
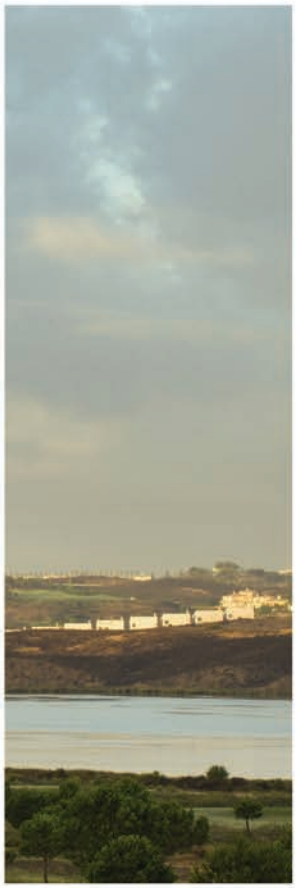


Annual Report and Accounts 2014

ÁGUAS DE PORTUGAL

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Annual Report and Accounts 2014

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Chairman's Statement

"2014 was a very important year for the Águas de Portugal Group due to a number of events and factors that go beyond the timeframe and scope of this report's financial year."

Afonso Lobato de Faria
Chairman of the Board of Directors

Chairman's Statement

2014 was a very important year for the Águas de Portugal Group due to a number of events and factors that go beyond the timeframe and scope of this report's financial year."

For a full understanding of the results that we are reporting for 2014, we believe that it is essential to broaden the scope of this report to encompass this Board of Directors entire term of office, during which we followed the strategic guidelines received from the state (our shareholder) in February 2012.

The guidelines on the restructuring of the water and waste sectors, which have been our main focus in these three years, are extremely important, complex and demanding for the AdP Group.

It was in the completion of our work and efforts since 2012 that, in the second half of 2014, two events of extreme importance for these sectors and our business organisation occurred. They were the presentation of the integrated strategy for restructuring the water sector, made by the Minister of the Environment, Spatial Planning and Energy on 1 October and the signing of the purchase and sale agreement of EGF between AdP SGPS and SUMA in November.

The restructuring strategy for the water sector presented by the Minister, not only involves the reorganisation of the state-owned sector via the territorial and corporate restructuring of the AdP Group, but also a review of the strategic sectoral plan for 2020 (PENSAAR 2020), alignment of a package of associated financial instruments (POSEUR - Operational Programme for Sustainable, Efficient Use of Resources), a new regulatory framework reinforcing the regulator's statutes and the introduction of tariff regulations, and itemised bills.

Where the strategic plans and associated finance instruments are concerned, the aim is to push forward with work on infrastructure for a type of investment in improving management, consolidating existing assets and creating the right conditions for management entities to progress to more efficient, empowered levels of organisation.

The sector regulator's statutes as an independent entity came into effect in April 2014. We hope that with these extra powers the sector will take on an agenda in line with its current stage of development and focus on economic, social and environmental sustainability as a whole.

Also regarding ERSAR's (Portugal's Water and Waste Services Regulator) new regulatory powers, the approval in 2014 of the tariff regulations for the household waste management service was very important. It should come into effect in January 2016 and constitutes a change from the cost plus model to a revenue cap model.

In December 2014, ERSAR submitted to its Advisory Board initial draft tariff regulations for the water sector. It will require an opinion from the Tariff Board and a public consultation.

Where the AdP Group's territorial reorganisation was concerned, we continued to prepare the aggregation of multi--municipal systems in 2014. This involved conducting studies and developing economic and operational models and articulation with the different stakeholders. We are pleased to say that the Council of Ministers of 9 April approved the decree-laws on aggregating systems and the formation of the new companies Águas do Norte, Águas do Centro Litoral and Águas de Lisboa e Vale do Tejo.

Also regarding the restructuring of the water sector, legislation on itemised billing was approved in July. This means that detailed bills are issued to end users with a breakdown of the cost components of the service, which may be water supply, wastewater treatment or household waste management. It obliges the municipal systems' management entities to transfer 50% of the amount of the bill charged to each service to the management entity of the multi-municipal or inter-municipal system. It is always limited to the amount owed to this management entity and the sum collected cannot be used for any other purpose.

This new rule is extremely important to the AdP Group, as it helps minimise the collection risk and safeguards the revenue needed for the sustainability of services.

The reduction in financial expenses from borrowing has been one of the aspects to which this administration has devoted particular attention, especially reducing customers' debts, the important impacts of working capital and available capital to meet investment needs and the financial costs of associated funding.

In 2014, there was a significant EUR 45.6 million reduction in customers' debts, also including operations held for sale (EGF group). Particular efforts were made in relation to municipal customers and payment agreements, which benefited from the financial support programmes for local authorities. Growth in receipts from customers not only reduced the group's working capital needs by 13% against 2013, but also made it possible to resume the most urgent investments.

Overall, including EGF, the group's investment in 2014 grew by EUR 48.1 million against 2013 (+29.5%) to EUR 210.5 million.

Where financial operating indicators were concerned, EBITDA totalled EUR 383.9 million in 2014, which was EUR 16.5 million higher and constituted an increase of 4.5% against 2013. This improvement was due especially to a reduction in operating costs (about EUR 8 million lower) and other non-recurring operating gains.

Turnover totalled EUR 792.8 million in 2014, which was EUR 23.4 million less than in 2013, but was in line, with a slight increase, with the amount in 2012.

The net profit of EUR 102.4 million in 2014 was in line with the previous year.

We achieved good results in reducing the weight of operating costs in the turnover of the Group's business universe, thanks to the work done in this term of office to improve efficiency and sustainability.

Although most of our attention was focused on undertaking and completing the restructuring of the sector, both in the water segment and the reprivatisation of EGF, other events in 2014 are also worthy of note.

The work was completed on the public partnership for the operation and management of water services in the North-eastern region. In April 2015, Águas do Noroeste began operating and managing the municipal systems in eight of the region's municipalities.

Regarding water supply and wastewater treatment, a word of appreciation goes to the performance in increasing degrees of customer care and substantially improving efficiency. This improvement is confirmed by the high quality standards of water produced and supplied by the AdP Group companies, as shown by the national statistics published annually by ERSAR.

Where waste was concerned, in addition to the studies and work conducted towards the reprivatisation of the company, which now only awaits the opinion of the anti-trust authority, we prepared the management instruments required to meet the challenges arising from the new PERSU 2020 sectoral plan and tariff regulations.

