLUDGES

(10³ ton)



In 2019, AdP Energias maintained its monitoring of AdP Group company tender procedures across this field, contributing towards harmonising the criteria and approaches to the various particularities required by waste management. This accompaniment further enabled the evaluation and monitoring of the conditions for the operational implementation of the terms for monitoring operational implementation and the prices of the service providers involved in the implementation of these contracts.

Within a broader scope and from a perspective of resource circularity, contributing to the national goals set out in the *Action Plan for the Circular Economy*, AdP Energias has developed various different initiatives in collaboration with Group operating companies within the scope of recovering value and diversifying the destinations for the various flows of waste produced by the water and wastewater treatment plants so as to encounter new utilisations for the raw materials within other industrial processes.

These initiatives have evolved based on the successful applications of wastewater sludges in the manufacture of tiles as a replacement for traditional materials, which resulted from a partnership project with EPAL and that, over the course of 2019, demonstrated this utilisation in a pilot-project through the production of the “water tile” from the dried beds of wastewater sludges with the objective of boosting the efficiency of these facilities and enabling their better operation.

ACTION PLAN FOR THE MANAGEMENT OF WASTEWATER TREATMENT PLANT SLUDGES (2020 - 2023)

In 2019, AdP Energias was also involved in the development of the Action Plan for Wastewater Treatment Plants sludges on behalf of the AdP Group that resulted in the shareholder deliberating in favour of the approval of the project to recognise AdP Energias as a waste management operator that, following implementation in 2020, shall enable the entrance of the AdP Group into an area and a market that represents an important proportion of the operating costs of managing companies, in which the companies and the already existing solutions return substantial increases in the costs and hence with the processes then not aligned with the best environmental practices and the national strategy for the Circular Economy.

In 2020, AdP SGPS approved the expansion of the aforementioned Action Plan, under the responsibility of AdP Energias, with support from the Engineering Department of AdP Serviços, with the objective of establishing a global target for the reduction in the total quantity of sludges produced across the Group, striving to maximise the effect of scale in order to optimise the investment necessary and capture the benefits resulting.

NATIONAL STRATEGY FOR LIVESTOCK AND AGRO-INDUSTRIAL EFFLUENTS (ENEAPAI)

AdP Energias was mandated by the AdP SGPS Board of Directors to ensure the coordination of all the work of the Inter-ministerial Group reviewing ENEAPAI – the National Strategy for Livestock and Agro-industrial Effluents.

In 2019, AdP Energias continued its coordination work with the Inter-ministerial Group set up to review ENEAPAI 2030, on behalf of the AdP Group and to this end having prepared various submissions for the consideration of the environmental regulatory authorities.

In addition to ensuring the functioning and the meetings of the Working Group, AdP Energias was responsible for the development of studies, through recourse to a specialist external consultant, to characterise and provide a diagnosis of the current environmental situation in each of the economic sectors covered by ENEAPAI.

TREATMENT OF LIVESTOCK AND AGRO-INDUSTRIAL EFFLUENTS

This also extends to Order no. 6312/2019, of 10 July, issued by the Ministry of Environment and Energy Transition and the Ministry of Agriculture, Forests and Rural Development that expressed the intention to establish a public solution for the exploration and management of an integrated system for the collection, transport, reception, treatment, rejection and valuing of livestock and agro-industrial effluents, designating AdP Energias as the vehicle for implementing this national solution for the treatment and furthermore attributing support via the Environment Fund in support of the development of juridical, technical and economic studies enabling its implementation.

The Protocol for the technical and financial collaboration between the Environment Fund and AdP Energias was signed on 5 August 2019 and involves financing worth one million euros.

On 26 November 2019, the APA and AdP Energias agreed a Collaboration Protocol with a view to supporting the digitalisation of the transport documents for animal sub-products through the development of a platform that interconnects with waste reporting platforms, hereafter designated e-GARS, involving financial support of EUR 40 000, backed by the Environment Fund.

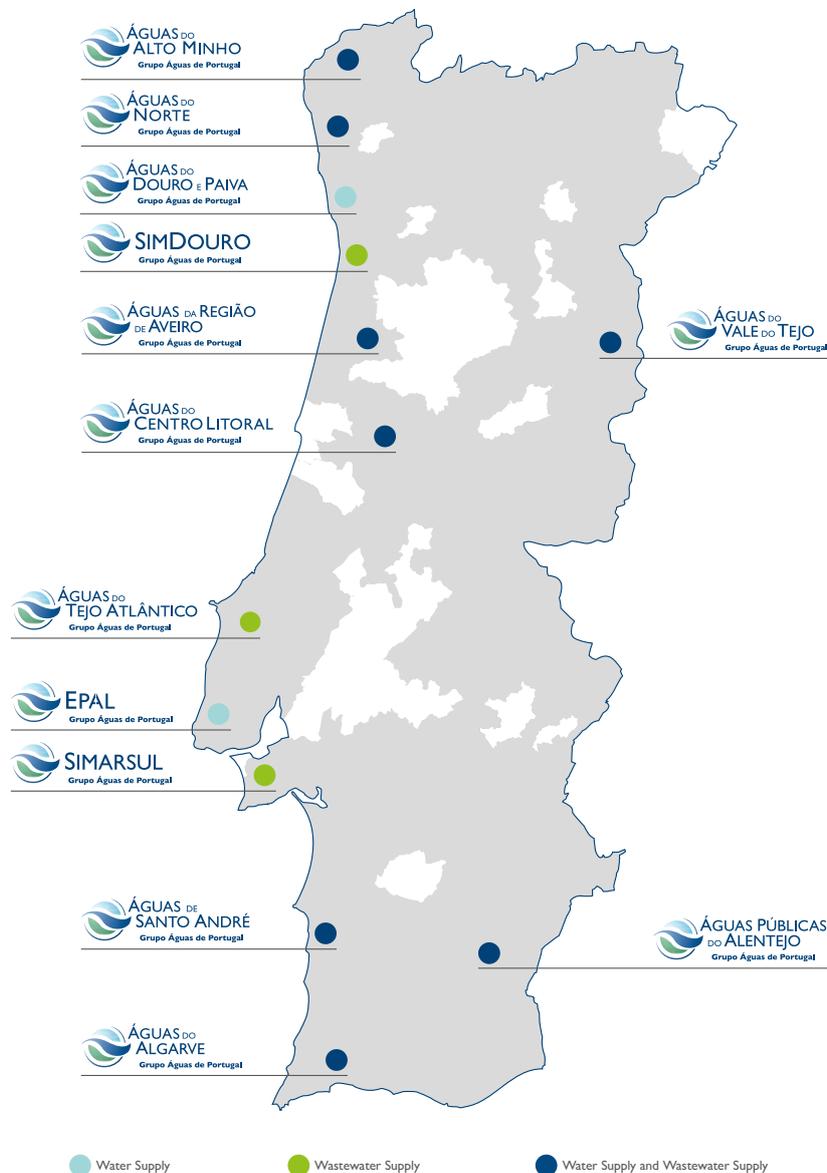
Hence, in accordance with the instructions handed down by the regulator, AdP Energias has embarked on the development of work that shall enable it to demonstrate a public type solution for resolving the problems around livestock effluents, particularly in the Leiria and Oeste regions as reflected by the existence of investment projects ongoing in these areas.

In 2019, AdP Energias maintained its support to AdP SGPS within the scope of the Group's holding in the company Trevo Oeste - Tratamento and Valorização de Resíduos Pecuários, S.A. within the scope of resolving the situations that have prevented the implementation of the investment project for developing collective solutions for the treatment of pig breeding effluents. This involved the development of a study identifying the key restrictions in place to concluding the São Martinho do Porto Pork Breeding Effluent Treatment Plant and having subsequently assumed responsibility for coordinating the study defining a technical solution for the completion of the aforementioned construction.

WATER SUPPLY AND SANITATION ACTIVITIES

MANAGING COMPANIES

At the end of 2019, the geographical distribution of AdP Group managing companies was as follows:



INDICATORS

POPULATION AND MUNICIPALITIES

At the end of 2019, the AdP Group integrated 13 management entities that provided public water supply services to 220 municipalities and wastewater sanitation services to 222 municipalities. This duly considers both the upstream and the downstream services rendered.

AdAM was founded in 2019 even while its activities are only to launch in 2020 although already included in the number of managing companies accounted for. The supply services provided for by the AdP Group cover a population amounting to around 7.7 million inhabitants. The population covered by the respective sanitation service spans in the region of 7.6 million inhabitants.

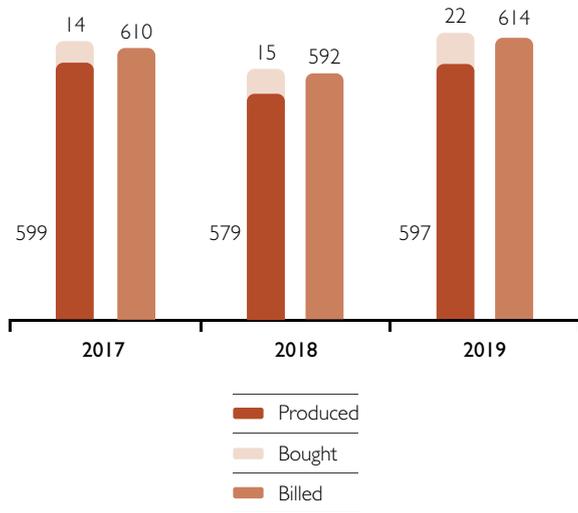
VOLUMES

WATER SUPPLY

The amount of water billed for human consumption (consolidated) rose by 3.2% and registering a variation of 4.4% in the amount of water produced and bought. The hydric balance reports the following evolution as regards the system as a whole:

SUPPLY TOTALS

(million m³)



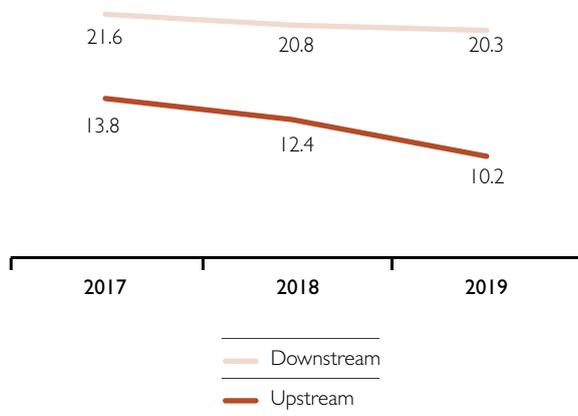
TOTAL WATER INVOICED

(million m³)



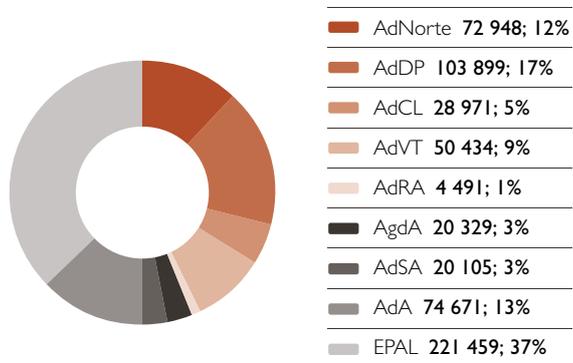
REAL LOSSES

(million m³)

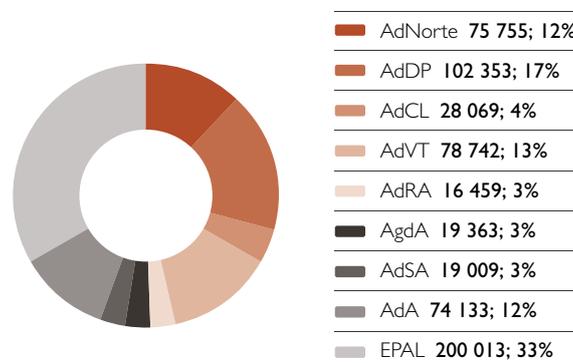


The figures provided, which include the distribution segment, allow us to estimate average abstraction of around 205 litres per day per inhabitant for the drinking water supply in the municipalities served, which is above 2018 when this figure stood at 196 litres per day per inhabitant.

WATER PRODUCED



WATER BILLED

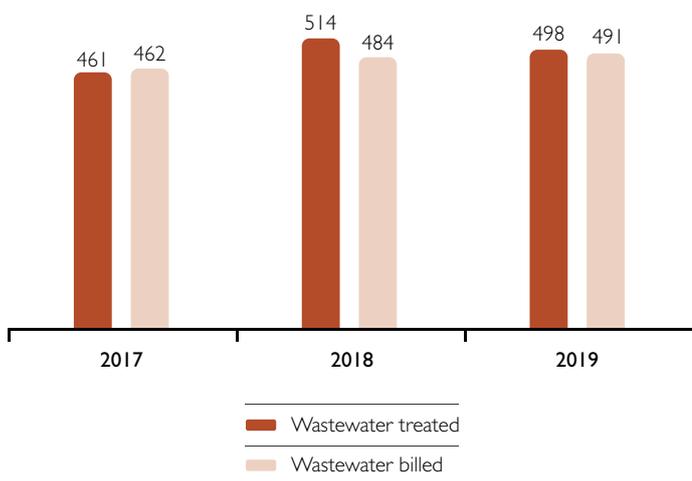


WASTEWATER SANITATION

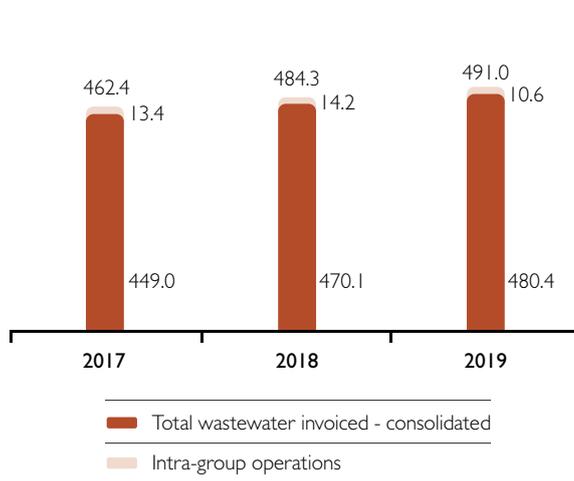
As regards sanitation, the volume of effluent treated, 498 million m³ was down 3.1% year-on-year due to a lesser influence of rainfall. This change does not fully reflect the evolution in the quantity of billed wastewater, which rose by 1.4% due to the tariff earnings methodology, in which the billing methodology is ascertained based on the mobile average of treated flows over a three-year period in order to incorporate the direct or indirect impacts of variations in the annual rainfall levels.

Regarding all systems, the evolution in the current three-year period was the following:

WASTEWATER TOTAL
(million m³)

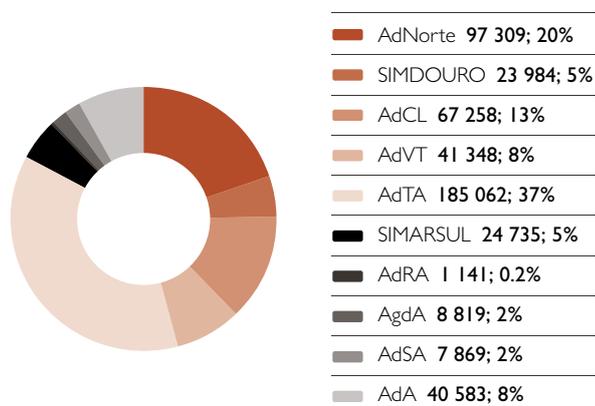


TOTAL WASTEWATER BILLED
(million m³)

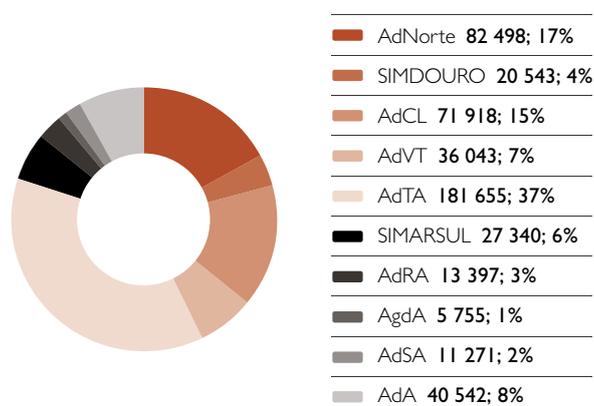


Average flow rates for wastewater in the already served municipalities stand at around 220 litres per day per inhabitant, which represents an annualised decrease of 3% resulting from the drop in the annualised quantity of treated wastewater.

EFFLUENT TREATED



EFFLUENT BILLED



INFRASTRUCTURES

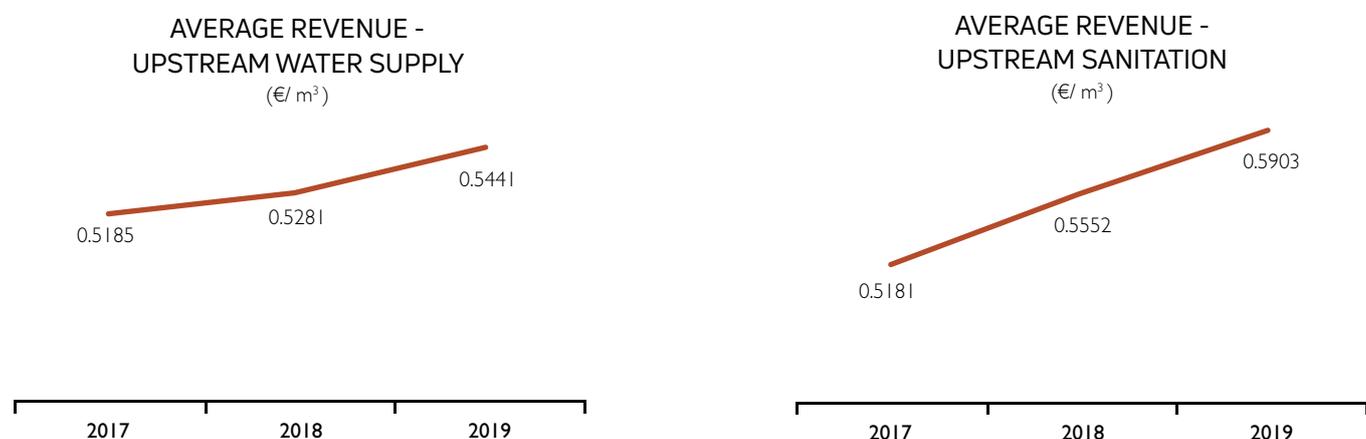
The development of the number of infrastructures within the AdP Group over the last three years was the following:

	2017	2018	2019
Number of water abstractions	1 155	1 168	1 216
Water mains pipes and distribution networks (km) ⁽¹⁾	17 026	17 037	17 155
Length of drains network collectors (km)	9 613	9 788	9 692
No. of water treatment plants	157	165	118
No. of wastewater treatment plants	992	982	980
No. of pumping stations – water supply	686	718	742
No. of pumping stations – wastewater sanitation	2 033	2 066	2 106
No. of reservoirs	1 734	1 810	1 791
Water supply and wastewater sanitation mains trunk branches	447 224	439 980	449 145
Number of submarine outfalls	20	19	19

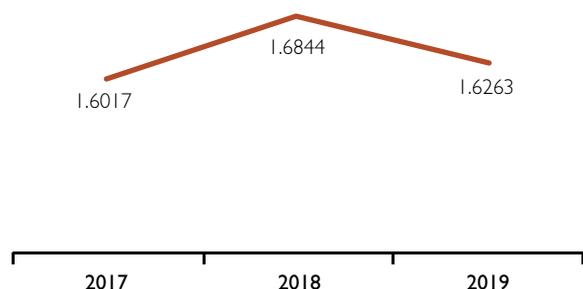
(1) The reduction stems from a change in the criteria in accordance with the opinion handed down by the Regulator.

AVERAGE REVENUE

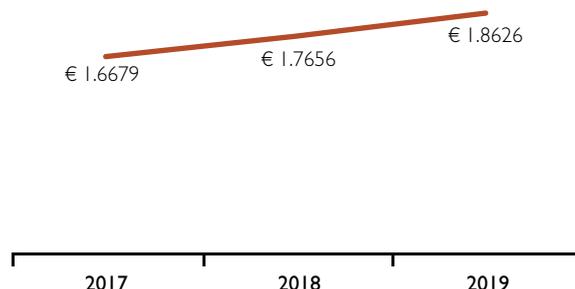
The average revenue from the upstream and downstream water supply and wastewater treatment services, ascertained using the billed turnover quotient of the respective flows used in the respective billing, displayed the following trend:



**AVERAGE REVENUE -
DOWNSTREAM WATER SUPPLY**
(€/ m³)



**AVERAGE REVENUE -
DOWNSTREAM SANITATION**
(€/ m³)



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

INVESTMENT

The AdP Group advanced with investment totalling EUR 161.2 million in 2019, which implied monetary reimbursement of EUR 144.2 million. Of this amount, EUR 142.6 million corresponds to investment in water supply and sanitation infrastructures thereby continuing the notable growth in investment over recent years:

(in million EUR)

	2017	2018	2019
Annual investment	94.7	133.8	161.2

(in million EUR)

(1) Total investment in 2019	161.2
Includes:	
(2) Odelouca dam (account. re-classification)	14.7
(3) Right-of-use assets	2.3
(4)=(1)-(2)-(3) Annual investment (cash)	144.2

The investments carried out by the managing companies divide into two main categories as regards new construction and rehabilitation/replacement works. We would note here that the latter component spans the major structural interventions in addition to the smaller but numerous operational investments.

With the passage of the years, there has been a natural and progressive shrinkage in the new constructions for building to the extent that territorial extent covered by the AdP Group has become progressively more infrastructurally complete. However, the managing companies of the supply or sanitation systems were not only responsible for advancing with the heavy cycle of investment that rendered it possible to change the face of the country's water sector within a period of around two decades, but also assuming responsibility for maintaining these infrastructures in good operational condition over the course of time. The amount of investment necessary to rehabilitating and replacing infrastructures and equipment and enabling the companies to comply with the role they have been attributed in keeping with the inevitable natural ageing of the huge range of infrastructures under operation and still in growth, should take on appropriate annual levels on a constantly ongoing basis.

Even while companies such as AgdA - Águas Públicas do Alentejo, S.A., AdRA - Águas da Região de Aveiro, S.A. and Águas do Norte, S.A. also account for a very important component of the investment made in new constructions for implementation in forthcoming years, and without overlooking the importance of these new construction projects, the growing maturity of companies managing water supply and sanitation systems results in the investments targeting the replacement/renovation component are generally becoming increasingly relevant.

In contrast with the recent past, 2019 stood out not so much for the presence of individual large scale construction project but rather for the large number of ongoing constructions. Reflecting this dimension, in the hierarchy of the largest scale projects ongoing over the years are three rehabilitation / replacement works, such as improvements to the Beirolas wastewater treatment plant - Phase I, commissioned by Águas do Tejo Atlântico, and improvements to the Alcantarilha wastewater treatment plant undertaken by Águas do Algarve, each with a scale in the region of five million euros, as well as the rehabilitation of the Faro and Olhão wastewater pumping stations, also the responsibility of this latter company. With an average scale somewhat lower there are the new mains pipe works in the zones of Castro Verde, Mértola Noroeste, Monte da Rocha, and Barrancos, all overseen by AgdA - Águas Públicas do Alentejo, or the sanitation works in the zone of Ovar, under the responsibility of AdRA - Águas da Região de Aveiro. This list of the larger scale construction projects should also highlight the works ongoing by Águas do Norte and Águas do Centro Litoral.

The conjugated effects of the paragraphs above lead to the clear profile displayed in the table below depicting the investment in water supply and sanitation infrastructures over the last three years:

(in million EUR)			
Annual investment in water supply and wastewater sanitation infrastructures	2017	2018	2019
New	54.4	81.2	84.2
Rehabilitation / replacement	37.6	47.3	58.4

Also of relevance are the figures detailing the distribution of investment in water supply and in wastewater sanitation systems.

In historical terms and corresponding to the priority in terms of serving the populations, supply naturally emerges as the component that most immediately responded to the prevailing needs. It is therefore hardly surprising that in the first years of its activities, the AdP Group, as a whole, focused a significant proportion of investment on supplying water. In a necessarily global perspective, and without ever overlooking how the Group contains two companies focusing solely on the supply component (Águas do Douro e Paiva and EPAL) and with three dealing only with sanitation (SIMDOURO, Águas do Tejo Atlântico and SIMARSUL), this reports how, with the passage of time, the global situation began balancing itself out before then inverting in a process of natural evolution.

Hence, in macro terms, the aforementioned first phase gave way to a second that is also drawing towards conclusion. Currently, analysis of the whole, based on the major trends, is becoming progressively less relevant and the case-by-case vision gains in prominence especially because the regularity of the evolution, as stated above, towards a global investment universe on a noticeably smaller scale than in the Group's past.

While attention focuses on those companies undertaking the largest investment volumes in 2019, among those operating both water supply and sanitation components, there is a reasonable balance between the two components in the cases of Águas do Norte, Águas do Vale do Tejo and Águas do Algarve, but a greater weighting of sanitation especially in the case of AdRA - Águas da Região de Aveiro but also with Águas do Centro Litoral and with the opposite situation prevailing at AgdA - Águas Públicas do Alentejo.

The infrastructure investment is presented below according to the same format.

(in million EUR)			
Annual investment	2017	2018	2019
Water supply	44.4	55.4	68.0
Wastewater sanitation	47.6	73.1	74.6

Two components contributed towards this increase in investment and deserve particular emphasis given how they differ to events of preceding years. On the one hand, the consideration of leasing as an investment, resulting from the application of the accountancy norm IFRS 16 that generated an increase in investment of EUR 2.3 million. On the other hand, the adoption of IFRS 16, as a reference on 1 January 2019 reflected in the re-classification of EUR 16.6 million in the Right of Infrastructure Utilisation (DUI – Portuguese acronym), which was formerly classified under the operational leasing item (IAS 17).

Over the course of the year, Águas do Algarve transferred the investment sum of EUR 14.7 million corresponding to the residual value of the Odelouca Dam. This re-classification reflects an alteration in the form of reintegrating the associated investment in accordance with the former Concession Contract and amounting to a residual value to be reimbursed to the municipal users under

the terms of the concession and, in accordance with the new Concession Contract corresponding to a tariff charge. This movement did not incur any impact on the company's financial debt level.

EU FUNDS

By the end of 2019, approval had been received for 103 applications within the scope of the urban water cycle of POSEUR (Operational Program for Resource Sustainability and Efficiency) 2014—20 / PORTUGAL 2020, 14 more than at the end of 2018, totalling investment of EUR 221.81 million, with community co-funding accounting for around EUR 156 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 to PO SEUR 2014-2020 (Urban Water Cycle), approved prior to 31/12/2019

(in million EUR)

	No. Applications		Total investment (1)	Foreseen subsidy (2)	Implicit co-financing (3)=(2)/(1)	Subsidy already received	Subsidy received during 2019
	Approved	Concluded					
AdNorte (*)	53	2	40.1	25.2	63%	14.1	8.1
AdCL	2		13.2	4.8	36%	0.7	0.2
AdRA	21	10	26.9	16.8	63%	13.3	3.6
AdTA	1		0.5	0.4	85%	0.4	0.1
AdVT	4		5.1	3.4	67%	2.4	1.5
EPAL	1		13.8	6.4	46%	5.4	0.0
SIMARSUL	1		1.2	0.7	64%	0.7	0.1
AdSA	1		1.9	1.6	85%	0.8	0.0
AgdA	13		74.9	62.4	83%	41.8	13.3
AdA	6		44.2	34.3	78%	25.4	1.1
	103	12	221.8	156.0	70%	105.0	28.0

(*) - The 53 applications by AdNorte include two joint applications with other AdP Group companies AdP (AdDP and SIMDOURO).

During 2019, the investments implemented by Águas de Portugal Group companies under the auspices of these 103 applications totalled around EUR 43.3 million and requests for payment of EUR 40.6 million of expenditure were submitted. In the same period, the community funding received amounted to EUR 28.0 million, thus the amount absorbed under POSEUR 2014-20/ PORTUGAL 2020 rose to EUR 105 million (around 67% of the total of grants planned for under the applications approved).

Of these applications, we would like to highlight that another three operations were concluded (physically) during 2019 by AdRA, taking the total of already completed applications to twelve.

MULTI-MUNICIPAL SYSTEMS (INDIVIDUAL ACCOUNTS)

ÁGUAS DO NORTE, S.A. (AdNORTE) – UPSTREAM ACTIVITY

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.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	91.7	99.9	109.9
Cost recovery deviation (CRD)	10.4	4.5	(5.2)
Operational result ⁽²⁾ (OR)	24.0	22.0	17.4
EBITDA ⁽³⁾	35.9	45.9	53.9
Financial results	(13.0)	(10.7)	(9.9)
Net annual result	8.0	6.7	4.7

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC 12).

(in million EUR)

	2017	2018	2019
Operating assets (net) (1)	1 114.8	1 090.5	1 065.4
Investment (increases)	16.2	10.6	20.3
Client debts (2)	86.3	96.2	71.7
Total assets	1 498.4	1 488.2	1 465.9
Financial debt (3) – Medium and long term	535.0	525.5	512.7
Financial debt (3) – Short term	19.8	24.8	27.6
Financial debt (3) –Total	554.8	550.3	540.3
Financial debt – Net (4)	553.8	549.5	539.5
Financial debt net/ EBITDA (4)	15.4	12.0	10.0
Investment subsidies	532.5	504.5	485.8
Own capital	238.4	245.1	249.9
Accumulated CRD (Asset)	230.8	235.3	230.1

(1) Intangible assets + Tangible assets +Right-of-use assets.

(2) Refers only to the amounts billed for water and sanitation. In 2019, the amounts relating to client debts included in the DSAs were re-classified as financial assets at their fair value in comprehensive income.

(3) Loans and Financial leasing.

(4) Financial debt total - Availabilities – FRCS.

ÁGUAS DO DOURO E PAIVA, S.A. (AdDP) – UPSTREAM ACTIVITY

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 de Portugal region that took place following the publication of Decree-Law no. 16/2017 of 1 February, hence the reason there are only results as from 2017. The AdDP concession contract was signed in February 2017 and with its 20-year duration running through to the end of 2036, extending for another 10 years, until 2046.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	38,8	37,3	37,3
Cost recovery deviation (CRD)	(10,5)	(9,5)	(10,1)
Operational result ⁽²⁾ (OR)	2,8	1,9	1,4
EBITDA ⁽³⁾	21,2	19,1	19,2
Financial results	(1,1)	(0,7)	(0,5)
Net annual result	1,4	0,9	0,7

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC 12).

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	175.3	168.5	161.9
Investment (increases)	1.3	3.7	4.0
Client debts ⁽²⁾	3.1	3.5	3.5
Total assets	217.5	209.0	204.5
Financial debt ⁽³⁾ – Medium and long term	68.1	21.4	49.1
Financial debt ⁽³⁾ – Short term	3.2	41.8	1.8
Financial debt ⁽³⁾ – Total	71.3	63.2	50.9
Financial debt – Net ⁽⁴⁾	53,0	50.3	36.9
Financial debt Net/ EBITDA ⁽⁴⁾	2.5	2.6	1.9
Investment subsidies	59.2	56.0	52.9
Own capital	33.5	30.6	30.5
Accumulated CRD (Liability)	(11.5)	(21.0)	(31.1)

(1) Intangible assets + Tangible assets + Right-of-use assets.

(2) Refers only to sums billed for water supply.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

SIMDOURO – SANEAMENTO DO GRANDE PORTO, S.A. (SIMDOURO) – UPSTREAM ACTIVITY

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 after 2017. The SIMDOURO concession contract was signed in February 2017 and with its 50-year duration extending until the end of 2066.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	12.6	13.8	14.6
Cost recovery deviation (CRD)	1.2	(0.0)	(1.3)
Operational result ⁽²⁾ (OR)	3.1	2.8	2.1
EBITDA ⁽³⁾	5.1	6.2	7.0
Financial results	(1.4)	(1.3)	(1.0)
Net annual result	1.4	1.1	0.8

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC 12).

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	133.8	134.7	133.0
Investment (increases)	0.8	3.4	1.0
Client debts ⁽²⁾	1.2	1.9	3.1
Total assets	159.3	161.1	160.9
Financial debt ⁽³⁾ – Medium and long term	49.1	6.1	55.3
Financial debt ⁽³⁾ – Short term	4.5	50.7	2.9
Financial debt ⁽³⁾ – Total	53.6	56.8	58.1
Financial debt – Net ⁽⁴⁾	52.0	56.3	55.0
Financial debt net/ EBITDA ⁽⁴⁾	10.2	9.1	7.9
Investment subsidies	55.6	54.6	53.8
Own capital	29.3	30.4	31.2
Accumulated CRD (Asset)	18.6	18.6	17.2

(1) Intangible assets + Tangible assets + Right-of-use assets.

(2) Refers only to sums billed for 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, S.A., SIMLIS – Saneamento Integrado dos Municípios do Lis, S.A. and SIMRIA - Saneamento Integrado dos Municípios da Ria, S.A. The AdCL concession agreement was concluded in 2015 and remains in effect for 30 years, hence to the end of 2045.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	45.7	50.9	51.2
Cost recovery deviation (CRD)	(0.2)	(3.6)	(5.0)
Operational result ⁽²⁾ (OR)	11.2	9.1	7.4
EBITDA ⁽³⁾	26.4	30.2	29.1
Financial results	(5.7)	(4.9)	(4.6)
Net annual result	3.9	2.7	1.8

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC 12).

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	433.9	425.0	418.4
Investment (increases)	2.7	8.1	10.3
Client debts ⁽²⁾	37.1	42.1	45.4
Total assets	554.9	548.3	542.4
Financial debt ⁽³⁾ – Medium and long term	213.4	199.1	196.5
Financial debt ⁽³⁾ – Short term	14.0	18.9	15.7
Financial debt ⁽³⁾ – Total	227.5	218.0	212.1
Financial debt – Net ⁽⁴⁾	220.4	217.2	205.0
Financial debt net/ EBITDA ⁽⁴⁾	8.4	7.2	7.0
Investment subsidies	170.1	163.7	157.4
Own capital	94.7	97.3	99.1
Accumulated CRD (Asset)	64.2	60.6	55.7

(1) Intangible assets + Tangible assets + Right-of-use assets.

(2) Refers only to the amounts billed for water and sanitation. In 2019, the amounts relating to client debts included in the DSAs were re-classified as financial assets at their fair value in comprehensive income.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

ÁGUAS DO VALE DO TEJO, S.A. (AdVT)

AdVT is the management entity responsible for the upstream multi-municipal water supply and sanitation system for the Tagus Valley and 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 Greater Lisbon and West system and the Setúbal Peninsula 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.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	74.5	82.9	91.9
Cost recovery deviation (CRD)	11.1	6.1	(1.2)
Operational result ⁽²⁾ (OR)	12.6	15.7	15.3
EBITDA ⁽³⁾	26.6	42.4	42.4
Financial results	(5.2)	(5.4)	(9.0)
Net annual result	6.9	4.2	4.2

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC12).

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	648.2	629.8	614.4
Investment (increases)	4.9	9.2	13.6
Client debts ⁽²⁾	125.1	124.6	95.8
Total assets	1 068.2	1 056.2	1 046.8
Financial debt ⁽³⁾ – Medium and long term	395.1	380.1	380.5
Financial debt ⁽³⁾ – Short term	49.0	43.7	36.1
Financial debt ⁽³⁾ – Total	444.1	423.7	416.6
Financial debt – Net ⁽⁴⁾	435.2	420.5	412.8
Financial debt net/ EBITDA ⁽⁴⁾	16.4	9.9	9.7
Investment subsidies	273.6	261.7	250.2
Own capital	193.8	200.5	204.7
Accumulated CRD (Asset)	218.9	225.0	223.8

(1) Intangible assets + Tangible assets + Right-of-use assets.

(2) Refers only to the amounts billed for water supply and sanitation. In 2019, the amounts relating to client debts included in the DSAs were re-classified as financial assets at their fair value in comprehensive income.

(3) Loans + Financial leasing.

(4) Financial debt total - Availabilities - FRCS.

ÁGUAS DO TEJO ATLÂNTICO, S.A. (AdTA)

AdTA is the management company of the Multi-municipal Wastewater Sanitation System for the Greater Lisbon and West region resulting from the demerger of the Multi-municipal Water Supply and Sanitation System for the Lisbon and Tagus Valley region following the publication of Decree-Law no. 34/2017, of 24 March and hence only presenting results from the 2017 financial year onwards. The concession contract was signed with a 30-year duration extending until the end of 2046.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	79.1	82.3	83.2
Cost recovery deviation (CRD)	(2.5)	(14.1)	(13.1)
Operational result ⁽²⁾ (OR)	17.6	14.4	12.8
EBITDA ⁽³⁾	38.5	43.6	41.5
Financial results	(8.6)	(7.1)	(7.0)
Net annual result	6.9	5.5	4.3

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC 12).

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	464.2	456.2	448.5
Investment (increases)	3.2	9.2	16.2
Client debts ⁽²⁾	26.6	18.9	13.2
Total assets	667.0	650.7	629.1
Financial debt ⁽³⁾ – Medium and long term	231.1	222.1	212.1
Financial debt ⁽³⁾ – Short term	8.2	9.2	10.1
Financial debt ⁽³⁾ – Total	239.3	231.2	222.2
Financial debt – Net ⁽⁴⁾	160.1	139.9	126.6
Financial debt net/ EBITDA ⁽⁴⁾	4.2	3.2	3.1
Investment subsidies	139.5	134.9	130.4
Own capital	114.0	117.2	115.9
Accumulated CRD (Asset)	41.0	26.9	13.8

(1) Intangible assets + Tangible assets + Right-of-use assets.

(2) Refers only to sums billed for sanitation.

(3) Loans.

(4) Financial debt total - Availabilities - FRCS - Holding group treasury support.

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.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	13.8	14.9	15.1
Cost recovery deviation (CRD)	4.5	2.9	1.5
Operational result ⁽²⁾ (OR)	5.7	5.6	4.2
EBITDA ⁽³⁾	4.8	6.4	6.5
Financial results	(3.9)	(3.2)	(2.6)
Net annual result	2.6	1.9	1.2

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC12).

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	159.2	156.3	152.8
Investment (increases)	0.6	1.3	0.5
Client debts ⁽²⁾	9.3	6.2	5.5
Total assets	246.9	242.3	240.1
Financial debt ⁽³⁾ – Medium and long term	82.9	79.6	75.9
Financial debt ⁽³⁾ – Short term	3.2	3.4	3.8
Financial debt ⁽³⁾ – Total	86.1	83.0	79.6
Financial debt – Net ⁽⁴⁾	80.7	70.7	68.1
Financial debt net/ EBITDA ⁽⁴⁾	16.7	11.0	10.5
Investment subsidies	61.2	59.5	58.0
Own capital	62.7	64.6	65.9
Accumulated CRD (Asset)	59.8	62.7	64.2

(1) Intangible assets + Tangible assets + Right-of-use assets.

(2) Refers only to sums billed for sanitation.

(3) Loans.

(4) Financial debt total - Availabilities - FRCS - Holding group treasury support.

ÁGUAS DO ALGARVE, S.A. (AdA)

AdA is the management company for the Multi-municipal Upstream System for the Western and Eastern 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.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	59.4	58.4	60.5
Cost recovery deviation (CRD) (*)	0.0	0.0	(5.4)
Operational result ⁽²⁾ (OR)	16.1	14.8	7.5
EBITDA ⁽³⁾	31.3	28.3	27.5
Financial results	(6.3)	(5.3)	5.9
Net annual result	7.3	7.2	1.2

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC 12).

(*) In 2019, this company began registering the CRD in its statutory accounts.

(in million EUR)

	2017	2018	2019
Operating assets (net) (1)	413.8	413.2	418.1
Investment (increases)	14.4	16.2	26.8
Client debts (2)	37.6	39.4	36.4
Total assets	524.0	520.2	500.3
Financial debt (3) – Medium and long term	195.6	181.9	166.8
Financial debt (3) – Short term	29.3	36.1	29.4
Financial debt (3) – Total	224.8	218.0	196.2
Financial debt – Net (4)	211.1	185.2	174.2
Financial debt net/ EBITDA (4)	6.7	6.5	6.3
Investment subsidies	172.4	167.4	161.3
Own capital	39.6	44.8	29.5
Accumulated CRD (Liability) (*)	0.0	0.0	(18.4)

(1) Intangible assets + Tangible assets + Right-of-use assets.

(2) Refers only to the amounts billed for water and sanitation. In 2019, the amounts relating to client debts included in the DSAs were re-classified as financial assets at their fair value in comprehensive income.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

(*) In 2019, the company began registering CRDs in its statutory accounting.

PARTNERSHIPS BETWEEN THE STATE AND MUNICIPALITIES (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, thus until the end of 2059.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	50.4	51.8	54.1
Cost recovery deviation (CRD) (*)	(4.4)	(4.7)	(5.1)
Operational result ⁽²⁾ (OR)	0.9	0.8	0.6
EBITDA ⁽³⁾	13.4	14.3	17.1
Financial results	0.4	0.3	0.3
Net annual result	1.1	0.9	0.7

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC12).

(*) From the 'individual accounts' perspective.

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	160.2	171.1	188.8
Investment (increases)	13.8	14.8	26.7
Client debts ⁽²⁾	4.8	4.6	4.6
Total assets	265.7	276.6	295.0
Financial debt ⁽³⁾ – Medium and long term	57.4	56.7	57.8
Financial debt ⁽³⁾ – Short term	2.9	3.7	4.2
Financial debt ⁽³⁾ –Total	60.4	60.4	62.0
Financial debt – Net ⁽⁴⁾	60.1	60.1	61.6
Financial debt net/ EBITDA ⁽⁴⁾	4.5	4.2	3.6
Investment subsidies	33.5	37.5	37.3
Own capital	19.1	18.9	18.8
Accumulated CRD	(4.3)	(9.0)	(14.1)

(1) Intangible assets + Tangible assets +Right-of-use assets.

(2) Refers only to the amounts billed for water and sanitation.

(3) Loans

(4) Financial debt total - Availabilities - FRCS (n.a).

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, hence until the end of 2059.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	14.2	14.3	15.0
Cost recovery deviation (CRD)	(0.3)	0.0	1.4
Operational result ⁽²⁾ (OR)	0.9	1.1	1.2
EBITDA ⁽³⁾	2.6	2.7	1.6
Financial results	(0.7)	(0.6)	(0.6)
Net annual result	0.2	0.4	0.5

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC 12).

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	90.2	111.0	133.6
Investment (increases)	8.8	20.6	23.8
Client debts ⁽²⁾	12.0	11.4	6.1
Total assets	114.3	136.9	154.8
Financial debt ⁽³⁾ – Medium and long term	49.5	49.1	48.6
Financial debt ⁽³⁾ – Short term	1.4	4.5	6.5
Financial debt ⁽³⁾ – Total	50.9	53.5	55.1
Financial debt – Net ⁽⁴⁾	50.1	52.0	53.9
Financial debt net/ EBITDA ⁽⁴⁾	19.5	19.1	32.9
Investment subsidies	42.7	58.1	68.6
Own capital	5.1	7.0	8.7
Accumulated CRD (Liability)	(0.4)	(0.3)	1.1

(1) Intangible assets + Tangible assets + Right-of-use assets.

(2) Refers only to the amounts billed for water and sanitation. In 2019, the amounts relating to client debts included in the DSAs were re-classified as financial assets at their fair value in comprehensive income.

(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.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	10.9	13.3	15.2
Cost recovery deviation (CRD)	6.9	3.4	3.6
Operational result ⁽²⁾ (OR)	1.2	0.9	0.8
EBITDA ⁽³⁾	(2.5)	0.3	0.8
Financial results	(0.5)	(0.3)	(0.1)
Net annual result	0.5	0.5	0.5

(1) Does not include the value of either Earnings from construction (IFRIC 12) or the CRDs.

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – CRD – Investment subsidies - Earnings/ Construction costs (IFRIC 12).

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	35.6	49.0	58.6
Investment (increases)	9.0	12.8	9.6
Client debts ⁽²⁾	2.9	4.0	6.4
Total assets	72.9	91.9	107.0
Financial debt ⁽³⁾ – Medium and long term	23.1	36.0	36.0
Financial debt ⁽³⁾ – Short term	11.1	3.4	10.8
Financial debt ⁽³⁾ Total	34.2	39.4	46.8
Financial debt – Net ⁽⁴⁾	34.2	39.3	46.7
Financial debt net/ EBITDA ⁽⁴⁾	(13.9)	118.1	55.3
Investment subsidies	6.6	10.1	15.0
Own capital	9.1	11.2	14.8
Accumulated CRD (Asset)	27.0	30.4	34.0

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

(2) Refers only to the amounts billed for water supply and sanitation.

(3) Loans and Financial leasing.

(4) Financial debt total - Availabilities – FRCS.

AdAM – ÁGUAS DO ALTO MINHO, S.A. (AdAM)

AdAM - Águas do Alto Minho is responsible for the operation and management of the water system for the Alto Minho region with the provision of both water supply and wastewater sanitation services. The AdAM partnership and system management contracts were signed in 2019 for a three decade duration.

Clause 10 of the AdAM - Águas do Alto Minho Water System Management Contract stipulates a six month transition period beginning on the date of signing of the Management Contract throughout which the Parties are to jointly prepare the transfer of responsibility to the Partnership Management Company. The deadline for this period was brought forward to 1 January 2020, the date on which AdAM launched its operating activities.

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 357,000 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 Lisbon and Tagus Valley Region. This system was established on 29 May by Decree-Law 94/2015.

(in million EUR)

	2017	2018	2019
Turnover	159.3	158.2	167.0
Cost recovery deviation (CRD)	0.0	0,0	0.0
Operational result ⁽¹⁾ (OR)	73.8	69.9	75.9
EBITDA ⁽²⁾	99.1	94.6	102.5
Financial results	(1.7)	(0.9)	(0.8)
Net annual result	50.1	49.1	52.5

(1) Results before interest and tax.

(2) OR + Amortisations + Provisions + Losses due to impairments and reversions – Investment subsidies.

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	715.1	701.9	689.7
Investment (increases)	16.3	12.4	12.2
Client debts ⁽²⁾	25.3	24.6	25.6
Total assets	862.1	853.7	853.1
Financial debt ⁽³⁾ – Medium and long term	117.6	101.7	89.1
Financial debt ⁽³⁾ – Short term	15.8	15.9	12.5
Financial debt ⁽³⁾ – Total	133.4	117.6	101.7
Financial debt – Net ⁽⁴⁾	47.7	24.9	(2.0)
Financial debt net/ EBITDA ⁽⁴⁾	0.5	0.3	(0.0)
Investment subsidies	28.8	33.2	31.7
Own capital	612.9	621.3	634.9

(1) Intangible assets + Tangible assets + Right-of-use assets + Investment properties.

(2) Refers only to the amounts billed for water supply and sanitation.

(3) Loans.

(4) Financial debt total - Availabilities - Holding group treasury support - Financial applications.

AdSA – 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 and 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.

(in million EUR)

	2017	2018	2019
Turnover ⁽¹⁾	10.1	15.2	14.7
Operational result ⁽²⁾ (OR)	3.4	5.1	6.2
EBITDA ⁽³⁾	4.9	9.5	8.4
Financial results	0.3	0.3	(0.1)
Net annual result	0.4	6.0	4.4

(1) Does not include the amount for construction earnings (IFRIC 12).

(2) Results before interest and tax.

(3) OR + Amortisations + Provisions + Losses due to impairments and reversions – Investment subsidies - Earnings/ Construction costs (IFRIC 12).

(in million EUR)

	2017	2018	2019
Operating assets (net) ⁽¹⁾	50.0	45.6	45.2
Investment (increases)	1.2	0.9	1.4
Client debts ⁽²⁾	26.0	32.4	17.4
Total assets	68.3	71.1	70.6
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⁾	(4.4)	(7.1)	(4.5)
Financial debt net/ EBITDA ⁽⁴⁾	(0.9)	(0.7)	(0.5)
Investment subsidies	30.5	28.1	26.0
Own capital	15.7	21.6	20.7
Accumulated CRD	0.0	0.0	0.0

(1) Intangible assets + Tangible assets + Right-of-use assets.

(2) Refers only to the amounts billed for water supply and sanitation. In 2019, the amounts relating to client debts included in the DSAs were re-classified as financial assets at their fair value in comprehensive income.

(3) Loans.

(4) Financial debt total - Availabilities - Holding group treasury support - FRCS.

OUTLOOK [WATER SUPPLY AND SANITATION SYSTEMS]

For 2020, there remains the core objective of enhancing the productive efficiency of the various systems, seeking to obtain savings that may be handed on to users through the tariffs. Placing the focus on the robustness of operations and maintain services and systems, this seeks to achieve the consolidation of operations as well as underpinning the investment plan and implementing the respectively scheduled projects.

This process, accompanied by regional tariff support mechanisms, consolidates the strategy for combatting losses, the strategy for increasing energy efficiency, both in term of consultation and of pricing and the plan to extract value from the sub-products of water supply and sanitation activities.

These objectives are to be greatly challenged by the consequences of the COVID-19 pandemic, especially should there remain the current restrictions stemming from the non-deterioration of the operating efficiency ratio ascertained through the ratio between operating costs, without amortisations, and turnover. Simultaneously, this foresees new deteriorations in the receipt of payment for upstream water supply and sanitation services over the medium term.

The year of 2020 shall also be defined by the tariff revision proposal for the Multi-Municipal Systems subject to aggregation with the objective of seeking to maintain the tariff trajectories that shall contain a review of the concession contracts with a particular focus on the annexes corresponding to the economic-financial viability studies. This also aims to clarify, in conjunction with the Grantor and the Regulator, the methodology for defining the indicators for measuring compliance with public service obligations as well as the functional evaluation methodology for the assets deployed in water supply and wastewater sanitation services.

The year shall also be defined by another round of agreements over the regularisation of municipal debts, attempts to continue reducing the client portfolio and the respective costs. Following the implementation of the previous agreements, signed under the auspices of the provisions of Decree-Law no. 5/2019, of 14 January, a range of opportunities for improvement were identified that have since taken effect in new proposals for legal diplomas. The core pillars of this new regime are now set down in the State Budget Law.

An innovative dimension to the development of the circular economy principle arises from the AdP Group expectation that it shall be able to advance with various activities towards the implementation of the national strategy for the reutilisation of water in in 2020 following the legal framework handed down by Decree-Law no. 119/2019, of 21 August.

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 undertakes 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, leveraging the maximum 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 Sustainable Development Goals (SDGs) 2030.

AdP Internacional operates primarily in consortia and partnerships and thereby positioned to support the internationalisation of other Portuguese companies in this important sector of activity.

The year of 2019 was defined by the conclusion of the two largest Technical Assistance contracts in Angola, financed by the World Bank and by the approximate eight month delay in launching two new contracts financed by the African Bank of Development, with an overall value totalling around USD 14 million. The Angola market remains the most significant to the activities of AdP Internacional and the variations occurring in this market generate a highly relevant impact and significantly influenced the results of AdP Internacional in 2019.

In financial terms, there was the slide in EBITDA to EUR 18 000 due to the year-on-year drop of around EUR 500 000 in turnover coupled with an increase in financial charges of EUR 45 000 resulting from the need to issue new bank guarantees for the

mentioned projects in Angola. As a positive facet, there is the reduction in gross AdP Internacional debt totalling EUR 1.2 million driven by heightened efforts to collect client payments, especially from the World Bank office in Angola.

In 2019, there were strengthened commercial efforts and the expansion of the international presence in new markets in Africa and in Asia. In relationship to new markets, especially in India, this highlights the continued commercial efforts that shall return results in 2020 following the signing of a technical assistance contract with the Government of the State of Goa last February.

In summary, at the internal level, 2019 saw the consolidation of the following measures adopted over the last three years within the scope of boosting operating efficiency and reducing the company cost structure:

- Optimisation of the management and support structures deployed in key markets, specifically Angola, Guinea Bissau and Mozambique. In these three markets, the position of General Director was abolished through to the volume of contracts undergoing implementation justifies a reversal of this situation.

Integration of the functions of production and contractual implementation in the specialist team in the AdP Internacional headquarters. In addition to the commercial and business development functions, this team takes on the function of production within the scope of various contracts alongside commercial activities, which contributed towards reducing the company cost structure.

As regards the implementation of contracts, this highlights the following key events:

- In the Mozambican market, 2019 was marked by “EVA” project implementation, financed by the Environment Fund.
- In Angola, July saw the completion of work on two contracts for Technical Assistance to the Water Supply and Sanitation Companies of Uíge and Huambo and with work beginning in July and September on implementing two new contracts financed by the African Bank of Development in the provinces of Bengo and Cunene. Work was also concluded for the support project for the Cabinda province water and sanitation company under the auspices of the Global Water Operators Partnership Alliance (GWOPA) network and implementing the MAZI project with financing from the Environment Fund of the Ministry of the Environment and Climate Change of Portugal.
- In Sao Tome and Principe, in keeping with the actions ongoing from previous years, AdP Internacional, December 2019 saw the conclusion of the MAAIS project – Improvements to the Water Supply, Infrastructures and Awareness of the population of Sao Tome and Principe, financed by the Environment Fund – with the final beneficiary being the public company responsible for the water supply through this country, EMAE - Empresa de Eletricidade and Águas de São Tomé and Príncipe.
- Over the course of 2019, AdP Internacional advanced with three technical assistance projects in Cape Verde within the framework of the Portuguese Environment Fund, specifically: Technical Assistance to Águas de Santiago in the commercial sector; “Roadmap for Establishing a Prevention and Conflict Management Policy for Deployment in Situations of Water Shortage - Part 2” and “Roadmap for Establishing a Prevention and Conflict Management Policy for Deployment in Situations of Water Shortage - Part 3”.
- In Guinea Bissau, the year of 2019 was marked by the launching of the technical assistance contract to Empresa de Eletricidade and Águas da Guiné Bissau (EAGB), in partnership with EDP Internacional and Leadership Business Consulting. The contract, signed in May 2019, holds a total value of USD 4.9 million and financed by the World Bank for a three year and three month duration.
- In Tunisia and in Morocco, a series of expressions of interest and proposals were submitted and with a new contract undergoing implementation under the auspices of the “Convention of Cooperation” signed with its Tunisian peer, ONAS - the Office National de l'Assainissement. Another highlight in Tunisia comes with drafting the proposal for the Concession Contract for the Management of the Sanitation System of the North Tunes Region for a 10 year period with financing from the World Bank.
- In Malawi, there was the continuation of the development of the “Consultancy Services for Preparing an Improvement Strategy for Sanitation and Drainage and a Directive Plan for the City of Lilongwe” project that is undergoing development by a consortium that includes AdP Internacional.
- In East Timor, 2019 was marked by the conclusion of the technical assistance project to the National Directorate of Basic Sanitation and the adjudication of projects for implementing the water supply and sanitation systems for the four municipal capitals: Baucau, Los Palos, Viqueque and Same. AdP Timor-Leste joined a consortium with ENGIDOR - Estudos de Engenharia Lda. The contract involves the provision of technical assistance services designed to develop projects in those four Timorese district capitals, which are to serve over 145 000 inhabitants, has a six month durations and involves a total of USD 2.1 million in financing.
- In India, preparatory work continued towards the signing of a technical assistance contract with the Government of the State of Goa, which is expected to take place in early 2020.

In summary, 2019 was an important year for the expansion and consolidation of the AdP Internacional activities in new markets and new Portuguese language countries. This furthermore reflects the ongoing relationship with the World Bank that began in mid-2019 under the auspices of a new strategic project run by this multilateral financial institution entitled "Utilities of the Future".

Within this scope, there was the contract proposed to AdP Internacional for specific consultancy service to public operators in Asia and Latin America.

The economic recovery of AdP Internacional progressed at a slower pace than forecast due essentially to the delays in launching new contracts in Angola and Guinea Bissau and that returned a significant impact due to the corresponding drop in company turnover.

INDICATORS

(thousand EUR)

	2017	2018	2019 ⁽¹⁾
Turnover	3 777	3 991	3 491
Operational result	166	165	(073)
EBITDA ¹	329	397	018
Financial results	(163)	(049)	(101)
Net annual result	(011)	083	(219)

¹ Operational result + Amortisations + Provisions.

(thousand EUR)

	2017	2018	2019
Asset net	5 631	5 130	6 457
Own capital	(453)	181	(037)
Total liability	6 084	4 948	6 494

OUTLOOK

In 2020, AdP Internacional is to ensure a trajectory of economic and financial sustainability in conjunction with an increasingly specialised approach to core areas of those markets where the company has a presence. 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 activity shall continue aligned with the strategy defined for recent years and seeking to expand the scope of its reach in neighbouring markets to those classed as priority, especially in North Africa, West Africa and eventually in certain Asian countries, such as India and others in which the experience of the AdP Group is deemed of relevance by multilateral financial institutions such as the World Bank and the Asian Bank of Development.

As regards operational activities, the outlook is for a growth in the number of projects resulting from the proposals presented in 2019, especially in Angola, India (primarily in the State of Goa) and in East Timor.

ENERGY AND SLUDGE (AdP ENERGIA)

The provision of water supply and sanitation services by the AdP Group encapsulates a long term perspective that is only feasible when considering the economic-financial consolidation of its operations, based upon compliance with the concession, partnership and management contracts as well as with the obligations stemming from the statutes of the managing companies as set out by legal diploma.

The Group activities and the economic-financial performance are also greatly conditioned by the sector regulator, ERSAR, and compliance with the terms set out in the State budget that annually establishes the targets for cost efficiency which, when not complied with, result in losses to shareholders.

Hence, with AdP Energias - Energias Renováveis e Serviços Ambientais, S.A. (AdP Energias) attributed the mission of maximising the leveraging of the assets and the endogenous and renewable resources, rationalising the energy consumption and reducing or offsetting

the greenhouse gas emissions of AdP Group companies within a framework of economic, social and environment sustainability, its core business encapsulates the following corporate activities:

- The centralised acquisition and management of electricity;
- The production of energy through recourse to endogenous and renewable sources based on:
 - Biogas (for sale to the RESP grid and self-consumption);
 - Micro-hydric (for sale to the RESP grid and self-consumption);
 - Solar power (for sale to the RESP grid and self-consumption);
- Energy efficiency;
- The management of sludges and other wastes;
- The implementation of electric-powered mobility;
- The treatment of livestock and agro-industrial effluents;
- Other projects.

Hence, AdP Energias, within the scope of the AdP Group, has under implementation a uniform approach at the level of the managing companies towards reducing the costs inherent to the supply of electricity both in terms of the reduction of energy consumption through alterations in behaviours and adopting more efficient strategies without any qualitative or quantifiable harm to the provision of public services, and in significantly boosting the production of energy through utilisation of endogenous resources and renewable sources.

For furthermore information on the key activities undertaken by AdP Energias over the 2019 financial year, please go to the following: <https://www.adp.pt/pt/?id=78&emp=11>.

INDICATORS

(in million EUR)

	2017	2018	2019
Turnover	529	184	374
Operational result	(162)	(2 002)	(20)
EBITDA ¹	208	(357)	14
Financial results	(23)	(0)	(2)
Net annual result	(185)	(2 003)	(22)

¹ Operational result + Amortisations + Provisions.

(in million EUR)

	2017	2018	2019
Asset net	3 394	1 273	2 218
Own capital	2 159	1 156	1 134
Total liability	1 235	116	1 084

In the asset column, the item "Cash and cash equivalents" records the sum of EUR 1 million relative to the protocol agreed with AdP Energias and the Environment Fund. The counterbalance for this sum received from the Environment Fund is registered under the "Current liabilities" item.

OUTLOOK (AdP ENERGIA)

In 2020, AdP Energias shall continue to strive for the consolidation of its projects and the areas under its responsibility, especially as regards energy efficiency, energy production and the public solution to the treatment of livestock and agro-industrial effluents.

As already referenced, due to the factors and adjustments to which markets are subject and conditioned, and including the impossibility of effectively estimating the effect of the price of electricity on markets, in addition to the experience that the AdP Group has acquired through continuously accompanying markets, the most sustainable strategy needs to involve the implementation of measures and actions that lead to:

- Reductions in consumption as a result of implementing operating management measures, both structural and others, fostering the energy efficiency of infrastructures;
- Reductions in costs, still further improving the procurement processes, optimising the power tension levels, reducing the contracted power supply, eliminating reactive energy usage, adjusting the profile of network energy consumption in accordance with the tariff periods and functional cycles through means of the efficient management of energy;
- Boosting the internal production of energy for self-consumption through means of leveraging the endogenous potential (especially boosting the production of biogas and the corresponding co-generation and taking advantage of the piezometric falls existing to install micro-hydro turbines) and renewable sources (solar and wind power), enabling a reduction in the consultation of national grid energy and, thereby, lowering the level of market dependence.

Hence, and as regards the action plan for the future and the measures for the creation of shareholder value (raising productivity, client orientations, reducing the exposure to risks stemming from the environmental, economic and social impacts of its activities, measuring and estimating greenhouse gas emissions across the most diverse areas of company activities, rethinking the cycle of investment from a circular economy logic, the alignment and compliance with targets for carbon neutrality, etc.), highlight the following actions/ measures:

- i) The probable creation of a new business area interrelated with the treatment of livestock and agro-industrial effluents, which enable the launching of a public solution for the appropriate treatment of these sub-products that, in themselves, represent a stain on the environmental landscape of our country, especially in areas where such activities generate great social and market value;
- ii) The establishing of AdP Energias as a waste management operator (OGR) shall equally define the forthcoming year when, in addition to contributing towards boosting company turnover, shall enable the entrance of the AdP Group into this sector and its markets, which represents an important factor to the operational costs of Group managing companies and where the existing solutions do not align with either the best environmental practices or the strategy of a country striving to build a circular economy;
- iii) Launching of the tender procedures for the construction of solar power plants for self-consumption – the SOLAR III project -, with estimated investment of around EUR 15.4 million and that seeks to raise the production of solar energy to equal to or greater than 35.3 GWh/year, across AdP Group companies;
- iv) Drafting of the AdP Group Sludge Plan, for development by AdP Energias, with support from the AdP Serviços Department of Engineering within the scope of establishing a global goal for reducing the total quantity of sludge produced across all the Group while seeking to maximise the effects of scale for the optimisation of the necessary investment and capturing the resulting synergies;
- v) Projects targeting the energy and carbon neutrality of the AdP Group;
- vi) Continuing with the efforts to develop, implement and monitor PEPE – the Energy Efficiency and Production Plan that sets out highly ambitious targets and objectives due to be obtained by the end of 2020;

For the success of this strategy, the Board of AdP Energias is profoundly convinced that there will be found the concerted sources of financing, whether its own and / or through EU financing and / or in partnership with companies that provide high added value services and held by a common shareholder, especially because the company has counted on the support, involvement and dedication of the Holding Group and the companies making up the AdP Group.

SHARED SERVICE (AdP SERVIÇOS)

AdP - Águas de Portugal, Serviços Ambientais, S.A (AdP Serviços) in 2019 carried out the activities defined by its mission, highlighting its deep involvement in every department during the launch of activities by the new company AdAM - Águas do Alto Minho, which started its activities on 1 January 2020. This naturally reflected additional efforts taking into consideration that the AdP Serviços human resource structure was relatively affected by cases of prolonged medical leave and departures that were not met by replacements. Also noteworthy due to its relevance is the production of studies and designs for systems, whether general design processes for launching upstream systems or downstream partnership development processes and in addition to providing highly significant support to the Department of Procurement and Logistics and the Department of Engineering for AdP Internacional projects, especially in East Timor and Angola.

Continued close relationships and knowledge sharing with the operating companies, the end users of the work undertaken by AdP Serviços, seeking to involve all companies, included the holding of dozens of working sessions that were attended especially by Engineering, Purchasing and Information System staff at operating company facilities in the north, centre and south of the country. This involved training in the new SAP modules and the discussion of relevant topics interrelated with company activities and needs in order to ensure the consistency and appropriateness of the solutions rendered.

The Department of Procurement and Logistics expanded the items centrally procured as well as supervising the management of the contracted categories, whenever applicable taking advantage of longer cycles of contracting, reducing the administrative charges for items that did not require such frequency through means of market stability and contracts issued on an annual basis. This condition is not transversal to all items given that the contract durations may imply high risk premiums and in each circumstance evaluating the options available and which risks should be covered in each respective contract.

Throughout 2019, 142 public tender procedures took place, which approved 372 adjudicated entities, obtaining direct and indirect savings in the region of EUR 6.35 million alongside the centralised management of previously dispersed contracts, exploring all of the options for leveraging opportunities to capture value for the AdP Group and ensuring the obligations and responsibilities transferred to the respective contractual counterparties are duly met.

This also highlights the consolidation in the change made to the shared service billing model of AdP Serviços (NSE) for Operating and Instrumental Companies obeying a new logic that prioritises covering the costs incurred and transferring the added value generated by AdP Serviços to the respective Companies.

In the IT Systems Department, the strategy continued to focus on maximising the utilisation of the SAP modules and their adaptation to the realities of Operating Companies following applicable transversal procedures. There was also the development of a diverse range of internal tools incorporating technology for administrative tasks, emphasising thereby the NAVEGA project due for full conclusion at the beginning of the following year and seeks to provide dynamic and updated financial and operational information with a view to broadly replacing the need for reporting information.

There was the conclusion of all application development enabling the Águas de Portugal Group to receive and issue invoices electronically that represents a significant technological step forward and of significance to administrative simplification and bringing about a drastic reduction in the consumption of paper.

The Department of Engineering, in addition to representing AdP SGPS in diverse forums and working groups, such as the PENSAAR Accompanying and Management Group and the Dam Management Commission or the Drought Commission, also developed work in close coordination with APA and DGADR over managing situations in the event of drought once again in 2019.

In terms of the most relevant projects, highlights include the AdP Group Action Plan for the Reutilisation of Wastewaters, the Systems Re-engineering project for the strategic infrastructure intervention plan and coordination of the AdPI "Utilities of the Future" project under the auspices of the World Bank.

The reduction experienced in turnover was entirely due to the reorganisation of the AdP SGPS and AdP Serviços corporate structures, deliberated on in 2018 but which came into full effect in 2019. Specifically, there was a reduction in the services invoiced by the Departments of Marketing and Communication, Financial and Human Resources, which were formally transferred to the AdP SGPS sphere.

However, the economic performance of AdP Serviços displays an increase of 48% to its operational result because, irrespective of the 13% drop in turnover, operational costs fell dramatically, in particular a 26% cut in staffing costs, partially explained by the corporate reorganisation that implied the transfer of human resources to the SGPS and a 30% reduction in the costs of third party supplies and services.

The trend verified in 2019 also stems from the enormous emphasis placed on containing costs and scaling the teams appropriately to those needed for the essential maintenance of the quality of the services provided.

INDICATORS

(thousand EUR)

	2017	2018	2019
Turnover	8 307	8 075	7 022
Operational result	762	615	1 614
EBITDA ¹	2192	2 110	3 119
Financial results	245	1 003	1
Net annual result	775	1 605	1 206

¹ Operational result + Amortisations + Provisions.

(thousand EUR)

	2017	2018	2019
Asset net	27 107	22 587	21 946
Own capital	11 377	12 983	14 189
Financial debt gross	12 495	7 582	6 095
Financial debt net	10 304	6 242	4 406
Total liability	15 730	9 605	7 757

This adopted the administrative efficiency indicator (and approved by the financial regulator), in place of the ratio GO/VN (operating costs / Turnover), under the terms stipulated in no. 2 of article 124 of Decree-Law no. 25/2017, of 3 March, to measure the optimisation of the operating cost structure, understanding that this shall more appropriately convey the performance of AdP Serviços in conjunction with Group companies. The IEA indicator is based on the number of centralised contractual procedures managed by the AdP Serviços Department of Procurement, launched and under implementation in each Group Company and weighted according to their respective complexity of preparation.

	Unit	2017	2018	2019
No. of entities, new procedures (D1)	No.	293	381	216
No. of entities, procedure under implementation (D2)	No.	145	224	356
Indicator of Administrative Efficiency (IEA) = D1 + D2	No.	438	605	572
Operating costs	m€	8 778	8 669	6 764
Management indicator IG = (GO / IEA)	m€	20	14	12
$IG(n) / IG(n-1) \leq 1$		0.70	0.72	0.83

The IG Management Indicator divides the totality of operating costs by the total number of processes handled (IEA) with the result designed to be declining, hence, in comparison with the previous year, there should be a value of below 1 thereby demonstrating greater administrative efficiency.

ACTIVITIES OF OTHER HOLDINGS

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 the 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 undergoing liquidation.

TREVO OESTE – TRATAMENTO E VALORIZAÇÃO DE RESÍDUOS PECUÁRIOS, S.A.

Trevo Oeste - Tratamento e Valorizacao de Residuos Pecuarios, 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.

SUSTAINABILITY

This represents the commitment to current and future generations ensuring that the AdP Group develops its activities at the interface between society and the environment through contributing to the resolution of questions that improve the quality of life of populations.

The water supply and wastewater treatment and recovery activities are fundamental to economic, social and environmental development.

Grounding its actions on the commitment to fostering improvements to its natural and human capital to the benefit of current populations and future generations, the AdP Group integrates sustainability through leveraging its management strategy and as the potential for creating value for all stakeholders and interested parties.

We continue to make strides in our efforts to combat climate change, making heavy investments in innovation and the circular economy and continuing with our commitment towards social policies that align with compliance with the Sustainable Development Goals. Of note in this year was the major contribution made by the AdP Group towards humanitarian aid for Mozambique following the catastrophes inflicted by Cyclones Idai and Kenneth. We immediately responded with a mission in support of the Mozambican authorities and their efforts to re-establish the drinking water supply in affected zones. Furthermore, in a joint initiative with EDP, SIC Esperança and Grupo Lusíadas, and with support from all Group members of staff, we sent 5 000 backpacks of Hope filled with essential goods that provided support to around 25 000 Mozambican citizens. At the end of the year, we also collected 1 000 backpacks filled with school materials.

The sustainability strategy of the AdP Group, redefined in 2017, results from analysis of the management guidelines and business strategy, the *PENSAAR sector plan*, reflection on stakeholder expectations, consolidation of existing best practices, commitments made to the principles of the Global Compact within the framework of the United Nations and the 17 Sustainable Development Goals. This thus defined the analysis of materiality, identifying the main challenges facing the group and shaping the principles, commitments and objectives of sustainable development.

In this context, and based on the premise that sustainability is achieved by creating symbiotic relationships with the environment, with shareholders and workers, with the community and with other interested parties, the Group's main challenges were identified and the main commitments were defined. Our performance in relation to our commitments and goals are reflected on in the AdP Group's (consolidated) sustainability report, available at www.adp.pt.

SUSTAINABILITY STRATEGY 2017/2020

The AdP Group Sustainability Strategy is based on the assumptions that sustainability is able to foster symbiotic relationships with society, shareholders and clients, with employees, the community and other interested parties. At the operational level, this identifies the core challenges and defines the key commitments of the AdP Group towards sustainability.

IN SYMBIOSIS WITH THE ENVIRONMENT

Managing 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

Contributing to combatting climate change

Commitment:

- Guaranteeing Group eco-efficiency

SYMBIOSIS WITH SHAREHOLDERS AND CLIENTS

Guaranteeing the continuation of sectorial 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

Providing 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

Valuing 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 crosscutting and effective internal communication

SYMBIOSIS WITH THE COMMUNITY

Nurturing 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

RELEVANT ASPECTS OF 2019

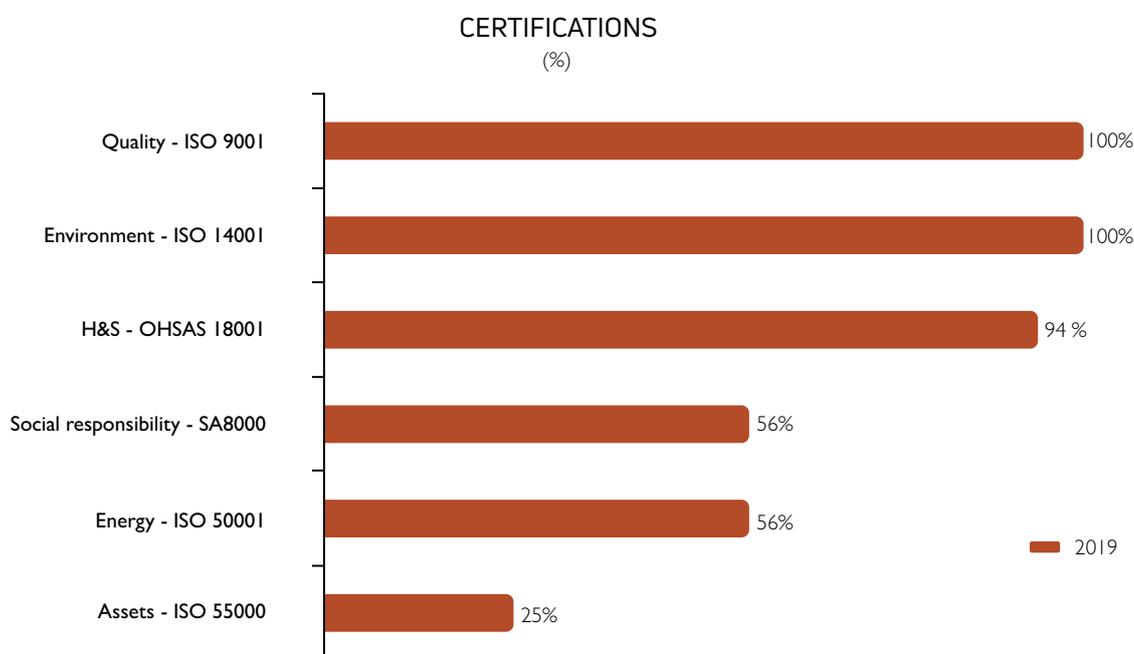
In 2019, we continued dedicated to making a relevant commitment to promoting a sustainable future.

Within this scope, there were the series of different interventions seeking to foster access to quality water supply and sanitation services, highlight the entry into operation of new infrastructures in the Alentejo, a region historically shaped by its scarcity of water resources and one of the most vulnerable in Portugal to the effects of climate change and the launching of a new company, AdAM - Águas do Alto Minho, which began operations on 1 January 2020 and that serves the resident population of 204 000 inhabitants of the seven Municipalities in this region.

Fostering increases in the circularity of water usages and improvements to water efficiency, and thereby helping to deal with the rise in frequency and intensity of periods of drought and water shortage, highlights the beginning of drafting the *AdP Group Action Plan for Reutilisation* that involves production projects for water for reutilisation (ApR) at around 50 installations from across the universe of AdP Group companies.

This also refers to the certification, on 26 September, of the Management Systems for the Conciliation between Professional, Family and Personal Life under the auspices of NP 4552:2016, run by AdP SGPS, AdP Serviços, AdP Energias, and AdP Internacional. The Portuguese NP 4552:2016 norm defines the requirements for implementing, maintaining and managing a system for reconciling professional, family and personal life. This applies to all organisations, public or private, irrespective of their type, dimension, juridical status or activity that seek to demonstrate their commitment to this conciliation objective as a criterion for management compatible with their strategy and integrated into their processes. This norm is based on the principles and values that strive to improve wellbeing,

quality of life and the general satisfaction of the parties involved in conciliation related issues. This highlights the implementation of the development and continued improvement policy greatly enhanced by the certification of the Quality, Environment, Safety and Social Responsibility systems within a logic of transparency and credibility. In 2019, 100% of Group companies had secured their Quality - ISO 9001 certification, 100% had their Environment - ISO 14001 certification, with 94% holding Safety - OSHAS 18001 certification, 56% with the Social Responsibility - SA8000 certificate and with 56% of the Group ISO 50001 Energy certified and 25% (of the 12 operating companies) certified in Asset Management – ISO 55000.



The corporate program awarding study grants with a view to contributing to the development and learning of the children of employees. In 2019, a total of 43 study grants were awarded, 20 for higher education in addition to 23 grants for special education with a value of EUR 1,200 apiece. The grants awarded span practically every Group company and having been extended to the international area in 2016. This program spans every Group company given that the grants awarded result from the funds raised by the sending of Group e-Christmas cards, which are each associated with a donation of €0.50 for every card sent. This solidarity project has already been able to distribute 183 study grants for higher education and specialist learning programs.

One of our main guidelines is equality and respect for diversity. We actively promote the combating of discrimination and consider ethics to be fundamental values within the scope of our performance. In 2019, we continued to play an active role in various projects fostering gender equality and combating poverty and social exclusion.

Equally worthy of highlight is the AdP Group commitment to the Sustainable Development Goals (SDGs) and strengthening the principles of the Global Compact that the Group signed up to in 2009, which covers the areas of human rights, labour practices, environmental protection and anticorruption mechanisms. The Group has also deepened its commit to the Alliance for the Sustainable Development Goals. SDG 17 appeals to partners and the Águas de Portugal Group has followed this path whether in terms of knowledge management and innovation or social responsibility.

The Águas de Portugal Group Chair was one of the 38 national business leaders who joined together to support human rights by subscribing to the CEO Guide on Human Rights. The Guide, launched by BCSD, identifies important aspects in the field of human rights that challenge companies to act, fostering greater involvement by company management in improving the conditions of life for their employees and their communities.

In 2019, we may stress the humanitarian aid provided by the Águas de Portugal Group to Mozambique in the wake of the disasters caused by Cyclones Idai and Kenneth. We immediately responded, gathered our efforts and our teams to depart for Beira, Tete, Moatize and Pemba. 19 members of staff were directly involved with all the employees of the Group indirectly participating in these efforts.

The Águas de Portugal Group prepared, in close cooperation with the Mozambican authorities, a humanitarian aid action plan with the mission to support the Mozambique authorities in re-establishing the supply of drinking water in the areas affected:

- Dispatching a team of experts to evaluate the reconstruction needs for the water supply systems in the areas affected (Beira, Tete and Moatize and Pemba);
- Provision of a compact water treatment plant with the production capacity of 25 m³/h, belonging to AdVT, a water filtration module and the availability of a team of technicians and operating staff to ensure the installation and operation of the aforementioned plant;
- Supply of reagents for water disinfection.

We also gathered efforts in Portugal to send out hope to Mozambique. With the participation of Group employees, in a joint initiative with EDP, SIC Esperança and Grupo Lusíadas, and with support from all Group members of staff, we sent 5 000 backpacks of Hope filled with essential goods that provided support to around 25 000 Mozambican citizens. At the end of the year, we also collected 1 000 backpacks filled with school material to support the return to classes of Mozambican children.

There was continuity for the Corporate Voluntary Program, “Drop by Drop, We Change Lives” which encourages the voluntary participation of Group members of staff in community development actions, contributing with time, with their solid technical knowledge but, above all, with their enormous generosity. Under the auspices of the Group Corporate Social Responsibility policy, the Voluntary Program strengthens our corporate culture within the framework of our commitment to the wellbeing of the populations served. Within this framework, leading initiatives include the “Drop by Drop, We Change Lives” Blood Donor campaign and the “Drip by Drip, We Bring Happiness at Christmas” campaign that involved collecting foodstuffs, personal hygiene items and toys distributed to families in need in the disadvantaged Cova da Moura neighbourhood of Lisbon in keeping with their identification by the Social Solidarity Association of Alto da Cova da Moura, in Amadora, thereby guaranteeing an extended Christmas hamper to 36 people and new toys “in the stockings” of 17 children.

The AdP Group has again stepped up as a partner for Paralympic sport with support for the CPP – the Portuguese Committee for Paralympics in preparation for the Tokyo 2020 Olympic Games. Within the framework of our strategy for social responsibility, we provide support for sport for all and with such support helping us achieve our mission. This was already the objective when we supported the Portuguese Team for Adapted Swimming for the 2012 Paralympics Games in London. Now, we have a new mission and together, once again, we are supporting our champions but not only in swimming and across all sports.

On 6 November, the AdP Group signed up to the “Business Ambition for 1.5°C” that seeks to reduce greenhouse gas emissions and contribute towards the sustainability of the planet, thus strengthening the commitment towards the transition to a low carbon economy. Presented by the United Nations Global Compact and signed by various benchmark companies, the “Business Ambition for 1.5°C” is a letter that encourages companies on a global scale to set out concrete measures for combatting climate change, establishing targets and objectives for reducing emissions so as to ensure zero net emissions by 2050 and capping global warming to 1.5°C by 2030.

In signing up to this letter, companies publicly take on the commitment to align their plans with decarbonisation within the ambition of limiting – or mitigating – global warming.

Sustainable mobility features as one of the determinant factors in combatting climate change. Since 2018, the AdP Group has incorporated 128 electric vehicles into its corporate fleet that travelled a distance of over 1.6 million kilometres in 2019. This thus brought about a reduction in accumulated CO₂ of approximately 257 tons, which reflects a reduction of over 70%, through recourse to these electric vehicles.

The Group provided continuity to the awareness campaign over the efficient usage of water and seeking to boost the perceptions around the value of water and the importance of stopping wasteful habits.

“Water with a Drop of Conscience” is the slogan of the aforementioned campaign that was first launched in 2018. The campaign continued in 2019 with national coverage engaged in by all AdP Group companies seeking to sustainably promote the social, environmental and economic value of water and demonstrating the responsibility, shared across all sectors and citizens, for making efficient utilisation of this resource that is so essential to life and under threat within the scope of climate change. This campaign also saw the launching of a water focused environmental awareness game “Aquaquiz” that provides a tool made available by the Group to teachers and education communities while seeking to support the development of participative, creative and dynamic pedagogic practices that promote the value of water within the context of the Sustainable Development Goals (SDGs).

In 2019, an equal highlight came with the subscribing by all Group companies to the Portuguese Anticorruption Campaign that emerged as a response to the Anticorruption Call to Action issued by the UN Global Compact to the business sector and civil society to support “an appeal on behalf of all Government organisations to foster anticorruption measures and implement policies that stimulate the construction of good governance systems”. For the AdP Group, this full participation represents a deepening of the already assumed commitment to combat corruption and strive to develop and adopt strategies fostering integrity and sustainable development and building fairer and more balanced societies.

Combatting corruption is also one of the main priorities of the United Nations Agenda 2030 and explicitly identified in SDG 16 - Peace, Justice and Efficient Institutions. This SDG requires the establishing of a more sustainable and transparent global economy, especially through a significant reduction in illegal flows of financing and arms, substantial reductions in corruption and bribery in all of their forms and the development of effective, responsible and transparent institutions across every level.

The AdP Group also once again hosted an intern from among the participants in the female entrepreneurship project Girl Move. The Girl Move Foundation holds the mission of nurturing a movement in life, supporting and empowering females in Mozambique through education and the creation of human networks of mutual help and cooperation among peers, inter-generational and international. Its main objective is to empower young females, through education and cooperation, with means to combat early school dropouts, marriage and pregnancy and as well as gender violence, which are problems that afflict the young Mozambican female population and hinder their achieving of basic human rights and the opportunities to ensure the full development of their human potential.