Regarding operations in international markets, 2014 witnessed the completion of the technical assistance project for the Angolan Ministry of Energy and Water. Other projects in Angola continued to go well, as did those in the Democratic Republic of Congo and Mozambique. A technical assistance contract for the implementation of the sanitation plan in Dili, East Timor began in 2014.

Finally, a word must go to the sector's most important international event, the World Congress of the IWA – International Water Association, which was held in Lisbon in September.

The part that the AdP Group played in this congress was a source of pride for Portugal and the sector. This was confirmed by the interest shown by international participants in the presentation of our skills, experiences and achievements. A very important factor, from the start was EPAL's involvement in Lisbon's bid to host and organise the congress and in the programme of presentations, round tables and workshops on a variety of issues.

Many Group company employees played an active part in the congress. One of the highlights was water safety plans (WSPs), which culminated with the launch of the Portuguese version of the Water Safety Plan Manual, a work produced within the Group.

This manual is designed to boost the experience of our companies in implementing the WSP with best international practices in water safety management. It is currently being adopted, with AdP Group support, by a number of Portuguese management entities and also by Portuguese-speaking markets, such as Maputo, Mozambique.

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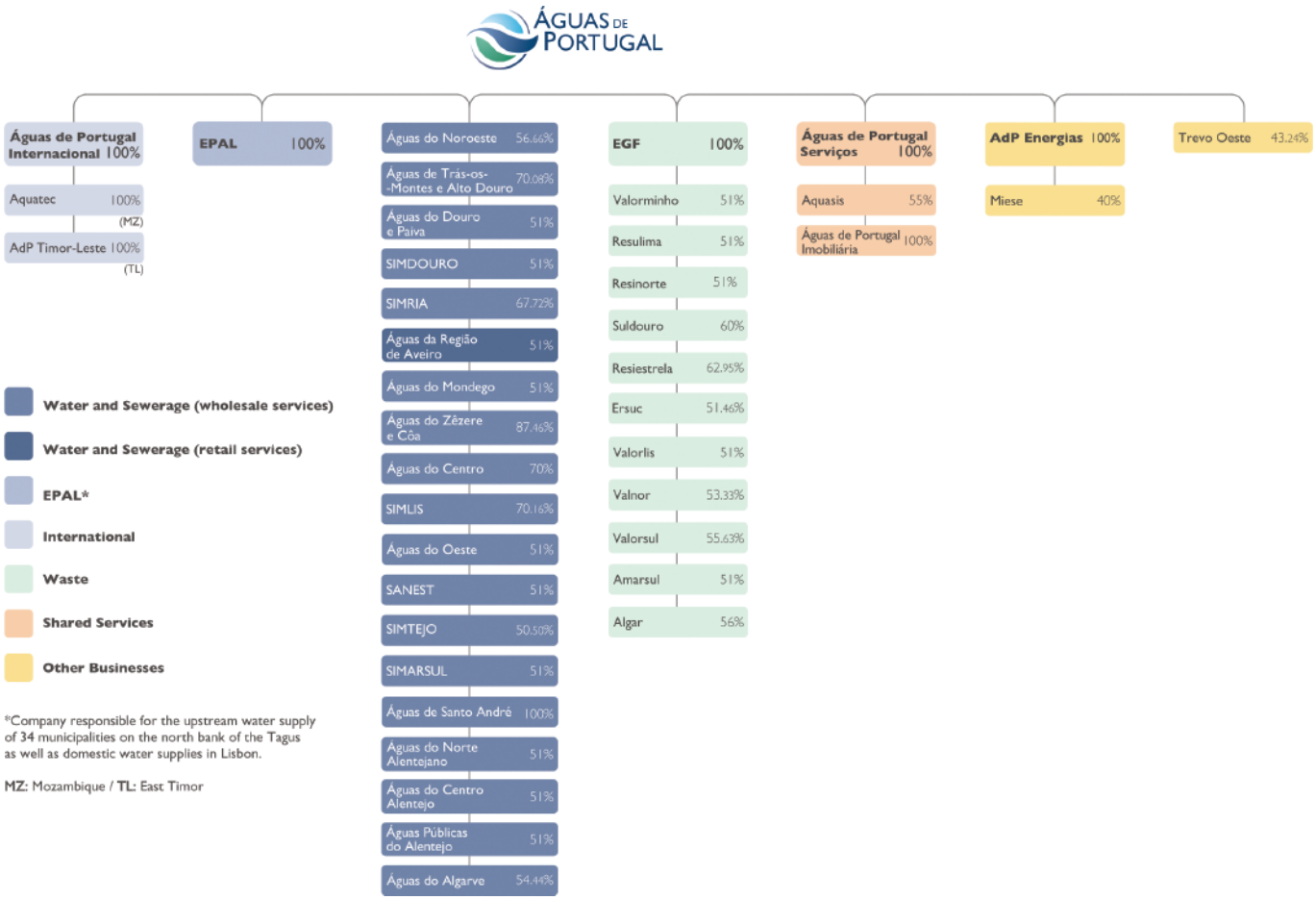
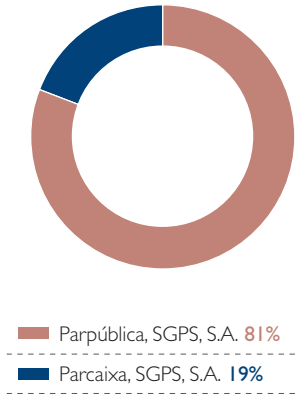
The AdP Group

The AdP Group

Organisation Chart



Shareholders



Summary of indicators

Economic and financial elements

(Unit: EUR million)

	2012	2013	2014	2014(*)
Turnover	791.4	816.2	792.8	626.2
Tariff deviations	65.2	43.7	23.1	26.3
Operating profit/loss(1)	248.8	238.9	228.8	216.1
EBITDA(2)	357.2	367.3	383.9	327.1
Financial income	(76.3)	(50.3)	(57.7)	(58.1)
Net profit of financial year	93.8	104.7	102.3	102.3

(1) Earnings before interest and tax; (2) O P/L + amortisation + provisions + impairment losses and reversals - tariff deviations - investment grants;
(*) EGF presented as held for sale/ discontinued operations.