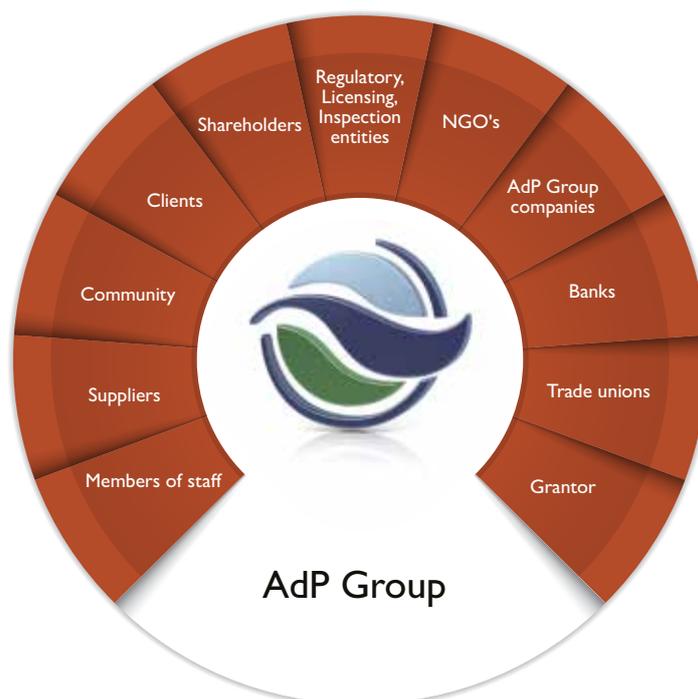
The Group has also again established a partnership with the General Directorate of Education and, for the second consecutive year, is supporting School Sports with the distribution of drinking bottles to all athletes, in a total of 7 000 and thereby raising awareness about sustainable development.

STAKEHOLDERS

Stakeholders are those people or groups able to affect and/or be 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 constant communication flows 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 sustainable national development.

SPECIAL INFORMATION DISCLOSURE DUTIES

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.

INNOVATION 2019

In 2019, the AdP Serviços Department of Engineering, in accordance with instructions from AdP SGPS, took over the role of promoting and accelerating innovation in the AdP Group in partnership with the various Group operating companies.

The field of Corporate Innovation underwent foundation with the definition of the strategy that seeks to guide its activities over the 2018-2020 triennial and striving for alignment not only with the corporate objectives but also various prevailing operational needs, specifically:

- Innovation integrated into a framework of sustainability for Group activities
- The interrelationship between Innovation and Motivation emerges as a contribution towards the Group process of value retention
- The organisational processes require constant evaluation and updating as well as their evolution in keeping with the trends in innovation
- The recovery of resources as a complement to optimising their utilisation represents a Group objective and feeds into the principle of the circular economy
- The communication and dissemination of innovation initiatives takes on particular importance as an accelerator of innovation across the Group
- The transition to digitally backed activities releases resources from tasks returning lower added value
- Marketing the processes and products developed within the scope of the Group
- Support for driving forward the process of Group internationalisation

Over the course of 2019, four research and development projects began with financing sourced from different national and European instruments and with a broad range of partners:

- **REUSE (Environment Fund financing)** - AdP Serviços coordinates this project that seeks to boost recourse to water for reutilisation for agricultural irrigation in the Alentejo region through the deployment of environmentally sustainable and low cost technologies while also fostering knowledge and the development of communication actions over water reutilisation.

The objective of the methodology adopted demonstrates how such reutilisation is safe and adapted to the respective case, supported by cost-effectiveness analysis. The project applies the circular economy as a pillar, seeking to enhance the reutilisation and recovery of water and nutrients as well as the level of recourse to renewable energies.

One important project component is community awareness, especially in the agricultural sector, as regards the significance of wastewater reutilisation in irrigation activities. This component is put into practice through a cycle of conferences and community actions primarily targeting lead actors in the agriculture sector.

- **PYROLIFE (Marie-Curie Innovative Training Networks financing (H2020))** - The greater incidence of forest fires, not only in southern Europe but also in other European regions, requires a change in the paradigm of combatting forest fires is to "live with fire", which involves planning resilient landscapes and communities better prepared to deal with forest fires.

The PyroLife project brings together knowledge from different countries, fields and scientific practices. The leadership of southern Europe in managing forest fires serves as the foundation for understanding and predicting fires in the north of Europe while lessons from the latter shall be applied in preventing flooding in regions in southern Europe.

The project objective thus encapsulates training a new generation of specialists in the integrated management of forest fires with AdP Serviços to this end hosting two doctoral degree students studying this theme and fostering the sharing of knowledge internationally.

- **FRISCO (FCT financing)** - Rural fires may lead to mass water contamination with fine sediments, nutrients and ashes with water managers thereby needing the appropriate information to determine the post-fire risk and select the most suitable impact mitigation measures. FRISCO seeks to provide answers to these needs through the construction of two outputs:

- 1) An index of post-fire contamination, analysing information on the impacts of forest fires on the vegetation and soils, the mobilisation and transport of contaminants and episodes of contamination with statistical tools and artificial learning.
- 2) A stochastic model of occurrence and fire, applying this to test mitigation solution according to current and future climate scenarios.

- **CRISI ADAPT II (EIT Climate KIC financing)** - Seeking to monitor and optimise planning for adaptation to climate change through the implementation and validation in real time of seasonal predictions for climate and nature related dangers.

As risk and operating management require holistic approaches to the various sectors affected, this project shall foster the democratisation of information on climatic risks necessary for each user and information on the vulnerability inherent to each impact model.

The project involves various case studies, in particular focusing on the Spanish region of Andalusia, which shall provide a methodological base for replication in the Portuguese case.

In Portugal, this replication case is to be implemented under the auspices of the FCT and Nova University of Lisbon focusing on the Sado river basin. This replication case foresees the hydrologic modelling of the current conditions and future scenarios of climate change.

Innovative activities were developed in a context that promoted the involvement of all AdP Group companies undertaking sanitation activities with operational anaerobic digestors in the "Anaerobic Digestion Global Database" project that seeks to apply the most recent technology for genomic identification to classify the microbiology present in digestors and leverage the potential of the most efficient species.

Innovation in the AdP Group, represented by AdP Serviços, also involved participating as a member to the advisory boards of certain projects already undergoing implementation such as SCALER.

Of the activities ongoing in 2019, other highlights include the participation in a range of consortia to prepare applications for R&D and Innovation project financing within the context of financing programs such as Horizonte 2020 (SWAN Projects, as consortium leader; ONEWATER and Nutrify), FCT (Frisco Project), LIFE (Renaturwat and Phoenix Projects) and ANI (GreenenergyUp Project).

In order to obtain the resources for preparing applications to Horizonte 2020, there was the presentation and successful acceptance of the INMOVAGUA project application, a program that seeks to support the internationalisation of R&D through stimulating the participation of entities in the I&I System of European research and innovation programs, in particular Horizonte 2020 with AdP Serviços considering its own participation in five H2020 applications within this framework.

2019 saw the continuity of the AdP 100% Innovation award initiative and the organisation of advanced training in desalination.

Furthermore, the Department of Engineering in 2019 hosts an IST Master's Degree students writing a dissertation on the field of Asset Management and Robotics: Filipe Brito – Analysis of technological solutions for the automatic inspection of critical infrastructures.

At the level of the exchange of water sector professionals, this highlights the first initiative under the Exchange Program, a protocol signed with Aarhus Water, under the auspices of which two technicians had the opportunity to undertake their functions on an exchange basis (Portugal/ Denmark). The Department of Engineering also hosted two professional internships for undergraduate students.

The support for internationalisation was another Corporate Innovation area of action with a particular focus on support for the China Europe Platform for Water and preparing the AdPI project for depolluting the Nanxi river in China.

During its first two years, the Department of Engineering area of innovations has established a vast range of national and international partnerships and with the Group's research teams working in about 20 different countries.

HUMAN CAPITAL

AdP SGPS 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, Master's Degree and Doctoral programs in fields directly related with their activities and that unequivocally boost their intellectual capital. Participation in professional or class based associations able to contribute towards professional valuation or that are demonstrably tailored towards achieving Company goals is equally encouraged and supported.

The performance management process shares the objective of aligning individual performance with the strategies and objectives of Group companies and enable continuous improvement. This represents a permanent and ongoing process that enables the substantiation of expectations, defining clear goals and objectives and identifying opportunities for improvement such as, and especially, the development of members of staff.

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.

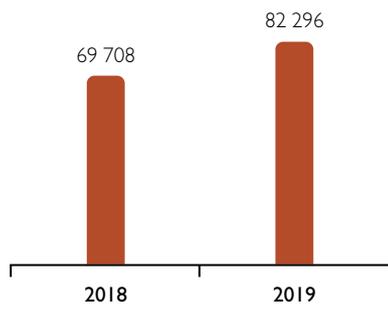
Within the scope of the National Strategy for Equality and Non Discrimination, during 2019, the AdP Group, with the objective of officially expressing already existing practices, monitoring and developing still better working conditions for employees, launched the certification process under Norm 4552 for the Conciliation of Professional, Family and Personal Life, with AdP SGPS and instrumental Group companies (AdP Internacional, AdP Serviços and AdP Energias) already certified under this norm.

TRAINING AND DEVELOPMENT

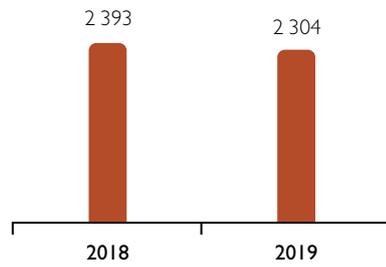
Our strategy embodies a culture of ongoing improvement that we believe essential to providing our human resources with the skills they need to fulfil their potential, thereby contributing to the success of AdP Group companies. Employee training is therefore a key focus of our human resource management 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, aligned and joint development. This year, the priority focused on longer duration training programs with deeper levels of program content and of recognised scientific quality.

NUMBER OF TRAINING HOURS



NUMBER OF TRAINEES

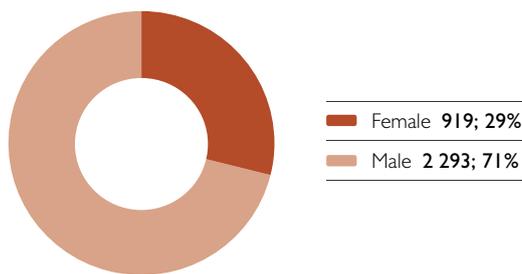


GENDER EQUALITY

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 operational 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 operational and maintenance greatly influences the overall statistics.

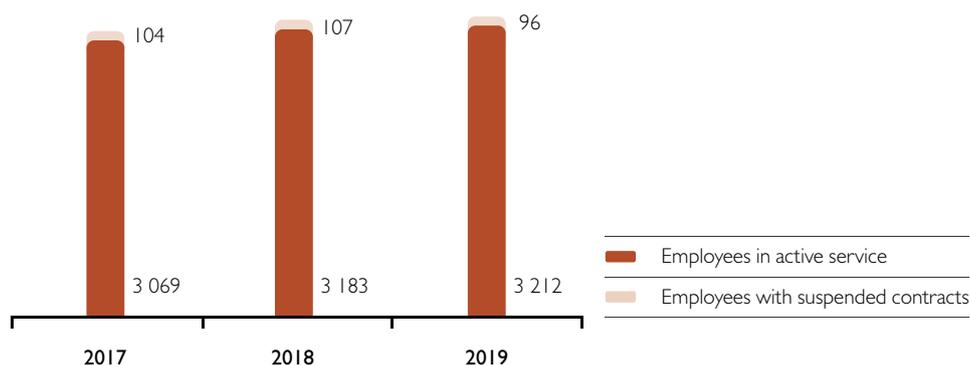
GENDER DISTRIBUTION



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.

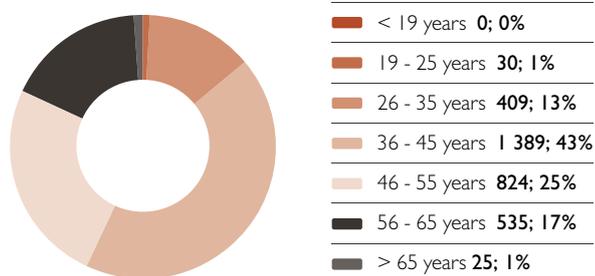
CHARACTERISTICS OF GROUP HUMANS RESOURCES AS OF 31 DECEMBER 2019

TOTAL GROUP EMPLOYEES



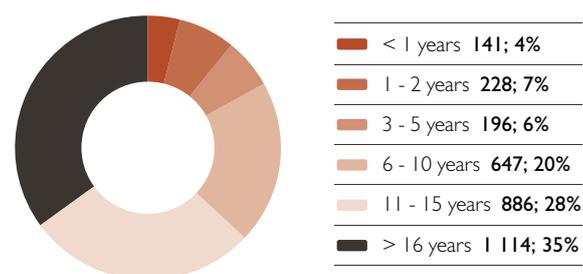
The average age of members of staff stood at 44 with the most representative age range across the Group containing employees aged between 36 and 45 (43%).

AGE DISTRIBUTION OF ACTIVE EMPLOYEES



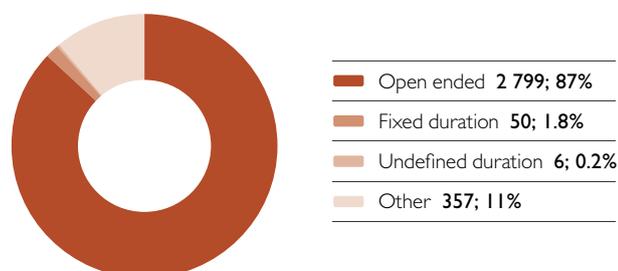
The average length of service of Group members of staff is 14 years, which reflects the strong length of service within the having 16 or more years of service.

YEARS WORKED PER ACTIVE EMPLOYEE



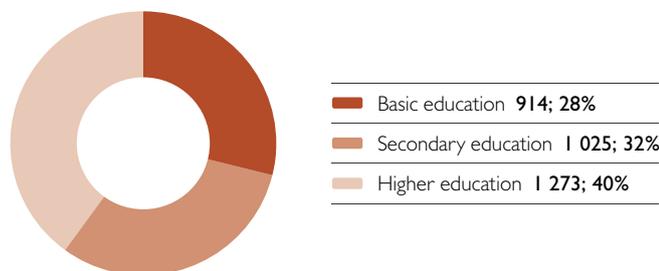
As regards the contractual regime, the predominant employment contract is full time and open-ended and accounts for 87% of the total of existing individual employment contracts. Within the scope of other types of contract, there are those employees on an occasional in-Group working contractual regime and members of staff loaned in the public interest. Given that these employees are also covered by open-ended contracts with their companies of origin, in practice, this contractual regime represents 96% of all individual working contracts in effect across the AdP Group.

TYPES OF ACTIVE EMPLOYEE CONTRACTS



As regards the level of education qualification, it is a matter of relevance that 40% of AdP Group members of staff hold at least undergraduate degrees.

ACTIVE EMPLOYEE EDUCATION LEVELS



INTERNAL CONTROL AND RISK CONTROL SYSTEMS

“Internal control” is a process carried out by the Board of Directors, management and other staff of an entity, planned to provide a reasonable guarantee in relation to obtaining the objectives related to the operations, reporting and compliance.” COSO 2013

The AdP Group in general and the Board of Directors of AdP SGPS in particular pay great attention to themes such as internal control, risk management, fraud, the transparency of information and the reliability of financial reporting.

As these constitute transversal concerns to the AdP Group and, in order to enable the deployment of a systematic and appropriately visible internal control existing in all Group companies, in 2019 AdP SGSP approved the project for defining and implementing the SCI – the Internal Control System transversal to the Group. To this end, among the various internal control systems existing, the selection opted for the CUBE of COSO (the Committee of Sponsoring Organizations of the Treadway Commission) as the model for implementation considered the most adaptable to the company structures given its flexibility spanning the entire entity and any one of its units or business activities as well as its reliability regarding the responses provided to existing challenges.

This model returns a direct correlation between the objectives the organisation is striving to achieve across three categories (Operation, Reporting and Compliance), and the five components (Control Environment, Risk Management, Control Activities, Information and Communication and Monitoring Activities), which represent those necessary to achieving the objectives set, in the structure prevailing and as portrayed below.

Control environment

- Establish an organisational character that influences the perception of control among staff;
- This is at the basis of all other internal control components, providing discipline and structure to the remain SCL components.

Risk evaluation

- Risks from external and internal sources;
- Prior condition: definition of objectives interconnected with the different levels of the entity and while internally consistent;
- Identification and analysis of the risks relevant to achieving objectives;
- Foundation for risk management.

Control activities

- Policies and procedures that help in ensuring: **i)** responses to risks within the scope of obtaining the respective objectives; **ii)** compliance with the directives in effect at the entity;
- Spanning the entire organisation, across every level every function;
- Activities designed to prevent or reduce the adverse impact of risks.



Information and communication

- Identification of relevant information, captured and communicated with quality to guarantee the treatment and exchange of relevant data, within deadlines and in ways that enable the effective and timely management and control of company activities and risks;
- The IT systems are a source of information that facilitates management and business control.

Monitoring activities

- Evaluation of the quality of the SCl performance over time;
- Ensuring the appropriateness and effectiveness of SCl on a continuous basis;
- Guarantee the timely identification of eventual shortcomings or opportunities for improvements within the scope of continuous improvement

During project development, based on the strategic orientations and key accounts, AdP SGPS identified 35 processes considered critical to the AdP Group and prioritised 13 processes for which the respective mapping took place with the identification of risk events and associated risks and the controls implemented for their mitigation through two pilot companies.

In parallel, there was the ongoing development, now in a completion phase, of the report defining the metrics for application in the annual SCl evaluation as well as the Group Internal Control Manual that sets out the Control and Risk Matrices for the mapped processes.

This subsequently plans for the implementation of the internal control methodology approved by AdP Group companies as well as the implementation of their respective Internal Control Manuals, which incorporate the necessary adjustments to the realities of the risks and controls established for each company. This furthermore fosters awareness and training around these issues and also rendering continuity to the mapping of the remaining processes identified as critical.

Having finalised the model implementation, the evaluation metrics established, in conjunction with the internal control audit undertaken annually, shall generate information that enables the ascertaining of whether each of the five internal control components are operating in an integrated fashion to provide a reasonable level of security to the Board of each company and reporting on the effectiveness of the SCl model.

The alterations set out above also require the review and adjustment to the risk management model in effect across the AdP Group ensuring the AdP SGPS Board of Directors places a greater emphasis on monitoring and analysing the critical risks thereby identified, inherent to the activities and that result from their daily operations.

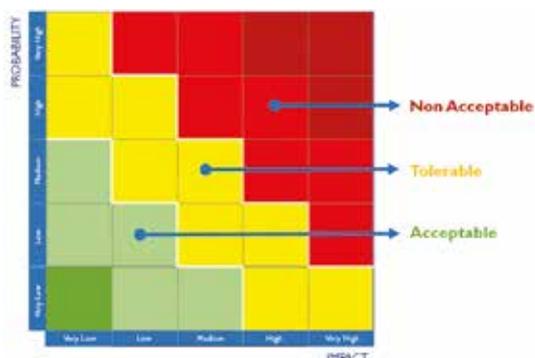
The running of a business risk management model enables the integrated evaluation of company risk and the maturing of a risk culture, enabling the creation of a shared language around the definition and concept of each risk in addition to aligning the objectives with the risks and respective controls in effect in the company, reducing the risk of loss of investment and assets while helping to guarantee the reliability of financial reporting and compliance with the laws and regulations in effect.

The appropriateness of SCl furthermore aligns with the risk management model and always undergoing adjustment whenever; through evaluating the respective risk, there is the identification of risks of a level deemed unacceptable or the detection of shortcomings or failures in the analysis of the underlying controls.

The business risk management model currently in effect across the AdP Group, also defined in accordance with the COSO methodology, presents the risks organised according to a structure of defined classes and categories as detailed below:



Risk assessment is made based on the probability and impact of events occurring, considering the respective inherent and residual risks. Hence, we try to ascertain the efficiency of the SCI as devised to maintain the level of risk at thresholds deemed acceptable 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.

As a result of the implementation of the internal control model of the AdP Group, there was no evaluation of risks in 2019. Taking into consideration the risk evaluation process carried out in 2018, some of the core risks that the Group faces exposure to are the following:

- 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 the absence of network separation.
- Downstream losses in supply: Risk of losses of hydric resources over the extent of the "downstream" supply chain with consequent decreases in the supply capacity and financial losses stemming from breakdowns and leakages going undetected in due time or the ageing of the infrastructures.
- Talent management: Risk of difficulties in attracting and retaining the human capital due to limitations inherent to the sectorial or economic conjuncture.
- Environmental impact: Risk of the inefficient utilisation of environmental resources or their contamination due directly or indirectly to company activities or the failure to comply with the environmental legislation / regulation in effect.
- Disasters: Risk of disasters that may have an impact at the level of continuity of the business through placing at risk the operating capacity of the infrastructures. In order to deal with these risks, Group companies have contracted insurance in order to ensure the transfer of these risks.
- Regulatory: Decree-Law no. 10/2014, of 6 March, approved the new ERSAR statutes which correspondingly takes on the role of an independent administrative entity with strengthened autonomy in organic, functional and financial terms and equivalent to the other independent regulatory entities.

Regulation represents the most significant restriction on the profitability of the economic activities undertaken by the Group. The Regulator may take measures with a negative impact on the cash flow stemming from the eventual contractual definition of a scenario of negative productive efficiency establishing costs for recovery at a tariff that may differ from the costs effectively incurred. These costs include the terms of Group financing.

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.

According to the methodology implemented, having concluded the risk evaluation processes carried out by AdP Group Companies, the Boards of Directors are to evaluate the need to identify and/or implement corrective actions that then require regular monitoring so as to accompany their implementation, their impact on mitigating the risks identified and ascertaining the respective level of control.

FINANCIAL RISK MANAGEMENT

(in accordance with the financial report notes – no. 3)

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 potentially 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.

	31.12.2019	Impact of average rate +1%	Impact of average rate -1%
Interest (cost) at a variable rate	(2 032 243)	(5 839 346)	556 003
Interest (income) at a variable rate	13 104 802	4 627 485	(49 804)
Net impact	11 072 559	(1 211 861)	506 199

EXCHANGE RATE RISK

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.

LIQUIDITY AND CAPITAL RISKS

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).

2019	< 1 year	1 to 5 years	> 5 years
Asset			
Loans to Group companies	73 693 182	691 469 164	-
Cash and cash equivalents	16 477 809	-	-
	90 170 991	691 469 164	-
Liability			
Shareholder loans	6 818 182	377 272 728	173 863 635
Group company loans	104 000 000	-	-
	110 818 182	377 272 728	173 863 635
Net liquidity	(20 647 191)	314 196 436	(173 863 635)

In September 2017, AdP SGPS entered into a 25-year, EUR 220 million financing agreement with the European Investment Bank under a EUR 420 million credit facility approved in July 2017 by the Board of Directors of this financial institution. In addition, on July 31 2019, the AdP Group formally took up the remaining EUR 200 million that may serve as funding for the termination of debt regularising agreements reached between the AdP Group and its municipal clients under the auspices of Decree-Law no. 5/2019, of January 14. To date, the AdP Group has not yet had to resort to this line of financing.

In view of the above, as well as recurring operating assets, AdP SGPS does not foresee difficulties in fulfilling its financial commitments. Particularly for short term bank loans, AdP SGPS has immediate liquidity to cover the entire cost of debt servicing forecast for the next twelve months.

Contracted short term lines of credit

Liquidity risk (in million EUR)	Line of credit available	Line of credit used	Line of credit unused
Bank overdrafts (attributable only to AdP SGPS)	72.5	-	72.5
Group company loans	220.0	104.0	116.0
Group company loans	(855.1)	(765.4)	(89.7)
Lines of credit available attributable to AdP SGPS	(562.6)	(661.4)	98.8
Bank overdrafts (AdP Group)	140.0	-	140.0

The objective of the AdP Group in relation to capital management, which is a broader concept than the capital shown on the face of the balance sheet, is to maintain an optimal capital structure through the prudent use of debt that allows it to reduce the cost of capital. The purpose of capital risk management is to safeguard the continuity of the Group's operations, with adequate compensation to shareholders and generating benefits for all interested third parties.

The AdP Group's policy is to contract loans with financial entities, at the level of the parent company, AdP, SGPS, S.A. (except for investment loans), which in turn make loans to its subsidiaries. This policy aims at optimising the capital structure with a view to greater efficiency and reducing the average cost of capital.

	2019	2018
Non-current loans (Shareholder loans)	551 136 363	557 954 545
Current loans (Shareholder and Group company loans)	110 818 182	132 418 182
Availabilities	(16 477 809)	(5 166 066)
Net debt	645 476 736	685 206 661
Total of own capital	823 863 724	785 185 518
Capital	1 469 340 460	1 470 392 179
Net debt/total capital	0.44	0.47

The AdP SGPS financing model fundamentally incorporates two major categories to ensure the balance of its capital structure, shareholder financing and equity capital.

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 subsidiaries and advances / treasury support granted to subsidiaries.

The credit risk of subsidiaries remains low taking into consideration their respective financial positions and the prevailing legal and regulatory frameworks. In effect, in the state owned system, the financial autonomy ratios are high and in the multi-municipal systems or partnership regimes, the concession or partnership contracts provide mechanisms for the replacing of economic-financial stability so as to ensure compliance with all third party liabilities, especially the responsibilities arising from debt servicing.

It should be added that in the case of both the multi-municipal systems and the partnerships, there is a consolidated regulatory and legislative framework to guarantee the recovery of debts owed by municipalities to this system within the scope of calculating the cost recovery deviation which, in turn, has the deadlines for recovery established by Decree-Law.

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 2019, 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.

Financial banking assets	2019
Current account deposits (Note 12)	16 441 115
	16 441 115

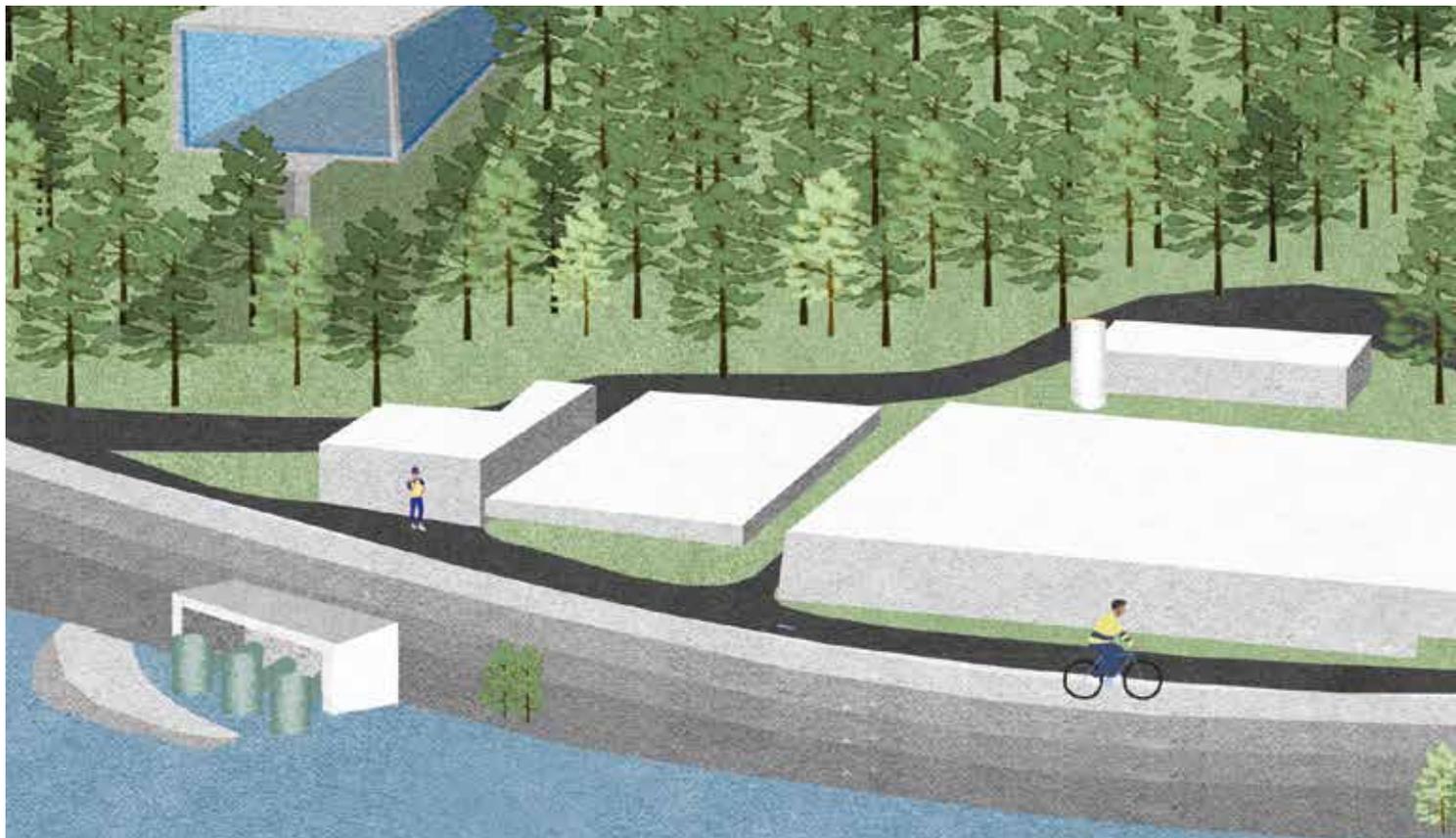
Rating	2019
A3	4 807
Baa1	41 169
Baa3	16 395 134
Caa1	5
	16 441 115

Note: Moody's rating obtained from financial institution websites in February 2020.

DERIVATIVE COUNTERPARTY

AdP 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. Whenever available, 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.

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FINANCIAL ANALYSIS

year-on-year

NET RESULT

83.1
EUR million

down EUR 4.1 million (-4.8% impacted by the fall in the OT from 1.84% in 2018 to 0.75%, in 2019)

EBITDA (adjusted)

365.7
EUR million

improvement of EUR 22.7 million (+6.6%)

INVESTMENT

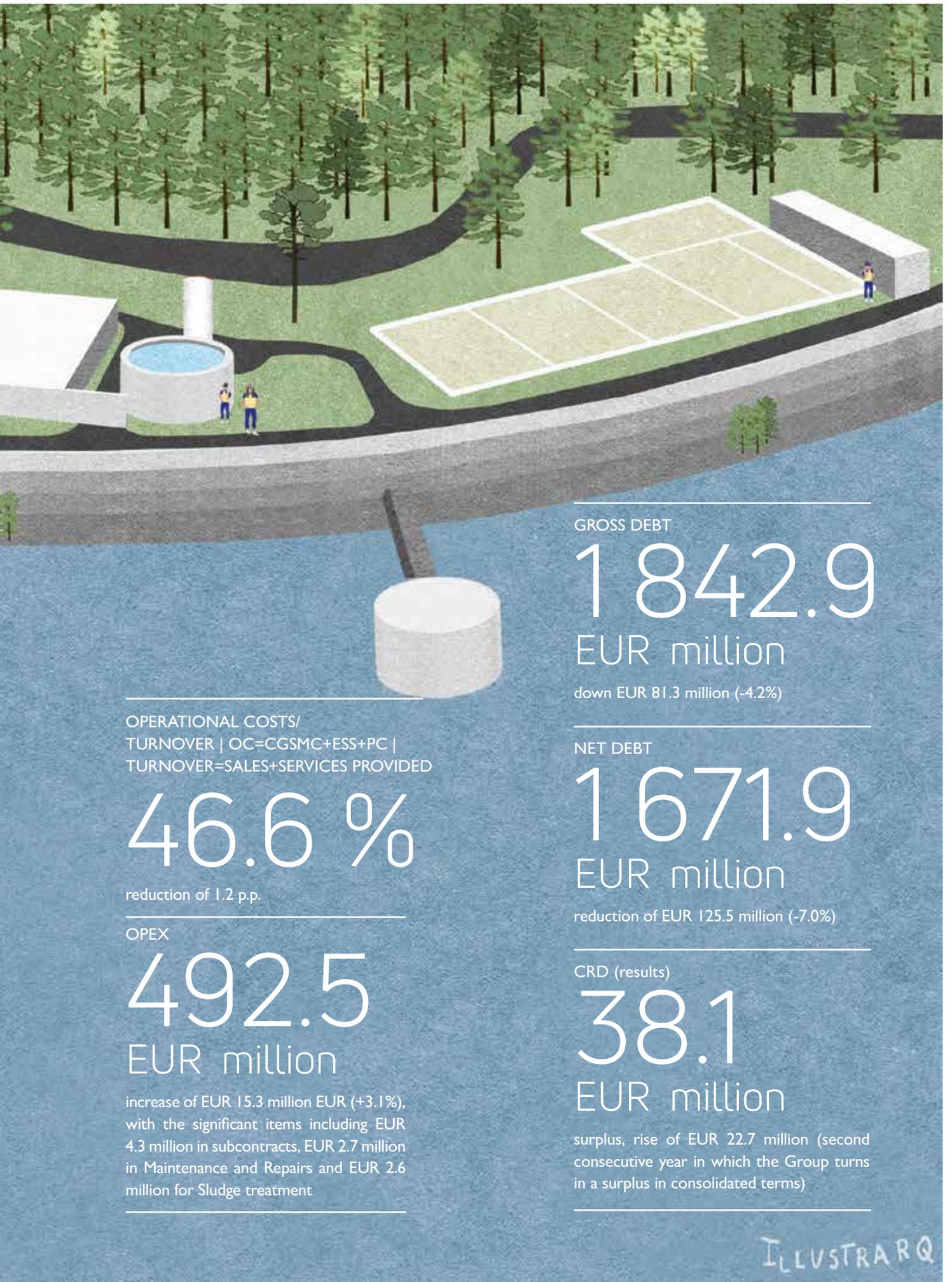
144.2
EUR million

up EUR 10.4 million (7.8%), without the re-classification of the Odelouca Dam or the effects of IFRS16

TURNOVER

691.5
EUR million

advance of EUR 33.6 million (+5.1%)



OPERATIONAL COSTS/
TURNOVER | $OC = CGSMC + ESS + PC$ |
TURNOVER = SALES + SERVICES PROVIDED

46.6 %

reduction of 1.2 p.p.

OPEX

492.5
EUR million

increase of EUR 15.3 million EUR (+3.1%),
with the significant items including EUR
4.3 million in subcontracts, EUR 2.7 million
in Maintenance and Repairs and EUR 2.6
million for Sludge treatment

GROSS DEBT

1 842.9
EUR million

down EUR 81.3 million (-4.2%)

NET DEBT

1 671.9
EUR million

reduction of EUR 125.5 million (-7.0%)

CRD (results)

38.1
EUR million

surplus, rise of EUR 22.7 million (second
consecutive year in which the Group turns
in a surplus in consolidated terms)

ILLUSTRARQ

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 (including own and third party equity capital costs), in accordance with that stipulated in the concession contracts or the partnership management contracts.

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 and the possibility of impacting on the investment programs of Management Companies.

These two spheres of action have enabled the consolidation of the Group's financial debt enabling a significant reduction in its servicing costs even in a simultaneously favourable context in terms of the prevailing interest rate.

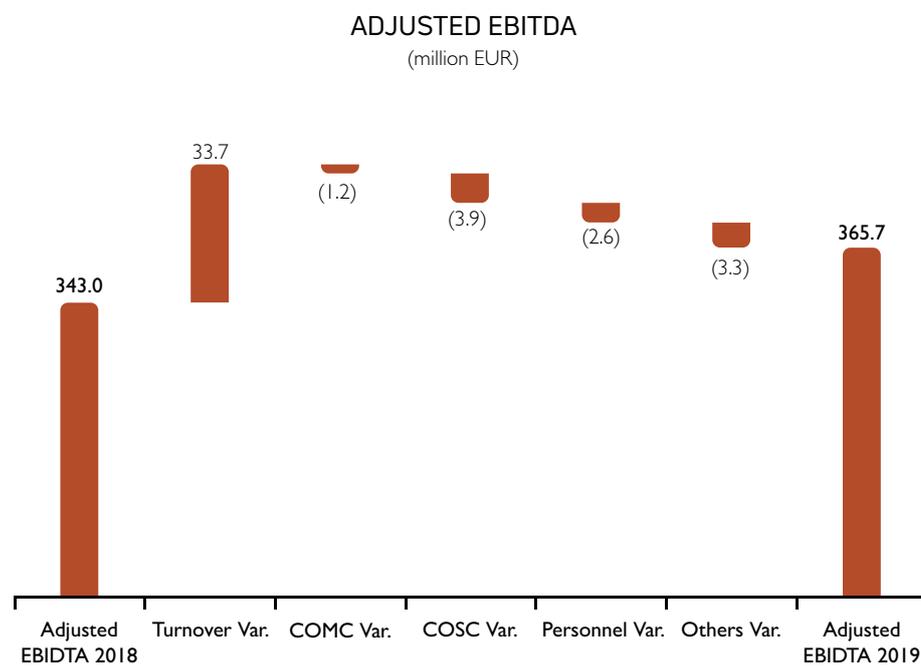
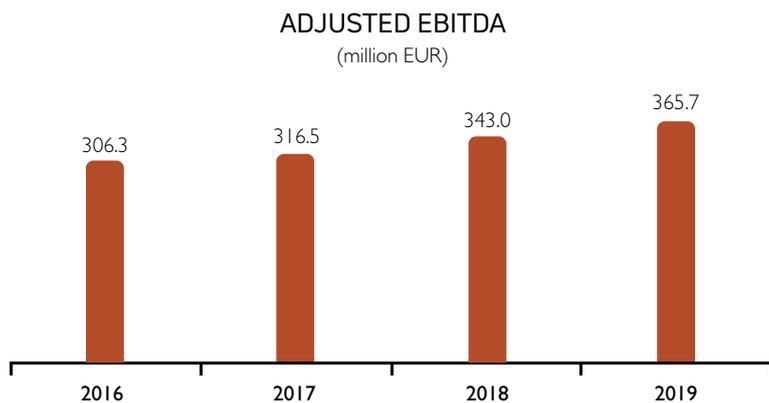
2019

INCOME STATEMENT

The AdP Group closed the 2019 financial year with a net result of around EUR 83.1 million, representing a decrease of 4.8% on the previous year (around EUR 87.3 million). The net results per share stood at EUR 0.96 (vs. EUR 1.00 in 2018).

This downturn stems essentially from the effects of the decrease in the 10-year Portuguese state Treasury Bond rates applied for the purposes of determining the net results of the Multi-Municipal Systems and State-Municipality Partnerships of 1.84% in 2018 against 0.75% in 2019, which more than offset the improvement in results at EPAL. This also contributed towards the non-repetition of the investment gains reported in 2018.

EBITDA, adjusted for the surplus returned by the improvement of costs, rose to EUR 365.7 million, which represents an increase of 6.6% year-on-year (EUR 343.0 million), consolidating an upwards trajectory stretching back to 2015 arising above all from operating improvements across the AdP Group. This growth above all stemmed from higher turnover across both activities (up EUR 33.1 million EUR) with particular emphasis on the supply side (up EUR 23.6 million).

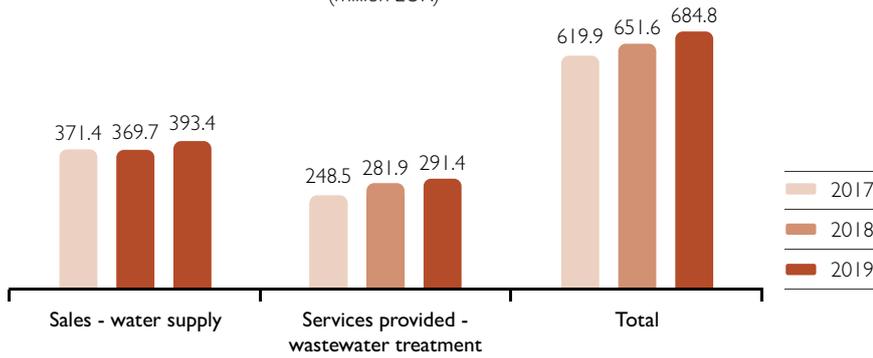


During 2019, there was an improvement in the operational costs versus turnover coverage ratio (OPERATIONAL COSTS/TURNOVER | $OC=CGSMC+ESS+PC$ | $TURNOVER=SALES+SERVICES PROVIDED$) of 1.2 p.p. on 2018, which reflects the consolidation of water supply and sanitation operations within a context of greater demands in terms of production efficiency standards and therefore continuing the downwards trajectory in effect since 2015.



TURNOVER BY BUSINESS AREA

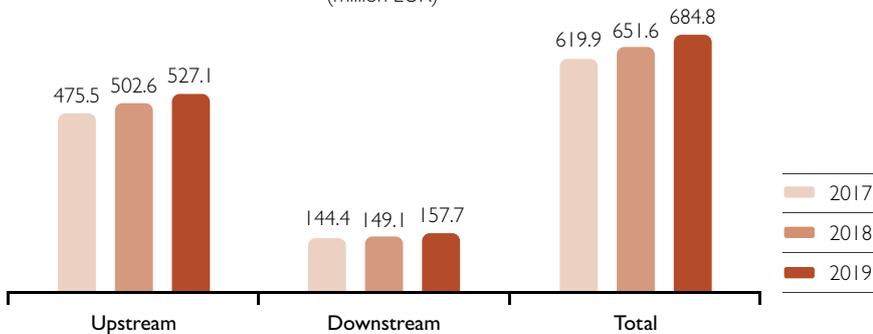
(million EUR)



The Group consolidated turnover (stripped of earnings from the construction of concessioned assets under the auspices of the IFRIC 12 norm and the cost recovery deviation) rose to EUR 691.5 million (+5.1% year-on-year), with water supply and sanitation activities accounting for EUR 684.8 million of this total.

TURNOVER BY SEGMENT

(million EUR)



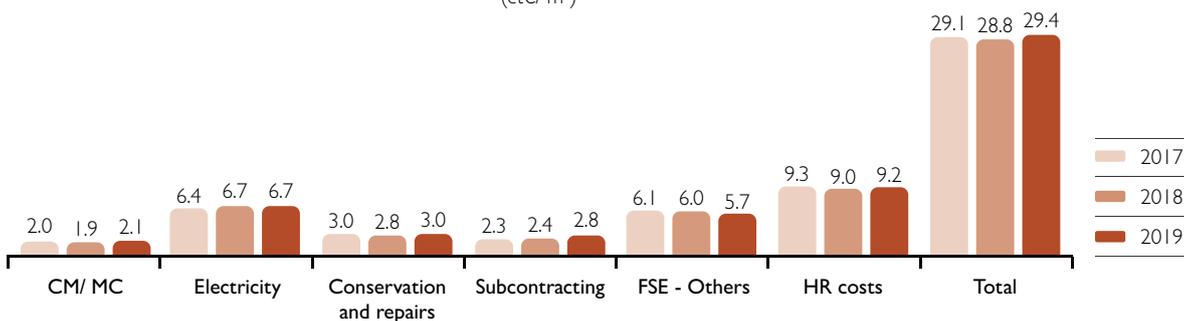
The 5.1% variation in turnover derives from the following factors:

- In water supply, due to the increase in sales of 6.4% due to the updating of the tariff and raising the volume of water invoiced in comparison with 2018 (+21.5 million m³).
- In sanitation, the slight rise in the provision of services (+3.4%). This highlights how the turnover generated by the treatment of upstream wastewaters maintained the two parameters essential for stabilisation: **(i)** applying a tariff earnings methodology, disconnected from the flow volume treated, and **(ii)** applying variable multi-annual or estimated averages in order to offset the effects of variations in levels of rainfall.

In unit terms, the cash-cost, which accounts for the costs of operation and maintenance for each measured unit of water produced and effluent treated, rose by 0.6 Eurocents per m³ rising from to 28.8 Eurocents in 2018 to 29.4 Eurocents in 2019, reflecting the rise in operating and maintenance costs.

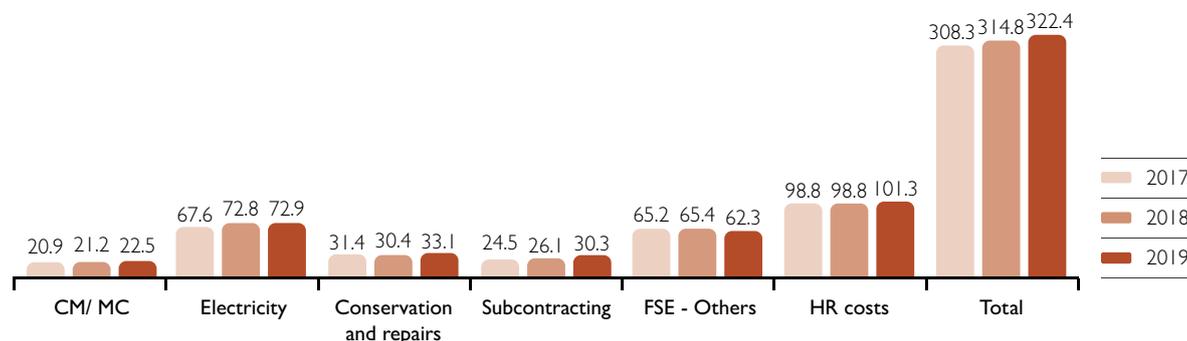
CASH-COST

(ct€/m³)



CASH-COST STRUCTURE

(million EUR)



The set of operating and maintenance costs rose by EUR 7.6 million in 2019, rising from EUR 314.8 million to EUR 322.4.

This should emphasise that the AdP group has been adopting energy efficiency measures within the scope of PEPE – the Energy Efficiency and Production Plan (seeking reductions in consumption and costs and boosting the Group's own production of energy for self-consumption which has enabled the minimisation of the impact of the rising electricity price. This effort, alongside the strategy for market acquisitions of energy, presented an increase of just 0.05% on a total cost of around EUR 72.9 million.

The increase in subcontracting costs amounts to EUR 4.3 million above all due to the rise in sanitation activities, especially in the Vale do Ave and Algarve regions.

This also emphasises the rise in costs for infrastructure maintenance and conservation (+EUR 2.7 million) reflecting a recovery on the situation as regards recent years. This total, combined with investment for the replacement of productive capacity, accounts for 1.6% of the gross total investment, 0.5 p.p. above the 2018 total, which is within both references for the sector and those indicated by the Regulator, which has backed the AdP Group strategy providing for an uptick in preventive maintenance.

Personnel costs in 2019 rose to EUR 101.3 million, superior to the EUR 98.8 million registered in 2018. This rise in expenditure stems from the full application of the ACT – the Collective Working Agreement with the repositioning of all employees in the new wage table and the annualization of the costs incurred with overtime work, night shifts and preventive work as well as with meal allowances. The leading variations, both favourable and unfavourable, are: **(i)** the rise in remunerations and charges totalling EUR 3.0 million, **(ii)** the reduction in compensation for full time staff leaving the Group (EUR -0.5 million), and **(iii)** the reduction in capitalised costs (EUR +0.2 million).

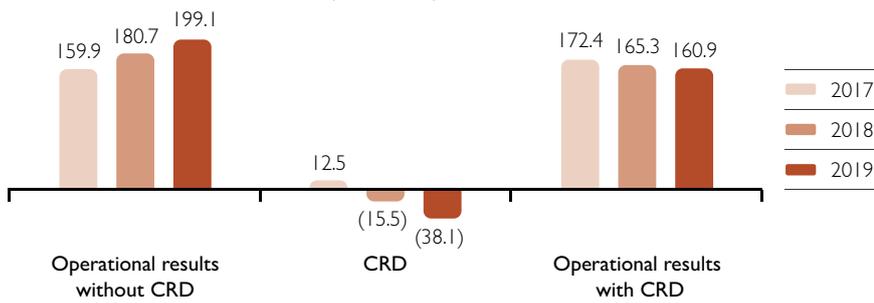
This notes that other items also recorded increases – costs with training, with uniforms and with the acquisition of protection and safety equipment (up EUR 0.4 million), within the scope of replacing deficits existing in these fields, fundamental to the maintenance of the quality required for the public services provided by Group companies.

In the contrary sense, there was a reduction in costs with employment compensation costs (EUR -0.5 million) and insurance costs (EUR -0.3 million).

Totalling around EUR 160.9 million in the financial year, the operational results were down 2.6% year-on-year. This result was influenced by accounting for the cost recovery deviation, in surplus, with its 2019 impact amounting to EUR 38.1 million. The operational results without the effect of this cost recovery deviation rose by 10.1% up from EUR 180.7 million in 2018 to EUR 199.1 million in 2019.

OPERATIONAL RESULTS

(million EUR)



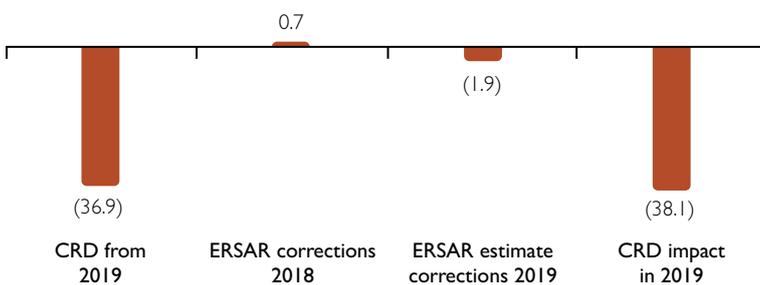
The Cost recovery deviation, corresponding to the difference between shareholder remuneration for the contractually defined and regulated activities and the net result generated by the respective activities turn in a surplus of EUR 36.9 million in 2019 (only AgdA and SIMARSUL did not register surpluses).

Corrections by the regulator to the charges incurred with systems operating under the efficient production scenario stem from the 2018 financial year but were only known after closing the accounts for the year and then reporting that the estimate made for the last year for this item exceeded the final sum by EUR 0.7 million.

This also reflects the estimates for the correction relative to the efficient production scenario established for 2019 proposed by the regulator; even while at a contradictory phase, that generated a negative impact amounting to EUR 1.9 million.

COSTS RECOVERY DEVIATION

(million EUR)

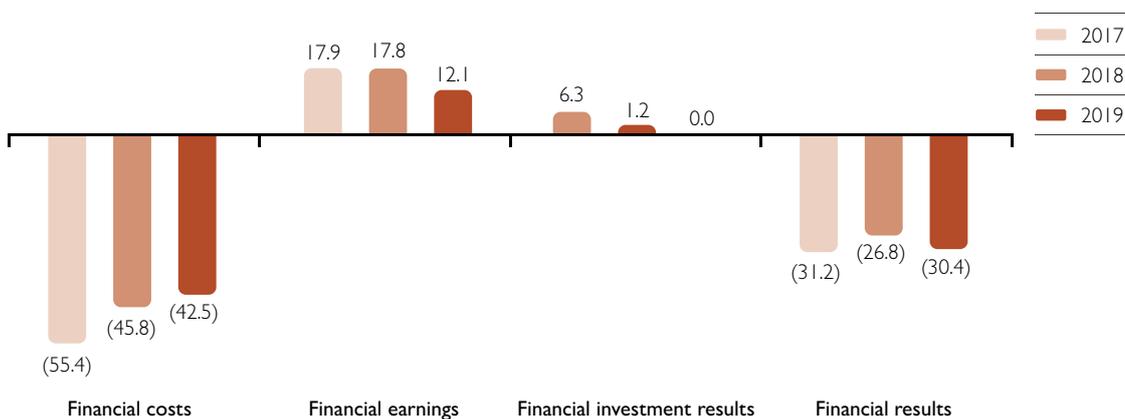


The combined effects constitute the CRD reported in the 2019 turnover reflecting a total of EUR -38.1 million (CRD surplus).

This reflects in the following variation in the financial accounts:

FINANCIAL RESULTS

(million EUR)



In 2019, the interest charges incurred fell by EUR 2.9 million due to the lower level of indebtedness (EUR -81.3 million) and the further fall in the interest rate.

As regards financial earnings, there was a reduction of EUR 5.8 million, which primarily stems from the drop in penalty interest received (EUR 5.2 million) in relation to the Debt Settlement Agreements (DSAs) signed under the auspices of Decree-Law no. 5/2019 14 January, which foresees a cut of 30% to the interest liable for payment as at 31 December 2018.

The financial item also registered an unfavourable deviation of EUR 1.2 million deriving from non-recurrent effects. In 2018, there had been the capital gain of EUR 1.2 million from the disposal of the total AdP Group holding in AQUASIS.

The net annual result attributable to AdP SGPS shareholders is as follows:

	(million EUR)			
	2016	2017	2018	2019
Adjusted EBITDA	306.3	316.5	343.0	365.7
Operational results (with CDR)	166.5	172.4	165.3	160.9
Operational results (without CDR)	130.3	159.9	180.7	199.1
Financial income	(45.9)	(31.2)	(26.8)	(30.4)
Taxes	(37.0)	(38.6)	(39.0)	(38.8)
NI of discontinued operations	0.0	0.0	0.0	0.0
NI of the period	83.6	102.6	99.4	91.8
NI allocable to minority shareholders	12.8	14.0	12.2	8.6
NI allocable to AdP SGPS shareholders	70.8	88.6	87.3	83.1
NI allocable to AdP SGPS shareholders (without CDR)	53.1	79.4	94.7	100.8

STATEMENT OF FINANCIAL POSITION

ASSETS

The AdP Group net total assets declined by around EUR 4.9 million as a result of combined variations in the current asset (+EUR 74.0 million) and non-current asset (-EUR 78.9 million) items.

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.

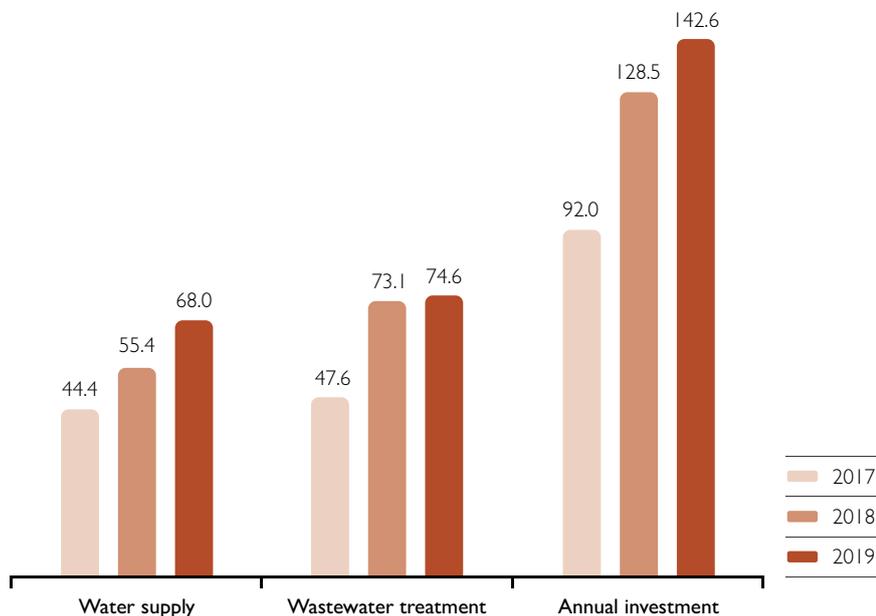
The reduction in tangible assets and intangible assets arises from their continued amortisation during the concession period, which amounted to EUR 226.4 million in the year, in excess of the amount of gross investment (EUR 161.2 million). The contractual obligation of the Management Companies of multi-municipal systems to present, at the end of their respective concessions, the fully amortised asset will lead to the AdP Group's net assets showing a decreasing trend despite the rehabilitation and renovation investments made to replenish productive capacity, with movements offset in the evolution of the Investment Grants representing a non-current liability.

The increases in investment in 2019 came in at EUR 161.2 million. Excluding the reclassification of the residual value of the Odelouca Dam for the sum of EUR 14.7 million and the increase in the Right-of-use assets item that totalled EUR 2.3 million, the Group investment undertaken in 2019 represented expenditure of EUR 144.2 million.

The investment put into the water supply and sanitation infrastructures advanced to EUR 142.6 million, which represents an increase of 11.0% on 2018.

INVESTMENT BY BUSINESS AREA

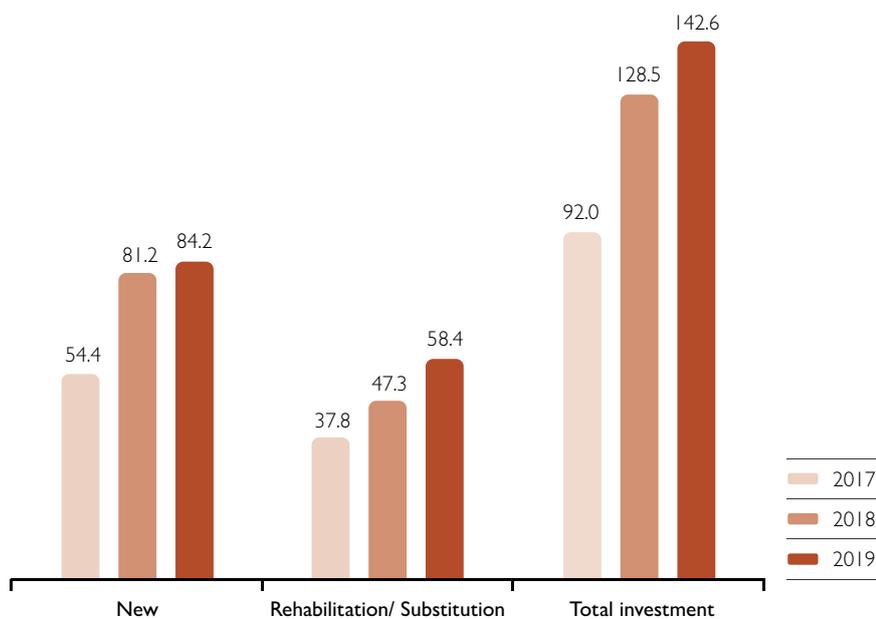
(million EUR)



Of this investment, 41.0% refers to investment in the rehabilitation and replacement of existing infrastructure and 59.0% to investment in new infrastructures.

INVESTMENT BY TYPE

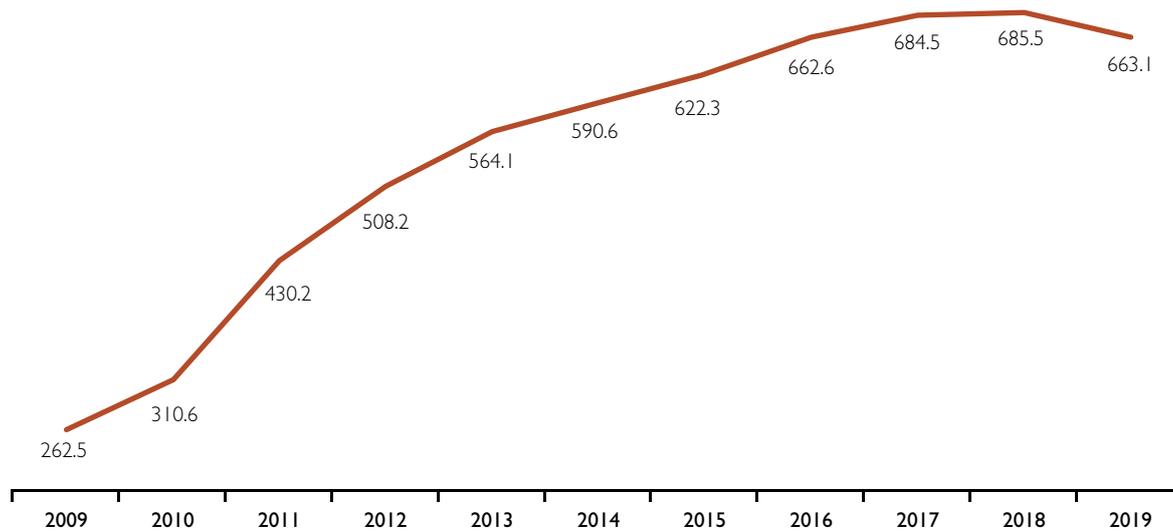
(million EUR)



COST RECOVERY DEVIATION

Gross CRD in 2019 amounted to a value of EUR 663.1 million and therefore recording a second consecutive reduction in the historically accumulated total, measured by obtaining an operational surplus in the financial years of 2018 and 2019. This amount is significantly below existing expectations at the date of implementing the tariff consolidation measure in 2015 in accordance with which the estimates for the improvement trajectory of this balance would only be reached in 2026. This progress has been achieved through the crucial consolidation of the managing entities in conjunction with the favourable trends in the national macroeconomic scenario, which has driven a downwards trajectory in the 10 year OT treasury bond yield that serves as the index used to determine the results of both the Multi-Municipal Systems and the State-Municipality Partnerships.

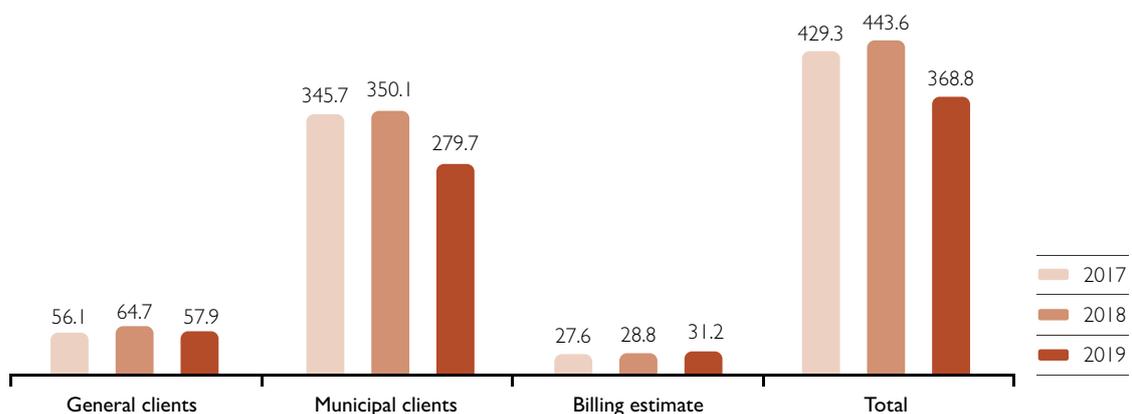
COST RECOVERY DEVIATION
(million EUR)



CLIENTS

As at 31 December 2019, gross client debt totalled EUR 368.8 million, of which EUR 280.3 million referred to local government debts for municipalised services and inter-municipalised services and that result from undertaking water distribution and wastewater sanitation activities. This significant reduction, totalling EUR 74.8 million above all reflects the signing of the DSAs. The amounts receivable via these DSAs is estimated to total EUR 72.2million and registered in the Financial assets item under fair value through other comprehensive income.

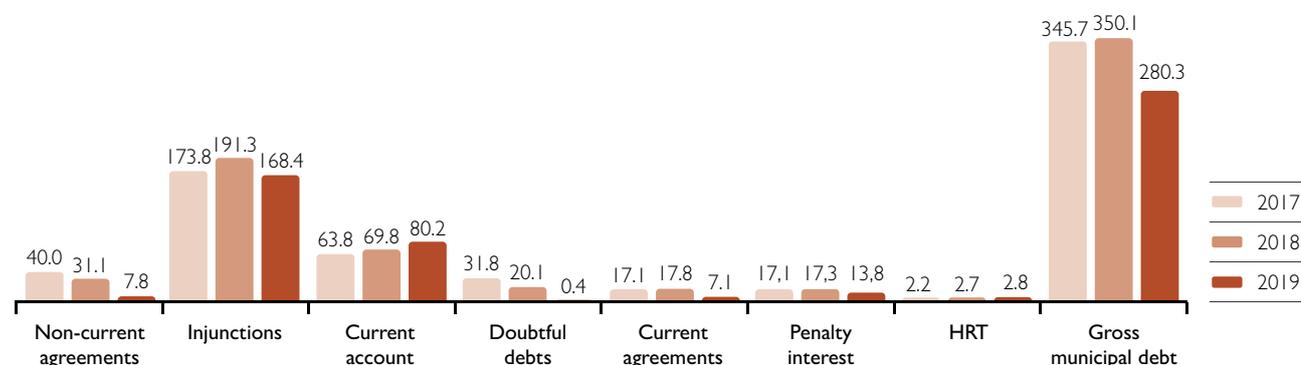
GROSS CLIENT DEBT
(million EUR)



The Municipal Clients debt item breaks down as follows:

MUNICIPAL CLIENT DEBT*

(milhões de EUR)

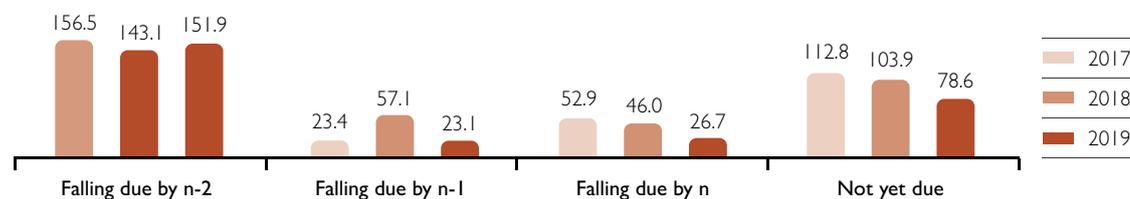


* This does not include the amounts relating to invoice specialisation.

Furthermore, this highlights the total of the amounts subject to injunction – EUR 191.3 million – which refer to judicial actions with coverage stipulated by the managing entities and based upon the value of the debts liable for a period of longer than 90 days. This furthermore reports a decrease in the amounts subject to injunction in 2019, which reflects the efforts undertaken to normalise relations ongoing between the user and the manager entities, with the historical processes remaining pendent on judicial resolution.

MUNICIPAL CLIENT DEBT BY AGE

(million EUR)



The debt due shrank by 18% and observing a declining trend in more recently incurred debts.

EQUITY CAPITAL

AdP Group equity rose by EUR 60.8 million in the financial year under reporting to total around EUR 1,650.0 million, above all due to the application of the results for the financial year to reserves and carried over results minus the distribution of dividends amounting to EUR 33.6 million (EUR 27.0 million to SGPS shareholders and EUR 6.6 million to minority shareholders). Other movements also saw the underwriting of capital in some Group companies.

Equity capital, represented by 86 900 000 shares with a unit value of EUR 5.00, is now totally underwritten and amounting to EUR 434.5 million.

The net results for the period stood at EUR 83.1 million and hence the result per share of EUR 0.96.

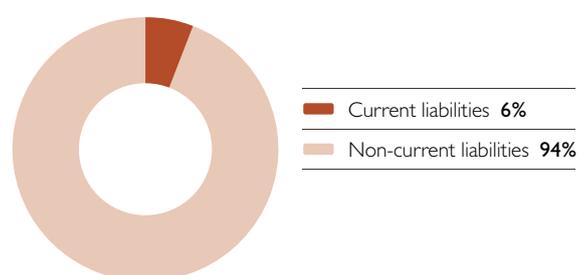
LIABILITY

Total Group liabilities decreased by 1.4% over the financial year, dropping from EUR 4,552.7 million in 2018 to EUR 4,487.0 million in 2019, essentially due to the effect of the drop in remunerated debt of EUR 81.3 million.

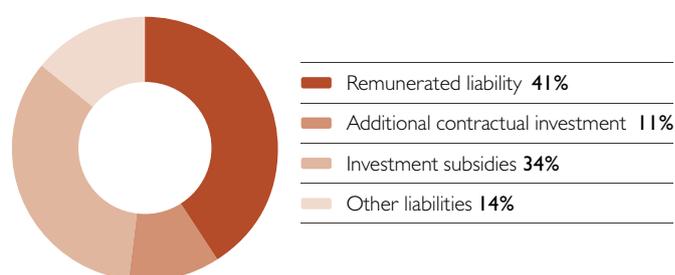
The non-current liabilities, EUR 4,219.2 million, represent 94% of total liabilities and composed essentially of: **(i)** shareholder bonds (with a total value of EUR 551.0 million) and investments loans contracted from the European Investment Bank (amounting to EUR 1,205.0 million); **(ii)** investment subsidies (with a value of EUR 1,523.1 million); and **(iii)** increases in contractual investment costs (with a total value of EUR 493.7 million). The year-on-year decrease in the non-current liabilities balance, totalling EUR 63.7 million, stems essentially from amortising medium and long term financing worth a total value of EUR 87.6 million.

The current liabilities, down an annualised 0.7%, stand at EUR 267.8 million and essentially contain: **(i)** loans obtained corresponding to the 2020 amortisation of medium to long term loans (with a total value of EUR 78.2 million); **(ii)** suppliers (with a total value of EUR 63.3 million), **(iii)** leasing debt (EUR 5.6 million), **(iv)** tax on earnings and debts to the state (EUR 34.7 million) and other current liabilities and accruals and deferrals (amounting to EUR 86.0 million).

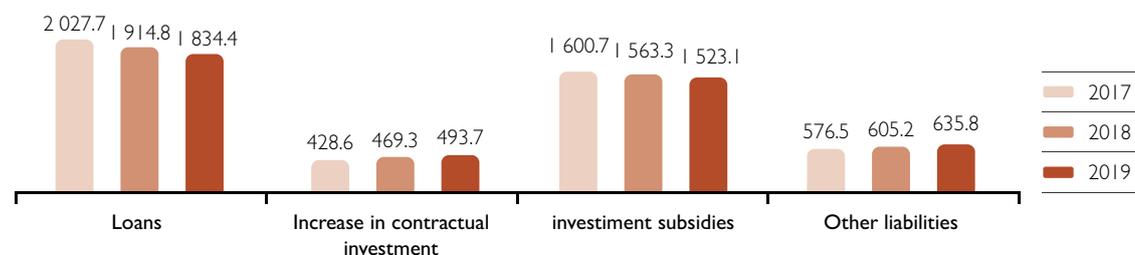
DISTRIBUTION OF THE LIABILITIES
2019



COMPOSITION OF THE LIABILITIES
2019

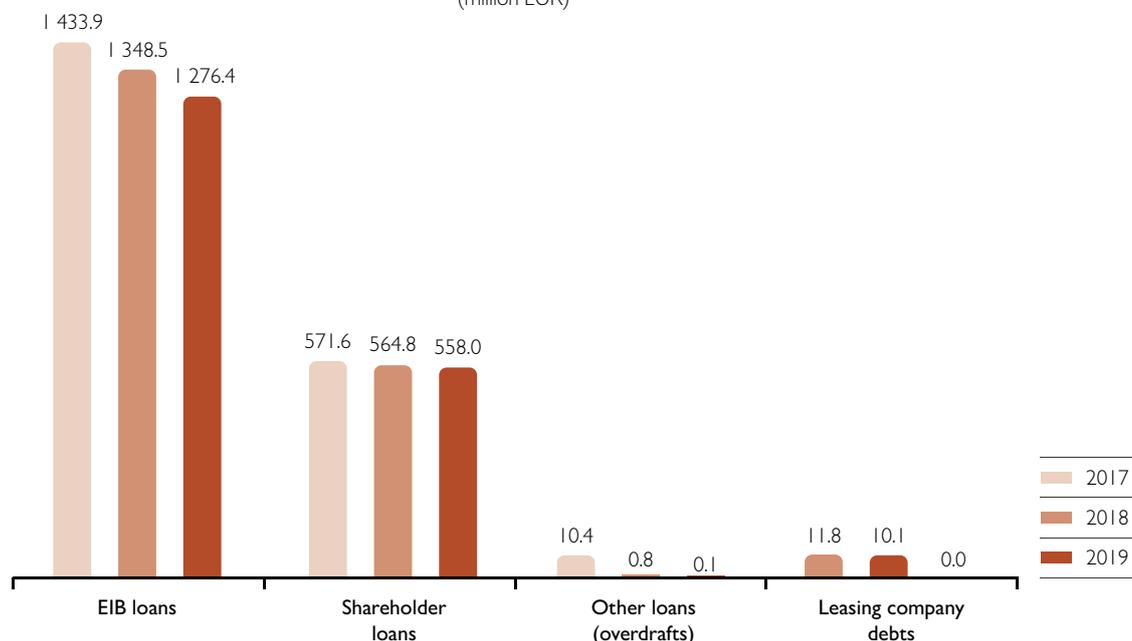


COMPOSITION OF THE LIABILITIES
(million EUR)



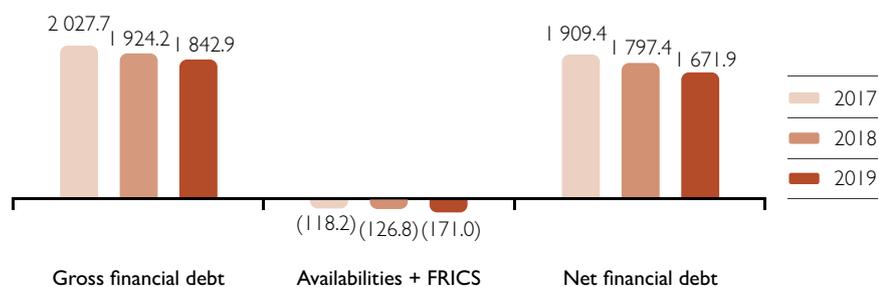
The Loans total item amounts to EUR 1,834.4 million and has displayed a continuous downwards trend. In effect, from 2015 onwards, the AdP Group has cut its gross indebtedness by EUR 572.0 million through applying the resources returned by operations and the reduction in cashflow availabilities.

COMPOSITION OF LOANS (million EUR)



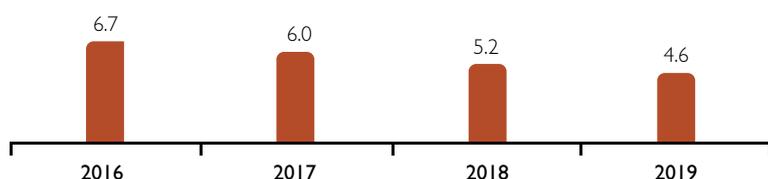
Under the auspices of IFRS 16, with effect from 1 January 2019, leasing company debts were transferred to the “Leasing liabilities” item.

FINANCIAL DEBT (million EUR)



Centralised financial management has focused its actions on Group financial consolidation and having continually reduced the ratio of net debt to the adjusted EBITDA in consolidated terms.

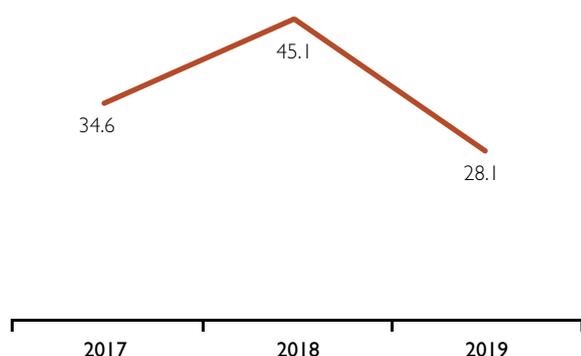
NET DEBT/ ADJUSTED EBITDA



The increased earnings item relative to investment subsidies reports the amounts recognised in the results in an identical proportion to the recognitions of the amortisations of subsidised investments. In 2019, this total stood at EUR 1.523.1 million. As with the asset item, in terms of the concessions, the balance of this item is to be annulled.

During the 2019 financial year, around EUR 28 million were received in non-repayable subsidies, which reflects a decrease of EUR 17.0 million on the previous financial year.

INVESTMENT GRANTS RECEIVABLE (million EUR)

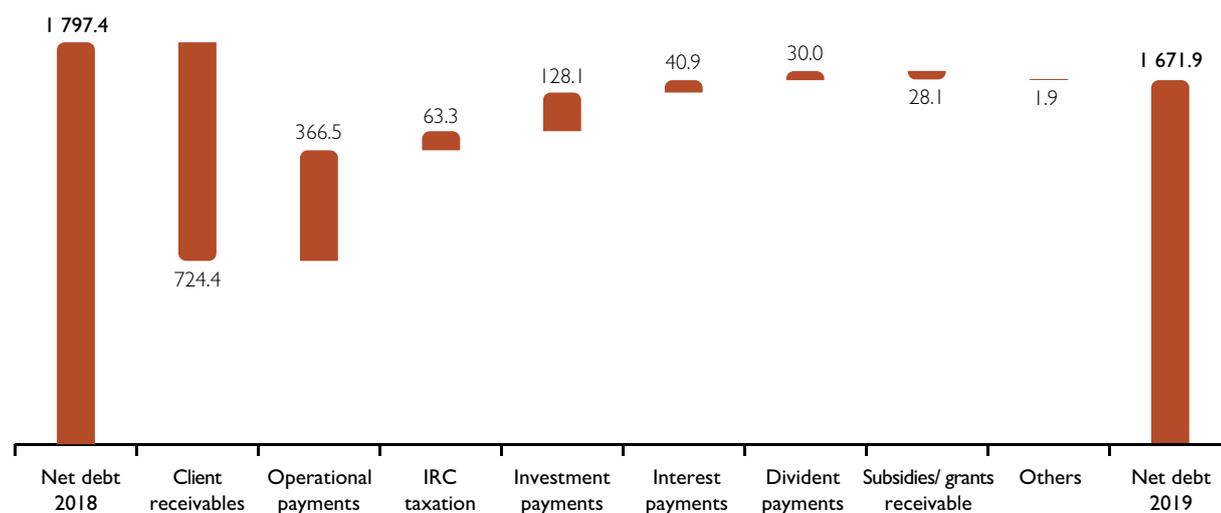


This should also highlight that the increased contractual investment costs item rose by 5.2% year-on-year. The total of EUR 493.7 million reflects the quota-share of the charges estimated from contractual investment expenditure not yet incurred as well as the investments in expansion and modernisation approved by the concession authority. To the extent that this investment advances, the corresponding amounts are transferred to the accumulated amortisations item.

CASH FLOW STATEMENT

The following tables set out the main sources of cash flow for the year of 2019:

CASH FLOW STATEMENT



FINANCIAL ANALYSIS OF INDIVIDUAL ACCOUNTS

2019

INCOME STATEMENT

AdP SGPS closed the financial year of 2019 with a net result of EUR 65.2 million, representing a year-on-year increase up 9.4% from EUR 59.5 million. The net result per share rose from EUR 0.69 in 2018 to 0.75 EUR in 2019.

The activities of AdP SGPS, as the financial holding vehicle for the AdP Group, above all incorporate financial revenues and results deriving from the dividends received from holding companies, the interest charged on loans granted to holding companies and commissions on the guarantees provided for the loans contracted.

The EUR 5.6 million rise in the net result on 2018 stems essentially from the increase in the financial investment gains (dividends from holding companies) totalling in the region of EUR 5.8 million, accompanied by an improvement in the operational result of about EUR 0.8 million. Contributing to this variation was the reduction in the FSE (EUR 1.0 million) and the rise in services provided (EUR 0.3 million) counterbalanced by the surge in personnel costs (EUR 0.7 million). To this net result, there also contributed an equal rise in the amount of taxation paid (EUR 0.7 million).

The operational result advanced EUR 0.8 million due to the combined effect of the rise in turnover and the dip in operational costs. As a result, the operational efficiency indicator representing the weighting of operational costs versus turnover (GO/ VN) fell back 3.6 p.p. dropping from 77.5% in 2018 to 73.9% in 2019.

(in million EUR)

	2017	2018	2019	Variation 2019/2018	
				Amount	%
Operational earnings	10.2	11.1	11.4	0.3	3%
Turnover	10.0	11.1	11.3	0.3	2%
Other income and operational gains	0.2	0.0	0.1	0.1	194%
Operational costs	9.9	8.8	8.6	(0.2)	(2%)
Supplies and external services	4.6	4.6	3.6	(1.0)	(21%)
HR costs	4.5	4.0	4.8	0.7	18%
Amortisations, depreciations and reversions	0.7	0.0	0.2	0.1	7615%
Other costs and operational losses	0.1	0.1	0.1	0.0	48%
Operational results	0.3	2.3	3.1	0.8	34%
Financial results	68.5	61.2	66.8	5.6	9%
Net result	62.9	59.5	65.2	5.6	9%

Turnover consists essentially of management fees charged to subsidiaries and increased by 2% (to EUR 11.3 million) on 2018 as a result of Group Company turnover increasing by 5.1% (to EUR 691.5 million in sales and service provision). No changes were made to the management fees charged to subsidiaries.

Supplies and external services (FSE – Portuguese acronym) dropped back 21% on 2018 (from EUR 4.6 million to EUR 3.6 million), with the largest reduction reported in the item “Specialist works” (EUR down 0.7 million), specifically the “Technical consultancy” item the records the costs incurred due to the shared services (NSE) charged by AdP Serviços. This reduction stems from the process of corporate reorganisation in accordance with which AdP SGPS aggregates the Departments of Communications, Human and Financial Resources, which had hitherto coexisted in AdP Serviços and AdP SGPS. Hence, there was an 18.4% increase in the “HR costs” item (EUR 0.7 million).

Additionally, there was a significant reduction in the costs of legal advice and counselling (-55%) and of publicity and advertising (-39%).

This also reports the effects of applying IFRS 16 to operation vehicle leasing contracts with an impact of EUR -154 000 on the FSE item. According to this norm, all leasing is now accounted for on the balance sheet in accordance with the single model similar to the

model for reporting financial leases. The assets are reported on the balance sheet as right-of-use assets and with the liability item detailing the responsibility for the debt to the lessor. The costs of asset amortisations and of financial charges associated with leasing liabilities are reported in the statement of results. This highlights how there was no alteration in the value of contracts but rather alterations to their means of accounting and the sums recognised in the results for each year. In 2019, the impact on pre-tax results stood at EUR 51,000.

Human resource expenditure advanced by EUR 0.7 million, up 18.4% on 2018, rising to EUR 4.8 million. This increase above all stems from the corporate reorganisation process that saw the transfer of 13 AdP Serviços members of staff to AdP SGPS and in addition to the return of an employee whose occasional leave of absence had ended. This variation needs to be taken into account alongside the trend in supplies and external service that underwent a 21% reduction on 2018. In conjunction, these two items account for a drop of around EUR 0.2 million in line with the expected effects of the corporate reorganisation implemented over the course of 2019 that also contributed to the greater efficiency reported by the GO/ VN ratio.

The Governing Body costs underwent a year-on-year reduction of EUR 58,000, an aspect that primarily resulted from the departure of two directors over the course of 2019 (July and November) and not yet replaced. There was also the contractual termination by mutual agreement with two employees with their compensation package amounting to EUR 70,000.

As regards other positive and negative effects, which collectively amounted to over EUR 38,000: rises in remuneration, absenteeism, the reduction in the cost of insurance and deepening expenditure on training as well as other employee movements.

The average financing rates have been on a downward trend as set out below:

	2017	2018	2019
Average financing rate	2.19%	1.74%	1.69%

The Company financial results amounted to around EUR 66.8 million representing an increase of 9% on the previous financial year.

(million EUR)

	2017	2018	2019	Variation 2019/2018	
				Amount	%
Financial income	21.7	20.9	20.4	(0.5)	(3%)
Financial costs	7.1	5.7	5.3	(0.4)	(6%)
Financial investment gains / losses	53.8	46	51.8	5.8	13%
Financial results	68.5	61.2	66.8	5.6	9%

This variation in financial results was essentially due to:

1. The rise in financial investment gains and losses of EUR 5.8 million resulting from the dividends received from holding companies with the most significant variations corresponding to AdSA (up EUR 5.4 million) and AdA (up EUR 2.6 million) while counterbalanced by AdDP (down EUR 1.5 million), EPAL (down EUR 0.8 million) and AdA (down EUR 0.4 million). This also conveys the fluctuation in impairment losses that in 2019 registered EUR 0.3 million in an additional impairment at AdP Internacional after having recorded EUR 1.1 million for impairments at AdP Energias in 2018.
2. The reduction in financial income of EUR 0.5 million mainly stems from the reduction in commissions charged to subsidiaries for the EIB provided guarantees in the context of the contracted financings (EUR 0.4 million) and the reduction in interest charged on supplements and treasury support granted to subsidiary companies (EUR -0.1 million) as a result of operating improvements and holding company receivables.
3. The reduction in financial expenses of EUR 0.4 million, stems mainly from falls in (i) the interest rate on shareholder loans, (ii) the reduction in the outstanding capital on subsidiary company debts to the EIB, the amount that incurs the commission for the guarantee supplied by the Portuguese State.

STATEMENT OF FINANCIAL POSITION

Key items

(million EUR)

	2017	2018	2019	Variation 2019/2018	
				Value	%
Investments in subsidiaries and associates	706.3	708,2	711,6	3,4	0%
Group company loans	745.1	771.2	765.2	(6.0)	(1%)
Clients	4.6	2.9	4.2	1.3	45%
Cash and cash equivalents	2.3	5.2	16.5	11.3	219%
Total assets	1 460.6	1 488.8	1 498.3	9.5	1%
Equity capital	751.7	785.2	823.9	38.7	5%
Loans - Medium and long term	564.8	558.0	551.1	(6.9)	(1%)
Loans - Short term	126.8	132.4	110.8	(21.6)	(16%)
Total liability	708.9	703.6	674.4	(29.2)	(4%)

Asset

The company's net total assets advanced EUR 9.5 million during the 2019 financial year due to the following key variations:

- Rise of EUR 3.4 million relating to investments in subsidiaries and associates driven by the capital increases at the subsidiaries AdNorte (EUR 2.4 million), AgdA (EUR 0.6 million) as well as the founding of a new subsidiary AdAM (EUR 0.6 million); as at 31 December 2019, the accumulated amount held by the financial holdings item totalled EUR 731.6 million. This was strengthened by the annulment of the impairment relative to the holding in AdPI for the sum of EUR 0.2 million;
- Reduction of EUR 5.8 million due to subsidiary financial operations; as at 31 December 2019, the level of supplementary advances was EUR 8.5 million below the position at the end of the previous financial year even while treasury support registered an increase of EUR 2.7 million;

Supplements

(in million EUR)

Company	2017	2018	2019	Variation 2019/2018
Águas do Norte	300	313.5	306.3	(7.3)
Águas do Vale do Tejo	97.5	88.1	100.8	12.7
Águas do Centro Litoral	76.9	71.3	71.8	0.6
AgdA - Águas Públicas do Alentejo	50	49.5	48.6	(0.9)
AdRA - Águas da Região de Aveiro	49.5	57.6	57.8	0.1
Águas do Douro e Paiva	44	39.1	29.5	(9.6)
SIMDOURO	36	45.8	50.0	4.2
Águas do Algarve	30	33.0	25.0	(8.0)
AdP Serviços	2	0.0	0.0	0.0
AdP Internacional	2.0	2.0	1.7	(0.3)
AdP Energias	0	0.0	0.0	0.0
Águas do Brasil	0.1	0.1	0.1	0.0
Trevo Oeste	0.1	0.1	0.1	0.0
Total	688.2	700.2	691.7	(8.5)

Treasury Support

(million EUR)

Company	2017	2018	2019	Variation 2019/2018
Águas do Norte	7.5	14.4	26.3	12.0
Águas do Vale do Tejo	30	30.0	21.9	(8.1)
Águas do Centro Litoral	2.2	5.6	7.8	2.2
AgdA - Águas Públicas do Alentejo	0.9	4.0	6.5	2.5
AdRA - Águas da Região de Aveiro	1.1	2.8	4.2	1.4
Águas do Douro e Paiva	0.0	0.0	0.0	0.0
SIMDOURO	3.1	4.0	2.0	(2.0)
Águas do Algarve	9.8	9.4	5.0	(4.4)
AdP Serviços	1.4	0.0	0.0	0.0
AdP Internacional	1.7	0.9	0.0	(0.9)
AdP Energias	0.0	0.0	0.0	0.0
Águas do Brasil	0.0	0.0	0.0	0.0
Trevo Oeste	0.0	0.0	0.0	0.0
AQUASIS	0.6	0.0	0.0	0.0
Total	58.3	71.0	73.7	2.7

c) Increase of EUR 1.3 million in the "Clients" item that correspondingly advanced from EUR 2.9 million to 4.2 million. This rise in value partially stemmed from the alterations made to the billing methodology that implied a significant volume of adjustments made to the management fees took place at the end of 2019. The entities that recorded the largest increases were AdNorte, AdCL, AdTA and AgdA. This should note that 99% of the balance recorded on 31 December 2019 refers to outstanding debt;

d) Rise of EUR 11.3 million in "Cash and cash equivalents".

EQUITY CAPITAL

The equity capital of AdP SGPS experienced a year-on-year surge of EUR 38.7 million to come in at EUR 823.9 million. The net result recorded for the year was EUR 65.2 million, corresponding to a rise of EUR 5.6 million as regards the previous year. This also highlights the variations deriving from the application of the 2018 results, specifically the establishing of a legal reserve of EUR 3.0 million, the distribution of dividends totalling EUR 27 million with the remaining amount applied to raising the results carried over by EUR 56.6 million.

Liability

The Company liability fell back by EUR 29.2 million in comparison with 2018 to close the year on EUR 674.4 million. This variation stems above all due to the decrease in the company loans item within the framework of centralised treasury management (-EUR 21.6 million) and as well as the effects of shareholder loan amortisations (EUR -6.8 million EUR).

The total of long term loans contains shareholder loans with a total value of EUR 551.1 million, with these bullet bonds falling due in 2022 (EUR 150 million), 2023 (EUR 200 million) and 2027 (EUR 150 million), and in ongoing capital payments of EUR 6.8 million per year through to 2028.

The remunerated short term loans includes those obtained from Group companies with treasury surpluses for periods of less than twelve months and amounted to EUR 104 million at the end of December 2019. This also reports the short term shareholder loans with a total value of EUR 6.8 million.

The structure of the AdP SGPS banking debt, per maturity, is thus the following:

(million EUR)

	2018	2019
Up to 1 year	6.8	6.8
From 1 to 3 years	13.6	163.6
Over 3 years	544.3	387.5
Total	564.8	558.0

A further note for the reduction in the total of Provisions (EUR -1.1 million) stemming from the annulment of the fiscal contingencies provision for the application of RETGS in the years 2015 and 2016 following the results of the inspection undertaken in 2019.

The suppliers balance stood at EUR 0.4 million thereby reporting a 50% decrease on the previous year. Of this total, 67% relates to intra-group debts (above all to AdP Serviços), registering a year-on-year decrease of EUR 0.2 million (-45%). As regards extra-group debts, this registered a reduction of EUR 136 000 (-59%) on 2018 to stand at EUR 95 million.

CASH FLOWS

Company operational activities generated EUR 17.8 million in 2019, registering an annualised rise of 3% (EUR 0.6 million). This variation primarily resulted from the drop in client receivables to EUR 2.8 million (-8%), in conjunction with the rise in personnel costs by EUR 2.6 million (+107%) on those of the previous year. However, this negative impact on the accounts is offset by a higher level of reduction in the payment of taxes on earnings, down EUR 4.2 million (-52%) and payments to suppliers of EUR 1.9 million (-34%).

As regards the investment activities, the positive balance of EUR 54.4 million (up 188% on 2018) derives primarily from the receipt of dividends and the balance between the supplements and treasury support for financing company subsidiaries and their respective reimbursements.

The financing activities with a negative balance of EUR 60.9 million reflect above all on the movements in the loans item with amortisation and concession values greater than the reimbursements obtained in conjunction with the dividends paid to the shareholder amounting to around EUR 27 million.

The net debt of AdP SGPS at the end of the financial year was in the region of EUR 645.5 million, down 39.7 million EUR on the position at the end of 2018.

The variation in cash and cash equivalents, up EUR 11.3 million, contributed to the financial year ending balance that rose to EUR 16.5 million.

SUBSEQUENT EVENTS

The period following 31 December 2019 was greatly impacted by the spread of the new coronavirus COVID-19, which is generating major impacts on the socioeconomic activities of the country on a scale that cannot fully be predicted in terms of its respective magnitudes. Portugal, in line with the European Union, has adopted various measures that aim to mitigate the impacts of this event on the national economy. These measures include key features such as treasury support for companies that are designed to return positive consequences in terms of maintaining employment and earnings within the scope of sustaining internal demand and keeping the economy functioning.

This package of measures also includes actions designed to keep services of general economic interest operational: within the framework of which fall the activities undertaken by the AdP Group. On 22 March 2020, the Minister of the Environment and Climate Change stipulated the ways in which essential services are to be ensured during this period (Ministerial Order 3547-2020).

For all water supply and sanitation activities, among other services, this mandates that the entities and managing companies of such systems should define the equipment necessary to ensuring the uninterrupted continuity of the provision of these public services.

Thus, in order to ensure continuity and no interruptions to public water supplies for human consumption:

- a) Operating the supply systems, ensuring the functioning of the capture and distribution networks as well as all of the core equipment and infrastructures such as the water treatment plants, reservoirs and pumping stations;
- b) Operating, maintaining and repairing all breakdowns in the supply system infrastructures;
- c) Undertaking control of the quality of water for human consumption in accordance with the orientations of the competent authorities for this service,
- d) Operating the remote control and management systems;
- e) Operating the logistics and procurement systems and making the acquisitions necessary to running the supply treatment systems;
- f) Appropriate processing of the sludges and sub-products from water supply treatment in case of any impossibility to bring about their respective storage;
- g) Providing public attendance services, under a remote working regime, for the reporting of any breakdowns.

In order to ensure continuity and no interruptions to public urban wastewater sanitation services:

- a) Running the wastewater collection, drainage and treatment systems, guaranteeing compliance with the parameters and maximum limits on the emissions of effluents discharged from wastewater treatment plants, which, whenever so equipped, should run their disinfection systems in coordination with the competent health and environmental authorities;
- b) Operating, maintaining and repairing all breakdowns in the wastewater system infrastructures;
- c) Undertaking the collection of effluent samples and ensuring either inhouse or outsourced laboratories for carrying out effluent analysis have the means necessary for such analytical control;
- d) Operating the remote control and management systems;
- e) Operating the logistics and procurement systems and making the acquisitions necessary to running the wastewater treatment systems;
- f) Appropriate processing of the sludges and sub-products from wastewater treatment in case of any impossibility to bring about their respective storage;
- g) Providing public attendance services, under a remote working regime, for the reporting of any breakdowns.

The AdP Group - Águas de Portugal Companies are prepared to manage the risks and the contingencies arising within the scope of infection by the COVID-19 coronavirus in order to guarantee the supply and treatment of water in safety and with reliability. This thereby complies with that determined by Order 3547-A/2020, of 22 March.

Every Company has already drafted and implemented a COVID-19 Contingency Plan in accordance with that stipulated by Guideline no. 006/2020 of 26/02/2020 by the General Directorate of Health, which serves to complement the respective existing operational and emergency plans.

The exceptional risk management measures under the auspices of COVID-19 related contingencies determine how critical human resources and technical means are to ensuring essential services, specifically:

- Working posts and employees (working in-person, remotely or under a call-on-demand regime);
- Working conditions, in the usual place of work or at a distance, including technical means and IT resources;
- Establishing back-up teams in isolation (on-demand reserve) for replacement in cases of need;
- Participation of service providers and suppliers, including the identification of needs for extraordinary materials /products and eventual temporary increases in the usual supply reserve in order to offset any looming difficulties in the supply chain.

The AdP Group company contingency plans also integrate procedures designed to guarantee effective responses able to minimise the impact of potential risks to the health of our members of staff, in particular:

- Recourse to remote working in applicable cases;
- Measures for preventing and controlling the risk of infection transmission for employees in positions that require their physical presence in the workplace, especially but among others:
 - Reinforcing the cleaning and disinfecting of workplaces
 - Organisation of shifts without personal contact
 - Isolation of on-demand reserve teams

-
- Boosting the means of remote attendance services to the detriment of in person services (telephone and online)
 - Specific rules for personal attendance whenever duly necessary (rules for the occupation of physical spaces)

This pays particular attention to the awareness and information held by every member of staff over the adoption of the essential individual hygiene and social behaviour habits whether at work or in their personal lives.

The Contingency Plans are updated whenever the evolution of the prevailing situation so requires or following further specific instructions.

As regards the impacts arising from this process, we would here highlight the following: at the time of writing, given the number of days that have lapsed since the implementing of more effective measures for combatting the COVID-19 virus and without any firm horizon for their lifting in sight, the AdP Group does not yet have available sufficient data to be able to make any robust quantification of the oncoming impacts.

We would nevertheless anticipate three key areas of impact:

- Assets

This does not foresee the registering of impairments to AdP Group assets given that the effects of COVID-19 are not predicted to extend as far as rendering our assets unable to generate their present and future economic benefits in any permanent fashion.

- Operational Costs / Turnover ratio

- As regards the business volume

A drop in sales and the provision of service is forecast for operational companies due to the reduction in economic activities that are not offset by the rise in domestic consumption resulting from the preventive isolation stipulated for the population.

Such declines are to be most significant for the EPAL and Águas de Santo André companies with the effects of their sales bearing direct repercussions on the results for the year and, consequently, on the consolidated result of the AdP Group. As regards the economic effects on the Multi-Municipal Systems and the State-Municipality Partnerships, these are covered by recording the deviation in the recovery of costs for the year while not ruling out the likelihood of an interruption to the trend to generate surpluses recorded in 2018 and 2019.

This does not foresee any interruptions to services taking into account the contingency plans for operations, workers and suppliers.

- On operational costs

This plans for an increase in operational costs both stemming from the acquisition of goods and services and the increase in human resource expenditure necessary to ensuring the team response capacities given that they have both risen in number and expanded in time coupled with a rise in the amount of overtime being worked. This also predicts greater costs with preventive maintenance within the framework of a strategy to reduce the probability of failure with a subsequent reflection on higher costs of repair maintenance. The AdP Group companies, whenever possible due to their capacity and the nature of their respective reagent needs, are maximising their respective stocks in a policy that incurs greater treasury demands but which is required due to service continuity while minimising the level of exposure to critical suppliers. This circumstance naturally involves the delivery of small quantities for the replacement of stock and consequently incurring a higher level of cost per unit in addition to a greater weighting of the fixed costs associated with the logistics underlying such transport and delivery activities.

Similarly, there is also expected to be a spike in the costs of telecommunications resulting from the need to support remote working and team coordination.

On the contrary, this provides for a reduction in expenditure on travel and accommodation even while there may subsequently be greater costs incurred with the vehicle fleet. The replacement of the AdP Group fleet is also jeopardised in terms of the rotation that had hitherto been planned with this implying not only higher levels of operational risk but also, taking into account how some vehicles may end up spending longer undergoing repairs, both costly in themselves and removing the respective vehicle from service for extended lengths of time, occasionally requiring companies to contract other means of transport, generally more expensive, to meet ongoing service needs.

- Variations in the debt ratio

Despite for the meantime foreseeing a reduction in the payments associated with investment due to the lesser availability of equipment and construction supply teams, which in this phase shall represent a positive impact on the treasury position, the outlook is for AdP Group companies to face a deterioration in their payments over the medium term with a greater focus on the services provided upstream.

Should the COVID-19 associated recession end up impacting on the evaluation the markets make of the national financial situation, resulting in changes to the 10-year OT treasury bond bills, this also corresponds to another dimension that might potentially impact on the AdP Group to the extent that the net results of the Multi-Municipal Systems and State-Municipality Partnerships are determined by this macroeconomic indicator. The 10-year OT treasury bond bills, which in February 2020 returned an average yield of 0.31% (against 0.37% in January 2020), were returning rates of close to 1% in March 2020, thus around three times higher. Any maintenance of this trend would also contribute towards reversing the trajectory of generating surpluses that began in 2018.

The AdP Group does not foresee any threats to the future sustainability of the operations of its respective companies over the next twelve months.

On the date of drafting this current Annual Report & Accounts, there are under discussion with ERSAR a total of EUR 1.2 million of costs incurred in 2019, which may correspond to costs that exceed the metric for efficiency defined by the Regulator and susceptible to not being accepted as tariff charges and hence deducted from the cost recovery deviation accepted. This amounts especially refer to Águas do Vale do Tejo and Águas do Tejo Atlântico. The accounts presented reflect the corrections made by the Regulator.

Further regarding the deviations in the recovery of costs, Águas do Algarve, which recorded this specialisation for the first time in the 2019 financial year, submitted its respective proposal to the Regulator in mid-March and on this date still unaware of the effects of the opinion to be issued by ERSAR with the existence of a potential adjustment due to charges going unaccepted that would amount to a total of EUR 735 000. The accounts published reflect any corrections hitherto made by the Regulator.

Participation in drafting the Water Efficiency Regional Plan for the Algarve, through Águas do Algarve, and the Water Efficiency Regional Plan for the Alentejo, through Águas do Vale do Tejo and AgdA - Águas Públicas do Alentejo (Orders no. 443/2020 and no. 444/2020 of the Offices of the Ministry of Environment and Climate Action, the Ministry of Agriculture and the Secretary of State of Tourism).

Signing of the technical assistance service contract, through the consortium formed by AdP Timor-Leste and ENGIDOR, with the East Timor Ministry of Public Works for the implementation of projects guaranteeing the water supply and wastewater treatment services to the four district capitals of the country. This contract holds a total value of USD 2.1 million.

Signing of the technical assistance service contract between the Government of Goa and AdP Internacional providing for the improvement in the operating efficiency of the water treatment systems and planning interventions in sanitation systems. This contract holds a total value of EUR 0.5 million.

OUTLOOK

Concentrating on its mission and its vision, the AdP Group shall continue to develop its activities within a framework of the sustained defence of universality and the continued improvement of the quality of services provided, with a greater focus on boosting its business position through financial consolidation and operating efficiency, which the Group has been able to achieve in partnership with its various stakeholders and within the scope of the policy framework for the sector, especially the *National Commitment to the Sustainability of Public Water Services* and *PENSAAR 2020*.

In 2020, attentions shall above all focus on ensuring the resilience of the sources of water from a perspective that enables the water supply capacity for the population and the ongoing economic activities in keeping with the reduction in the level of rainfall witnessed in the meanwhile.

Within the same framework, there is the participation in drafting the *Water Efficiency Regional Plan for the Algarve*, through Águas do Algarve, and the *Water Efficiency Regional Plan for the Alentejo*, through Águas do Vale do Tejo and AgdA - Águas Públicas do Alentejo (Orders no. 443/2020 and no. 444/2020 of the Offices of the Ministry of Environment and Climate Change, the Ministry of Agriculture and the Secretary of State of Tourism).

Efforts shall continue to strive for the rationalisation and energy efficiency of operations under the auspices of the PEPE program that is subject to its first evaluation in 2020 with very positive expectations about the respective results.

Furthermore, we shall continue to direct the efforts developed in recent years in order to drive better utilisation of endogenous resources within the logic of an effective circular economy and also enabling the return of positive impacts at the tariff level in addition to the environmental benefits.

This necessarily foresees significant challenges especially as regards compliance with the increasing standards set for obtaining discharge licences, in particular within a scenario of heightened pressure over the maintenance and/or reduction in the tariffs despite the successively rising operational costs.

Attentive to the rise experienced in the costs of treating and disposing of sludges, the AdP Group embarked on a set of

measures designed to reduce the impacts of this tariff charge. These include seeking out solutions that may come with investment requirements but able to cut the quantity of sludges produced, reduce the overall energy consumption of the group and, furthermore, establish AdP Energias as the Managing Waste Operator for the AdP Group.

The publication of Decree-Law no. 119/2019, of 21 August, which hands down the juridical regime for the production of water for reutilisation, obtained from the treatment of wastewaters, as well as their utilisation associated to the increasing incidence of drought as a result of climate change, serves to impose the need for a new approach to leveraging reutilisation as a key activity and re-prioritising it from being merely accessory or complementary within the scope of the integrated management of hydric resources, which shall be determinant above all in regions that experience higher levels of water scarcity.

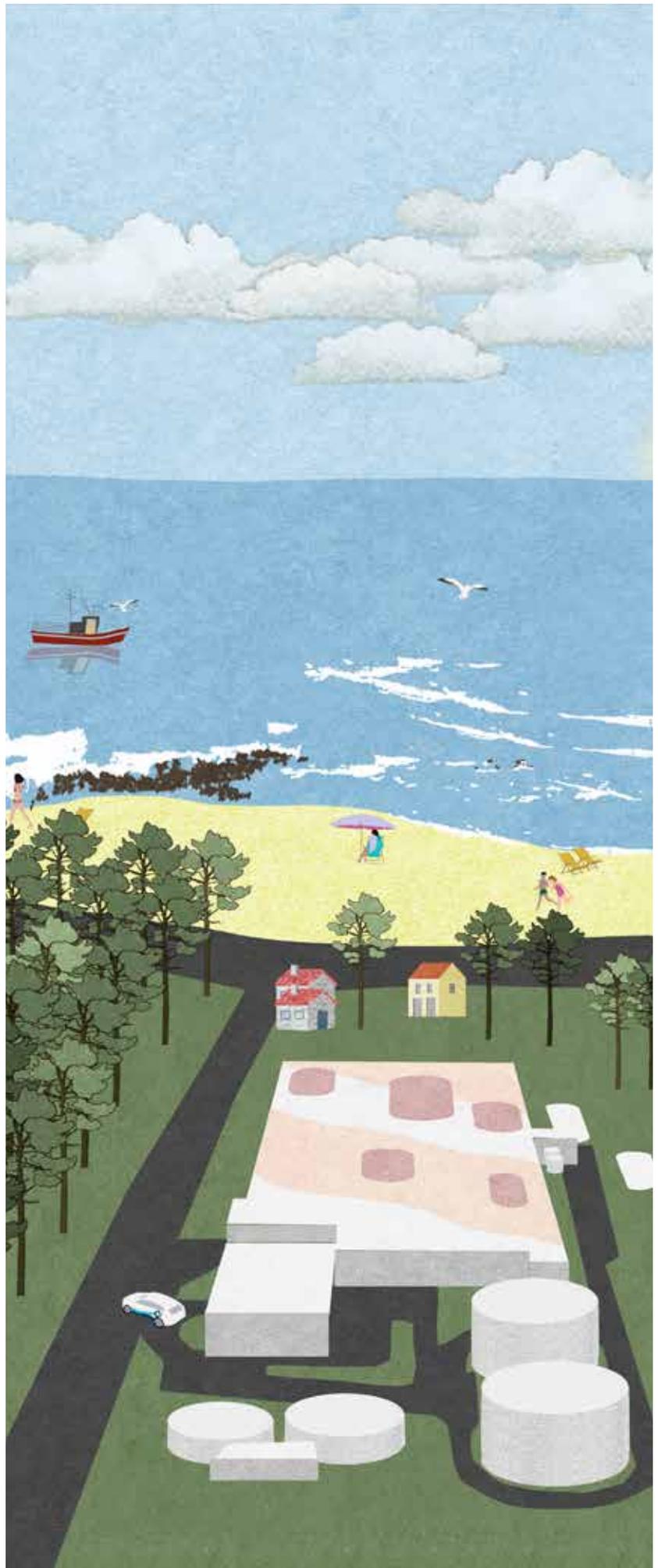
Throughout 2020, there is also every perspective of signing new debt settlement agreements and implementing those signed hitherto in 2020 with positive impacts on the treasury levels of the Multi-Municipal Systems and, correspondingly, the respective tariffs and capacity to render service with lower levels of resources applied to offset shortfalls in the treasury, especially when such entities are to meet their state taxation obligations on time and within the respective deadlines as stipulated by RCM 34/2008, of 22 February, and Order 9870/2009, of 13 April.

The Multi-Municipal Systems, subject to aggregation in 2015 shall, by the end of April 2020 and in accordance with the respective concession contracts, submit the proposals for the tariff review for the second five year period. These proposals are made according to the contractual rules and current legal framework. Work

continues ongoing towards establishing Tariff Regulations for water services and with the first proposal forecast to be released by the Regulatory Entity by the end of the second quarter. We also await the publication of the revision of the base legislation for multi-municipal and municipal systems.

To advance with the consolidation strategy for the downstream managing entities, throughout 2019 there was the foundation of various such entities with a company structure and with which the AdP Group has entered into relationships and that shall enable the overcoming of challenges to improving the systems and a better recovery of costs. It remains the expectation of the AdP Group that this alteration comes to return a positive impact on the treasuries of systems through improving average payment times for the services billed. For 2020, there is also the prospect that the Government produces legislation in order to replace Decree-Laws no. 194/2009 and no. 195/2009, of 20 August, which establish the foundations for the sector.

The Regulatory Entity, following the public consultation period that ended on 15 March 2019, is to present a new proposal for the Tariff Regulation for the water sector over the course of 2020.



FINAL CONSIDERATIONS

The Board of Directors welcomes the collaboration of all those who contributed to the AdP Group's operational and financial performance during 2019, highlighting:

- the employees, for all of their dedication, competence and professionalism, especially demonstrated by the availability and capacity shown in the response to the challenges brought about by the COVID-19 crisis in early 2020;
- the work carried out, the dedication and the spirit of mission that always underpinned their professional activities, to our colleague who oversaw the destinies of the Águas de Portugal Group in the last three years, João Nuno Mendes, and the financial director, Miguel Martin, who together did so much to contribute towards the high level of performance turned in by our Group over the last three years;
- the managers of Group companies who implemented and continue to daily implement our common mission in the terrain, always with the maximum commitment and striving each year to provide higher quality services, and for the availability and capacity shown in the response to the challenges brought about by the COVID-19 crisis in early 2020;
- trade unions and worker representatives for the challenges they propose and for helping us to jointly overcome them;;
- the members of the corporate bodies for the cooperation provided and their assistance in the resolution of the various challenge by the additional increase in legal obligations;
- the shareholders, for the guidelines, commitment, trust and support granted and their constant availability;
- clients, private partners and financial institutions for their renewed confidence;
- the Technical Support and Monitoring Unit for monitoring and guidance as well as their constant availability for the clarification of doubts and the construction of solutions;
- the Regulatory Entity, for its availability and collaboration, as well as the willingness to build balanced and long lasting solutions;
- the official national and international environmental sector entities for their encouragement;
- ministers and the other members of the ministries overseeing and contributing to the AdP Group sector.

Lisbon, 31 March 2020

The Board of Directors



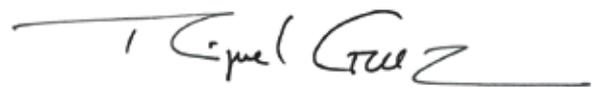
Carla da Conceição Afonso Correia
(Vice-Chair)



José Manuel Leitão Sardinha
(Director)



Cláudio Miguel André de Sousa Jesus
(Director)



Miguel Jorge de Campos Cruz
(Non-Executive Director)

PROPOSED APPLICATION OF RESULTS

The net results of AdP, SGPS, in 2019 amounted to EUR 65 151 606.81 (sixty-five million, one hundred and fifty-one thousand, six hundred and six euros and eighty-one cents).

The Board of Directors, in accordance with article 19 of the articles of association and articles 31 to 33 and 66 of the Portuguese Companies Code, proposes that the net profit / loss for the financial year of 2018, calculated in the individual financial statements, receive the following application:

For the legal reserve – EUR 3 257 580.34 (three million, two hundred and fifty-seven thousand, five hundred and eighty euros and thirty-four cents);

For retained earnings - EUR 34 394 026.47 EUR (thirty-four million, three hundred and ninety-four thousand and twenty-six euros and forty-seven cents);

For distribution as dividends – EUR 27 500 000.00 (twenty-seven and five hundred thousand euros).

Lisbon, 31 March 2020

REPORT OF THE NON-EXECUTIVE DIRECTOR

REPORT OF THE NON-EXECUTIVE DIRECTOR ON THE PERFORMANCE OF THE EXECUTIVE DIRECTORS

I. INTRODUCTION

In the capacity of Non-Executive Directors, pursuant to Article 7 of Decree-Law 8/2012, of 18 January, the presentation of a report on the performance of the Executive Directors is required.

2. ACTIVITY

Pursuant to the 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 2019 financial year. I am therefore in a position to report on the performance of the company's Executive Directors and on any relevant facts worth mentioning.

The accounts reporting to 31 December 2019 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 and they provide a correct picture on the economic and financial situation of the company.

It should be noted in particular that the legal guidelines were complied with by the company in the 2019 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.

The non-financial reporting components include the Sustainability Report which, insofar as I could witness, was prepared according to the best practices in force and according to the United Nations guidelines and is, to the best of my knowledge, a clear picture of the activities performed by the company in this particular field.

Furthermore, the report presented details the possible impacts and expectations regarding the company in the current context of the ongoing COVID-19 pandemic and they reflect both the best information available at this time and the great efforts deployed by the company and its Management Bodies in maintaining the eventual regularity of the company's operations, protecting the health of its employees as well as strict compliance with the guidelines of the Government and Health Authorities, specifically those set out by the Contingency Plan in effect.

In the 2019 financial year, and with regard to the performance of the Board of Directors, it is also important to highlight the resignation of first the company CFO and then of the CEO, who we would hereby thank for the work done and their dedication to the running of this company. This situation has, of course, created a need to rearrange portfolios, tasks, responsibilities, as well as an overload of work on the remaining members of the Board of

Directors. This situation was, however, overcome through total commitment and pride, without any disruption to the operations of the company.

3. OPINION

As a result of the activities 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 herein report their extensive commitment, accuracy and diligence in conducting the business, always bearing in mind compliance with the law and the strategic guidelines received from the Sector and Financial Authorities as well as the efficiency and specific objectives defined, particularly as regards the containment of expenditure and the financial and economic valuations of the different business areas, and an excellent capacity for relations with the various stakeholders, in particular the PARPÚBLICA shareholder, in the performance of their public service.

Lisbon, 31 March 2020

The Non-executive Director

Miguel Cruz

RELATÓRIO DO ADMINISTRADOR NÃO EXECUTIVO

RELATÓRIO DO ADMINISTRADOR NÃO EXECUTIVO SOBRE O DESEMPENHO DOS ADMINISTRADORES EXECUTIVOS

I. INTRODUÇÃO

Nos termos do artigo 7º do Decreto-Lei 8/2012, de 18 de janeiro, na qualidade de Administradores não Executivos, requer-se a apresentação de um relatório sobre o desempenho dos Administradores Executivos.

2. ATIVIDADE

Nos termos da Lei e no exercício das competências que o Estatuto do Gestor Público e os estatutos da sociedade determinam, acompanhei, com as limitações decorrentes da qualidade de administrador não executivo, a gestão da empresa ao longo do exercício de 2019 podendo por isso dar nota do desempenho dos Administradores Executivos, e de eventuais factos relevantes que importe destacar.

Tanto quanto é do meu conhecimento, as Contas reportadas a 31 de dezembro de 2018, cumprem, em termos gerais, o quadro normativo específico vigente para as empresas que integram o Setor Público Empresarial, e constituem um retrato adequado da situação económica e patrimonial da empresa.

Saliento, também que as orientações legais foram cumpridas pela sociedade no exercício de 2019, tendo sido respeitadas as normas e os princípios do bom governo, definidas no Decreto-Lei nº 133/2013, de 3 de outubro, e nos regulamentos emitidos sobre a matéria, pela Direção Geral do Tesouro e Finanças, bem como as orientações estratégicas emanadas no âmbito da função acionista.

Entre os elementos de reporte não financeiro inclui-se o Relatório de Sustentabilidade que, tanto quanto me foi possível acompanhar, foi preparado com as Melhores Práticas existentes, e com os referenciais das Nações Unidas, e constitui, tanto quanto é do meu conhecimento, um retrato fiel da atividade desenvolvida pela empresa neste âmbito.

Também o reporte apresentado sobre os impactos e expectativas possíveis sobre a evolução da empresa no atual contexto de pandemia COVID-19 reflete a melhor informação disponível à data e um esforço grande da empresa e dos seus Órgãos de Gestão na manutenção da regularidade possível de funcionamento da empresa, de defesa da saúde das suas colaboradoras e dos seus colaboradores, bem como o cumprimento estrito das orientações do Governo e das Autoridades de Saúde, nomeadamente plasmado no Plano de Contingência desenvolvido

No exercício económico de 2019, e no tocante ao desempenho do Conselho de Administração, importa destacar ainda a renúncia ao cargo primeiro do CFO da companhia e depois do CEO, a quem cumpre agradecer o trabalho realizado e a dedicação ao funcionamento da empresa. Esta situação criou, naturalmente, uma necessidade de rearrumação de pelouros, de tarefas, de responsabilidades, bem como uma sobrecarga de trabalho nos membros remanescentes do Conselho de

Administração. Esta situação foi, no entanto, ultrapassada com total empenho e brio, sem que daí resultasse qualquer perturbação no funcionamento da empresa.

3. PARECER

No âmbito da atividade desenvolvida e do acompanhamento efetuado, nada chegou até à presente data, ao meu conhecimento que nos impeça de manifestar uma apreciação globalmente positiva sobre o desempenho dos Administradores Executivos, podendo ainda dar testemunho do seu empenho, rigor e diligência na condução dos negócios da sociedade, tendo sempre em vista o cumprimento da Lei, das orientações estratégicas recebidas das respetivas Tutelas – Setorial e Financeira – bem como a eficiência na gestão e os objetivos específicos definidos para a mesma, designadamente a contenção da despesa e a valorização económico-financeira das diferentes áreas de atividade, e uma excelente capacidade de relacionamento com os diferentes stakeholders, nomeadamente o acionista PARPÚBLICA, na concretização do serviço público.

Lisboa, 31 de março de 2020

O Administrador não Executivo

Miguel Cruz

Assinado por : **Miguel Jorge Campos Cruz**
Num. de identificação: B807649653
Data: 2020.03.31 14:56:15+01'00'



ANNEX I

ANNEX I TO THE 2019 ANNUAL REPORT AND ACCOUNTS

COMPLIANCE WITH LEGAL GUIDELINES

For the purposes of demonstrating Compliance with the Legal Orientation of AdP SGPS, this followed the structure set out in the official DGTF letter reference SAI-DGTF/2020/770, dated 11 March 2019.

I. MANAGEMENT OBJECTIVES (ARTICLE 38 OF RJSPE) AND ACTIVITY AND BUDGET PLAN

A) MANAGEMENT OBJECTIVES

Without undermining considerations as regards the implementation of the set of strategic guidelines, the evaluation undertaken by the shareholder takes as its reference the annual objectives and performance indicators for the term of office and the formulas to calculate the relevant degree of implementation.

The evaluation is carried out according to the degree of compliance with the objectives as detailed in the table below, and will be calculated by rounding off to one decimal point of the total sum obtained for each indicator.

Level of Evaluation	Evaluation	Level of achievement	Evaluation global
1	Not obtained	$GC < 1.8$	Objectives not complied with
2	Obtained	$1.8 \leq GC < 2.5$	Objectives complied with
3	Exceeded	$GC \geq 2.5$	Objective exceeded

The results for the 2019 financial year are set out below with a **Global Evaluation** result of **2.7 Exceeded**.

Indicators	Target ⁽¹⁾	Level of Evaluation ⁽¹⁾	Amount Obtained	Weighting	Evaluation
1. Management efficiency	Fostering the efficiency of AdP Group management with the PRC taking 2015 as the year of reference.	$\Delta PRC < 0\%$ - Not obtained	9.3%	12.5%	3 Exceeded
		$0\% \leq \Delta PRC < 3\%$ - Obtained			
		$\Delta PRC \geq 3\%$ - Exceeded			
2. Debt cap	No annual increases in the stock of debt greater than 3%.	Debt > 3% - Not obtained	-4.6%	12.5%	3 Exceeded
		$3\% \leq \text{Debt} < 0\%$ - Obtained			
		Debt $\leq 0\%$ - Exceeded			
3. Commercial debt of municipalities (2)	No increases in the stock of matured municipal debt.	DCDMA > 105% - Not obtained	84.9%	12.5%	3 Exceeded
		$95\% \leq \text{DCDMA} \leq 105\%$ - Obtained			
		DCDMA < 95% - Exceeded			

Indicators	Target ⁽¹⁾	Level of Evaluation ⁽¹⁾	Amount Obtained	Weighting	Evaluation
4. Degradation in the operating treasury position (2) (3)	No degradation in the AdP Group treasury position in keeping with limitations on the growth of debt and the degradation in PMR..	DTE > 100% - Not obtained 85% < DTE ≤ 100% - Obtained DTE ≤ 85% - Exceeded	51.7%	5%	3 Exceeded
5. Profitability	Fostering the profitability and sustainability of AdP Group investment measured as a % in comparison with the reference year of 2015 (adjusted for EGF activities).	ORCE (Year N) < 95% ORCE 2015 Not obtained 95% ORCE 2015 ≤ ORCE (Year N) < 110% ORCE 2015 Obtained ORCE (Year N) > 110% ORCE 2015 Exceeded	119%	12.5%	3 Exceeded
6. Quality of the water supplied (2)	Quality of water supplied by the systems operated and managed by the AdP Group, undertaking this evaluation according to the terms of the ERSAR indicator even though this entity has not carried out any water quality audit.	AQA < 99.5% Not obtained 99.5% ≤ AQA ≤ 100% Obtained AQA > 100% Exceeded	100%	5%	2 Obtained
7. Quality of wastewaters (2)	Quality of wastewaters treated by the systems operated and managed by the AdP Group, undertaking this evaluation according to the terms of the ERSAR indicator even though this entity has not carried out any wastewater quality audit.	AQAR < 97.5% Not obtained 97.5% ≤ AQAR ≤ 100% Obtained AQAR > 100% Exceeded	101%	5%	3 Exceeded
8. Economic - financial feasibility study (EVEF) (4)	Consistent review by the managing entities belonging to the AdP Group of every EVEF approved by the sector regulator.	Data > end of 2017 Not obtained July 2017 < Data ≤ end of 2017 Obtained Date ≤ July 2017 Exceeded	Before 31/7/2017	10%	3 Exceeded

Indicators	Target ⁽¹⁾	Level of Evaluation ⁽¹⁾	Amount Obtained	Weighting	Evaluation
9. Profile of Lisbon and Oporto multi-municipal systems (4)	Drafting the proposals, negotiating and preparing the legal support documentation for profiling the multi-municipal systems, including tariff compensation models in order to implement the profile established by the sector regulator.	No. = 0 after the end of 2016 Not obtained No. = 3 until the end of 2016 Obtained No. = 3 until the end of 2016 with activities launching at the start of 2017 Exceeded	3 before end of 2016 with activities launched at the start of 2017	10%	3 Exceeded
10. Contribution towards consolidating the organisation of national downstream services (4)	Through increasing the number of downstream systems operated by the AdP Group with implementation taking place through partnerships with municipalities or a contractual model previously approved by the sector regulator.	# = 0 Not Obtained # = 1 Obtained # ≥ 2 Exceeded	1	5%	2 Obtained

Indicators	Target ⁽¹⁾	Level of Evaluation ⁽¹⁾	Amount Obtained	Weighting	Evaluation
11.	Reorganisation of managing entities to foster high efficiency levels (4)	Reorganisation of the managing entities of the systems operated and managed by the AdP Group according to specific strategic orientations 3 and 5.	1. Number of managing entities certified by Norm ISO 50.001 With n the number of managing entities in effect on 1 January 2018 No. of certified entities < n-2 Not obtained n-2 ≤ No. of certified entities < n-1 Obtained No. of certified entities ≥ n-1 Exceeded	No. of certified entities ≥ n-1 2.5%	3 Exceeded
12.			2. Number of managing entities implementing measures stipulated by strategic orientation 5 within the scope of Norm ISO 55.001 As a percentage of the number of managing entities in operation on 1 January de 2018 Entities certified < 50% Not obtained 50% ≤ Entities certified < 66.7% Obtained Entities certified ≥ 66.7% Exceeded	100% 2.5%	3 Exceeded
13.	Reorganisation of the AdP Group Corporate Centre (4)	Reorganisation of the holding and AdP Serviços staff in accordance with specific strategic orientation 2.	Not implemented Not obtained Implement by the end of 2018 Obtained Implement by the end of 2017 Exceeded	19/10/2018 5%	2 Obtained

(1) Whenever an indicator is not evaluated, its weighting is divided proportionally among the remaining indicators.

(2) This considered the 2018 indicator value due to the inability to calculate this for 2019.

(3) In the calculation, we applied the 2018 PMR for AdSA for 2019 given this information was otherwise not yet available. This does not include any calculation of AdVT data to avoid distorting the logic and results of this indicator given this is not defined for negative values.

(4) The result indicated relates to the situation in 2018 with calculation not yet possible for 2019.

B) IMPLEMENTATION OF ACTIVITY AND BUDGET PLANS FOR 2019

Under the terms of Decree-Law no. 133/2013, of 3 October ('RJSPE'), the General Directorate of Treasury and Finance communicated through official letter no. 874/2019 of 6 March 2019, the approval of the ABPs – the Activity and Budget Plans for 2019, already subject to a favourable opinion by the Audit Board and by the UTAM Analysis Report 328/2018 of 11 December 2019. The SEAMB approval was notified through official letter no. 3538/2019 of 15 March 2019.

The 2019 ABPs of AdP SGPS as well as their implementation materially complied with the financial principles established by the State Budget Law for 2019 (Law no. 71/2018, of 31 December) and the Instructions for the Drafting of Provisional Management Instruments for 2019 issued by the General Directorate of Treasury and Finance (circular letter no. 5487, of 21 November 2018).

The key budgetary implementation figures are detailed below:

	Un.	2019	BUD 2019	Implement.	Observations
EBITDA*	EUR	2 954 468	1 438 410	205%	Increase in EBITDA through the positive contributions of turnover and FSEs.
CGSMC + ESS + PC	EUR	8 363 119	9 091 905	92%	Reduction in EES's and personnel costs.
Operational Costs / Turnover	%	73.9 %	85.8 %	86%	Result of the increase in turnover and reduction in operating costs.
Travel costs / Allowance costs / Vehicle fleet costs	EUR	252 781	285 375	89%	Reduction in the items "Travel and accommodation", as well as "Allowance costs".
Turnover	EUR	11 317 017	10 555 310	107%	Result of larger billing volumes by holdings than budgeted for.
Net result	EUR	65 151 607	53 931 288	121%	Core contribution of financial results, especially dividends.
Individual indebtedness (includes intragroup)	EUR	662 287 283	661 954 545	100%	In compliance with article 58 of the State Budget and article 159 of the Decree-Law on Budget Implementation, growth in debt is capped at 2%.
Individual indebtedness (excludes intragroup)	EUR	558 287 283	557 954 545	100%	The debt level in the individual and consolidated accounts of AdP SGPS is positioned slightly above that budgeted for even while having reduced the real debt in 2018 (individual and consolidated).
Consolidated debt	EUR	1 842 865 234	1 833 000 000	101%	
Financial investment	EUR	3 578 773	9 228 024	39%	Acquisition (subscribing) of capital as the holding of company holdings.
HR costs	EUR	4 750 935	5 090 364	93%	The variation stems from absenteeism, departures of workers and other budgetary provisions that went unneeded.

	Un.	2019	BUD 2019	Implement.	Observations
No. of employees	no.	71	78	91%	Variation deriving from the resignation of the Chair of the Board of Directors and a Board Director during the 2019 financial year. There were also the departures of one member with a management position, one Internal Audit and one Planning and Management Control employee. Two other members of staff also left by mutual agreement and there was no recruitment as foreseen under ABP 2019 of two new technical staff.
Vehicle fleet costs	EUR	222 176	223 559	99%	The 2019 cost is influenced by the existence of one additional vehicle and the impact of applying IFRS16. The 2019 amount is also impacted by a reduction due to corrections made to previous years without which costs would rise to EUR 228 088.
No. of vehicles	no.	31	30	103%	The increasing the number of vehicles corresponds to the vehicle allocated to an employee transferred from AdP Serviços to AdP SGPS within the scope of the corporate reorganisation. This increase in the number of AdP SGPS vehicles corresponds to a reduction in the number of AdP Serviços vehicles with no rise in the joint total of these companies.
Average payment period	days	64	29	221%	Internal control measures continue under implementation so as to reduce average payment times (down five days between 2018 and 2019).

* Operational result + (Amortisations - Sub33s.Invest) + Provisions + Losses due to impairments and reversions - CRD -Earnings/ Construction costs (IFRIC12).

2. FINANCIAL RISK MANAGEMENT

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

The Group financial risk management policy strives to minimise any eventual adverse effects resulting from the unpredictability of the financial markets with this management undertaken centrally by the holding (AdP SGPS).

Adopting a conservative stance, and taking into account the nature of the assets, the Group has opted to contract very long term financing and placing a particular emphasis on financing obtained from the EIB, a partner entity specialist in financing investments with significant maturities. Additionally, in 2004, AdP SGPS embarked on a process of sourcing long term external debt and having made private debt placements in 2005 and three private bond issues in 2007 and another private bond issue in 2016 for between 10 and 20 years.

The Group interest rate risk management policy focuses on reducing the exposure of cash flows to market fluctuations in the interest rate whether through contracting financial derivative instruments or through the selection of the fixed rate option for loans sourced from the EIB.

For investment financing, the coverage of the interest rate risk is sustained upon the contracting of long term loans with a heavy preference for the fixed rate regime, which is obtained in a natural approach involving the inclusion of this amount in calculating the final tariff.

In short term financing, and taking into consideration that this essentially serves to finance client debts, the risk coverage is sustained by the rates applied in calculating the interest charged to clients.

The majority of the long term lines of financing existing in the AdP Group were negotiated prior to 2008 in conditions that, while favourable at the time, today emerge as a significant added value in terms of debt servicing.

The liquidity risk has been minimised through adjustment to the type of asset under financing, destined to the long term financing in support of investment and the permanent component of the treasury reserve fund and short term financing for the volatile treasury reserve needs.

In short term applications and/or unused lines of financing, the Group maintains recourse to easily accessible amounts that enable the Group to deal with unexpected situations without causing any impact on ongoing daily activities.

As regards the credit risks arising from the supply of services and products in advance of payment, this varies in accordance with the type of client in receipt of Group products. Thus, in the case of retail customers (downstream), as the product provided represents an essential good, we may consider the coverage risk to be low level. In the case of the supply of products in bulk (upstream), the risk assumed interrelates with the respective municipal client relationship and hence, taking into consideration how these are administrative public entities, the existing risk stems more from delays in payment rather than non-collectible debts. Taking into account the question of delays in payment, AdP SGPS is seeking to resolve this issue through their sale without recourse to, or through the means of, financial entities.

The financial surpluses turned in by Company activities primarily serve for financing Group Companies within a logic of centralised group management and with the remainder, in keeping with the contractually stipulated applications stemming from the concession contracts, applied in conjunction with the IGCP – the State Agency for Treasury and Public Debt Management, with the risk associated with IGCP as the holder of group surpluses highly reduced given that this bank is responsible for managing the State treasury, the ultimate shareholder of the AdP Group.

INTEREST RATE RISK

The risk of the Company's interest rate comes essentially from loan taking, both long term and short term. In this context, loans obtained with interest calculated at variable rates expose the AdP Group to cash flow risk and loans obtained with fixed interest rates expose the Group to the fair value risk associated with the interest rate. Águas de Portugal, SGPS manages the cash flows risk associated with the interest rate, by contracting swaps that allow the conversion of loans with interest calculated at variable rates into loans with interest calculated at the fixed rate. The table below presents the sensitivity analysis of AdP Group financial charges.

	31.12.2019	Average rate impact +1%	Average rate impact -1%
Interest (costs) at a variable rate	(2 032 243)	(5 839 346)	556 003
Interest (earnings) at a variable rate	13 104 802	4 627 485	(49 804)
Net impact	11 072 559	(1 211 861)	506 199

EXCHANGE RATE RISK

Exposure to currency risk in AdP is residual. This risk is embodied in future business transactions, recognised under assets and liabilities, as well as net investments in foreign operations that were not incurred or expressed in the functional currency of AdP. The AdP Group's Central Treasury is responsible for the management of the AdP Group's net exposure in each currency, contracting swaps centrally, in order to minimise the commercial risks and recognised assets and liabilities.

LIQUIDITY AND CAPITAL RISKS

Liquidity risk management requires maintaining available funds at a reasonable level, consolidating floating debt through an adequate amount of credit facilities and the ability to settle market positions. Due to the dynamics of the underlying business, AdP's treasury strives to secure the flexibility of floating debt, while maintaining available credit lines. AdP manages liquidity risk by contracting and maintaining credit financing facilities with underwriting commitments with national and international financial institutions with a high credit rating allowing immediate access to funds. In the last financial year, this practice has been highly conditioned by the known difficulties in accessing credit markets in Portugal, as well as by the growing increase in customer debt.

The table below shows the liabilities of AdP by contractual residual maturity intervals. The amounts presented in the table are the contractual cash flows, discounted payable in the future (without the interest to which these liabilities are being paid).

2019	< 1 year	1 to 5 years	> 5 years
Asset			
Group company loans	73 693 182	691 469 164	-
Cash and cash equivalents	16 477 809	-	-
	90 170 991	691 469 164	-
Liability			
Shareholder loans	6 818 182	377 272 728	173 863 635
Group company loans	104 000 000	-	-
	110 818 182	377 272 728	173 863 635
Net liquidity	(20 647 191)	314 196 436	(173 863 635)

Contracted short term credit lines

Liquidity risk (million EUR)	Line of credit available	Line of credit used	Line of credit unused
Bank overdrafts (Attributable only to AdP SGPS)	72.5	-	72.5
Group company loans	220.0	104.0	116.0
Group company loans	(855.1)	(765.4)	(89.7)
Lines of credit available attributable to AdP SGPS	(562.6)	(661.4)	98.8
Bank overdrafts (AdP Group)	140.0	-	140.0

The objective of the AdP Group in relation to capital management, which is a broader concept than the capital disclosed on the balance sheet, is to maintain an optimal capital structure through the prudent use of debt allowing a reduction in the cost of capital. The purpose of capital risk management is to safeguard the continuity of the Group's operations, with adequate compensation to shareholders and generating benefits for all relevant third parties.

The Group's policy is to contract loans with financial entities under the aegis of the parent company, AdP, SGPS, S.A. (with the exception of investment-related loans), which in turn grants loans to its subsidiaries. This policy aims at optimising the capital structure with a view to greater efficiency and reductions in the average cost of capital.

	2019	2018
Non-current loans (Shareholder loans)	551 136 363	557 954 545
Current loans (Shareholder loans and Group company loans)	110 818 182	132 418 182
Availabilities	(16 477 809)	(5 166 066)
Net debt	645 476 736	685 206 661
Total of own capital	823 863 724	785 185 518
Capital	1 469 340 460	1 470 392 179
Net debt/ total capital	0.44	0.47

The financing model of AdP SGPS is fundamentally based on two broad categories that allow the balance of capital structure, bond financing and equity.

CREDIT RISK

The credit risk related to operations essentially stems from the risk of a counterparty failing to meet their obligations resulting in a financial loss to AdP. AdP is subject to credit risk through its operating, investment and treasury activities.

a) Operating counterparty

The operations related credit risk essentially encapsulates the credits for services provided to subsidiaries and the treasury supplements / support granted to subsidiaries.

The credit risk of subsidiaries is low on considering their respective financial positions and the prevailing legal and regulatory frameworks. In effect, in the state owned systems, there are high levels of financial autonomy and in the multi-municipal systems and partnership regime, the concession or partnership contracts provide for mechanisms for replacing economic-financial balance through means of ensuring compliance with all third party liabilities, especially as regards liabilities resulting from debt servicing.

Furthermore, in the case of the multi-municipal systems and partnerships, there was consolidation of the regulatory and legislative provision underpinning the recovery of the debts of municipalities from these systems within the scope of calculating the cost recovery deviation which, in turn, has its debt recovery durations stipulated by Decree-Law.

b) Deposit counterparty

The following table represents AdP's maximum exposure to credit risk (not including the balance of customers and other debtors) as of December 31, 2019, without regard to any collateral held or other credit enhancements. For assets in the Statement of Financial Position, the defined exposure is based on its carrying amount as reported in the Financial Position Statement.

Financial bank assets	2019
Current account deposits (Note 12)	16 441 115
	16 441 115

Rating	2019
A3	4 807
Baa1	41 169
Baa3	16 395 134
Caa1	5
	16 441 115

Note: Moody's rating obtained from financial institution websites in February 2020.

c) Derivative counterparty

AdP SGPS manages the cash flow risks associated with the interest rate by contracting swaps that allow for the conversion of loans with interest calculated at variable rates into loans with interest calculated at fixed rates. AdP uses derivatives for the sole purpose of managing the financial risks (interest rate) to which it is subject. In accordance with its financial policies, AdP does not use derivatives for trading. Whenever available, the fair value of derivatives is estimated on the basis of listed instruments. In the absence of market prices, the fair value of derivatives is estimated using the discounted cash flow method determined by external entities, based on valuation techniques accepted by the market. Derivative financial instruments are recognised on the date of their trade date, at their fair value. Subsequently, the fair value of derivative financial instruments is revalued on a regular basis, and the gains or losses resulting from such revaluations are recorded directly in income for the period, except in the case of hedging derivatives. Recognition of fair value changes in hedging derivatives depends on the nature of the hedged risk and the hedging model used.

REGULATORY RISK

Regulation is the most significant restriction on the profitability of economic activities developed by the Group. The regulator can adopt measures with a negative impact on cash flow, resulting from the contractually defined possibility of defining a scenario of

productive efficiency that establishes costs to be recovered through tariffs which may differ from the expenses actually incurred. These costs include financial expenses.

The table below shows the evolution of the average rate of financing of AdP SGPS, including interest effectively paid annually with the interest-bearing liabilities and other associated charges in the last five years.

Individual accounts

Years	2019	2018	2017	2016	2015
Financial charges (€)	2 835 322	3 034 860	4 381 031	4 728 255	6 655 209
Average financing rate (%)	0.43%	0.44%	0.69%	0.88%	1.20%

Consolidated accounts

Years	2019	2018	2017	2016	2015
Financial charges (€)	40 816 262	43 702 846	52 439 669	57 967 870	70 733 782
Average financing rate (%)	2.21%	2.27%	2.30%	2.45%	2.67%

3. CAPS ON THE GROWTH IN DEBT ACCORDING TO THE TERMS DEFINED IN NO. 1 OF ART. 58 OF LAW NO. 71/2018, OF 31 DECEMBER (STATE BUDGET LAW FOR 2019) ASCERTAINED ACCORDING TO THE FORMULA HANDED DOWN BY NO. 4 OF ARTICLE 159 OF DECREE-LAW NO. 84/2019, OF 28 JUNE (DLEO 2019)

Individual accounts

Amounts (EUR)

Remunerated liabilities	2019	2018	Variation 19/18	
			Amount	%
Remunerated financing (current and non-current)	662 287 282	690 372 727	(28 085 445)	(4.1%)
- granted by the DGTF	0	0	0	0.0%
Capital increases by allocation	0	0	0	0.0%
Capital increases by credit conversion	0	0	0	0.0%
Adjusted credit	0	0	0	0.0%

	2019	2018	Variation 19/18	
			Amount	%
Gross debt (1)	662 287 283	690 372 727	(28 085 445)	-4.1%
Intragroup loans (2)	104 000 000	125 600 000	(21 600 000)	-17.2%
Gross debt without intragroup (1)-(2)	558 287 283	564 772 727	(6 485 445)	-1.1%

Consolidated accounts

Amounts (EUR)

Remunerated liabilities	2019	2018	Variation 19/18	
			Amount	%
Remunerated financing (current and non-current)	1 842 865 234	1 924 171 418	(81 306 184)	(4.2%)
- granted by the DGTF	0	0	0	0.0%
Capital increases by allocation	0	0	0	0.0%
Capital increases by credit conversion	0	0	0	0.0%
Adjusted credit	0	0	0	0.0%

	2019	2018	Variation 19/18	
			Amount	%
Gross debt	1 842 865 234	1 924 171 418	(81 306 184)	(4.2%)
Availabilities	138 163 519	91 206 292	46 957 227	51.5%
Reconstitution fund	32 810 072	35 586 140	(2 776 068)	(7.8%)
Net debt	1 671 891 643	1 797 378 986	(125 487 343)	(7.0%)

4. EVOLUTION IN PMP - AVERAGE SUPPLIER PAYMENT TIMES, IN ACCORDANCE WITH RCM NO. 34/2008 OF FEBRUARY 22, WITH THE AMENDMENT INTRODUCED BY ORDER NO. 9870/2009 OF APRIL 13, AND DISCLOSURE OF ARREARS, AS DEFINED IN DECREE-LAW 65-A / 2011 OF MAY 17 IN CONJUNCTION WITH THE STRATEGY APPLIED FOR THEIR REDUCTION

PMP – Average payment period	2019	2018	Variation 19/18	
			Amount	%
Durations (days)	64	69	(5)	-6.6%

AdP SGPS has been successively reducing its average supplier payment period (-6.6%) while still falling short of the target of 15% necessary to obtaining an average of 45 days. However, this should highlight that around 70% of the suppliers item relates to Group companies.

Statement of the position on 31/12/2019 of payments in arrears according to the terms of Decree-Law no. 65-A/2011, of 17 May:

Payments in arrears	Amount (EUR)		Amount in arrears according to art. 1 of DL 65-A/2011 (EUR)			
	0-90 days	90-120 days	120-240 days	240-360 days	> 360 days	
Acquisition of goods and services	365 427	(297)	598	0	4 500	
Acquisition of capital						
Total	365 427	(297)	598	0	4 500	

5. DUE DILIGENCE UNDERTAKEN AND THE RESULTS OBTAINED WITHIN THE SCOPE OF COMPLIANCE WITH THE SHAREHOLDER'S RECOMMENDATIONS MADE AT THE TIME OF THE FINAL APPROVAL OF THE ACCOUNTING DOCUMENTS

No recommendations were made by the shareholders when approving the accounts.

6. REMUNERATIONS

The management confirms the application of the guidelines on remuneration in effect in 2019.

(For more information see Appendix I attached)

7. APPLICATION OF THE PROVISIONS OF ARTICLES 32 AND 33 OF THE PUBLIC MANAGER STATUTE AS REGARDS:

a) The non-use of credit cards and other payment instruments by public managers to make expense payments in the service of the company

The provisions of Article 32 of the Statute of the Public Manager, as republished by Decree-Law no. 8/2012, of January 18, have been complied with in full, in particular regarding the use of credit cards and other payment instruments used by public managers, with the purpose of incurring expenses in the service of the company.

b) The non-reimbursement of public managers for any expenses that fall under the concept of staff allowances

The provisions of article 32 of the Statute of the Public Manager, as republished by Decree-Law no. 8/2012, of January 18, have been fully complied with, namely, reimbursement to public managers of any expenses that fall within the concept of staff allowances.

c) For the amount of expenditure incurred with communications, that includes mobile phones, household phones and the Internet:

Board Member (Name)	Communications Costs (EUR)		
	Defined Monthly Platform	Annual Amount	Observations
João Nuno Marques de Carvalho Mendes	80.00	3 13.78	
Carla da Conceição Afonso Correia	80.00	409.77	
Cláudio Miguel André de Sousa Jesus	80.00	2 820.44	Due to reasons of professional utilisation (performance of functions as Holding Group Director and President of AdP Internacional).
Juan Miguel Martín Iglesias	80.00	258.63	
José Manuel Leitão Sardinha	-	-	Remuneration incurred by EPAL.
Miguel Jorge de Campos Cruz, in rep. of Parpública, SGPS, S.A.	-	-	Remuneration not paid to this director with his services invoiced by Parpública. SGPS. S.A. and null in this financial year.
		3 802.62	

d) As regards the amount of fuel and tolls monthly allocated to service vehicles:

Board Member (Name)	Monthly Fuel and Toll Platform	Annual vehicle costs (EUR)			Observations
		Fuel	Tolls	Total	
João Nuno Marques de Carvalho Mendes	572.27	1 292.53	26.97	1 319.50	
Carla da Conceição Afonso Correia	457.82	1 479.89	650.50	2 130.39	
Cláudio Miguel André de Sousa Jesus	457.82	2 634.64	1 896.98	4 531.62	
Juan Miguel Martín Iglesias	457.82	710.20	942.04	1 652.24	
José Manuel Leitão Sardinha	-	-	-	-	Remuneration incurred by EPAL.
Miguel Jorge de Campos Cruz, in rep. of Parpública, SGPS, S.A	-	-	-	-	Remuneration not paid to this director with his services invoiced by Parpública. SGPS. S.A. and null in this financial year.
				9 633.75	

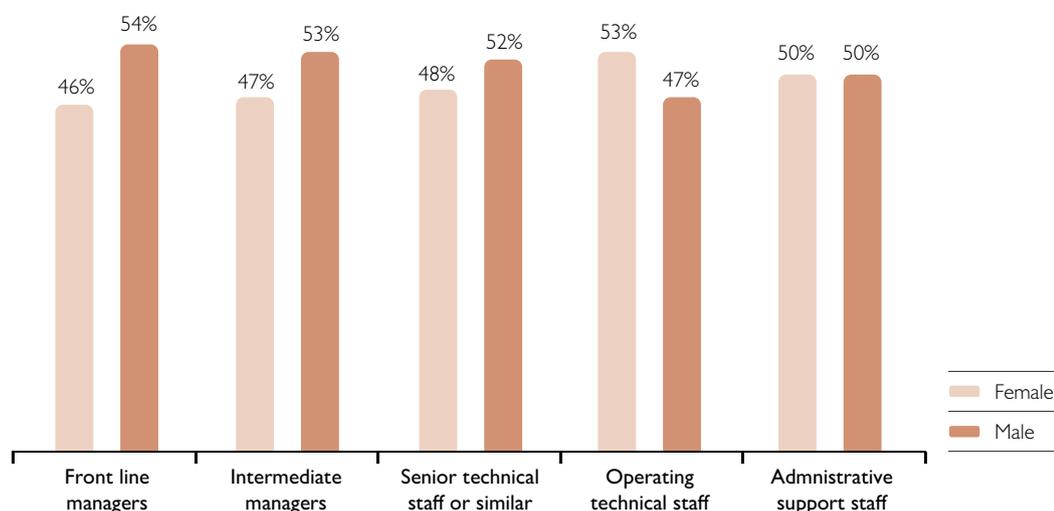
8. APPLICATION OF THE PROVISIONS OF NO. 2 OF ARTICLE 16.2 OF THE RJSPE AND ARTICLE 11 OF THE EGP, WHICH PROHIBITS UNDOCUMENTED OR CONFIDENTIAL EXPENSES

AdP SGPS fully complies with the provisions of no. 2 of article 16 of Decree-Law no. 133/2013, of October 3, as well as with the provisions of article 11 of the EGP and/or no undocumented or confidential expenses were made or reported.

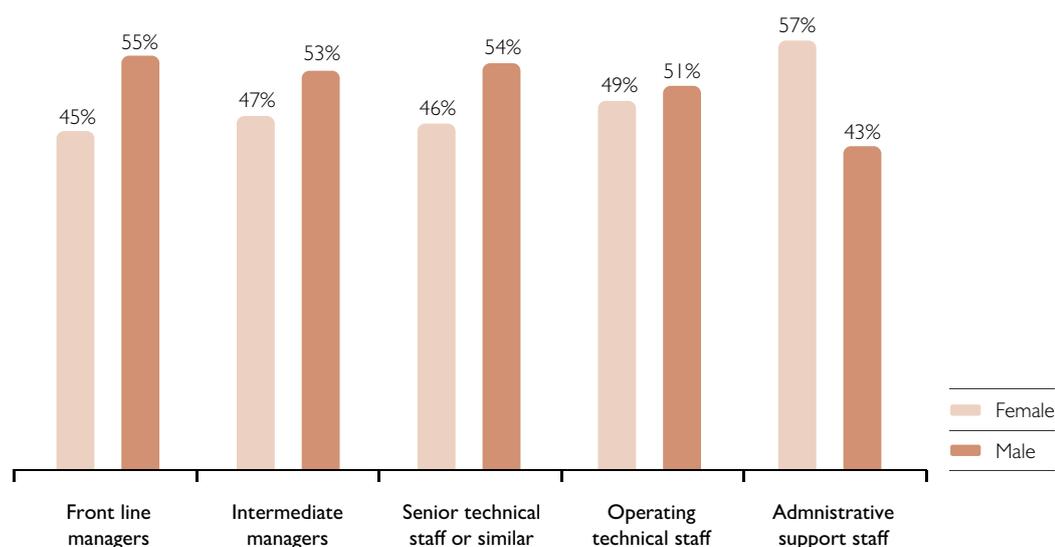
9. DRAFTING AND DISSEMINATION OF A REPORT ON THE REMUNERATION PAID TO WOMEN AND MEN AS PROVIDED FOR IN NO. 2 OF THE RESOLUTION OF THE COUNCIL OF MINISTERS NO. 18/2014, OF MARCH 7;

In compliance with paragraph 2 of the Resolution of the Council of Ministers no. 18/2014, of March 7, and following the procedures implemented in the AdP Group, AdP SGPS promotes, disseminates internally and makes available on its website information on the remuneration paid to women and men through its annual sustainability report in harmony with the employees and in accordance with the principle "We value our staff relationships", the commitment "We commit to guarantee equality of opportunities and fostering the balance between personal and professional lives".

AVERAGE BASE MONTHLY EARNINGS, BY GENDER
(%)



AVERAGE TOTAL MONTHLY EARNINGS, BY GENDER (%)



10 PREPARATION AND DISSEMINATION OF AN ANNUAL REPORT ON THE PREVENTION OF CORRUPTION PURSUANT TO ARTICLE 46 (I) OF THE RJSPE

In compliance with the provisions of no. 1 of article no. 46 of Decree-Law (DL) no.133 / 2013, of October 3, and following the procedures implemented in the AdP Group, AdP SGPS carries out the annual evaluation of the PGRIC anti-corruption plan in force in the company, preparing a report incorporating the conclusions regarding the companies of the Group, on the occurrences identified, or risk of occurrences and other facts mentioned in paragraph a) of paragraph 1 of article no. 2 of Law no. 54/2008 of 4 September, namely:

“a) ... information on the prevention of the occurrence of acts of active or passive corruption, economic and financial crime, money laundering, influence peddling, unlawful appropriation of public property, harmful administration, embezzlement, participation economic in business, abuse of power or breach of confidentiality, as well as acquisitions of real estate or securities as a result of the illicit acquisition or use of inside information in the exercise of functions in the Public Administration or in the public sector. “

In order to ensure compliance with that defined in paragraph 2 of no. 46 of Decree-Law (DL) n°133 / 2013, of October 3, the annual report is published on the AdP SGPS website and delivered to the Technical Unit (UTAM).

11. PUBLIC PROCUREMENT

The AdP Group has a shared services unit - AdP - Águas de Portugal Serviços Ambientais, S.A. - which works as an operational structure for the centralisation, optimisation and rationalisation of the acquisition of goods and services, within the scope of Group company activities. Within this framework, a relational model was established in which a differentiated set of goods and services are contracted through the Purchasing and Logistics Department of AdP Serviços.

The existence of this internal Group structure is justified by the fact that it allows the taking advantage of both the scale and synergies generated by the Group's universe and thus to obtain more attractive contractual conditions for this group of companies, while releasing them from the need to engage in autonomous contracting procedures, with the inherent associated administrative and financial burdens, adding value to their activities.

In addition, a fair share of the goods and services required by the invested companies to carry out their activities are of considerable technical complexity, taking into account their specificity, namely insurance, energy, chemical reagents and laboratory materials used by the water/wastewater segments and a high level of specialisation of the actors in the processes implicit to their respective procurement.

Extensive work has been developed to standardise procedures at the level of companies and ensure compliance with legal requirements and internal guidelines regarding public procurement procedures under the General Regime, given the changes introduced to the

PCC by Decree-Law no. 111 - B / 2017, of August 31, to prepare a guidebook, called the contracting manual, that guides its users in the interpretation and application of the most important innovations brought about by this legislative revision and incorporating all the “learning” of the Group over the last ten years in the field of public procurement.

In conjunction with the guide indicated in the previous paragraph, a procurement manual was developed, which aims to systematise the role of each of the stakeholders involved in the procurement process, promoting an integrated and comprehensive vision, sharing the same concepts, standardising the tools used, designations, internal procedures and cooperation for the sustained development of procurement processes.

In 2019, there were no acts or agreements with contractual amounts superior to EUR 5 million but having consequently been subject to the prior inspection by the Court of Audit in any process.

12. MEASURES TAKEN UNDER THE AUSPICES OF THE COMPANY’S MEMBERSHIP OF THE SNCP – THE NATIONAL PUBLIC PROCUREMENT SYSTEM

The companies that make up the AdP Group joined the SNCP – the National Public Procurement System on March 3, 2014 as voluntary purchasing entities.

Since then, public procurement procedures have been conducted using the SNCP covering different framework agreements, namely:

- Paper and office materials;
- Surveillance and Security;
- Road fuels;
- Motor vehicles and motorcycles;
- Licensing of software and related services;
- Hygiene and cleaning.

This format was applied whenever there was an alignment between the AdP Group’s procurement needs, aggregated by AdP Serviços, and the respective specifications in effect, with a focus on capturing value not only by leveraging the demand resulting from scale but also for the simplification and speed that characterise this modality, thus enabling AdP Services to more efficiently manage its resources.

13. MEASURES TAKEN TO REDUCE THE OPERATING COSTS IDENTIFIED UNDER ARTICLE 158 OF DLEO 2019, JUSTIFYING IN DETAIL ANY NON-COMPLIANCE WITH THE DEFINED ORIENTATIONS AND OBJECTIVES

AdP SGPS has adopted several cost reduction measures that have led to compliance with defined guidelines and objectives.

The table below summarises the results of the plan for the reduction of operating expenses, in accordance with the provisions of article 145 of Decree-Law on Budget Execution (DLEO) No. 33/2018 of May 15 and with the model provided by DGTF.

PRC (EUR)	2019	2019	2018	2017	2019/2018	
	Impl.	Bud.	Impl.	Impl.	Δ Abs.	Var. %
(0) EBITDA *	2 954 468	1 438 410	2 453 616	1 040 456	500 852	20%
(1) CGSMC	0	0	0	0	0	0%
(2) ESS	3 612 184	4 001 541	4 567 853	4 559 141	(955 669)	(21%)
(3) Costs with staff corrected for taxes and levies i), ii) and iii)	4 750 935	5 090 364	4 004 516	4 235 472	746 419	19%
(3.i) Compensation paid for contractual termination	0	0	0	279 788	0	0%
(3.ii) Remunerations amortised under the terms of LOE 2019	9 763	30 352	6 546	0	3 217	49%
(3.iii) Impact of applying the provisions of art. 21° of Law 42/2018, of 29 December	0	0	0	0	0	0%
(4) Operational costs ^{a)} = (1)+(2)+(3)	8 363 119	9 091 905	8 572 369	8 794 613	(209 250)	(2%)
(5) Turnover (VN) ^{b)}	11 317 017	10 555 310	11 065 816	9 976 140	251 201	2%
(6) Weighting of Costs /VN = (4)/ (5)	73.9%	86.1%	77.5%	88.2%	(3.6) p.p.	(5%)
(i) Travel and similar costs (FSE)	25 019	52 514	32 175	62 040	(7 156)	(22%)
(ii) Allowance and accommodation costs (G c/ staff)	5 586	9 302	6 192	6 006	(605)	(10%)
(iii) Vehicle fleet costs ^{c)}	222 176	223 559	210 951	248 200	11 225	5%
Total = (i) + (ii) + (iii)	252 781	285 374	249 317	335 842	3 464	1%
(7) Charges with contracting studies, opinions, projects and consultancy	584 327	593 699	681 177	775 054	(96 850)	(14%)
Total number of HR staff (GB + BD + Employees) ^{d)}	89	94	81	87	8	10%
No. Governing Bodies (GB)	12	14	14	14	(2)	(14%)
No. Board of Directors positions (BD)	17	15	13	16	4	31%
No. employees (without GB and BD)	42	47	54	57	(12)	(22%)
No. Employees / No. CD	2,5	3,1	4,2	3,6	(1,7)	(41%)
No. of vehicles	31	30	27	27	4	15%

a) In order to ascertain the degree of compliance with the measures to reduce operational expenses (CMCMC + ESF + HR costs), this considers the expenses with termination indemnities resulting from the application of the provisions of Art. 21 of Law no. 42/2016 of December 28 and of the remuneration valuations under the terms of the articles in LOE 2019.

b) Turnover is corrected for operating subsidies and compensatory payments.

c) Costs with vehicles should include: leasing/ amortisations, inspections, insurance, tolls, fuel, maintenance, repairs, pneumatics, taxes and other fees.

d) Total number of HR staff including staff with suspended contracts. Such staff members are not included within the scope of Budgeted Human Resources.

* Operational result + (Amortisations – Invest. Subs.) + Provisions + Losses due to impairments and reversions - CRD - Earnings/ Construction costs (IFRIC 12).

The total number of HR staff identified in the table above includes staff with suspended contracts even while such staff are not included within the scope of the human resource budget.

Additionally, during the 2019 financial year, on the grounds of harmonising the criteria, this defined how ABPs would not begin detailing every employee whose cost are incurred by the Company. AdP SGPS incorporates two members of staff seconded for the exercising of public functions from the Central State Administration with their remunerations thereby incurred as detailed in the table below that compares the number of employees detailed in the ABP for 2019 corrected by the two employees who had not been included in the numbers but only in terms of costs.

Total reconciliation of HR in keeping with that stated in the 2019 ABP:

	2019 Exec.	2019 Bud.*	Var. a) b)
No. Governing Bodies (GB)	12	14	(2)
No. Board of Directors positions (BD)	17	15	2
No. employees (without GB and BD)	42	49	(7)
Subtotal (compared with the ABP)	71	78*	(7)
Staff with suspended contracts	18	18	0
Total number of HR (GB + BD + Employees)	89	96	(7)

a) Resignation of the Chair of the Board of Directors and one Board member during the 2019 financial year.

b) Departure of the Human Resources Director, an employee of the Audit Department and another member of staff in the Department of Regulation, Planning and Management Control, under processes of replacement; departure of two employees by mutual agreement; there was no recruitment of two new members of staff as planned for under the ABP for 2019 – one fiscal specialist for the Financial Department and another technical specialist for the Audit Department.

* Number of employees stated in OBP 2019 + two employees seconded for the exercising of public duties from the State Central Administration with their costs incurred by AdP SGPS.

There is overall compliance with the cost reduction measures, in particular the PRC, as the weight of operating expenses in the turnover decreased by 3.6 pp from 2018 to 2019. This resulted mainly from the following aggregate effects:

- Rise in turnover of 2%;
- 21% reduction FSE costs.

14. CONTRACTING STUDIES, OPINIONS, PROJECTS AND CONSULTANCY – JUSTIFYING THE MEANS OF COMPLIANCE WITH THAT STIPULATED IN NO. 7 OF ARTICLE 49 OF DLEO 2019

The AdP SGPS Executive Commission approved the procedural model detailed below in order to ensure compliance with the formalities that take place prior to any decision to contract external services involving studies, opinions, projects and consultancy on behalf of AdP Group companies:

- 1 - Each Company is to ensure they lack the internal capacity to meet the respective procurement needs;
- 2 - Having verified condition (1), a request is submitted to the AdP Serviços Department of Procurement and Logistics, which then undertakes the internal survey of all Group companies so as to ascertain whether such needs may be met by another Company, establishing a deadline for responses and making available all the information necessary for informed decision-making by Companies;
- 3 - On the deadline established in (2) lapsing and in the absence of any positive response on behalf of AdP Group companies
 - 3.1 - Should the subject of the contract not fall under the auspices of the services stipulated by no. 2 of article 49 of Decree-Law no. 84/2019 of 28 June, the AdP Serviços Department of Procurement and Logistics submits a request to PARPÚBLICA for this entity to evaluate the eligibility for satisfying the procurement needs through means of its own resources or those of other Companies that maintain relationships with the Group, establishing a deadline for response.
 - 3.2 - Should the subject of the contract fall under the auspices of the services stipulated by no. 2 of article 49 of Decree-Law no. 84/2019 of 28 June, the AdP Serviços Department of Procurement and Logistics informs the Company as regards the impossibility of meeting the procurement need through the resources held by AdP Group companies so that they may respectively advance with submitting a request to PARPÚBLICA on the Internet website set up for such purpose.

Whenever there is no expression of availability, the conditions are then met for engaging in a public tender process after having demonstrated the inability to meet the procurement needs in question whether through their own resources or those of the Companies maintaining group relationships.

15. THE STATE TREASURY UNIT PRINCIPLE (ARTICLE 28 OF DECREE-LAW NO. 133/2013, OF 3 OCTOBER, ARTICLE 141 OF LOE 2019 AND ARTICLE 115 OF DLEO 2019)

AdP SGPS, as defined in its corporate purpose, has become a flexible and efficient instrument that ensures the centralised and specialised management of the social investments included in its portfolio. Accordingly, in addition to the strategic guidelines issued

to the managers representing it and the provision of technical management and administration services, it represents a crucial component in the financial function of subsidiaries held in controlling relationships (total holdings held).

The scope of the Group's companies covers a number of participations in the environmental sector in different phases of maturity, and AdP SGPS has taken on the responsibility of coordinating and obtaining the necessary financing to meet the respective needs of these companies and to balance the financing structure from a consolidated perspective.

In this regard, AdP SGPS:

- monitored the work of companies in their relationship with the community funding in order to facilitate access to these EU and national support programs (e.g. Environment Fund);
- entered into negotiations with the EIB in 1997 to finance the projects associated with the first phase, with a line of financing totalling EUR 167 million;
- in 2000, initiated a new negotiation process with the EIB for investments associated with the second phase which culminated in the granting of three financing lines (implemented between 2005 and 2009) for a total amount of EUR 1,472 million;
- in 2017, signed a line of financing with the EIB for EUR 220 million over 25 years to cover investments to be made in existing companies, ongoing until 2021, without the support of any guarantee, either from the state or the banking system, having signed in 2019 a new line of financing with the EIB for EUR 200 million over 25 years with the purpose of acquiring municipal credits.
- given that these EIB and Cohesion Fund lines of support did not prove sufficient to finance the entire project portfolio, AdP SGPS initiated a process of accessing external markets in 2003, with a 10-year private placement of debt in Japan in 2005 and issuing three privately-traded bonds in 2007, for 15 and 20 years and, in 2016, for a 12-year bond issue, totalling EUR 675 million;

All these funds arising from long-term operations are intended to finance the multi-municipal systems and partnerships in the components relating to investment and working capital in the early years of their operation.

The emphasis placed on water supply and wastewater treatment systems underlies the size and scale of these investments and the time requirements associated with them.

The centralisation of a significant proportion of funding in AdP SGPS has allowed the Group to manage its financial needs cohesively and coherently, and avoiding liquidity and insolvency problems despite the serious financial problems that the country has recently experienced. Complementing this medium and long term framework, AdP SGPS also centralised negotiations with the banking system over obtaining short-term financing, thereby reducing the scope for individual banks to penalise some of the invested companies, whether in terms of costs or in terms of credits.

The fact that AdP SGPS centrally manages the negotiation of lines of financing and periodically checks for the existence of any temporary surpluses has allowed the Group to maintain satisfactory levels of financial health and with reduced impacts on its operating activities.

Following instructions from the Government, the Group applied its cash surpluses, net of the group's needs, to the IGCP, as well as transferring operational activities from the banking system to the IGCP.

The balances detailed in the table below result from maintaining commercial relationships as regards the availability of lines of financing.

This furthermore highlights that these relate only to available lines with no financial applications existing with commercial banks.

Commercial bank	1 st Quarter (EUR)	2 nd Quarter (EUR)	3 rd Quarter (EUR)	4 th Quarter (EUR)
Novo Banco	557	527	496	5.20
Banco Português Investimento	270 267	324 703	147 577	67 229
Banco Santander Totta	3 341	3 341	3 897	3 722
Banco Bilbao Vizcaya Argentaria	26 879	26 214	25 219	4 807
Banco Comercial Português	2 078	2 026	1 974	1 921
Caixa Geral de Depósitos	82 953	82 839	82 337	6 669
Banco Privado Português	820	557	0	0
Bankinter	9 769	9 729	9 674	9 634
IGCP	5 260 931	3 507 799	2 787 314	16 382 822
Cash	708	888	708	1 000
Total	5 658 303	3 958 621	3 059 197	16 477 809
Interest received	-	-	-	-

16. PUBLICATION OF RECOMMENDATIONS MADE TO THE COMPANY RESULTING FROM AUDITS UNDERTAKEN BY THE COURT OF AUDITORS IN THE LAST THREE YEARS

The Audit Report no. 7/2017, of April 27, 2017, in relation to the direct tender contracts awarded by Águas de Portugal Group companies in the period between 2012 and the first half of 2014, made the following recommendations to the Board of Directors:

- In the use of direct adjustment, the CCP rules should be applied, with due rigor, with particular regard to the jurisprudence of the Court of Auditors;
- Planning sub-contracting in accordance with historically recurring needs and hosting, whenever possible, competitive procurement procedures (including periodic framework agreements, whenever so necessary).

In order to comply with the recommendations issued by the Court of Auditors, measures were implemented to ensure compliance with the regime established in the Public Contracts Code and the monitoring of contractual implementation with particular emphasis on promoting training actions, disseminating clarifications on the interpretation and application of existing legislation and strengthening control mechanisms to ensure proper compliance with the legal rules and internal guidelines in effect for public procurement.

17. INFORMATION PUBLISHED AS OF 31 DECEMBER 2019 ON THE SEE INTERNET WEBSITE (DGTF PORTAL)

Information for detailing on the SEE Website	Publication		Comments
	Y/N/N.A.	Updated on	
Statutes	N.A.	--	See note
Company characteristics	N.A.	--	See note
Governance and shareholder structure	N.A.	--	See note
Model of governance / Members of the Governing Bodies	N.A.	--	See note
- Identification of the management bodies	N.A.	--	See note
- Fixed remunerations statute	N.A.	--	See note
- Publication of remunerations paid to the management bodies	N.A.	--	See note
- Identification of the functions and responsibilities of Board of Director members	N.A.	--	See note
- Presentation of brief CVs of management body members	N.A.	--	See note
Public financial investment	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 regulations complied with by the Company	N.A.	--	See note
- Relevant transactions with related entities	N.A.	--	See note
- Other transactions	N.A.	--	See note
- Analysing Company sustainability in terms of:	N.A.	--	See note
Economic	N.A.	--	See note
Social	N.A.	--	See note
Environmental	N.A.	--	See note
- Evaluation of compliance with the Principles of Good Governance	N.A.	--	See note
- Code of Ethics	N.A.	--	See note

Note: According to DGTF guidelines, AdP does not disclose information on the SEE website because it is not directly state owned.

APPENDIX I

1 – GENERAL MEETING

The members of the Table of the General Meeting, currently in office (elected on 29 April 2018) and the respective remunerations policy established for the 2018/2020 mandate are the following:

Mandate (Begin. - End)	Position	Name	Amount of Fixed Allowance (EUR)	Gross Amount Paid (EUR)
2018-2020	Chair	João Manuel Plácido Pires	650.00	0.00
2018-2020	Vice-Chair	Maria Helena Dias Duarte	520.00	520.00
2018-2020	Secretary	Vacant position	0.00	0.00
				520.00

2 – BOARD OF DIRECTORS

Mandate (Begin. - End)	Position	Name	Designation			OPRLO (2)			No. of Mandates
			Form (1)	Date	Yes/No	Entity of Origin	Paying Entity to (O/D)		
2016-2018	Executive Chair	João Nuno Marques de Carvalho Mendes (**)	DUE	01/06/2016	No	AdP - Águas de Portugal, SGPS, S.A.	O	1	
2016-2018	Executive Vice-Chair	Carla da Conceição Afonso Correia	DUE	01/06/2016	No	AdP - Águas de Portugal, SGPS, S.A.	O	1	
2016-2018	Executive Director	Cláudio Miguel André de Sousa Jesus	DUE	01/06/2016	No	AdP - Águas de Portugal, SGPS, S.A.	O	2	
2016-2018	Executive Director	Juan Miguel Martín Iglesias (**)	DUE	01/07/2016	No	AdP - Águas de Portugal, SGPS, S.A.	O	1	
2016-2018	Executive Director	José Manuel Leitão Sardinha	DUE	01/06/2016	Yes	EPAL – Empresa Portuguesa das Águas Livres, S.A.	O	2	
2016-2018	Non Executive Director	Miguel Campos Cruz, in rep. of Parpública	DUE	18/04/2017	No			1	

(1) Indicate resolution (R)/AG/DUE/Dispatch (D).