	2012	2013	2014	2014(*)
Operating assets (net)	5 515.1	5 460.8	5 437.5	4 776.3
Investment	229.0	162.4	210.5	169.2
Trade receivables (without tariff deviations)(1)	555.2	559.8	514.2	439.6
Total assets	7 598.1	7 595.5	7 491.7	7 491.7
Financial debt - medium and long term	2 476.1	2 423.5	2 265.7	2 139.7
Financial debt - short term	619.9	616.7	651.3	598.9
Financial debt - Total	3 096.0	3 040.2	2 917.0	2 738.6
Financial debt - net	2 643.1	2 544.7	2 450.3	2 347.5
Grants	1 925.3	1 943.2	1 903.6	1,630.4
Liabilities	6 462.2	6 353.3	6 164.1	6 164.1
Equity(2)	1 135.9	1 242.3	1 327.7	1 327.7
Non-controlling interests	307.0	325.3	340.8	340.8

(1) Without accrual of earnings; (2) Equity includes non-controlling interests; (*) EGF presented as held for sale/ discontinued operations.

Business data

	2012	2013	2014	2014(*)
Volume of water produced(1)(3)	593.6	590.3	573.3	573.3
Volume of water distributed(1)(4)	77.4	76	74.4	74.4
Volume of wastewater treated(1)	450.6	505.1	546.7	546.7
Volume of solid household waste treated(2)	3.2	3,1	3.1	3.1
Number of employees	5 246	4 988	4 788	3 072

(1) Unit: millions of m^3; (2) Unit: millions of tonnes ; (3) Includes water produced by EPAL, UNA-PD and UNI; (4) Includes water distributed by EPAL, UNI, AdRA and AdSA;
(*) EGF presented as held for sale/ discontinued operations.

Economic and financial indicators

	2012	2013	2014	2014(*)
Financial structure(1)	2.7	2.4	2.2	2.1
Solvency(2)	0.5	0,5	0.5	0.5
Assets to total equity ratio(3)	0.4	0.4	0.4	0.4
Growth in turnover(4)	06%	6.4%	(0.4%)	(22.3%)
EBITDA margin(5)	49.2%	47.5%	49.9%	54.5%
ROCE before tax(6)	4.4%	4.7%	5.1%	4.3%

(1) Bank loans to equity; (2) (equity + grants)/ liabilities; (3) (equity + grants)/ Assets; (4) Net of tariff deviations; (5) EBITDA/ Turnover net of tariff deviations;
(6) EBIT/ capital used; EBIT = operating result - tariff deviations; (capital used = Totalnet assets - short-term liabilities - investment grants- tariff deviations - deferred tax Assets);
(*) EGF presented as held for sale / discontinued operations.

Important events in the financial year

Following amendments to the law in 2013, a series of laws published in 2014 were of considerable importance to the sector, such as:

- Law 10/2014 of 6 March, which approves the new statutes of the water and waste service regulator (ERSAR) converting it into a regulating entity as defined by Law 67/2013 of 28 August, the regulators' framework law;

- Law 12/2014 of 6 March, which approves itemised bills for waste and water services and makes the second amendment to Decree--Law 194/2009 of 20 August, regulated by Decree-Law 114/2014 of 21 July and by ERSAR guidelines on the content of bills;

- Decree-Law 45/2014 of 20 March, which approves the reprivatisation of EGF – Empresa Geral do Fomento, S.A.

- Tariff regulations for waste management services, ERSAR Decision 928/2014, approved by the Minister of the Environment, Spatial Planning and Energy and published in Diário da República, 2.ª série on 15 April;

- The preparation of the new strategic plans for urban water services were completed: PENSAAR 2020 – a new strategy for the water supply and wastewater treatment sector and waste management services and PERSU 2020 – a strategic household waste plan. They set the state's targets and goals for each sector.

A new regulatory framework was drawn up, focusing on efficiency and quality of services by reinforcing the powers of the regulator and setting out tariff regulations representing the new regulatory model for the sector, with the introduction of itemised bills. In December 2014, ERSAR submitted to its Advisory Board initial draft tariff regulations for the water sector.

Studies were conducted on the reorganisation of the state-owned sector involving territorial and corporate restructuring of the AdP Group in order to achieve greater efficiency. This integrated restructuring strategy for the water sector was presented by the Minister of the Environment, Spatial Planning and Energy in October 2014.

In the waste area, the EGF reprivatisation process began with the publication of Decree-Law 45/2014 of 20 March and Council of Ministers Resolution 30/2014 of 8 April. The winning bidder was chosen by Council of Ministers Resolution 55-B/2014 on 18 September. Following this government decision, in November 2014 the agreement for the sale of the shareholding of AdP - Águas de Portugal, SGPS, S.A. in EGF – Empresa Geral do Fomento, S.A., to SUMA was signed. The process is now awaiting a decision from the Anti-Trust Authority.

A - Corporate Governance

A - Corporate Governance

Mission, goals and policies

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

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

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

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

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

The specific strategic guidelines for the Board of Directors of AdP SGPS for its 2012/2014 term of office are as follows:

- A philosophy of professional management based on appropriate powers and growth in production capacity according to the highest quality standards in order to fulfil its mission;

- The best management practices abiding by the principles of good corporate governance in state-owned companies;

- The development of an organisational culture focusing on performance excellence based on key business practices that ensure the company's success on the path towards business sustainability, fundamentally based on a management philosophy that encompasses economic, environmental, social and ethical fields.

Every year, the government approves a set of specific management goals for the Board of Directors of AdP SGPS.

Within the framework of its mission, AdP SGPS must pursue the following strategic guidelines:

- Follow the sector policies that govern its activity and the creation of shareholder value, with special focus on prudential risk management and the mobilisation of financial resources;

- Streamline the investments required to deliver the services, focusing on the suitable sizing of new infrastructure and maintenance of that already existing;

- Reorganise the water supply and wastewater treatment segments, with priority to the economic and financial sustainability of operations in these areas and improvement of efficiency in the delivery of services;

- Continue to foster efficiency, increasing the grouping of systems and promoting integrated solutions for management of the urban water cycle;

- Make it possible for private entities to participate in managing the systems;

- Continue to identify solutions that help to solve the tariff deficit problem, in terms of sustainability;

- Make the waste business unit of the AdP Group autonomous and implement the necessary measures to open it up to private sector investment;

- Contribute to sustainable development by finding solutions to harness endogenous assets and resources, rationalise energy consumption and reduce or offset emissions;

- Capitalise on the skills and capabilities available in the Group and implement projects in international markets;

- Develop an integrated R&D strategy, in harmony with national goals;

- Ensure the continuity of other important projects in accordance with government guidelines.

Governing bodies

Governing bodies in office on 31 December 2014, elected for 2012/2014

Officers of the General Meeting

Chairman Ana Cristina de Menezes Pereira Paes Sequeira Rodrigues
Vice-Chairman Maria Fernanda Joanaz Martins
Secretary Manuel Bruno Rossi Ruano Gouveia Pereira

Board of Directors

Chairman Afonso José Marçal Grilo Lobato de Faria
Member Álvaro António Magalhães Ferrão de Castello-Branco
Member Gonçalo Ayala Martins Barata
Member Manuel Joaquim Barata Frexes
Member Manuel Maria Pereira Fernandes Thomaz
Non-executive Member José Manuel Barros, appointed by the shareholder Parpública, SGPS, S.A. and Parcaixa, SGPS, S.A.

Executive Committee

Chairman Afonso José Marçal Grilo Lobato de Faria
Member Álvaro António Magalhães Ferrão de Castello-Branco
Member Gonçalo Ayala Martins Barata
Member Manuel Joaquim Barata Frexes
Member Manuel Maria Pereira Fernandes Thomaz

Conselho Fiscal

Chairman Carla Ribeiro
Member Mário José Alveirinho Carrega
Member Ana Luisa Videira Gomes
Substitute Member Graça Maria V.N. Montalvão Fernandes

Statutory Auditor

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

Company Secretary

Effective Ana Cristina Rebelo Pereira
Substitute Ricardo Cortes Ribeiro

External Auditor

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

Positions held by members of the Executive Committee

On 31 December 2014, the positions held by the members of the Executive Committee in other companies were:

Afonso José Marçal Grilo Lobato de Faria

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

Álvaro António Magalhães Ferrão de Castello-Branco

Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
Member of the Board of Directors of AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A.
Chairman of the Board of Directors of Águas do Douro e Paiva, S.A.

Gonçalo Ayala Martins Barata

Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A
Chairman of the Board of Directors of AdP - Águas de Portugal, Serviços Ambientais, S.A.
Member of the Board of Directors of AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.

Manuel Joaquim Barata Frexes

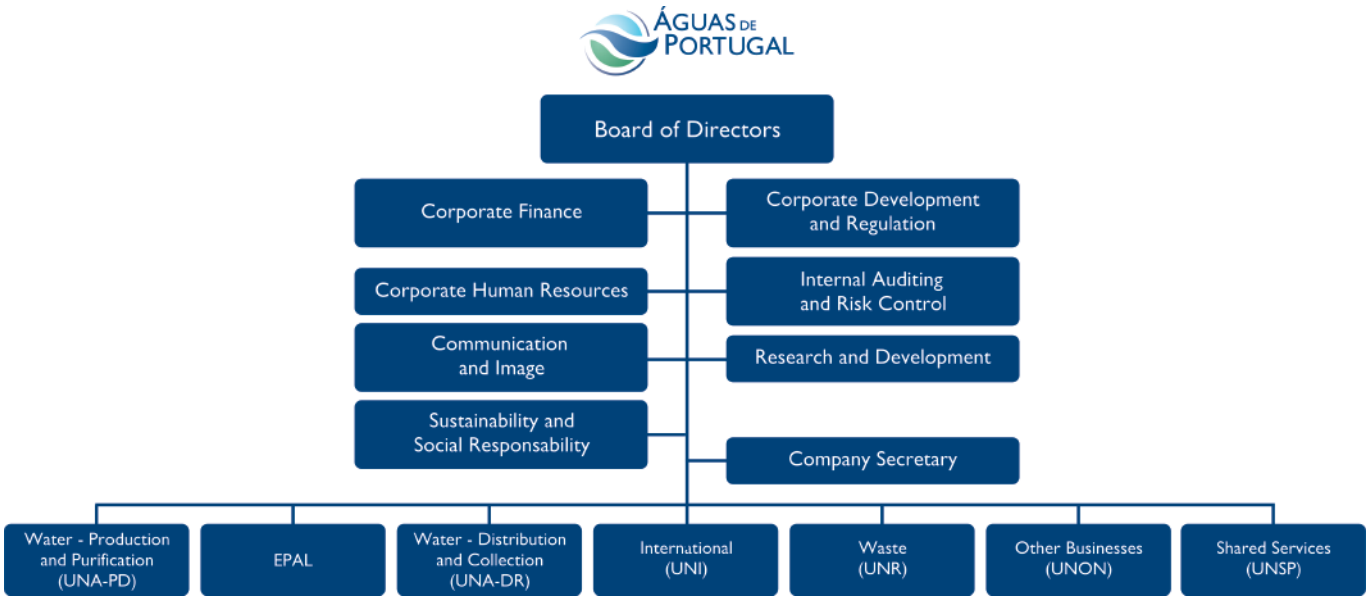
Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
Chairman of the Board of Directors of AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.
Chairman of the Board of Directors of Águas do Centro, S.A.

Manuel Maria Pereira Fernandes Thomaz

Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
Chairman of the Board of Directors of AdRA - Águas da Região de Aveiro, S.A.

Organisational structure

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



Business Units

· Water - Production and Purification (UNA-PD)

It is made up of the operators in the Portuguese wholesale water supply and wastewater treatment market.

· EPAL

It covers wholesale and distribution and is directly or indirectly responsible for the upstream supply to 34 municipalities on the north banks of the River Tagus and for domestic supply in the municipality of Lisbon.

· Water - Distribution and Collection (UNA-DR)

It is made up of the operators in the Portuguese retail water supply and wastewater treatment market.

· International (UNI)

It is made up of the companies operating outside Portugal.

· Waste (UNR)

It is made up of the operators in the waste treatment and recovery market.

· Other Businesses (UNON)

It covers environmental management, for example in the production and harnessing of different forms of renewable energy, the formation of systems for the collection, transport, treatment and recovery of sludge and their use and final disposal and the development of processes or facilities for improving energy efficiency.

· Shared Services (UNSP)

It is made up of the companies that provide services to all the other companies and BUs in the AdP Group, and consists of eight support areas: **i)** procurements and general support, **ii)** IT systems, **iii)** human resources, **iv)** financial services, **v)** marketing and communication, **vi)** legal services, **vii)** planning and operations and **viii)** engineering.

UNR, UNI and UNSP are managed, respectively by Empresa Geral do Fomento, S.A. (EGF), AdP - Águas de Portugal Internacional Serviços Ambientais, S.A. and AdP - Águas de Portugal Serviços Ambientais, S.A.

Departments

To ensure that it operates properly, AdP - Águas de Portugal, SGPS, S.A. has management support departments for the Group and each of its BUs. They are responsible for defining and implementing policies, managing corporate resources and assessing and monitoring the BUs and invested companies.