(2) Remunerations option for Entity of Origin - as provided for under no. 8 of article 28 of EGP; indicate paying entity (O-Origin/D-Destiny)

(*) Renounced mandate, with effect on 01-12-2019.

(**) Renounced mandate, with effect on 01-07-2019

Member of the Managing Body	Accumulation of Positions		
	Entity	Position	Regime
João Nuno de Carvalho Mendes	Executive Chair of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A. and Non Executive Chair of the Board of Directors of AdP - Águas de Portugal, Serviços Ambientais, S.A., Member of the Executive Commission for the Inter-ministerial Working Group «Mission Structure for the Capitalisation of Companies»		Public
Carla da Conceição Afonso Correia	Executive Vice-Chair of AdP-Águas de Portugal, SGPS, S.A. and Non Executive Director of the Board of Directors of AdP - Águas de Portugal, Serviços Ambientais, S.A.		Public
Cláudio Miguel André de Sousa Jesus	Director of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A., Executive Chair of the Board of Directors of AdP Internacional, S.A.		Public
José Manuel Leitão Sardinha	Executive Director of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A., Executive Chair of the Board of Directors of EPAL, S.A. and Executive Chair of the Board of Directors of Águas do Vale do Tejo, S.A. Assistant Professor at Nova University of Lisbon and FCT and Coordinator of the South Region Country of the Order of Engineers		Public
Juan Miguel Martín Iglesias	Executive Director of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A. and Non Executive Director of the Board of Directors of AdP - Águas de Portugal, Serviços Ambientais, S.A. and Chair of the Audit Board BCSD in representation of AdP SGPS.		Public
Miguel Jorge Campos Cruz	Executive Chair of the Board of Directors of Parpública, SGPS, S.A. Chair of the Board of Directors of CE – Circuito do Estoril, S.A. Chair of the Board of Directors of Sagesecur - Sociedade de Estudos, Desenvolvimento and Participação Em Projectos, S.A.		Public

BD Member (Name)	Fixed [S/N]	Class. [A/B/C]	EGP	
			Gross monthly earnings (EUR)	
			Monthly income	Representation Allowance
João Nuno Marques de Carvalho Mendes (*)	S	A	5 722.75	2 289.10
Carla da Conceição Afonso Correia	S	A	5 150.47	2 060.19
Cláudio Miguel André de Sousa Jesus	S	A	4 578.20	1 831.28
Juan Miguel Martín Iglesias (**)	S	A	4 578.20	1 831.28
José Manuel Leitão Sardinha	S	A	-	-
Miguel Campos Cruz, in rep. of Parpública	S	A	1 144.55	-

(*) Renounced mandate, with effect on 01-12-2019.

(**) Renounced mandate, with effect on 01-07-2019.

BD Member (Name)	Annual Remuneration (EUR)				
	Fixed (1)	Variable (2)	Gross Amount (3)=(1)+(2)	Reductions in Remuneration (4)	Final Gross Amount (5) = (3)-(4)
João Nuno Marques de Carvalho Mendes (*)	98 612.52	0.00	98 612.52	4 930.70	93 681.82
Carla da Conceição Afonso Correia	96 828.86	0.00	96 828.86	4 841.00	91 987.86
Cláudio Miguel André de Sousa Jesus	86 070.16	0.00	86 070.16	4 303.80	81 766.36
Juan Miguel Martín Iglesias (**)	43 022.59	0.00	43 022.59	2 151.30	40 871.29
José Manuel Leitão Sardinha	-	-	-	-	-
Miguel Campos Cruz, in rep. of Parpública	-	-	-	-	-
			324 534.13	16 226.80	308 307.33

(1) The fixed amount of remuneration corresponds to earnings + representation allowances (without any reductions).

(4) Reduction stipulated by article 12 of Law no. 12-A/2010, of 30 June.

(*) Renounced mandate, with effect on 01-12-2019.

(**) Renounced mandate, with effect on 01-07-2019.

BD Member (Name)	Social Benefits (EUR)							
	Meal Allowance		Social Protection Regime		Annual Health Insurance Charge	Annual Life Insurance Charge	Others	
	Amount / Day	Amount paid annually	Identification	Annual Charge			Iden.	Amount
João Nuno Marques de Carvalho Mendes (*)	4.77	1 087.56	Seg.Social	22 888.51	1 381.69	2 149.94	-	-
Carla da Conceição Afonso Correia	7.14	1 534.02	Seg.Social	22 552.32	1 178.42	2 110.85	-	-
Cláudio Miguel André de Sousa Jesus	7.14	1 576.86	Seg.Social	20 199.70	1 507.30	1 876.31	-	-
Juan Miguel Martín Iglesias (**)	4.77	572.40	Seg.Social	10 097.02	376.82	938.15	-	-
José Manuel Leitão Sardinha	-	-	-	-	-	-	-	-
Miguel Campos Cruz, in rep. of Parpública (***)	-	-	-	-	-	-	-	-
		4 770.84	-	75 737.55	4 444.23	7 075.25	-	-

(*) Renounced mandate, with effect on 01-12-2019.

(**) Renounced mandate, with effect on 01-07-2019.

(***) Remuneration invoiced by Parpública.

BD Member (Name)	In possession of vehicles								
	Vehicle Attributed	Contract Signed	Vehicle Reference Value	Mode (1)	Year Begin.	Year Ending	Monthly Leasing Value	Annual Leasing Cost (EUR)	Remaining Contractual Payments (no.)
João Nuno Marques de Carvalho Mendes (*)	Y	Y	32 615.96	AOV	2018	2022	438.88	5 266.58	31
Carla da Conceição Afonso Correia	Y	Y	26 823.27	AOV	2018	2022	396.26	4 755.08	30
Cláudio Miguel André de Sousa Jesus	Y	Y	29 673.38	AOV	2018	2022	420.51	5 046.13	29
Juan Miguel Martín Iglesias(**)	Y	Y	29 673.38	AOV	2018	2022	420.51	2 523.06	29
José Manuel Leitão Sardinha	N	N							
Miguel Campos Cruz, in rep. of Parpública (***)	N	N							

(1) Acquisition; ALD; Leasing or other.

(*) Renounced mandate, with effect on 01-12-2019.

(**) Renounced mandate, with effect on 01-07-2019.

(***) Remuneration is invoiced by Parpública.

BD Member (Name)	Annual Service Representation Costs (EUR)					Total cost of travel (Σ)
	Business Travel	Accommodation Costs	Allowance Costs	Others		
				Iden.	Amount	
João Nuno Marques de Carvalho Mendes (*)			658.10			658.10
Carla da Conceição Afonso Correia		362.95	729.00			1 091.95
Cláudio Miguel André de Sousa Jesus (1)			140.00	Travel	2 682.48	2 822.48
Juan Miguel Martín Iglesias (**)			77.00			77.00
José Manuel Leitão Sardinha (2)						0.00
Miguel Campos Cruz, in rep. of Parpública (***)						0.00
						4 649.53

(*) Renounced mandate, with effect on 01-12-2019.

(**) Renounced mandate, with effect on 01-07-2019.

(***) Remuneration is invoiced by Parpública.

(1) Expenditure incurred in the performance of functions as Holding Director and Chair of AdP Internacional.

(2) Remuneration is incurred by EPAL.

3 – AUDIT

On 29 April 2018, the Audit Board was elected for the 2018-2020 mandate with the following composition and remuneration status:

Mandate (Begin. - End)	Position	Name	Designation		Monthly Remuneration (EUR)	No. of Mandates
			Form (1)	Date		
2018-2020	Chair	Carla Maria Lamego Ribeiro (*)	AG	29/04/2018	Y	3
2018-2020	Director	Rui Mendes Cabeças	AG	29/04/2018	Y	1
2018-2020	Director	Mário José Alveirinho Carrega	AG	29/04/2018	Y	3

(1) Indicate AG/DUE/Order.

(*) No remuneration due.

Name	Annual Remuneration (EUR)		
	Gross (1)	Reductions in Remunerations (2)	Final Amount (3) = (1)-(2)
Carla Maria Lamego Ribeiro (*)	-	-	-
Rui Mendes Cabeças	16 824.92	841.40	15 983.52
Mário José Alveirinho Carrega	16 824.92	841.40	15 983.52
			31 967.04

(*) No remuneration due.

ROC/ AUDIT BOARD

Mandate (Begin. - End)	Position	SROC/ROC Identification Name	SROC/ROC Identification			Designation		No. of years in function in the Group	No. of years in function in the company
			ROC Registration No.	CMVM Registration No.	Form (1)	Date	Date of Contract		
2018-2020	SROC, Full time	Grant Thornthton, SROC, Lda, represented by Dr. Pedro Lisboa Nunes (ROC no. 1202 and CMVM no. 20160813)	67	20161403	DUE	16/06/2015	02/01/2019	1	1
2018-2020	ROC Subst.	Carlos António Lisboa Nunes	427	20160131	DUE	16/06/2015	02/01/2019	1	1

(1) Indicate AG/DUE/Dispatch (D).

Name ROC/FU	Annual amount of service provision contract 2019 (EUR)			Annual amount of Additional Services - 2019 (EUR)			
	Amount (1)	Reductions (2)	Final Amount (3) = (1)-(2)	Identification of Service	Amount (1)	Reductions (2)	Final Amount (3) = (1)-(2)
Grant Thornthton, SROC, Lda, represented by Dr. Pedro Lisboa Nunes (ROC no. 1202 and CMVM no. 20160813)	35 722.91	-	35 722.91	n.a.	-	-	-
Carlos António Lisboa Nunes	-	-	-	n.a.	-	-	-

4- EXTERNAL AUDITOR

Name External Auditor	Identification of External Auditor		Date of Contracting	Duration of Contract	No. of years in function in the Group	No. of years in function in the company
	No. ROC	No. CMVM				
Pricewaterhousecoopers, SROC, Lda rep. by João Rui Fernandes Ramos, ROC (ROC 1333, CMVM no. 20160943)	183	20161485	30/09/2019	3	1	1

Name External Auditor	Annual amount of service provision contract 2019 (EUR)			Annual amount of Additional Services - 2019 (EUR)			
	Amount (1)	Reductions (2)	Final Amount (3) = (1)-(2)	Identification of Service	Amount (1)	Reductions (2)	Final Amount (3) = (1)-(2)
Pricewaterhousecoopers, SROC, Lda rep. by João Rui Fernandes Ramos, ROC (ROC 1333, CMVM no. 20160943)	24 500.00	n.a.	24 500.00	n.a.	-	-	-

APPENDIX 2

Compliance with Legal Orientations - 2019	Compliance Y/N/N.A.	Quantification/ Identification	Justification / Report Reference
Management objectives			See Point 1.a)
Targets set in the ABP 2019			
EBITDA*	Y	205%	See Point 1.b)
CGSMC+ESS+PC	Y	92%	See Point 1.b)
Operational Costs / Turnover	Y	86%	See Point 1.b)
Travel costs / Allow. costs/ Vehicle fleet costs	Y	89%	See Point 1.b)
Turnover	Y	107%	See Point 1.b)
Net result	Y	121%	See Point 1.b)
Individual indebtedness (includes intragroup)	Y	100%	See Point 1.b)
Individual indebtedness (excludes intragroup)	Y	100%	See Point 1.b)
Consolidated indebtedness	Y	101%	See Point 1.b)
Financial investment	Y	39%	See Point 1.b)
HR costs	Y	93%	See Point 1.b)
No. of employees	Y	91%	See Point 1.b)
Vehicle fleet costs	Y	99%	See Point 1.b)
No. of vehicles	N	103%	See Point 1.b)
PMP – average payment period	N	221%	See Point 1.b)
Financial risk management	Y	0.43%	See Point 2
Limits on rises in debt	Y	(4.1%)	See Point 3
Trend in supplier PMP	N	(6.6%)	See Point 4
Publication of payments in arrears	Y	4 801 EUR	See Point 4
Shareholder recommendations on last approval of accounts	N.A.	-	See Point 5
Remunerations			
No. of management bonuses awarded	Y	-	
Governing Bodies – remuneration reductions in effect in 2019	Y	308 307 EUR	See Appendix I
Auditors (CF/ORC/FU) - remuneration reductions in effect in 2019 (when applicable)	Y	1 683 EUR	See Appendix I
External Auditor - remuneration reductions in effect in 2019 (when applicable)	N.A.	-	See Appendix I
EGP – article 32 and 33 of EGP			
Non-utilisation of credit cards	Y	-	See Point 7
Non-reimbursement of personal representation costs	Y	-	See Point 7
Maximum amount for communications associated costs	Y	-	See Point 7
Maximum amount for fuel and tolls allocated monthly to service vehicles	Y	-	See Point 7

Compliance with Legal Orientations - 2019	Compliance Y/N/N.A.	Quantification/ Identification	Justification / Report Reference
Undocumented or confidential expenditure - no. 2 of article 16 of RJSPE and article 11 of EGP			
Ban on making undocumented or confidential expenditure	Y	-	See Point 8
Promoting salary equality between females and males - no. 2 of RCM no. 18/2014			
Producing and publishing a report on the remunerations paid to female and male workers	Y	www.adp.pt	See Point 9
Producing and publishing an annual report on preventing corruption	Y	www.adp.pt	See Point 10
Public tendering			
Application of norms for company public tendering	Y	-	See Point 11
Application of norms for holding company public tendering	Y	-	See Point 11
Contracts submitted for prior validation by the Court of Audit	N.A.	-	
Measures taken to integrate the company into the SNPC – the National Public Procurement System	Y	-	See Point 12
Auditing by the Court of Audits	Y	-	See Point 16
Vehicle Fleet			
No. of Vehicles	Y	31	See Point 13
Public company operating costs	Y	- 3.6 p.p.	Ver ponto 13
Contracting of studies, opinions, projects and consultancy (article 49 of DLEO 2019)	Y	-14%	See Point 14
Treasury unit principle (article 28 of DL 133/2013)			
Availabilities and applications centralised in the IGCP (c)	Y	99%	See Point 15
Availabilities and applications in Commercial Banks (c)	S	16 476 809	See Point 15
Interest earned in non-compliance of UTE and delivered as State Earnings	Y	-	See Point 15

(a) Indicate each Company management objective.

(b) This should also indicate any recommendations resulting from transversal audits of the sector of activity and/or SEE.

(c) Not considered for the purposes of calculating available cash flow.

* Operational result + (Amortisations - Invest Subs.) + Provisions + Losses due to impairments and reversions-CRD-Earnings/Construction costs (IFRIC12)

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THE ACCOUNTS



ILLUSTRARQ

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR)

	Note	31.12.2019	31.12.2018
Non-current assets			
Intangible assets	8	3 820 161 862	3 848 668 676
Tangible fixed assets	9	675 756 651	706 389 992
Assets under right of use	10	33 085 375	-
Investment properties	11	13 320 907	13 399 960
Other financial assets	12	23 605 969	35 840 620
Financial investment in associates	13	47 107	47 107
Deferred tax assets	14	243 399 961	221 778 755
Tariff deviation	16	663 054 661	685 482 817
Trade receivables and other non-current assets	17	28 758 518	68 482 486
Total non-current assets		5 501 191 011	5 580 090 413
Current assets			
Inventories	18	12 320 074	2 483 626
Financial assets at fair value through other comprehensive income	19	72 213 412	-
Trade receivables	20	299 809 204	346 020 208
State and other public entities	21	8 280 251	8 832 623
Other current assets	22	95 539 222	113 247 854
Other financial assets	12	9 488 784	-
Cash and cash equivalents	23	138 163 519	91 206 292
Total current assets		635 814 466	561 790 603
Total assets		6 137 005 477	6 141 881 016
Share capital of shareholders			
Share capital	24	434 500 000	434 500 000
Reserves and other adjustments	25	38 774 676	35 292 351
Retained earnings	26	777 010 089	719 304 806
Net profit for the year		83 116 158	87 263 416
		1 333 400 923	1 276 360 573
Non-controlling interest	27	316 561 908	312 816 849
Total share capital		1 649 962 831	1 589 177 422
Non-current liabilities			
Provisions	28	16 456 661	10 066 743
Pension liabilities	29	115 000	275 000
Loans	30	1 756 133 493	1 843 683 730
Lease liabilities	10	17 716 814	-
Trade payables and other non-current liabilities	31	90 132 659	87 857 268
Deferred tax liabilities	14	268 840 209	270 584 543
Accrued contractual investment expenses	32	493 673 568	469 348 261
Investment grants	33	1 523 133 254	1 563 328 240
Tariff surplus	16	50 225 368	34 534 334
Derivative financial instruments	15	2 788 817	3 315 416
Total non-current liabilities		4 219 215 843	4 282 993 535
Current liabilities			
Loans	30	78 264 969	80 487 688
Lease liabilities	10	5 564 472	-
Trade payables	34	63 317 116	71 836 838
Other current liabilities	35	85 996 832	81 216 576
Income tax for the year	36	11 691 025	13 527 353
State and other public entities	21	22 992 389	22 641 604
Total current liabilities		267 826 803	269 710 059
Total liabilities		4 487 042 646	4 552 703 594
Total liabilities and share capital		6 137 005 477	6 141 881 016

The Board of Directors

Carla da Conceição Afonso Correia (Vice-Chair)
 Cláudio Miguel André Sousa Jesus (Executive Director)
 José Manuel Leitão Sardinha (Executive Director)
 Miguel Jorge de Campos Cruz (Non-Executive Director)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

CONSOLIDATED INCOME STATEMENT BY TYPE

		(EUR)	
	Note	31.12.2019	31.12.2018
Revenue from contracts with customers	37	691 532 097	657 885 625
Income from construction of concession assets (IFRIC 12)	37	139 576 905	119 638 558
Cost recovery tariff deficit / surplus	16 e 37	(38 119 189)	(15 462 135)
Sales costs / variations in inventories	38	(22 470 360)	(21 226 050)
Costs of construction of concession assets (IFRIC 12)	38	(139 576 905)	(119 638 558)
Supplies and services	39	(198 589 462)	(194 739 334)
Personnel costs	40	(101 308 047)	(98 755 531)
Financial year amortisations, depreciations and reversals	41	(226 425 668)	(216 802 601)
Financial year provisions and reversals	42	(50 859)	(324 133)
Financial year impairment losses and reversals	43	(2 129 199)	(6 207 994)
Investment grants	33,3	61 915 631	61 053 402
Other operational expenses and losses	44	(12 832 052)	(10 119 244)
Other operating income and gains	45	9 412 251	9 976 172
Operating income		160 935 143	165 278 177
Financial costs	46	(42 458 484)	(45 847 299)
Financial income	47	12 059 863	17 816 131
Gains/(losses) from financial investment	48	-	1 198 633
Financial income		(30 398 621)	(26 832 535)
Profit before tax		130 536 522	138 445 642
Income tax for the year	49	(62 651 821)	(55 798 802)
Deferred tax	49	23 872 688	16 799 524
Net profits for the financial year		91 757 389	99 446 364
Net profit allocable to AdP SGPS shareholders		83 116 158	87 263 416
Net profit allocable to non-controlling interest		8 641 231	12 182 948
		91 757 389	99 446 364
Earnings per share (basic and diluted)	24.2	0.96	1.00

The Board of Directors

Carla da Conceição Afonso Correia (Vice-Chair)

Cláudio Miguel André Sousa Jesus (Executive Director)

José Manuel Leitão Sardinha (Executive Director)

Miguel Jorge de Campos Cruz (Non-Executive Director)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	31.12.2019	31.12.2018
(EUR)			
Net profit for the year		91 757 389	99 446 364
Foreign exchange gains / losses		(21 066)	(5 980)
Fair value of hedging instruments	15	526 598	455 341
Gains / losses to be reclassified through profit or loss		505 532	449 361
Remuneration of post-employment benefit liabilities	29	418 660	(681 406)
Gains / losses to be reclassified through profit or loss		418 660	(681 406)
Comprehensive income		92 681 581	99 214 319
Comprehensive income allocable to AdP SGPS shareholders		84 040 350	87 031 371
Comprehensive income allocable to non-controlling interests		8 641 231	12 182 948
		92 681 581	99 214 319

The Board of Directors

Carla da Conceição Afonso Correia (Vice-Chair)

Cláudio Miguel André Sousa Jesus (Executive Director)

José Manuel Leitão Sardinha (Executive Director)

Miguel Jorge de Campos Cruz (Non-Executive Director)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR)

	Share capital	Foreign exchange reserve	Legal reserve	Reserves-Fair value of financing negative hedging	Other reserves	Retained earnings	Profit and loss for the year	Total	Non-controlling interest	Total share capital
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
Appropriation of results for 2017			3 146 993			85 460 755	(88 607 748)	-		-
Dividend paid						(26 500 000)		(26 500 000)	(6 170 957)	(32 670 957)
Paid-in capital								-	5 324 673	5 324 673
Left the perimeter - AQUASIS								-	134 814	134 814
Comprehensive income		(5 980)		455 341		(681 406)		(232 045)	-	(232 045)
Net profit in December 2018							87 263 416	87 263 416	12 182 948	99 446 364
Balance as at 31.12.2018	434 500 000	791 925	32 945 571	(877 029)	2 431 884	719 304 806	87 263 416	1 276 360 573	312 816 849	1 589 177 422
Appropriation of results for 2018			2 976 793			84 286 623	(87 263 416)	-		-
Dividend paid						(27 000 000)		(27 000 000)	(6 634 152)	(33 634 152)
Paid-in capital								-	1 737 980	1 737 980
Comprehensive income		(21 066)		526 598		418 660		924 192	-	924 192
Net profit in December 2019							83 116 158	83 116 158	8 641 231	91 757 389
Balance as at 31.12.2019	434 500 000	770 859	35 922 364	(350 431)	2 431 884	777 010 089	83 116 158	1 333 400 923	316 561 908	1 649 962 831

The Board of Directors

Carla da Conceição Afonso Correia (Vice-Chair)
 Cláudio Miguel André Sousa Jesus (Executive Director)
 José Manuel Leitão Sardinha (Executive Director)
 Miguel Jorge de Campos Cruz (Non-Executive Director)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

CONSOLIDATED CASH FLOW STATEMENT

(EUR)

	31.12.2019	31.12.2018
Operating activities		
Flows generated by operations		
Trade receivables	724 388 473	685 132 103
Trade payables	(267 766 573)	(265 523 770)
Payments to personnel	(105 451 907)	(85 324 780)
Flows generated by operations	351 169 993	334 283 553
Other operational flows		
Corporate income tax (payable) / receivable	(63 328 660)	(55 593 055)
Other receiv. / (pay.) of operational act.	6 673 386	(13 626 511)
Other operational flows	(56 655 274)	(69 219 566)
Total operating activities (1)	294 514 719	265 063 987
Investment activities		
Receivables from:		
Financial investment	2 871 063	27 095 065
Tangible fixed assets	9 788	87
Intangible assets	670 930	6 471
Investment grants	28 071 915	45 067 720
Interest and similar income	2 849 817	2 542 544
Dividends	-	21 920
Subtotal	34 473 513	74 733 807
Payments for:		
Financial investment	(41 960)	(10 913 510)
Tangible fixed assets	(2 843 294)	(11 648 566)
Intangible assets	(125 204 081)	(115 386 203)
Subtotal	(128 089 335)	(137 948 279)
Total investment activities (2)	(93 615 822)	(63 214 472)
Financing activities		
Receivables from:		
Loans obtained	-	40 000 000
Paid-in capital, additional capital contributions	1 740 867	5 324 673
Subtotal	1 740 867	45 324 673
Payments for:		
Loans obtained	(84 697 276)	(143 426 023)
Interest and similar expenses	(40 920 829)	(46 790 430)
Dividends	(30 031 158)	(32 195 173)
Subtotal	(155 649 263)	(222 411 626)
Total financing activities (3)	(153 908 396)	(177 086 953)
Changes in cash and cash equivalents (1 + 2 + 3)	46 990 501	24 762 562
Effects of exchange rate differences	1 860	142 222
Cash and cash equivalents at the start of the period	91 088 941	66 184 157
Cash and cash equivalents at the end of the period	138 081 302	91 088 941

The Board of Directors

Carla da Conceição Afonso Correia (Vice-Chair)
 Cláudio Miguel André Sousa Jesus (Executive Director)
 José Manuel Leitão Sardinha (Executive Director)
 Miguel Jorge de Campos Cruz (Non-Executive Director)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. GENERAL INFORMATION

1.1 INTRODUCTION

AdP - Águas de Portugal, SGPS, S.A. (hereinafter also referred to as AdP, or the Company), with its head office at Rua Visconde Seabra n° 3, in Lisbon, was incorporated on September 29, 1993, with its main activity as the management of shareholdings in companies that provide public drinking water supply and urban wastewater treatment services.

The following are AdP shareholders:

Shareholders on 31 December 2019	% Capital	Subscribed amount	No. of shares	Type of shares
Parpública, SGPS, S.A.	81%	351 945 000	70 389 000	Nominative
Caixa Geral de Depósitos, S.A.	19%	82 555 000	16 511 000	Nominative
	100%	434 500 000	86 900 000	

AdP 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

AdP was incorporated 26 years ago and entrusted with developing multi-municipal systems for the abstraction, treatment and distribution of water for public consumption in Portugal and for 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 water distribution systems and effluent collection directly to the populations served.

In the 2000 financial year, AdP took over the entire capital of the Empresa Geral de Fomento, S.A. (EGF) with the mission of developing multi-municipal systems for the collection and treatment of municipal solid waste. This shareholding was sold in 2015 (95%) and in 2017 (5%). The performance of the AdP Group is based on the targets of the Strategic Plan for Water Supply and Sanitation of Wastewater (PEAASAR) 2020 published by Order No. 4385/2015, of April 30.

The prevailing business model is based on three management models: **(i)** delegated or concessionary management for state-owned systems (EPAL and Águas de Santo André respectively); **(ii)** concessions for multi-municipal systems, consisting of the state and municipalities (Águas do Norte, Águas do Douro e Paiva, SIMDOURO, Águas do Vale do Tejo, Águas do Centro, Águas do Tejo Atlântico, SIMARSUL and Águas do Algarve); and **(iii)** management of systems established in partnerships between the State and municipalities (Águas do Noroeste – which was merged with Águas do Norte, AdRA - Águas da Região de Aveiro, AgdA - Águas Públicas do Alentejo and AdAM – Águas do Alto Minho).

1.2.1 REGULATED ACTIVITY (LICENSED, IN PARTNERSHIP 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) 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.

Water – production and purification – upstream licenses and partnerships

The companies in this segment either operate exclusive concessions granted by the State for the provision of water supply and wastewater treatment and disposal services or they participate in a State-Local Government partnership to deliver the same type of

service. These concession agreements 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 provided is paid for through the tariff established by the regulating entity (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 for 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 and duly established by Decree-Law.

1.2.2 NON-REGULATED 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, Guinea-Bissau, Sao Tome and Principe and Mozambique.

Corporate services

These are the shared services provided by the holding company AdP SGPS, AdP Serviços 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.

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 and undertake business in keeping with the sector's strategic policies defined by the government within a rational business framework, the constant optimisation of efficiency, and the quality and safety of the service provided;
- Are socially responsible, pursue social and environmental goals in their works and foster competition in the market, act on behalf of consumer protection, and invest 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 feasibility and 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 within a framework of balance and the strict control of the associated costs, compatible with their size;
- Implement action plans that promote equal treatment and opportunities for men and women, eliminate discrimination and ensure a life-work balance (promotion of equality);
- Adopt policies of consistent scientific and technological innovation, foster research into new ideas, products, processes and market approaches in order to better fulfil their mission and meet collective needs while oriented towards economic, financial, social and environmental sustainability; and
- Apply information and internal control systems suited to their size and complexity to cover all relevant risks and 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 - Aguas 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 for the sector, implement an agenda of measures aimed at consolidating and refocusing their activities, specifically:

- Expand collaboration with the Municipalities, in particular through the:
 - 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 options for the water sector, making them compatible with raising efficiency and the nature of the business, specifically:
 - Promoting multi-municipal systems detachments;
 - 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;
 - Perform and participate in evaluation exercises and performance comparisons;
 - Perform and implement 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, the AdP Group prioritises **(a)** universality, continuity and quality of service, **(b)** the sustainability of the sector and **(c)** the protection of environmental values.

AdP is a holding company that, through its subsidiaries, designs, constructs, operates and manages water supply and wastewater treatment systems within 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 FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for publication by the Board of Directors on 31 March 2020. It is the opinion of the Board of Directors that they reliably reflect the Company's operations as well as their financial position and performance and their cash flows. The Board of Directors expects these financial statements to be approved by the Shareholders General Meeting without material changes.

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 2019.

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 FOR 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 NORMS AND CHANGES IN POLICIES

2.1.2.1 Voluntary changes in accounting policies

No voluntary policy changes to accounting policies were made in the financial year that ended on 31 December 2019, with respect to those considered in the preparation of the financial information relating to the financial year ending on 31 December 2018 as demonstrated in the comparative reporting.

2.1.2.2 New norms, interpretations and changes in effect as of 1 January 2019

These standards and amendments are effective for annual periods beginning on or after 1 January 2019 and have been applied in the preparation of these financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaced IAS 17 Leases, IFRIC 4 Determining if an Agreement contains a Lease, SIC 15 Operational Leases - Incentives and SIC 27 Evaluation of the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 sets out the principles applicable to the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on their balance sheets in accordance with a single mode.

The standard provides for two exemptions to lessee recognition - lease contracts where assets are of little value (such as a personal computer) and short-term lease contracts (i.e. contracts with a duration of 12 months or less).

At the commencement date of the lease, the lessee will recognise the liability relating to the future lease payments (i.e. the lease liability) and the assets representing the right to use the assets during the lease period (i.e. the assets under right of use). Lessees will have to separately recognise the financial cost related to the lease liability and the cost of depreciation or amortization of the assets under the right of use.

Under the rule, lessees will have to re-measure the lease liability when certain events occur (for example, a change in the lease period, a change in lease payments as a consequence of a change in an index or the rate used to ascertain these payments). Lessees are to recognise the amount of this re-measurement in the lease liability as an adjustment to the assets under right of use.

Lessor accounting in accordance with IFRS 16 remains substantially unchanged from the accounting currently provided for in IAS 17. The lessor continues to classify all leases using the same IAS 17 classification principle and distinguishing between two types of lease: operational and financial leases.

IFRS 16, which enters into effect for periods beginning on or after January 1, 2019 requires more extensive disclosures from lessors and lessees than those required by IAS 17.

Transition to a IFRS 16

The AdP Group will adopt IFRS 16 retrospectively with the cumulative effect on the date of application of IFRS 16 (January 1, 2019), where the right to use the assets of the lease will be accounted for at the amount equal to the liability of the lease determined on January 1st 2019. Through this practical IFRS 16 application, comparisons were not restated. The AdP Group shall apply this standard to all contracts that were previously identified as leases under IAS 17 and IFRIC 4. Consequently, the AdP Group shall not apply the standard to contracts that have not previously been identified as containing a lease.

The AdP Group has decided to apply the exemptions provided for in the standard for leases whose lease term ends within the 12 months following the initial application date, and for lease contracts for which the underlying assets are of little value. The AdP Group holds lease agreements for certain types of administrative equipment (such as personal computers, printing machines and photocopiers) which the AdP Group considers to be of little value.

On January 1 2019, the impact of IFRS 16 is as follows:

	Note	
Increase in assets – Right of use lease assets	10	16 596 254
Increase in liabilities – Lease liabilities		16 596 254

In determining the impact estimated with the transition to IFRS 16 on January 1, 2019, the following practical means authorised by the norm were used:

- i) In contracts with lease and service components, the services component was treated as a lease under IFRS 16;
- ii) Lease contracts with contractual termination before December 31, 2019 were excluded from the scope of IFRS 16;
- iii) Lease contracts for which the underlying assets have an estimated value of less than USD 5,000 (printers and photocopiers, water dispensers, reservoirs) were excluded from the scope of IFRS 16.

In addition, the discount rate used to quantify the lease liability on January 1, 2019 was determined as follows:

- i) In contracts where the implicit rate of the respective agreement is available, this rate was applied (the interest rate that equals the fair value of the assets underlying the sum of the current lease income and residual value);
- ii) The remaining contracts applied the incremental financing rate (the interest rate that would be obtained for financing for the term of the lease intended to acquire the assets underlying the lease).

The impact of the transition to IFRS 16 essentially relates to those contracts that, up until 31 December 2018 were accounted for as operational leases under the auspices of IAS 17 - car lease contracts and maintenance, insurance and tax provisions.

Prepayments with negative compensation - amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through comprehensive income provided that the implicit cash flows are “only payment of principal and interest on capital outstanding” (the SPPI criterion) and the instrument is held in a business model that allows such classification.

Amendments to IFRS 9 clarify that a financial asset passes the SPPI criteria regardless of the event or circumstances causing the anticipated termination of the agreement and regardless of which party pays or receives reasonable compensation for the early termination of the agreement.

The basis for this amendment clarifies that the early termination may be a consequence of a contractual clause or an event that is beyond the control of the parties to the contract, such as a change of laws or regulations leading to early termination.

Modification or replacement of a financial liability that does not result in the derecognition of such liability

On the basis of the conclusion, the IASB also clarifies that the requirements of IFRS 9 for adjusting the amortised cost of a financial liability, when a change (or replacement) does not result in its derecognition, are consistent with the requirements applied to modifications of assets that do not result in their derecognition.

This means that the gain or loss resulting from the modification of that financial liability that does not result in its derecognition, calculated by discounting the change in the cash flows associated with that liability at the original effective interest rate, is immediately recognised in the income statement.

The IASB made this comment on the basis for the conclusion regarding this amendment as it believes that the current requirements of IFRS 9 provide a good basis for entities to account for the changes or substitutions of financial liabilities and that no formal change to IFRS 9 is required as regards this matter.

The application of this change in the standard did not have relevant impacts for the AdP Group financial statements.

Long term interests in Associates or Joint Venture companies - alterations to IAS 28

The alterations serve to clarify how an entity should apply IFRS 9 to long term interests in associate or joint venture companies to which the equity method is not applied but which, in substance, represents one part of the net investment in that associate or joint venture (long term interests). This clarification is relevant as this implies that the IFRS 9 expected loss model should be applied to these investments.

The IASB also clarified that, on applying IFRS 9, an entity does not take into account any losses of this associate or joint venture or any losses due to impairments in the net investment that are recognised as an adjustment to the net investment resulting from the application of IAS 28.

In order to illustrate how the entities may apply the requirements of IAS 28 and IFRS 9 as regards their long term interests, the IASB published illustrative examples when issuing this alteration.

This alteration applies to those periods beginning on or after 1 January 2019. The alteration has to be applied retrospectively although with certain exceptions.

The application of this change in the standard did not return any relevant impacts for the AdP Group financial statements.

IAS 19 Alterations to the plan, cuts or termination of the plan

This alteration provides clarification on the accountancy procedures for adoption in case of any alterations to the plan or when having to make a cut or to terminate the plan.

Determining the cost of current services and net interest

Whenever accounting for a benefits plan defined in accordance with IAS 19, the norm requires that the cost of current services be measured in accordance with the actuarial assumptions determined on the start date of the current reporting period. Similarly, the net interest is measured by multiplying the new liability (assets) of the plan by the discount rate with both settled according to the start date of the prevailing reporting period.

This alteration serves to clarify how, whenever any cut or termination of a plan during the period, requires:

- That the cost of the current services for the remaining period be measured in keeping with the actuarial assumptions applied to re-measure the net liability (asset) of the plan, which reflects the benefits provided by the plan and its respective assets following this event;
- The net interest for the remaining period following this event is determined according to:
 - The net liability (asset) of the plan, which reflects the benefits provided by the plan following this event; and
 - The discount rate applied to re-measure the net liability (asset) of the plan.

Effect on the requirements to determine the maximum limit for asset recognition

An alteration, cut or settlement of the plan may reduce or eliminate any excess in the defined benefit plan which may lead to a change in the asset maximum recognition limit.

This alteration thus clarifies how any cost of past service or the gain or loss from the termination should be first determined without any consideration of the maximum limit for asset recognition. This value is recorded in the results for the respective period. Subsequently, the effect of the maximum limit of asset recognition following the alteration, cut or settlement of the plan is to be determined. Any alteration in this effect, not considering the values included in the net interest, is recorded as comprehensive income.

This clarification may lead to an entity recognising the costs of a past service or the gain or loss from termination, which reduces the excess that has not been hitherto recognised. Alterations in the effect of the maximum asset recognition limit are not eligible for compensating these amounts.

This alteration is applicable to any alteration, cut or termination of such plans taking place on or after the beginning of the annual reporting period that begins on or after 1 January 2019.

The application of this change in the standard did not return any relevant impacts for the AdP Group financial statements.

Annual improvements relative to the 2015-2017 cycle (effective as at 1/1/2019)

In the annual improvements relative to the 2015-2017 cycle, the IASB introduced improvements across four areas that we hereby summarise below:

- IFRS 3 Business combinations – Interests held prior to a joint operation
 - These alterations clarify how, whenever an entity obtains control of a joint operation, to apply the requirements for combining a business by phases, including re-measuring the interest previously held in the assets and liabilities of the joint operation according to their fair value.
 - In doing so, the acquirer re-measures its previously held interest in this joint operation.
 - This alteration is applicable to business combinations for which the acquisition date is on or after the beginning of the first period of reporting that begins on or after 1 January 2019.
- IFRS 11 Joint agreements – Previously held interest in a joint operation
 - A party that holds a stake in, but that does not have joint control, a joint operation may obtain joint control of this joint operation whenever the activity constitutes a business defined by IFRS 3. This alteration seeks to clarify that the previously held interest does not need to be subject to re-measurement.
 - This alteration is applicable to the transactions in which the entity obtains joint control in a period on or after the beginning of the first period of reporting that begins on or after 1 January 2019.

- IAS 12 Tax on earnings – consequences in terms of the tax on earnings stemming from payments relating to financial instrument classified as capital instruments.
 - These alterations serve to clarify how the consequences in terms of the tax on dividends are directly associated with the transaction or the past event that generated the results distributable to shareholders. Consequently, the entity recognises the impacts in terms of taxation in their reporting of results, either as integral income or in another capital instrument according to the way in which the entity recognised these transactions or events in the past.
 - These alterations are applicable to annual periods beginning on or after 1 January 2019. Whenever the entity applies these alterations for the first time, the consequences apply in terms of the tax on dividends recognised on or after the beginning of the oldest comparative period.
- IAS 23 Costs of loans – loan costs eligible for capitalisation
 - This alteration acts to clarify how an entity applies, as part of the overall loans, any loan originally obtained for the development of the respective asset whenever all of the activities necessary to prepare this asset are substantially for the intended usage or for sale on completion.
 - The alterations are applicable to the costs of loans incurred on or after the beginning of the reporting period in which the entity adopts these alterations.
 - These alterations are applicable to annual periods beginning on or after 1 January 2019.

The application of this change in the standard did not generate any relevant impacts for the AdP Group financial statements.

IFRIC 23 – Uncertainty about different treatments of income tax

In June 2017, the IASB issued IFRIC 23 Uncertainty on different income tax treatments (the Interpretation) which clarifies the application and measurement requirements of IAS 12 Income tax when there is uncertainty as to the treatment to be given to the income tax.

The Interpretation addresses the accounting of income tax when tax treatments involve uncertainty and affect the application of IAS 12. The Interpretation does not apply to rates or taxes not under IAS 12, nor does it specifically include interest or penalty requirements associated with tax treatment uncertainty.

The Interpretation specifically addresses the following:

- Whether an entity considers the uncertainties of tax treatment separately;
- The assumptions that an entity applies about the examination of tax treatments by the tax authorities;
- How an entity determines fiscal profit (loss), the tax base, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider uncertainty over each tax treatment separately or in conjunction with one or more uncertain tax treatment issues. The approach that should be followed is the one that best predicts the outcome of the uncertainty.

The application of this change in the standard did not return any relevant impacts for the AdP Group financial statements.

2.1.2.3 New norms and interpretations already issued but not yet obligatory

The norms and interpretations recently issued by IASB with obligatory application in the periods on or subsequent to 1 January 2020 and that the AdP Group has not already pre-emptively adopted are the following:

- **Already approved by the EU**

Definition of materiality – Alterations to IAS 1 and to IAS 8

The objective of this alteration was to render consistency to the definition of "material" across all the norms in effect and clarify some of the aspects stemming from the definition. The new definition foresees that "information becomes material when its omission, error or occultation might reasonably be expected to influence the decisions that the primary users of financial reporting accept as the basis for such financial reporting, which provide financial information about the specific entity thereby reporting".

The alterations clarify that the materiality depends on the nature and the magnitude of the information or of both. An entity has to evaluate whether determined information, whether individually or in combination with other information, is material within context of the financial reporting.

Hidden information

The alterations explain that this information remains hidden whenever communicated in a way that has the same effect that it would have had if it had been omitted or contained errors. Material information may be hidden, for example, whenever the information relates to a material item, material transaction or another material event is dispersed throughout the financial reporting or is published in a language that is vague and relatively unclear. Material information may also be hidden when dissimilar items, dissimilar transactions or dissimilar events are inappropriately collated or, inversely, when similar items are broken down.

New level of materiality (“threshold”)

The alterations replace the reference to “able to influence” materiality, which suggests that any potential influence over users might end up under consideration as “reasonably expected to influence” contained in that definition of materiality. The now altered definition therefore clarifies how the evaluation of materiality has to take into account only the reasonably expected influences over the economic decisions of the primary consumers of financial reporting.

Primary users of financial reporting

The current definition refers to “users” but does not specify their characteristics with the resulting interpretation that this might imply the entity has to take into consideration every possible user of financial reporting when taking decisions over the information for release. Consequently, the IASB decided to refer only to the primary users in the new definition in order to respond to the concern that the term “users” might be interpreted in a broader sense.

This alteration comes into effect for periods beginning on or after 1 January 2020. This alteration also has to be applied prospectively. Pre-emptive adoption is allowed for and has to be disclosed.

The conceptual structure for financial reporting

The conceptual structure establishes a broad reaching set of concepts for:

- Financial reporting;
- Definition of the norms;
- Developing consistent accountancy principles; and
- Support for understanding and interpreting the norms.

The revised conceptual structure includes:

- Some new concepts;
- Revised definitions and criteria for the recognition of assets and liabilities;
- Clarifications of important concepts.

This structure is organised as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial reporting and the entities that report
- Chapter 4 – The contents of financial reports
- Chapter 5 – Recognition and de-recognition
- Chapter 6 – Measuring
- Chapter 7 – Presentation and publication
- Chapter 8 – Concepts of capital and maintaining capital.

The revised conceptual structure for financial reporting is not a norm and none of its concepts prevail over the concepts present in the norms and the other requirements of certain norms. This is applicable to entities undertaking their accountancy principles based on the conceptual structure for the financial years beginning on or after 1 January 2020.

Reform of reference interest rates – Amendments to IFRS 9, IAS 39 and IFRS 7

These changes are part of the first phase of the IASB’s ‘IBOR reform’ project and allow exemptions related to the benchmark reform for reference interest rates. The exemptions relate to hedge accounting, in terms of: **(i)** risk components; **(ii)** ‘highly probable’

requirements; **(iii)** prospective assessment; **(iv)** retrospective effectiveness testing (for IAS 39 adopters); and **(v)** recycling of the cash flow hedge reserve, and are aimed at ensuring that the reform of the benchmark interest rates does not lead to the termination of hedge accounting. However, any ineffectiveness in the hedges assessed should continue to be recognised in the income statement.

- **Not yet endorsed by the EU**

IFRS 17 Insurance contracts

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct and re-insurance policies), irrespective of the type of entity issuing the policy as well as some of the guarantees and of the financial instruments with discretionary participation characteristics. Some exceptions are applicable. The general objective of the IFRS 17 is to provide an accounting model for insurance contracts that might be of greater utility and more consistent for the issuers. Contrasting with the requirements of IFRS 4, that are based on previously adopted local accounting policies, IFRS 17 provides an integral model for insurance contracts covering all relevant accounting aspects.

In November 2018, the IASB decided to propose the alteration of the date this norm enters into effect for the annual financial years beginning on or after 1 January 2022. The IASB is also attempting to alter the norm in order to consider the concerns and the challenges of norm implementation that have been raised by interested parties.

Definition of business activities – alterations to IFRS 3

This alteration provides the minimum requirements for the consideration of a business activity, removing the evaluation whenever market participants hold the capacity to replace the missing factors, adding an orientation in order to enable the evaluation whether an acquired process is substantive, restricting the definitions of business activities and of outputs and introducing an optional test for business activity fair value.

This alteration is effective for transactions considered as concentrations of business activities or acquisitions of assets for which the date of acquisition took place on or after the beginning of the first period that begins on or after 1 January 2020. These alterations apply prospectively. Consequently, the entities do not have to evaluate their acquisitions made prior to this date. Pre-emptive adoption is permitted and has to be publicised.

This alteration also impacts on other norms (for example, when the holding company loses control over the subsidiary and pre-emptively applies the alteration to IFRS 10 and IAS 28 as regards the sale or delivery of assets by an investor to an associate or joint undertaking).

IFRS 14 Deferral accounts related to regulated activities

This norm enables an entity with its activities subject to regulated tariffs to continue to apply the greatest proportion of the accountancy policies from the previous normative accounting framework to deferral accounts related with regulated activities when adopting IFRS for the first time.

Ineligible for applying this norm are: **(i)** entities that have already prepared their financial reporting according to IFRS, **(ii)** entities with current normative accounting frameworks that do not allow for the recognition of regulatory assets and liabilities and **(iii)** entities with current normative accounting frameworks that allow for the recognition of regulatory assets and liabilities but that have not adopted this accounting policy prior to IFRS adoption.

The deferral accounts related with regulatory activities require presentation in a line separate to the financial position item and the movements in these accounts require presentation in separate lines in the results and the full results balance sheet. This should detail the nature and the risks associated with the regulated tariff of the entity and the effects that this regulation incurs on financial reporting.

These alterations are applicable prospectively for the financial years beginning on or after 1 January 2016. Pre-emptive adoption is allowed for whenever duly disclosed. The European Union (EU) decided not to advance with its approval of this intermediate norm and await the final norm.

The application of these changes in the norms, new norms and their interpretations are not expected to return any relevant impacts for the financial reporting of AdP Group after 1 January 2020.

2.2 CONSOLIDATION

2.2.1 DATES

The consolidated financial statements reflect the assets, liabilities, results and cash flows of AdP and its subsidiaries and the profits proportional to the shareholdings in associate companies for the financial year ending on 31 December 2019 (and comparisons with 31 December 2018).

2.2.2 SHAREHOLDINGS IN SUBSIDIARIES

Subsidiaries are all those entities over which AdP 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, irrespective of the existence of non-controlled interest. 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 subsidiary 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 IFRS9; 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 subsequent 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 measured on the date control is obtained and so the previously recognised goodwill remains unchanged;
- any contingent acquisition value is only recognised when the Group holds a present obligation, the outflow is considered probable and the estimate is reliably determinable with subsequent changes in this value 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	% of subscribed capital	% of effective capital	% of paid-up capital	Share capital	Equity capital	Net profit for the period
Águas do Algarve, S.A.	Faro	54.44%	54.44%	54.44%	EUR 29 825 000	29 451 461	1 200 838
Águas do Centro Litoral, S.A.	Coimbra	60.33%	62.77%	60.71%	EUR 39 974 968	99 123 363	1 782 131
Águas do Douro e Paiva, S.A.	Porto	51.00%	51.00%	51.00%	EUR 20 902 500	30 460 560	731 297
Águas do Norte, S.A.	Vila Real	68.73%	72.50%	70.74%	EUR 107 899 980	264 604 411	5 208 557
Águas de Santo André, S.A.	Vila Nova de Santo André	100.00%	100.00%	100.00%	EUR 1 000 000	20 661 637	4 396 977
AgdA - Águas Públicas do Alentejo, S.A.	Beja	51.00%	51.00%	51.00%	EUR 7 841 500	8 714 905	479 907
AdAM - Águas do Alto Minho, S.A.	Viana do Castelo	51.00%	51.00%	51.00%	EUR 1 205 530	1 223 518	17 988
Águas do Tejo Atlântico, S.A.	Lisbon	50.68%	51.61%	51.83%	EUR 113 527 680	115 903 492	4 277 855
Águas do Vale do Tejo, S.A.	Guarda	68.74%	68.27%	68.74%	EUR 83 759 578	204 732 681	4 222 375
SIMARSUL, S.A.	Setúbal	51.00%	51.43%	51.00%	EUR 25 000 000	65 867 581	1 245 184
SIMDOURO, S.A.	Vila Nova de Gaia	58.52%	58.61%	58.52%	EUR 20 046 075	31 245 150	835 986
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51.00%	51.00%	51.00%	EUR 17 500 000	18 759 534	679 788
EPAL, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR 150 000 000	634 932 791	52 483 454
AdP Internacional, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR 175 000	(172 777)	(354 153)
AdP Timor-Leste, Lda.	East Timor	100.00%	100.00%	100.00%	USD 5 000	(589 790)	13 073
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	(48 185 051)	(715 166)
AdP Serviços, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR 50 000	14 188 995	1 206 432
AdP Energias, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR 1 250 000	1 133 892	(21 929)

The "% of Effective Capital" column represents the effective participation rate in keeping with the date of paying up the capital, with this the rate applied in the Financial Consolidation process for the AdP Group for the financial year ending on 31 December 2019.

2.2.3 FINANCIAL INVESTMENTS 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, or in case it has made payments on behalf of the Associate. 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 is included in the shareholding value 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	% Capital held	Share Capital
Trevo Oeste, S.A.	(a)	Alcobaça	43%	1 336 085
Miese, Vila a Real/Alijó - Sistemas Energéticos a Biomassa, Lda. – In liquidation	(b)	Lisbon	40%	200 000

a) Companies without any operational activities.

b) Registration, as at 28 December 2018, of the MIESE permanent company certificate reporting its breakup and the appointment of the official receiver.

2.2.4 HOLDINGS 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.

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.

Any negative results returned in each period by subsidiaries in which there is a non-controlling interest are allocated in accordance with the percentage stake held irrespective of reporting a negative balance.

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 this current report by business area in keeping with how the transactions undertaken by the Group's international companies are reported as an isolated business area.

The business areas are the following:

I – Regulated activities “contracted for fixed terms” (concessions and partnerships)

a. Water supply and wastewater treatment

II – Regulated activities “delegated for indefinite terms”

b. EPAL - production and distribution of water

III – International activities

c. International - includes consulting operations outside Portugal by AdP Internacional

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 financial statements of the AdP Group and Notes thereto are presented in euros (EUR), unless otherwise stated.

2.4.2 TRANSACTIONS AND BALANCES IN FOREIGN CURRENCIES

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 non-monetary item in question. The conversion of non-monetary items measured at historical cost into the functional currency of the AdP Group is obtained by using the exchange rate on the transaction date.

2.4.3 GROUP COMPANIES

The results and financial positions of all the entities of the AdP group that have a functional currency different to 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 quotations used to convert transactions expressed in currencies other than the euro or to update foreign currency balances were as follows:

Country	Currency	31.12.2019		31.12.2018	
		average	final	average	final
Angola	Kwanza	414.89	536.26	244.56	353.02
Brazil	Reais	4.41	4.52	4.42	4.44
Cape Verde	Escudo C.V.	110.27	110.27	110.27	110.27
Mozambique	Meticais	69.43	68.70	71.42	70.24
U.S.A.	USD	1.11	1.12	1.14	1.15

Source: Banco de Portugal.

2.5 REGULATED ACTIVITY

2.5.1 INTRODUCTION

The management companies of the MMSs (multi-municipal systems) operate in a regulated sector and are subject to the intervention of ERSAR (Law 10/2014 of 6 March, which approves the new statutes of ERSAR, in the framework of new attributes from the regulating entities 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 stated by Law 67/2013 of 28 August, the tariffs charged for services provided to users are now approved by the regulator as well as the respective annual budget. Following the change in the ERSAR statutes enacted by Law Lei 10/2014, of 6 March, the tariffs applied to the services provided by users fall under the auspices of the regulatory approval and are no longer subject to any intervention on behalf of 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 (increased activities), 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 AdP Group must recognise and measure revenue (profit) from the services provided in accordance with the provisions of IFRS 15 – Revenue of contracts with customers. When the AdP Group 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 AdP Group company should recognise revenues and costs related to the construction or modernisation of infrastructures in accordance with IFRS 15.

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.

Water supply and wastewater treatment	Concession/ Partnership	Term	Period	Shareholder remuneration - rate	Shareholder remuneration Basis of incidence ⁽¹⁾
Águas do Algarve, S.A. ⁽²⁾	Concession	30 years	2019-2048	OT 10 years + 3%	Share Capital+ Legal Res.
AdAM - Águas do Alto Minho, S.A. ⁽⁶⁾	Partnership	30 years	2019-2048	OT 10 years + 3%	Share Capital+ Legal Res.
Águas do Norte, S.A.	Concession	30 years	2015-2045	OT 10 years + 3%	Share Capital+ Legal Res.
Águas do Norte, S.A. ⁽³⁾	Partnership	50 years	2015-2064	OT 10 years + 3%	Share Capital+ Legal Res.
Águas do Douro e Paiva, S.A. ⁽⁴⁾	Concession	20 years	2017-2036	OT 10 years + 3%	Share Capital+ Legal Res.
SIMDOURO, S.A.	Concession	50 years	2017-2066	OT 10 years + 3%	Share Capital+ Legal Res.
Águas do Centro Litoral, S.A.	Concession	30 years	2015-2045	OT 10 years + 3%	Share Capital+ Legal Res.
Águas do Vale do Tejo, S.A.	Concession	30 years	2015-2045	OT 10 years + 3%	Share Capital+ Legal Res.
AdRA - Águas da Região de Aveiro, S.A. ⁽⁵⁾	Partnership	50 years	2009-2059	OT 10 years + 3%	Share Capital+ Legal Res.
Águas de Santo André, S.A.	Concession	30 years	2001-2030	OT 10 years + 3%	Share Capital+ Legal Res.
AgdA - Águas Públicas do Alentejo, S.A. ⁽⁵⁾	Partnership	50 years	2009-2059	OT 10 years + 3%	Share Capital+ Legal Res.
Águas do Tejo Atlântico, S.A.	Concession	30 years	2017-2046	OT 10 years + 3%	Share Capital+ Legal Res.
SIMARSUL, S.A.	Concession	30 years	2017-2046	OT 10 years + 3%	Share Capital+ Legal Res.

(1) The remuneration OT 10 years + 3% levied on the share capital. In addition, the outstanding dividends are remunerated in the same way as the 10 year OT.

(2) On July 24, 2019 a Concession Contract was signed for the Algarve Multi-municipal Water Supply and Sanitation System managed by Águas do Algarve, S.A. for a period of 30 years (2019-2048). This contract results from the aggregation of existing concession contracts.

(3) Partnership and Management Contract signed in 2013. Prior approval by the Court of Auditors obtained in 2014, being a necessary condition for the activity starting in 2015.

(4) According to paragraph 2 of Clause 5 of the Concession Contract, the concession term may be extended for a further period of 10 years.

(5) Partnership Agreement and Management Agreement signed in 2009. Start of activity occurred in 2010.

(6) Partnership Agreement and Management Agreement entered into in 2019 (July 11 and June 22, respectively). Start of activity occurred in 2020.

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 AMORTISATIONS

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 supply 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 DEVIATION

Cost recovery deviations are considered to be: (i) the existing difference, at the date of the concessionary companies of the systems abolished in 2015, between the net results of the companies participating in the system operation and management and the compensation to which the company is contractually entitled in relation to the invested capital; and (ii) until the end of the second 5-year the annual existent difference between the net results the companies participating in the system operation and management and the compensation to which the company is entitled as a result of the application of the rules established when determining the 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, Águas do Tejo Atlântico, SIMARSUL, Águas do Douro e Paiva, SIMDOURO e Águas do Algarve 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 individual 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 systems aggregated in 2015 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 - "Deficit/expense recovery tariff surplus" - 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 IFRS 15 – Revenue of contracts with customers. 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 revenues 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.

Every 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:

Types	Years interval
Buildings and other constructions	10 - 75
Basic equipment	3 - 55
Transport equipment	4 - 16
Tools and utensils	4 - 10
Administrative 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.

2.7 INTANGIBLE ASSETS

2.7.1 RIGHTS TO USE THE INFRASTRUCTURES

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. Research and development costs that do not meet the criteria for recognition of development expenses as intangible assets are recognised as expenses in the period when incurred. Development expenses previously recognised as expenses in the period are not recognised as intangible assets in subsequent periods. 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 straightline 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 AdP Group 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 LEASES

2.9.1 ACCOUNTING POLICIES AFTER 1 JANUARY 2019

The leases in which the AdP Group is the lessee are recognised, measured and presented according to a single model. Through this model the leases are accounted for in the statement of financial position. At the commencement date of the lease, the AdP Group will recognise the liability relating to the future lease payments (i.e. the lease liability) and the assets representing the right to use the assets during the lease period (i.e. the assets under right of use). The AdP Group recognises separately the financing cost related to the lease liability and the cost with depreciation or amortisation of the right-of-use asset.

The AdP Group holds leases as both lessee and landlord.

Identification of a lease

At the start of a contract, an entity must assess whether the contract is, or contains, a lease. A contract is or contains a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for remuneration:

- a) The asset underlying the lease must be specifically identified or the asset is implicitly specified at the time it becomes available for use by the lessee; and
- b) The lease shall grant the right to control the use of the underlying asset for a specified period of time, i.e. the lease shall grant the lessee the right to obtain substantially all economic benefits from the use of the identified asset.

Separate components of a contract

If a contract is, or contains, a lease, the AdP Group accounts for each component of the lease separately from the non-location component (e.g. service rendered) implicit in the contract, except in cases where the AdP Group (as lessee) chooses not to separate the non-location component from the lease component, and as such accounts for everything as a single rental component only.

The remuneration of the contract is separated between the rental and non-location component, based on the relative price on an individual basis for each rental component and on the sum of the prices on an individual basis for the non-lessee components. The relative price on an individual basis of the rental component equals the price that a lessor/vendor would charge for the rental component separately.

Unless the practical arrangements allowed to lessees are applied, a lessee shall account for the non-lease component in accordance with the applicable IFRSs.

Lease term

The lease term corresponds to the non-cancellable period in which the lessee has the right to use an underlying asset, together with the following conditions:

- i) Periods covered by options to extend the lease when the lessee is reasonably certain about exercising that option; and
- ii) Periods covered by an option to terminate the lease when the lessee is reasonably certain not exercising that option.

The lease term includes the months of grace for rent, if any. The commencement date of the lease corresponds to the date on which the lessor makes the underlying asset of the lease available for the use of the lessee.

A) Accounting for lessees

Recognition and initial measurement of the rental

At the start date of the lease, the AdP Group recognises a right-of-use asset and a liability for the lease.

Initial measurement of right-of-use asset

At the commencement date of the lease, the asset under right of use is measured at cost, which is equal to the value of the lease liability plus costs for dismantling the asset (where these are an obligation), direct initial costs for installing the asset and payments less any incentives that may have occurred before the contract date.

Initial measurement of lease liability

On the rental start date, the rental liability is measured at the present value of the future fixed and variable rental payments, contractual penalties for advance payment, the residual value that is expectable to be paid by the lessee and the purchase option, when applicable. Future variable lease payments do not include remuneration indexed to the lessee's turnover.

Future lease payments are discounted using the following interest rate:

- i) In contracts where the implicit rate of the respective contract is available, this rate is used (interest rate that equals the fair value of the underlying asset to the sum of the present value of the lease instalments and the residual value);
- ii) For other contracts, the incremental financing rate is applied (that interest rate received for financing the lease term with the aim of acquiring the underlying lease asset).

Subsequent lease measurement

Subsequent measurement of right-of-use assets

The asset under right of use is measured by the cost model, where the asset under right of use is measured at cost less accumulated depreciation and impairment losses and is adjusted for any remeasurements of lease liabilities.

Depreciations are calculated on a straight-line basis from the starting date of the lease and over the useful life of the underlying asset in cases where there is an option to purchase on the lease and it has been taken into account in the initial measurement of the usage right asset. In other cases, the depreciation is calculated on a straight-line basis over the lease term. Depreciation is accounted for as an expense in the income statement.

The useful lives applicable to assets under right of use are set out in the following average terms:

Types	Years interval
Buildings and other constructions	1 - 40
Transport equipment	1 - 4
Other equipment	1 - 2

The AdP Group is a lessee on a lease that provides for a purchase option, which has been taken into account in determining the value of the asset under use and the liability for the lease.

Subsequent measurement of lease liabilities

The lease liability is measured at the amortised cost. After the lease start date, the AdP Group measures the lease liability by:

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- i) Increases to reflect accrued interest (calculated by applying the discount rate used in the initial measurement of the lease liability and recognised in the income statement);
 - ii) Reductions to reflect the lease payments made;
 - iii) Remeasurement to reflect changes in the lease (e.g. term, rents):
 - a. Implying adjusting the accounting value of the right to use the lease assets;
 - b. When the remeasurement results from a change in the lease term, then a new discount rate is set to apply from the date of the change in the lease term.

Practical arrangements used by the AdP Group as a lessee

The AdP Group uses the following practical arrangements under IFRS 16:

- i) Contracts with the lease and service components, the service component is treated as a lease under IFRS 16;
- ii) Leases with contractual terms of up to 12 months were excluded from the scope of IFRS 16;
- iii) Lease contracts for which the underlying assets report an estimated value of less than € 5,000 (printers and photocopiers, water dispensers and similar) were excluded from the scope of IFRS 16.

In leases where the AdP Group is the lessee and whose underlying assets are of little value (such as a personal computer) and short-term lease contracts (i.e. contracts with a duration of 12 months or less), the recognition and measurement of the lease is not made using the single model described above, with the lease rentals being recognised as an expense on a straight-line basis over the period of the lease in the income statement under "External supplies and services - Rents and leases".

B) Accounting for lessors

Accounting for lessors does not change with norm IFRS 16. Therefore, leases are accounted for as finance leases or operating leases under the former norm IAS 17:

- i) Leasing: when substantially transferring all risks and benefits of ownership of the underlying asset;
- ii) Operating lease: when not transferring substantially all risks and benefits of ownership of the underlying asset.

Landlords are not allowed to make practical recourse to consider the non-leasing component as a lease.

Under a finance lease, the lessor recognises a financial asset at amortised cost in the balance sheet and recognises the related earnings in the income statement.

In an operating lease, the lessor recognises the receipts from the lease as linear earnings.

The AdP Group is a lessor only on operating leases.

C) Sale and leaseback transactions

If an entity (seller-lessee) transfers an asset to another entity (buyer-locator) and leases that asset from the buyer-lessee, both entities must record the transfer of the asset as follows:

a) The transfer of the asset is a sale

When the transfer of the asset by the seller-lessee meets the requirements of IFRS 15 to be accounted for as a sale of an asset:

- i) The seller-lessee shall measure the right-of-use asset resulting from the lease ("leaseback") according to the proportion of the net book value of the asset that corresponds to the right of use retained by the seller-lessee. Thus, the seller-lessee must recognise only the amount of any gain or loss corresponding to the rights transferred to the purchaser-lessee;
- ii) The purchaser-lessor shall record the purchase of the asset in accordance with applicable IFRS Norms, and for the lease shall apply IFRS 16 as applicable to lessors.

If the fair value of the sale of the asset does not equal the fair value of the asset, or if the lease payments are not at market rates, an entity shall make the following adjustments in measuring the sale value at fair value:

- i) Any below market conditions shall be accounted for as an advance payment of the lease; and

ii) Any above-market conditions shall be accounted for as additional financing by the purchaser-lessor to the seller-lessee.

b) The transfer of the asset is not a sale

If the transfer of the asset by the seller-lessee does not meet the requirements of IFRS 15 to be accounted for as a sale of an asset:

- i) The seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability for the amount received, in accordance with IFRS 9;
- ii) The purchaser-lender shall not recognise a transferred asset and shall recognise a financial asset for an amount equivalent to the amount paid under IFRS 9.

The AdP Group does not have transactions considered as "Sale and leaseback transactions".

2.9.2 ACCOUNTING POLICY UNTIL DECEMBER 31 2018

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.

Every other leasing is classified as operational leasing. Such payments are recognised as linear expenditure during the leasing period.

2.10 FINANCIAL INSTRUMENTS

2.10.1 FINANCIAL ASSETS

On initial recognition, financial assets are classified in one of the following categories:

- a) Financial assets at amortised cost;
- b) Financial assets at fair value through other comprehensive income; or
- c) Financial assets at fair value through profit or loss:
 - i. Financial assets held for trading;
 - ii. Financial assets not held for trading at fair value through profit or loss;
 - iii. Financial assets designated at fair value through profit or loss.

The classification and measurement of financial assets depends on the results of the SPPI test (analysis of the characteristics of contractual flows, to conclude whether they correspond only to payments of principal and interest on the outstanding principal) and the business model.

Given the activity of the AdP Group, the Group only holds financial assets at amortised cost and financial assets at fair value through other comprehensive income.

a) Financial assets at amortised cost

A financial asset is classified under the category "Financial assets at amortised cost" when the following two conditions are met:

- i. It is managed with a business model whose objective is to maintain financial assets to receive contractual cash flows; and
- ii. The contractual conditions give rise to cash flows on specific dates, which are only payments of capital and interest on the amount of capital outstanding (SPPI).

This heading includes debt instruments, mainly investments in credit institutions and loans and advances to customers (debt settlement agreements for a period of five years and accounts receivable arising from the Group's operating activity).

b) Financial assets at fair value through other comprehensive income

A financial asset is classified under the category "Financial assets at fair value through other comprehensive income" when the following two conditions are met:

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- i. It is managed with a business model whose objective combines the receipt of contractual cash flows from financial assets and their sale; and
 - ii. The contractual conditions give rise to cash flows on specific dates, which are only payments of principal and interest on the outstanding principal amount (SPPI).

This item includes debt instruments arising from the execution of DSAs - Debt Settlement Agreements with customers under Decree-Law no. 5/2019, of 14 January.

Evaluation of the business model for financial asset management

In relation to the evaluation of the business model, this does not depend on the intentions for an individual instrument but rather on a set of instruments taking into account the frequency, the value, the schedule of sales in previous financial years, the reasons for those sales and expectations regarding future sales. Infrequent or lacking significance, or sales close to the maturity of the asset and sales motivated by increases in the credit risk of financial assets or to manage concentration risk, among others, may be compatible with the model of holding assets to receive contractual cash flows.

Assessment of the characteristics of contractual flows of financial assets (SPPI)

If a financial asset contains a contractual clause that may change the timing or value of the contractual cash flows (such as early repayment or extension clauses), the Group determines whether the cash flows that will be generated during the life of the instrument, due to the exercise of the contractual clause, are only payments of capital and interest on the capital outstanding.

The contractual terms of financial assets that, on initial recognition, have an effect on cash flows or are dependent on the occurrence of exceptional or highly unlikely events (such as liquidation by the issuer) do not preclude their classification in the portfolios at amortised cost or at fair value through other comprehensive income.

Initial recognition

At the time of initial recognition all active financial instruments are recorded at their fair value. For active financial instruments that are not recorded at fair value through profit or loss, the fair value is adjusted by adding or subtracting the transaction costs directly attributable to their acquisition or issue. Transaction costs are defined as expenses directly attributable to the acquisition or disposal of a financial asset, which would not have been incurred if the Group had not made the transaction.

However, customer accounts without a significant financing component are initially measured at their transaction value, as defined in IFRS 15 - Revenue from contracts with customers.

Subsequent measurement

After their initial recognition, the Group values financial assets at amortised cost or fair value through other comprehensive income or at fair value through profit or loss. Given the activity of the AdP Group, the Group only holds financial assets at amortised cost and financial assets at fair value through other comprehensive income.

Income and expenses from financial instruments at amortised cost are recognised in accordance with the following criteria:

- a) Interest is recorded in the income statement using the effective transaction interest rate on the respective gross book value (except in the case of impaired assets where the interest rate is applied to the net book value of the impairment);
- b) Other changes in value are recognised as income or expenditure when the instrument is derecognised from the balance sheet, when it is reclassified and, in the case of financial assets, when impairment losses or gains on its recovery occur.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or alteration does not result in the derecognition of the financial asset, the Group recalculates the gross amount of the financial asset and recognises a gain or loss arising from the difference from the previous amortised cost against income. The gross amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the asset's original effective interest rate.

Customer balances and other receivables without a financing component correspond to amounts receivable from the sale of goods or services provided by the Group in the normal course of its activities. They are initially recorded at fair value and subsequently measured at amortised cost, less impairment losses. The amortised cost of these assets does not differ from their nominal value or fair value.

Credit written off from assets

The Group recognises a write-off when it has no reasonable expectation of recovering all or part of an asset. This recording occurs after all the recovery actions undertaken by the Group have ended unsuccessfully. Subsequent recoveries of amounts that have already been written off are recorded in the income statement.

Impairment of financial assets

As regards receivables under "Trade receivables" and "Other assets", the Group applies the simplified approach provided for under IFRS 9 according to which estimated credit losses are recognised from the initial recognition of receivables and for the entire period through to maturity considering a matrix of historical default rates for the maturity of receivables and adjusted by prospective estimates.

Accounts receivable have been grouped by business segment for the purpose of assessing expected credit losses.

The credit risk of receivables is assessed at each reporting date taking into account the customer's credit risk profile. Credit risk analysis is based on the probability of annual default and also takes into account the customer's credit risk profile. The probability of the inability to collect reflects the annual probability of default that incorporates the current position and future projections taking into account macroeconomic factors while the losses in the event of default represent the expected loss incurred when the default takes place.

The accounts receivable are adjusted in each financial reporting period taking into account the management estimates of credit risk, which may differ from the impairment losses that actually incur.

Impairment losses are determined by the differences between the amounts recoverable and the balance sheet value of the financial assets and are registered as a counterparty in the income statement. The financial asset balance sheet value is reduced to reflect the amount recoverable by recourse to an impairment account.

Whenever receivables from customers or other debtors that have already fallen due are subject to the renegotiation of their terms, they are no longer considered as due and are again treated as new receivables.

Generally, the Group does not recognise impairment losses for public entities as on this date it believes the risk of their insolvency is remote.

2.10.2 FINANCIAL LIABILITIES

Financial liabilities are classified into two categories: **i)** Financial liabilities at fair value through profit or loss; and **ii)** Financial liabilities at amortised cost.

The category "Financial liabilities at amortised cost" includes those liabilities presented under "Loans", "Trade creditors and other non-current liabilities" and "Suppliers". These liabilities are initially recognised at fair value net of transaction costs and are subsequently measured at amortised cost according to the effective interest rate.

The Group has only recognised liabilities classified as "Financial liabilities at amortised cost".

Financial liabilities are derecognised when the underlying obligations are terminated by payment, cancellation or expiry. .

Loans obtained

Loans (bank and bonds) are recorded as liabilities at the nominal value received, net of commissions related to the issuance of those loans. Financial expenses are calculated based on the effective interest rate and are recorded under the item "Financial expenses" in the consolidated income statement on an annualised basis. The portion of the effective interest charge relating to the fees for issuing loans, when not paid during the reporting period, is deducted from the book value of the loan.

Any loans obtained are classified as non-current liabilities unless the AdP Group expects to settle the liability within 12 months of the balance sheet date, when they are therefore classified as current liabilities.

Suppliers and other liabilities

These items usually include balances from suppliers of goods and services that the Group acquired during the normal course of its business. The items therein are classified as current liabilities whenever the payment falls due within 12 months or less and are otherwise classified as non-current liabilities under the "Suppliers" item.

These financial liabilities are initially recognised at fair value. Subsequent to their initial recognition, the liabilities presented under "Suppliers" are measured at amortised cost, using the effective interest rate method. Trade and other payables initially classified as current are recorded at their nominal value as they do not bear interest and the effect of discounting is considered immaterial.

2.10.3 RECLASSIFICATION BETWEEN FINANCIAL INSTRUMENT PORTFOLIOS

In accordance with the requirements of IFRS 9, reclassification between financial instrument portfolios can only occur when the Group decides to change the business management model for financial asset portfolios. Such reclassifications take place prospectively as from the reclassification date. In accordance with the IFRS 9 approach, changes to the business model generally take place infrequently. Financial liabilities cannot be reclassified between portfolios.

2.10.4 DERECOGNITION POLICY

A financial asset is derecognised in whole or in part when the contractual rights to the cash flows from the asset expire or are transferred to a third party independent of the entity.

The accounting treatment applied to transfers of assets depends on the degree and manner in which the risks and benefits associated with ownership of the assets are transferred to third parties:

- When the risks and rewards of ownership of a financial asset are substantially transferred to a third party (for example, unconditional sales, repurchase agreements at fair value on the repurchase date, sales of financial assets with an acquired call or put option issued without cash and in securitizations of assets in which the grantor does not retain subordinated financing or grants any type of credit enhancement to the new holders), this asset is derecognised from the balance sheet, while recognising any right or obligation retained or resulting from the transfer;
- When the risks and rewards of ownership of a transferred financial asset are substantially retained (in the case of, among others, sales of financial assets with a repurchase agreement at a fixed price or at the sale price plus a lender's usual return, securities lending contracts in which the borrower has an obligation to return the same or similar) are not derecognised on the balance sheet and continue to be valued according to the same criteria as prior to the transfer with recognition in accounting terms of:
 - An associated financial liability for an amount equal to the consideration received, which is subsequently valued at amortised cost, unless it meets the requirements to be classified as other liabilities at fair value through profit or loss.
 - The income from the financial asset transferred, but not derecognised, and the expenses from the new financial liability, without any counterbalance.
- When the risks and benefits inherent to a transferred financial asset are not substantially transferred or even retained (in cases of, among others, sales of financial assets with call or put options, securitisations in which the originator assumes subordinated financing or other types of credit enhancement for a proportion of the transferred asset), a distinction is made between:
 - When the lessor does not hold control of the asset transferred, it is derecognised from the balance and any right or obligation held or resulting from the transfer is recognised.
 - When the lessor does not hold control of the financial asset transferred, they still recognise it on the balance sheet at the same value as the exposure including any alterations made and recognised as a liability associated to the financial asset transferred whenever the asset is measured at the amortised cost. The net values of the transferred asset and of the associated liability reflect the amortised cost of the rights and obligations held when the active is measured at the amortised cost or at the fair value of the rights and obligations held or when the transferred asset is measured at fair value.

2.11 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.

2.11.1 HEDGE ACCOUNTING

Hedge accounting is applied whenever a relationship exists between the hedged factor and the hedged instrument under the following conditions:

- i) there must be an economic relationship between the hedged factor and the hedged instrument,
- ii) the counterpart credit risk of the hedged factor or of the hedged instrument must not hold a dominant effect over the alterations in value resulting from such economic relationship, and
- iii) the hedge ratio of the hedge accounting relationship, perceived as a part of the hedge factor by the hedge instrument, must equal the hedge ratio that is applied for management purposes.

The variations in the fair value of derivative financial instruments that may be classified as hedge derivatives are registered directly in the consolidated financial statement of comprehensive income.

The effective proportion of alterations to the fair value of derivatives are designated and qualified as cash flow coverage and recognised in the cash flow hedging equity reserve, limited to the fair value of cumulative alterations in the hedged instrument according to a current base value ongoing since the hedging operation first began. The profit / (loss) concerning the ineffective proportion is immediately recognised in the results of that financial year.

The accumulated financial equity values are reclassified in the financial year results for the periods during which the hedge instruments impact on those same results.

When hedge instruments either expire, are sold or cease to be operational or when hedge coverage ceases to meet the hedge accounting criteria, any profit / (loss) and deferred expenditure with hedging own equity continue to be registered under financial equity until the planned transaction occurs. In this case, they are registered as non-financial assets, such as inventories. When it is no longer expectable that the planned transaction takes place, the profit / (loss) and the accumulated deferred expenses recognised as own capital are immediately reclassified as results for the financial year.

When the hedge for the purposes of management ceases to be optimised but the risk management objective remains unchanged and the hedging continues to qualify for hedge accounting, the hedging relationship is re-registered by adjusting either the hedge instrument or the volume of the hedged instrument to ensure that the hedge ratio aligns with the ratio used for purposes of risk management. Any insufficient hedging is calculated and recognised in the financial year results at the time when the hedge relationship is re-registered.

2.12 HIERARCHY OF FAIR VALUE

The financial assets and liabilities of the AdP Group measured at fair value are classified in accordance with the following levels of hierarchy of fair value provided for in IFRS 13: **Level 1**, the fair value of the financial instruments is based on active net market prices at the date of the reference in the balance sheet. This level essentially includes capital instruments, debt (for example, NYSE Euronext) and futures quoted in 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 used are market observable. This level 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 presents the table with the classified levels of financial assets and liabilities.

2.13 INVENTORIES

Inventories are valued at the lowest acquisition cost (which includes all expenditure until delivery in the warehouse) and the net realisable value. The net realisable value results from the estimated sale price during the normal operation of the company, minus the sale variable expenditure. The cost-ascertainment method adopted to value warehouse outbound movements is that of average cost.

2.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank deposits, and other short-term liquidity investments with initial maturities of up to three months. Bank overdrafts are presented in statement of the financial position, in current liabilities, under Loans obtained, which are also considered in the preparation of cash-flow statement.

2.15 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 goodwill and other intangible assets with indefinite useful lives, the recoverable amount is estimated annually at the balance sheet date, taking into account the premises of concession contracts, the recoverable amount corresponds to the value of use, and this in turn corresponds to the guaranteed remuneration (dividend) in each of the respective years for the term of the concession. These amounts are part of the EVEF (economic and financial viability studies) annexed to the concession contracts and are re-sent periodically to the sector regulator. Whenever there are indications of potential losses due to impairment, the recoverable value of Group 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 amount of receivables recoverable stems from the highest value 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.

Reversion of impairment losses

The 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 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.

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.

2.19 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, AdP Group 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 Group 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 Group 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 Group. 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 Group 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.

2.20 EMPLOYEE BENEFITS

EPAL is the only company in the Group with a system of social benefits for their workers, which comprises of the payment of retirement pension top-ups (for old age or disability), in addition to supporting liabilities arising from pre-retirement situations. The Company system of pension benefits 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

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 the 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 and the expected earnings from fund assets, **(iii)** the effects of early retirement, and **(iv)** 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 of 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 and the AdP Group subsidiaries that are resident in Portugal are liable for payment of IRC - corporate income tax in keeping with 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 3% on the taxable profit that exceeds EUR 1.5 million to a ceiling of EUR 7.5 million, and then at the 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 9%.

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 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 investments 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 REVENUES FROM CLIENT CONTRACTS

This revenue corresponds to the fair value of the amounts received or receivable from transactions carried out with clients within the scope of normal Group activities. Revenue is accounted for net of any taxes, commercial discounts and other inherent costs at the fair value of the amounts received or receivable.

IFRS 15 provides a five-step model for accounting revenue from contracts with customers and requires that revenue be recognised at an amount that reflects the remuneration expected by an entity in exchange for goods and/or services to be transferred to the customer. The five steps are: **(1)** identify the contract with the customer, **(2)** identify the performance obligations under the contract, **(3)** determine the transaction price, **(4)** allocate the transaction price to the contract performance obligations and **(5)** recognise income when the entity meets a performance obligation.

In determining the revenue value, AdP Group evaluates the performance obligations assumed in each transaction undertaken with clients, the transaction price to be allocated to each performance obligation identified in the transaction and the existence of variable pricing conditions that may trigger future corrections to the recorded total of earnings and for which AdP provides its best estimate.

For the majority of AdP Group sales and provision of services, there is only one performance obligation, hence the revenue is recognised immediately following the delivery of goods (sale of water) or the provision of services (sanitation) to clients.

Revenues are determined as follows:

2.22.1 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.

2.22.2 SALES 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.

2.22.3 REGULATORY AND CONCESSION RELATED REVENUES

See Note 2.5.6 on cost recovery deviations and Note 2.5.8 on revenue from construction services.

2.22.4 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., EPAL - Empresa Portuguesa das Águas Livres, S.A. and Águas do Tejo Atlântico, S.A., 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 water supply or sanitation services.

2.22.5 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.

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 Águas do Douro e Paiva and to Águas do Tejo Atlântico - 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 and Águas do Vale do Tejo, the State understands that revenues generated by the Environment Fund should be taken into consideration for the purposes of operationally balancing these companies.

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 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.

2.24 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 (for each specific financial year).

2.25 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 RISKS

3.2.1 INTEREST RATE RISKS

The risk of the AdP Group's interest rate comes essentially from the contracting of loans, both long-term and short-term. In this context, loans obtained with interest calculated at variable rates expose the AdP Group to the risk of cash flows and loans obtained with fixed interest rates expose the Group to the fair value risk associated with the interest rate. AdP manages the risk of cash flows associated to the interest rate by contracting swaps that allow the conversion of loans with interest calculated at variable rates into loans with interest calculated at the fixed rate. The table below presents the sensitivity analysis of AdP Group financial charges.

	31.12.2019	Average rate +1%	Average rate -1%
Variable rate interest	I 249 401	5 772 733	(482 355)
	I 249 401	5 772 733	(482 355)

The impacts of interest rate variations are measured for twelve month periods.

3.2.2 EXCHANGE RATE RISKS

Exposure to currency risk in the AdP Group is residual. This risk is embodied in future business transactions, recognised assets and liabilities, as well as net investments in foreign operations that were not incurred or expressed in the functional currency of

AdP Group. The AdP Group's Central Treasury is responsible for the management of net AdP Group exposure in each currency, contracting swaps centrally in order to minimize the commercial risks, assets and liabilities recognised. The AdP Group has investments denominated in foreign currencies whose net assets are exposed to exchange rate risk through conversion as well as financing in foreign currency exposed to exchange rate risks. Foreign exchange exposure inherent to net assets in foreign currencies is managed through contracting loans in the same currency. In 2019 and 2018, there were no contracted exchange rate swaps.

3.2.3 RAW MATERIAL PRICE RISKS (ENERGY AND FUELS)

The annual Águas de Portugal Group expenses on energy and fuel represent approximately 40% of total external supplies and services (EUR 195 million). The Group, through AdP Serviços, negotiates and centrally contracts the acquisition of these raw materials for the entire Group. In the case of electricity, the price is set for the contract horizon.

3.3 LIQUIDITY AND CAPITAL RISKS

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 that provide 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).

	Note	< 1 year	1 to 5 years	> 5 years
Financing	30	78 264 969	696 768 718	1 059 364 775
Suppliers and other liabilities		153 392 314	73 570 900	12 483 393

In September 2017, AdP SGPS entered into a 25-year, EUR 220 million financing agreement with the European Investment Bank under a EUR 420 million credit facility approved in July 2017 by the Board of Directors of this financial institution. In addition, on July 31 2019, the AdP Group formally took up the remaining EUR 200 million that may serve as funding for termination of debt regularising agreements reached between the AdP Group and its municipal clients under the auspices of Decree-Law no. 5/2019, of January 14. To date, the AdP Group has not yet had to resort to this line of financing.

In view of the above, as well as recurring operating assets, AdP SGPS does not foresee difficulties in fulfilling its financial commitments. Particularly for short term bank loans, AdP SGPS has immediate liquidity to cover the entire debt service forecast for the next 12 months.

Contracted short term credit lines

Liquidity risk (EUR millions)	Amount of ceiling available	Amount used	Amount unused
Bank overdrafts	140	-	140

The AdP Group 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 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.