· Corporate Finance

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

· Corporate Development and Regulation

It responsible for planning, management control, stakeholder relations and regulation. Its remit is providing assistance with the formulation of strategy for the Group and the different BUs and analysing the performance of the Group, BUs and companies, based on management information. It also ensures good relations with the main stakeholders by providing them with information and monitoring regulatory activity, with special focus on the cost of capital, fixing tariffs and interaction with the regulator (ERSAR).

· Corporate Human Resources

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

· Internal Auditing and Risk Control

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

· Communication and Image

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

· Research and Development

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

· Sustainability and Social Responsibility

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

· Company Secretary

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

Principles of Good Governance

Mission, goals and general principles		
Principles	Compliance	Justification
State-owned companies must: • Fulfil the mission and goals entrusted to them in an economically, financially, socially and environmentally efficient manner, while taking account of stringent standards of quality. They must safeguard and increase their competitiveness and respect the principles of social responsibility, sustainable development, public service and satisfaction of the needs of the community assigned to them.	Total	• AdP fulfils its mission and goals in an economically, financially, socially and environmentally efficient manner. Every year it includes an assessment of its work in its Annual Report and Accounts.
• It enumerates and publicises its mission, goals and policies for itself and its subsidiaries.	Total	• AdP publicises its mission, goals and policies in its Annual Report and Accounts, on its website, on the state business sector website (SEE) and the employee portal.
• It drafts business plans and budgets appropriate to available resources and sources of funding, while endeavouring to achieve its mission and goals.	Total	• Every year, AdP drafts its business plans and budgets in accordance with available resources and sources of funding, while endeavouring to achieve its mission and goals.
• It defines economic, social, environmental and sustainability strategies, sets goals and establishes planning, execution and control instruments.	Total	• The AdP Group has defined an organised strategy and tactics that make it a player on the sustainability stage. The Group's sustainability strategy is set out in its Sustainability Report on its website and that of the SEE.
• It adopts equality plans after analysing the situation in order to achieve real equality of treatment and opportunities between men and women, eliminate discrimination and ensure life-work balance.	Total	• One of the AdP Group's commitments set out in its sustainability strategy is to guarantee equal opportunities and it has reported its performance in its Sustainability Report.
• Every year, it informs the government , the ministry and the general public of how it has pursued its mission, the extent of fulfilment of goals, how its social responsibility policy has been followed, sustainable development and the terms of the public service and how it remained competitive.	Total	• AdP fulfils it reporting obligations to the ministry and the general public. Every year it includes an assessment of its work in its Annual Report and Accounts.

Mission, goals and general principles		
Principles	Compliance	Justification
• It complies with current legislation and regulations. Its conduct must be ethically blameless in compliance with tax rules, money laundering, competition, consumer and environmental protection, labour laws, especially non-discrimination and promotion of equality between men and women.	Total	• All the AdP Group' work is aimed at strict compliance with the law, regulations, ethics, codes of conduct and good practices. The conduct it adopts is ethically blameless, in compliance with tax rules, prevention of money laundering, competition, consumer and environmental protection and labour laws.
• It treats its employees with respect and integrity and contributes to their vocational enhancement.	Total	• The AdP Group believes in training its employees in order to develop their skills and offer new challenges and opportunities in the company. The Group recently joined the Novas Oportunidades Programme as part of its plan to develop its personnel. In 2008 it consolidated its performance evaluation system, which is used from a positive perspective of development. AdP also has Vocational Development Regulations which allow its employees to enlarge their portfolio of knowledge and skills by attending advance training programmes.
• We treat all customers, suppliers and other holders of legitimate rights equally. AdP establishes and disseminates procedures for the procurement of goods and services and follows criteria for selecting bidders. We ensure the efficiency of transactions and equal opportunities for all qualified interested parties.	Total	• AdP respects all current legislation on procurement of goods and services and has internal transparent procedures based on criteria of economy, efficacy and equal opportunities for all qualified interested parties.
• Every year, we disclose transactions that did not take place under market conditions and a list of suppliers who account for more than 5% of total supplies and services if this percentage represents more than one million euros.	Total	• Every year, we disclose transactions that did not take place under market conditions and a list of suppliers who account for more than 5% of total supplies and services if this percentage represents more than one million euros in our Annual Report and Accounts, on our website and the SEE website.
• The company's business is run with integrity. Any business must be properly formalised and no confidential or undocumented expenses can be incurred.	Total	• The AdP Group's business is guided by honest conduct and unethical practices are vehemently rejected. The AdP Group's Code of Conduct and Ethics expresses its commitment to ethical, transparent conduct in its internal and external relations. Its goal is to reinforce the ethical standards applicable to all agents and contribute to consolidated sustainable development. We also drafted a plan for managing the risk of corruption and associated infractions, which is designed to reinforce each employee's individual commitment to good practices in his/her relations with third parties. There are no confidential or undocumented expenses in the AdP Group.
• Have or abide by a code of ethics that requires strict ethical and deontological conduct and circulate it to employees, customers, suppliers and the general public.	Total	• The AdP Group's Code of Conduct and Ethics is available on its website, the SEE website and the employee portal.

Management and supervision bodies		
Principles	Compliance	Justification
State-owned companies must:		
• Have management and supervisory bodies suited to the size and complexity of the company in order to ensure effective decision making and supervision. They must not exceed the number of members in private companies of equivalent size and in the same sector.	Total	• As required by law, the size of AdP's governing and supervisory bodies are perfectly suited to the complexity of the business group. They ensure the efficacy of the decision-making process and guarantee a real supervision capability for the sector to which it belongs.
• Have a governance model that ensures proper segregation of executive management and supervision. Larger, more complex companies' supervision must be the responsibility of specialised committees, which must include an audit committee or financial committee, depending on the model chosen.	Total	• The AdP governance model, which separates management and supervision, in accordance with the company's articles of association, consists of the general meeting of shareholders, the Board of Directors, the Supervisory Board and the Statutory Auditor.
• The non-executive members of management bodies, the members of the general ad supervisory board must issue a report every year assessing the individual performance of the executive managers and an overall appreciation of the governance mechanisms in effect at the company.		• The Non-executive Directors issue a yearly report on the performance of the executive directors. The Supervisory Board issues a quarterly report and opinion on the consolidated accounting documents. Both yearly reports are published in the company's Annual Report and Accounts.
• Have its accounts audited every year by independent bodies, following the same standards as those for companies admitted to trading on a regulated market. The non-executive members of the Governing Bodies and the members of the general and supervisory board are the company's intermediaries with the external auditors. It is their job to select, confirm and hire them and approve any services unconnected to audits. This approval should only be granted of the auditors' independence is not in question.	Total	• The annual audit of AdP's accounts is performed by an independent, outside body, whose main interlocutors are the Board of Directors, the Supervisory Board, the Accounting and Consolidation Department and the Corporate Financial Department.
• Ensure turnover and limitation of terms of office of members of its supervisory bodies	Total	• The members of AdP's Governing Bodies are elected for a three-year period and may be re-elected. However, under the law and articles of association, the maximum number of consecutive renewals is three, a condition that has been scrupulously observed.
• The Board of Directors must set up and maintain an appropriate control system in order to protect the company's investments and assets. It must cover all the relevant risks taken by the company.	Total	• Risk management is a pillar of corporate governance and has been incorporated in all management processes. It is a constant concern of all managers and employees in the AdP Group companies. The main purposes of internal auditing and risk control are identifying risk factors in the company's main business activities and key controls for reducing or eliminating their impact. Economic risks are mitigated by criteria of security and prudence based on the geographical dispersal of investments made in different business areas and studies performed before they are made.

Remuneration and other rights		
Principles	Compliance	Justification
State-owned companies must:		
• As required by law, publish total variable and fixed remunerations paid to each member of the Board of Directors and the Supervisory Board, distinguishing between executive and non-executive functions.	Total	• The total variable and fixed remunerations paid to each member of the corporate bodies are published in our Annual Report and Accounts and on the company and SEE websites.
• Disclose all benefits every year, such as health insurance, use of vehicles and others granted by the company.	Total	• The total variable and fixed remunerations paid to each member of the corporate bodies are published in our Annual Report and Accounts and on the company and SEE websites.

Prevention of conflicts of interest		
Principles	Compliance	Justification
The members of the Governing Bodies of state-owned companies must:		
• Not take part in decisions involving their own interests, such as approval of their own expenses.	Total	• The members of AdP's Board of Directors are fully aware of the rules on refraining from participating in discussions and decisions on certain subjects and comply fully with these rules.
• At the start of each term of office, whenever warranted, the members of the corporate bodies must declare to the Board of Directors, the Supervisory Board and the Inspectorate General of Taxes any substantial shareholdings that they have in the company and relevant relationships that they have with suppliers, customers, financial institutions or other business partners that may generate conflicts of interest.	Total	• There are no incompatibilities between membership of the AdP Board of Directors and other positions that they hold. The members of the Board of Directors comply with all legal provisions regarding reporting other positions held simultaneously. As set out in the Public Manager Statutes, the members of the Board of Directors informed the Inspectorate General of Taxes of all shareholdings and interests that they held directly or indirectly in the companies where they work.

Compliance with legal guidelines

The AdP Group complied fully with the following instructions, ordinances and legislation.

- ***Management goals**, set out in Article 38 of Decree-Law 133/2013 of 3 October, in quantified form and targets in accordance with the plan of activities and approved budget.*

No management goals or targets were set for 2014.

- ***Management of the financial risk** and compliance with caps on additional borrowing defined for 2014 in Law 83-C/2013 of 31 December, calculated in accordance with the guidelines of the circular giving instructions of the preparation of IPG-2014 (Budget 2014).*

Financial risk

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

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

The Group's interest rate risk management policy is aimed at reducing exposure of debt cash flows to market fluctuations by means of structured financial instruments and the corresponding reduction in financial costs.

AdP has taken a conservative position, taking account of the long-term characteristics of assets, and has preferred long-term funding, especially from the EIB. In addition, in 2004 AdP SGPS began obtaining foreign finance and performed a private placing of debt in 2005 and three private bond issues in 2007.

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

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

	2011	2012	2013	**2014**	2013(*)	**2014(*)**
Financial expenses	108 382 400	116 387 847	107 603 215	**96 011 710**	100 937 047	**91 234 287**
Average finance rate (%)	3.64%	3.76%	3.54%	**3.29%**	3.56%	**3.33%**

(*) Classification of profit/loss of EGF Group as assets/liabilities held for sale/ discontinued operations (IFRS 5).

	2013	**2014**	2013(*)	**2014(*)**
Finance obtained	3 040 200 855	**2 917 067 677**	2 836 003 983	**2 738 545 374**
Finance granted by the DGTF	not applicable	**not applicable**	not applicable	**not applicable**
Variation 2013-2014		**(4.1%)**		**(3.4%)**

(*) Classification of profit/loss of EGF Group as assets/liabilities held for sale/ discontinued operations (IFRS 5).

- ***Average payment time*** *time to suppliers in accordance with Council of Ministers Resolution 34/2008 of 22 February with the amendment made by Ordinance 9870/2009 of 13 April, and disclosure of* ***payments in arrears*** *as defined in Decree-Law 65-A/2011 of 17 May and the strategy used to reduce them (separate data of AdP SGPS).*

	1st T 2013	2nd T 2013	3rd T 2013	4th T 2013	**1st T 2014**	**2nd T 2014**	**3rd T 2014**	**4th T 2014**
Average payment time (days)	68	62	66	53	**43**	**46**	**46**	**57**

Approximately 75% of debts to suppliers are to Group companies (Shared Services - UNSP). The average time went down from 2013 to 2014. The increase in ratio, when we compare the fourth quarters of 2013 and 2014, is the result of a one-off increase in debt to suppliers in December 2014. This increase is due to the centralised management of corporate cash flow (management of payments and receipts) between AdP SGPS and the other Group companies, in particular AdP Serviços.

	2014 Debts in arrears pursuant to Article 1 of Decree-Law 65-A/2011				
Debts in arrears (€)	**0-90 days**	**90-120 days**	**120-240 days**	**240-360 days**	**Over 360 days**
Procurement of goods and services	18 024.96	0.00	14 852.25	0.00	750.00
Acquisition of capital	0.00	0.00	0.00	0.00	0.00
Total	**18 024.96**	**0.00**	**14 852.25**	**0.00**	**750.00**

- *Measures taken and* ***results obtained*** *in compliance with shareholder's recommendations made when approving the 2013 accounts*

The shareholders made no recommendations when approving the 2013 accounts.