	Note	31.12.2019	31.12.2018
Non-current loans (bond loans)	30	1 756 133 493	1 843 683 730
Current loans (bond and group loans)	30	78 264 969	80 487 688
Capital reconstitution fund	12	(32 810 072)	(35 586 140)
Availabilities	23	(138 163 519)	(91 206 292)
Leasing liabilities (*)		8 466 772	-
Net debt		1 671 891 643	1 797 378 986
Investment grants	33	1 523 133 254	1 563 328 240
Total of own capital		1 649 962 831	1 589 177 422
Capital and subsidies		3 173 096 085	3 152 505 662
Debt / total capital		0.53	0.57

(*) Refers only to leasing with financial entities.

The financing model of the AdP Group is fundamentally based on two broad categories that underpin the balance of the capital structure, bank financing, with a particular focus on EIB bank financing, bond financing and share capital and non-reimbursable investment grants.

3.4 CREDIT RISK

Credit risk is primarily related to the risk that a counterparty will fail in its contractual obligations, resulting in a financial loss to the Group. This risk essentially stems from the scope for a counterparty to fail in their contractual obligations resulting in financial losses to the Group. The AdP Group is subject to credit risk in its operating, investment and treasury activities.

3.4.1 OPERATING COUNTERPARTY

Credit risk in operations basically derives from receivables for services rendered to customers (water supply and wastewater treatment).

The composition of the AdP Group's client portfolio contains three types: **(i)** local authorities, municipal or intermunicipal services and municipal or inter-municipal companies; **(ii)** private individuals, institutions and companies supplied by the downstream distribution network; and **(iii)** large industrial customers in the area of wastewater treatment and untreated water supply.

i) Local authorities, municipal or intermunicipal services and municipal or inter-municipal enterprises

The credit risk associated with these clients is considered to be low or close to the sovereign risk, historically observing that the non-payment of services rendered essentially results from divergences on invoices translated into lawsuits. Under the current legislation and regulations applicable to multi-municipal systems and partnerships, the change in amounts due, by voluntary or extrajudicial agreement between the management companies and these entities or by judicial decision, is relevant for the purpose of recalculating the cost recovery deviation to recover in tariffs or tariff revenues to be charged in the provision of future services.

Notwithstanding the foregoing, the administrative process associated with collection or settlement by means of agreements and attribution to Cost Recovery Deviation is lengthy, which explains the high amount of past due debts (see Notes 17 and 20 of customers) as well as the income (see Note 47.1).

The Board of Directors of AdP continues to understand that on these dates there are no indicators that hitherto lead to the recognition of impairment prospects (except in very specific situations resulting from agreements entered into, which are translated into the cost recovery deviation calculation).

ii. Individuals, institutions and companies supplied by the distribution network

The credit risk associated with these customers is considered medium, since the supply through the downstream distribution network allows the supply to be cut in case of default in the timely payment of invoices by customers. Nevertheless, in the customers supplied by the downstream distribution network there are two segments to be considered: **(i)** downstream network supply under Partnerships, where credit risk losses on customers are offset by Cost Recovery Deviation; and **(ii)** other supplies on the downstream network, where non-compliance with timely payment of invoices results in loss of equity. For this second segment, expected impairment losses are recorded as a function of the delay in payment of invoices.

iii. Large industrial clients

The credit risk associated with these customers is considered medium as they are private sector customers. However, the expected impairment losses per credit risk are evaluated annually on an individual basis, taking into consideration the following factors: (i) the average term of receipt; (ii) the financial condition of the client; and (iii) macroeconomic developments.

3.4.2 COUNTERPARTY DEPOSIT

The following table represents AdP Group's maximum exposure to credit risk (not including Trade receivables and other debtors balance) as of December 31, 2019, without regard to any collateral held or other credit enhancements. For assets in the statement of the financial position, the defined exposure is based on their carried over amount as reported in the Statement of the financial position.

Financial bank assets	Note	31.12.2019	31.12.2018
Current accounts	23	113 016 459	91 089 503
Term deposits	23	25 005 000	5 000
Capital reconstitution fund	12	32 810 072	35 586 140
		170 831 531	126 680 643

Rating	31.12.2019
A3	595 335
B3	131 278
Baa1	2 438 825
Baa3	166 738 585
Caa1	678 753
Without any known rating	248 755
	170 831 531

Note: Moody's ratings obtained from financial institution websites in February 2020.

3.4.3 DERIVATIVE COUNTERPARTY

AdP manages the risk of cash flows associated to the interest rate by contracting swaps that allow for the conversion of loans with interest calculated at variable rates into loans with interest calculated at the fixed rate. AdP uses derivatives for the sole purpose of managing the financial risks (interest rate) to which it is subject. In accordance with its financial policies, AdP does not use derivatives for trading. Whenever available, the fair value of derivatives is estimated on the basis of quoted instruments. In the absence of market prices, the fair value of derivatives is estimated using the discounted cash flow method determined by external entities, based on valuation techniques accepted by the market. Derivative financial instruments are recognised on the trade date at their fair value. Subsequently, the fair value of derivative financial instruments is revalued on a regular basis, and the gains or losses resulting from such revaluation are recorded directly in income for the period, except for hedging derivatives. Recognition of fair value changes in hedging derivatives depends on the nature of the hedged risk and the hedging model used.

3.5 OPERATING RISKS

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 stipulating that the expenses to be recovered by the tariff differ from the expenses actually incurred. These expenses include financial expenses.

4. ESTIMATES AND JUDGEMENTS

The estimates and judgments with an impact on the financial statements of AdP Group are continuously evaluated, representing at the date of each report the Management's best estimate, taking into account historical performance, accumulated experience and expectations about future events that, under the circumstances, are perceived as duly reasonable. The intrinsic nature of the estimates may mean that the actual reflection of the situations which have been estimated may, for the purpose of financial reporting, differ from the estimated amounts. Estimates and judgments that present a significant risk of giving rise to a material adjustment to the book value of assets and liabilities in the following year are as follows:

4.1 PROVISIONS

AdP Group companies regularly analyse 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.

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 FIXED TANGIBLE ASSETS, INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

i) Useful life

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 terms). 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.

The financial building lease is undergoing amortisation over a life span of 25 years irrespective of the financial leasing contract duration lasting a total of 15 years. The Board holds the expectation of acquiring the building at the end of the financial leasing contract and hence the reason this was attributed the life span usual for this asset type.

ii) Impairments

The determination of a possible impairment loss can be triggered by the occurrence of various events, many of which are beyond the scope of influence of AdP Group, such as the future availability of financing, the cost of capital, or the maintenance of the current market regulatory structure as well as other alterations, whether internal or external, to the AdP Group.

The identification of impairment indicators, the estimation of future cash flows and the determination of the fair value of assets (or a set of assets) imply a high degree of judgment on the part of management in the identification and evaluation of the different indicators of impairment, expected cash flows, applicable discount rates, useful lives and residual values.

In the specific case of the equipment held by AdP Energias, the impairment indicators change in keeping with growth in the respective network of infrastructures, alterations to the expected or actual tariffs or the prevailing strategies of the AdP Group that, in conjunction with other factors, may lead to alterations in the patterns or amount of future cash flows.

4.3 IMPAIRMENTS IN ACCOUNTS RECEIVABLES

Losses due to impairments to accounts receivable are calculated according to the losses expected, the profile of client risk and their respective financial positions. The estimates relating to the evaluation of impairments in the accounts receivable differ from business to business.

On the date of publication of the consolidated financial reports, the AdP Group did not consider the likelihood of any situation of impairment to the assets herein reported beyond the losses for impairment duly recognised in the accounts. When, following any evaluation, there is any indication of impairments, the respective value on the asset balance sheet undergoes adjustment by offsetting the amount in the annual results. In addition to the uncertainties listed above, there are also other areas of judgement that impact on the financial reporting. Even while it is not foreseen that they bring about any material alterations to the subsequent financial year, they may nevertheless drive changes to the assumptions and evaluations made by AdP Group Boards of Directors.

4.4 FAIR VALUE OF FINANCIAL INSTRUMENTS

i) 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 Group applies its judgment to choose the evaluation techniques and assumptions best able to assess the derivatives contracted at the financial reporting date. Changes in fair value of derivative financial instruments that are not classified as hedging instruments are recognised in the income statement while those classified as hedges are recorded in the consolidated statement of comprehensive income.

ii) Fair value of financial assets obtained through other sources of comprehensive income

The fair value of financial assets obtained through other sources of AdP Group comprehensive income correspond to the DSAs – the Debt Settlement Agreements reached with municipal clients under the auspices of Decree-Law no. 5/2019, of 14 January. On 31 July 2019, the AdP Group reached formal agreement with the European Investment Bank over a line of credit totalling 200 million EUR that may be deployed to counterbalance the granting of the DSAs. This granting is to take place according to the nominal value of the credits. Hence, this considers that the fair value of the DSAs corresponds to their nominal value.

4.5 POST-EMPLOYMENT BENEFIT

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 29. I.

4.6 ESTIMATES OF TAX AND DEFERRED TAX

The AdP Group believes that any revisions to the tax returns will not result in material corrections to the financial statements that require the constitution of any provision for taxes. This duly recognises deferred tax assets for all of the losses recoverable to the extent that such prove probable that taxable profits are generated against which the potential losses may be offset.

Taking into consideration the current context and the impact this may have on future results, the Board of Directors deemed it necessary to adjudge the level of deferred tax assets that may be recognised in accordance with: the date and the probable amount of future taxable profits and future fiscal planning strategies.

The estimates were based on the best information available at the time of preparation of the financial statements, however, situations may occur in subsequent periods that were not predictable at the time and were not considered in these estimates. As set forth in IAS 8, changes to these estimates, which occur after the date of the financial statements, are corrected to income prospectively.

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 CL), DL 16/2017 of 1 February, DL 34/2017 of 24 March 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 (OTs) + 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. INFORMATION BY OPERATIONAL SECTOR

31.12.2019	Regulated activity Prod., Treat., Transp.	Regulated activity EPAL	Unregulated activity International	Unregulated activity Corporate	Adjustments	Consolidated Total
Client contract earnings and the tariff cost recovery deficit / surplus	501 523 390	146 840 057	4 831 175	218 286		653 412 908
Earnings from concession asset construction (IFRIC 12)	139 576 905					139 576 905
Cost of sales/variation in inventories	(20 709 804)	(1 760 556)	-	-		(22 470 360)
Cost of concession asset construction (IFRIC 12)	(139 576 905)					(139 576 905)
Supplies and external services	(165 495 988)	(28 022 481)	(2 691 796)	(2 379 197)		(198 589 462)
Personnel costs	(56 484 075)	(34 992 389)	(1 580 649)	(8 250 934)		(101 308 047)
Financial year amortisations, depreciations and reversions	(197 680 713)	(26 683 515)	(99 703)	(1 961 737)		(226 425 668)
Financial year provisions and reversions	(67 306)	(291 556)	-	308 003		(50 859)
Losses due to impairments and reversions	834 028	(952 600)	(789 447)	(1 221 180)		(2 129 199)
Investment grants	60 610 203	1 298 761	-	6 667		61 915 631
Other operational costs and losses	(6 727 495)	(5 282 458)	(623 080)	(199 019)		(12 832 052)
Other operational income and gains	4 740 311	3 831 444	467 607	372 889		9 412 251
Operational results - intersegment	(38 229 341)	21 897 902	(386 220)	16 506 037	211 622	-
Operational results - total	82 313 210	75 882 609	(872 113)	3 399 815	211 622	160 935 143
Financial results - external	(24 290 130)	(1 496 137)	(67 073)	(4 545 281)		(30 398 621)
Financial results - intersegment	(20 025 220)	711 576	(42 544)	19 567 810	(211 622)	-
Pre-tax results	37 997 860	75 098 048	(981 730)	18 422 344	-	130 536 522
Tax on annual earnings	(10 800 430)	(22 889 525)	90 702	(5 179 880)		(38 779 133)
Net result for the year	27 197 430	52 208 523	(891 028)	13 242 464	-	91 757 389
Attributable to non-controlling interests	8 641 231	-	-	-	-	8 641 231
Attributable to AdP shareholders	18 556 199	52 208 523	(891 028)	13 242 464		83 116 158
	27 197 430	52 208 523	(891 028)	13 242 464	-	91 757 389

31.12.2018	Regulated activity Prod., Treat., Transp.	Regulated activity EPAL	Unregulated activity International	Unregulated activity Corporate	Adjustments	Consolidated Total
Client contract earnings and the tariff cost recovery deficit / surplus	497 745 436	139 993 849	4 449 780	234 425	-	642 423 490
Earnings from concession asset construction	119 638 558					119 638 558
Cost of sales/variation in inventories	(19 455 486)	(1 770 564)	-	-	-	(21 226 050)
Cost of concession asset construction	(119 638 558)					(119 638 558)
Supplies and external services	(159 434 463)	(27 657 339)	(3 276 564)	(4 370 968)	-	(194 739 334)
Personnel costs	(53 660 453)	(34 960 621)	(1 554 793)	(8 579 664)	-	(98 755 531)
Financial year amortisations, depreciations and reversions	(189 667 340)	(25 325 718)	(79 143)	(1 730 400)	-	(216 802 601)
Financial year provisions and reversions	(610 809)	327 037	-	(40 361)	-	(324 133)
Losses due to impairments and reversions	(3 965 637)	(965 181)	(1 241 406)	(35 770)	-	(6 207 994)
Gains/Losses of fair value	-	-	-	-	-	-
Investment grants	59 807 004	1 239 731	-	6 667	-	61 053 402
Other operational costs and losses	(4 870 273)	(4 853 341)	(278 107)	(117 523)	-	(10 119 244)
Other operational income and gains	5 718 697	3 310 674	752 724	194 077	-	9 976 172
Operational results - intersegment	(36 876 228)	20 560 814	(355 615)	16 660 523	10 506	-
Operational results - total	94 730 448	69 899 341	(1 583 124)	2 221 006	10 506	165 278 177
Financial results - external	(21 558 659)	(1 822 567)	(57 538)	(3 393 771)	-	(26 832 535)
Financial results - intersegment	(20 556 533)	595 216	(50 420)	20 022 243	(10 506)	-
Pre-tax results	52 615 256	68 671 990	(1 691 082)	18 849 478	-	138 445 642
Tax on annual earnings	(15 153 770)	(19 764 396)	(27 525)	(4 053 587)	-	(38 999 278)
Net continued operational result for the year	37 461 486	48 907 594	(1 718 607)	14 795 891	-	99 446 364
Net discontinued operational result for the year						-
Net result for the year	37 461 486	48 907 594	(1 718 607)	14 795 891	-	99 446 364
Attributable to non-controlling interests	12 182 948	-	-	-	-	12 182 948
Attributable to AdP shareholders	25 278 537	48 907 594	(1 718 607)	14 795 891		87 263 415
	37 461 486	48 907 594	(1 718 607)	14 795 891	-	99 446 364

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.

31.12.2019	Regulated activity Prod., Treat., Transp.	Regulated activity EPAL	Unregulated activity International	Unregulated activity Corporate	Consolidated Total
Segment assets	5 332 262 525	763 234 758	2 700 050	38 808 144	6 137 005 477
Segment liabilities	3 698 826 980	209 067 969	1 181 149	577 966 548	4 487 042 646

31.12.2018	Regulated prod., treat. and transp. activities	Regulated EPAL activities	Unregulated international activity	Unregulated corporate activities	Consolidated total
Item assets	5 352 023 316	755 670 749	5 314 739	28 872 211	6 141 881 015
Item liabilities	3 742 352 213	223 564 738	1 999 895	584 786 747	4 552 703 593

6. FINANCIAL INSTRUMENTS BY IFRS 9 CATEGORY

Classification of financial assets and liabilities on 31.12.2019	Financial assets at their fair value according to other sources of income	Financial assets according to their amortised costs	Financial liabilities at their fair value according to other sources of income	Financial liabilities by amortised costs	Financial instrument totals
Other financial assets	-	33 094 753	-	-	33 094 753
Clients and other non-current assets	-	324 685 223	-	-	324 685 223
Financial assets at their fair value according to other sources of income	72 213 412	-	-	-	72 213 412
Cash and cash equivalents	-	138 163 519	-	-	138 163 519
	72 213 412	495 943 495	-	-	568 156 907
Loans	-	-	-	1 834 398 462	1 834 398 462
Suppliers and other non-current liabilities	-	-	-	153 449 775	153 449 775
Financial derivatives	-	-	2 788 817	-	2 788 817
	-	-	2 788 817	1 987 848 237	1 990 637 054

Classification of financial assets and liabilities 31.12.2018	Financial assets at amortised cost	Financial liabilities at fair value in comprehensive income	Financial liabilities at amortised cost	Total of financial instruments
Other financial assets	35 840 620	-	-	35 840 620
Clients and other non-current assets	394 258 875	-	-	394 258 875
Cash and cash equivalents	91 206 292	-	-	91 206 292
	521 305 787	-	-	521 305 787
Loans	-	-	1 924 171 418	1 924 171 418
Suppliers and other non-current liabilities	-	-	159 694 106	159 694 106
Derivative financial instruments	-	3 315 416	-	3 315 416
	-	3 315 416	2 083 865 524	2 087 180 940

7. HIERARCHY OF FAIR VALUE

All of the fair value financial instruments are categorised by three levels defined as follows:

	31.12.2019			31.12.2018		
	level 1	level 2	level 3	level 1	level 2	level 3
Financial liabilities at fair value in comprehensive income						
Derivatives		2 788 817			3 315 416	

8. INTANGIBLE ASSETS

	31.12.2019	31.12.2018
Right of infrastructure utilisation - IFRIC 12	3 614 907 466	3 637 368 858
Development projects	4 385 518	2 333 710
Industrial property and other rights	350 791	823 482
Computer software programs	24 044	26 146
Other intangible assets	15 162 679	15 437 053
Intangible assets ongoing (DUI)	185 331 364	192 679 427
	3 820 161 862	3 848 668 676

The Group does not recognise internally generated intangible assets.

8.1 MOVEMENTS IN THE PERIOD

Gross amount	31.12.2018	IFRS 16 (note 10)	01.01.2019	Advances	Conversion exchange rate	Transfer	Reclassification	Reductions / disposals and write-offs	31.12.2019
Right-of-use infrastructures	5 532 353 202	(4 490 634)	5 527 862 568	24 497 877	-	124 686 282	-	(593 014)	5 676 453 713
Development projects	6 134 149	-	6 134 149	2 750 182	164	-	467	-	8 884 962
Industrial property	11 409 556	-	11 409 556	35 011	-	-	-	-	11 444 567
Computer software programs	38 752	-	38 753	-	-	-	-	-	38 753
Other intangible assets	26 384 186	-	26 384 187	-	-	462 386	(22 431)	-	26 824 142
Ongoing intangible assets (DUI)	192 679 427	-	192 679 427	117 930 035	-	(125 148 668)	(129 430)	-	185 331 364
	5 768 999 272	(4 490 634)	5 764 508 640	145 213 105	164	-	(151 394)	(593 014)	5 908 977 501

Accumulated amortisations	31.12.2018	IFRS 16 (note 10)	01.01.2019	Increases (note 41)	Conversion exchange rate	Transfer (note 32.1)	Reclassification	Reductions / disposals and write-offs	31.12.2019
Right-of-use infrastructures	(1 894 984 344)	1 261 283	(1 893 723 061)	(137 414 962)	-	(30 598 937)	(1 383)	192 096	(2 061 546 247)
Development projects	(3 800 439)	-	(3 800 439)	(100 660)	(164)	(597 836)	(345)	-	(4 499 444)
Industrial property	(10 586 074)	-	(10 586 074)	(507 702)	-	-	-	-	(11 093 776)
Computer software programs	(12 606)	-	(12 606)	(2 103)	-	-	-	-	(14 709)
Other intangible assets	(10 947 133)	-	(10 947 133)	(614 971)	-	(99 359)	-	-	(11 661 463)
	(1 920 330 596)	1 261 283	(1 919 069 313)	(138 640 398)	(164)	(31 296 132)	(1 728)	192 096	(2 088 815 639)
Net total	3 848 668 676	(3 229 351)	3 845 439 327	6 572 707	-	(31 296 132)	(153 122)	(400 918)	3 820 161 862

In the 2019 financial year, the transfer of the amount of 125 148 668 EUR to the item "Right of infrastructure utilisation" essentially results from the entrance into operation or completion of construction of various infrastructures by Group companies (new infrastructures or investment in rehabilitating water and sanitation treatment and transport infrastructures). Following either their entrance into operation or termination of construction on these infrastructures, they are subject to reclassification of the item "Increase in contractual investment costs" under the accumulated amortisations of "Right of infrastructure utilisation" in the amount of 30 598 937 EUR.

This increase in the gross value of "Right of infrastructure utilisation" includes: **(i)** the transfer of 14 703 522 EUR relative to the residual value interrelated with the investment in the Odelouca Dam (Águas do Algarve) and formerly registered under the item "Clients and other non-current assets – Residual values" (note 17.2); and **(ii)** the reporting of the provision for environmental issues totalling 1 525 000 EUR for the sealing of a landfill by Águas de Santo André (note 28.1).

On 31 December 2019, the "Intangible assets - ongoing" item corresponds to infrastructure construction projects ongoing at Group companies (new infrastructures or investments in water and sanitation treatment and transport).

9. FIXED TANGIBLE ASSETS

	31.12.2019	31.12.2018
Land and natural resources	117 790 217	122 816 373
Buildings and other constructions	95 350 499	108 199 448
Core equipment	444 508 016	460 108 969
Transport equipment	385 032	186 210
Administrative equipment	5 040 863	3 678 557
Others	2 736 179	2 843 385
Investments – ongoing	9 945 845	8 557 050
	675 756 651	706 389 992

9.1 MOVEMENTS IN THE PERIOD

Gross value	31.12.2018	IFRS 16 (note 10)	01.01.2019	Increases	Exchange rate.	Reductions/ disposals	Reclassif.	Transf.	31.12.2019
Land and natural resources	122 816 373	(5 050 000)	117 766 373	-	-	-	23 844	-	117 790 217
Buildings and other constructions	238 712 765	(20 600 699)	218 112 066	25 672	-	(48 314)	2 723 122	-	220 812 546
Core equipment	1 078 894 151	-	1 078 894 151	1 099 901	-	(134 718)	4 605 774	-	1 084 465 108
Transport equipment	2 360 580	-	2 360 580	340 277	2 294	(312 934)	-	-	2 390 217
Administrative equipment	34 932 511	-	34 932 511	1 467 836	(83)	(17 127)	1 427 470	-	37 810 607
Others	27 145 737	-	27 145 737	425 230	468	-	112 169	-	27 683 604
Investments – ongoing	8 557 050	-	8 557 050	10 341 491	-	(2 520)	(8 870 416)	(79 760)	9 945 845
	1 513 419 167	(25 650 699)	1 487 768 468	13 700 407	2 679	(515 613)	21 963	(79 760)	1 500 898 144

Accumulated amortisations	31.12.2018	IFRS 16 (note 10)	01.01.2019	Increases (note 41)	Exchange rate.	Reductions/ disposals	Reclassif.	Transf.	31.12.2019
Buildings and other constructions	(130 143 317)	9 505 584	(120 637 733)	(4 502 628)	-	48 314	-	-	(125 092 047)
Core equipment	(618 785 182)	-	(618 785 182)	(20 130 721)	-	133 914	-	-	(638 781 989)
Transport equipment	(2 174 370)	-	(2 174 370)	(125 864)	(1 899)	296 948	-	-	(2 005 185)
Administrative equipment	(31 253 954)	-	(31 253 954)	(1 531 238)	(75)	13 794	1 729	-	(32 769 744)
Others	(24 302 352)	-	(24 302 352)	(644 605)	(468)	-	-	-	(24 947 425)
	(806 659 175)	9 505 584	(797 153 591)	(26 935 056)	(2 442)	492 970	1 729	-	(823 596 390)

Losses for impairment	31.12.2018	IFRS 16 (note 10)	01.01.2019	Increases (note 43)	Exchange rate.	Reductions/ disposals	Reversion (note 43)	Transf.	31.12.2019
Buildings and other constructions	(370 000)	-	(370 000)	-	-	-	-	-	(370 000)
Core equipment	-	-	-	(1 384 548)	-	-	209 445	-	(1 175 103)
	(370 000)	-	(370 000)	(1 384 548)	-	-	209 445	-	(1 545 103)
Net total	706 389 992	(16 145 115)	690 244 877	(14 619 197)	237	(22 643)	233 137	(79 760)	675 756 651

The “Core equipment” item essentially includes the distribution network, pipes, reservoirs, water and electricity installations, hydraulic works and counters (downstream supply made by EPAL). On 31 December 2019, the “Core equipment” item also includes fixed assets in the possession of third parties, specifically water counters placed in the distribution networks with an approximate value of around three million euros.

The transfers taking place in 2019 correspond essentially to infrastructure works on the EPAL water supply network. On 31 December 2019, the “Investments – ongoing” item broadly reflected the ongoing infrastructural works at EPAL (new infrastructures or investments in the rehabilitation of water treatment and transport infrastructures).

10. LEASES

10.1 RIGHT-OF-USE ASSETS

Right-of-use assets	01.01.2019			Exercício de 2019		31.12.2019		
	Gross value	Accumulated amortisations	Net total	Increases in gross value	Amortisations (note 41)	Gross value	Accumulated amortisations	Net total
a) Right-of-use assets that were classified as financial leases on 31.12.2018 (IAS 17) (notes 8.1. and 9.1.)								
Land and natural resources	6 172 658	(311 039)	5 861 619	-	(31 197)	6 172 658	(342 236)	5 830 422
Buildings and other constructions	23 968 675	(10 455 828)	13 512 847	-	(890 874)	23 968 675	(11 346 702)	12 621 973
	30 141 333	(10 766 867)	19 374 466	-	(922 071)	30 141 333	(11 688 938)	18 452 395
b) Right-of-use assets that were classified as financial leases on 31.12.2018 (IAS 17)								
Land and natural resources	14 111	-	14 111	-	(1 085)	14 111	(1 085)	13 026
Buildings and other constructions	5 873 231	-	5 873 231	816 485	(484 902)	6 689 716	(484 902)	6 204 814
Transport equipment	10 602 319	-	10 602 319	1 472 889	(3 752 213)	12 075 208	(3 752 213)	8 322 995
Other equipment	106 593	-	106 593	-	(14 448)	106 593	(14 448)	92 145
	16 596 254	-	16 596 254	2 289 374	(4 252 648)	18 885 628	(4 252 648)	14 632 980
	46 737 587	(10 766 867)	35 970 720	2 289 374	(5 174 719)	49 026 961	(15 941 586)	33 085 375

10.2 LEASING LIABILITIES

Financial lease	31.12.2019
Current	5 564 472
Non-current	17 716 814
	23 281 286
Capital outstanding by type of asset acquired	31.12.2019
Lands and buildings and other constructions	14 653 546
Transport equipment and other equipment	8 627 740
	23 281 286
Future minimum payments	31.12.2019
Up to 1 year	5 982 666
From 1 to 5 years	12 817 764
Over 5 years	8 568 170
	27 368 600
Interest	31.12.2019
Up to 1 year	418 194
From 1 to 5 years	1 030 559
Over 5 years	2 638 561
	4 087 314

Present value of minimum payments	31.12.2019
Up to 1 year	5 564 472
From 1 to 5 years	11 787 205
Over 5 years	5 929 609
	23 281 286

10.3 LEASING PAYMENTS

i) As lessee

Total of leasing payments	31.12.2019
Accounted for according to the single model stipulated in IFRS 16	5 990 709
Accounted for as expenditure in the results	1 301 782
	7 292 491

ii) As lessor

Total of future leasing income	31.12.2019
Up to 1 year	354 000
From 1 to 5 years	855 500
Over 5 years	-
	1 209 500
Leasing income in 2019 (Note 45.1)	197 500

11. INVESTMENT PROPERTIES

	31.12.2019	31.12.2018
Lands	12 883 737	12 883 737
Buildings	2 537 817	2 537 817
Accumulated depreciations	(2 100 647)	(2 021 594)
	13 320 907	13 399 960

As a result of implementing a protocol agreed with Lisbon Municipal Council, EPAL incorporated a plot of land into its assets, 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 each investment property was determined by valuation with reference to 31 December 2015, performed by a duly qualified, specialised and independent entity and updated whenever there are indications of significant alterations in their value. On 31 December 2019, the investment properties, which represents around 96% of the registered total of investment properties, were registered according to the calculation made earlier in the year that returned a total of EUR 21.2 million. The Group Board of Directors does not consider it to have changed significantly on the 2015 valuation and is appropriate to reflecting current market conditions without any significant difference to the registered amount.

12. OTHER FINANCIAL ASSETS

		31.12.2019	31.12.2018
Non-current asset			
Capital reconstitution fund	(i)	23 321 288	35 586 140
Other financial investments		284 681	254 480
		23 605 969	35 840 620
Current asset			
Capital reconstitution fund	(i)	9 488 784	-
		9 488 784	-
		33 094 753	35 840 620

(i) The concessionary and regulated companies are obliged, in accordance with their concession contracts, to establish a capital reconstitution 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 obtain the value of the equity of the concessionary companies), which are under the management of the concessionary and 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, those funds have been deposited with IGCP - the state treasury and public debt management agency. For Group Companies that have seen their term of concession extended, there was no further strengthening of the capital reconstitution fund due to having taken place at a date later than that contractually necessary. However, in those cases where there was no recourse, that is, there were no reductions, the amounts already established were maintained, duly securitised, with the IGCP. The 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 reconstitution fund while enabling those companies to make those 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 reconstitution fund.

The map below details the value of these funds by Group company:

	31.12.2019	31.12.2018
Águas do Algarve, S.A.	-	2 815 463
Águas do Centro Litoral, S.A.	6 303 686	6 303 686
Águas do Douro e Paiva, S.A.	12 010 557	12 010 557
Águas de Santo André, S.A.	527 274	487 879
Águas do Tejo Atlântico, S.A.	8 445 198	8 445 198
Águas do Vale do Tejo S.A.	2 177 301	2 177 301
SIMARSUL, S.A.	2 274 998	2 274 998
SIMDOURO, S.A.	1 071 058	1 071 058
	32 810 072	35 586 140

13. FINANCIAL INVESTMENT IN ASSOCIATED COMPANIES

	note	31.12.2019	31.12.2018
Miese, Vila a Real/Alijó - Sistemas Energéticos a Biomassa, Lda. – under liquidation	(i)	271 366	326 966
Trevo Oeste	(i)	572 990	572 990
Trevo Oeste (Supplements)		47 107	47 107
Losses for impairment	43	(844 356)	(899 956)
		47 107	47 107

(i) An impairment was recognised on the value of the Miese financial shareholding (on 28 December 2018, registering on the Miese company certificate the closure of the company and the appointment of the official receiver) and in Trevo Oeste taking into account current uncertainties about the future development of its activity.

14. DEFERRED TAXATION

	31.12.2019	31.12.2018
Deferred tax – asset	243 399 961	221 778 755
	243 399 961	221 778 755
Deferred tax – liability	268 840 209	270 584 543
	268 840 209	270 584 543
	(25 440 248)	(48 805 788)

14.1 MOVEMENTS IN THE PERIOD

	31.12.2018			PL payments / reversions (note 49)			Reserve payments / reversions			Reclassifications/ regularisations			Corrections to taxation (in results) (note 49)	31.12.2019		
	Base	Rate	Taxation	Base	Rate	Taxation	Base	Rate	Taxation	Base	Rate	Taxation		Base	Rate	Taxation
DEFERRED TAXATION ASSETS																
Reportable losses	4 861 005	21.00%	1 020 811	(3 422 177)	21.00%	(718 657)	-	-	-	-	-	-	-	1 438 828	21.00%	302 154
Cost recovery deviation	34 534 334	25.72%	8 883 035	21 175 195	25.82%	5 467 485	-	-	(348 999)	22.50%	(78 525)	411 512	-	55 360 530	26.52%	14 683 507
IFRIC 12 effect																
IFRIC 12 effect (Transition) - company investment amortisations	21 447 039	26.10%	5 596 713	402 281	26.27%	105 679	-	-	-	-	-	26 714	-	21 849 320	26.22%	5 729 106
IFRIC 12 effect (Transition) - company investment grants	17 666 911	25.51%	4 507 283	-	-	-	-	-	-	-	-	54 587	-	17 666 911	25.82%	4 561 870
IFRIC 12 effect (Transition) - future investment amortisations	281 668 217	25.63%	72 203 333	(3 691 986)	24.95%	(921 290)	-	-	-	-	-	6 108	-	277 976 231	25.65%	71 288 151
IFRIC 12 effect (Transition) - future investment grants	13 158 684	25.54%	3 360 110	(481 266)	25.73%	(123 844)	-	-	-	-	-	24 187	-	12 677 418	25.72%	3 260 452
Annual IFRIC 12 effect - IFRIC 12 VS fiscal amortisations	97 564 330	25.23%	24 612 067	7 043 926	24.79%	1 745 954	-	-	-	-	-	53 950	-	104 608 256	25.25%	26 411 971
Annual IFRIC 12 effect - future investment	325 514 393	25.77%	83 891 339	47 346 813	26.01%	12 313 223	-	-	-	-	-	59 808	-	372 861 207	25.82%	96 264 370
Annual IFRIC 12 effect - IFRIC 12 VS fiscal subsidy	10 527 532	24.93%	2 625 010	59 070	(4.71%)	(2 782)	-	-	-	-	-	789	-	10 586 602	24.78%	2 623 018
Differences in amortisation - accountancy VS fiscal	5 031 514	22.50%	1 132 091	385 240	22.50%	86 679	-	-	-	-	-	-	-	5 416 754	22.50%	1 218 770
IFRIC 12 effect - Others	35 991 312	25.99%	9 355 832	2 457 889	25.85%	635 364	-	-	-	-	-	-	-	38 449 201	25.99%	9 991 196
Provisions																
Impairment losses	8 131 372	27.76%	2 257 622	(1 231 149)	23.92%	(294 519)	-	-	-	-	-	827	-	6 900 223	28.46%	1 963 930
Risks and duties	984 746	25.44%	250 494	(185 201)	0.00%	(41 077)	-	-	-	-	-	(21 1)	-	799 545	26.17%	209 206
Others:																
Reposition of taxed earnings (IRC 97/98/99) (EPAL)	1 549 908	29.40%	455 673	-	-	-	-	-	-	-	-	-	-	1 549 908	29.40%	455 673
Updating of ADO and Sintra - conversion to IFRS - initial balance on 01.01.2010	1 541 623	29.42%	453 561	(150 003)	29.40%	(44 101)	-	-	-	-	-	-	-	1 391 620	29.42%	409 461
Leasing liabilities	-	-	-	14 376 344	26.20%	3 766 418	-	-	-	-	-	(8 308)	-	14 376 344	26.14%	3 758 110
Other adjustments	5 063 863	23.18%	1 173 781	(2 923 943)	26.07%	(762 363)	-	-	-	-	45 260	(187 661)	-	2 139 920	12.57%	269 017
	865 236 785	25.63%	221 778 755	81 161 033	26.14%	21 212 169	-	-	(348 999)	9.53%	(33 265)	442 302	-	946 048 819	25.73%	243 399 961
DEFERRED TAXATION LIABILITIES																
Cost recovery deviation	(685 482 817)	25.63%	(175 692 925)	16 943 994	26.34%	4 462 498	-	-	348 999	22.50%	78 525	(1 230 084)	-	(668 189 824)	25.80%	(172 381 985)
IFRIC 12 effect																
IFRIC 12 effect (Transition) - company investment amortisations	(13 525 492)	26.00%	(3 516 628)	751 416	26.00%	195 368	-	-	-	-	-	-	-	(12 774 076)	26.00%	(3 321 260)
IFRIC 12 effect (Transition) - company investment grants	(4 970 686)	25.73%	(1 279 049)	227 505	26.27%	59 765	-	-	-	-	-	-	-	(4 743 181)	25.71%	(1 219 283)
IFRIC 12 effect (Transition) - future investment amortisations	(116 321 057)	25.42%	(29 574 319)	4 443 510	25.78%	1 145 717	-	-	-	-	-	(161 320)	-	(111 877 547)	25.55%	(28 589 922)
IFRIC 12 effect (Transition) - future investment grants	(65 144 061)	25.70%	(16 742 227)	2 242 474	25.65%	575 195	-	-	-	-	-	35 040	-	(62 901 587)	25.65%	(16 131 992)
Annual IFRIC 12 effect - IFRIC 12 VS fiscal amortisations	(19 197 129)	24.42%	(4 688 231)	(881 187)	20.99%	(184 987)	-	-	-	-	-	399 738	-	(20 078 316)	22.28%	(4 473 481)
Annual IFRIC 12 effect - future subsidies	(14 935 152)	25.52%	(3 811 498)	(2 626 998)	26.28%	(690 298)	-	-	-	-	-	(18 746)	-	(17 562 150)	25.74%	(4 520 543)
Re-evaluation reserves	(115 985 185)	29.40%	(34 099 644)	4 329 057	29.40%	1 272 743	-	-	-	-	-	-	-	(111 656 128)	29.40%	(32 826 901)
Re-invested capital gains	(140 389)	29.40%	(41 274)	4 877	29.40%	1 434	-	-	-	-	-	-	-	(135 513)	29.40%	(39 840)
Other adjustments	(4 335 173)	26.27%	(1 138 748)	22 476	29.40%	6 607	(593 000)	29.40%	(174 342)	-	-	-	-	(4 905 697)	26.63%	(1 306 483)
Right-of-use assets	-	-	-	(13 902 074)	26.20%	(3 642 144)	-	-	-	-	(378 066)	(8 308)	-	(13 902 074)	28.98%	(4 028 518)
	(1 040 037 141)	26.02%	(270 584 543)	11 555 049	27.71%	3 201 897	(593 000)	29.40%	(174 342)	348 999	(85.83%)	(299 541)	(983 681)	(1 028 726 092)	26.13%	(268 840 209)
	(174 800 356)	27.92%	(48 805 788)	92 716 082	26.33%	24 414 066	(593 000)	29.40%	(174 342)	-	(332 806)	(541 378)	-	(82 677 273)	30.77%	(25 440 248)

There is a group of companies whose expected future tax results shall not allow them to recover the deferred tax assets generated by the reported losses and therefore not subject to calculation as deferred tax assets:

Year generated	Year reported	Total reportable tax loss
2015	2027	748 357
2016	2028	1 758 713
2017	2022	711 849
2018	2023	682 432
2019	2024	957 375
		4 858 726

15. DERIVATIVE FINANCIAL INSTRUMENTS

Swap	Hedged risk	Notional	Maturity	J.V Dec 2019	J.V. Dec 2018	Variation in fair value recognised in the comprehensive income for 2019
BBVA – int. rate (a)	Int rate	20 000 000	2 023	(2 788 817)	(3 315 416)	526 598
Total				(2 788 817)	(3 315 416)	526 598

(a) AdP pays a flat rate and receives a variable rate. Cancellation option with the bank in 2020, which was enacted on 23 January 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 IFRS 9. 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 have been recorded directly in equity since 2012. Evaluations of the effectiveness of those instruments were made and with the results within the 80% to 125% range.

16. TARIFF DEVIATIONS

	31.12.2019	31.12.2018
Regulatory asset – gross tariff deviation	663 054 661	685 482 817
Regulatory liability – gross tariff deviation	(50 225 368)	(34 534 334)
	612 829 293	650 948 483

Conciliation of the gross tariff deviations:

	31.12.2018	CRD relative to 2019	Correction of excess CRD 2018 estimates	ERSAR 2019 (on pre-tax results)	31.12.2019
Águas do Algarve, S.A.	(13 007 821)	(5 403 931)	-	(735 196)	(19 146 948)
Águas do Centro Litoral, S.A.	60 344 302	(4 691 771)	2 474	(52 302)	55 602 703
Águas do Douro e Paiva, S.A.	(21 177 513)	(9 912 624)	11 717	-	(31 078 420)
Águas do Norte, S.A.	265 472 619	(1 561 793)	220 992	-	264 131 818
AgdA - Águas Públicas Alentejo, S.A.	(349 000)	1 428 835	-	-	1 079 835
Águas do Tejo Atlântico, S.A.	26 758 254	(13 083 138)	119 285	(536 329)	13 258 072
Águas do Vale do Tejo, S.A.	225 035 830	(1 190 157)	-	(608 936)	223 236 737
SIMARSUL, S.A.	62 698 150	1 519 237	-	-	64 217 387
SIMDOURO, S.A.	18 176 969	(1 347 151)	378 870	-	17 208 688
AdRA - Águas Região de Aveiro, S.A.	(8 994 619)	(5 135 161)	-	-	(14 129 780)
AdRA - Águas da Região de Aveiro, S.A. (Adjustment)	35 991 312	2 457 889	-	-	38 449 201
	650 948 483	(36 919 765)	733 338	(1 932 763)	612 829 293
Deviation asset	685 482 817	(21 952 210)	721 621	(1 197 567)	663 054 661
Liability deviation	(34 534 334)	(14 967 555)	11 717	(735 196)	(50 225 368)
	650 948 483	(36 919 765)	733 338	(1 932 763)	612 829 293

The consolidated financial reporting for the financial year ending on 31 December 2018 registered a corrective estimate for the cost recovery deviation (CRD) for the gross tax amount of 1 156 142 EUR with a net impact on tax and AdP SGPS minority shareholder interests totalling 520 856 EUR. In 2019, ERSAR issued the final CRD corrections for each subsidiary that amounted to 422 803 EUR (181 943 EUR net of tax and attributable to AdP SGPS shareholders).

The consolidated financial reporting for the financial year ending on 31 December 2019 registered a corrective estimate for CRD for the gross tax amount of 1 932 763 EUR with a net impact on tax and AdP SGPS minority shareholder interests totalling 843 659 EUR. The accounting of these effects takes place according to the norms of financial prudence and transparency and is thus not subject to understanding as any agreement with the analysis and consequent decisions of the regulatory entity then communicated to the companies Águas do Algarve, Águas do Centro Litoral, Águas do Tejo Atlântico and Águas do Vale do Tejo. With the exception of Águas do Algarve, the correction estimate recorded in 2019 corresponds to the cut in costs proposed by ERSAR in its first project reports even while they remain in a contradictory phase as regards the preparation of the financial reporting for the financial year ending on 31 December 2019. In the case of Águas do Algarve, due to not having received the ERSAR project report on the date of preparing the financial reporting for the financial year ending on 31 December 2019, the correction to the CRD was calculated in accordance with the best estimate based on the efficiency metrics set out for 2019.

16.1 NET RESULTS BY COMPANY

	31.12.2019	31.12.2018
OT +3%	3.75%	4.84%
	31 12 2019	31 12 2018
Net company result	50 013 914	45 776 835
Guaranteed income	21 006 136	29 731 525
Net deviation	(29 007 778)	(16 045 310)
Gross deviation	DR	(15 462 135)
Deferred tax	14.1	(583 175)
Effect on results	(29 007 778)	(16 045 310)

31.12.2019	Net company result	Guaranteed income	Net deviation
Águas do Algarve, S.A.	5 430 842	1 212 966	(4 217 876)
Águas do Centro Litoral, S.A.	5 448 765	1 975 424	(3 473 341)
Águas do Douro e Paiva, S.A.	8 176 739	850 067	(7 326 672)
Águas do Norte, S.A.	7 363 293	5 208 556	(2 154 737)
AdRA - Águas da Região de Aveiro, S.A.	2 638 658	679 788	(1 958 870)
AgdA - Águas Públicas do Alentejo, S.A.	(627 440)	479 907	1 107 347
AdAM - Águas do Alto Minho, S.A.	17 984	17 984	-
Águas do Tejo Atlântico, S.A.	14 289 268	4 277 855	(10 011 413)
Águas do Vale do Tejo S.A.	5 550 088	4 222 418	(1 327 670)
SIMARSUL, S.A.	67 775	1 245 184	1 177 409
SIMDOURO, S.A.	1 657 942	835 987	(821 955)
	50 013 914	21 006 136	(29 007 778)

31.12.2018	Net company result	Guaranteed income	Net deviation
Águas do Algarve, S.A.	7 183 134	1 697 930	(5 485 204)
Águas do Centro Litoral, S.A.	5 813 664	2 976 665	(2 836 999)
Águas do Douro e Paiva, S.A.	8 064 174	1 111 720	(6 952 454)
Águas do Norte, S.A.	3 800 241	7 663 211	3 862 970
AdRA - Águas da Região de Aveiro, S.A.	2 497 438	877 074	(1 620 364)
AgdA - Águas Públicas do Alentejo, S.A.	321 167	352 204	31 037
Águas do Tejo Atlântico, S.A.	13 358 192	5 513 468	(7 844 724)
Águas do Vale do Tejo S.A.	3 625 360	6 490 551	2 865 191
SIMARSUL, S.A.	(344 487)	1 905 399	2 249 886
SIMDOURO, S.A.	1 457 952	1 143 303	(314 649)
	45 776 835	29 731 525	(16 045 310)

17. CLIENTS AND OTHER NON-CURRENT ASSETS

	Nota	31.12.2019	31.12.2018
Clients	17.1	7 769 365	31 132 013
Investment grants – Cohesion fund and others	22.1	-	1 997 500
Residual values	17.2	-	14 703 522
Others	17.3	22 344 704	22 005 002
		30 114 069	69 838 037
Losses for impairment		(1 355 551)	(1 355 551)
		28 758 518	68 482 486

17.1 CLIENTS

	Note	31.12.2019	31.12.2018
Municipalities	20.3	7 769 365	31 132 013
		7 769 365	31 132 013

The table below details the leading municipalities with outstanding debts under the non-current clients item, hence resulting from agreements reached with these clients:

	31.12.2019	31.12.2018
Águas de Alenquer, S.A.	2 636 086	3 706 450
FAGAR, EM	1 057 393	1 057 393
Portalegre Municipality	992 008	1 488 012
Alcobaça Municipality	800 763	1 674 324
Mourão Municipality	654 902	879 440
Sobral de Monte Agraço Municipality	535 501	237 855
Óbidos Municipality	310 262	-
Miranda do Corvo Municipality	270 451	-
Sardoal Municipality	200 764	-
Mesão Frio Municipality	74 077	109 219
Taviraverde, EM	66 912	543 112
Vidigueira Municipality	63 683	463 338
Figueiró dos Vinhos Municipality	52 474	157 424
Penacova Municipality	28 277	-
Campo Maior Municipality	25 812	129 057
Other Municipalities		20 686 389
	7 769 365	31 132 013

The reduction in the receivables from the municipalities item stems from the signing of the debt regularisation agreements as described in note 19.

17.2 RESIDUAL VALUE

Significant alterations to investment volumes with a relevant life span beyond the termination of the concession duration imply, as stipulated by the concession contracts, recognition of the respective residual value that correspond to the balances detailed below.

	31.12.2019	31.12.2018
Águas do Algarve, S.A.	-	14 703 522
Total	-	14 703 522

On 24 July 2019, Águas do Algarve S.A. signed the concession contract for the multi-municipal water supply and sanitation system for the Algarve with a 30 year durations (2019 – 2048) that stipulated the residual value investment set out above. Consequently, the sum of 14 703 522 EUR was transferred to the item “Intangible assets – Right of infrastructure utilisation” (note 8.1).

17.3 OTHER NON-CURRENT ASSETS

	Note	31.12.2019	31.12.2018
Águas do Centro Litoral, S.A.	(i)	17 106 654	17 106 654
EPAL, S.A.	(ii)	5 045 000	4 642 288
Others		193 050	256 060
Total		22 344 704	22 005 002

(i) SIMRIA (a now closed company) signed a concession contract payment agreement with the municipalities, involving the future distribution of dividends so that the municipalities thereby correspondingly renounced the amount of EUR 14 million. The trade receivables item was duly reclassified.

(ii) The amount recorded by EPAL also includes EUR 5 045 000 (EUR 4 401 975 in 2018) of surplus pension plan hedging, as disclosed in Note 29.2.

18. INVENTORIES

	31.12.2019	31.12.2018
Subsidiary raw materials and consumption	2 372 582	2 483 626
Parts for maintenance	9 947 492	-
	12 320 074	2 483 626

Through to 31 December 2018, the inventories related to maintenance parts were classified under the item "Other current assets – Reportable costs – Material for general application and others" (note 22).

19. FINANCIAL ASSETS AT THEIR FAIR VALUE ACCORDING TO OTHER COMPREHENSIVE INCOME

	31.12.2019
Águas do Algarve, S.A.	2 072 184
Águas do Centro Litoral, S.A.	622 043
Águas do Norte, S.A.	28 637 918
Águas de Santo André, S.A.	3 609 179
AgdA - Águas Públicas do Alentejo, S.A.	4 661 565
Águas do Vale do Tejo S.A.	32 610 523
Total	72 213 412

	31.12.2019
Belmonte Municipality	6 074 388
Caminha Municipality	6 539 429
Chaves Municipality	4 611 655
Évora Municipality	7 525 527
Figueira de Castelo Rodrigo Municipality	1 409 552
Freixo de Espada À Cinta Municipality	609 458
Lamego Municipality	2 223 616
Lourinhã Municipality	389 173
Macedo de Cavaleiros Municipality	2 283 045
Manteigas Municipality	175 035
Miranda do Corvo Municipality	622 043
Mirandela Municipality	1 945 600
Moimenta da Beira Municipality	456 865
Moura Municipality	1 508 081
Peso da Régua Municipality	2 415 175
Reguengos de Monsaraz Municipality	7 325 213
Sines Municipality	3 609 179
Sousel Municipality	845 190
Tabuaço Municipality	1 485 091
Tarouca Municipality	1 757 268
Vieira do Minho Municipality	538 051
Vila Pouca de Aguiar Municipality	1 247 793
Celorico da Beira Municipality	521 614
Gouveia Municipality	8 344 829
Ambiolhão, EM	2 072 184
Beja Municipality	2 513 734
Ourique Municipality	639 750
TROFÁGUAS - Serviços Ambientais, EEM	2 083 241
Mesão Frio Municipality	441 633
	72 213 412

On January 14, 2019, Decree-Law No. 5/2019 was published that correspondingly establishes the terms and conditions for debt regularization agreements between local authorities, municipal services and inter-municipal services and municipal and intermunicipal entities and for the purposes of undertaking water distribution and wastewater sanitation activities and the multi-municipal system management companies or other state-owned water supply and wastewater sanitation systems and the respective management companies for partnerships between the State and local authorities under the terms stipulated in Decree-Law no. 90/2009, of 9 April.

The following debts fall under the auspices of these Debt Settlement Agreements:

- a) Debts due until December 31, 2018 and recognised by the user entity;
- b) Debts subject to injunction proceedings or other judicial proceedings that commenced prior to September 30, 2018 and in which the transactions were duly ratified by judicial decision issued prior to December 31, 2018.

The Debt Settlement Agreement only comes into force when the following circumstances are cumulatively in effect:

- a) Favourable deliberation by the respective local government entities with competence for signing such agreements;
- b) Submission of a signed version of this agreement for the prior supervision of the Court of Auditors by March 31, 2019;
- c) Issuing of approval by the Court of Auditors, under the terms legally stipulated, prior to May 31, 2019, apart from in cases of questions over the legality in accordance with the terms and for the purposes of article 84 of Law no. 98/97, of August 26, in its current version.

In addition, the aforementioned Decree-Law ensures user entities entering into DSAs benefit from a reduction corresponding to 30% of the accrued interest due as at December 31, 2018, which in accounting terms is a charge to the deviation in the recovery of management entity expenses in order to offset the loss therefrom arising.

Finally, this Decree-Law provides for the assignment of these credits to third parties (without recourse to the AdP Group), as well as: **(i)** credits related to debt recognised by a final court decision following the conclusion of a Debt Settlement Agreement substantially in accordance with the terms and conditions set out in the annex to this legal decree; and **(ii)** credits already subject to a payment agreement, regardless of its designation, implemented prior to December 31, 2018.

The cession of credits enables the extension of the repayment period to 25 years with this period capped at 5 years whenever the transfers of credit do not take place within 12 months of the date of Court of Auditors approval.

Under Decree-Law 5/2019, 31 DSAs were entered into with the recoverable amount totalling EUR 77 791 205 following the deduction of the 30% default interest waiver amounting to EUR 5 227 297. This interest relief is to be fully offset in the Cost Recovery Deviation item.

The registered total of the DSAs agreed in 2019 stood at 72 213 412 EUR as of 31 December 2019.

The DSAs were initially accounted for as a financial asset with an amortised cost before undergoing reclassification on 31 December 2019 as "Financial Assets at Fair Value through Other Comprehensive Income". On 31 July 2019, the AdP Group formally agreed with the European Investment Bank a 200 million EUR credit line applicable for utilisation as a counterparty to the issuing of the DSAs reached between the AdP Group and its municipal clients under the auspices of Decree-Law no. 5/2019, of 14 January. These agreements are made for the nominal value of the credits. Hence, this deems the fair value of the DSAs corresponds to their nominal value.

20. CLIENTS – CURRENT

	Note	31.12.2019	31.12.2018
Clients - current account		254 361 695	307 206 133
Clients – penalty interest	20.2	14 024 344	17 469 786
Client doubtful debts		61 441 396	58 987 699
Estimate of services for billing		31 173 614	28 809 079
		361 001 049	412 472 697
Client impairment losses	20.4	(61 191 845)	(66 452 489)
		299 809 204	346 020 208

	Note	31.12.2019	31.12.2018
General	20.1	57 269 023	64 673 126
Municipalities	20.3	272 558 412	318 990 492
Estimate of services for billing		31 173 614	28 809 079
		361 001 049	412 472 697
Client impairment losses	20.4	(61 191 845)	(66 452 489)
		299 809 204	346 020 208

20.1 GENERAL CLIENTS

The general clients are served by the downstream water distribution activities (EPAL, Águas de Santo André, Águas do Norte, AdRA - Águas da Região de Aveiro) and the unregulated activities.

	31.12.2019	31.12.2018
EPAL, S.A.	20 092 784	19 246 809
Águas de Santo André, S.A.	15 687 380	20 912 352
Águas do Norte, S.A.	7 670 930	8 395 209
AdRA - Águas da Região de Aveiro, S.A.	5 923 372	5 944 123
AdP Internacional, S.A.	5 058 070	7 094 870
Águas do Tejo Atlântico, S.A.	424 685	2 114 229
Other Group companies	2 411 802	965 534
	57 269 023	64 673 126

20.2 PENALTY INTEREST

Penalty interest stems from non-compliance with service payments within the contractually stipulated deadline.

	Note	31.12.2019	31.12.2018
General		268 509	121 186
Municipalities	20.3	13 755 835	17 348 600
		14 024 344	17 469 786

20.3 CLIENTS – MUNICIPALITIES

Conciliation of current and non-current clients debts with the municipality debt table:

	Note	31.12.2019	31.12.2018
Municipal clients - Non-current			
Agreements	17.1	7 769 365	31 132 013
Total non-current municipal clients		7 769 365	31 132 013
Municipal clients - Current			
TRH		2 770 024	2 691 730
Agreements		7 078 005	17 786 811
Injunctions		168 409 364	191 260 576
Current account		80 158 498	69 824 703
Doubtful debts		386 686	20 078 072
Penalty interest	20.2	13 755 835	17 348 600
		272 558 412	318 990 492
Impairments		(28 888 416)	(33 968 619)
Total municipal clients - current		243 669 996	285 021 873
Total municipal clients - gross		280 327 777	350 122 505
Total municipal clients – nominal value		251 439 361	316 153 886

The reduction in the balance of the municipalities receivables items results from the Debt Recovery Agreements as duly set out in note 19.

Debts by municipal entity:

Note: whenever applicable, the balances set out also include the municipal company balance.

		Expiring by N-2	Expiring by N-1	Expiring by N	Total expiring	Total not expiring	Total of debt	
							31.12.2019	31.12.2018
SMAS Guarda	Guarda	28 265 806	993 121	1 026	29 259 953	-	29 259 953	29 259 953
Fundão Municipality	Fundão	25 423 880	869 489	349 889	26 643 258	281 638	26 924 896	26 827 931
VRSA SGU EM, S.A.	Vila Real Santo António	20 290 696	2 047 956	428 007	22 766 659	-	22 766 659	22 775 215
Águas de Coimbra, EM	Coimbra	4 507 469	5 649 818	3 652 786	13 810 073	4 620 379	18 430 452	10 365 237
Bragança Municipality	Bragança	129 587	6 493 609	411 702	7 034 898	5 008 104	12 043 002	9 372 191
Castelo Branco Municipality	Castelo Branco	4 402 249	-	4 460 963	8 863 212	-	8 863 212	4 402 249
Pinhel Municipality	Pinhel	6 267 894	305 013	-	6 572 907	263 369	6 836 276	6 753 162
EMAR - Água e Resíduos de Vila Real, E.M.	Vila Real	3 959 466	1 459 742	-	5 419 208	662 278	6 081 486	5 740 743
Santiago do Cacém Municipality	Santiago do Cacém	4 830 552	458 227	431 849	5 720 628	245 605	5 966 233	5 435 047
Sabugal Municipality	Sabugal	5 747 150	-	-	5 747 150	124 683	5 871 833	6 028 189
Peso da Régua Municipality	Peso da Régua	4 047 821	123 151	738 478	4 909 450	249 151	5 158 601	6 835 078
Mogadouro Municipality	Mogadouro	2 108 592	911 014	-	3 019 606	1 754 043	4 773 649	3 886 313
Lamego Municipality	Lamego	4 245 548	65 735	-	4 311 283	185 157	4 496 440	6 694 433
Águas de Alenquer S.A.	Alenquer	583 754	-	-	583 754	4 909 378	5 493 132	5 245 214
Taviraverde, EM	Tavira	3 316 724	-	-	3 316 724	474 357	3 791 081	4 022 114
Mirandela Municipality	Mirandela	2 466 090	201 216	288 284	2 955 590	360 560	3 316 150	4 921 277
Valpaços Municipality	Valpaços	3 231 406	17 399	-	3 248 805	32 741	3 281 546	3 249 072
Resende Municipality	Resende	2 215 812	487 876	-	2 703 688	421 613	3 125 301	3 155 679
Boticas Municipality	Boticas	1 282 363	611 527	-	1 893 890	1 200 646	3 094 536	2 486 642
Alcochete Municipality	Alcochete	404 385	18 057	2 504 555	2 926 997	64 901	2 991 898	4 741 627
Lisbon Municipality	Lisbon	296 763	-	-	296 763	2 676 662	2 973 425	2 968 101
Montalegre Municipality	Montalegre	1 478 826	572 874	-	2 051 700	522 925	2 574 625	2 597 631
Almeida Municipality	Almeida	2 407 598	-	-	2 407 598	69 142	2 476 740	2 471 370
SMAS de Oeiras e Amadora	Oeiras	-	-	433 958	433 958	2 028 806	2 462 764	1 987 179
Águas e Parque Biológico de Gaia, EEM	Gaia	-	-	-	-	2 333 223	2 333 223	-
Sines Municipality	Sines	1 997 853	-	290 822	2 288 675	(67 480)	2 221 195	6 062 310

		Expiring by N-2	Expiring by N-1	Expiring by N	Total expiring	Total not expiring	Total of debt	
							31.12.2019	31.12.2018
Fornos de Algodres Municipality	Fornos de Algodres	1 907 901	70 455	-	1 978 356	50 046	2 028 402	2 022 445
Portalegre Municipality	Portalegre	-	-	-	-	1 984 016	1 984 016	2 480 020
Chaves Municipality	Chaves	1 949 257	-	-	1 949 257	18 917	1 968 174	8 288 693
Alcobaça Municipality	Alcobaça	-	-	-	-	1 942 884	1 942 884	2 722 750
SMAS Tomar	Tomar	1 014 731	-	129 475	1 144 206	573 302	1 717 508	1 948 295
Vimágua	Guimarães	31 915	17 547	943 997	993 459	722 199	1 715 658	307 073
Tabuaço Municipality	Tabuaço	938 709	102 974	508 563	1 550 246	78 159	1 628 405	2 497 024
Tarouca Municipality	Tarouca	1 175 670	34 160	299 884	1 509 714	88 905	1 598 619	3 011 800
FAGAR, EM	Faro	-	-	-	-	1 562 281	1 562 281	1 539 575
SMAS de Castelo Branco	Castelo Branco	278 743	86 141	27 744	392 628	1 103 392	1 496 020	3 650 389
Águas de Gaia, EM, S.A.	Gaia	83 590	-	-	83 590	1 382 317	1 465 907	1 861 183
Oeiras Municipality	Oeiras	-	-	-	-	1 280 915	1 280 915	1 278 014
Águas de Cascais S.A.	Cascais	-	-	-	-	1 225 403	1 225 403	1 179 847
Guarda Municipality	Guarda	-	105 601	465 694	571 295	647 834	1 219 129	600 462
Sobral de Monte Agraço Municipality	Sobral de Monte Agraço	28 630	-	243 406	272 036	1 048 654	1 320 690	1 212 240
Amares Municipality	Amares	567 489	20 736	442 240	1 030 465	140 740	1 171 205	1 175 504
Évora Municipality	Évora	-	-	5 757	5 757	1 136 785	1 142 542	8 980 591
Monção Municipality	Monção	540 944	4 873	475 063	1 020 880	95 432	1 116 312	650 690
Mourão Municipality	Mourão	-	-	182 043	182 043	927 789	1 109 832	1 128 907
Vidigueira Municipality	Vidigueira	-	-	442 108	442 108	663 889	1 105 997	952 756
Vila Nova de Famalicão Municipality	Vila Nova de Famalicão	-	216 418	710 568	926 986	168 118	1 095 104	957 636
Ponte de Sôr Municipality	Ponte de Sôr	881 754	1 095	3 054	885 903	157 224	1 043 127	1 518 716
SMAS Torres Vedras	Torres Vedras	-	-	-	-	1 042 669	1 042 669	4 783 019
Aljustrel Municipality	Aljustrel	-	260 559	135 536	396 095	645 914	1 042 009	1 460 947
SMAS de Leiria	Leiria	-	-	435 214	435 214	595 188	1 030 402	999 142
AQUAELVAS, Águas Elvas S.A.	Elvas	-	-	658 149	658 149	299 650	957 799	651 827
Azambuja Municipality	Azambuja	947 636	-	-	947 636	-	947 636	947 636
SMAS de Sintra	Sintra	-	-	-	-	889 343	889 343	820 749
Rio Maior Municipality	Rio Maior	663 981	40 462	-	704 443	135 297	839 740	846 104
Odivelas Municipality	Odivelas	-	-	-	-	836 061	836 061	415 065
Albufeira Municipality	Albufeira	-	-	-	-	817 407	817 407	522 315
Fronteira Municipality	Fronteira	719 818	-	126	719 944	92 247	812 191	853 178
Ponte de Lima Municipality	Ponte de Lima	29 875	-	276 490	306 365	483 504	789 869	739 245
Serpa Municipality	Serpa	175 660	-	391 859	567 519	211 711	779 230	808 716
SMAS Viana do Castelo	Viana do Castelo	8 476	1 353	204 029	213 858	541 733	755 591	461 457
Seixal Municipality	Seixal	-	-	-	-	723 389	723 389	-
EAMB - Esposende Ambiente, EEM	Esposende	45 634	2 403	282 817	330 854	358 654	689 508	354 170
INDÁQUA Vila do Conde - Gestão	Vila do Conde	-	150 972	30 753	181 725	495 368	677 093	853 473
Vinhais Municipality	Vinhais	630 683	-	-	630 683	29 104	659 787	642 070
Mealhada Municipality	Mealhada	605 895	-	-	605 895	47 811	653 706	660 292
EMARP, EM	Portimão	-	-	-	-	608 259	608 259	1 201 138
Caldas da Rainha Municipality	Caldas da Rainha	527 484	-	-	527 484	80 425	607 909	617 732
Moita Municipality	Moita	-	-	295 050	295 050	311 356	606 406	538 905
Reguengos de Monsaraz Municipality	Reguengos de Monsaraz	-	-	-	-	605 693	605 693	7 920 915
Lousã Municipality	Lousã	115 647	-	184 525	300 172	300 402	600 574	432 530
Oliveira do Hospital Municipality	Oliveira do Hospital	480 431	-	-	480 431	113 724	594 155	620 139
Loulé Municipality	Loulé	-	-	-	-	581 933	581 933	525 419
Ambiohã, EM	Olhão	-	-	-	-	580 339	580 339	4 867 566
Arruda dos Vinhos Municipality	Arruda dos Vinhos	(395)	-	45 907	45 512	533 294	578 806	758 640
Lourinhã Municipality	Lourinhã	-	-	81 164	81 164	490 131	571 295	689 904
Tomar Municipality	Tomar	1 083	-	-	1 083	560 647	561 730	241 809
Ansião Municipality	Ansião	470 810	-	-	470 810	84 433	555 243	727 214
Macedo de Cavaleiros Municipality	Macedo de Cavaleiros	156 336	64 615	-	220 951	316 104	537 055	2 668 524
Ponte da Barca Municipality	Ponte da Barca	75 946	39 887	326 785	442 618	90 836	533 454	259 116
Penela Municipality	Penela	284 678	116 324	5	401 007	111 712	512 719	385 097
Other municipalities		2 638 272	472 348	4 491 753	7 602 373	17 452 012	25 054 385	70 529 474
		151 885 567	23 094 747	26 712 077	201 692 391	78 635 095	280 327 486	350 122 509

20.4 CLIENT IMPAIRMENT LOSSES

	note	31.12.2019	31.12.2018
Initial balance		(66 452 489)	(63 723 940)
Increases	43	(3 861 835)	(7 878 877)
Reclassification of debtors (Águas do Norte, S.A.)	22.2	-	59 835
Reversion	43	971 274	1 556 484
Utilisation - Águas do Centro Litoral, S.A.	i)	1 123 443	20 029
Utilisation - Águas de Santo André, S.A. (Industrial clients)		1 467 499	
Utilisation - Águas do Tejo Atlântico, S.A.		-	3 513 553
Utilisation - AdP Serviços, S.A.		34 023	
Reclassification (Águas do Vale do Tejo, S.A.)	28.1	5 526 182	
Conversion differences		58	427
Final balance		(61 191 845)	(66 452 489)

i) The reduction on behalf of the Águas do Centro Litoral associated company derives from the application of the impairments of Penacova and Miranda do Corvo following the agreement reached between these parties.

The recognition of current client impairments to Group companies in 2019 breaks down as follows:

Increases and Reversions	31.12.2019
Águas do Centro Litoral, S.A.	(763 913)
Águas do Norte, S.A.	(477 519)
AdP - Águas de Portugal, SGPS, S.A.	(31 360)
AdP Internacional, S.A.	(162 191)
AdRA - Águas da Região de Aveiro, S.A.	(230 657)
Águas de Santo André, S.A.	(279 692)
Águas do Tejo Atlântico, S.A.	7 371
EPAL, S.A.	(952 600)
	(2 890 561)

21. STATE AND OTHER PUBLIC ENTITIES

	Note	31.12.2019	31.12.2018
IRC – withheld by third parties		25 944	406 077
VAT receivable		7 399 997	7 580 176
Others	(i)	854 310	846 370
State and other public entities – assets		8 280 251	8 832 623
Withheld at source by third parties - IRC		(1 141 390)	(1 220 862)
VAT payable		(1 024 674)	(1 013 569)
Social security payments		(1 765 968)	(1 749 409)
TRH / TGR		(18 888 463)	(18 420 048)
Other taxes and charges		(171 894)	(237 716)
State and other public entities – liabilities		(22 992 389)	(22 641 604)
State and other public entities - net total balance with		(14 712 138)	(13 808 981)

i) Includes 809 033 EUR for which an impairment was recorded in 2018 under the item "Other current assets – losses due to accumulated impairments" (note 22.2).

22. OTHER CURRENT ASSETS

	Note	31.12.2019	31.12.2018
Advances to suppliers		3 157 484	9 782 198
Human resources		141 043	297 391
Additional interest - clients		43 390 009	39 078 704
Additional interest – others		2 348 608	3 941 015
Investment grants – Cohesion Fund and others	22.1	19 664 744	23 203 837
Advances – investment account		1 551 215	1 134 552
Deferrals – recognisable costs – insurance		2 283 836	2 075 679
Deferrals – bank charges and others		1 053 423	2 385 325
Recognisable costs – materials for general applications and others	18	395 769	9 421 661
Invoicing of charges for Lisbon Municipal Council	(i)	12 705 023	12 531 740
Client collateral and others		610 348	1 170 804
Other accounts receivable		11 930 865	13 863 049
		99 232 367	118 885 955
Losses for accumulated impairments	22.2	(3 693 145)	(5 638 101)
		95 539 222	113 247 854

(i) Corresponds to the sanitation tax EPAL charges on water bills to its direct customers (downstream) on account of the Lisbon Municipality (the balance of receivable results from a billing cycle renewed monthly). This amount is paid to the Lisbon Municipality after its respective collection.

22.1 INVESTMENT GRANTS

22.1.1 COHESION FUND RECEIVABLES

	Note	31.12.2019	31.12.2018
Investment grants – Cohesion Fund MLT	17	-	1 997 500
Investment grants - Cohesion Fund ST		19 664 744	23 203 837
		19 664 744	25 201 337

	31.12.2019	31.12.2018
Águas do Algarve, S.A.	7 788 824	9 302 110
Águas do Centro Litoral, S.A.	22 071	241 298
Águas do Norte, S.A.	2 094 085	1 814 336
AdRA - Águas da Região de Aveiro, S.A.	3 347 258	5 929 591
AgdA - Águas Públicas do Alentejo, S.A.	554 790	378 828
Águas do Tejo Atlântico, S.A.	74 359	111 590
Águas do Vale do Tejo S.A.	5 416 372	6 956 656
EPAL, S.A.	366 985	466 928
	19 664 744	25 201 337

22.1.2 COHESION FUND RECONCILIATION

	Note	31.12.2019	31.12.2018
Cohesion Fund – initial balance of amounts receivable		25 201 337	43 962 296
Recognition of the right to funding	33.2	22 538 848	35 117 486
Receivables in the period	22.13	(28 071 915)	(45 067 720)
Derecognition of amounts receivable from requests – Águas do Norte, S.A. and Águas do Algarve, S.A.			(9 763 360)
Other corrections		(3 526)	952 635
Cohesion Fund – final balance of amounts receivable		19 664 744	25 201 337

22.1.3 RECEIVABLES

Receivables	31.12.2019	31.12.2018
Águas do Algarve, S.A.	1 509 759	10 272 787
Águas do Centro Litoral, S.A.	219 227	470 270
Águas do Norte, S.A.	7 573 915	4 071 656
AdRA - Águas da Região de Aveiro, S.A.	3 687 691	5 991 696
AgdA - Águas Públicas do Alentejo, S.A.	13 302 364	17 772 504
Águas do Tejo Atlântico, S.A.	138 732	289 455
Águas do Vale do Tejo S.A.	1 540 283	843 630
EPAL, S.A.	99 944	5 355 722
	28 071 915	45 067 720

22.2 IMPAIRMENTS LOSSES ON OTHER CURRENT ASSETS

	Note	31.12.2019	31.12.2018
Initial balance		(5 638 101)	(4 588 100)
Increases	43	(957 278)	(66 661)
Increase of AdP SGPS relative to tax on earnings	21		(809 033)
Increase of AdP Serviços (payments from AQUASIS – right to capital gains value)	48		(480 294)
Reclassification (EPAL, S.A.)		(146 493)	
Reclassification of Clients (Águas do Norte, S.A.)	20.4		(59 835)
Reversion (Águas do Norte, S.A. and Águas do Centro Litoral, S.A.)	43	2 838 142	181 060
Utilisation (Águas do Algarve, S.A and EPAL, S.A.)		210 585	184 762
Final balance		(3 693 145)	(5 638 101)

23. CASH AND CASH EQUIVALENTS

	Note	31.12.2019	31.12.2018
Cash		142 060	111 789
Current account		113 016 459	91 089 503
Term accounts		25 005 000	5 000
		138 163 519	91 206 292
Bank overdrafts	30	(82 217)	(117 351)
		138 081 302	91 088 941

24. SHARE CAPITAL

The capital, in the amount of EUR 434,500,000, consists of 86,900,000 shares of 5 euros each and is fully realized.

24.1 SHAREHOLDERS

	31.12.2019		31.12.2018	
	Valor	%	Valor	%
Parpública – S.G.P.S., S.A.	351 945 000	81%	351 945 000	81%
Caixa Geral de Depósitos, S.A.	82 555 000	19%	82 555 000	19%
	434 500 000	100%	434 500 000	100%

24.2 NET RESULT PER SHARE

	31.12.2019	31.12.2018
Net result for the year	83 116 158	87 263 416
Average number of shares	86 900 000	86 900 000
Results per share (basic and diluted)	0.96	1.00

25. RESERVES AND OTHER ADJUSTMENTS

	Nota	31.12.2019	31.12.2018
Reserves – legal		35 922 364	32 945 571
Reserves – free		2 431 884	2 431 884
Reserves – negative coverage fair value financial instruments	15	(350 431)	(877 029)
Reserve – exchange rate conversion	25.1	770 859	791 925
		38 774 676	35 292 351

25.1 EXCHANGE RATE RESERVE VARIATIONS

	31.12.2019	31.12.2018
Initial balance	791 925	797 905
Águas do Brasil, S.A.	4 778	35 526
Águas de Timor- Leste, Lda.	(10 441)	(38 786)
AQUATEC, Lda.	(15 403)	(2 720)
Final balance	770 859	791 925

26. CARRIED OVER RESULTS

	31.12.2019	31.12.2018
Initial balance	719 304 806	661 025 457
Applications of the 2018 net result	84 286 623	85 460 755
Dividends paid	(27 000 000)	(26 500 000)
Pensions (EPAL, S.A.)	418 660	(681 406)
Final balance	777 010 089	719 304 806

27. NON-CONTROLLING INTERESTS

27.1 MOVEMENTS IN THE PERIOD

	Nota	31.12.2019	31.12.2018
Initial balance		312 816 849	301 345 371
Dividends distributed		(6 634 152)	(6 170 957)
Net result	27.2	8 641 231	12 182 948
Capital increase – Águas do Norte, S.A.		615 145	498 325
Capital increase – AgdA – Águas Públicas do Alentejo, S.A.		593 635	889 350
Capital increase – AdAM – Águas do Alto Minho, S.A.		529 200	
Own shares – Águas do Tejo Atlântico, S.A. (acquisition by Lisbon MC)		-	3 936 998
Departure from perimeter - AQUASIS		-	134 814
Final balance	27.2	316 561 908	312 816 849

27.2 DETAILS ON THE NON-CONTROLLING INTERESTS

Holding	Minority %	Own capital	Net Result	Minority own capital	Minority new result
Águas do Algarve, S.A.	45,56%	26 804 238	511 457	12 212 011	233 020
Águas do Centro Litoral, S.A.	37,23%	98 837 489	4 023 118	36 797 197	1 497 807
Águas do Douro e Paiva, S.A.	49,00%	30 456 671	858 947	14 923 769	420 884
Águas do Norte, S.A.	27,50%	269 461 215	5 464 869	74 101 834	1 502 839
AdRA - Águas da Região de Aveiro, S.A.	49,00%	18 747 627	679 816	9 186 337	333 110
AgdA - Águas Públicas do Alentejo, S.A.	49,00%	8 715 080	479 908	4 270 389	235 155
AdAM - Águas do Alto Minho, S.A.	49,00%	1 080 000	-	529 200	-
Águas do Tejo Atlântico, S.A.	48,39%	114 675 119	4 054 813	55 491 290	1 962 124
Águas do Vale do Tejo S.A.	31,73%	202 607 346	4 320 293	64 287 311	1 370 829
SIMARSUL, S.A.	48,57%	65 536 345	1 277 023	31 831 003	620 250
SIMDOURO, S.A.	41,39%	31 243 216	1 123 974	12 931 567	465 213
		868 164 346	22 794 218	316 561 908	8 641 231

28. PROVISIONS

	31.12.2019	31.12.2018
Legal processes	2 167 100	2 049 828
Workplace accidents	3 394	8 868
Environmental issues	1 638 236	30 053
Others	12 647 931	7 977 994
	16 456 661	10 066 743

28.1 MOVEMENTS IN THE PERIOD

	31.12.2018	Advances (note 42)	Reductions	Reclassification (note 20.4)	Conversion rate differences	Utilisations	Reversions (note 42)	31.12.2019
Legal / judicial processes	2 049 828	168 195			277	(3 165)	(48 035)	2 167 100
Workplace accidents	8 868					(5 474)		3 394
Environmental materials	30 053	1 638 236					(30 053)	1 638 236
Others	7 977 994	268 755		5 526 182		(816 997)	(308 003)	12 647 931
	10 066 743	2 075 186	-	5 526 182	277	(825 636)	(386 091)	16 456 661

The provision recognised under the other responsibilities item stems from potential contractual responsibilities. The movements in the period per Group company are:

Provisions – others	31.12.2018	Increases (note 42)	Utilisations	Transfers	Reversions	31.12.2019
Águas do Algarve, S.A.	598 339	-	-	-	-	598 339
Águas do Centro Litoral, S.A.	19 618	-	-	-	-	19 618
AdP - Águas de Portugal, SGPS, S.A.	6 125 000	-	(816 997)	-	(308 003)	5 000 000
AdP Internacional, S.A.	27 000	-	-	-	-	27 000
AdRA - Águas da Região de Aveiro, S.A.	576 326	97 359	-	-	-	673 685
Águas de Santo André, S.A.	349 239	-	-	-	-	349 239
Águas do Vale do Tejo S.A. (see note 20.4)	282 472	-	-	5 526 182	-	5 808 654
EPAL, S.A.	-	171 396	-	-	-	171 396
	7 977 994	268 755	(816 997)	5 526 182	(308 003)	12 647 931

In 2019, AdP settled the tax on earnings for the financial years of 2015 and 2016, in conjunction with the respective late interest charges, for the amount of 816 997 EUR with the remainder of the provision having reverted on the grounds it was no longer needed.

29. POST-EMPLOYMENT BENEFIT LIABILITIES

	31.12.2019	31.12.2018
EPAL pension fund	115 000	275 000
	115 000	275 000

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 working 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.

29.1 ACTUARIAL ASSUMPTIONS

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation and the pre-retirement obligation was made with reference to December 31, 2019 by an independent external entity. The present value of the defined benefit obligation and pre-retirement plan as well as the cost of current services and related past services were measured using the projected unit of credit method.

On December 31, 2019 and 2018, the main assumptions adopted in the actuarial valuation were as follows:

	31.12.2019	31.12.2018
Normal retirement age	66 and 5 months	66 and 4 months
Mortality table	TV 88/90	TV 88/90
Invalidity table	EVK 80	EVK 80
Discount rate	0.5%	1.40%
Wage growth rate	2.0%	2.00%
Pension growth rate	1.0%	1.00%
Pre-retirement payment growth rate	1.0%	1.00%

The reduction in the discount rate accompanies the reduction in the interest rate on riskless debt instruments.

The “duration” of the EPAL Defined Benefit Pension Fund Plan is 10 years.

29.2 FUND SUMMARY

	31.12.2019	31.12.2018
Liabilities at the end of the period	29 047 000	28 923 025
Asset value at the end of the period	(33 977 000)	(33 050 000)
Provisions for liabilities	(4 930 000)	(4 126 975)

	Note	31.12.2019	31.12.2018
Other assets	17.3	5 045 000	4 401 975
Liabilities for post-employment benefits (pre-retirement and health)		(115 000)	(275 000)
		4 930 000	4 126 975

29.3 VARIATIONS IN LIABILITIES

	31.12.2019	31.12.2018
Liabilities at the beginning of the period	28 923 025	32 140 025
Current service costs	31 000	61 000
Interest costs	388 000	401 000
Actuarial (Gains)/ Losses	81 000	(371 000)
Financial assumption (Gains)/ Losses	2 139 975	(501 000)
Benefits paid	(2 516 000)	(2 807 000)
Liabilities at the end of the period	29 047 000	28 923 025

The sensitivity of defined benefit liabilities compared to the change in the main assumptions is the following:

	Impact on defined benefit liabilities	
	Alterations in assumptions	Defined benefit liabilities
Discount rate assumption	+ 0.50%	Decrease of 4.2%

An increase of 0.50 % in the discount rate would decrease liabilities by 4.2%, thus generating an impact of around EUR 1.2 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.

29.4 VARIATIONS IN FUND ASSETS

	31.12.2019	31.12.2018
Fund at the beginning of the period	33 050 000	36 815 500
Return on fund	447 000	465 000
Gains and losses (actuarial)	2 748 000	(1 973 000)
Company contributions	182 000	409 000
Benefits paid	(2 450 000)	(2 666 500)
Fund at the end of the period	33 977 000	33 050 000

29.5 COST FOR THE PERIOD

Over the course of the financial years ending on 31 December 2019 and 2018, the following totals were recognised in the results under the item "Personnel costs":

	31.12.2019	31.12.2018
Current service cost	31 000	61 000
Net interest cost	(58 837)	(64 440)
Total	(27 837)	(3 440)

29.6 FUND ASSET COMPOSITION

	31.12.2019	31.12.2018
Own capital instruments	12 412 454	10 603 050
Debt instruments	19 567 076	20 422 324
Others	1 997 470	2 024 626
Total	33 977 000	33 050 000

Pension Fund Investment Policy

The investment policy of the EPAL Pension Fund sets out the investment principles and guidelines for managing the assets of the fund in accordance with:

- The nature of the benefits covered by the Pension Plans;
- The characteristics of the population covered and the time horizon of the responsibilities assumed, namely the distribution between responsibilities assumed with the Participants and with the Beneficiaries of the Pension Fund;
- The level of coverage of the liabilities of the Pension Fund;
- The management structure of the Pension Fund.

The investment policy shall be subject to review at least every three years or where the change in the assumptions set out above so warrants.

The principles and rules that constitute the Investment Policy of the Pension Fund are set out in the management agreement between EPAL and the management entity.

The main objective of the pension fund's investment policy is to maximize the potential return on the medium- and long-term investments of the fund based on rules and procedures based on prudence and in-depth knowledge of the markets in order to avoid inappropriate risks of loss. Investment in financial investments should be carried out in a diversified and prudent manner, taking into account, inter alia, interest rate, credit and liquidity risks.

With respect to restrictions / indications in the Total Fund and in 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 euro and correspondingly avoiding any significant currency risk in these investments.
- Direct investment in bonds opts for securities denominated in euro or other currencies provided the corresponding currency hedging is undertaken.
- For the purposes of compliance with the allocation to non-euro 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 euro bonds should have a minimum rating of "BBB" or equivalent. The share of 'BBB' rated bonds should not exceed 30% of the bond component. The 'BBB' rating covers debt securities with ratings

- of 'BBB- ' and ' BBB+ ' . Bonds rated below BBB, except 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 euro fixed rate class and are not subject to the minimum 'BBB' rating. They may represent up to 15% of the bond component;
- Whenever the 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 bonds is to represent no less than 40% of the bond class. By government, this understands public debt at fixed rates issued by central governments their agencies and quasi-governments. This thus does not include emerging market and high yield emissions (even when in EUR). This does include issuances of Portuguese debt;
 - 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 expressed in non-euro currencies may not exceed the maximum limit of 25%;
 - 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 institutional 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.

The calculation method used to assess portfolio and benchmark yields should be an approximation of the Time Weighted Rate of Return. Attention should thus be paid to:

- For purposes of benchmark comparisons, the various instruments should be classified according to the predominant class. Guaranteed share market capital products, as well as warrants and convertible bonds, should be classified as shares;
- For the purposes of determining exposure to the various asset classes, effective exposure and implied exposure through futures and options positions are considered;
- The evaluation of the management entity performance takes place on a quarterly basis and considers the objectives set out for obtaining added value.

29.7 5-YEAR TREND IN LIABILITIES

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Liabilities at the end of period	29 047 000	28 923 025	32 140 025	35 042 000	37 574 000
Asset value at the end of period	33 977 000	33 050 000	36 815 500	36 789 000	38 527 000
Surplus in coverage	(5 045 000)	(4 401 975)	(5 476 000)	(3 431 000)	(3 865 000)
Provisions for liabilities	1 15 000	275 000	800 525	1 684 000	2 912 000

29.8 DEFINED CONTRIBUTION PLAN – FUND CONTRIBUTIONS

The company took on the commitment to make monthly contributions to a defined contribution pension fund. The only Company 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 2019 and 2018 financial years, the company made the following contributions under the defined contribution plan:

	31.12.2019
Company contributions	428 711
Participant contributions	20 927
Total	449 638

30. LOANS

Non-current	Note	31.12.2019	31.12.2018
Bank loans – BEI		1 204 996 948	1 276 361 698
Shareholder loans		551 136 545	557 954 727
Financing obtained – Adjustments for amortised cost		-	644 888
Bank loans		1 756 133 493	1 834 961 313
Leasing company debts	(i)	-	8 722 417
Total of non-current loans		1 756 133 493	1 843 683 730

Current		31.12.2019	31.12.2018
Bank overdrafts	23	82 217	117 351
Bank loans – BEI		71 364 752	72 137 021
Shareholder loans		6 818 000	6 818 000
Bank loans		78 264 969	79 072 372
Leasing company debts	(i)	-	1 415 316
Total current loans		78 264 969	80 487 688
Total bank loans		1 834 398 462	1 914 033 685
Total loans		1 834 398 462	1 924 171 418

(i) Under the auspices of adopting IFRS 16 on 1 January 2019, debts outstanding to leasing companies were transferred to the liability item “Leasing liabilities”.

Shareholder loans are subject to ownership clauses which state that any changes to the AdP SGPS 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 shareholder structure;
- Operations performed with an AdP guarantee/collateral;
- Compliance with obligations defined in the concession/management agreements;
- Alterations to company earnings.

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.

30.1 LOANS BY MATURITY

	31.12.2019	31.12.2018
Non-current		
Bank loans – BEI	1 204 996 948	1 276 361 698
Shareholder loans	551 136 545	557 954 727
Current		
Bank loans – BEI	71 364 752	72 137 021
Shareholder loans	6 818 000	6 818 000
	1 834 316 245	1 913 271 446

By maturity	31.12.2019	31.12.2018
Up to 1 year	78 182 752	78 955 021
From 1 to 2 years	80 347 367	93 436 279
From 2 to 3 years	236 938 162	81 977 249
From 3 to 4 years	295 061 666	239 831 950
From 4 to 5 years	99 294 815	295 929 911
Over 5 years	1 044 491 483	1 123 141 036
	1 834 316 245	1 913 271 446

30.2 LOANS BY RATE TYPE

Variable interest rate	31.12.2019	31.12.2018
Up to 1 year	14 800 841	18 278 668
From 1 to 2 years	11 929 477	14 801 225
From 2 to 3 years	161 929 293	12 380 733
Over 3 years	396 916 664	567 993 495
	585 576 275	613 454 121

Fixed interest rate	31.12.2019	31.12.2018
Up to 1 year	63 381 911	60 676 353
From 1 to 2 years	68 417 890	78 635 054
From 2 to 3 years	75 008 869	69 596 516
Over 3 years	1 041 931 300	1 090 909 402
	1 248 739 970	1 299 817 325
	1 834 316 245	1 913 271 446

31. SUPPLIERS AND OTHER NON-CURRENT LIABILITIES

	31.12.2019	31.12.2018
Investment suppliers	83 480 916	82 270 158
Other accounts payable	6 651 743	5 587 110
	90 132 659	87 857 268

The amounts registered in "Investment suppliers" essentially relate to the debts payable to municipalities following the integration of their assets into the systems.

31.1 DETAIL BY GROUP COMPANY

	31.12.2019	31.12.2018
Águas do Algarve, S.A.	3 167 753	3 428 971
Águas do Centro Litoral, S.A.	1 196 748	1 533 877
Águas do Norte, S.A.	4 318 754	6 117 012
AdRA - Águas da Região de Aveiro, S.A.	52 449 991	50 154 955
Águas de Santo André, S.A.	4 287 589	4 613 660
AgdA - Águas Públicas do Alentejo, S.A.	-	626 029
Águas do Tejo Atlântico, S.A.	658 821	-
Águas do Vale do Tejo S.A.	13 322 895	11 560 426
SIMARSUL, S.A.	4 078 366	4 235 227
	83 480 917	82 270 157
Other suppliers of investment and similar	6 651 742	5 587 111
	90 132 659	87 857 268

32. ACCRUALS IN CONTRACTUAL INVESTMENT COSTS

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 costs recognised are those expressed in the following table:

	31.12.2019	31.12.2018
Águas do Algarve, S.A.	64 369 318	63 822 990
Águas do Centro Litoral, S.A.	42 249 603	37 780 380
Águas do Douro e Paiva, S.A.	24 506 802	24 517 259
Águas do Norte, S.A.	86 683 750	81 573 707
Águas de Santo André, S.A.	10 341 332	9 816 750
AgdA - Águas Públicas do Alentejo, S.A.	8 042 539	6 774 833
Águas do Tejo Atlântico, S.A.	122 001 505	125 248 320
Águas do Vale do Tejo S.A.	49 497 315	43 272 185
SIMARSUL, S.A.	13 316 076	12 301 726
SIMDOURO, S.A.	10 926 852	9 254 262
AdRA - Águas da Região de Aveiro, S.A.	61 738 476	54 985 849
	493 673 568	469 348 261

32.1 MOVEMENTS IN THE PERIOD

	Nota	31.12.2019	31.12.2018
Initial balance of contractual investment amortisations		469 348 261	428 587 617
Amortisations in the financial year	41	55 586 094	54 801 704
Transfers to companies	8.1	(30 598 937)	(14 039 709)
Other transfers and reductions		(661 850)	(1 351)
Final balance of contractual investment amortisations		493 673 568	469 348 261

33. INVESTMENT GRANTS

	Note	31.12.2019	31.12.2018
Investment grants – Cohesion Fund	33.1	1 337 141 276	1 367 626 364
Investment grants – others		24 781 893	24 621 390
Integration of assets		161 210 085	171 080 486
		1 523 133 254	1 563 328 240

33.1 MOVEMENTS IN THE PERIOD

	Note	31.12.2019	31.12.2018
Initial balance of investment grants		1 367 626 364	1 389 309 395
Recognition of funding right	22.1.2 e 33.2	22 538 848	35 117 486
Recognition of gain	33.3	(52 978 050)	(52 057 074)
Reclassification of asset integration – SIMDOURO, S.A.		-	5 169 726
Derecognition of amount of requests receivable - Águas do Norte, S.A.		-	(8 144 848)
Derecognition of amount of requests receivable - Águas do Algarve, S.A.		-	(1 618 512)
Other corrections		(45 886)	(149 809)
Final balance of investment grants		1 337 141 276	1 367 626 364

33.2 RECOGNITION OF FUNDING RIGHT

	31.12.2019	31.12.2018
Recognition of funding right		
Águas do Algarve, S.A.	-	2 412 010
Águas do Norte, S.A.	7 853 664	4 644 555
AgdA - Águas Públicas do Alentejo, S.A.	13 478 327	18 004 449
AdRA - Águas da Região de Aveiro, S.A.	1 105 356	3 832 777
EPAL, S.A.	-	5 822 650
Águas do Tejo Atlântico, S.A.	101 501	401 045
	22 538 848	35 117 486

33.3 VALUES RECOGNISED IN THE RESULTS FOR THE PERIOD

	Note	31.12.2019	31.12.2018
Investment grants – Cohesion Fund	33.1	52 978 050	52 057 074
Investment grants – others		2 598 813	2 678 492
Asset integration		6 338 768	6 317 836
		61 915 631	61 053 402

34. SUPPLIERS (CURRENT)

	Note	31.12.2019	31.12.2018
Suppliers c/c general		31 134 950	33 124 074
Suppliers – investment	34.1	27 474 873	34 233 873
Suppliers – invoices received and under processing		1 509 713	1 659 747
Others suppliers - balance		3 197 580	2 819 144
		63 317 116	71 836 838

34.1 INVESTMENT SUPPLIERS

The amounts recorded for investment suppliers, primarily related to debts to municipalities for the integration of asset in the multi-municipal systems (non-current debts are presented in Note 31). The table below contains the subsidiaries reporting the most significant values:

	31.12.2019	31.12.2018
Águas do Norte, S.A.	9 956 039	13 921 191
SIMARSUL, S.A.	30 629	113 788
AgdA - Águas Públicas do Alentejo, S.A.	3 761 146	2 680 093
Águas do Vale do Tejo S.A.	2 924 466	5 158 267
Águas do Tejo Atlântico, S.A.	2 865 875	3 119 921
Águas do Algarve, S.A.	1 921 402	601 496
Águas do Centro Litoral, S.A.	1 844 651	1 298 560
EPAL, S.A.	1 821 902	2 839 536
Other Group companies	2 348 763	4 501 021
	27 474 873	34 233 873

35. OTHER CURRENT LIABILITIES

	Note	31.12.2019	31.12.2018
Client advances		899 297	943 973
Additional personnel costs		11 253 047	11 325 168
Creditors for interest accruals		5 392 467	5 922 302
Creditors for additional costs (electricity, others)		18 003 216	14 245 149
Collateral from suppliers		6 911 524	6 516 168
Municipal sanitation and RSU charges	(i)	23 588 389	23 124 716
Other creditors		12 993 221	10 029 164
Deferrals		6 955 671	9 109 937
		85 996 832	81 216 576

(i) This item includes municipal taxes payable by EPAL to Lisbon Municipal Council for the amount of 21 836 000 EUR, and RSU (solid waste household charge) by AdRA to other Municipalities for the amount of 1 753 000 EUR.

36. TAX ON EARNINGS PAYABLE

	31.12.2019	31.12.2018
Tax on earnings – liability	11 691 025	13 527 353
	11 691 025	13 527 353

On 31 December 2019, the balance corresponded to the IRC – corporate taxation payable with reference to 2019. There are no outstanding debts to any fiscal entity.

37. EARNINGS FROM CLIENT CONTRACTS

	31.12.2019	31.12.2018
Sales		
Water – Production, Treatment and Transport	248 217 357	231 293 765
EPAL	145 139 348	138 437 895
Corporate	-	270 758
	393 356 705	370 002 418
Service Provision		
Sanitation – Treatment	291 425 223	281 913 805
EPAL	1 700 708	1 555 954
International	4 831 175	4 179 022
Corporate	218 286	234 426
	298 175 392	287 883 207
Earnings from client contracts	691 532 097	657 885 625
Earnings from concession asset construction (IFRIC 12)	139 576 905	119 638 558
	139 576 905	119 638 558
Tariff deviations		
Water supply and wastewater treatment	(38 119 189)	(15 462 135)
	(38 119 189)	(15 462 135)
	792 989 813	762 062 048

For the financial year ending on 31 December 2019, the items “Sales” and “Service provision” include the following amounts:

- i) CTA: EUR 6 294 714 to Águas do Norte and EUR 15 756 518 to Águas do Vale do Tejo (with EUR 17 988 884 the total for these two companies in 2018) (see note 2.22.4);
- ii) Environmental Fund: EUR 7 815 212 to Águas do Norte, EUR 7 817 308 to Águas do Vale do Tejo (with EUR 10 391 719 the total for these two companies in 2018) (see note 2.22.5).

38. COST OF SALES

	31.12.2019	31.12.2018
Goods	-	285 121
Raw materials	8 784 161	7 408 515
Subsidiary materials	14 145 960	13 433 569
Corrections to previous financial years	(459 761)	98 845
	22 470 360	21 226 050
Cost of concession asset construction (IFRIC 12)	139 576 905	119 638 558
	162 047 265	140 864 608

39. SUPPLIES AND EXTERNAL SERVICES

		31.12.2019	31.12.2018
Subcontracts	(i)	30 335 058	26 053 085
Conservation and repairs		33 125 723	30 430 659
Rental and hiring	(ii)	3 749 664	8 934 081
Electricity		72 864 230	72 826 762
Insurance		2 984 839	3 429 204
Treatment of wastes and effluents	(iii)	15 027 211	12 383 808
Analytical tests		2 074 569	2 044 562
Studies / Consultancy / Auditing		4 377 240	5 081 161
IT support		2 787 388	3 092 749
Security and surveillance		2 234 266	2 081 217
Communications		3 703 786	3 974 852
Fuels / Water		5 192 287	5 239 154
Travel and accommodation		1 515 371	1 595 105
Publicity and advertising		1 968 841	1 858 921
Drought related costs		510 931	136 898
FSE – Other items	(iv)	18 387 887	17 520 250
		200 839 291	196 682 468
FSE capitalised		(2 249 829)	(1 943 134)
		198 589 462	194 739 334

(i) The increase reported in this item derives essentially from the increase in costs at Águas do Algarve with the entrance into operation of the Companhia WWTP and Faro-Olhão WWTP and the rise in activities at Águas do Norte.

(ii) In 2019, following the adoption of IFRS 16, this does not include costs amounting to EUR 4.6 million.

(iii) Increase in costs of approximately three million euros for slurry treating.

(iv) Increase in costs of approximately EUR 750 000 for the transport of water by AgdA – Águas Públicas do Alentejo due to the drought and EUR 576 000 deriving from correcting the estimates for costs from previous years due to the sharing of the maintenance costs for the Roxo and Monte da Rocha reservoir.

40. PERSONNEL COSTS

	Note	31.12.2019	31.12.2018
Remunerations		79 960 708	77 389 872
Charges with remunerations		17 796 312	17 272 872
Insurance		5 283 622	5 581 038
Compensations for contractual termination		898 099	1 363 399
Other personnel costs	(i)	2 808 425	2 478 865
Corrections to previous financial years		88 492	1 982
	(ii)	106 835 658	104 088 028
Personnel costs capitalised		(5 527 611)	(5 332 497)
		101 308 047	98 755 531

(i) Includes: EUR 27 837 of earnings from the defined benefit plan (note 29.5) and EUR 428 711 of costs with the defined contribution plan (note 29.8).

(ii) In 2018, the AdP Group signed a collective working agreement that spans all Group companies with the exception of EPAL, which already ran its own working agreement. The impact of this agreement in 2019 drove an increase in personnel costs totalling in the region of three million euros.

40.1 REMUNERATION OF AdP SGPS GOVERNING BODIES

	31.12.2019	31.12.2018
Board of Directors	331 280	394 251
Fiscal Board	31 967	31 930
The Chartered Accountant	41 090	21 741
	404 337	447 922

40.2 AVERAGE NUMBER OF EMPLOYEES

	31.12.2019	31.12.2018
Governing bodies	64	65
Members of staff	3 199	3 120
	3 263	3 185

41. FINANCIAL YEAR AMORTISATIONS, DEPRECIATIONS AND REVERSIONS

	Note	31.12.2019	31.12.2018
Amortisations – investment properties	11	79 053	79 053
Amortisations – tangible assets	9.1	26 935 056	26 945 767
Amortisations - intangible assets	8.1	1 986 300	1 263 764
Amortisations - DUI	8.1	136 654 098	133 860 981
Amortisations - Right-of-use assets	10	5 174 719	-
Depreciation of future contractual investment	32.1	55 586 094	54 801 704
		226 415 320	216.951.269
Reversions, depreciations and amortisations			(148 668)
		226 415 320	216 802 601
Corrections to previous years		10 348 -	
		226 425 668	216 802 601

42. FINANCIAL YEAR PROVISIONS AND REVERSIONS

	Note	31.12.2019	31.12.2018
Provisions – environmental issues		-	30 053
Financial year provision – ongoing legal processes	28.1	168 195	559 369
Financial year provision – others	28.1	268 755	540 500
		436 950	1 129 922
Reversions of provisions - ongoing legal processes	28.1	(48 035)	(17 500)
Reversions of provisions – environmental issues	28.1	(30 053)	
Reversions of provisions – others	28.1	(308 003)	(788 289)
		(386 091)	(805 789)
		50 859	324 133

See in conjunction with note 28.

43. LOSSES DUE TO IMPAIRMENTS AND REVERSIONS IN THE FINANCIAL YEAR

	Note	31.12.2019	31.12.2018
Losses for impairment - clients	20.4	3 861 835	7 878 877
Losses for impairment – other debtors	22.2	957 278	66 661
Losses for impairment – financial investments in associated companies	13	20 588	-
Losses for impairment - fixed tangible assets	9.1	1 384 548	-
		6 224 249	7 945 538
Reversions of impairment losses - clients	20.4	(971 274)	(1 556 484)
Reversions of impairment losses – other debtors	22.2	(2 838 142)	(181 060)
Reversions of impairment losses – financial investments in associated companies	13	(76 188)	-
Reversions of impairment losses - fixed tangible assets	9.1	(209 445)	-
		(4 095 050)	(1 737 544)
		2 129 199	6 207 994

44. OTHER OPERATIONAL COSTS

	Note	31.12.2019	31.12.2018
Direct and indirect taxes	44.1	8 365 567	7 755 805
Inventory losses		9 922	35 187
Non-financial investment losses		86 318	8 020
Donations		416 229	341 414
Humanitarian aid to Mozambique		246 082	-
Exchange rate differences in non-financial operations		264 340	40 904
Other costs and losses	(i)	3 317 521	1 890 040
Corrections to previous years		126 073	47 874
		12 832 052	10 119 244
Capitalised costs		-	-
		12 832 052	10 119 244

(i) In 2019, this includes client charges amounting to EUR 780 000 that EPAL had registered under the FSE item in 2018.

44.1 DIRECT AND INDIRECT TAXES

	31.12.2019	31.12.2018
Stamp duty	354 175	192 457
ERSAR charge	4 523 472	4 469 019
Hydric resource charge	100 747	28 348
Others taxes and charges	3 387 173	3 065 981
	8 365 567	7 755 805

45. OTHER OPERATIONAL EARNINGS

	Note	31.12.2019	31.12.2018
Supplementary income	45.1	6 407 385	6 234 017
Operating subsidies		344 422	62 182
Other earnings and gains	(i)	2 372 248	3 499 407
Corrections to the previous years		288 196	180 566
		9 412 251	9 976 172
Income and gains capitalised		-	-
		9 412 251	9 976 172

(i) This corresponds essentially to the amortisation of the subsidy associated to the integration of assets based on the depletion rate.

45.1 SUPPLEMENTARY INCOME

	Note	31.12.2019	31.12.2018
Sales of energy		1 237 720	1 383 194
Rents	10.3	197 500	-
Social services		5 074	9 579
Others	(i)	4 967 091	4 841 244
		6 407 385	6 234 017

(i) The others item essentially reports the EUR 1 312 252 in commercial services provided to Lisbon Municipal Council (EUR 1 262 979 in 2018) and technical assistance relating to the Aquamatrix IT system.

46. FINANCIAL COSTS

	Note	31.12.2019	31.12.2018
Interest incurred	46.1	40 816 262	43 702 846
Unfavourable exchange rate differences		72 947	34 448
Other financial costs	46.2	3 694 478	3 524 418
Corrections to the previous years		(50 113)	(63 740)
		44 533 574	47 197 972
Financial costs capitalised		(2 075 090)	(1 350 673)
		42 458 484	45 847 299

The decrease in financial costs (capitalised and non-capitalised) directly interrelates with the fall both in the level of indebtedness (an annual reduction of approximately 80 million EUR) and in interest rates.

46.1 INTEREST INCURRED

	31.12.2019	31.12.2018
Interest incurred - EIB	34 365 614	36 602 710
Interest incurred – leasing operations	564 027	72 108
Interest incurred – shareholders	2 038 787	2 198 503
Penalty interest incurred	441 815	949 189
Interest incurred - bank loan financing	40 414	152 277
Interest incurred – asset integration	3 365 605	3 728 059
	40 816 262	43 702 846

46.2 OTHERS FINANCIAL COSTS

	Note	31.12.2019	31.12.2018
Financing obtained – Commissions / guarantees	(i)	2 970 953	3 200 551
Others		723 525	323 867
		3 694 478	3 524 418

(i) Costs of commissions for guarantees provided by the Portuguese state for the loans granted by the EIB (0.2% on the outstanding capital).

47. FINANCIAL EARNINGS

	Note	31.12.2019	31.12.2018
Interest received	47.1	11 904 642	17 205 048
Others financial earnings and gains		155 221	662 246
Corrections to the previous years		-	(51 163)
		12 059 863	17 816 131

47.1 INTEREST RECEIVED

Interest received	Nota	31.12.2019	31.12.2018
Bank loans		908	2 462
Other financial assets		2 027 132	2 230 455
Penalty interest	47.1.1	7 628 214	13 639 129
Other interest		2 248 388	1 333 002
		11 904 642	17 205 048

47.1.1 PENALTY INTEREST (BY GROUP COMPANY)

	31.12.2019	31.12.2018
Águas do Norte, S.A.	2 788 853	4 735 983
Águas do Vale do Tejo S.A.	2 177 177	6 687 375
Águas do Algarve, S.A.	1 548 545	1 527 903
SIMARSUL, S.A.	558 609	53 356
AgdA - Águas Públicas do Alentejo, S.A.	196 585	62 369
Águas do Centro Litoral, S.A.	109 854	8 016
Águas de Santo André, S.A.	84 202	467 406
AdP Internacional, S.A.	63 058	-
AdRA - Águas da Região de Aveiro, S.A.	56 891	57 023
Águas do Douro e Paiva, S.A.	39 643	35 848
SIMDOURO, S.A.	4 797	3 850
	7 628 214	13 639 129

The reduction reported in Penalty interest earnings stems from pardoning interest payments for the amount of 5.2 million EUR as detailed in note 19.

48. EARNINGS FROM FINANCIAL HOLDINGS

	Note	31.12.2019	31.12.2018
Earnings and gains – others	(i)	-	1 198 633
		-	1 198 633

(i) On June 12, 2018, AdP SGPS sold its direct and indirect stake of 55% held in the entity AQUASIS, Sistemas de Informação, S.A. The participation on December 31, 2017 was classified as “Non-current assets held for sale”, for the book value of EUR 353,031. Of the agreed sale price, one part (EUR 480,294) is only to be received when an account receivable registered by AQUASIS is made. Hence, the AdP Group recognised the total added value (EUR 1,678,927) while simultaneously recording an impairment of EUR 480,294 (note 22.2).

49. TAX FOR THE YEAR

	Note	31.12.2019	31.12.2018
Tax on annual earnings		(62 500 429)	(57 063 297)
Other tax provision adjustments		(650 190)	(807 286)
Surplus in tax estimates		576 881	2 249 757
Shortfall in tax estimates		(78 083)	(177 976)
		(62 651 821)	(55 798 802)
Deferred tax	14.1	23 872 688	16 799 524
		23 872 688	16 799 524
		(38 779 133)	(38 999 278)

The reconciliation between the nominal rate and the effective rate of taxation for the 2019 financial year is as follows:

	Base	Rate	Taxation
Consolidated pre-tax result	1 500 000	22.50%	337 500
	6 000 000	25.50%	1 530 000
	27 500 000	27.50%	7 562 500
	95 536 524	31.50%	30 094 005
	130 536 524	30.28%	39 524 005
Permanent differences:			
. Provisions	1 864 539	0.32%	420 061
. Corrections to previous financial years	120 117	0.02%	27 287
. Fines, levies and penalty interest	44 833	0.01%	11 182
. Fiscal benefits	(78 807)	(0.01%)	(12 598)
. Others	885 493	0.17%	224 091
Temporary differences without recognised deferred taxation :			
. Application of reportable tax losses	(492 780)	(0.08%)	(103 484)
. Provisions and / or impairments	510 634	0.10%	126 414
. Depreciations	327 034	0.00%	(4 732)
. Generation of reportable fiscal losses without assets through recognised deferred taxation	667 863	0.11%	140 251
Correction to the deferred taxation rate		0.41%	541 378
Difference between the expected tax rate and the rate applied by each company		(2.08%)	(2 711 674)
Autonomous taxation charge		0.34%	445 560
IRC impairment receivable		0.50%	650 190
Excess in estimated taxation payable in previous years		(0.38%)	(498 798)
		29.71%	38 779 133

50. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

50.1 RELATED PARTIES

As of 31 December 2019, the AdP Group related parties are the following:

- Shareholders (Parública, 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.

50.2 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

2019	Holding company	Other shareholders	Executive commission	Other related parties
Asset				
CGD		2 467 488		
Municipalities				307 119 142
Liabilities				
Municipalities				71 018 655
Earnings				
Sales and provision of services to municipalities				295 495 981
Other earnings – municipalities				4 890 946
Costs				
Costs with non-executive directors				
Costs with executive directors			363 247	
Other costs – municipalities				3 237 474
Dividends	21 870 000	5 130 000		
2018				
Asset				
CGD		3 541 124		
Municipalities				333 185 606
Liabilities				
Municipalities				84 950 232
Earnings				
Sales and provision of services to municipalities				364 076 384
Other earnings – municipalities				2 833 859
Costs				
Costs with non-executive directors				
Costs with executive directors			426 181	
Other costs – municipalities				3 798 689
Dividends	21 465 000	5 035 000		

51. CONTRACTUAL INVESTMENT

The estimated off-balance sheet financial commitments made by the AdP Group, deriving from the awarding of concession contracts relative to initial, replacement, renovation and expansion investments occurring during the remaining concession terms, are as follows:

	Contractual investment	Investment already made	Ongoing investment	Contractual investment not made (N+1)	Contractual investment not made (N+2 - N+5)	Contractual investment not made (>N+5)
December 2019	7 754 669 865	5 537 537 859	187 066 768	159 655 193	460 584 033	1 409 826 035
	7 754 669 865	5 537 537 859	187 066 768	159 655 193	460 584 033	1 409 826 035

	Contractual investment	Investment already made	Ongoing investment	Contractual investment not made (N+1)	Contractual investment not made (N+2 - N+5)	Contractual investment not made (>N+5)
December 2018	7 674 484 052	5 407 804 887	192 934 724	225 474 311	394 758 533	1 453 511 599
	7 674 484 052	5 407 804 887	192 934 724	225 474 311	394 758 533	1 453 511 599

52. CONTINGENT ASSETS AND LIABILITIES

52.1 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 companies in 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.

52.2 ONGOING LEGAL PROCESSES

The AdP Group performs a careful assessment of its risks and contingencies and, in this sequence, it establishes provisions that, in view of the risks identified and the probability of materialization in liabilities, are considered as adequate coverage. From the evaluation made and in addition to the provisions recorded, no other liabilities were identified that require disclosure as contingent liabilities.

52.3 GUARANTEES

Liabilities for bank guarantees provided by the business units of the companies included in the consolidation perimeter are as follows:

	Good implement.	Concession of enviro. expl. and recup.	Goods and serv. and other contracts	Expropriations and compensations	Courts	31.12.2019	31.12.2018
AdP Serviços, S.A.	-	-	16 472	-	-	16 472	16 472
AdP Energias, S.A.	-	-	-	-	-	-	-
AdP Internacional, S.A.	860 169	-	1 621 022	-	-	2 481 191	746 725
EPAL, S.A.	-	-	307 474	5 172 582	3 318	5 483 374	5 429 057
Águas do Norte, S.A.	3 865 134	-	-	97 163	45 285	4 007 582	3 597 337
Águas do Centro Litoral, S.A.	244 552	-	-	365 494	-	610 046	621 046
Águas do Vale do Tejo, S.A.	1 177 735	-	37 625	65 386	-	1 280 746	1 296 704
Águas do Algarve, S.A.	66 510	566 466	10 475	867 767	-	1 511 218	1 511 218
Águas de Santo André, S.A.	40 000	238 770	-	-	-	278 770	278 770
AgdA - Águas Públicas do Alentejo, S.A.	216 798	-	-	-	2 198 190	2 414 988	2 704 506
AdRA - Águas da Região de Aveiro, S.A.	645 528	-	-	-	-	645 528	666 328
SIMDOURO, S.A.	26 760	-	23 309	104 342	-	154 411	497 421
Águas do Douro e Paiva, S.A.	722 700	-	-	606 484	-	1 329 184	1 391 142
Águas do Tejo Atlântico, S.A.	1 256 150	-	28 781	4 479 614	-	5 764 545	6 255 895
SIMARSUL, S.A.	12 363	-	-	21 956	-	34 319	236 170
Total	9 134 399	805 236	2 045 158	11 780 788	2 246 793	26 012 374	25 248 791

53. AUDITOR AND STATUTORY AUDIT FEES

The fees of the AdP Group Auditor and Statutory Auditor for the financial year ending on 31 December 2019 were the following:

	Legal certification of accounts	Other audit related services	Other services	Total
PricewaterhouseCoopers & Associados - Sociedade de Revisores de Contas, Lda	107 812	30 450	-	138 262
Grant Thornton & Associados SROC, Lda	35 723	-	-	35 723
EY Audit & Associados - SROC, S.A.	72 999	-	-	72 999
	216 534	30 450	-	246 984

54. SUBSEQUENT EVENTS

The period following 31 December 2019 was greatly impacted by the spread of the new coronavirus COVID-19, which is generating major impacts on the socioeconomic activities of the country on a scale that cannot fully be predicted in terms of its respective magnitudes. Portugal, in line with the European Union, has adopted various measures that aim to mitigate the impacts of this event on the national economy. These measures include key features such as treasury support for companies that are designed to return positive consequences in terms of maintaining employment and earnings within the scope of sustaining internal demand and keeping the economy functioning.

This package of measures also includes actions designed to keep services of general economic interest operational: within the framework of which fall the activities undertaken by the AdP Group. On 22 March 2020, the Minister of the Environment and Climate Change stipulated the ways in which essential services are to be ensured during this period (Ministerial Order 3547-2020).

For all supply and sanitation activities, among other services, this mandates that the entities and managing companies of such systems should define the equipment necessary to ensuring the uninterrupted continuity of the provision of the public service supplying drinking water (for details on the measures and contingency plan of the AdP Group, see the chapter on "Subsequent Events" in the Management Report).

In terms of the impacts on the financial reporting for 2020, this foresees the following key consequences:

- Assets

This does not foresee the registering of impairments to AdP Group assets given that the effects of COVID-19 are not predicted to extend as far as rendering our assets unable to generate their present and future economic benefits in any permanent fashion.

- Operational Costs/ Turnover ratio

- As regards the business volume

A drop in sales and the provision of service is forecast for operational companies due to the reduction in economic activities that are not offset by the rise in domestic consumption resulting from the preventive isolation stipulated for the population.

Such declines are to be most significant for the EPAL and Águas de Santo André companies with the effects of their sales bearing direct repercussions on the results for the year and, consequently, on the consolidated result of the AdP Group. As regards the economic effects on the Multi-Municipal Systems and the State-Municipality Partnerships, these are covered by recording the deviation in the recovery of costs for the year while not ruling out the likelihood of an interruption to the trend to generate surpluses recorded in 2018 and 2019.

The Board of Directors does not foresee any interruptions to services taking into account the contingency plans for operations, workers and suppliers.

- On operational costs

This plan for an increase in operational costs both stemming from the acquisition of goods and services and the increase in human resource expenditure necessary to ensuring the team response capacities given that they have both risen in number and expanded in time coupled with a rise in the amount of overtime being worked. This also predicts greater costs with preventive maintenance within the framework of a strategy to reduce the probability of failure with a subsequent reflection on higher costs of repair maintenance.

The AdP Group companies, whenever possible due to their capacity and the nature of their respective reagent needs, are maximising their respective stocks in a policy that incurs greater treasury demands but which is required due to service continuity while minimising the level of exposure to critical suppliers. This circumstance naturally involves the delivery of small quantities for the replacement of stock and consequently incurring a higher level of cost per unit in addition to a greater weighting of the fixed costs associated with the logistics underlying such transport and delivery activities.

Similarly, there is also expected to be a spike in the costs of telecommunications resulting from the need to support remote working and team coordination.

On the contrary, this provides for a reduction in expenditure on travel and accommodation even while there may subsequently be greater costs incurred with the vehicle fleet. The replacement of the AdP Group is also jeopardised in terms of the rotation that had hitherto been planned with this implying not only higher levels of operational risk but also, taking into account how some vehicles may end up spending longer undergoing repairs, both costly in themselves and removing the respective vehicle from service for extended lengths of time, occasionally requiring companies seek other means of transport, generally more expensive, to meet ongoing service needs.

- Variations in the debt ratio

Despite for the meantime foreseeing a reduction in the payments associated with investment due to the lesser availability of equipment and construction supply teams, which in this phase shall represent a positive impact on the treasury position, the outlook is for AdP Group companies to face a deterioration in their payments over the medium term with a greater focus on the services provided upstream. Furthermore, there are expectations of economic consequences for the municipalities supplied by the AdP Group that may cause declining liquidity positions that then lead to delays in the payments made to the AdP Group that, in turn, shall have a negative impact on its treasury position.

Should the COVID-19 associated recession end up impacting on the evaluation the markets make of the national financial situation, resulting in changes to the 10-year OT treasury bond bills, this also corresponds to another dimension that might potentially impact on the AdP Group to the extent that the net results of the Multi-Municipal Systems and State-Municipality Partnerships are determined

by this macroeconomic indicator. The 10-year OT treasury bond bills, which in February 2020 returned an average yield of 0.31% (against 0.37% in January 2020), were returning rates of close to 1% in March 2020, thus around three times higher. Any maintenance of this trend would also contribute towards reversing the trajectory of generating surpluses that began in 2018.

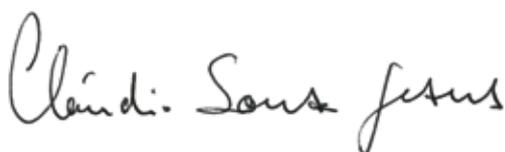
The AdP Group does not foresee any threats to the future sustainability of the operations of its respective companies over the next twelve months. As stated in Note 3.3, the AdP Group has recourse to medium and long term lines of credit contracted from the EIB for the amount of 420 million EUR and short term lines of credit contracted with Banco Comercial Português for the amount of 140 million EUR with it remaining the conviction of the Board of Directors that these shall prove sufficient to meet the debt commitments already made in the face of any reduction in liquidity following any eventual delays in receipt of payments from clients and/or any fall in its volume of turnover.

Lisbon, 31 March 2020

The Board of Directors



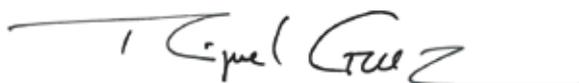
Carla da Conceição Afonso Correia
(Executive Vice-Chair)



Cláudio Miguel André Sousa Jesus
(Executive Director)

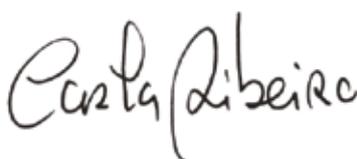


José Manuel Leitão Sardinha
(Executive Director)



Miguel Jorge de Campos Cruz
(Non-executive Director)

The Chartered Accountant



Carla Isabel Costa Pinto Ribeiro

REPORT AND OPINION OF THE AUDIT BOARD

REPORT AND OPINION OF THE SUPERVISORY BOARD ON THE CONSOLIDATED FINANCIAL STATEMENTS

FRAMEWORK

1. In compliance with the applicable legal and statutory provisions, the Supervisory Board issues this Report and Opinion on the Annual Report & Accounts and other consolidated financial statements of AdP - Águas de Portugal, SGPS, SA, presented by the Board of Directors regarding the 2019 financial year.
2. The Audit Board monitored the management of AdP - Águas de Portugal, SGPS, S.A., and the evolution of its business, namely through contacts with its main managers, as well as reading the minutes of the meetings of the Board of Directors and the Executive Committee. It held meetings regularly; commonly attended by the Chief Financial Officer, the Statutory External Auditor, the Finance Officer and the Regulation, Planning and Management Control Officer. The Supervisory Board obtained all the clarifications requested and was granted access to all documentation deemed necessary for the performance of its supervisory functions.
3. It also analysed compliance with the applicable legal and statutory rules and exercised its powers in accordance with the provisions of article 420 of the Commercial Companies Code.
4. Within the scope of powers granted by paragraphs 1 and 3 of article 33 of Decree-Law 133/2013 of October 3, the Audit Board verified the compliance of the company with the obligations established therein, and issued the Quarterly Reports that were duly sent to the competent entities.
5. The Annual Report & Accounts 2019 presents information regarding the fulfilment of sustainability objectives although the Group's full analysis in this area benefits from the presentation of the 2019 Sustainability Report that demonstrates their material fulfilment in detail.
6. Article 508 of the Commercial Companies Code has been complied with, and correspondingly presenting a separate Report & Accounts, a Non-Financial Statement related to the year that contains, in reference to the 2019 Sustainability Report, information regarding the company's performance and evolution regarding environmental, social and worker issues as well as matters relating to gender equality, non-discrimination, respect for human rights, anti-corruption and bribery.

7. In the same sense, compliance with the disclosure obligations established in article 44 of Decree-Law no. 133/2013, of October 3, was observed as regards its stipulations on the annual accounts subject to analysis.
8. The Supervisory Board was aware of the content of the certified accounts relating to the invested companies, and no materially relevant situations of noncompliance which were not corrected in the financial year of the consolidated accounts have come to its attention.
9. The Supervisory Board also took note of the Report issued by the External Auditors on the consolidated accounts and raised no objections as to its contents.
10. The Supervisory Board examined the Legal Certification of the Consolidated Accounts, issued in accordance with the legislation enacted by the Statutory External Auditor, which includes the relevant auditing matters and other legal requirements, which are hereby reproduced and agreed to. It should be noted that there is an emphasis on this Legal Certification of Accounts arising from recent developments related to the outbreak of COVID -19 that is impacting on financial markets and economic activities worldwide. The AdP Group Board of Directors has made an assessment of the situation based on the economic, financial and liquidity indicators and does not foresee any of its companies facing continuity problems with their operations in the next twelve months. The Supervisory Board also took note of the respective additional report by the same Statutory External Auditor on the audit carried out.
11. It should be noted that not all the General Meetings (GM) of AdP Group companies took place due to their postponement brought about by the state of emergency declared in Portugal on 18 March 2020 by the Decree of the President of the Republic no. 14-A/2020 due to the COVID-19 pandemic and the unwillingness of shareholder Municipalities to attend them. However, a statement issued by the Board of Directors (BD) of AdP - Águas de Portugal, SGPS, S.A. confirms that the Annual Reports & Accounts approved by the respective BDs of the Group companies and subject to statutory external audit will be those that will be approved at the Shareholders' Meeting, when the same takes place, by the representative of AdP - Águas de Portugal, SGPS, S.A. as majority shareholder.

12.Regarding compliance with the legislation in effect, specifically the application of the Public Procurement Code, in the current year and following the previous approval of the Purchasing Manual, the Contracting Manual and the Good Practices Manual were also approved, both of which are applicable to all companies of the Group, aiming at the continuity in the standardization of processes and in guaranteeing compliance legal requirements and internal guidelines.

13.The operating efficiency ratio, Operating Expenses/ Turnover, improved by 1.2 p.p. from 47.8% on 31.12.2018 to 46.6% on 31.12.2019. On an adjusted basis, bearing in mind the effects of IFR16 on the ESS, the same trend is observed although at a less significant rate.

14.In 2019, the AdP Group recorded an increase in Personnel Costs compared to 2018, resulting from the full implementation of the ACT – the Collective Working Agreement signed for all AdP Group employees, highlighting the re-establishment of the meal allowance for all employees and the reclassification of the seniority progression index in accordance with the ACT table. There was also a slight rise in the number of employees to 3,212.

15.The Supervisory Board also highlights the maintenance of the client debt situation, in 2019 attaining a gross value of EUR 388.8 million, of which EUR 280.3 million refers to debts owed by local authorities, municipal and inter-municipal services and municipal and inter-municipal companies. During 2019, 31 Debt Settlement Agreements were signed under Decree-Law no. 5/2019 of 14/01, which establishes the procedures necessary to settle the debts of local authorities to the water and wastewater sector. The impact of this municipal debt settling process almost entirely underpins the EUR 74.6 million reduction in the consolidated gross debt of clients, with an estimated recovery of EUR 72.2 million of municipal debt through implementing the aforementioned agreements.

The AdP Group has continued with its efforts to recover and securitise the debt of municipalities and municipal supply and sanitation companies, with a reduction of around 18% (EUR 44.5 million) in the total of invoices due over the last two financial years.

16.It should be noted that the consolidation of the group's operations favoured the positive evolution in the cost recovery deviation, obtaining a surplus of EUR 38.1 million in 2019. Notwithstanding the recording of this aggregate amount, this duly notes that the tariff deviation, which stood at EUR 663.1 million at the end of the financial year, should continue to receive the best attention from the management bodies given its material importance.

17. Also noteworthy in the current financial year is the consolidation of the Group's financial management through the strategy implemented for contracting loans at the level of the parent company, AdP, SGPS, S.A., which in turn grants loans to its subsidiaries. This centralized financial management has steadily reduced the adjusted EBITDA debt ratio, in consolidated terms, falling back from 5.2 in 2018 to 4.6 in 2019.

There was also a reduction in gross debt of EUR 81.3 million and an over 7% reduction in financial costs and fees.

18. This furthermore notes that expenditure on External Supplies and Services rose by EUR 3.85 million, with a EUR 4.3 million (+16.4%) increase in the cost of subcontractors explained by the increase in expenditure at AdA with the entry into operation of the Wastewater Treatments Plants of Companhia and Faro-Olhão and the increase in activities at AdNorte with the increase in waste and effluent treatment costs of EUR 2.6 million due to higher expenditure on sludge treatment.

This also reports how the decrease in rental and leasing costs stems from the 2019 adoption of IFRS 16 in which the direct impact was a EUR 4.6 million decrease in costs and thereby, in turn, making the total costs with depreciation, amortisation and reversions higher for the year.

It is also important to highlight how the AdP Group has been adopting energy efficiency measures under PEPE – the Energy Efficiency and Production Plan, aimed at reducing consumption and costs and increasing the in-house production of energy for self-consumption, which has since served to minimise the impact of the increase in electricity prices.

19. The Supervisory Board believes that the continuity of all work aimed at the implementation of the Internal Control System within the Group should rank among the priority actions that deserve greatest effort, in particular pursuing the greater maturity of the existing internal control through the effective recognition of the controls already in place and capable of responding to the risks identified, benefiting from the synergy that results from the existence of common information systems and the application of a transversal vision to the entire internal control system. Notwithstanding the understanding set out here, this does also note how, in 2019, the AdP SGPS management team approved the project to define and implement an Internal Control System (ICS) - COSO CUBE (Committee of Sponsoring Organizations of the Treadway Commission) transversal to the whole Group, and is in the process of preparing and defining the metrics for application in the annual ICS assessment as well as the Internal Control Manual, including the respective control and risk matrices. In addition, and in accordance with the understanding expressed by the Supervisory Board, this foresees the publication of a report on the maturity of the internal control systems in effect at the subsidiaries by means of selecting pilot companies for this purpose.

20. As a result of the work carried out, the Supervisory Board considers that the Report of the Board of Directors and the Consolidated Financial Statements (which comprise the Consolidated Statement of Financial Positions as at December 31 2019, the Consolidated Statements of Income by type and comprehensive income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows for the year then ended and the Notes to the Consolidated Financial Statements) are appropriate to understanding the equity position of AdP - Águas de Portugal, SGPS, S.A. on December 31, 2019, and how these results were accounted for and the activities carried out.

21. The Supervisory Board would like to acknowledge the full collaboration of the Board of Directors, the Statutory Auditor, the External Auditor and the Services of AdP - Águas de Portugal, SGPS, S.A.

OPINION

In accordance with the above, the Audit Board agrees to the Annual Report and Consolidated Accounts for the year 2019 of AdP - Águas de Portugal, SGPS, S.A., given the emphasis expressed in the Legal Certification of Accounts, hereby issuing a favourable opinion to their approval at the General Meeting.

Lisbon, 8 April 2020

THE SUPERVISORY BOARD

(one illegible signature)
Carla Maria Lamego Ribeiro
(President)

(one illegible signature)
Mário José Alveirinho Carrega
(Director)

(one illegible signature)
Rui Manuel Mendes Cabeças
(Director)

RELATÓRIO E PARECER DO CONSELHO FISCAL

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 da prestação de contas consolidadas da sociedade AdP – Águas de Portugal, SGPS, SA, apresentadas pelo Conselho de Administração, relativamente ao exercício de 2019.
2. O Conselho Fiscal acompanhou a gestão da AdP – Águas de Portugal, SGPS, SA, e a evolução dos seus negócios, designadamente mediante contactos 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 regra, contou com a presença do Administrador responsável pelo pelouro financeiro, do Revisor Oficial de Contas, da Diretora Financeira e da Diretora de Regulação, Planeamento e Controlo de Gestão. O Conselho Fiscal obteve todos os esclarecimentos solicitados e dispôs da documentação que considerou necessária ao desempenho das suas funções de fiscalização.
3. 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 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.
5. O Relatório de Gestão e Contas de 2019 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 2019, revelando-se o cumprimento material daqueles.
6. 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 2019, 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

7. 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.
8. O Conselho Fiscal teve conhecimento do teor das certificações de contas relativas às empresas participadas não tendo chegado ao seu conhecimento situações de incumprimento materialmente relevantes que não tenham sido objeto de correção no exercício de consolidação de contas.
9. Tomou igualmente conhecimento do Relatório emitido pelos Auditores Externos sobre as contas consolidadas, nada havendo a objetar quanto ao seu conteúdo.
10. 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. Deverá ser relevada a existência de uma ênfase na CLC que se prende com os recentes desenvolvimentos relacionados com o surto de COVID-19, com impacto nos mercados financeiros e na atividade económica de todo o mundo. O Conselho de Administração do Grupo AdP efetuou uma avaliação da situação, com base em indicadores económicos, financeiros e de liquidez e não antecipa que nenhuma das suas empresas venha a apresentar problemas de continuidade, das respetivas operações, nos próximos doze meses. O Conselho Fiscal tomou igualmente conhecimento do respetivo relatório adicional do mesmo Revisor Oficial de Contas sobre a fiscalização efetuada.
11. Salienta-se que, não foram realizadas a totalidade das Assembleias Gerais (AG) das empresas do grupo AdP, por adiamento das mesmas, motivado pelo estado de emergência decretado em Portugal a 18 de março de 2020, através do Decreto do Presidente da República n.º 14-A/2020 devido à pandemia COVID-19 e à indisponibilidade manifestada pelos acionistas Municípios para aceder à realização das mesmas. No entanto, em declaração emitida pelo Conselho de Administração (CA) da AdP – Águas de Portugal SGPS SA, este confirma que os Relatórios de Gestão e Contas aprovados pelos respetivos CA das empresas do Grupo e sujeitos a revisão legal de contas, serão os que virão a ser aprovados em sede de AG, quando a mesma se realizar, pelo representante da AdP – Águas de Portugal SGPS SA, na qualidade de acionista maioritário.

12. No que respeita ao cumprimento da legislação vigente, designadamente à aplicação do Código dos Contratos Públicos, no corrente exercício e na sequência da anterior aprovação do Manual de Compras, foi igualmente aprovado o Manual de Contratação e o Manual de Boas Práticas, ambos de aplicação em todas as empresas do grupo, visando a continuidade na uniformização de processos e na garantia da observância dos requisitos legais e das orientações internas.
13. Relativamente ao rácio de eficiência operacional, Gastos Operacionais/Volume de Negócios (GO/VN), este regista uma melhoria, de 1,2 p.p. passando de 47,8% em 31-12-2018 para 46,6% em 31-12-2019. Numa base ajustada, tendo presente o efeito da IFRS16 nos FSE, verifica-se a mesma tendência embora menos expressiva.
14. O Grupo AdP, no ano de 2019, registou um incremento dos Gastos com o Pessoal face a 2018, resultante da aplicação plena do Acordo Coletivo do Trabalho (ACT) assinado para todos os trabalhadores do grupo AdP, salientando-se o restabelecimento do subídio de alimentação igual para todos e a reclassificação segundo a tabela do ACT, tendo em atenção as progressões de índice. Verificou-se também um ligeiro aumento do número de colaboradores, passando este a ser de 3.212.
15. O Conselho Fiscal destaca ainda a manutenção da situação de dívidas de clientes, alcançando esta em 2019 um valor de 368,8M€, em termos brutos, dos quais, 280,3M€ referente a dívida de autarquias locais, serviços municipalizados e intermunicipalizados e empresas municipais e intermunicipais. Ao longo do ano de 2019 foram celebrados 31 Acordos de Regularização de Dívida (ARD) ao abrigo do Decreto-Lei nº 5/2019 de 14/01, que estabelece os procedimentos necessários à regularização das dívidas das autarquias locais no âmbito do setor da água e do saneamento de águas residuais. O impacto deste processo de regularização de dívida municipal justifica, quase na totalidade, a redução de 74,8M€ verificada na dívida bruta consolidada de clientes, sendo estimada a recuperação de 72,2M€ de dívida municipal por execução dos ARD. O Grupo AdP tem dado continuidade ao esforço de recuperação e titularização da dívida dos municípios e das empresas municipais de abastecimento e saneamento, verificando-se uma redução do volume de faturas vencidas entre os últimos dois exercícios, em cerca de 18% (44,5M€).
16. Deve ser relevado que a consolidação das operações do grupo favoreceu a evolução positiva do desvio de recuperação de gastos, atingindo em 2019 um superavit de 33,1M€. Não obstante o registo deste agregado, assinala-se que o desvio tarifário que se cifrou, no final do exercício, em 663,1M€, deverá continuar a merecer a melhor atenção por parte do órgão de administração atenta a respetiva materialidade.

AdP
SGPS
3

17. 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. Esta gestão financeira centralizada tem vindo sustentadamente a reduzir o rácio de endividamento líquido sobre o EBITDA ajustado, em termos consolidados, reduzindo este de 5,2 no ano de 2018 para 4,6 em 2019.
- Constata-se igualmente a diminuição do endividamento bruto em 81,3M€ e a redução dos gastos financeiros em mais de 7%.
18. Verificou-se que os gastos com Fornecimentos e Serviços Externos (FSE) aumentaram 3,65 milhões de EUR em 2019, assumindo maior expressão o acréscimo do custo com os subcontratos, de 4,3 milhões de EUR (+16,4%), explicado por aumento de gastos na ADA com a entrada em funcionamento das ETAR's Companheira e Faro-Olhão e pelo aumento de atividade na AdN e o acréscimo do Tratamento de resíduos e efluentes, de 2,6 milhões de EUR em virtude do aumento dos gastos com o tratamento de lamas.
- Destaca-se que, a diminuição dos gastos com rendas e alugueres deve-se à adoção, no ano de 2019, da IFRS 16, em que o impacto direto dessa aplicação foi uma diminuição dos gastos em 4,6 milhões de euros, fazendo por sua vez que, o valor dos gastos com amortizações, depreciações e reversões do exercício fosse superior.
- Importa destacar que o grupo AdP tem vindo a adotar medidas de eficiência energética no âmbito do Plano de Eficiência e Produção de Energia (PEPE), visando a redução dos consumos, dos gases e o aumento da produção própria de energia para autoconsumo, o que permitiu minimizar o impacto do aumento dos preços da eletricidade.
19. O Conselho Fiscal entende que deve ser ponderada entre as ações prioritárias e mercedoras de um crescente esforço a continuidade de todos os trabalhos tendentes à implementação do Sistema de Controlo Interno no Grupo, muito em concreto, que seja prosseguida uma maior maturidade do controlo interno existente, por via do efetivo reconhecimento dos controlos já existentes capazes de responder aos riscos identificados, beneficiando da sinergia que decorre da existência de sistemas de informação comuns e do recurso a uma visão transversal de todo o controlo interno. Não obstante o entendimento aqui exposto, importa relevar que em 2019, a Administração da AdP SGPS, aprovou o projeto de definição e implementação de um Sistema de Controlo Interno (SCI) – CUBO do COSO (Committee of Sponsoring Organizations of the Treadway Commission) transversal a todo o Grupo, encontrando-se em fase de elaboração a definição das métricas a utilizar na avaliação anual do SCI, bem como o Manual de Controlo Interno no qual se incluem as matrizes de controlos e de riscos. Acresce ainda e no sentido do entendimento exposto pelo CF, a prevista elaboração de um Relatório sobre a maturidade de controlo interno nas subsidiárias, por via de uma seleção de empresas piloto para o efeito.

20. 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 2019, 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, SGPS, SA em 31 de dezembro de 2019, e da forma como se formaram os resultados e se desenrolou a atividade.

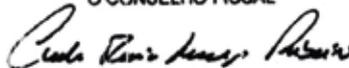
21. O Conselho Fiscal salienta toda a colaboração que obteve do Conselho de Administração, do Revisor Oficial de Contas, do Auditor Externo e dos Serviços da AdP - Águas de Portugal, SGPS, SA.

PARECER

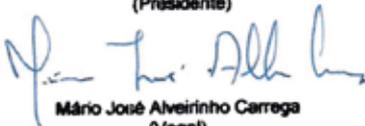
Em conformidade com o acima referido, o Conselho Fiscal dá a sua concordância ao Relatório de Gestão e Contas Consolidadas do exercício de 2019 da AdP - Águas de Portugal, SGPS, SA, atenta a ênfase expressa na Certificação Legal das Contas, dando o seu parecer favorável a que sejam aprovados pela Assembleia Geral.

Lisboa, 03 de abril de 2020.

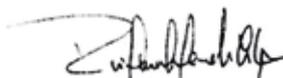
O CONSELHO FISCAL



Carla Maria Lamego Ribeiro
(Presidente)



Mário José Alveirinho Carrega
(Vogal)



Rui Manuel Mendes Cabeças
(Vogal)

LEGAL CERTIFICATION OF THE ACCOUNTS

Legal Certification of Accounts

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion:

We have audited the attached consolidated financial statements of AdP - Águas de Portugal, SGPS, S.A. (the Group), which include the consolidated statement of the financial position as at December 31, 2019 (reporting a total of EUR 6,137,005,477 and total equity of EUR 1,649,962,831, including net income of EUR 83,116,158), the consolidated income statement by type, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended therein, and the accompanying notes to the consolidated financial statements, which includes a summary of the main accounting policies.

In our opinion, the attached consolidated financial statements present fairly and appropriately the consolidated financial position of AdP - Águas de Portugal, SGPS, S.A. in all material respects as at December 31, 2019 and its financial performance and consolidated cash flows for the year ended therein in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union.

Bases for the opinion

Our audit was carried out in accordance with the International Accounting Standards (IAS) and the other technical and ethical standards and guidelines of the Order of Statutory Auditors. Our responsibilities under these standards are described in the section "Auditor's Responsibilities for the Audit of Financial Statements" below. We are independent of the Group as stipulated by the law and we further comply with the legal requirements of the Statutory Auditor code of ethics.

We are convinced that the audit evidence we have obtained is sufficient and appropriate to providing a basis for our opinion.

Emphasis

As mentioned in the section on Subsequent events in the Management Report and in note 54 to the consolidated financial statements, recent developments related to the outbreak of COVID-19 are having an impact on financial markets and economic activities worldwide. The AdP Group's Board of Directors has made an assessment of the situation based on the economic, financial and liquidity indicators and does not anticipate that any of its companies shall confront continuity problems with their operations over the next twelve months. We have analysed the above-mentioned disclosures and consider them to be appropriate.

Our opinion is not changed in this respect.

Relevant areas to the audit

The relevant areas to the audit are those that, in our professional judgment, played a major role in auditing the consolidated financial statements for the current year. These areas were considered within both the context of auditing the consolidated financial statements as a whole and the formulation of our opinion and we do not express a separate opinion on these matters.

Our audit approach, which included the requirements stipulated by ISA 600 - Group Audit, was based on risk assessment at the level of financial reporting and, in the case of this Group, the following relevant audit issues were identified:

Most significant risks of material distortion identified	Summary of the identified audit approach
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<ul style="list-style-type: none">• <i>Recognition and measurement of contractual investment</i>	
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The right to use infrastructures is amortised on a systematic basis in accordance with the scheduled receipt of economic benefits subject to approval by the Regulator.

These amortisations are calculated based on the flows (water and effluents) billed in any given year and the amounts to be billed through to the concession expiring, which are provided for in the Economic and Financial Feasibility Study attached to the concession agreement and the Tariff Design Budget for the year.

In addition, in compliance with the provisions of the concession, the partnership management contracts and other regulatory rules, an estimated amount is recorded under expenses for the fiscal year to cover the liabilities related to contractual investments. These are also calculated based on the aforementioned Economic and Financial Feasibility Study, which also details the investment requirements.

Our approach to this risk included a number of procedures related to the internal and substantive controls, namely:

- Analysing the budget and tariff plans of the multi-municipal system management companies, specifically the information deployed to calculate the amortizations and the accuracy of the estimated flows for the following years in keeping with the realities prevailing across the respective multi-municipal system;
- Contacts made with the Statutory Auditors of subsidiaries, obtaining and analysing relevant documentation, particularly with regard to the work performed in the area of intangible assets;
- Obtaining and analysing the financial statements of subsidiaries and their Legal Certifications of Accounts;
- Analysing the coherence of the contractual investment amounts that serve to calculate the amortisations in accordance with the investment value stipulated in the Economic and Financial Feasibility Study approved by the Grantor;

Most significant risks of material distortion identified

These Economic and Financial Feasibility Studies and Tariff Design Budgets include a number of assumptions regarding both the level of future concession/partnership activities and the investment requirements thus reflecting an area involving substantial levels of judgment.

As regards this issue, Notes 2.5.5, 8.1 and 32 to the consolidated financial statements related to the disclosure of the accounting policies applied, as well as the estimates and critical accounting judgments made in the application of these accounting policies, provide further information.

• *Recognition and measurement of cost recovery deviations*

The Cost Recovery Deviations (CRD) correspond to the correction (positive in the case of deficit, negative in the case of surplus) to be recorded in regulated activity revenues to ensure this revenue complies with the provisions of the various concession/partnership agreements, specifically as regards fully recovering all expenditure (including tax on collective income) and the annual compensation guaranteed to shareholders.

As mentioned in Note 2.5.6 to the consolidated financial statements, the CRD estimate is determined on an annual basis according to the best information available at the date of preparation of the financial statements, specifically the Budget and Tariff Project and the management entity forecasts in accordance with the respective concession/partnership agreements, before delivering the CRD calculation to the Regulator for its approval.

As regards this issue, Notes 2.5, 4.7, 16 and 37 to the consolidated financial statements detail the disclosure of the accounting policies applied, as well as the estimates and critical accounting judgments made in the application of these accounting policies, and provide further information.

Summary of the identified audit approach

- Analysing the disclosures made in order to ensure they comply with the provisions of all applicable accounting standards.

Our approach to this risk consisted of a response that included a combined set of internal control and substantive procedures, including:

- Analysing the budgets and tariff projects of the multi-municipal system management companies, especially the provisional income statement for the current year and the underlying activity assumptions;
- Contacts made with the Statutory Auditors of subsidiaries, obtaining and analysing relevant documentation, particularly with regard to the work performed in calculating the CRD;
- Obtaining and analysing the financial statements of subsidiaries with regulated activities and their respective Legal Certifications of Accounts;
- Recalculating the Guaranteed Remuneration and the corresponding CRD in accordance with the criteria established in the concession agreements;
- Analysis of the correspondence/communications exchanged between the AdP Group and the Regulator (ERSAR) through to the date of reporting, particularly regarding the expenses incurred in the efficiency scenario and the Regulator's CRD approval process.

Most significant risks of material distortion identified

- *Recoverability of the balances receivable from Municipalities*

As at December 31, 2019, the amount recorded in the Customers item referring to Municipalities amounted to EUR 280,327,777 and, as detailed in note 20.3 of the notes to the financial statements, is composed of expired balances reflecting either the prevalence of financial difficulties at the Municipalities and/or the existence of divergences over the invoicing billed.

As a result of this situation, the accounts register an increase in the default interest item as determined in accordance with the law or with the settlement agreements. The current asset customer balance includes the arrears incurred by the Municipalities as a consequence of these delays in payment amounting to EUR 13,755,835.

In the assessment made by the Board of Directors regarding the need to record impairment losses, the latter shall consider the measures feasible to ensuring the recoverability of these amounts, which include activating the mechanism attributing contradictory privilege, the reaching of debt settlement agreements and the decisions handed down in ongoing injunctions/ legal proceedings.

Given the relevance of this balance to the total assets, the non-recoverability of all the outstanding amounts may jeopardize the economic-financial balance of the concessions/partnerships and furthermore impacting on compliance with their contractual responsibilities.

On this matter, Notes 2.15, 3.4.1., 4.3, 17, 20 and 43 to the consolidated financial statements, detailing the disclosure of the accounting policies in effect alongside the estimates and critical accounting judgments made in applying these accounting policies, provide further information.

Summary of the identified audit approach

Our approach to this risk consisted of a response that included a combined set of internal control and substantive related procedures, specifically including:

- Contacts made with the Statutory Auditors of subsidiaries, obtaining and analysing relevant documentation, particularly with regard to the work carried out on the recoverability of municipality credits;
- Obtaining and analysing the financial statements and their respective Legal Certifications of Accounts;
- Testing the reasonableness both of the municipality balances as clients recorded by the subsidiaries and of the joint balance considered in the consolidated financial statements;
- Analysing the disclosures made in order to ensure they 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 the:

- preparation of the consolidated financial statements that fairly and appropriately present the Group's financial position, the financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union;
- preparation of the management report, including the corporate governance report, in accordance with the applicable legal and regulatory framework;
- implementation and maintenance of an appropriate internal control system to enable the preparation of financial statements free from material misstatement due to fraud or error;
- adoption of the appropriate accounting policies and criteria under these circumstances; and
- assessment of the Group's capacity to remain operational and disclosing, whenever applicable, any issues that may give rise to significant changes in the continuity of activities.

The supervisory body is responsible for overseeing the preparation and disclosure of the Group's financial information.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error and to issue a report containing our opinion. Reasonable certainty is a high level of safety but this does not guarantee that an audit performed in accordance with the IAS shall always detect material misstatements when existing. Distortions may arise from fraud or error and are considered material when, whether in isolation or in conjunction, they can reasonably be expected to influence the economic decisions of users based on the respective financial statements.

As part of an IAS audit, we make professional judgments and maintain professional scepticism throughout the audit and also:

- identify and assess the risks of material misstatement of the consolidated financial statements due to fraud or error, design and perform audit procedures that respond to those risks, and obtain audit evidence that is sufficient and appropriate to providing 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 misrepresentation due to error as fraud may involve collusion, forgery, intentional omissions, false declarations or overlapping internal control;
- obtain an understanding of internal control system relevant to the audit for the purpose of designing audit procedures appropriate to the circumstances but not to expressing an opinion on the effectiveness of the Group's internal control system;
- evaluate the appropriateness of the accounting policies applied and the reasonableness of the accounting estimates and the respective disclosures made by the management body;
- conclude on the appropriateness of the management's adoption of the assumption of continuity and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that might give rise to significant doubts about the Group's ability to continue activities. When concluding that there is material uncertainty, we duly draw attention in our report to the related disclosures included in the consolidated financial statements or, when these disclosures are not appropriate, we correspondingly modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to discontinue its activities;

- evaluate the presentation, structure and overall content of the consolidated financial statements, including the disclosures, and whether these consolidated financial statements represent the underlying transactions and events in order to convey an appropriate presentation;
- obtain sufficient and appropriate audit evidence regarding Group financial information and the respective activities in order to express an opinion on the consolidated financial statements. We are responsible for the structure, supervision and performance of the Group's audit and are ultimately responsible for our audit opinion;
- communicate with those responsible for governance, including the supervisory body, the scope and timing of the audit, among other issues, as well as any significant audit findings, including any significant internal control weaknesses identified during the audit.
- as regards issues communicated to governance officials, including the supervisory body, we determined those most important to auditing the financial statements and the consolidated financial statements for this financial year and which were the relevant auditing matters. We describe these matters in our report except when legal or regulatory stipulations prohibit their public disclosure;
- declare to the supervisory body that we comply with the relevant ethical requirements relating to independence and communicating all relationships and other matters potentially perceived as reflecting on our independence and, when applicable, the respective safeguards.

Our responsibility also includes verifying the consistency of the information contained in the management report with that in the consolidated financial statements as well as verifying the presentation of the non-financial statement.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

Pursuant to Article 451 (3) of the Rules of Procedure, e) of the Commercial Companies Code, it is our opinion that the management report was prepared in accordance with the legal and regulatory requirements in force, the information contained therein is correspondingly consistent with the audited consolidated financial statements and, taking into account our knowledge and evaluation of the Group, we do not identify any material misreporting.

On the non-financial statement provided for in Article 508 G of the Commercial Company Code

In compliance with Article 451 (6) of the Commercial Companies Code, we hereby inform that the Group has prepared a report separate to the management report which includes non-financial information, as provided for under Article 508 (G) of the Commercial Companies Code, published in conjunction with the management report.

On 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 of the Council of 16 April 2014, and in addition to the relevant audit issues identified above, we would also report the following:

- We were appointed as the Statutory Auditor for the first time following the unanimous approval of the resolution proposed by the shareholder Parpública - Participações Públicas (SGPS, S.A.) on December 27, 2018 for the term between 2018 and 2020.
- The management body has confirmed that it is unaware of the occurrence of any fraud or suspected fraud with any material effect on financial reporting. In planning and performing our audit in accordance with the ISA, we have maintained professional scepticism and devised audit procedures able to respond to the scope for material distortion of the financial statements due to fraud. As a result of our work, we do not identify any material distortions in the financial statements resulting from fraud.
- We here confirm that the audit opinion issued is consistent with the additional report prepared and delivered to the Fiscal Council of the Group on the same date.
- We would furthermore declare that we did not provide any services prohibited under the terms of article 77, paragraph 8 of the Statutes of the Order of Statutory Auditors and have maintained our independence from the Group throughout the performance of this audit.

8 April 2020

(one illegible signature)

Grant Thornton & Associates - SROC, Lda.

Represented by Pedro Lisboa Nunes



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Certificação Legal das Contas

RELATO SOBRE A AUDITORIA DAS DEMONSTRAÇÕES FINANCEIRAS CONSOLIDADAS

Opinião

Auditámos as demonstrações financeiras consolidadas anexas da 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 2019 (que evidencia um total de 6.137.005.477 euros e um total de capital próprio de 1.649.962.831 euros, incluindo um resultado líquido de 83.116.158 euros), a demonstração consolidada dos resultados por naturezas, a demonstração consolidada do rendimento integral, a demonstração consolidada das alterações no capital próprio e a demonstração consolidada dos fluxos de caixa relativas ao ano findo naquela data, e as notas anexas 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, S.G.P.S., S.A. em 31 de dezembro de 2019 e o seu desempenho financeiro e fluxos de caixa consolidados relativos ao ano findo naquela data, de acordo com as Normas Internacionais de Relato Financeiro (IFRS) 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 que a prova de auditoria que obtivemos é suficiente e apropriada para proporcionar uma base para a nossa opinião.

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Inscrita na Ordem dos Revisores Oficiais de Contas sob o n.º 67, na C.M.V.M. sob o n.º 20161403

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Ênfase

Conforme mencionado no ponto de Eventos subsequentes do Relatório de gestão e na nota 54 às demonstrações financeiras consolidadas, os recentes desenvolvimentos relacionados com o surto de COVID-19, estão a ter impacto nos mercados financeiros e na atividade económica de todo o mundo. O Conselho de Administração do Grupo AdP efetuou uma avaliação da situação, com base em indicadores económicos, financeiros e de liquidez e não antecipa que nenhuma das suas empresas venha a apresentar problemas de continuidade, das respetivas operações, nos próximos doze meses. Analisámos as divulgações, acima mencionadas, e consideramos que as mesmas são adequadas.

A nossa opinião não é modificada em relação a esta matéria.

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 nossa opinião, e não emitimos uma opinião separada sobre essas matérias.

A nossa abordagem de auditoria, que contemplou os requisitos constantes da ISA 600 – Auditoria de Grupos, foi baseada na avaliação dos riscos ao nível do reporte financeiro, tendo, no caso deste Grupo, sido identificadas as seguintes matérias relevantes de auditoria:

Riscos de distorção material mais significativos identificados Síntese da abordagem de auditoria

• Reconhecimento e mensuração do investimento contratual

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.

As amortizações são calculadas tendo como base os caudais (água e efluentes) faturados num determinado exercício e os 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.

A nossa abordagem a este risco consistiu na realização de um conjunto combinado de procedimentos relacionados com o controlo interno e substantivos, designadamente:

- Análise dos orçamentos e projetos tarifários das empresas gestoras dos sistemas multimunicipais, nomeadamente a informação utilizada para o cálculo das amortizações e a adequação dos caudais estimados para os anos subsequentes face ao conhecimento da realidade do respetivo sistema multimunicipal;
- Contactos efetuados com o ROC das subsidiárias, obtenção e análise de documentação relevante, nomeadamente quanto ao trabalho realizado na área do ativo intangível;
- Obtenção e análise das demonstrações financeiras das subsidiárias e das respetivas Certificações Legais das Contas;
- Análise da coerência do valor do investimento contratual utilizado para o cálculo das amortizações com o valor de investimento que consta do EVEF aprovado pelo Concedente;

Riscos de distorção material mais significativos identificados Síntese da abordagem de auditoria

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.

Sobre esta matéria, as Notas 2.5.5, 8.1 e 32 às demonstrações financeiras consolidadas, referente à divulgação das políticas contabilísticas utilizadas, bem como às estimativas e julgamentos contabilísticos críticos efetuados na aplicação dessas políticas contabilísticas, fornecem mais informações.

• **Reconhecimento e mensuração dos desvios de recuperação de gastos**

Os Desvios de Recuperação de Gastos (DRG) correspondem à correção (positiva no caso de déficit, 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 imposto sobre o rendimento coletivo) e remuneração anual garantida aos acionistas.

Tal como mencionado na Nota 2.5.6 às demonstrações financeiras consolidadas, 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.

Sobre esta matéria, as Notas 2.5, 4.7, 16 e 37 às demonstrações financeiras consolidadas, referente à divulgação das políticas contabilísticas utilizadas, bem como às estimativas e julgamentos contabilísticos críticos efetuados na aplicação dessas políticas contabilísticas, fornecem mais informações.

– Análise das divulgações efetuadas de forma a garantir que as mesmas respeitam as disposições das normas contabilísticas aplicáveis.

A nossa abordagem a este risco consistiu numa resposta que incluiu um conjunto combinado de procedimentos relacionados com o controlo interno e substantivos, designadamente:

- Análise dos 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;
- Contactos efetuados com o ROC das subsidiárias, obtenção e análise de documentação relevante, nomeadamente quanto ao trabalho realizado sobre o cálculo dos DRG;
- Obtenção e análise das demonstrações financeiras das subsidiárias com atividade regulada e das respetivas Certificações Legais das Contas;
- Recálculo da Remuneração Garantida e do correspondente DRG de acordo com os critérios estabelecidos nos contratos de concessão;
- Análise da correspondência/comunicações que existiram, até à data de reporte, entre o Grupo AdP e a Entidade Reguladora (ERSAR), em particular no que respeita aos gastos permitidos em cenário de eficiência e à aprovação do DRG por parte da Entidade Reguladora.

Riscos de distorção material mais significativos identificados **Síntese da abordagem de auditoria**

• *Recuperabilidade dos saldos a receber dos Municípios*

O montante registado na rubrica de Clientes referente a Municípios a 31 de dezembro de 2019 é de 280.327.777 euros e tal como detalhado na nota 20.3 das notas às demonstrações financeiras consolidadas, é composto por saldos que apresentam uma elevada antiguidade, o que indicia a existência de dificuldades financeiras por parte dos Municípios e/ou existência de divergência na faturação efetuada.

Em virtude desta situação, são registados acréscimos de rendimentos relativos aos juros de mora, os quais são determinados de acordo com a lei ou com os acordos de regularização de dívida. O saldo de clientes do ativo corrente inclui juros de mora debitados aos Municípios em consequência destes atrasos, os quais ascendem a 13.755.835 euros.

Na avaliação efetuada pelo Conselho de Administração quanto à necessidade de registo de perdas de imparidade, este tem em consideração a adoção das medidas possíveis tendentes a assegurar a recuperabilidade dos saldos, entre as quais, a ativação do mecanismo associado ao privilégio contraditório, a realização de acordos de regularização de dívida e a interposição de injunções/ações judiciais.

Dada a relevância do saldo no total do ativo, a não recuperabilidade da totalidade dos valores em dívida poderá colocar em causa o equilíbrio económico-financeiro das concessões/parcerias, afetando o cumprimento das responsabilidades contratuais.

Sobre esta matéria, as Notas 2.15, 3.4.1, 4.3, 17, 20 e 43 às demonstrações financeiras consolidadas, referente à divulgação das políticas contabilísticas utilizadas, bem como às estimativas e julgamentos contabilísticos críticos efetuados na aplicação dessas políticas contabilísticas, fornecem mais informações.

A nossa abordagem a este risco consistiu numa resposta que incluiu um conjunto combinado de procedimentos relacionados com o controlo interno e substantivos, designadamente:

- Contactos efetuados com o ROC das subsidiárias, obtenção e análise de documentação relevante, nomeadamente quanto ao trabalho realizado sobre a recuperabilidade dos créditos aos Municípios;
- Obtenção e análise das demonstrações financeiras das subsidiárias e das respetivas Certificações Legais das Contas;
- Teste à razoabilidade dos saldos dos Municípios enquanto clientes registados pelas subsidiárias e do saldo conjunto considerado nas demonstrações financeiras consolidadas;
- Análise das divulgações efetuadas de forma a garantir que as mesmas respeitam as disposições das normas contabilísticas aplicáveis.

Responsabilidades do órgão de gestão e do órgão de fiscalização pelas demonstrações financeiras

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 Normas Internacionais de Relato Financeiro (IFRS) tal como adotadas na União Europeia;
- elaboração do relatório de gestão, incluindo o relatório do governo societário, 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
- avaliação da capacidade do Grupo se manter em atividade, 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 devida 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 devida a fraude é maior do que o risco de não detetar uma distorção material devida 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 consolidadas 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 consolidadas representam as transações e acontecimentos subjacentes de forma a atingir uma apresentação apropriada;
- obtivemos 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;
- comunicámos 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 comunicámos 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;
- 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.

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 demonstração 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 a Entidade, não identificámos incorreções materiais.

Sobre a demonstração 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 a 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 10.º do Regulamento (UE) n.º 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 nomeados pela primeira vez como Revisor Oficial de Contas por deliberação social unânime por escrito do Acionista Parpública – Participações Públicas (SGPS, S.A.), realizada em 27 de dezembro de 2018, para o mandato compreendido entre 2018 e 2020.
- 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 consolidadas. 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 Conselho Fiscal 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.

8 de abril de 2020

Grant Thornton & Associados – SROC, Lda.
Representada por Pedro Lisboa Nunes

REPORT OF THE EXTERNAL AUDITOR

Auditor's Report

Audit report on the consolidated financial accounts

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 2019 (showing a total of EUR 6,137,005,477 and total equity of EUR 1,649,962,831, including a net profit allocated to the Group's shareholders of EUR 83,116,158), the consolidated income statement by type, 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 2019, its consolidated financial performance and consolidated cash flows during the period that ended on that date in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union.

Bases for 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 providing 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. We consider that the matters described below are the audit relevant matters for detailing in this report.

Relevant auditing matters**Summary of the audit approach**

Recognition and measurement of the contractual investment associated with the concessions/partnerships of the managing entities of the multi-municipal systems

Disclosures related to recognition and measurement of the contractual investment associated with the concessions/partnerships presented in notes 2.5.4, 2.5.5, 4.2, 8, 32, 41 and 51.

The right of use the multi-municipal system infrastructures by their managing entities is amortised on a systematic basis according to the rate set for obtaining economic benefits, which are duly approved by the Regulatory Entity (ERSAR) or by the respective Partnership Commission, in the case of concessions and partnerships, respectively.

Amortisations associated with the contractual investment are calculated on the basis of the flows (water and effluents) invoiced and the flows estimated for invoicing through to the end of each concession/partnership, which are provided for in the respective Economic and Financial Feasibility Study (EVEF) attached to each concession or partnership contract.

In addition, in compliance with the provisions of the concession contracts, the partnership management contracts and the other regulatory rules, an estimated amount is recorded in the annual cost to cover liabilities for future contractual investments. This increase is calculated according to that stipulated in the respective EVEF, the document detailing the investments to be made.

As mentioned in Note 32, as at December 31 2019, the increase in contractual investment expenditure amounted to EUR 494 million (December 31, 2018: EUR 469 million).

The EVEFs include a number of assumptions regarding both the level of future concession and partnership activities and the investment requirements thus reflecting an area involving substantial levels of judgment.

For each of the entities managing multi-municipal systems, our approach to this relevant matter consisted of:

- EVEF verification, specifically the information applied for the calculation of amortisations and the appropriateness of the estimated flows for subsequent years in relation to knowledge about the reality of each system;
- analysis of the consistency of the amount of the contractual investment serving to calculate the amortisations of the total investment amount in the respective EVEFs approved by the Grantor or Partnership Commission, whether it is a Concession Contract or a Partnership Contract, respectively;
- comparison of the flows used in the calculation of amortisations with the information produced by the commercial area of the managing entities, carrying out tests to ensure the reliability of this information;
- calculation of such amortisations in accordance with the stipulated criteria;
- obtaining and analysing the correspondence and exchange of information that has existed to date between the management entities of the multi-municipal systems, ERSAR and the partnership commissions, particularly as regards the level of activities and investments to be made under each Concession Contract / Partnership Contract;
- inquire the Board of Directors about the reasons for the existence of several EVEFs that are not yet approved;

Relevant auditing matters**Summary of the audit approach**

We also verified the adequacy of the disclosures presented in the notes to the financial statements, considering the requirements of the applicable accounting standards and the factors considered relevant.

Recognition and Measurement of Cost Recovery Deviations

Disclosures related to recognition and measurement of the Cost Recovery Deviations presented in notes 2.5.6, 4.7, 16 and 37

The Cost Recovery Deviations (CRDs) correspond to the corrections (positive in the case of deficits, negative in the case of surpluses) recorded to the regulated activity revenues so that this remains in full accordance with the provisions of the Concession/Partnership Contract, especially as regards full recovery of the expenses (including corporate income tax) and the guaranteed annual remuneration of shareholders taking into account, in the case of concessions, the costs allowed for under the efficiency scenario based on indicators subject to prior approval by the Regulatory Entity (ERSAR).

In each financial year, estimates of the CRDs are determined based on the best information available at the date of preparation of the financial statements, and the managing entities of the multi-municipal systems, under the terms of each Concession Contract, shall send the CRD calculations to ERSAR for their approval and, under the terms of each Partnership Contract, shall send the respective accountancy documents to the respective Partnership Committees for their appraisal and later deliberation on approving the CRDs. The relevance of this matter in our audit results from the complexity and level of judgment inherent to these assessments of the CRD estimates as well as the from the unpredictability associated with their respective approval.

For each of the managing entities of the multi-municipal systems, the audit procedures performed included:

- analysis of the reasonableness of the metrics calculated by the Group and evaluation of their compliance;
- recalculation of the Guaranteed Remuneration and the corresponding CRD in accordance with the criteria established in the Concession/Partnership Agreement;
- obtaining and analysing the correspondence and exchange of information that has existed to date between the concessionaires and ERSAR, particularly with regard to the expenditures allowed under the efficiency scenario and the appreciation of the DRCs for the activities undertaken by ERSAR;
- obtaining and analysing the correspondence and exchange of information that has existed to date between the management entities of the partnerships and each Partnership Commission, particularly regarding the appreciations made of the DRCs by the Partnership Commission;

We also verified the adequacy of the associated disclosures, considering the requirements of the applicable accounting standards and the factors considered relevant.

Relevant auditing matters**Summary of the audit approach**

As mentioned in Note 16, as at December 31 2019, the amount recognised in the income statement under "Deficit/tax recovery surplus" reports a surplus of EUR 38 million (December 31 2018: a surplus of EUR 15 million).

Recoverability of the balances receivable from Municipalities

Disclosures related to the recoverability of balances receivable from municipalities and municipal entities presented in notes 2.10.1, 4.3, 17 and 20.

As at December 31, 2019, under current and non-current assets balances receivable from municipalities and municipal entities, the Group recorded the amount of EUR 251 million (December 31, 2018: EUR 316 million).

As demonstrated in notes 17 and 20, these balances contain long standing amounts, which indicates the existence of financial difficulties on the part of the Municipalities and/or the existence of divergences as to the invoicing issued. In addition, accrued income relating to default interest is recorded, which is determined in accordance with the applicable legislation.

Generally, the Group does not recognise impairment losses on public entities as it believes that at this date the risk of insolvency is remote.

In assessing the need to record impairment losses, the Board of Directors adopts possible measures to ensure the recoverability of balances, including the activation of the mechanism associated with the credit privilege (which applies to current debts), the reaching of debt settlement agreements and the filing of injunctions/judicial actions. Particular situations of default and lapsing of the right to collect are also considered.

Our approach included the implementation of the following procedures:

- Performing analytical review procedures for all sales and services rendered sub-accounts, including analysis of significant changes compared with the previous year and in view of expectations and those already contracted/budgeted;
- Request for confirmation of the balances of Municipalities and municipal entities;
- Analysis of legal responses to direct requests for information about ongoing legal cases;
- Tests of the age of balances, focusing on the estimated legal time limits for collection rights, comparing them with the answers obtained from legal advisers;
- Reading of all debt settlement agreements signed with the Municipalities and analysis of their compliance;
- Analysis of the calculation of the interest in arrears in keeping with either the debt settlement agreements or the law and based on the age of the balances;

We also analysed the disclosures made in note 18 to ensure these comply with the provisions of the applicable accounting standards, including the correct presentation of the balances as current or non-current assets.

Relevant auditing matters**Summary of the audit approach**

Considering the relevance of the balance in the total assets of the Group, the non-recovery of the amount owed may compromise the economic and financial balance of the concessions/partnerships, and consequently the fulfilment of contractual responsibilities. For such reason, we consider this a relevant matter for auditing.

Downstream activities - estimates associated with water sales

Disclosures related to water sales presented in notes 2.22, 20 and 37

The recognition of the revenue related to the downstream activity of water sales occurs at the time of delivery of the water and has three distinct aspects:

- water sales based on actual consumption;
- water sales based on estimated consumption according to each customer's history;
- estimate of water supplied and not billed.

The calculation of estimated consumption for the purpose of invoicing water sales is reallocated essentially through Aquamatrix using an algorithm produced according to the criteria defined by the management entities, which is based on the average daily consumption of each customer, weighted according to historical consumption profiles.

The Group then tests this algorithm by counting a consumption sample. Rollback analysis of the actual consumptions is also performed afterwards.

The audit procedures developed included, among others, the identification and testing of the design and operational efficiency of the key controls related to the recognition of the revenue associated with the downstream water sales activity, namely the Aquamatrix system and, in particular, those related to the estimated sales at the end of each period.

The algorithm with the estimated volume calculations was obtained and verified, on a sample basis for each type of customer and tariff, to ensure the criteria defined by the Group were being met and that the adjustments made were reasonable.

The water balance was also obtained to assess the reasonableness of the historical differences between the entry of water into the network and that invoiced and estimated.

In addition, we carried out analytical review procedures for all sub-accounts under the Sales and Services Rendered headings, including the analysis of significant variations in relation to the previous year and in relation to expectations and contracted/budgeted activities.