- *Remunerations:*

Of the Governing Bodies
Of the external auditor
Of the remaining employees

Officers of the General Meeting

Term of office (Start- end)	Position	Name	Value of fixed slip (EUR)	Annual remuneration (EUR)		
				Gross (1)	Reductions in remuneration (2)	Amount after cuts (3)=(1)-(2)
2012-2014	Chairman	Ana Cristina Rodrigues	650.00	650.00	0.00	650.00
2012-2014	Vice-Chairman	Maria Fernanda Martins	520.00	520.00	0.00	520.00
2012-2014	Secretary	Manuel Gouveia Pereira	400.00	400.00	0.00	400.00

(2) The pay reduction, pursuant to Law 83-C/2013 of 31 December applies to remuneration over €675. They have not informed the company of any other remuneration under Article 33 (3) of said law.

Board Of Directors

Term of office Start- end	Position	Name	Title		OPRLO	
			Form	Date	Entity	Payer O/D
2012-2014	Chairman	Afonso Lobato de Faria	AGM	02/02/2012	n.a	-
2012-2014	Member	Álvaro Castello-Branco	AGM	02/02/2012	n.a	-
2012-2014	Member	Gonçalo Martins Barata	AGM	02/02/2012	n.a	-
2012-2014	Member	Manuel Joaquim Barata Frexes	AGM	02/02/2012	n.a	-
2012-2014	Member	Manuel Fernandes Thomaz[1]	AGM	02/02/2012	AdP - Águas de Portugal, SGPS, S.A.	D
2012-2014	Non-executive Member	Parpública, represented by José Manuel Barros	AGM	13/12/2013	n.a	-

OPRLO - Option of remuneration at place of origin
O/D - Origin/ destination
[1] The director opted for remuneration at place of origin pursuant to Article 28 (8) of the Public Manager Statutes, in the version resulting from Statement of Rectification 2/2012, of 25 January.

Name	Accumulation of positions		
	Entity	Position	Scheme
Afonso Lobato de Faria	AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A.	Non-executive Chairman	Public
Álvaro Castello-Branco	Águas do Douro e Paiva, S.A.	Executive Chairman	Public
	AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A.	Non-executive Director	Public
Gonçalo Martins Barata	AdP - Águas de Portugal Serviços Ambientais, S.A.	Non-executive Chairman	Public
	AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.	Non-executive Director	Public
Manuel Joaquim Barata Frexes	AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.	Non-executive Chairman	Public
	Águas do Centro, S.A.	Non-executive Chairman	Public
Manuel Fernandes Thomaz	AdRA - Águas da Região de Aveiro, S.A.	Executive Chairman	Public

Name	EGP[*]			
	Fixed	Classification	Gross monthly amount (EUR)	
	[Y/N]	[A/B/C]	Basis salary	Expenses
Afonso Lobato de Faria	Y	A	5 722.75	2 289.10
Álvaro Castello-Branco	Y	A	-	-
Gonçalo Martins Barata	Y	A	4 578.20	1 831.28
Manuel Joaquim Barata Frexes	Y	A	4 578.20	1 831.28
Manuel Fernandes Thomaz	Y	A	5 722.75	2 222.25
Parpública, represented by José Manuel Barros	Y	A	978.59	-

[*]EGP - Public Manager Statute

Name	Annual remuneration (EUR)						
	Variable	Fixed	Other	Reduction Law 12-A/2010	Reduction (State Budget Law)	Reduction previous years	Gross after pay reductions
Afonso Lobato de Faria	-	107 587.70	-	5 379.60	8 064.31	-	94 143.79
Álvaro Castello-Branco	-	-	-	-	-	-	-
Gonçalo Martins Barata	-	86 070.16	-	4 304.10	6 451.41	-	75 314.65
Manuel Joaquim Barata Frexes	-	86 070.16	-	4 304.10	6 451.41	-	75 314.65
Manuel Fernandes Thomaz	-	106 785.50	-	5 340.00	8 000.72	-	93 444.78
Parpública, represented by José Manuel Barros	-	-	-	-	-	-	-

Name	Annual remuneration (EUR)				
	Variable	Fixed	Gross(1)	Pay cuts (2)	Amount after cuts (3)=(1)-(2)
Afonso Lobato de Faria	-	107 587.70	107 587.70	13 443.91	94 143.79
Álvaro Castello-Branco	-	-	-	-	-
Gonçalo Martins Barata	-	86 070.16	86 070.16	10 755.51	75 314.65
Manuel Joaquim Barata Frexes	-	86 070.16	86 070.16	10 755.51	75 314.65
Manuel Fernandes Thomaz	-	106 785.50	106 785.50	13 340.72	93 444.78
Parpública, represented by José Manuel Barros	-	-	-	-	-

Name	Social benefits (EUR)							
	Sub. Meals		Social security				Others	
	Amount per day	Amount paid year	Identify	Amount	Health insurance	Life insurance	Identify	Amount
Afonso Lobato de Faria	4.27	1 037.61	Social security	24 107.07	1 259.33	1 850.00	-	-
Álvaro Castello-Branco	-	-	Social security	1 097.76	-	-	-	-
Gonçalo Martins Barata	4.27	1 054.69	Social security	19 084.55	355.25	1 480.00	-	-
Manuel Joaquim Barata Frexes	4.27	982.10	Social security	19 233.04	984.91	2 400.53	-	-
Manuel Fernandes Thomaz	6.41	1 544.81	Social security	23 445.16	1 533.74	1 480.00	-	-
Parpública, represented by José Manuel Barros	-	-	-	-	-	-	-	-

Name	Mobile communication expenses (EUR)		
	Monthly limit	Annual amount	Remarks
Afonso Lobato de Faria	80.00	1 929.56	Costs exceeding the limit were incurred for work use.
Álvaro Castello-Branco	80.00	2 100.57	Costs exceeding the limit were incurred for work use.
Gonçalo Martins Barata	80.00	937.16	-
Manuel Joaquim Barata Frexes	80.00	4 223.31	Costs exceeding the limit were incurred for work use.
Manuel Fernandes Thomaz	80.00	684.13	-
Parpública, represented by José Manuel Barros	0.00	0.00	N.A

Name	Vehicle expenses								
	Vehicle allocated	Conclusion of agreement	Vehicle's reference value	Type of agreement	Start year	End year	Monthly rent	Total annual cost of rents	Nº. of remaining contractual payments
Afonso Lobato de Faria	Y	Y	-	Operational vehicle rental	27/05/2009	2014	1 146.61	14 785.85	2
Álvaro Castello-Branco	Y	Y	-	Operational vehicle rental	16/04/2009	2014	962.35	11 464.96	0
Gonçalo Martins Barata	Y	Y	-	Operational vehicle rental	17/04/2009	2014	1 075.45	13 219.61	1
Manuel Joaquim Barata Frexes	Y	Y	-	Operational vehicle rental	27/05/2009	2014	1 037.87	11 667.96	2
Manuel Fernandes Thomaz	Y	Y	-	Operational vehicle rental	16/04/2009	2014	991.53	10 716.21	1