In order to complement the procedures described above, reasonability analysis of the estimate of water consumed and not invoiced as at December 31 2019 was also developed based on the billing history recorded in previous years.

Relevant auditing matters**Summary of the audit approach**

The estimated quantities are valued on the basis of the defined tariff.

We also verified the adequacy of the disclosures presented in the notes to the financial statements, considering the requirements of the applicable accounting standards and the factors considered relevant.

The high complexity of the methodology applied by the Group to estimate the water consumption of its clients and the degree of judgment involved, particularly with regard to volumes of consumption and the associated tariff, justifies this being a relevant matter for the purposes of our audit.

Responsibilities of the management body and the supervisory body for the financial statements

The management body is responsible for the:

- a) preparation of the consolidated financial statements that fairly and appropriately present the Group financial position, the financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union;
- b) preparation of the management report, including the corporate governance report, in accordance with the applicable legal and regulatory framework;
- c) implementation and maintenance of an appropriate internal control system to enable the preparation of financial statements free from material misstatement due to fraud or error;
- d) adoption of the appropriate accounting policies and criteria under these circumstances; and
- e) assessment of the Group's capacity to remain operational and disclosing, whenever applicable, any issues that may give rise to significant changes in the continuity of activities.

In turn, the supervisory body is responsible for overseeing the preparation and disclosure of the Group's financial information.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error and to issue a report containing our opinion. Reasonable certainty is a high level of safety but this does not guarantee that an audit performed in accordance with the IAS shall always detect material misstatements when existing. Distortions may arise from fraud or error and are considered material when, whether in isolation or in conjunction, they can reasonably be expected to influence the economic decisions of users based on the respective financial statements.

As part of an IAS audit, we make professional judgments and maintain professional scepticism throughout the audit and also:

- a) identify and assess the risks of material misstatement of the consolidated financial statements due to fraud or error, design and perform audit procedures that respond to those risks, and obtain audit evidence that is sufficient and appropriate to providing 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 misrepresentation due to error as fraud may involve collusion, forgery, intentional omissions, false declarations or overlapping internal control;
- b) obtain an understanding of the internal control system relevant to the audit for the purpose of designing audit procedures appropriate to the circumstances but not to expressing an opinion on the effectiveness of the Group's internal control system;
- c) evaluate the appropriateness of the accounting policies applied and the reasonableness of the accounting estimates and the respective disclosures made by the management body;
- d) conclude on the appropriateness of the management's adoption of the assumption of continuity and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that might give rise to significant doubts about the Group's ability to continue activities. When concluding that there is material uncertainty, we duly draw attention in our report to the related disclosures included in the consolidated financial statements or, when these disclosures are not appropriate, we correspondingly modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to discontinue its activities;
- e) evaluate the presentation, structure and overall content of the consolidated financial statements, including the disclosures, and whether these consolidated financial statements represent the underlying transactions and events in order to convey an appropriate presentation;
- f) obtain sufficient and appropriate audit evidence regarding Group financial information and the respective activities in order to express an opinion on the consolidated financial statements. We are responsible for the structure, supervision and performance of the Group's audit and are ultimately responsible for our audit opinion;
- g) communicate with those responsible for governance, including the supervisory body, the scope and timing of the audit, among other issues, as well as any significant audit findings, including any significant internal control weaknesses identified during the audit;
- h) as regards issues communicated to governance officials, including the supervisory body, we determined those most important to auditing the financial statements and the consolidated financial statements for this financial year and which were the relevant auditing matters. We describe these matters in our report except when legal or regulatory stipulations prohibits their public disclosure; and
- i) declare to the supervisory body that we comply with the relevant ethical requirements relating to independence and communicating all relationships and other matters potentially perceived as reflecting on our independence and, when applicable, the respective safeguards.

Our responsibility also includes verifying the consistency of the information contained in the management report with that in the consolidated financial statements as well as verifying the presentation of the non-financial statement.

Report on other legal and regulatory requirements

On the management report

It is our opinion that the management report was prepared in accordance with the legal and regulatory requirements in force, the information contained therein is correspondingly consistent with the audited consolidated financial statements and, taking into account our knowledge and evaluation of the Group, we do not identify any material misreporting.

8 April 2020
PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

(one illegible signature)
João Rui Fernandes Ramos, Statutory Auditor

RELATÓRIO DO AUDITOR EXTERNO



Relatório de Auditoria

Relato sobre a auditoria das demonstrações financeiras consolidadas

Opinião

Auditámos as demonstrações financeiras consolidadas anexas da 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 2019 (que evidencia um total de 6.137.005.477 euros e um total de capital próprio de 1.649.962.831 euros, incluindo um resultado líquido de 83.116.158 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 anexas 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, S.G.P.S., S.A. em 31 de dezembro de 2019 e o seu desempenho financeiro e fluxos de caixa consolidados relativos ao ano findo naquela data de acordo com as Normas Internacionais de Relato Financeiro (IFRS) tal como adotadas na União Europeia.

Bases para a opinião

A nossa auditoria foi efetuada de acordo com as Normas Internacionais de Auditoria (ISAs) 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. Consideramos que as matérias descritas abaixo são as matérias relevantes de auditoria a comunicar neste relatório.

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Matrikulada na CRC sob o NUPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. pertence à rede de entidades que são membros de PricewaterhouseCoopers International Limited, cada uma das quais é uma entidade legal autónoma e independente.

Matérias relevantes de auditoria**Síntese da abordagem de auditoria**

Reconhecimento e mensuração do investimento contratual associado às concessões/parcerias das entidades gestoras dos sistemas multimunicipais

Divulgações relacionadas com o reconhecimento e mensuração do investimento contratual associado às concessões/parcerias apresentadas nas notas 2.5.4, 2.5.5, 4.2, 8, 32, 41 e 51

O direito de utilização de infraestruturas das entidades gestoras dos sistemas multimunicipais é amortizado numa base sistemática de acordo com o padrão de obtenção dos benefícios económicos, os quais são aprovados pela Entidade Reguladora (ERSAR) ou pela respetiva Comissão de Parceria, caso se trate de concessões ou parcerias, respetivamente.

As amortizações associadas ao investimento contratual são calculadas tendo como base os caudais (água e efluentes) faturados e os caudais que se estima faturar até ao final de cada concessão/parceria, os quais se encontram previstos no respetivo Estudo de Viabilidade Económica e Financeira (EVEF) anexos a cada contrato de concessão/parceria.

Adicionalmente, em cumprimento do estipulado nos contratos de concessão, nos contratos de gestão das parcerias e demais regras regulatórias, é registada nos gastos do exercício uma quantia estimada para fazer face às responsabilidades quanto a investimentos contratuais futuros. Este acréscimo é calculado com base nos respetivos EVEF, documento onde consta a estimativa dos investimentos a realizar.

Conforme referido na nota 32, em 31 de dezembro de 2019 o Acréscimo de gastos de investimento contratual ascende a 494 milhões de euros (31 de dezembro de 2018: 469 milhões de euros).

Os EVEF incluem diversos pressupostos relativamente ao nível de atividade futura de cada concessão/parceria e dos investimentos a realizar, constituindo desta forma uma área de

Para cada uma das entidades gestoras dos sistemas multimunicipais, a nossa abordagem a esta matéria relevante consistiu em:

- verificação do EVEF, nomeadamente a informação utilizada para o cálculo das amortizações e a adequabilidade dos caudais estimados para os anos subsequentes face ao conhecimento da realidade de cada sistema;
- análise da coerência do montante do investimento contratual utilizado para o cálculo das amortizações com o montante de investimento que consta dos respetivos EVEF aprovados pelo Concedente ou Comissão de Parceria, quer se trate de Contrato de Concessão ou Contrato de Parceria, respetivamente;
- comparação dos caudais utilizados no cálculo das amortizações com a informação produzida pela área comercial das entidades gestoras, efetuando os testes para garantir a fiabilidade desta informação;
- cálculo das referidas amortizações de acordo com os critérios estabelecidos;
- obtenção e análise da correspondência e troca de informação que existiu até à data entre as entidades gestoras dos sistemas multimunicipais, a ERSAR e as comissões de parceria, em particular no que respeita ao nível de atividade e investimento a realizar ao abrigo de cada Contrato de Concessão / Contrato de Parceria;
- inquirir o Conselho de Administração sobre os motivos da existência de diversos EVEF que não se encontram aprovados.

Matérias relevantes de auditoria

juízo elevado.

Síntese da abordagem de auditoria

Verificámos também a adequação das divulgações apresentadas nas notas às demonstrações financeiras, considerando os requisitos do normativo contabilístico aplicável e os fatores considerados relevantes.

Reconhecimento e mensuração dos Desvios de Recuperação de Gastos

Divulgações relacionadas com o reconhecimento e mensuração dos Desvios de Recuperação de Gastos apresentadas nas notas 2.5.6, 4.7 e 16 e 37

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 se apresente conforme o disposto no Contrato de Concessão/Parceria, nomeadamente no que diz respeito à recuperação integral dos gastos (incluindo imposto sobre o rendimento das pessoas coletivas) e remuneração anual garantida aos acionistas, tendo em consideração, no caso das concessões, os gastos permitidos em cenário de eficiência com base nos indicadores aprovados previamente pela Entidade Reguladora (ERSAR).

A estimativa dos DRG é, em cada exercício, determinada com base na melhor informação disponível à data da preparação das demonstrações financeiras, devendo as entidades gestoras dos sistemas multimunicipais, nos termos de cada Contrato de Concessão, enviar à ERSAR o cálculo dos DRG para que esta o aprove, e nos termos de cada Contrato de Parceria enviar os documentos de prestação de contas às respetivas comissões de parceria para que esta aprecie e posteriormente delibere no sentido de aprovação dos DRG. A relevância deste assunto na nossa auditoria resulta da complexidade e do nível de juízo inerente à apreciação da estimativa dos DRG, assim como ao nível da imprevisibilidade associada à respetiva aprovação.

Para cada uma das entidades gestoras dos sistemas multimunicipais, os procedimentos de auditoria realizados incluíram:

- análise da razoabilidade das métricas calculadas pelo Grupo e avaliação do cumprimento das mesmas;
- realização do recálculo da Remuneração Garantida e do correspondente DRG de acordo com os critérios estabelecidos no Contrato de Concessão/Parceria;
- obtenção e análise da correspondência e troca de informação que existiu até à data entre as entidades concessionárias e a ERSAR, em particular no que respeita aos gastos permitidos em cenário de eficiência e a apreciação dos DRG da atividade por parte da ERSAR;
- obtenção e análise da correspondência e troca de informação que existiu até à data entre as entidades gestoras das parcerias e cada Comissão de Parceria, em particular no que respeita à apreciação dos DRG por parte da Comissão de Parceria.

Foi igualmente revista a adequabilidade das divulgações associadas, tendo por base o enunciado no normativo contabilístico aplicável e os fatores considerados relevantes.

Matérias relevantes de auditoria

Conforme referido na nota 16, em 31 de dezembro de 2019 o montante reconhecido na Demonstração dos resultados na rubrica de "Défice / Superavit tarifário de recuperação de custos" apresenta um superavit de 38 milhões de euros (31 de dezembro de 2018: superavit de 15 milhões de euros).

Síntese da abordagem de auditoria

Recuperabilidade dos saldos a receber de Municípios e entidades municipais

Divulgações relacionadas com a recuperabilidade dos saldos a receber dos Municípios e entidades municipais apresentadas nas notas 2.10.1, 4.3, 17 e 20

Em 31 de dezembro de 2019 o Grupo apresenta registado no Ativo, corrente e não corrente, saldos a receber de Municípios e entidades municipais que ascendem a 251 milhões de euros (31 de dezembro de 2018: 316 milhões de euros).

Tal como evidenciado nas notas 17 e 20, os referidos saldos apresentam uma elevada antiguidade, o que indicia a existência de dificuldades financeiras por parte dos Municípios e/ou a existência de divergências quanto a faturação emitida. Adicionalmente, são registados acréscimos de rendimentos relativos aos juros de mora, os quais são determinados de acordo com a legislação aplicável.

Genericamente o Grupo não reconhece perdas por imparidade sobre entidades públicas, por entender que a esta data o risco de insolvência é remoto.

Na avaliação efetuada quanto à necessidade de registo de perdas por imparidade, o Conselho de Administração adota 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 consideradas situações particulares de

A nossa abordagem incluiu a execução dos seguintes procedimentos:

- executar procedimentos de revisão analítica para todas as subcontas das rubricas de Vendas e Prestações de Serviços, incluindo a análise das variações significativas face ao exercício anterior e face às expectativas e à atividade contratada/orçamentada;
- pedido de confirmação de saldos aos Municípios e entidades municipais;
- análise das respostas dos advogados aos pedidos diretos de informação sobre os processos judiciais em curso;
- teste à antiguidade de saldos, com foco nos prazos previstos de prescrição do direito de cobrança, comparando-a com as respostas obtidas dos advogados;
- leitura dos acordos de regularização de dívida celebrados com os Municípios e análise ao seu cumprimento;
- reexecução do cálculo de juros de mora, face aos pressupostos constantes dos contratos de regularização de dívida e à legislação vigente, considerando a antiguidade dos saldos;

Analisámos também as divulgações efetuadas, de forma a garantir que as mesmas respeitam as disposições das normas contabilísticas aplicáveis, incluindo a correta apresentação dos

Matérias relevantes de auditoria

incumprimento e de prescrições do direito a cobrar.

Considerando a relevância do saldo no total do ativo do Grupo, a não recuperação do montante em dívida poderá colocar em causa o equilíbrio económico e financeiro das concessões/parcerias, e consequentemente o cumprimento das responsabilidades contratuais. Por este motivo, consideramos esta uma matéria relevante de auditoria.

Síntese da abordagem de auditoria

saldos como ativos correntes ou não correntes.

Atividade em baixa – estimativas associadas a vendas de água

Divulgações relacionadas com as vendas de água apresentadas nas notas 2.22, 20 e 37

O reconhecimento do rédito relativo à atividade em baixa de venda de água ocorre no momento da entrega da água e incorpora três vertentes distintas:

- vendas de água efetuadas com base em consumos efetivos;
- vendas de água efetuadas com base em consumos estimados com base no histórico de cada cliente;
- estimativa de água fornecida e não faturada.

O apuramento dos consumos estimados para efeitos de faturação de vendas de água em baixa é realizado essencialmente através do Aquamatrix com recurso a um algoritmo produzido de acordo com os critérios definidos pelas entidades gestoras, que se baseia no consumo médio diário de cada cliente, ponderado de acordo com os perfis históricos de consumo.

O Grupo procede posteriormente ao teste do referido algoritmo, com recurso à contagem de uma amostra de consumos. É igualmente realizada uma análise de "rollback" dos consumos reais à posteriori.

Os procedimentos de auditoria desenvolvidos incluíram, entre outros, a identificação e teste ao desenho e à eficiência operacional dos controlos chave relacionados com o reconhecimento do rédito associado à atividade da baixa de venda de água, nomeadamente do sistema Aquamatrix e, em particular, dos relacionados com as vendas estimadas no final de cada período.

Foi obtido o algoritmo com os cálculos relativos aos volumes estimados tendo sido verificado, numa base amostral para cada tipo de cliente e tarifa, que os critérios definidos pelo Grupo se encontravam a ser cumpridos e que os ajustamentos realizados eram razoáveis.

Foi igualmente obtido o balanço hídrico e avaliada a razoabilidade face ao histórico das diferenças apuradas entre a entrada de água na rede e a água faturada e estimada.

Adicionalmente, executámos procedimentos de revisão analítica para todas as subcontas das rubricas de Vendas e Prestações de Serviços, incluindo a análise das variações significativas face ao exercício anterior e face às expectativas e à atividade contratada/orçamentada.

De forma a complementar os procedimentos acima descritos, foi ainda desenvolvida uma análise de razoabilidade da estimativa de água consumida e não faturada em 31 de dezembro de 2019 com base nos históricos de faturação

Matérias relevantes de auditoria

A valorização das quantidades estimadas é realizada com base na tarifa definida.

A elevada complexidade da metodologia utilizada pelo Grupo para estimar os consumos de água dos seus clientes e o grau de julgamento envolvido, nomeadamente no que respeita a volumes de consumo e tarifa associada, justificam que tenha constituído uma matéria relevante para efeitos da nossa auditoria.

Síntese da abordagem de auditoria

registados em exercícios anteriores.

Verificámos também a adequação das divulgações apresentadas nas notas às demonstrações financeiras, considerando os requisitos do normativo contabilístico aplicável e os fatores considerados relevantes.

Responsabilidades do órgão de gestão e do órgão de fiscalização pelas demonstrações financeiras consolidadas

O órgão de gestão é responsável pela:

- a) 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 (IFRS) tal como adotadas na União Europeia;
- b) elaboração do relatório de gestão nos termos legais e regulamentares aplicáveis;
- c) 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;
- d) adoção de políticas e critérios contabilísticos adequados nas circunstâncias; e
- e) 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 ISAs 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 ISAs, fazemos julgamentos profissionais e mantemos ceticismo profissional durante a auditoria e também:

- a) 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;
- b) 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;
- c) avaliamos a adequação das políticas contabilísticas usadas e a razoabilidade das estimativas contabilísticas e respetivas divulgações feitas pelo órgão de gestão;
- d) 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;
- e) 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;
- f) 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;
- g) 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 identificada durante a auditoria;
- h) 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
- i) 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.

Relato sobre outros requisitos legais e regulamentares

Sobre o relatório de gestão

Em nossa opinião 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.

8 de abril de 2020

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
representada por:



João Rui Fernandes Ramos, R.O.C.

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STATEMENT OF THE FINANCIAL POSITION

(EUR)

	Notes	2019	2018
ASSET			
Non-current assets			
Fixed tangible assets	6	16 774	21 455
Right-of-use assets	7	327 625	-
Other financial assets		14 563	-
Investments in subsidiaries and holdings	8	711 595 934	708 205 593
Loans to Group companies	9	691 469 164	700 111 529
Deferred taxation gains	30	74 866	-
Total of non-current assets		1 403 498 926	1 408 338 577
Current assets			
Clients	10	4 172 013	2 873 613
Loans to Group companies	9	73 693 182	71 040 000
Other current assets	11	471 266	438 475
Tax on annual earnings	30	-	934 657
Cash or cash equivalents	12	16 477 809	5 166 066
Total of current assets		94 814 270	80 452 811
Total assets		1 498 313 196	1 488 791 388
EQUITY CAPITAL			
Equity capital	13	434 500 000	434 500 000
Adjustments to capital holdings in subsidiaries and holdings		25 571 780	25 571 780
Fair value reserve		(350 431)	(877 030)
Legal reserve		35 922 364	32 945 574
Results carried over		263 068 404	233 509 402
Net annual result	13	65 151 607	59 535 792
Total of equity capital		823 863 724	785 185 518
LIABILITIES			
Non-current liabilities			
Provisions	14	5 000 000	6 125 000
Loans	15	551 136 363	557 954 545
Leasing liabilities	7	197 721	-
Deferred tax liabilities	30	73 716	-
Financial derivatives	16	2 788 817	3 315 416
Total of non-current liabilities		559 196 617	567 394 961
Current liabilities			
Loans	15	6 818 182	6 818 182
Leasing liabilities	7	135 016	-
Group company loans	17	104 000 000	125 600 000
Suppliers	18	350 513	696 998
Other current liabilities	19	2 667 594	3 095 729
Tax on annual earnings	30	742 273	-
State and other public entities	20	539 277	-
Total current liabilities		115 252 855	136 210 909
Total liabilities		674 449 472	703 605 870
Total liabilities and equity capital		1 498 313 196	1 488 791 388

The Board of Directors

Carla da Conceição Afonso Correia (Vice-Chair)
 Cláudio Miguel André Sousa Jesus (Executive Director)
 José Manuel Leitão Sardinha (Executive Director)
 Miguel Jorge de Campos Cruz (Non-executive Director)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

INCOME STATEMENT BY TYPE

	Notes	2019	2018
Income from client contracts	21	11 317 017	11 065 816
Suppliers and external services	22	(3 612 184)	(4 567 853)
Human resource expenditure	23	(4 750 935)	(4 011 062)
Amortisations, depreciations and reversions for the year	24	(150 480)	(1 950)
Provisions and reversions for the year	14	308 003	(40 361)
Losses due to impairments and reversions for the year	14	(31 361)	(72 064)
Other costs and operational losses	25	(99 039)	(67 125)
Other earnings and operating gains	26	99 609	33 842
Operational results		3 080 630	2 339 243
Financial costs	27	(5 336 198)	(5 655 103)
Financial earnings	28	20 359 051	20 893 040
Financial investment gains / losses	29	51 818 740	45 998 935
Financial results		66 841 593	61 236 872
Pre-tax results		69 922 223	63 576 115
Tax for the year	30	(4 771 766)	(4 040 323)
Deferred taxation	30	1 150	-
Net annual result		65 151 607	59 535 792
Net result per share (basic and diluted)	13	0.75	0.69

STATEMENT OF COMPREHENSIVE INCOME

	2019	2018
Net annual result	65 151 607	59 535 792
Fair value of the instruments for cashflow coverage	526 599	455 341
Comprehensive income	65 678 206	59 991 133
Comprehensive income per share	0.76	0.69

The Board of Directors

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Carla Isabel Costa Pinto Ribeiro

STATEMENT OF CHANGES IN EQUITY

(values in EUR)

	Equity	Adjustments in equity	Other cash flow cov. Instr.	Legal reserve	Results carried over	Net annual result	Total
Balance on 31 December 2017	434 500 000	25 571 780	(1 332 371)	29 798 581	200 216 532	62 939 863	751 694 385
Application of result from 2017	-	-	-	3 146 993	59 792 870	(62 939 863)	-
Distribution of dividends	-	-	-	-	(26 500 000)	-	(26 500 000)
MTM of coverage adjustments	-	-	455 341	-	-	-	455 341
Net result for 2018	-	-	-	-	-	59 535 792	59 535 792
Balance on 31 December 2018	434 500 000	25 571 780	(877 030)	32 945 574	233 509 402	59 535 792	785 185 518
Application of result from 2018	-	-	-	2 976 790	56 559 002	(59 535 792)	-
Distribution of dividends	-	-	-	-	(27 000 000)	-	(27 000 000)
MTM of coverage adjustments	-	-	526 599	-	-	-	526 599
Net result for 2019	-	-	-	-	-	65 151 607	65 151 607
Balance on 31 December 2019	434 500 000	25 571 780	(350 431)	35 922 364	263 068 404	65 151 607	823 863 724

The Board of Directors

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Carla Isabel Costa Pinto Ribeiro

STATEMENT OF CASH FLOW

(EUR)

	2019	2018
Operational activities		
Trade receivables	32 845 931	35 655 494
Payments to suppliers	(3 711 555)	(5 607 153)
Payments to staff	(5 012 492)	(2 427 108)
Operational generated earnings	24 121 884	27 621 233
Receipts / (payment) of tax on income	(3 920 914)	(8 117 525)
Other receipts (payments) related to operational activities	(2 401 951)	(2 264 961)
Other operational flows	(6 322 865)	(10 382 486)
Total of operational activities (1)	17 799 019	17 238 747
Investment activities		
Income from:		
Investments in subsidiaries	-	4 516
Treasury funding	71 295 000	31 603 213
Advances	30 949 183	51 668 180
Interest and similar earnings	-	3 208
Dividends	52 148 740	47 074 852
Subtotal	154 392 923	130 353 969
Payments for:		
Investments in subsidiaries	(3 578 773)	(3 395 975)
Treasury funding	(60 255 000)	(44 365 213)
Advances	(36 150 000)	(63 677 558)
Fixed tangible assets	-	(23 405)
Subtotal	(99 983 773)	(111 462 151)
Total of investment activities (2)	54 409 150	18 891 818
Financial activities		
Income from:		
Loans obtained	167 000 000	254 281 776
Subsidies	-	82 250
Others	-	217
Subtotal	167 000 000	254 364 243
Payments for:		
Loans obtains	(195 418 182)	(255 499 958)
Capital for leasing liabilities	(140 687)	-
Interest and similar costs	(5 337 557)	(5 624 668)
Dividends	(27 000 000)	(26 500 000)
Subtotal	(227 896 426)	(287 624 626)
Total of financial activities (3)	(60 896 426)	(33 260 383)
Variations in cash and cash equivalents (1 + 2 + 3)	11 311 743	2 870 182
Cash and cash equivalents at the beginning of the period	5 166 066	2 295 884
Cash and cash equivalents at the end of the period	16 477 809	5 166 066
Variations in cash and cash equivalents	11 311 743	2 870 182

The Board of Directors

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NOTES TO THE FINANCIAL STATEMENTS

I. ECONOMIC ACTIVITIES OF AdP – ÁGUAS DE PORTUGAL, SGPS, S.A.

1.1 INTRODUCTION

AdP - Águas de Portugal, SGPS, S.A. (hereinafter also referred to as AdP, or company), with its head office at Rua Visconde Seabra no. 3, in Lisbon, was incorporated on September 29, 1993, and its main activity is the management of shareholdings in companies that provide public drinking water supply and urban wastewater treatment services.

1.2 ACTIVITY

AdP was incorporated 25 years ago and entrusted with developing multi-municipal systems for the abstraction, treatment and distribution of water for public consumption in Portugal and for the collection, treatment and disposal of urban wastewaters. In 1996, the company's mission was expanded, beginning a process of diversification at the levels of both water distribution systems and effluent collection directly to the populations served. In the 2000 financial year, AdP took over the entire capital of the Empresa Geral de Fomento, S.A. (EGF) with the mission of developing multi-municipal systems for the collection and treatment of municipal solid waste. This shareholding was sold off in 2015 (95%) and in 2017 (5%).

The performance of the AdP Group is based on the targets of the Strategic Plan for Water Supply and Sanitation of Waste Water (PEAASAR) 2020 published by order No. 4385/2015 of April 30. The prevailing business model is based on three management models: (i) delegated or concessionary management for state-owned systems (EPAL and Águas de Santo André respectively); (ii) concessions for multi-municipal systems, consisting of the State and municipalities (Águas do Norte, Águas do Douro e Paiva, SIMDOURO, Águas do Vale do Tejo, Águas do Centro Litoral, Águas do Tejo Atlântico, SIMARSUL and Águas do Algarve); and management of systems established in partnerships between the State and municipalities (Águas do Noroeste, AdRA - Águas da Região de Aveiro and AgdA - Águas Públicas do Alentejo). The concession contracts and the Partnership agreements define the rules for the operation and management of their systems, on an exclusive basis for a term of twenty to fifty years, and establish the criteria for fixing and approving the tariffs to be practiced by the companies in each year, in order to ensure an adequate financial balance of the concessions, observing the following criteria:

- (a) to ensure, within the contractual period, the amortization of the effective amount of the initial investment by the management entity, less subsidies and non-repayable subsidies;
- (b) to ensure the proper functioning, maintenance and safety of all assets belonging to the system under management in conjunction with the intended replacement of these assets;
- (c) to meet the level of costs required for efficient system management and the existence of non-tariff revenues;
- (d) to ensure the payment of the operating expenses of the regulatory entity ERSAR (Water and Waste Services Regulatory Regulator) and ensure adequate remuneration of the management entity's equity, based on the date of settlement.

1.3 SHAREHOLDERS

The following are shareholders in AdP:

	% Capital	Subscribed amount	No. of shares	Type of shares
Parública, SGPS, S.A.	81.00%	351 945 000	70 389 000	Nominative
Caixa Geral de Depósitos, 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 financial statements were approved by the Board of Directors on March 31, 2020. It is the opinion of the Board of Directors that they reliably reflect the company's operations, as well as its position and financial performance and its cash flows. It is the expectation of the Board of Directors that these financial statements will be approved unchanged by the General Shareholders Meeting.

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 issued by the International Financial Reporting Interpretations Committee ("IFRIC") or the former "Standing Interpretations Committee" ("SIC"), adopted by the EU, in force for fiscal years beginning after 1 January 2019.

The most significant accounting policies used in the preparation of these financial statements are set out below. These policies have been applied consistently in comparative periods, except when otherwise specified.

2.1 BASES OF PRESENTATION

2.1.1 INTRODUCTION

The amounts presented, unless otherwise specified, are expressed in euros (EUR). AdP's financial statements were prepared based on the principle of continuity of operations and based on historical cost, except for derivative financial instruments which are recorded at their fair value (market value). The preparation of financial statements in accordance with 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 these 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.

2.1.2 NEW NORMS AND POLICY CHANGES

2.1.2.1 Voluntary changes in accountancy policies

No voluntary changes to accounting policies were made during the year period that on ended December 31, 2019, with respect to those considered in the preparation of the financial information relating to the year ended on December 31, 2018 presented in the comparisons.

2.1.2.2 New norms, interpretations and alterations coming into effect from 1 January 2019

These standards and amendments are effective for annual periods beginning on or after 1 January 2019 and have been applied in the preparation of these Financial Statements.

IFRS 16 Leasing

IFRS 16 was issued in January 2016 and replaced IAS 17 Leases, IFRIC 4 Determining if an Agreement contains a Lease, SIC 15 Operational Leases - Incentives and SIC 27 Evaluation of the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 sets out the principles applicable to the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on their balance sheets in accordance with a single mode.

The standard provides for two exemptions to lessee recognition - lease contracts where assets are of little value (such as a personal computer) and short-term lease contracts (i.e. contracts with a duration of 12 months or less).

At the commencement date of the lease, the lessee will recognise the liability relating to the future lease payments (i.e. the lease liability) and the assets representing the right to use the assets during the lease period (i.e. the assets under right of use). Lessees will have to separately recognise the financial cost related to the lease liability and the cost of depreciation or amortization of the assets under the right of use.

Under the rule, lessees will have to re-measure the lease liability when certain events occur (for example, a change in the lease period, a change in lease payments as a consequence of a change in an index or the rate used to ascertain these payments). Lessees will recognize the amount of this re-measurement in the lease liability as an adjustment to the assets under right of use.

Lessor accounting in accordance with IFRS 16 remains substantially unchanged from the accounting currently provided for under IAS 17. The lessor continues to classify all leases using the same IAS 17 classification principle and distinguishing between two types of lease: operational and financial leases.

IFRS 16, which enters into effect for periods beginning on or after January 1, 2019 requires more extensive disclosures from lessors and lessees than those required by IAS 17.

Transition to IFRS 16

The AdP Group will adopt IFRS 16 retrospectively with the cumulative effect on the date of application of IFRS 16 (January 1, 2019), where the right to use the assets of the lease will be accounted for at the amount equal to the liability of the lease determined on of January 1st 2019. According to this practical IFRS 16 application, comparisons were not restated. The AdP Group shall consider this standard for all contracts that were previously identified as leases under IAS 17 and IFRIC 4. Consequently, the AdP Group shall not apply the standard to contracts that have not previously been identified as containing a lease.

The AdP Group has decided to apply the exemptions provided for in the standard for leases whose lease term ends within the next 12 months from the initial application date, and for lease contracts for which the underlying assets have little value. The AdP Group has lease agreements for certain types of administrative equipment (such as personal computers, printing machines and photocopiers) which the AdP Group considers to be of little value.

The impact of adopting of IFRS 16 on January 1 2019 were the following:

	Note	
Increase in assets – Right of use of lease assets	7	473 424
Increase in liabilities – Lease liabilities		473 424

In determining the impact estimated with the transition to IFRS 16 on January 1, 2019, the following practical means authorised by the norm were used:

- i) In contracts with lease and service components, the services component was treated as a lease under IFRS 16;
- ii) Lease contracts with contractual termination until December 31, 2019, were excluded from the scope of IFRS 16;
- iii) Lease contracts for which the underlying assets have an estimated value of less than USD 5,000 (printers and photocopiers, water dispensers and similar) were excluded from the scope of IFRS 16.

In addition, the discount rate used to quantify the lease liability on January 1, 2019 was determined as follows:

- i) In contracts where the implicit rate of the respective agreement is available, this rate was applied (the interest rate that equals the fair value of the assets underlying the sum of the current lease income and residual value);
- ii) In the remaining contracts, the incremental financing rate was used (interest rate that would be obtained for financing for the term of the lease intended to acquire the assets underlying the lease).

The impact of the transition to IFRS 16 essentially derives from those contracts that through to 31 December 2018 were accounted for under the operational leasing item in accordance with IAS 17 - car lease contracts and maintenance, insurance and tax provisions.

PREPAYMENTS WITH NEGATIVE COMPENSATION - AMENDMENTS TO IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through comprehensive income provided that the implicit cash flows are “only payment of principal and interest on capital outstanding” (the SPPI criterion) and the instrument is held in a business model that allows such classification.

Amendments to IFRS 9 clarify that a financial asset passes the SPPI criteria regardless of the event or circumstances causing the anticipated termination of the agreement and regardless of which party pays or receives reasonable compensation for the early termination of the agreement.

The basis for this amendment clarifies that the early termination may be a consequence of a contractual clause or an event that is beyond the control of the parties to the contract, such as a change of laws or regulations leading to early termination.

Modification or replacement of a financial liability that does not result in the derecognition of such liability

On the basis of the conclusion, the IASB also clarifies that the requirements of IFRS 9 for adjusting the amortised cost of a financial

liability, when a change (or replacement) does not result in its derecognition, are consistent with the requirements applied to modifications of assets that do not result in their derecognition.

This means that the gain or loss resulting from the modification of that financial liability that does not result in its derecognition, calculated by discounting the change in the cash flows associated with that liability at the original effective interest rate, is immediately recognized in the income statement.

The IASB made this comment on the basis for the conclusion regarding this amendment as it believes that the current requirements of IFRS 9 provide a good basis for entities to account for the changes or substitutions of financial liabilities and that no formal change to IFRS 9 is required as regards this matter.

The application of this change in the standard did not have relevant impacts for the AdP financial statements.

Long term interests in Associated or Joint Venture companies - alterations to IAS 28

The alterations serve to clarify how an entity should apply IFRS 9 to long term interests in associate or joint venture companies to which the equity method is not applied but which, in substance, represents one part of the net investment in that associate or joint venture (long term interests). This clarification is relevant as this implies that the IFRS 9 expected loss model should be applied to these investments.

The IASB also clarified that, on applying IFRS 9, an entity does not take into account any losses of this associate or joint venture or any losses due to impairments in the net investment that are recognised as an adjustment to the net investment resulting from the application of IAS 28.

In order to illustrate how the entities may apply the requirements of IAS 28 and IFRS 9 as regards their long term interests, the IASB published illustrative examples when issuing this alteration.

This alteration applies to those periods beginning on or after 1 January 2019. The alteration has to be applied retrospectively although with certain exceptions.

The application of this change in the standard did not produce any relevant impacts for the AdP financial statements.

IAS 19 Alterations to the plan, cuts or termination of the plan

This alteration provides clarification on the accountancy procedures for adoption in case of any alterations to the plan or when having to make a cut or to terminate the plan.

Determining the cost of current services and net interest

Whenever accounting for a benefits plan defined in accordance with IAS 19, the norm requires that the cost of current services be measured in accordance with the actuarial assumptions determined on the start date of the current reporting period. Similarly, the net interest is measured by multiplying the new liability (assets) of the plan by the discount rate with both settled according to the start date of the prevailing reporting period.

This alteration serves to clarify how any cut or termination of a plan during the period requires:

- That the cost of the current services for the remaining period be measured in keeping with the actuarial assumptions applied to re-measure the net liability (asset) of the plan, which reflects the benefits provided by the plan and its respective assets following this event;
- The net interest for the remaining period following this event is determined according to:
 - The net liability (asset) of the plan, which reflects the benefits provided by the plan following this event; and
 - The discount rate applied to re-measure the net liability (asset) of the plan.

Effect on the requirements to determine the maximum limit for asset recognition

Any alteration, cut or settlement of the plan may reduce or eliminate any surplus in the defined benefit plan which may lead to a change in the asset maximum recognition limit.

This alteration thus clarifies how any cost of past service or the gain or loss from the termination should be first determined without any consideration of the maximum limit for asset recognition. This value is recorded in the results for the respective period. Subsequently, the effect of the maximum limit of asset recognition following the alteration, cut or settlement of the plan is to be determined. Any alteration in this effect, not considering the values included in the net interest, is recorded as comprehensive income.

This clarification may lead to an entity recognising the costs of a past service or the gain or loss from termination, which reduces the excess that has not been hitherto recognised. Alterations in the effect of the maximum asset recognition limit are not eligible for compensating these amounts.

This alteration is applicable to any alteration, cut or termination of such plans taking place on or after the beginning of the annual reporting period that begins on or after 1 January 2019.

The application of this change in the standard did not produce any relevant impacts for the AdP financial statements.

ANNUAL IMPROVEMENTS RELATIVE TO THE 2015-2017 CYCLE (EFFECTIVE AS AT 1/1/2019)

In the annual improvements relative to the 2015-2017 cycle, the IASB introduced improvements across four areas that we hereby summarise below:

- IFRS 3 Business combinations – Interests held prior to a joint operation
 - These alterations clarify how, whenever an entity obtains control of a joint operation, to apply the requirements for combining a business by phases, including re-measuring the interest previously held in the assets and liabilities of the joint operation according to their fair value.
 - In so doing, the acquirer re-measures its previously held interest in this joint operation.
 - This alteration is applicable to business combinations in which the acquisition date is on or after the beginning of the first period of reporting that begins on or after 1 January 2019.
- IFRS 11 Joint agreements – Previously held interest in a joint operation
 - A party that holds a stake in, but that does not have joint control, a joint operation may obtain joint control of this joint operation whenever the activity constitutes a business defined by IFRS 3. This alteration seeks to clarify that the previously held interest does not need to be subject to re-measurement.
 - This alteration is applicable to the transactions in which the entity obtains joint control in a period on or after the beginning of the first period of reporting that begins on or after 1 January 2019.
- IAS 12 Tax on earnings – consequences in terms of the tax on earnings stemming from payments relating to financial instruments classified as capital instruments.
 - These alterations serve to clarify how the consequences in terms of the tax on dividends are directly associated with the transaction or the past event that generated the results distributable to shareholders. Consequently, the entity recognises the impacts in terms of taxation in their reporting of results, either as comprehensive income or in another capital instrument according to the way in which the entity recognised these transactions or events in the past.
 - These alterations are applicable to annual periods beginning on or after 1 January 2019. Whenever the entity applies these alterations for the first time, the consequences apply in terms of the tax on dividends recognised on or after the beginning of the oldest comparative period.
- IAS 23 Costs of loans – loan costs eligible for capitalisation
 - This alteration acts to clarify how an entity applies, as part of the overall loans, any loan originally obtained for the development of the respective asset whenever all of the activities necessary to prepare this asset are substantially for the intended usage or for sale on completion.
 - These alterations are applicable to the costs of loans incurred on or after the beginning of the reporting period in which the entity adopts these alterations.
 - These alterations are applicable to annual periods beginning on or after 1 January 2019.

The application of this change in the standard did not produce relevant impacts for the AdP financial statements.

IFRIC 23 – Uncertainty about different treatments of income tax

In June 2017, the IASB issued IFRIC 23 Uncertainty on different income tax treatments (the Interpretation) which clarifies the application and measurement requirements of IAS 12 Income tax when there is uncertainty as to the treatment to be given to the income tax.

The Interpretation addresses the accounting of income tax when tax treatments involve uncertainty and affect the application of IAS 12. The Interpretation does not apply to rates or taxes not under IAS 12, nor does it specifically include interest or penalty requirements associated with tax treatment uncertainty.

The Interpretation specifically addresses the following:

- Whether an entity considers the uncertainties of tax treatment separately;
- The assumptions that an entity uses about the examination of tax treatments by the tax authorities;
- How an entity determines fiscal profit (loss), the tax base, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider uncertainty over each tax treatment separately or in conjunction with one or more uncertain tax treatment issues. The approach that should be followed is the one that best predicts the outcome of the uncertainty.

The application of this change in the standard did not produce relevant impacts for the AdP financial statements.

2.1.2.3 New norms and interpretations already issued but not yet in effect

The norms and interpretations recently issued by IASB with obligatory application in the periods on or subsequent to 1 January 2020 and that the AdP has not already pre-emptively adopted are the following:

- **Already approved by the EU**

Definition of materiality – Alterations to IAS 1 and to IAS 8

The objective of this alteration was to render consistency to the definition of “material” across all the norms in effect and clarify some of the aspects stemming from the definition. The new definition foresees that “information becomes material when its omission, error or occultation might reasonably be expected to influence the decisions that the primary users of financial reporting accept as the basis for such financial reporting, which provide financial information about the specific entity thereby reporting”.

The alterations clarify that the materiality depends on the nature and the magnitude of the information or of both. An entity has to evaluate whether determined information, whether individually or in combination with other information, is material within the context of its financial reporting.

Hidden information

The alterations explain that this information remains hidden whenever communicated in a way that has the same effect that it would have had if it had been omitted or contained errors. Material information may be hidden, for example, whenever the information relates to a material item, material transaction or another material event is dispersed throughout the financial reporting or is published in a language that is vague and relatively unclear. Material information may also be hidden when dissimilar items, dissimilar transactions or dissimilar events are inappropriately collated or, inversely, when similar items are broken down.

New level of materiality (“threshold”)

The alterations replace the reference to “able to influence” materiality, which suggests that any potential influence over users might end up under consideration as “reasonably expected to influence” contained in that definition of materiality. The now altered definition therefore clarifies how the evaluation of materiality has to take into account only the reasonably expected influences over the economic decisions of the primary consumers of financial reporting.

Primary users of financial reporting

The current definition refers to “users” but does not specify their characteristics with the resulting interpretation that this might imply the entity has to take into consideration every possible user of financial reporting when taking decisions over the information for release. Consequently, the IASB decided to refer only to the primary users in the new definition in order to respond to the concern that the term “users” might be interpreted in a broader sense.

This alteration comes into effect for periods beginning on or after 1 January 2020. This alteration also has to be applied prospectively. Pre-emptive adoption is allowed for and has to be disclosed.

The conceptual structure for financial reporting

The conceptual structure establishes a broad reaching set of concepts for:

- Financial reporting;
- Definition of the norms;
- Developing consistent accountancy principles; and
- Support for understanding and interpreting the norms.

The revised conceptual structure includes:

- Some new concepts;
- Revised definitions and criteria for the recognition of assets and liabilities;
- Clarifications of important concepts.

This structure is organised as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial reporting and the entities that report
- Chapter 4 – The contents of financial reports
- Chapter 5 – Recognition and de-recognition
- Chapter 6 – Measuring
- Chapter 7 – Presentation and publication
- Chapter 8 – Concepts of capital and maintaining capital.

The revised conceptual structure for financial reporting is not a norm and none of its concepts prevail over the concepts present in the norms and the other requirements of certain norms. This is applicable to entities undertaking their accountancy principles based on the conceptual structure for the financial years beginning on or after 1 January 2020.

Reform of reference interest rates – Amendments to IFRS 9, IAS 39 and IFRS 7

These changes constitute part of the first phase of the IASB 'IBOR reform' project and allow exemptions related to the benchmark reform for reference interest rates. The exemptions relate to hedge accounting, in terms of: **(i)** risk components; **(ii)** 'highly probable' requirements; **(iii)** prospective assessment; **(iv)** retrospective effectiveness testing (for IAS 39 adopters); and **(v)** recycling of the hedged cash flow reserve and aim at ensuring the reform of the benchmark interest rates does not lead to the termination of hedge accounting. However, any ineffectiveness of the hedges assessed should continue to be recognised in the statement of results.

- **Not yet endorsed by the EU**

IFRS 17 Insurance contracts

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct and re-insurance policies), irrespective of the type of entity issuing the policy as well as some of the guarantees and of the financial instruments with discretionary participation characteristics. Some exceptions are applicable. The general objective of the IFRS 17 is to provide an accounting model for insurance contracts that might be of greater utility and more consistent for the issuers. Contrasting with the requirements of IFRS 4, that are based on previously adopted local accounting policies, IFRS 17 provides an integral model for insurance contracts covering all relevant accounting aspects.

In November 2018, the IASB decided to propose the alteration of the date this norm enters into effect for the annual financial years beginning on or after 1 January 2022. The IASB is also attempting to alter the norm in order to consider the concerns and the challenges of norm implementation that have been raised by interested parties.

Definition of business activities – alterations to IFRS 3

This alteration provides the minimum requirements for the consideration of a business activity, removing the evaluation whenever market participants hold the capacity to replace the factors missing, adding an orientation in order to enable the evaluation whether an acquired process is substantive, restricting the definitions of business activities and of outputs and introducing an optional test for business activity fair value.

This alteration is effective for transactions considered as concentrations of business activities or acquisitions of assets for which the date of acquisition took place on or after the beginning of the first period that begins on or after 1 January 2020. These alterations apply prospectively. Consequently, the entities do not have to evaluate their acquisitions made prior to this date. Pre-emptive adoption is permitted and has to be publicised.

This alteration also impacts on other norms (for example, when the holding company loses control over the subsidiary and pre-emptively applies the alteration to IFRS 10 and IAS 28 as regards the sale or delivery of assets by an investor to an associate or joint undertaking).

IFRS 14 Deferral accounts related to regulated activities

This norm enables an entity with its activities subject to regulated tariffs to continue to apply the greatest proportion of the accountancy policies from the previous normative accounting framework to deferral accounts related with regulated activities when adopting IFRS for the first time.

Ineligible for applying this norm are: **(i)** entities that have already prepared their financial reporting according to IFRS, **(ii)** entities with current normative accounting frameworks that do not allow for the recognition of regulatory assets and liabilities and **(iii)** entities with current normative accounting frameworks that allow for the recognition of regulatory assets and liabilities but that have not adopted this accounting policy prior to IFRS adoption.

The deferral accounts related with regulatory activities require presentation in a line separate to the financial position item and the movements in these accounts require presentation in separate lines in the results and the full results balance sheet. This should detail the nature and the risks associated with the regulated tariff of the entity and the effects that this regulation incurs on financial reporting.

These alterations are applicable prospectively for the financial years beginning on or after 1 January 2016. Pre-emptive adoption is allowed for whenever duly disclosed. The European Union (EU) decided not to advance with its approval of this intermediate norm and await the final norm.

The application of these changes to the norms, new norms and their interpretations is not expected to return any relevant impacts for AdP financial reporting after 1 January 2020.

2.2 TANGIBLE FIXED ASSETS

Fixed tangible assets are measured at cost, minus the depreciations in keeping with their estimated useful life expectancy. Expenditure directly attributable to the acquisition of the assets and their preparation to enter into operation are considered in the balance sheet value.

The subsequent costs are included in the accounting value of the asset or recognised as separate assets as appropriate only when it is probable that the economic benefits shall flow to the company and the cost may be reliably measured. Their depreciation is carried out throughout their useful remaining life or through to the next repair, whichever of the two occurs first. Replaced asset components are identified and recognised in the results.

Other expenditures with repairs and maintenance are recognised as costs in the period during which they are incurred.

The estimated useful life span for tangible fixed assets are set out according to the following average periods:

Nature	Interval in years
Administrative equipment	4 - 10

The depreciation of assets for which there is the intention to sell is suspended with the respective assets then classified as assets held for sale.

Whenever there is evidence of loss of tangible fixed assets value, impairment tests are carried out in order to estimate the recoverable value of the asset and, whenever necessary, to register a loss due to impairment. The recoverable value is determined as the highest between the net sale price and the use value of the asset with the latter calculated based on the actual value of the estimated future cash flows, stemming from continuous usage and disposal of the asset at the end of its useful operational life span.

At the end of each financial year, the Board of Directors reviews the depreciation methods and the estimated life span for each asset so as to ensure a fair reflection of the patterns of consumption of the benefit of assets throughout their years of utilisation by AdP. Eventual alterations in these assumptions are processed as if an alteration to an accounting estimate and subject to prospective application.

Gains and losses stemming from writing off or disposal are determined by the difference between the amount received from the disposal and the accounting value of the asset and recognised as income or costs in the financial results.

2.3 FINANCIAL INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

2.3.1 SUBSIDIARIES

Subsidiaries are all those entities over which AdP maintains control. AdP controls an entity whenever exposed to, or holds rights over, the variable returns from its involvement with the entity and has the capacity to shape these returns through its powers over the entity. Subsidiaries are fully consolidated as from the date when control is transferred to AdP. This consolidation terminates from the date when such control comes to an end.

AdP applies the acquisition accounting methods to its business takeovers and acquisitions. The amount transferred in the acquisition of the subsidiary represents the fair value of the assets provided, the liabilities assumed or incurred as well as the former owners and the AdP issued capital instruments. The amount transferred includes the fair value of any asset and liability that results from any of the contingent agreements. The assets and liabilities thereby acquired and the contingent liabilities assumed on acquiring businesses are initially measured according to their fair value on the date of acquisition irrespective of the existence and of non-controlling interests. The attributable costs directly incurred in the acquisition are recognised in the financial results for the respective year.

The subsidiaries are recognised in the statement of the AdP financial position on the date of obtaining control or significant influence or powers of negotiation or contracting, which is the date on which AdP commits to acquiring or disposing of the asset. During the transition, the financial holdings were recognised in accordance with the presumed cost or the considered cost, thus for the amount carried over in the financial statements prepared in accordance with the former norm in effect on that date as an alternative to the acquisition costs.

In the first phase, the subsidiaries are recognised at their acquisition cost plus the directly attributable transaction costs. These assets are subject to derecognition whenever: **(i)** the contractual rights of AdP to the receipt of its cash flows expire; **(ii)** AdP has substantially transferred all of the risks and benefit associated with its ownership; or **(iii)** despite still retaining a stake, but not substantially incurring all of the risks and benefits associated with its ownership as AdP has transferred control over the assets.

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

2.3.2 ASSOCIATED COMPANIES

Investments in associated companies are reported according to the value resulting from the application of the patrimonial equivalence method. According to this method, the financial reporting includes the percentage share of AdP in the total gains and losses recognised since the date when this significant influence was first established before extending to when it effectively terminates. The associated companies in which AdP holds between 20% and 50% of the voting rights, or over which AdP holds significant influence but which cannot exercise their control. Gains or losses not deriving from transactions between AdP and its associates are eliminated. The dividends attributed by the associated company are considered reductions in the investment held.

When the quota share of associated company losses exceeds the investment made, the accounting value of the financial investment is reduced to zero and AdP recognises additional losses in the future relative to the already assumed responsibilities whenever having made the payment through the Associated Company account. Any excess in the acquisition cost of a financial investment by an AdP holding is registered in the fair value of assets, liabilities and contingent liabilities identified on the date of acquiring the stake gets accounted for as goodwill, which is then included in the value of the financial holding and its recovery is evaluated annually as an integral financial investment. Whenever the cost of acquisition is below that of the fair net value of the assets of the associated company acquired, the difference is registered directly in the statement of results.

2.3.3 IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

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 imparities. 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 impairment loss 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 impairment loss not been recognised.

The companies directly and indirectly owned by AdP SGPS are:

Business unit / Company	Headquarters	Subscribed % of capital (*)	% of raised capital (*)	Effective % of capital (**)	Equity	Equity	Net annual result
WATER AND SANITATION							
Águas do Algarve, S.A.	Faro	54.44%	54.44%	54.44%	EUR	29 825 000	29 451 461 2 008 838
Águas do Centro Litoral, S.A.	Coimbra	60.33%	60.71%	62.77%	EUR	39 974 968	99 123 363 1 782 131
Águas do Douro e Paiva, S.A.	Oporto	51.00%	51.00%	51.00%	EUR	20 902 500	30 460 560 731 297
Águas do Norte, S.A.	Vila Real	68.73%	70.74%	72.50%	EUR	107 899 980	264 604 411 5 208 557
Águas de Santo André, S.A.	Vila Nova de Santo André	100.00%	100.00%	100.00%	EUR	1 000 000	20 661 637 4 396 977
AgdA - Águas Públicas do Alentejo, S.A.	Beja	51.00%	51.00%	51.00%	EUR	6 630 000	8 714 905 479 907
Águas do Tejo Atlântico, S.A.	Lisbon	50.68%	51.83%	51.61%	EUR	113 527 680	115 903 492 4 277 855
Águas do Vale do Tejo S.A.	Guarda	68.74%	68.74%	68.27%	EUR	83 759 578	204 732 681 4 222 375
SIMARSUL - Saneamento da Península de Setúbal, S.A.	Setúbal	51.00%	51.00%	51.43%	EUR	25 000 000	65 867 581 1 245 184
SIMDOURO - Saneamento do Grande Porto, S.A.	Vila Nova de Gaia	58.52%	58.52%	58.61%	EUR	20 046 075	31 245 150 835 986
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51.00%	51.00%	51.00%	EUR	17 500 000	18 759 534 679 788
EPAL, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR	150 000 000	634 932 791 52 483 454
AdAM - Águas do Alto Minho, S.A.	Viana do Castelo	51.00%	51.00%	51.00%	EUR	1 205 530	1 223 518 17 988
INTERNATIONAL							
AdP - Águas de Portugal Internacional - Serviços Ambientais, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR	175 000	(172 777) (354 153)
AdP Timor-Leste, Unipessoal, Lda.	East Timor	0.00%	0.00%	100.00%	USD	5 000	(589 790) 13 073
AQUATEC, Lda.	Maputo - Mozambique	0.00%	0.00%	100.00%	MZN	2 476 580	(49 026 070) (1 556 185)
Águas do Brasil, S.A.	Rio de Janeiro - Brazil	100.00%	100.00%	100.00%	BRL	2 050 100	(1 331 794) -
CORPORATE							
AdP - Águas de Portugal, Serviços Ambientais, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR	50 000	14 188 995 1 206 432
AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR	1 250 000	1 133 892 (21 929)
ASSOCIATES							
Trevo Oeste, S.A.	Alcobaça	43.20%	43.20%	43.20%	EUR	1 336 085	n.d. n.d.

(*) % of equity held directly

(**) % of equity held directly and indirectly.

2.4 LEASES

2.4.1 ACCOUNTANCY POLICY FOLLOWING 1 JANUARY 2019

The leases in which the AdP Group is the lessee are recognised, measured and presented according to a single model. Through this model, the leases are accounted for in the financial position statements. On the lease commencement date, the AdP Group recognizes the liability relating to the future lease payments (i.e. the lease liability) and the assets representing the right to use the assets during the lease period (i.e. assets under right of use). The AdP Group separately recognises financial costs related to lease liabilities and the costs with depreciation or amortisation of the right-of-use asset.

AdP engages in leasing only as the lessee.

Identification of a lease

At the start of a contract, an entity must assess whether the contract is, or contains, a lease. A contract is or contains a lease whenever the contract conveys the right to control usage of an identified asset for a period of time in exchange for remuneration:

- a) The asset underlying the lease must be specifically identified or the asset is implicitly specified at the time it becomes available for use by the lessee; and
- b) The lease shall grant the right to control the use of the underlying asset for a specified period of time, i.e. the lease shall grant the lessee the right to obtain substantially all economic benefits from utilisation of the identified asset.

Separating contractual components

When a contract is or contains a lease, the AdP Group accounts for each lease component separately from the non-leasing component (e.g. the service rendered) implicit in the contract, except in cases where the AdP Group (as the lessee) chooses not to separate the non-leasing component from the lease component and, as such, accounts for everything as a single rental component.

The remuneration of the contract is separated between the rental and non-location components, based on the relative price on an individual basis for each rental component and on the sum of the prices on an individual basis for the non-lessee components. The relative price on an individual basis of the rental component equals the price a lessor/seller would separately charge for the rental component.

Unless the practical arrangements attributed to lessees are used, the lessee shall account for the non-lease component in accordance with the respective applicable IFRS.

Lease term

The lease term corresponds to the non-cancellable period in which the lessee retains the right to use an underlying asset in conjunction with the following conditions:

- i) periods covered by options to extend the lease when the lessee is reasonably certain about exercising that option; and
- ii) periods covered by an option to terminate the lease when the lessee is reasonably certain about not exercising that option.

The lease term includes the months of grace for rental charges, whenever applicable. The lease commencement date corresponds to the date on which the lessor makes the underlying asset of the lease available for lessee usage.

A) Accounting for lessees

Lease recognition and initial measurement

On the lease start date, AdP recognises a right-of-use asset and a liability for the lease.

Initial measurement of the right-of-use asset

On the lease start date, the asset under right-of-use is measured at cost, which is equal to the value of the lease liability plus costs for dismantling the asset (where such is an obligation), the direct initial costs incurred in installing the asset and less any payments or incentives that may have occurred before the contract date.

Initial measurement of lease liability

On the lease start date, the lease liability is measured at the present value of the future fixed and variable rental payments, contractual penalties for advance payment, the residual value that is expectable to be paid by the lessee and the purchase option, when applicable. Future variable lease payments do not include remuneration indexed to the lessee's turnover.

Future lease payments are discounted according to the prevailing interest rate:

- i) In contracts where the implicit rate of the respective contract is applicable, this rate is applied (the interest rate that equals the fair value of the underlying asset applied to the total present value of the lease payments and the residual value);
- ii) For other contracts, the incremental financing rate applies (the interest rate that would be obtained for financing the lease term corresponding to the acquisition of the underlying lease asset).

Subsequent lease measurement

Subsequent measurement of right-of-use assets

The asset under right-of-use is measured according to the cost model in which assets under right-of-use are measured at cost less their accumulated depreciation and impairment losses and then adjusted for any remeasurements of lease liabilities.

Depreciations are calculated on a straight-line basis from the lease start date onwards and over the useful life of the underlying asset in cases where there is a lease option to purchase and with this taken into account in the initial measurement of the right-of-use asset. In other cases, depreciation is calculated on a straight-line basis over the term of the lease. Depreciation is accounted for as an expense in the income statement.

The operational lives for right-of-use assets reflect the following average durations:

Nature	Years
Transport equipment	1 - 4

Subsequent measurement of lease liabilities

Lease liabilities are measured at their amortised costs. After the lease start date, the AdP measures their lease liabilities by:

- i) Increases to reflect accrued interest (calculated according to the discount rate applied in the initial measurement of the lease liability and recognised in the income statement);
- ii) Reductions to reflect lease payments made;
- iii) Remeasurements to reflect changes in the lease (e.g. term, rents):
 - a. This implies adjusting the accounting value of the right-of-use to the lease assets;
 - b. Whenever remeasurements result from changes to the lease term, then a new discount rate is set to apply from the date of change in the lease term.

Practical arrangements applied by AdP as a lessee

AdP deploys the following practical arrangements under IFRS 16:

- i) In contracts with lease and service components, the service component is treated as a lease under IFRS 16;
- ii) Leases with contractual terms of under 12 months are excluded from the scope of IFRS 16;
- iii) Leasing contracts for which the underlying assets attain an estimated value of less than € 5,000 (printers and photocopiers, water dispensers and similar) are excluded from the scope of IFRS 16.

In leases where AdP is the lessee and for underlying assets holding little value (such as personal computers) and short-term lease contracts (i.e. contracts with a 12 month or less duration), lease recognition and measurement does not take place according to the single model described above with these lease rentals recognised as expenses on a straight-line basis over the period of the lease in the income statement under "External supplies and services - Rents and leases".

B) Accounting for lessees

The IFRS 16 norm does alter the accounting for lessees. Therefore, such leases are accounted for either as finance leases or operating leases under the former norm IAS 17:

- i) Leasing: whenever this substantially transfers all risks and benefits to the owner of the underlying asset;
- ii) Operating lease: whenever this does not substantially transfer all risks and benefits to the owner of the underlying asset.

Lessors are not allowed to make practical recourse to classifying non-leasing components as leases.

In the case of financial leases, the lessor recognises financial assets on the balance sheet according to their amortised costs and recognises the respective related earnings in the income statement.

In an operating lease, the lessor recognizes lease generated revenues as linear earnings.

C) Sale and leaseback transactions

When an entity (seller-lessee) transfers an asset to another entity (buyer-lessor) and then leases that asset back from the buyer-lessor, both entities record the asset transfer as follows:

a) The asset transfer is a sale

When the asset transfer by the seller-lessee meets the requirements of IFRS 15, it is accounted for as an asset sale:

- i) The seller-lessee shall measure the right-of-use asset resulting from the lease ("leaseback") according to the proportion of the net book value of the asset corresponding to the right of use retained by the seller-lessee. Thus, the seller-lessee must recognise only the amount of any gain or loss corresponding to the rights transferred to the buyer-lessor;
- ii) The buyer-lessor shall record the asset purchase in accordance with applicable IFRS norms and with IFRS 16 applying to the lease as applicable to lessors.

When the fair value of the asset sale does not equal the asset's fair value or when the lease payments are not at market rates, an entity shall make the following adjustments in measuring the sale value at fair value:

- i) Any below market conditions shall be accounted for as advance lease payments; and
- ii) Any above market conditions shall be accounted for as additional purchaser-lessor financing to the seller-lessee

b) The asset transfer is not a sale

When the asset transfer by the seller-lessee does not meet the IFRS 15 requirements to be accounted for as an asset sale:

- i) The seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability for the amount received in accordance with IFRS 9;
- ii) The buyer-lessor shall not recognise the asset transferred but rather recognises a financial asset for an amount equivalent to that payable under IFRS 9.

AdP does not have transactions classifiable as "Sale and leaseback transactions".

2.4.2 ACCOUNTANCY POLICY UNTIL DECEMBER 31

The leasing of assets, those for which AdP substantially holds all of the inherent risks and benefits to ownership of the asset, is classified as financial leasing. This also extends to classifying as financial leases any agreements in which the analysis of one or more specific contractual situations reflects this situation with their classification made according to the substance and not the form of the contract. The financial leases are capitalised at the beginning of the lease for the lesser amount of the fair value of the asset leased and the present amount of the minimum leasing payments, as a recognised liability, net of financial charges or other long term liabilities. The assets thereby acquired through financial leasing are depreciated according to the least value for the operational life span of the asset and the contractual leasing duration with the exception of those leases in which AdP holds the expectation of acquiring the leased asset.

All other leases are classified as operational leases with their payments recognised as a linear based cost throughout the duration of the leasing contract.

2.5 FINANCIAL INSTRUMENTS

2.5.1 FINANCIAL ASSETS

On initial recognition, financial assets are classified according to one of the following categories:

- a) Financial assets at amortised cost;
- b) Financial assets at fair value through other comprehensive income; or
- c) Financial assets at fair value through profit or loss:
 - i. Financial assets held for disposal;
 - ii. Financial assets not held for disposal at fair value through profit or loss;
 - iii. Financial assets designated at fair value through profit or loss.

The classification and measurement of financial assets depends on the results of the SPPI test (analysis of the characteristics of contractual flows, to conclude whether they correspond only to payments of capital and/or interest on the outstanding capital) and the business model.

Given the nature of AdP activities, the company only holds financial assets at amortised cost. A financial asset is classified under the category "Financial assets at amortised cost" when the following two conditions are met:

- i. It is managed with a business model whose objective is to maintain financial assets to receive contractual cash flows; and
- ii. The contractual conditions give rise to cash flows on specific dates, which are only payments of capital and interest on the amount of capital outstanding (SPPI).

This item includes debt instruments, mainly investments in credit institutions and loans and advances to customers and Group companies (advances and treasury support).

Evaluation of financial asset business model

In relation to evaluating the business model, this does not depend on the outcomes of any single individual instrument but rather a set of instruments, taking into account the frequency, the value, the schedule of sales in previous financial years, the reasons for those sales and expectations regarding future sales. Infrequent or insignificant sales, or sales close to the asset maturing and sales motivated by increases in the credit risk of financial assets or to manage concentrations of risk, among others, may be compatible with the model of holding assets to receive contractual cash flows.

Assessment of the characteristics of financial asset contractual flows (SPPI)

Whenever a financial asset contains a contractual clause that may change the timing or value of the contractual cash flows (such as early repayment or extension clauses), the Group determines whether the cash flows that will be generated during the life of the instrument, due to the exercising of the contractual clause, represent only payments of the capital and/or interest on the capital outstanding.

The contractual terms of financial assets that, on initial recognition, have an effect on cash flows or are dependent on the occurrence of exceptional or highly unlikely events (such as liquidation by the issuer) do not preclude their classification in the portfolios at amortised cost or at fair value through other comprehensive income.

Initial recognition

At the time of initial recognition all active financial instruments are recorded at their fair value. For active financial instruments that are not recorded at fair value through profit or loss, the fair value is adjusted by adding or subtracting the transaction costs directly attributable to their acquisition or issue. These transaction costs are defined as expenses directly attributable to the acquisition or disposal of a financial asset, which would not have been incurred had the Group not made the transaction.

However, customer accounts without any significant financing component are initially measured at their transaction value as defined in IFRS 15 - Revenue from contracts with customers.

Subsequent measurement

After their initial recognition, the Group values financial assets at amortised cost or fair value through other comprehensive income or at fair value through profit or loss. Given the activity of the AdP Group, the Group only holds financial assets at amortised cost and financial assets at fair value through other comprehensive income.

Income and expenses from financial instruments at amortised cost are recognised in accordance with the following criteria:

- a) Interest is recorded in the income statement according to the effective transaction interest rate on the gross book value of the transaction (except in the case of impaired assets where the interest rate applies to the net book value of the impairment);
- b) Other changes in value are recognised as income or cost when the instrument is derecognised from the balance sheet, when reclassified and, in the case of financial assets, when impairment losses or gains occur in their recovery.

When the contractual financial asset cash flows are subject to renegotiation or otherwise modified and the renegotiation or alteration does not result in the derecognition of the financial asset, AdP recalculates the gross amount of the financial asset and recognises a gain or loss arising from the difference to the previous amortised cost against income. The gross amount of the financial asset is

recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted according to the asset's original effective interest rate.

Customer balances and other receivables without a financing component correspond to amounts receivable from the sale of goods or services provided by AdP in the normal course of its activities. They are initially recorded at fair value and subsequently measured at amortised cost, less impairment losses. The amortised cost of these assets does not differ from their nominal value or fair value.

Credit written off from assets

AdP recognises a write-off when it has no reasonable expectation of recovering all or part of an asset. This recording occurs after all the recovery actions undertaken by AdP have ended unsuccessfully. Subsequent recoveries of amounts that have already been written off are recorded in the income statement.

Impairment of financial assets

As regards receivables under "Trade receivables" and "Loans to Group companies", AdP applies the simplified approach provided for under IFRS 9 according to which estimated credit losses are recognised from the initial recognition of receivables and for the entire period through to maturity considering a matrix of historical default rates for the maturity of receivables and adjusted by prospective estimates.

Accounts receivable have been grouped by business segment for the purpose of assessing expected credit losses.

The credit risk of receivables is assessed at each reporting date taking into account the customer's credit risk profile. Credit risk analysis is based on the probability of annual default and also takes into account the customer's credit risk profile. The probability of the inability to collect reflects the annual probability of default that incorporates the current position and future projections taking into account macroeconomic factors while the losses in the event of default represent the expected loss incurred when the default takes place.

The Accounts receivable are adjusted in each financial reporting period taking into account the management estimates of credit risk, which may differ from the impairment losses that actually incur.

Impairment losses are determined by the differences between the amounts recoverable and the balance sheet value of the financial assets and are registered as a counterparty in the income statement. The financial asset balance sheet value is reduced to reflect the amount recoverable by recourse to an impairment account.

Whenever receivables from customers or other debtors that have already fallen due are subject to the renegotiation of their terms, they are no longer considered as due and are again treated as new receivables.

Generally, AdP does not recognise impairment losses for public entities as on this date it believes the risk of their insolvency is remote.

2.5.2 FINANCIAL LIABILITIES

Financial liabilities are classified into two categories: **i)** Financial liabilities at fair value through profit or loss; and **ii)** Financial liabilities at amortised cost.

The category "Financial liabilities at amortised cost" includes those liabilities presented under "Loans", "Loans to Group companies" and "Suppliers". These liabilities are initially recognised at fair value net of transaction costs and are subsequently measured at amortised cost according to the effective interest rate.

AdP has only recognised liabilities classified as "Financial liabilities at amortised cost".

Financial liabilities are derecognised when the underlying obligations are terminated by payment, cancellation or expiry.

Loans obtained

Loans (bonds and in the Group) are recorded as liabilities at the nominal value received, net of commissions related to the issuance of those loans. Financial expenses are calculated based on the effective interest rate and are recorded under the item "Financial expenses" in the consolidated income statement on an annualised basis. The portion of the effective interest charge relating to the fees for issuing loans, when not paid during the reporting period, is deducted from the book value of the loan.

Any loans obtained are classified as non-current liabilities unless the AdP expects to settle the liability within 12 months of the balance sheet date, when they are therefore classified as current liabilities.

Suppliers and other liabilities

These items usually include balances from suppliers of goods and services that the AdP acquired during the normal course of its business. The items therein are classified as current liabilities whenever the payment falls due within 12 months or less and are otherwise classified as non-current liabilities under the "Suppliers" item.

These financial liabilities are initially recognised at fair value. Subsequent to their initial recognition, the liabilities presented under "Suppliers" are measured at amortised cost, using the effective interest rate method. Trade and other payables initially classified as current are recorded at their nominal value as they do not bear interest and the effect of discounting is deemed immaterial.

2.5.3 RECLASSIFICATION BETWEEN FINANCIAL INSTRUMENT PORTFOLIOS

In accordance with the requirements of IFRS 9, reclassification between financial instrument portfolios can only occur when the Group decides to change the business management model for financial asset portfolios. Such reclassifications take place prospectively as from the reclassification date. In accordance with the IFRS 9 approach, changes to the business model generally take place infrequently. Financial liabilities cannot be reclassified between portfolios.

2.5.4 DERECOGNITION POLICY

A financial asset is derecognised in whole or in part when the contractual rights to the cash flows from the asset expire or are transferred to a third party independent of the entity.

The accounting treatment applied to transfers of assets depends on the degree and manner in which the risks and benefits associated with ownership of the assets are transferred to third parties:

- When the risks and rewards of ownership of a financial asset are substantially transferred to a third party (for example, unconditional sales, repurchase agreements at fair value on the repurchase date, sales of financial assets with an acquired call or put option issued without cash and in securitizations of assets in which the grantor does not retain subordinated financing or grants any type of credit enhancement to the new holders), this asset is derecognised from the balance sheet, while recognising any right or obligation retained or resulting from the transfer;
- When the risks and rewards of ownership of a transferred financial asset are substantially retained (in the case of, among others, sales of financial assets with a repurchase agreement at a fixed price or at the sale price plus a lender's usual return, securities lending contracts in which the borrower has an obligation to return the same or similar) are not derecognised on the balance sheet and continue to be valued according to the same criteria as prior to the transfer with recognition in accounting terms of:
 - An associated financial liability for an amount equal to the consideration received, which is subsequently valued at amortised cost, unless it meets the requirements to be classified as other liabilities at fair value through profit or loss.
 - The income from the financial asset transferred, but not derecognised, and the expenses from the new financial liability, without any counterbalance.
- When the risks and benefits inherent to a transferred financial asset are not substantially transferred or even retained (in cases of, among others, sales of financial assets with call or put options, securitisations in which the originator assumes subordinated financing or other types of credit enhancement for a proportion of the transferred asset), a distinction is made between:
 - When the lessor does not hold control of the asset transferred, it is derecognised from the balance and any right or obligation held or resulting from the transfer is recognised.
 - When the lessor does not hold control of the financial asset transferred, they still recognise it on the balance sheet at the same value as the exposure including any alterations made and recognised as a liability associated to the financial asset transferred whenever the asset is measured at the amortised cost. The net values of the transferred asset and of the associated liability reflect the amortised cost of the rights and obligations held when the active is measured at the amortised cost or at the fair value of the rights and obligations held or when the transferred asset is measured at fair value.

2.6 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

AdP uses derivatives solely to manage its exposure to financial risks. AdP does not contract derivatives for speculation in accordance with its financial policies. Even though the derivatives contracted by AdP 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.

2.6.1 HEDGE ACCOUNTING

Hedge accounting is applied whenever a relationship exists between the hedged factor and the hedged instrument under the following conditions:

- i) as of the hedging start date, the coverage is to be duly identified and formally documented;
- ii) there is the prevailing expectation that the hedged coverage is highly effective at the date of beginning the transaction (prospectively) and throughout the operation (retrospectively);
- iii) for cash flow hedging operations, their due receipt is deemed to be highly probable;
- iv) the hedged coverage is evaluated on a continuous basis and duly determined as having been highly effective throughout the period of financial reporting for which the coverage was designated.

The variations in the fair value of derivative financial instruments that may be classified as hedge derivatives are registered directly in the consolidated financial statement of comprehensive income.

The effective proportion of alterations to the fair value of derivatives are designated and qualified as cash flow coverage and recognised in the cash flow hedging equity reserve, limited to the fair value of cumulative alterations in the hedged instrument according to a current base value ongoing since the hedging operation first began. The profit / (loss) concerning the ineffective proportion is immediately recognised in the results of that financial year.

The accumulated financial equity values are reclassified in the financial year results for the periods during which the hedge instruments impact on those same results.

When hedge instruments either expire, are sold or cease to be operational or when hedge coverage ceases to meet the hedge accounting criteria, any profit / (loss) and deferred expenditure with hedging own equity continue to be registered under financial equity until the planned transaction occurs. In this case, they are registered as non-financial assets, such as inventories. When it is no longer expectable that the planned transaction takes place, the profit / (loss) and the accumulated deferred expenses recognised as own capital are immediately reclassified as results for the financial year.

When the hedge for purposes of management ceases to be optimised but the risk management objective remains unchanged and the hedging continues to qualify for hedge accounting, the hedging relationship is re-registered by adjusting either the hedge instrument or the volume of the hedged instrument to ensure that the hedge ratio aligns with the ratio used for purposes of risk management. Any insufficient hedging is calculated and recognised in the financial year results at the time when the hedge relationship is re-registered.

2.7 HIERARCHY OF FAIR VALUE

The financial assets and liabilities of AdP measured at fair value are classified in accordance with the following levels of hierarchy of fair value provided for in IFRS 13: **Level 1**, the fair value of the financial instruments is based on active net market prices at the date of the reference in the balance sheet. This level essentially includes capital instruments, debt (for example, NYSE, Euronext) and futures quoted in 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 used are market observable. This level 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 presents the table with the classified levels of financial assets and liabilities.

2.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank deposits, and other short-term liquidity investments with initial maturities of up to three months. Bank overdrafts are presented in statements of the financial position, in current liabilities, under Loans obtained, which are also considered in preparing the cash-flow statement.

2.9 EQUITY

Ordinary shares are classified in Equity. Costs incurred directly to the issuance of new shares or options are presented in Equity as a deduction, net of taxes, to the amount issued.

2.10 DIVIDENDS PAYABLE

Dividends are recognized in the liabilities item following their declaration.

2.11 GOVERNMENT SUBSIDIES

Grants (related to assets) for investment are recognised when there is reasonable certainty both that the grant is receivable and that AdP 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.

2.12 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.

2.13 TAX

The Company is subject to taxation as an individual entity in accordance with IRC – Taxation on Corporate Earnings based upon the respective taxable amount at the taxation rate in effect. The Company is taxed at the rate of 21% in addition to the 1.5% municipal surcharge levy on taxable profits. Furthermore, there is the 3% state surcharge levied on taxable profits in excess of EUR 1.5 million up to a limit of EUR 7.5 million, 5% on the amount of taxable profits of over EUR 7.5 million up to a limit of EUR 35 million with profits in excess of EUR 35 million subject to a 9% surcharge rate.

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.

2.14 REVENUES FROM CLIENT CONTRACTS

This revenue corresponds to the fair value of the amounts received or receivable from transactions carried out with clients within the scope of normal AdP activities. Revenue is accounted for net of any taxes, commercial discounts and other inherent costs at the fair value of the amounts received or receivable.

IFRS 15 provides a five-step model for accounting revenue from contracts with customers and requires that revenue be recognized at an amount that reflects the remuneration expected by an entity in exchange for goods and / or services to be transferred to the customer. The five steps are: **(1)** identify the contract with the customer, **(2)** identify the performance obligations under the contract, **(3)** determine the transaction price, **(4)** allocate the transaction price to the contract performance obligations and **(5)** recognize income when the entity meets a performance obligation.

In determining the revenue value, AdP evaluates the performance obligations assumed in each transaction undertaken with clients, the transaction price to be allocated to each performance obligation identified in the transaction and the existence of variable pricing conditions that may trigger future corrections to the recorded total of earnings and for which AdP provides its best estimate.

In the provision of services by AdP, there is only one performance obligation, hence the revenue is recognized immediately as the provision of customer service.

2.15 EXPENSES AND LOSSES

Expenses and losses are recorded in the period to which they relate, regardless of the time of their payment or receipt on an accruals base (financial year specialisation).

2.16 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 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 risk of the Company's interest rate comes essentially from the contracting of loans, both long-term and short-term. In this context, loans obtained with interest calculated at variable rates expose the AdP Group to the risk of cash flows and loans obtained with fixed interest rates expose the Group to the fair value risk associated with the interest rate. AdP manages the risk of cash flows associated to the interest rate by contracting swaps that allow the conversion of loans with interest calculated at variable rates into loans with interest calculated at the fixed rate. The table below presents the sensitivity analysis of AdP Group financial charges.

	31.12.2019	Average rate of impact +1%	Average rate of impact -1%
Variable rate interest (costs)	(2 032 243)	(5 839 346)	556 003
Variable rate interest (earnings)	13 104 802	4 627 485	(49 804)
Net impact	11 072 559	(1 211 861)	506 199

3.2.2 EXCHANGE RATE RISK

Exposure to currency risk in AdP is residual. This risk is embodied in future business transactions, recognized assets and liabilities, as well as net investments in foreign operations that were not incurred or expressed in the functional currency of AdP. The AdP Group's Central Treasury is responsible for the management of the AdP Group's net exposure in each currency, contracting swaps centrally in order to minimize the commercial risks, assets and liabilities recognized.

3.3 LIQUIDITY AND CAPITAL RISKS

Liquidity risk management requires maintaining available funds at a reasonable level, the viability of floating debt consolidation through an adequate amount of credit facilities and the ability to settle market positions. Due to the dynamics of the underlying business, AdP's treasury policy strives to ensure the flexibility of floating debt, while maintaining available credit lines. AdP manages liquidity risk by contracting and maintaining credit and financing facilities with underwriting commitments to high credit rating national and international financial institutions that allow immediate access to funds.

The table below shows the liabilities of AdP by contractual residual maturity intervals. The amounts presented in the table are the contractual cash flows, discounted and payable in the future (without the interest to which these liabilities are being paid).

2019	< 1 year	1 to 5 years	> 5 years
ASSETS			
Group company loans	73 693 182	691 469 164	-
Cash and cash equivalents	16 477 809	-	-
	90 170 991	691 469 164	-
LOANS			
Shareholders loans	6 818 182	377 272 728	173 863 635
Group company loans	104 000 000	-	-
	110 818 182	377 272 728	173 863 635
Net liquidity	(20 647 191)	314 196 436	(173 863 635)

In September 2017, AdP entered into a 25-year, EUR 220 million financing agreement with the European Investment Bank under a EUR 420 million credit facility approved in July 2017 by the Board of Directors of this financial institution. In addition, on July 31

2019, the AdP Group formally took up the remaining EUR 200 million that may serve as funding for termination of debt regularising agreements reached between the AdP Group and its municipal clients under the auspices of Decree Law no. 5/2019, of January 14. To date, the AdP Group has not yet had to resort to this line of financing.

In view of the above, as well as recurring operating assets, AdP does not foresee difficulties in fulfilling its financial commitments. Particularly for short term bank loans, AdP SGPS has immediate liquidity to cover the entire debt service forecast for the next 12 months.

Contracted short term credit lines

Liquidity risk (EUR millions)	Amount of ceiling available	Amount used	Amount unused
Bank overdrafts (attributable only to AdP)	72.5	-	72.5
Loans from group company	220.0	104.0	116.0
Loans to group companies	(855.1)	(765.4)	(89.7)
Lines of credit available to AdP	(562.6)	(661.4)	98.8
Bank overdrafts (AdP Group)	140	-	140

The AdP goal with respect to managing capital, a broader concept than the balance sheet disclosed capital, seeks 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 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.

	2019	2018
Non-current loans (bond loans)	551 136 363	557 954 545
Current loans (bond and group loans)	110 818 182	132 418 182
Availabilities	(16 477 809)	(5 166 066)
Net debt	645 476 736	685 206 661
Total own capital	823 863 724	785 185 518
Capital	1 469 340 460	1 470 392 179
Net debt / total capital	0.44	0.47

The financing model of AdP is fundamentally based on two broad categories that allow for the balancing of the capital structure, bond financing and equity.

3.4 CREDIT RISK

Credit risk is primarily related to the risk that a counterparty will fail in its contractual obligations, resulting in a financial loss to AdP. AdP is subject to credit risk in its operating, investment and treasury activities.

3.4.1 OPERATING COUNTERPARTY

The credit risk related to operations is essentially related to the credits of services provided to the subsidiaries and to the liquidity support granted to the subsidiaries.

Subsidiary credit risks are low considering their financial situations and legal and regulatory frameworks. Indeed, in state-owned systems, financial autonomy ratios are high and in multi-municipal or partnership systems, concession or partnership agreements have mechanisms for restoring the economic-financial balance in order to ensure compliance of all liabilities to third parties, including liabilities arising from debt servicing.

In addition, in the case of multi-municipal systems and partnerships, the regulatory and legislative provision that ensures the recovery of the municipalities' debts to these systems has been consolidated in the context of the calculation of the Cost Recovery Deviation, which in turn has a recovery period defined by Decree Law.

3.4.2 DEPOSIT COUNTERPARTY

The following table represents AdP's maximum exposure to credit risk (not including the Trade receivables and Other debtors item balances) as of December 31, 2019, without regard to any collateral held or other credit enhancements. For assets in the statement of the financial position, the defined exposure is based on its carried over amount as reported in the Statement of the financial position.

Financial bank assets	2019
Current accounts (Note 12)	16 441 115
	16 441 115
Rating	2019
A3	4 807
Baa1	41 169
Baa3	16 395 134
Caa1	5
	16 441 115

Note: Moody's ratings obtained from financial institution websites in February 2020.

3.4.3 DERIVATIVE COUNTERPARTY

AdP manages the risk of cash flows associated to the interest rate by contracting swaps that allow for the conversion of loans with interest calculated at variable rates into loans with interest calculated at the fixed rate. AdP uses derivatives for the sole purpose of managing the financial risks (interest rate) to which it is subject. In accordance with its financial policies, AdP does not use derivatives for trading. Whenever available, the fair value of derivatives is estimated on the basis of quoted instruments. In the absence of market prices, the fair value of derivatives is estimated using the discounted cash flow method determined by external entities, based on valuation techniques accepted by the market. Derivative financial instruments are recognized on the trade date at their fair value. Subsequently, the fair value of derivative financial instruments is revalued on a regular basis, and the gains or losses resulting from such revaluations are recorded directly in income for the period, except for hedging derivatives. Recognition of fair value changes in hedging derivatives depends on the nature of the hedged risk and the hedging model used.

4. ESTIMATES AND JUDGEMENTS

The estimates and judgments with an impact on the financial statements of AdP are continuously evaluated, representing at the date of each report the Management's best estimate, taking into account historical performance, accumulated experience and expectations about future events that, under the circumstances, they believe are duly reasonable. The intrinsic nature of the estimates may mean that the actual reflection of the situations which have been estimated may, for the purpose of financial reporting, differ from the estimated amounts. Estimates and judgments that present a significant risk of giving rise to a material adjustment to the book value of assets and liabilities in the following year are as follows:

4.1 IMPAIRMENT OF SHAREHOLDINGS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

The determination of a possible impairment loss can be triggered by the occurrence of several events, namely the generation of consecutive net negative results by the subsidiaries. The identification of impairment indicators, the estimation of future cash flows and the determination of the fair value of financial investments, subsidiaries and associates imply a high degree of judgment on the part of management in the identification and evaluation of the different indicators of impairment, expected cash flows, applicable discount rates, useful lives and residual values. In view of AdP's intention to maintain the financial holdings and not having any intention to sell, AdP assumes that the recoverable amount corresponds to the equity value of these subsidiaries and associates, for the subsidiaries and associates that consecutively generate negative net income.

4.2 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 14).

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.

4.3 IMPAIRMENTS IN RECEIVABLES

Losses due to impairments to accounts receivable are calculated according to the losses expected, the profile of client risk and their respective financial positions. The AdP accounts receivable derive from the provision of financial service to subsidiaries and hence with only a low risk of impairment.

4.4 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. Changes in the fair value of derivative financial instruments that are not classified as hedging instruments are recognized in the income statement while those classified as hedges are recorded in the consolidated statement of comprehensive income.

4.5 TAX AND DEFERRED TAX ESTIMATES

AdP believes that any revisions to the tax returns will not result in material corrections to the financial statements that require the constitution of any provision for taxes.

Taking into consideration the current context and the impact this may have on future results, the Board of Directors deemed it necessary to adjudge the level of deferred tax assets that may be recognised in accordance with: the date and the probable amount of future taxable profits and future fiscal planning strategies.

The estimates were based on the best information available at the time of preparation of the financial statements, however, situations may occur in subsequent periods that were not predictable at the time and were not considered in these estimates. As set forth in IAS 8, changes to these estimates, which occur after the date of the financial statements, are corrected to income prospectively.

5. FINANCIAL INSTRUMENTS BY IFRS 9 CATEGORY

Classification of financial assets and liabilities (31.12.2019)	Financial assets at amortised cost	Financial liabilities at fair value in comprehensive income	Financial liabilities at amortised cost	Total of financial instruments
Other financial assets	14 563	-	-	14 563
Group company loans	765 312 346	-	-	765 312 346
Clients	4 172 013	-	-	4 172 013
Cash and cash equivalents	16 477 809	-	-	16 477 809
Total assets	785 976 731	-	-	785 976 731
Shareholders loans	-	-	557 954 545	557 954 545
Group company loans	-	-	104 000 000	104 000 000
Derivative financial instruments	-	2 788 817	-	2 788 817
Suppliers	-	-	350 513	350 513
Total liabilities	-	2 788 817	662 305 058	665 093 875

Classification of financial assets and liabilities (31.12.2018)	Financial assets at amortised cost	Financial liabilities at fair value in comprehensive income	Financial liabilities at amortised cost	Total of financial instruments
Investments in subsidiaries and associates	8 432	-	-	8 432
Group company loans	771 151 529	-	-	771 151 529
Clients	2 873 613	-	-	2 873 613
Cash and cash equivalents	5 166 066	-	-	5 166 066
Total of assets	779 199 640	-	-	779 199 640
Shareholders loans	-	-	564 772 727	564 772 727
Group company loans	-	-	125 600 000	125 600 000
Derivative financial instruments	-	3 315 416	-	3 315 416
Suppliers	-	-	696 998	696 998
Total liabilities	-	3 315 416	691 069 725	694 385 141

Hierarchy of fair value

	31 December 2019			31 December 2018		
	level 1	level 2	level 3	level 1	level 2	level 3
Financial liabilities at fair value in comprehensive income						
Derivatives		2 788 817			3 315 416	

6. FIXED TANGIBLE ASSETS

	2019	2018
Administrative equipment		16 774
Other tangible assets		-
	16 774	21 455

6.1 MOVEMENTS IN THE PERIOD

Gross assets	2018	Additions	2019
Administrative equipment	132 233	-	132 233
Other tangible assets	1 058	-	1 058
	133 291	-	133 291

Amortisations	2018	Additions (Note 24)	2019
Administrative equipment	(110 778)	(4 681)	(115 459)
Other tangible assets	(1 058)	-	(1 058)
	(111 836)	(4 681)	(116 517)
	21 455	(4 681)	16 774

7. LEASES

7.1 RIGHT-OF-USE ASSETS

Right-of-use assets	01.01.2019			Financial year amortisations (Note 24)	31.12.2019		
	Gross amount	Accumulated amortisations	Net amount		Gross amount	Accumulated amortisations	Net amount
a) Right-of-use assets that were classified as operational leases (IAS 17) on 31.12.2018							
Transport equipment	473 424	-	473 424	(145 799)	473 424	(145 799)	327 625
	473 424	-	473 424	(145 799)	473 424	(145 799)	327 625

7.2 LEASE LIABILITIES

	2019
Non-current	197 721
Current	135 016
	332 737

Capital outstanding by type of right-of-use asset	2019
Transport equipment	332 737
	332 737

Future minimum payments	2019
Up to 1 year	143 812
From 1 to 5 years	202 822
Over 5 years	-
	346 634

Interest	2019
Up to 1 year	8 796
From 1 to 5 years	5 101
Over 5 years	-
	13 897

Current minimum payments	2019
Up to 1 year	135 016
From 1 to 5 years	197 721
Over 5 years	-
	332 737

7.3 LEASING PAYMENTS

Total of leasing payments	2019
Accounted for according to the single model stipulated in IFRS 16	154 079
Accounted for as expenditure in the results	667
	154 746

8. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

	2019	2018
Financial investments in subsidiaries	731 604 909	728 026 136
Financial investments in associated companies	-	-
Other financial assets	-	8 432
	731 604 909	728 034 568
Losses due to accumulated impairments	(Note 14) (a) (20 008 975)	(19 828 975)
	711 595 934	708 205 593

(a) On 31 December 2019 and 2018, the losses for accumulated impairments break down as follows: EUR 15 431 695 to AdP Internacional (EUR 15 251 695 in 2018) and EUR 4 577 280 to AdP Energias (EUR 4 577 280 in 2018).

(b) On 31 December 2019, the balance of the other financial assets was accounted for autonomously in the financial statements under the item "Other financial assets".

8.1 MOVEMENTS IN THE PERIOD

	2019	2018
Initial balance	728 026 136	723 630 261
Increases in capital	3 027 973	3 086 544
Establishing new subsidiaries	550 800	-
Acquisition of shares from minority holders	-	769 152
Sale of shares	-	(100)
Total losses	-	540 279
Final balance	731 604 909	728 026 136

In the financial year ending on 31 December 2019, AdP accompanied the raising of capital undertaken by the following holding group companies: **i)** AgdA - Águas Públicas do Alentejo (EUR 617 865), and **ii)** Águas do Norte (EUR 2 410 108). Additionally, on 22 June 2019, a management contract was signed with the company AdAM - Águas do Alto Minho, S.A. in accordance with the partnership contract signed on 11 July 2019 for a period of 30 years (2019-2048), with AdP having underwritten a capital increase totalling EUR 550 800.

8.2 INDIVIDUAL VALUE OF SHAREHOLDINGS

	2019	2018
EPAL, S.A.	365 813 820	365 813 820
Águas do Vale do Tejo, S.A.	79 347 548	79 347 548
Águas do Tejo Atlântico, S.A.	34 623 897	34 623 897
SIMARSUL, S.A.	18 866 926	18 866 926
Águas do Norte, S.A.	111 404 246	108 994 138
Águas do Douro e Paiva, S.A..	10 877 643	10 877 643
SIMDOURO, S.A.	10 854 212	10 854 212
Águas do Centro Litoral, S.A.	36 454 976	36 454 976
Águas do Algarve, S.A.	25 834 640	25 834 640
AdP Internacional, S.A.	15 432 933	15 432 933
AdRA - Águas da Região de Aveiro, S.A.	8 925 000	8 925 000
AdP Energias, S.A.	5 733 226	5 733 226
Águas de Santo André, S.A.	2 298 412	2 298 412
AgdA - Águas Públicas do Alentejo, S.A.	3 999 165	3 381 300
AdP Serviços, S.A.	587 465	587 465
AdAM - Águas do Alto Minho, S.A.	550 800	-
Subsidiaries	731 604 909	728 026 136
Trevo Oeste, S.A.	572 991	572 991
Impairments	(572 991)	(572 991)
Associates	-	-
Total	731 604 909	728 026 136

9. GROUP COMPANY LOANS

On 31 December 2019 and 2018, the “Group company loan” items were as follows:

	2019			2018		
	Advances	Treasury support	Total	Advances	Treasury support	Total
Águas do Norte, S.A.	306 272 727	26 336 364	332 609 091	313 545 455	14 350 000	327 895 455
Águas do Vale do Tejo, S.A.	100 818 182	21 909 091	122 727 273	88 136 364	30 000 000	118 136 364
Águas do Centro Litoral, S.A.	71 818 182	7 784 091	79 602 273	71 261 364	5 590 000	76 851 364
AgdA - Águas Públicas do Alentejo, S.A.	48 636 091	6 454 545	55 090 636	49 545 182	4 000 000	53 545 182
AdRA - Águas da Região de Aveiro, S.A.	57 768 182	4 209 091	61 977 273	57 636 364	2 800 000	60 436 364
Águas do Douro e Paiva, S.A.	29 500 000	-	29 500 000	39 100 000	-	39 100 000
Águas do Algarve, S.A.	25 000 000	5 000 000	30 000 000	33 000 000	9 400 000	42 400 000
SIMDOURO, S.A.	50 000 000	2 000 000	52 000 000	45 781 000	4 000 000	49 781 000
AdP Internacional, S.A.	1 700 000	-	1 700 000	2 000 000	900 000	2 900 000
Águas do Brasil, S.A.	105 800	-	105 800	105 800	-	105 800
Trevo Oeste, S.A.	70 315	-	70 315	70 315	-	70 315
	691 689 479	73 693 182	765 382 661	700 181 844	71 040 000	771 221 844
Losses due to accumulated impairments (Note 14) (a)	(220 315)	-	(220 315)	(70 315)	-	(70 315)
	691 469 164	73 693 182	765 162 346	700 111 529	71 040 000	771 151 529

The advances correspond to reimbursable loans with a maturity of over one year and the treasury support identifies the reimbursable loans with a period of less than one year and with advances of capital reimbursable on a 12-month basis.

9.1 MOVEMENTS IN THE PERIOD

	31.12.2018	Supplements	Reimbursements	Transfers	31.12.2019
SUPPLEMENTS					
Águas do Norte, S.A.	313 545 455	-	(3 636 364)	(3 636 364)	306 272 727
Águas do Vale do Tejo, S.A.	88 136 364	14 500 000	(909 091)	(909 091)	100 818 182
Águas do Centro Litoral, S.A.	71 261 364	8 000 000	(4 659 091)	(2 784 091)	71 818 182
AgdA - Águas Públicas do Alentejo, S.A.	49 545 182	-	(454 546)	(454 545)	48 636 091
AdRA - Águas da Região de Aveiro, S.A.	57 636 364	1 950 000	(909 091)	(909 091)	57 768 182
Águas do Douro e Paiva, S.A.	39 100 000	2 000 000	(11 600 000)	-	29 500 000
Águas do Algarve, S.A.	33 000 000	2 000 000	(5 000 000)	(5 000 000)	25 000 000
SIMDOURO, S.A.	45 781 000	6 500 000	(2 281 000)	-	50 000 000
AdP Internacional, S.A.	2 000 000	-	(300 000)	-	1 700 000
AdP Serviços, S.A.	-	1 200 000	(1 200 000)	-	-
Águas do Brasil, S.A.	105 800	-	-	-	105 800
Trevo Oeste, S.A.	70 315	-	-	-	70 315
	700 181 844	36 150 000	(30 949 183)	(13 693 182)	691 689 479

	31.12.2018	Supplements	Reimbursements	Transfers	31.12.2019
TREASURY SUPPORT					
Águas do Norte, S.A.	14 350 000	23 600 000	(15 250 000)	3 636 364	26 336 364
Águas do Vale do Tejo, S.A.	30 000 000	9 000 000	(18 000 000)	909 091	21 909 091
Águas do Centro Litoral, S.A.	5 590 000	5 000 000	(5 590 000)	2 784 091	7 784 091
AgdA - Águas Públicas do Alentejo, S.A.	4 000 000	4 000 000	(2 000 000)	454 545	6 454 545
AdRA - Águas da Região de Aveiro, S.A	2 800 000	3 300 000	(2 800 000)	909 091	4 209 091
Águas do Algarve, S.A.	9 400 000	11 680 000	(21 080 000)	5 000 000	5 000 000
SIMDOURO, S.A.	4 000 000	2 000 000	(4 000 000)	-	2 000 000
AdP Internacional, S.A.	900 000	675 000	(1 575 000)	-	-
AdP Serviços, S.A.	-	1 000 000	(1 000 000)	-	-
	71 040 000	60 255 000	(71 295 000)	13 693 182	73 693 182
	771 221 844	96 405 000	(102 244 183)	-	765 382 661

10. CLIENTS

	2019	2018
Águas do Norte, S.A.	746 105	219 112
Águas do Vale do Tejo, S.A.	533	462 636
EPAL, S.A.	-	10 742
Águas do Tejo Atlântico, S.A.	251 439	21 485
SIMARSUL, S.A.	(11 318)	28 597
Águas do Douro e Paiva, S.A.	155 781	56 738
AgdA - Águas Publicas do Alentejo, S.A.	251 480	68 097
AdRA - Águas da Região de Aveiro, S.A.	70 074	-
AdP Internacional, S.A.	-	79 765
Águas do Algarve, S.A.	80 417	-
Águas do Centro Litoral, S.A.	292 062	(1 733)
Águas de Santo André, S.A.	139 555	53 739
AdP Serviços, S.A.	-	31 356
SIMDOURO, S.A.	114 591	87 607
AdAM - Águas do Alto Minho, S.A.	2 365	-
Other client balances	31 691	31 683
Trevo Oeste, S.A.	8 995	7 864
Additional earnings	2 069 604	1 715 925
	4 203 374	2 873 613
Impairments (Note 14)	(31 361)	-
	4 172 013	2 873 613

11. OTHER CURRENT ASSETS

	2019	2018
State and other public entities	807 286	807 286
Bank charges and fees	231 103	280 368
Insurance	115 502	98 944
Expenses for handing onto holdings	32 204	-
Other balances for other debtors	94 204	60 910
	1 280 299	1 247 508
Impairments to other current assets (Note 14)	(809 033)	(809 033)
	471 266	438 475

The impairments to other current assets includes EUR 807 286 referring to retentions at source carried out in previous years by the debt instruments then held with their period of reimbursement withdrawn by the Taxation Authority with the costs accounted for in the Statement of Results for the financial year ending on 31 December 2018 under the "Tax on financial year earnings" item (Note 30).

12. CASH AND CASH EQUIVALENTS

	2019	2018
Current accounts	16 441 115	5 165 358
Cash	36 694	708
	16 477 809	5 166 066

13. EQUITY

Shareholders on 31.12.2019	% Capital	Amount subscribed	No. of shares	Type of shares
Parública, SGPS, S.A.	81%	351 945 000	70 389 000	Nominative
Caixa Geral de Depósitos, S.A.	19%	82 555 000	16 511 000	Nominative
	100%	434 500 000	86 900 000	

13.1 NET RESULT AND FULL EARNINGS PER SHARE

	2019	2018
Net financial year result	65 151 607	59 535 792
Number of shares	86 900 000	86 900 000
Result per share	0.75	0.69

	2019	2018
Full earnings	65 678 206	59 991 133
Number of shares	86 900 000	86 900 000
Result per share	0.76	0.69

14. PROVISIONS

	2019	2018
Other responsibilities	5 000 000	5 000 000
Fiscal contingencies	-	1 125 000
	5 000 000	6 125 000

The provision for "Other liabilities" refers to a lawsuit filed against the Company.

In 2018, the Company recorded a provision for tax contingencies associated with the application of RETGS in the years 2015 and 2016. In December 2018, AdP and the companies that were covered by the RETGS (EPAL, Águas de Santo André, AdP Serviços, AdP Energias and AdP Internacional) received the inspection reports, which do not identify any contingencies in excess of the provision registered in the AdP financial statements on December 31, 2018.

14.1 MOVEMENTS IN THE PERIOD

The movements occurring in the impairments and provisions for the financial year ending on 31 December 2019 were the following:

		2018	Attributions	Reversions	Utilisation	2019
Impairments for investments in subsidiaries	(Note 8)	19 828 975	180 000	-	-	20 008 975
Impairments for the advances granted	(Note 9)	70 315	150 000	-	-	220 315
Impairments for clients	(Note 10)	-	31 361	-	-	31 361
Impairments for other current assets	(Note 11)	809 033	-	-	-	809 033
Provisions		6 125 000	-	(308 003)	(816 997)	5 000 000
		26 833 323	361 361	(308 003)	(816 997)	26 069 684

The attributions for impairments to investments in subsidiaries and the advances granted (total of EUR 330 000) were recorded in the item "Earnings / (losses) from financial investments" (Note 29).

In 2019, AdP settled the tax on earnings from the financial years of 2015 and 2016 and the respective penalty interest for the amount of EUR 816 997 with the remaining sum having reverted to the provision established given part of the provision was not necessary.

15. LOANS

	2019	2018
Shareholder loans	551 136 363	557 954 545
Non-current loans	551 136 363	557 954 545
Shareholder loans	6 818 182	6 818 182
Current loans	6 818 182	6 818 182
Loans - total	557 954 545	564 772 727

15.1 LOANS BY MATURITY

	2019	2018
Up to 1 year	6 818 182	6 818 182
From 1 to 2 years	6 818 182	6 818 182
From 2 to 3 years	156 818 182	6 818 182
From 3 to 4 years	206 818 182	156 818 182
From 4 to 5 years	6 818 182	206 818 182
Over 5 years	173 863 635	180 681 817
	557 954 545	564 772 727

15.2 LOANS BY RATE TYPE

Variable interest rates	2019	2018
Up to 1 years	6 818 182	6 818 182
From 1 to 2 years	6 818 182	6 818 182
From 2 to 3 years	156 818 182	6 818 182
Over 3 years	367 499 999	524 318 181
	537 954 545	544 772 727

Fixed interest rates	2019	2018
Up to 1 years	-	-
From 1 to 2 years	-	-
From 2 to 3 years	-	-
Over 3 years	20 000 000	20 000 000
	20 000 000	20 000 000

16. FINANCIAL DERIVATIVES

Swap	Risk covered	Notional	Maturity	J.V. 2019	J.V. 2018	In 2019 results	Variation in the recognised fair value in the 2019 comprehensive income
BBVA – Int. rate (a)	Interest rate	20 000 000	jan/23	(2 788 817)	(3 315 416)	-	526 599
Total				(2 788 817)	(3 315 416)	-	526 599

(a) AdP pays a flat rate and receives a variable rate. Cancellation option by the bank in 2020, which was enacted on 23 January 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.

17. GROUP COMPANY LOANS

	2019	2018
EPAL, S.A.	75 000 000	82 000 000
Águas do Tejo Atlântico, S.A.	14 000 000	40 600 000
Águas de Santo André, S.A.	8 000 000	3 000 000
SIMARSUL, S.A.	7 000 000	-
	104 000 000	125 600 000

The loans obtained from group companies are contracted with terms of less than 12 months and are remunerated.

18. SUPPLIERS

	2019	2018
Suppliers – national	95 128	231 016
Suppliers – other countries	1 783	(437)
Suppliers – holding company	7 725	-
Suppliers – group companies	245 877	466 419
	350 513	696 998

19. OTHER CURRENT LIABILITIES

	2019	2018
Interest payable	597 198	745 702
Holidays and holiday pay	554 269	474 562
Division of life insurance results (a)	292 149	447 893
Accruals to diverse costs:		
. Acquisition of non-invoiced services	672 727	333 690
. Training	101 858	-
. Others	134 554	124 208
State and other public entities (b)	-	587 070
Subsidies under operation for recognition (c)	189 591	257 346
Group companies – fiscal consolidation	121 045	121 045
Other creditors	4 203	4 213
	2 667 594	3 095 729

(a) Corresponds to participation in the life insurance results with the amount already received by the Company and for payment to Group companies in 2020.

(b) On 31 December 2019, the state and other public entities was rendered autonomous in the Statement of the Financial Position under the item "State and other public entities" (see Note 20).

(c) In the financial year ending on 31 December 2019, there were receipted from subsidiaries for operations and having only recognised income totalling EUR 67 755 (EUR 48 956 in the item "Other earnings and operational gains" – Note 26 and 18 with EUR 799 as a deduction in the costs recognised under the item "External supplies and services").

20. STATE AND OTHER PUBLIC ENTITIES

	2019	2018 (Note 19)
Valued Added Tax	375 978	349 367
Social Security	83 467	75 164
Withholding of tax on the earnings of third parties	79 814	160 539
Other taxes and charges	18	2 000
	539 277	587 070

21. EARNINGS FROM CLIENT CONTRACTS

	2019	2018
EPAL, S.A.	2 286 308	2 193 066
Águas do Norte, S.A.	1 870 464	1 871 480
Águas do Douro e Paiva, S.A.	559 462	562 741
SIMDOURO, S.A.	218 497	207 095
Águas do Vale do Tejo, S.A.	1 343 411	1 272 772
Águas do Tejo Atlântico, S.A.	1 248 232	1 233 957
SIMARSUL, S.A.	225 739	224 678
AdRA - Águas da Região de Aveiro, S.A.	1 081 220	1 035 293
Águas do Algarve, S.A.	907 142	873 051
Águas do Centro Litoral, S.A.	768 234	760 302
Águas de Santo André, S.A.	442 087	456 598
AdP Serviços, S.A.	140 421	163 905
AgdA - Águas Públicas do Alentejo, S.A.	225 800	210 878
	11 317 017	11 065 816

The services rendered correspond to the management fee charged to Group companies and the variation in the amounts received arises exclusively from the increase in the activities of subsidiaries. There was thus no change in the management fees charged by AdP SGPS.

22. EXTERNAL SUPPLIERS AND SERVICES

		2019	2018
Specialized works - Technical assistance (AdP Serviços)	(a)	1 486 395	2 225 596
Specialized works - Auditing		51 827	37 430
Specialized works - Studies and consultancy		152 433	70 393
Specialized works - Financial consultancy		131 989	150 251
Specialized works - Juridical consultancy		138 703	311 266
Specialized works - IT consultancy		5 006	30 304
Specialized works - Leasing of spaces		1 043 448	1 045 532
Specialized works - Others		174 259	23 198
Advertising and publicity		191 550	316 461
Rentals and leasing	(b)	(14 801)	137 093
Travel and accommodation		38 039	44 122
Other external supplies and services		213 336	176 207
		3 612 184	4 567 853

(a) Expenditures on technical assistance essentially correspond to expenses with legal, IT and logistical services billed by AdP Serviços, which provides the shared service provision of the Águas de Portugal Group. The reduction reported in this item in 2019 results from the reorganisation carried out in 2019 to AdP SGPS and AdP Serviços, which led to the Marketing and Communications, Human Resources and Financial and Accounting Departments being transferred from AdP Serviços to AdP SGPS and consequently bringing about a reduction in the costs of the shared services provided to these Boards.

(b) The reduction experienced in costs with rentals and leasing stems from adopting IFRS 16 in 2019.

23. PERSONNEL COSTS

	2019	2018
Remuneration of the Governing Bodies	404 337	447 922
Remuneration of staff	3 121 597	2 553 951
Compensation	69 804	-
Charges on remunerations	812 500	694 229
Insurance	180 327	203 936
Social welfare costs	9 548	15 916
Other costs with staff	152 822	95 108
	4 750 935	4 011 062

The increase in the cost of staff in 2019 results from the reorganisation carried out of AdP SGPS and AdP Serviços in 2019, which led to the Marketing and Communications, Human Resources and Financial and Accounting Departments being transferred from AdP Serviços to AdP SGPS.

23.1 REMUNERATIONS OF GOVERNING BODIES

	2019	2018
Board of Directors	331 280	394 251
Fiscal Board	31 967	31 930
Statutory External Auditor	41 090	21 741
	404 337	447 922

23.2 AVERAGE NUMBER OF EMPLOYEES

Type	Average number		Year end	
	2019	2018	2019	2018
Board of Directors	5	6	4	6
Fiscal Board	3	3	3	3
Full-time staff / temporary staff	59	48	60	46
	67	57	67	55

24. AMORTISATIONS, DEPRECIATIONS AND REVERSIONS IN THE FINANCIAL YEAR

	2019	2018
Tangible fixed assets	(Note 6)	4 681
Right-of-use assets	(Note 7)	145 799
	150 480	1 950

25. OTHER COSTS AND OPERATIONAL LOSSES

	2019	2018
Taxation and other charges	2 936	2 536
Other operational costs	2	-
Taxes and penalties	7 588	1 152
Donations and membership fees	54 631	56 225
Humanitarian aid for Mozambique	33 882	-
Other one-off costs and losses	-	7 212
	99 039	67 125

26. OTHER EARNINGS AND OPERATIONAL GAINS

	2019	2018
Additional earnings	-	34 730
Performance of social duties by subsidiaries	49 791	(13 007)
Subsidiaries for exploration	48 956	-
	(Note 19)	
Other earnings and operational gains	862	12 119
	99 609	33 842

27. FINANCIAL COSTS

	2019	2018
Interest paid – Shareholder loans	(a) 1 247 419	1 404 782
Interest paid – Interest rate swap (hedging coverage)	791 368	793 721
Interest paid – Group company loans	782 842	828 259
Interest paid – Leasing liabilities	13 393	-
Interest paid – Commercial paper	-	7 778
Interest paid – Other interest	200	(306)
Penalty interest charges	101	626
Other costs and financial losses	83 274	87 411
Banking commissions	(b) 2 417 601	2 532 832
	5 336 198	5 655 103

(a) The reduction in the costs with Interest paid for shareholder loans stems from the reduction in the outstanding capital debt and the negative reference rates prevailing in the market (Euribor).

(b) The bank fees correspond to the Portuguese guarantee provided by the Portuguese Government for the loans granted by the EIB to the subsidiaries of AdP (0.2% of the outstanding capital).

28. FINANCIAL INCOME

	2019	2018
Interest on treasury support funding and Group company supplements	13 104 802	13 269 013
Commissions	7 254 249	7 620 819
Other financial income	-	3 208
	20 359 051	20 893 040

29. FINANCIAL INVESTMENT GAINS / (LOSSES)

	2019	2018
EPAL, S.A.	39 286 674	40 057 260
Águas do Tejo Atlântico, S.A.	2 912 030	3 312 515
Águas do Douro e Paiva, S.A.	437 960	1 949 650
Águas de Santo André, S.A.	5 367 657	-
Águas do Algarve, S.A.	3 719 479	1 117 465
AdRA - Águas da Região de Aveiro, S.A.	424 940	530 401
AgdA - Águas Públicas do Alentejo, S.A.	-	107 481
Dividends	(a) 52 148 740	47 074 772
Financial investment impairments losses	(Note 14) (330 000)	(1 082 000)
Gain from disposal of the stake held in AQUASIS	(b) -	6 163
	51 818 740	45 998 935

(a) The amounts present correspond to the dividends declared and paid by AdP.

(b) In 2018, the gain relates to the disposal of the 0.2% % directly held in AQUASIS (54.8% held indirectly by AdP Serviços).

30. TAX ON FINANCIAL YEAR EARNINGS

The taxation on earnings receivable / (payable) contained the following items on 31 December 2019 and 2018:

	2019	2018
Estimated financial year tax	(4 779 000)	(4 669 000)
Advance payment of tax on earnings	3 140 259	3 069 681
Taxation withheld at source by third parties	288 168	397 463
Additional payments of tax on earnings	608 300	564 082
Receivable taxation on earnings from previous financial years	-	1 572 431
Tax payable / (receivable)	(742 273)	934 657

On 31 December 2019 and 2018, the fiscal position featured the following:

	2019	2018
Estimate of taxation for the financial year	(4 779 000)	(4 669 000)
IRC – corrections to previous years	7 234	1 435 963
Impairments to taxes withheld at source (Note 14)	-	(807 286)
Deferred taxation	1 150	-
Estimated IRC for the financial year	(4 770 616)	(4 040 323)
Pre-tax results	69 922 223	63 576 115
Effective taxation rate	6.82%	6.36%

On 31 December 2019 and 2018, the reconciliation between the nominal and effective rates of taxation was as follows:

	2019			2018		
	Base	Rate	Tax	Base	Rate	Tax
Pre-tax results	69 922 223			63 576 115		
Nominal taxation 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
	34 922 223	31.50%	11 000 500	28 576 115	31.50%	9 001 476
Expected taxation		29.22%	20 430 500		28.99%	18 431 476
Permanent differences:						
. Dividends	(52 148 740)	(21.79%)	(15 237 285)	(47 074 773)	(21.47%)	(13 647 540)
. Fines and charges	7 689	0.00%	2 247	-	0.00%	-
. Unaccepted impairments provisions	53 358	0.02%	15 591	1 192 676	0.54%	345 771
. Gains for disposal of financial holdings		0.00%	-	(6 163)	0.00%	(1 787)
. Others	227 596	0.10%	66 501	(61 581)	(0.03%)	(17 853)
Savings from the State Surcharge rate		(0.72%)	(500 507)		(0.69%)	(441 067)
Corrections to current taxation from previous years		(0.01%)	(7 234)		(2.26%)	(1 435 963)
Impairments to taxes withheld at source		0.00%	-		1.27%	807 286
Autonomous taxation		0.00%	804		0.00%	-
IRC estimated for the financial year		6.82%	4 770 616		6.36%	4 040 323

(*) Taxation on the earnings of Collective Entities (21%) + Municipal Surcharge (1.5%) + State Surcharge on EUR 6 000 000 (3%) + State Surcharge on EUR 27 500 000 (5%) + State Surcharge on taxable profit in excess of EUR 35 000 000 (9%)

The movements in deferred taxes for the financial year ending on 31 December 2019 are as follows:

	01.01.2019			Net supplementary reversions			31.12.2019		
	Base	Rate	Tax	Base	Rate	Imposto	Base	Rate	Tax
Deferred tax assets:									
. Leasing liabilities	473 424	22.5%	106 520	(140 687)	22.5%	(31 654)	332 737	22.5%	74 866
Deferred tax liabilities									
. Right-of-use assets	(473 424)	22.5%	(106 520)	145 799	22.5%	32 804	(327 625)	22.5%	(73 716)
	-		-	5 112	22.5%	1 150	5 112	22.5%	1 150

31. BALANCE OF TRANSACTIONS WITH RELATED PARTIES

31.1 RELATED PARTIES

On 31 December 2019, the related AdP parties were the following:

- Shareholders (Pública, SGPS, S.A. and Caixa Geral de Depósitos, S.A.)
- Entities held by AdP (Note 2.3);
- Members of the AdP Board of Directors;
- Members of the shareholder Board of Directors.

31.2 BALANCE WITH RELATED PARTY TRANSACTIONS

On 31 December 2019, the balance (net of impairments) of transactions with related parties was the following:

	Asset					Total	Group company loans	Liability			Net
	Supplements	Clients	Group Companies	Other current assets	Cash and equivalent			Suppliers	Other current liabilities	Total	
Total item balance	691 689 479	4 172 013	73 693 182	471 266	16 477 809	786 503 749	(104 000 000)	(350 513)	(2 667 594)	(107 018 107)	679 485 642
AdP Serviços, S.A.	-	23	-	274	-	297	-	-	(178 663)	(178 663)	(178 366)
Águas do Algarve, S.A.	25 000 000	278 738	5 000 000	3 200	-	30 281 938	-	-	(44 433)	(44 433)	30 237 505
AgdA - Águas Públicas do Alentejo, S.A.	48 636 091	394 793	6 454 545	629	-	55 486 058	-	-	(15 384)	(15 384)	55 470 674
SIMDOURO, S.A.	50 000 000	144 394	2 000 000	-	-	52 144 394	-	(9 477)	-	(9 477)	52 134 917
Águas do Douro e Paiva, S.A.	29 500 000	169 114	-	-	-	29 669 114	-	(17 600)	-	(17 600)	29 651 514
Águas do Tejo Atlântico, S.A.	-	327 028	-	4 580	-	331 608	(14 000 000)	(51 728)	-	(14 051 728)	(13 720 120)
SIMARSUL, S.A.	-	6 531	-	982	-	7 513	(7 000 000)	(15 931)	-	(7 015 931)	(7 008 418)
EPAL, S.A.	-	113 193	-	7 953	-	121 146	(75 000 000)	(128 489)	40 886	(75 087 603)	(74 966 457)
Águas de Santo André, S.A.	-	185 469	-	681	-	186 150	(8 000 000)	-	(12 933)	(8 012 933)	(7 826 783)
AdRA - Águas da Região de Aveiro, S.A.	57 768 182	192 096	4 209 091	3 052	-	62 172 421	-	-	(72 073)	(72 073)	62 100 348
Águas do Norte, S.A.	306 272 727	1 618 463	26 336 364	14 369	-	334 241 923	-	-	(148 245)	(148 245)	334 093 678
AdAM - Águas do Alto Minho, S.A.	-	18 087	-	(8 407)	-	9 680	-	7 501	-	7 501	17 181
Águas do Centro Litoral, S.A.	71 818 182	414 155	7 784 091	-	-	80 016 428	-	(26 338)	-	(26 338)	79 990 090
Águas do Vale do Tejo, S.A.	100 818 182	284 212	21 909 091	4 763	-	123 016 248	-	-	-	-	123 016 248
Trevo Oeste, S.A.	70 315	8 995	-	-	-	79 310	-	-	-	-	79 310
AdP Internacional, S.A.	1 700 000	14 985	-	109	-	1 715 094	-	(3 323)	(168 793)	(172 116)	1 542 978
Águas do Brasil, S.A.	105 800	-	-	-	-	105 800	-	-	-	-	105 800
AdP Energias, S.A.	-	-	-	17	-	17	-	(492)	(187 592)	(188 084)	(188 067)
Parpública, SGPS, S.A.	-	-	-	-	-	-	-	(7 725)	-	(7 725)	(7 725)
Caixa Geral de Depósitos, S.A.	-	-	-	-	6 669	6 669	-	-	-	-	6 669
Total intra-group balance	691 689 479	4 170 276	73 693 182	32 202	6 669	769 591 808	(104 000 000)	(253 601)	(787 230)	(105 040 831)	664 550 977
Total external group balance	-	1 737	-	439 064	16 471 140	16 911 941	-	(96 912)	(1 880 364)	(1 977 276)	14 934 665

31.3 TRANSACTIONS WITH RELATED PARTIES

On 31 December 2019, the balance of transactions with related parties was the following:

	Client contract revenues	Supplies and external services	Personnel costs	Other earnings and operational gains	Financial costs	Financial earnings	Financial investment gains / losses	Total
Total item balance	11 317 017	(3 612 184)	(4 750 935)	99 609	(5 336 198)	20 359 051	52 148 740	70 225 100
AdP Serviços, S.A.	140 421	(2 698 353)	-	-	-	7 269	-	(2 550 663)
Águas do Algarve, S.A.	907 142	-	-	-	-	1 765 491	3 719 479	6 392 112
AgdA - Águas Públicas do Alentejo, S.A.	225 800	-	-	3 305	-	952 309	-	1 181 414
SIMDOURO, S.A.	218 497	-	-	-	-	903 744	-	1 122 241
Águas do Douro e Paiva, S.A.	559 462	-	-	-	-	766 952	437 960	1 764 374
Águas do Tejo Atlântico, S.A.	1 248 232	-	-	-	(247 186)	1 375 315	2 912 030	5 288 391
SIMARSUL, S.A.	225 739	-	-	-	(32 317)	494 637	-	688 059
EPAL, S.A.	2 286 308	(544)	37 337	-	(490 603)	-	39 286 674	41 119 172
Águas de Santo André, S.A.	442 087	-	-	-	(12 736)	-	5 367 657	5 797 008
AdRA - Águas da Região de Aveiro, S.A.	1 081 220	-	-	31 727	-	1 015 207	424 940	2 553 094
Águas do Norte, S.A.	1 870 464	-	-	-	-	7 096 453	-	8 966 917
AdAM - Águas do Alto Minho, S.A.	-	1 923	-	7 315	-	-	-	9 238
Águas do Centro Litoral, S.A.	768 234	-	-	7 444	-	2 147 517	-	2 923 195
Águas do Vale do Tejo, S.A.	1 343 411	-	-	-	-	3 790 482	-	5 133 893
Trevo Oeste, S.A.	-	-	-	-	-	1 131	-	1 131
AdP Internacional, S.A.	-	-	-	-	-	42 544	-	42 544
AdP Energias, S.A.	-	(186 592)	-	-	-	-	-	(186 592)
Parpública, SGPS, S.A.	-	-	(17 533)	-	-	-	-	(17 533)
Total intra-group balance	11 317 017	(2 883 566)	19 804	49 791	(782 842)	20 359 051	52 148 740	80 227 995
Total external group balance	-	(728 618)	(4 770 739)	49 818	(4 553 356)	-	-	(10 002 895)

32. CONTINGENT ASSETS AND LIABILITIES

The Company's financial commitments and liabilities not included in the Statement of the financial position are as follows:

	Financial institutions 2019	Financial institutions 2018
Guarantees	1 174 695 192	1 273 959 448
Sureties	6 130 865	7 582 491
	1 180 826 057	1 281 541 939

The guarantees relate to the guarantee provided by AdP to the European Investment Bank in the context of the financing of AdP Group subsidiaries.

Subsidiary credit risks are small considering their financial situations and legal and regulatory frameworks. Indeed, in state-owned systems, financial autonomy ratios are high and in multi-municipal or partnership systems, concession or partnership agreements have mechanisms for restoring the economic-financial balance in order to ensure compliance of all liabilities to third parties, including liabilities arising from debt servicing.

In addition, in the case of multi-municipal systems and partnerships, the regulatory and legislative provision that ensures the recovery of municipality debts to these systems has been consolidated in the context of the calculation of the Cost Recovery Deviation, which in turn has a recovery period defined by Decree Law.

33. LEGALLY STIPULATED INFORMATION

According to the information legally required by other regulations, particularly Articles 66, 324, 397 and 447 of the Commercial Companies Code (CSC), of the legal provisions deriving from Decree-Law no. 328/95, of 9 December and of the provisions referred to in Decree-Law No. 41 I/91 of October 17, it should be noted that:

- (a) In compliance with the provisions of article 324, paragraph 2, of the CSC, we hereby inform that the Company does not own any of its own shares and has not yet made any business involving securities of this nature.
- (b) In compliance with Article 397 (4) of the CSC, in the course of 2018, no business was transacted between the Company and the members of its corporate bodies.
- (c) In compliance with the provisions of article 21 of Decree-Law no. 41 I/91 of September 17, it is hereby declared that the Company is not a debtor in default on any pension fund, resulting in the Balance Sheet as of December 31, 2018, in the source of discounts and contributions referring to the month of December, whose payment was made in January 2019, within all legal deadlines.

34. SUBSEQUENT EVENTS

The period following 31 December 2019 was greatly impacted by the spread of the new coronavirus COVID-19, which is generating major impacts on the socioeconomic activities of the country on a scale that cannot fully be predicted in terms of its respective magnitudes. Portugal, in line with the European Union, has adopted various measures that aim to mitigate the impacts of this event on the national economy. These measures include key features such as treasury support for companies that are designed to return positive consequences in terms of maintaining employment and earnings within the scope of sustaining internal demand and keeping the economy functioning.

This package of measures also includes actions designed to keep services of general economic interest operational: within the framework of which fall the activities undertaken by the AdP Group. On 22 March 2020, the Minister of the Environment and Climate Change stipulated the ways in which essential services are to be ensured during this period (Ministerial Order 3547-2020).

For all supply and sanitation activities, among other services, this mandates that the entities and managing companies of such systems should define the equipment necessary to ensuring the uninterrupted continuity of the provision of the public service supplying drinking water (for details on the measures and contingency plan of the AdP Group, see the chapter on "Subsequent Events" in the Management Report).

In terms of the impacts on the financial reporting for 2020, this foresees the following key consequences:

- Assets

This does not foresee the registering of impairments to AdP Group assets given that the effects of COVID-19 are not predicted to extend as far as rendering our assets unable to generate their present and future economic benefits in any permanent fashion.

- Operational Costs / Turnover ratio

- As regards the business volume

A drop in sales and the provision of service is forecast for operational companies due to the reduction in economic activities that are not offset by the rise in domestic consumption resulting from the preventive isolation stipulated for the population.

Such declines are to be most significant for the EPAL and Águas de Santo André companies with the effects of their sales bearing direct repercussions on the results from the year and, consequently, on the consolidated result of the AdP Group. As regards the economic effects on the Multi-Municipal Systems and the State-Municipality Partnerships, these are covered by recording the deviation in the recovery of costs for the year while not ruling out the likelihood of an interruption to the trend to generate surpluses recorded in 2018 and 2019.

The Board of Directors does not foresee any interruptions to services taking into account the contingency plans for operations, workers and suppliers.

- On operational costs

This plan for an increase in operational costs both stemming from the acquisition of goods and services and the increase in human resource expenditure necessary to ensuring the team response capacities given that they have both risen in number and expanded in time coupled with a rise in the amount of overtime being worked. This also predicts greater costs with preventive maintenance within the framework of a strategy to reduce the probability of failure with a subsequent reflection on higher costs of repair maintenance.

The AdP Group companies, whenever possible due to their capacity and the nature of their respective reagent needs, are maximising their respective stocks in a policy that incurs greater treasury demands but which is required due to service continuity while minimising the level of exposure to critical suppliers. This circumstance naturally involves the delivery of small quantities for the replacement of stock and consequently incurring a higher level of cost per unit in addition to a greater weighting of the fixed costs associated with the logistics underlying such transport and delivery activities.

Similarly, there is also expected to be a spike in the costs of telecommunications resulting from the need to support remote working and team coordination.

On the contrary, this provides for a reduction in expenditure on travel and accommodation even while there may subsequently be greater costs incurred with the vehicle fleet. The replacement of the AdP Group is also jeopardised in terms of the rotation that had hitherto been planned with this implying not only higher levels of operational risk but also, taking into account how some vehicles may end up spending longer undergoing repairs, both costly in themselves and removing the respective vehicle from service for extended lengths of time, occasionally requiring companies to seek other means of transport, generally more expensive, to meet ongoing service needs.

• Variations in the debt ratio

Despite for the meantime foreseeing a reduction in the payments associated with investment due to the lesser availability of equipment and construction supply teams, which in this phase shall represent a positive impact on the treasury position, the outlook is for AdP Group companies to face a deterioration in their payments over the medium term with a greater focus on the services provided upstream. However, there are expectations of economic consequences for the municipalities supplied by the AdP Group that may cause declining liquidity positions that then lead to delays in the payments made to the AdP Group that, in turn, shall have a negative impact on its treasury position.

Should the COVID-19 associated recession end up impacting on the evaluation the markets make of the national financial situation, resulting in changes to the 10-year OT treasury bond bills, this also corresponds to another dimension that might potentially impact on the AdP Group to the extent that the net results of the Multi-Municipal Systems and State-Municipality Partnerships are determined by this macroeconomic indicator. The 10-year OT treasury bond bills, which in February 2020 returned an average yield of 0.31% (against 0.37% in January 2020), were returning rates of close to 1% in March 2020, thus around three times higher. Any maintenance of this trend would also contribute towards reversing the trajectory of generating surpluses that began in 2018.

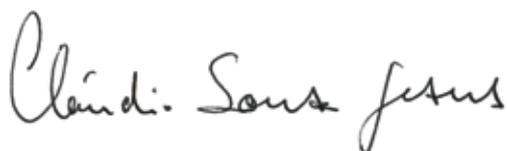
The AdP Group does not foresee any threats to the future sustainability of the operations of its respective companies over the next twelve months. As stated in Note 3.3, the AdP Group has recourse to medium and long term lines of credit contracted from the EIB for the amount of EUR 420 million and short term lines of credit contracted with Banco Comercial Português for the amount of EUR 140 million with it remaining the conviction of the Board of Directors that these shall prove sufficient to meet the debt commitments already made in the face of any reduction in liquidity following any eventual delays in receipt of payments from clients and/or any fall in its volume of turnover.

Lisbon, 31 March 2020

The Board of Directors



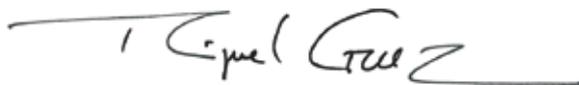
Carla da Conceição Afonso Correia
(Vice-Chair)



Cláudio Miguel André Sousa Jesus
(Executive Director)

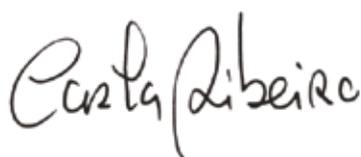


José Manuel Leitão Sardinha
(Executive Director)



Miguel Jorge de Campos Cruz
(Non-executive Director)

The Chartered Accountant



Carla Isabel Costa Pinto Ribeiro

REPORT AND OPINION OF THE AUDIT BOARD

REPORT AND OPINION OF THE SUPERVISORY BOARD ON THE SEPARATE FINANCIAL 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 separate accounting documents of AdP - Águas de Portugal, S.G.P.S., S.A., submitted by the Board of Directors and relating to the 2019 financial year.
2. The Supervisory Board monitored the management of AdP - Águas de Portugal, S.G.P.S., S.A., especially 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 2019 even while not quantifying their compliance with the annual objectives set for the current mandate.

6. The mission and strategic directions for the current mandate, 2016-2018, are set out in the management contracts signed with the members of the Board of Directors in September 2017. The annual objectives and performance indicators to be considered for the term of office, as well as the formula for implementation and the respective achievement rate, are contained in these contracts.
7. On March 4, 2019, the company had its Activity Plan and Budget approved by the Relevant Financial and Sector Authorities.

II. ASSESSMENT OF ACCOUNTING DOCUMENTS

8. Complete analysis of the Group across the economic, social, environmental, innovation and equality fields is detailed in the 2019 Sustainability Report and demonstrating corresponding material fulfilment.
9. As regards the annual accounts rendered here, analysis according to the disclosure obligations established in article 44 of Decree-Law no. 133/2013, of October 3 demonstrates compliance.
10. In the field of the remuneration of workers and of governing bodies, the salary guidelines in effect in 2019 were duly complied with.
11. The legal and the Activity Budget Plan (ABP) attains general compliance.
12. Concerning the achievement of the goals established in the ABP, as approved by the General Meeting of April 29, 2019, the results obtained generally reached the goals defined in the accounts documents with the exception of the Average Payments Period. Although this non-compliance results from intra-group debts, especially from AdP Serviços, it should be noted that internal control measures for the reduction of this period (down 5 days between 2018 and 2019) shall continue to be implemented by the Company.

Regarding individual indebtedness (including intra-group) and within the framework of a centralised treasury policy, this came in below the level recorded in 2018, with a slight increase compared to that forecast in the ABP.

This also registered a one vehicle increase in relation to the ABP estimate. This fact is explained by the integration of a vehicle formerly in the AdP SGPS fleet that was allocated to an employee who transferred from AdP Serviços within the framework of the corporate reorganisation process, which corresponds to a reduction in the number of AdP Serviços vehicles without any increase in the two companies as a whole.

-
13. In compliance with the legal guidelines, despite non-compliance with RCM 34/2008 regarding the average payment time for the aforementioned reasons, we would here highlight the reduction in the weighting of operating expenses in turnover as a result of reductions both in external supplies and services in conjunction with the growth in turnover.
14. We would further note that the ceilings as regards communications were not fully complied with due to the circumstances of performing international functions, with national costs constituting the default for this cost item.
15. It should be noted that, even while paragraph a) of article 158.0 of DLEO 2019 interrelating with staff has not been complied with, the amount recorded in this article was included in the 2019 ABP. This should also note that just as paragraph b) of the above-mentioned precept relating to the set of expenses for daily allowances and accommodation and those associated with the car fleet has been complied with, the overall amount recorded in this set of items was also within the limits approved in the 2019 ABP.
16. There was an increase in the annual level of net profit of around € 5.6 million compared to 2018, which is mostly attributable to the rise in financial investment gains due to the dividends paid by invested companies.
17. In the year under review, there was an increase of € 3.4 million related to Investments in subsidiaries and which consisted of a capital increase in AdNorte subsidiaries (€ 2.4 million), as well as the incorporation of the new subsidiary AdAM (€ 0.6 million).
18. Total financial investments in subsidiaries and affiliated companies, amounting to € 711.6 million as at December 31, represent 48% of the total assets of AdP SGPS, and, as an asset of such material expression, requires monitoring for the purpose of evaluating for possible investment impairments or the recognition of provisions for additional subsidiary liabilities.

19. In 2019, the AdP Group continued its centralised financing and cash management policies which have enabled the Group's financial needs to be managed through an integrated approach. The company has also centralised negotiations with the banking sector for the obtaining of better short-term financing terms and through this policy benefiting from better financing conditions for this term of maturity. In compliance with guidelines, the Group has applied the net cash surpluses of the Group's needs with the IGCP and has been transferring the operational activity surpluses from the banking system to that entity (no financial investments in commercial banking). Nevertheless, residual balances were reported as of December 31, 2019 in several national bank accounts, which result from the maintenance of commercial relationships relating to the provision of credit lines. However, this duly notes that in the region of 99.4% all the funds were deposited with the IGCP at that date.

20. Following a recommendation from the Supervisory Board to AdP SGPS, in 2018, the process of defining the Internal Control Evaluation Model and System to be implemented in the AdP Group and its subsidiaries continued, with the formal approval of the methodology and the project for development taking place over 2019. From among the various existing internal control models, the Company selected the COSO (Committee of Sponsoring Organizations of the Tread Commission) CUBE as the model for implementation as this is deemed suitable for group companies as its application is flexible, whether for the whole entity or for any of its specific units or business activities. In this context, the effective need to continue all the work aimed at designing the Group's Internal Control System model is reinforced, and more specifically, to improve the maturity of the existing internal control system.

21. As regards public procurement, the Recruitment Manual and the Good Practices Manual were approved in 2019, both of which are to be applied across all group companies with a view to ensuring continuity in the standardisation of processes and guaranteeing compliance both with legal requirements and with internal guidelines.

22. The Corporate Governance Report presented to this Supervisory Board includes current, complete and relevant information on the matters regulated in Section II (Good Government Practices) of Chapter II of Decree-Law No. 133/2013, of October 3.

23. The Supervisory Board took note of the Report issued by the External Auditors on the separate accounts, with no objections as to its contents.

24. The Audit Committee examined the Legal Certification of Accounts, issued in accordance with the Statutory Auditor enacted regulations, incorporating the relevant auditing matters and other legal requirements, which are reproduced here, that received its due agreement while taking note of the respective additional report by the same Statutory Auditor on the audit carried out. This should furthermore note the CLC emphasis on recent developments related to the COVID-19 outbreak with its corresponding impacts on financial markets and economic activities worldwide. The AdP Group Board of Directors has made an assessment of the situation, based on economic, financial and liquidity issues and does not anticipate any of its companies will face continuity problems with their operations for the next twelve months. The Supervisory Board has also taken note of the respective additional Statutory External Auditor report on the inspection carried out.

25. In accordance with the work developed, the Supervisory Board considers that the Report and Accounts, the separate Financial Statements (which comprise the Statement of Financial Position as at December 31, 2018, the Statements of Income by natures and comprehensive income, the Statement of Changes in Equity, the Statement of Cash Flows for the year then ended and the Notes to the Financial Statements), are adequate to understanding the equity position of AdP - Águas de Portugal, SGPS, SA on December 31, 2018, and how the results were obtained and the activities undertaken.

26. The Supervisory Board would hereby emphasise all of the collaboration it has obtained from the Board of Directors, through the director responsible for the financial area, the Statutory Auditor, the External Auditor and the respective services of AdP - Águas de Portugal, SGPS, SA.

OPINION

As a result of the above, the Audit Committee is in favour of the approval by the General Meeting of AdP - Águas de Portugal, SGPS, SA:

-
- a) The Report and separate accounts and accounts for the year 2019, taking into consideration the emphasis expressed in the Legal Certification of Accounts;
 - b) The proposal for the application of results formulated by the Board of Directors in its Report.

Lisbon, 8 April 2020

THE SUPERVISORY BOARD

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Carla Maria Lamego Ribeiro
(President)

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Mário José Alveirinho Carrega
(Director)

(one illegible signature)
Rui Manuel Mendes Cabeças
(Director)

RELATÓRIO E PARECER DO CONSELHO FISCAL



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 2019.
- 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, em 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 2019, ainda que não quantificada quanto ao cumprimento dos objetivos anuais fixados para o atual mandato.



- 6 - A missão e orientações estratégicas para o mandato em curso, 2016-2018, constam do anexo aos contratos de gestão celebrados com os membros do Conselho de Administração e assinados em setembro de 2017, fazendo parte integrante desses mesmos contratos os objetivos e indicadores de desempenho anuais a considerar para o período do mandato, assim como a fórmula de cálculo do respetivo grau de concretização.
- 7 - Em 4 de março de 2019, a empresa teve o seu Plano de Atividades e Orçamento aprovado pela Tutela Financeira e Setorial.

II. AVALIAÇÃO DOS DOCUMENTOS DE PRESTAÇÃO DE CONTAS

- 8 - A análise completa para o Grupo nos domínios económico, social, ambiental, inovação e igualdade consta do Relatório de Sustentabilidade 2019, revelando-se um cumprimento material daqueles.
- 9 - Verifica-se o cumprimento, no que respeita 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.
- 10 - No domínio das remunerações dos órgãos sociais foi dado cumprimento às orientações remuneratórias vigentes em 2019.
- 11 - Verificou-se, de forma geral, o cumprimento das orientações legais e do Plano de Atividades e Orçamento (PAO).
- 12 - No que se refere ao cumprimento das metas estabelecidas no PAO, aprovado em Assembleia Geral de 29 de abril de 2019, os resultados obtidos alcançaram na generalidade as metas definidas conforme consta dos documentos de prestação de contas com exceção do Prazo Médio de Pagamentos (PMP). Não obstante este incumprimento decorrer das dívidas intra-grupo, em especial junto da AdP Serviços, deverá ser referenciado que na Sociedade continuam a ser implementadas medidas de controlo interno para a redução do PMP (tendo reduzido 5 dias entre 2018 e 2019).
No que respeita ao endividamento individual (incluindo intra-grupo) e no quadro de aplicação de uma política centralizada de tesouraria, ficou abaixo do nível registado em 2018, observando-se apenas um ligeiro incremento face ao previsto em PAO.
Regista-se ainda o acréscimo de uma viatura face ao estimado no PAO, facto explicado pela integração na frota da AdP, SGPS, de uma viatura afeta a um trabalhador transferido da AdP

Serviços no âmbito do processo de reorganização corporativa, com corresponde uma redução de número na frota automóvel da AdP Serviços, não se verificando qualquer aumento no conjunto das duas empresas.



- 13 – No quadro do cumprimento das orientações legais, não obstante o não cumprimento da RCM n.º 34/2008 referente ao PMP pelos motivos já explicitados, destacamos a redução do peso dos gastos operacionais no volume de negócios, por via da redução dos custos com fornecimentos e serviços externos, a par do crescimento do volume de negócios.
- 14 – Deverá ser relevado que os limites relativos aos plafonds de comunicações, não foram integralmente cumpridos, decorrendo esta circunstância do desempenho de funções exercidas na área internacional, sendo o incumprimento circunscrito a esta natureza de despesa.
- 15 – Salienta-se que, ainda que não tenha sido observada a alínea a) do artigo 158.º do DLEO 2019 referente aos gastos com pessoal, o montante registado neste agregado conteve-se dentro dos limites aprovados no PAO 2019. De igual modo, refira-se que pese embora não tenha sido observada a alínea b) do supramencionado preceito legal referente ao conjunto dos encargos com deslocações, ajudas de custo e alojamento, e os associados à frota automóvel, o montante global verificado neste conjunto de gastos conteve-se igualmente dentro dos limites aprovados no PAO 2019.
- 16 – Observa-se um incremento do nível do resultado líquido verificado no exercício na ordem de 5,6M€ face a 2018 o qual é explicado fundamentalmente pelo aumento dos ganhos de investimentos financeiros com origem nos dividendos das empresas participadas.
- 17 - Releva-se, no exercício em apreço, o aumento de 3,4M€ relativos a *Investimentos em subsidiárias e associadas*, consubstanciado no aumento de capital nas subsidiárias AdNorte (2,4M€), AgdA (0,6M€), assim como na constituição da nova subsidiária AdAM (0,6M€).
- 18 – O total de investimentos financeiros em subsidiárias e participadas, totalizando 711,6M€ a 31 de dezembro, representa cerca de 48% do total do ativo da AdP, SGPS, pelo que sendo um ativo com expressão material deve ser objeto de acompanhamento quanto ao processo de avaliação de eventuais imparidades dos investimentos ou reconhecimento de provisões para responsabilidades adicionais em subsidiárias.

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- 19 – No exercício de 2019 foi dada continuidade à política centralizada de gestão de financiamento e disponibilidades do Grupo AdP, a qual tem permitido gerir de forma integrada as necessidades financeiras do Grupo. A Sociedade centralizou também a negociação com o sector bancário para obtenção dos financiamentos de curto prazo beneficiando, por esta via, de melhores condições para financiamentos com essa maturidade. Em cumprimento de orientações legais, o Grupo aplicou os excedentes de tesouraria, líquidos das necessidades do grupo junto do IGCP, bem como tem vindo a transferir a atividade operacional do sistema bancário para aquela entidade (inexistindo aplicações financeiras na banca comercial). Não obstante, assinala-se a existência de saldos residuais, reportados a 31 de dezembro de 2019, em várias contas de bancos nacionais, que decorrem da manutenção da relação comercial relativa à disponibilização de linhas de financiamentos, salientando-se, no entanto, que se encontravam depositados àquela data cerca de 99,4% das disponibilidades no IGCP.
- 20 – Na sequência de recomendação do Conselho Fiscal dirigida à Sociedade, em 2018 foi dada continuidade ao processo de definição do Modelo de Controlo Interno, tendo a AdP SGPS aprovado no decurso de 2019 o projeto de definição e implementação de um Sistema de Controlo Interno transversal para o Grupo. De entre os vários modelos de controlo interno existentes, a Sociedade selecionou o CUBO do COSO (Committee of Sponsoring Organizations of the Tread Commission), como o modelo a implementar, por considerar ser o mais adequado à estrutura das empresas por ser flexível para toda a entidade e para qualquer uma das suas unidades ou atividades de negócio. Neste âmbito, reforça-se a efetiva necessidade de dar continuidade a todos os trabalhos tendentes à conceção do modelo de Sistema de Controlo Interno do Grupo e muito em concreto, a uma melhoria na maturidade do controlo interno existente.
- 21 – No que respeita à contratação pública, em 2019 foi aprovado o Manual de Contratação e o Manual de Boas Práticas, ambos de aplicação em todas as empresas do grupo, visando a continuidade na uniformização de processos e na garantia da observância dos requisitos legais e das orientações internas.
- 22 – 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.
- 23 – O Conselho Fiscal tomou conhecimento do Relatório emitido pelos Auditores Externos sobre as contas separadas, nada havendo a objetar quanto ao seu conteúdo.



24 – 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. Deverá ser relevada a existência de uma ênfase na CLC que se prende com os recentes desenvolvimentos relacionados com o surto de COVID-19, com impacto nos mercados financeiros e na atividade económica de todo o mundo. O Conselho de Administração do Grupo AdP efetuou uma avaliação da situação, com base em indicadores económicos, financeiros e de liquidez e não antecipa que nenhuma das suas empresas venha a apresentar problemas de continuidade, das respetivas operações, nos próximos doze meses. O Conselho Fiscal tomou igualmente conhecimento do respetivo relatório adicional do mesmo Revisor Oficial de Contas sobre a fiscalização efetuada.

25 – Em conformidade com o trabalho desenvolvido, o Conselho Fiscal considera que o Relatório e Contas, as Demonstrações Financeiras separadas (as quais compreendem a Demonstração da posição financeira em 31 de dezembro de 2019, 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 2019, e da forma como se formaram os resultados e se desenrolou a atividade.

26 – 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, 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 e Contas e contas separadas referentes ao exercício de 2019, atenta a ênfase expressa na Certificação Legal das Contas;
- b) A proposta de aplicação de resultados formulada pelo Conselho de Administração no seu Relatório.

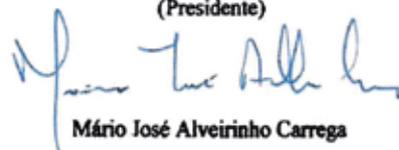
Lisboa, 8 de abril de 2020

O CONSELHO FISCAL



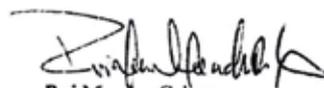
Carla Maria Lamego Ribeiro

(Presidente)



Mário José Alveirinho Carrega

(Vogal)



Rui Mendes Cabeças

(Vogal)

LEGAL CERTIFICATION OF THE ACCOUNTS

Legal Certification of Accounts

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion:

We have audited the attached financial statements of AdP - Águas de Portugal, SGPS, S.A. (the Company), which comprise the statement of the financial position as at December 31 2019 (showing a total of EUR 1,498,313,196 and total equity of EUR 823,863,724 including a net result of EUR 65,151,607), the statement of profit and loss by nature, the statement of comprehensive income, the statement of changes in shareholder equity and the statement of cash flows for the year therein ending as well as the accompanying notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the attached financial statements present fairly and appropriately the consolidated financial position of AdP - Aguas de Portugal, SGPS, S.A. in all material respects as at December 31, 2019 and its financial performance and cash flows for the year then ending in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Bases for the opinion

Our audit was carried out in accordance with the International Accounting Standards (IAS) and the other technical and ethical standards and guidelines of the Bar of Statutory Auditors. Our responsibilities under these standards are described in the section "Auditor's Responsibilities for the Audit of Financial Statements" below. We are independent of the Group under the law and we comply with further legal requirements under the Statutory Auditor code of ethics.

We are convinced that the audit evidence we have obtained is sufficient and appropriate to providing a basis for our opinion.

Emphasis

As mentioned in the section on Subsequent events in the Management Report and in note 34 to the financial statements, recent developments related to the outbreak of COVID 19 are having an impact on financial markets and economic

activities worldwide. The AdP Group Board of Directors has made an assessment of the situation based on economic, financial and liquidity indicators and does not anticipate that any of its companies will have continuity problems with their operations in the next twelve months. We have analysed the above-mentioned disclosures and consider them to be appropriate.

Our opinion is not changed in this respect.

Relevant areas to the audit

The areas relevant to the audit are those that, in our professional judgment, played a major role in auditing the financial statements for the current year. These areas were considered in the context of the audit of financial statements as a whole and, in the formulation of our opinion, and we do not express a separate opinion on these matters.

Our audit approach was based on risk assessment at the level of financial reporting. In the case of this Group, we have identified the following relevant audit subjects

Most significant risks of material distortion identified	Summary of the identified audit approach
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- *Impairment of investments in investees and recognition of provisions*

As at December 31, 2019, the item of Investments in subsidiaries and associates states the amount of EUR 711,595,934, which are deducted from the recognised impairments amounting to EUR 20,008,975, thus approximately representing 48% of the Group's total assets.

The possible impairment of investments in invested companies that are measured at cost less impairment losses and the recognition of provisions to cover possible additional liabilities in the investees with negative equity capital was considered a relevant matter given the importance as a whole of these investments to the Group's assets. In addition, the complexity of the impairment loss assessment process associated with these investments is high due to its involvement of a high degree of judgment, including recourse to estimates.

As regards this issue, Notes 2.3, 4.1, 8 and 14.1 to the financial statements, detailing the disclosure of the accounting policies applied as well as the estimates and critical accounting judgments correspondingly made in the application of these accounting policies, provide further information.

Our approach to this risk included a number of combined procedures related to internal and substantive controls, specifically:

- Obtaining the financial statements and relevant information on the investments from the respective investees, including the reports issued by the Statutory Auditors (Legal Certification of Accounts);
- Assessment of the assumptions deployed by the Board of Directors in evaluating the indications of impairment of financial shareholdings and any impairment tests performed;
- Analysis of the Economic Feasibility Studies (EVEFs) of companies managing multi-municipal systems, specifically as regards their projections of future cash flows and the respective assumptions;
- Assessment of the need to establish and/or maintain provisions to cover possible liabilities arising from some investees proving unable to comply with their commitments.

Responsibilities of the management body and the supervisory body for the financial statements

The management body is responsible for the:

- preparation of financial statements that fairly and appropriately present the financial position, financial performance and cash flows of the Group in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union;
- preparation of the management report, including the corporate governance report, in accordance with the applicable legal and regulatory framework;
- creation and maintenance of an appropriate internal control system designed to ensure and enable the preparation of financial statements exempt from material distortion for reasons of fraud or error;
- adoption of the appropriate accounting policies and criteria under these circumstances; and
- assessment of the Group's capacity to remain in operation and disclosing, whenever applicable, matters that may result in significant changes to the continuity of activities.

The supervisory body is responsible for overseeing the preparation and disclosure of the Group's financial information.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement due to fraud or error and to issue a report containing our opinion. Fairness and a high level of safety does not however guarantee that an audit performed in accordance with the IAS shall always detect material misstatement when existing. Distortions may arise from fraud or error and are considered material whenever, in isolation or in conjunction, they can reasonably be expected to influence the economic decisions users make based on those financial statements.

As part of an IAS audit, we make professional judgments and maintain professional scepticism throughout the audit and also:

- identify and assess the risks of material misstatement of the consolidated financial statements due to fraud or error, design and perform audit procedures that respond to those risks, and 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 misrepresentation due to error since fraud may involve collusion, forgery, intentional omissions, false declarations or overlapping internal control;
- obtain an understanding of the internal control relevant to the audit for the purpose of designing audit procedures that are appropriate to the circumstances but not to expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the adequacy of the accounting policies applied and the reasonableness of the accounting estimates and the respective disclosures made by the management body;
- conclude on the appropriateness of the management's application of the assumption of continuity and, based on the audit evidence obtained, whether there is any material uncertainty related to events or
-

conditions that could give rise to significant doubts about the Group's ability to continue activities. If we conclude that there is material uncertainty, we should either draw attention in our report to the related

disclosures included in the financial statements or, when these disclosures are not appropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to discontinue its activities;

- evaluate the presentation, structure and overall content of the financial statements, including disclosures, and whether these financial statements represent the underlying transactions and events in order to convey an appropriate representation;
- communicate to those in charge of governance, including the audit body, among other issues, the scope and planned timetable of the audit, and any significant findings of the audit including any significant deficiencies in internal control identified during the audit;
- in terms of the contents communicated to governance officials, including the audit body, we have determined the most important matters to auditing the financial statements for the current year and which are the relevant audit subjects. We correspondingly describe these matters in our report except when the law or other regulation prohibits their public disclosure;
- declare to the supervisory body that we comply with the relevant ethical requirements relating to independence and communicate all relationships and other issues that might be perceived as reflecting on our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying both our agreement with the information contained in the related financial statements and the presentation of the respective non-financial statement.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

Pursuant to Article 451 (3) of the Rules of Procedure, e) of the Commercial Companies Code, it is our opinion that the management report was prepared in accordance with the legal and regulatory requirements in force, the information contained therein is correspondingly consistent with the audited consolidated financial statements and, taking into account our knowledge and evaluation of the Group, we do not identify any material misreporting.

On the additional elements provided for by Article 10 of Regulation (EU) No 537/2014

In compliance with Article 10 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014, and in addition to the relevant audit subjects mentioned above, we would also report the following:

- We were appointed for the first time as the Statutory Auditor by a unanimous company resolution proposed by the shareholder Parpública - Participações Públicas (SGPS, S.A.), on December 27, 2018, for the term between 2018 and 2020.
- The management body has confirmed to us that it is not aware of the occurrence of any fraud or suspected fraud with a material effect on financial reporting. In planning and the performance of our audit in accordance with the ISA, we have maintained professional scepticism and devised audit procedures to respond to the possibility of material distortion of financial statements due to fraud. As a result of our work, we do not identify any fraud induced material distortion in the financial statements.
- We confirm that the audit opinion hereby issued is consistent with the additional report we prepared and delivered to the Group's Audit Board on the same date.

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- We declare that we do not provide any services prohibited under the terms of article 77, number 8, of the Statutes of the Order of Statutory Auditors and that we have maintained our independence vis-à-vis the Group during the performance of this audit.

8 April 2020

(one illegible signature)

Grant Thornton & Associates - SROC, Lda.

Represented by Pedro Lisboa Nunes



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Certificação Legal das Contas

RELATO SOBRE A AUDITORIA DAS DEMONSTRAÇÕES FINANCEIRAS

Opinião

Auditámos as demonstrações financeiras anexas da AdP – Águas de Portugal, S.G.P.S., S.A. (a Entidade), que compreendem a demonstração da posição financeira em 31 de dezembro de 2019 (que evidencia um total de 1.498.313.196 euros e um total de capital próprio de 823.863.724 euros, incluindo um resultado líquido de 65.151.607 euros), a demonstração dos resultados por naturezas, a demonstração do rendimento integral, a demonstração das alterações no capital próprio e a demonstração dos fluxos de caixa relativas ao ano findo naquela data, e as notas anexas 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, S.G.P.S., S.A. em 31 de dezembro de 2019 e o seu desempenho financeiro e fluxos de caixa relativos ao ano findo naquela data, de acordo com as Normas Internacionais de Relato Financeiro (IFRS) 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 que a prova de auditoria que obtivemos é suficiente e apropriada para proporcionar uma base para a nossa opinião.

Ênfase

Conforme mencionado no ponto de Eventos subsequentes do Relatório de gestão e na nota 34 às demonstrações financeiras, os recentes desenvolvimentos relacionados com o surto de COVID-19, estão a

ter impacto nos mercados financeiros e na atividade económica de todo o mundo. O Conselho de Administração do Grupo AdP efetuou uma avaliação da situação, com base em indicadores económicos, financeiros e de liquidez e não antecipa que nenhuma das suas empresas venha a apresentar problemas de continuidade, das respetivas operações, nos próximos doze meses. Analisámos as divulgações, acima mencionadas, e consideramos que as mesmas são adequadas.

A nossa opinião não é modificada em relação a esta matéria.

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 nossa opinião, e não emitimos uma opinião separada sobre essas matérias.

A nossa abordagem de auditoria foi baseada na avaliação dos riscos ao nível do reporte financeiro, tendo no caso desta Entidade sido identificadas as seguintes matérias relevantes de auditoria:

Riscos de distorção material mais significativos identificados Síntese da abordagem de auditoria

• Imparidade dos Investimentos em participadas e reconhecimento das provisões

A rubrica de Investimentos em subsidiárias e associadas apresenta, em 31 de dezembro de 2019, o montante de 711.595.934 euros, os quais estão deduzidos de imparidades reconhecidas no valor de 20.008.975 euros, representando cerca de 48% do total do ativo da Entidade.

A eventual imparidade dos investimentos em participadas que se encontram mensurados ao custo menos perdas por imparidade e o reconhecimento de provisões para fazer face a eventuais responsabilidades adicionais nas participadas com capitais próprios negativos, foi considerada uma matéria relevante dada a importância destes investimentos no conjunto do ativo da Entidade. Adicionalmente, acresce ainda a complexidade do processo de avaliação das perdas por imparidade, associadas a estes investimentos, o qual envolve um elevado grau de julgamento, incluindo o recurso a estimativas.

Sobre esta matéria, as Notas 2.3, 4.1, 8 e 14.1 às demonstrações financeiras, referente à divulgação das políticas contabilísticas utilizadas, bem como às estimativas e julgamentos contabilísticos críticos efetuados na aplicação dessas políticas contabilísticas, fornece mais informações.

A nossa abordagem a este risco consistiu na realização de um conjunto combinado de procedimentos relacionados com o controlo interno e substantivos, designadamente:

- Obtenção das demonstrações financeiras e informação relevante sobre os investimentos nas participadas em causa, inclusive os relatórios emitidos pelos Revisores Oficiais de Contas (Certificação Legal das Contas);
- Avaliação dos pressupostos utilizados pelo Conselho de Administração na avaliação dos indícios de imparidade das participações financeiras e nos eventuais testes de imparidade efetuados;
- Análise dos Estudos de Viabilidade Económica (EVEF) das empresas gestoras dos sistemas multimunicipais, nomeadamente a projeção dos fluxos de caixa futuros e respetivos pressupostos;
- Avaliação da necessidade de constituição e/ou manutenção de provisões para fazer face a eventuais responsabilidades, decorrentes do facto de algumas participadas poderem não ter capacidade para cumprir os seus compromissos.

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 Normas Internacionais de Relato Financeiro (IFRS) tal como adotadas na União Europeia;
- elaboração do relatório de gestão, incluindo o relatório de governo societário, 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
- avaliação da capacidade da Entidade se manter em atividade, 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;
- 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 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 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;
- 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.

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) n.º 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 nomeados pela primeira vez como Revisor Oficial de Contas por deliberação social unânime por escrito do Acionista Párpública – Participações Públicas (SGPS), S.A., realizada em 27 de dezembro de 2018, para o mandato compreendido entre 2018 e 2020.
- 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 Conselho Fiscal 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.

8 de abril de 2020

Grant Thornton & Associados – SROC, Lda.
Representada por Pedro Lisboa Nunes

REPORT OF THE EXTERNAL AUDITOR

Auditor's Report

Report on the audit of the financial statements

Opinion

We have audited the attached financial statements of AdP - Águas de Portugal, SGPS, S.A. (the Group), which comprise the statement of the financial position as at December 31, 2019 (showing a total of EUR 1,498,313,196 and total equity of EUR 823,863,724 including a net result of EUR 65,151,607), the statement of profit and loss by type, the statement of comprehensive income, the statement of changes in shareholder equity and the statement of cash flows for the year therein ending as well as the accompanying notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the attached consolidated financial statements present fairly and appropriately the consolidated financial position of AdP - Águas de Portugal, SGPS, S.A. in all material respects as at December 31, 2019 and its financial performance and cash flows for the year then ending in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Bases for Opinion

Our audit was carried out in accordance with the International Accounting Standards (IAS) and the other technical and ethical standards and guidelines of the Bar of Statutory Auditors. Our responsibilities under these standards are described in the section "Auditor's Responsibilities for the Audit of Financial Statements" below. We are independent of the Group under the law and we comply with further legal requirements under the Statutory Auditor code of ethics.

We are convinced that the audit evidence we have obtained is sufficient and appropriate to providing a basis for our opinion.

Areas relevant to the audit

The areas relevant to the audit are those that, in our professional judgment, played a major role in auditing the financial statements for the current year. These areas were considered in the context of the audit of financial statements as a whole and, in the formulation of our opinion, and we do not express a separate opinion on these matters. We consider that the matters described below are the audit relevant matters to be expressed in this report.

Relevant auditing matters**Summary of the audit approach**

Recoverability of investments in subsidiaries and associates

Disclosures related to financial investments in subsidiaries and associates presented in notes 2.3, 4.1, 8 and 29

As at 31 December 2019, AdP – Águas de Portugal, SGPS, SA, presents in its separate financial statements the amount of EUR 712 million (31 December 2018; EUR 708 million) related to financial investments in subsidiaries and associates, which are measured at acquisition cost less impairment losses. These should be tested for impairment whenever there are indications or changes in the circumstances indicating that the amount constituted may not be recoverable.

The relevance of this issue in our audit results from the high amount and level of judgment associated with the impairment assessment process.

To ensure the correct valuation of financial investments, the following audit procedures were carried out:

- assessment of the existence of impairment in financial investments;
- analysis of the Economic and Financial Feasibility Studies (EVEF) of the managing entities of the multi-municipal systems, namely the projection of future cash flows and the inherent assumptions; and
- assessment of the need to establish and/or maintain the provision for possible liabilities, considering the likelihood that some subsidiaries may not be able to meet their commitments.

The adequacy of the associated disclosures was also reviewed, based on the applicable accounting standards and the factors considered relevant.

Responsibilities of the management body and the supervisory body for the financial statements

The management body is responsible for the:

- a) preparation of the consolidated financial statements that fairly and appropriately present the Group financial position, the financial performance and cash flows in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;
- b) preparation of the management report, including the corporate governance report, in accordance with the applicable legal and regulatory framework;
- c) implementation and maintenance of an appropriate internal control system to enable the preparation of financial statements free from material misstatement due to fraud or error;
- d) adoption of the appropriate accounting policies and criteria under these circumstances; and

- e) assessment of the Group's capacity to remain operational and disclosing, whenever applicable, any issues that may give rise to significant changes in the continuity of activities.

In turn, the supervisory body is responsible for overseeing the preparation and disclosure of the Group's financial information.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error and to issue a report containing our opinion. Reasonable certainty is a high level of safety but this does not guarantee that an audit performed in accordance with the IAS shall always detect material misstatements when existing. Distortions may arise from fraud or error and are considered material when, whether in isolation or in conjunction, they can reasonably be expected to influence the economic decisions of users based on the respective financial statements.

As part of an IAS audit, we make professional judgments and maintain professional scepticism throughout the audit and also:

- a) identify and assess the risks of material misstatement of the consolidated financial statements due to fraud or error, design and perform audit procedures that respond to those risks, and obtain audit evidence that is sufficient and appropriate to providing 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 misrepresentation due to error as fraud may involve collusion, forgery, intentional omissions, false declarations or overlapping internal control;
- b) obtain an understanding of internal control system relevant to the audit for the purpose of designing audit procedures appropriate to the circumstances but not to expressing an opinion on the effectiveness of the Group's internal control system;
- c) evaluate the appropriateness of the accounting policies applied and the reasonableness of the accounting estimates and the respective disclosures made by the management body;
- d) conclude on the appropriateness of the management's adoption of the assumption of continuity and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that might give rise to significant doubts about the Group's ability to continue activities. When concluding that there is material uncertainty, we duly draw attention in our report to the related disclosures included in the consolidated financial statements or, when these disclosures are not appropriate, we correspondingly modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to discontinue its activities;

- e) evaluate the presentation, structure and overall content of the consolidated financial statements, including the disclosures, and whether these consolidated financial statements represent the underlying transactions and events in order to convey an appropriate presentation;
- f) communicate with those responsible for governance, including the supervisory body, the scope and timing of the audit, among other issues, as well as any significant audit findings, including any significant internal control weaknesses identified during the audit;
- g) as regards issues communicated to governance officials, including the supervisory body, we determined those most important to auditing the financial statements and the consolidated financial statements for this financial year and which were the relevant auditing matters. We describe these matters in our report except when legal or regulatory stipulations prohibits their public disclosure;
- h) declare to the supervisory body that we comply with the relevant ethical requirements relating to independence and communicating all relationships and other matters potentially perceived as reflecting on our independence and, when applicable, the respective safeguards.

Our responsibility also includes verifying the consistency of the information contained in the management report with that in the consolidated financial statements as well as verifying the presentation of the non-financial statement.

Report on other legal and regulatory requirements

On the management report

It is our opinion that the management report was prepared in accordance with the legal and regulatory requirements in force, the information contained therein is correspondingly consistent with the audited consolidated financial statements and, taking into account our knowledge and evaluation of the Group, we do not identify any material misreporting.

8 April 2020

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

(one illegible signature)
João Rui Fernandes Ramos, Statutory Auditor

RELATÓRIO DO AUDITOR EXTERNO



Relatório de Auditoria

Relato sobre a auditoria das demonstrações financeiras

Opinião

Auditámos as demonstrações financeiras anexas da AdP - Águas de Portugal, S.G.P.S., S.A. (a Entidade), que compreendem a demonstração da posição financeira em 31 de dezembro de 2019 (que evidencia um total de 1.498.313.196 euros e um total de capital próprio de 823.863.724 euros, incluindo um resultado líquido de 65.151.607 euros), a demonstração do resultado, 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 anexas 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, S.G.P.S., S.A. em 31 de dezembro de 2019 e o seu desempenho financeiro e fluxos de caixa relativos ao ano findo naquela data de acordo com as Normas Internacionais de Relato Financeiro (IFRS) tal como adotadas na União Europeia.

Bases para a opinião

A nossa auditoria foi efetuada de acordo com as Normas Internacionais de Auditoria (ISAs) 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. Consideramos que as matérias descritas abaixo são as matérias relevantes de auditoria a comunicar neste relatório.

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Matrikulada na CRC sob o NUPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. pertence à rede de entidades que são membros de PricewaterhouseCoopers International Limited, cada uma das quais é uma entidade legal autónoma e independente.

Matérias relevantes de auditoria

Síntese da abordagem de auditoria

Recuperabilidade de investimentos em subsidiárias e associadas

Divulgações relacionadas com investimentos financeiros em empresas subsidiárias e associadas apresentadas nas notas 2.3, 4.1, 8 e 29

Em 31 de dezembro de 2019, a AdP – Águas de Portugal, SGPS, S.A. apresenta nas suas demonstrações financeiras separadas o montante de 712 milhões de euros (31 de dezembro de 2018: 708 milhões de euros) respeitante a investimentos financeiros em empresas subsidiárias e associadas, as quais se encontram mensuradas ao custo de aquisição deduzido de perdas por imparidade. Estas devem ser sujeitas a testes de imparidade sempre que existam indícios ou alterações nas circunstâncias que indiquem que o montante pelo qual se encontram escrituradas possa não ser recuperável.

A relevância deste assunto na nossa auditoria resulta do elevado montante e do nível de julgamento associado ao processo de avaliação de imparidade.

Para assegurar a correta valorização dos investimentos financeiros foram efetuados os seguintes procedimentos de auditoria:

- avaliação da existência de indícios de imparidade nas participações financeiras;
- análise dos Estudos de Viabilidade Económica e Financeira (EVEF) das entidades gestoras dos sistemas multimunicipais, nomeadamente a projeção dos fluxos de caixa futuros e os pressupostos que lhes estão inerentes; e
- avaliação da necessidade de constituir e/ou manter a provisão para fazer face a eventuais responsabilidades, considerando a possibilidade de algumas participadas não terem capacidade de solver os seus compromissos.

Foi igualmente revista a adequabilidade das divulgações associadas, tendo por base o enunciado no normativo contabilístico aplicável e os fatores considerados relevantes.

Responsabilidades do órgão de gestão e do órgão de fiscalização pelas demonstrações financeiras

O órgão de gestão é responsável pela:

- a) 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 (IFRS) tal como adotadas na União Europeia;
- b) elaboração do relatório de gestão, incluindo o relatório de governo societário, nos termos legais e regulamentares aplicáveis;
- c) 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;
- d) adoção de políticas e critérios contabilísticos adequados nas circunstâncias; e

- 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 ISAs 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 ISAs, fazemos julgamentos profissionais e mantemos ceticismo profissional durante a auditoria e também:

- a) 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;
- b) 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;
- c) avaliamos a adequação das políticas contabilísticas usadas e a razoabilidade das estimativas contabilísticas e respetivas divulgações feitas pelo órgão de gestão;
- d) 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 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 a Entidade descontinue as suas atividades;

- e) 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;
- f) 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 identificada durante a auditoria;
- g) 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;
- h) 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

Em nossa opinião, 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.

8 de abril de 2020

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
representada por:



João Rui Fernandes Ramos, R.O.C.



Kevin Rose, Unipessoal Lda
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STATEMENT

The documents entitled "Report of the Non-Executive Director" published on pages 126 to 127, "Report and Opinion of the Audit Board on the Consolidated Accounts" published on pages 250 to 254, "Legal Certification of the Consolidated Accounts" published on pages 260 to 266, "Report of the External Auditor on the Consolidated Accounts" published on pages 274 to 281. "Report and Opinion of the Audit Board on the Separate Accounts" published on pages 338 to 343, "Legal Certification of the Separate Accounts" published on pages 350 to 354 and the "Report of the External Auditor on the Separate Accounts" published on pages 360 to 363 of this annual report were translated by Kevin Rose Unipessoal, Lda from the original documents included in Águas de Portugal "Relatório e Contas 2019".

Kevin A. Rose.

EDITED BY

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