Name	Monthly limit for fuel and tolls	Annual vehicle-related expenses				
		Fuel	Tolls	Repairs	Insurance	Remarks
Afonso Lobato de Faria	572.27	3 461.23	903.20	1 622.87	920.14	-
Álvaro Castello-Branco	457.82	5 619.69	2 199,86	659.04	699.50	Costs exceeding the limit were incurred for work use.
Gonçalo Martins Barata	457.82	1 577.23	422.70	599.84	711.54	-
Manuel Joaquim Barata Frexes	457.82	8 038.10	3 705.80	852.74	547.23	Costs exceeding the limit were incurred for work use.
Manuel Fernandes Thomaz	457.82	5 170.75	2 708.55	762.29	725.74	Costs exceeding the limit were incurred for work use.

Name	Annual costs of on-duty travel					
	On-duty travel	Accommodation costs	Expenses	Others		Total travel costs
				Identify	Amount	
Afonso Lobato de Faria	11 965.00	1 032.00	562.91	Meals and parking	353.48	13 913.39
Álvaro Castello-Branco	11 947.24	217.39	330.60	Meals and parking	240.64	12 735.87
Gonçalo Martins Barata	550.21	168.00	80.42	Meals and parking	212.94	1 011.57
Manuel Joaquim Barata Frexes	2 751.30	976.07	285.92	Meals and parking	337.85	4 351.14
Manuel Fernandes Thomaz	0.00	1 177.00	0.00	Meals and parking	237.75	1 414.75

Supervision

Supervisory Board

Term of office Start- end	Position	Name	Title		Fixed remuneration scheme (monthly)
			Form	Date	
2012-2014	Chairman	Paulo Alexandre Ferreira[1]	AGM	02/02/2012	1 602.37
2012-2015	Chairman	Carla Maria Ribeiro[2]	Unanimous written decision	01/11/2014	1 602.37
2012-2014	Member	Ana Luísa Gomes	AGM	02/02/2012	1 201.78
2012-2014	Member	Mário Carrega	AGM	02/02/2012	1 201.78

[1] Left on 31-08-2014.
[2] Took position on 01-11-2014.

Name	Annual remuneration (EUR)		
	Gross (1)	Pay cuts (2)	Amount after cuts (3)=(1)-(2)
Paulo Alexandre Ferreira	14 954.24	1 737.25	13 216.99
Carla Maria Ribeiro	3 739.83	542.28	3 197.55
Ana Luísa Gomes	16 824.92	2 078.15	14 746.77
Mário Carrega	16 824.92	2 078.15	14 746.77

Statutory Auditor

Term of office Start- end	Position	Name SROC/ROC		Title		Remuneration (EUR) Hired	N° of terms of office at company
		Name	Number	Form	Date		
2012-2014	Statutory Auditor	Alves da Cunha, A. Dias & Associados	n.º 74 OROC	AGM	02/05/2012	18 495.00	Since 2009 (2 terms 2009-2011/ 2012-2014)

Name	Annual remuneration (EUR)		
	Gross (1)	Pay cuts (Lei OE)(2)	Amount after cuts (3)=(1)-(2)
Alves da Cunha, A. Dias & Associados	18 495.00	Not applicable The remuneration of the Statutory Auditor is indexed to the PCA	18 495.00

External Auditor

Name of external auditor (SROC/ROC)			Data of hiring		Annual remuneration (EUR)		
Name	OROC registration number	CMVM registration nº.	Date	Period	Cost of services provided	Reduction (State Budget Law)	Gross after cuts
Ernst & Young	N.º 178	N.º 9011	2009	2009-2011 2011-2014	108 800.00	-	108 800.00

- *Compliance with Article 32 of the Public Manager Statute, as re-published by Decree-Law 8/2012 of 18 January, with regard to:*

  - *The use of credit cards and other payment instruments by public managers to make payments in the service of the company*

  - *Reimbursement of public managers for any expenses falling within the concept of entertainment expenses.*

Article 32 of the Public Manager Statute as re-published by Decree-Law 8/2012 of 18 January was complied with in full with regard to the use of credit cards and other payment instruments by public managers to make payments in the service of the company and also reimbursement of public managers for any expenses falling within the concept of entertainment expenses.

- ***Procurement:***
  - *Indication of how public procurement rules in effect in 2014 were complied with and, for parent companies of state-owned groups this point must include all companies in which they have a majority shareholding.*

  - *Indication of the existence of internal procedures in place for the procurement of goods and services and whether they are periodically reviewed, with reference to the last update.*

  - *Indication of what acts or agreements with a value of over EUR 5 million are concluded, regardless of the type of act or contract in question and whether they received prior approval of the Court of Auditors, as required by Article 47 of the Law on Organisation and Proceeding of the Court of Auditors (LOPTC).*

The AdP Group has a shared services unit, AdP – Águas de Portugal Serviços Ambientais, S.A., which centralises, optimises and rationalises the procurement of goods and services for the business activities of the Group companies. It has established a relational model listing a variety of goods and services, which are procured by the Centralised Procurement Department of AdP Serviços, which operates as the Group's procurement centre. The existence of this Group department is justified in that it can achieve economies of scale and synergies within the Group and thereby obtain more favourable terms for these companies. It also saves them from having to go through separate procurement procedures with the inherent administrative and financial costs, thereby adding value to their work. Most of the goods and services that the invested companies need for their business have specific particularities, such as chemical reagents, the lab materials used by the water and effluent treatment units and the equipment and containers used by the waste business unit, among others. One of the most important purchases is electricity, with a vast series of high, medium and normal low and special low voltage facilities. The scale achieved by the Group's universe has made it possible to achieve highly significant synergies that have produced excellent results in centralisation of procurement. Another important category is the Group's insurance portfolio. It has been adapted to the needs of a large number of companies, with many facilities and specific risks, which are diluted in an aggregate contract as a result of diversification. The aggregate solution for covering environmental responsibility is a good example of the advantages arising from centralised procurement. Every year, the Centralised Procurement Department at AdP Serviços undertakes a vast number of public procurement procedures: it studies the market and chooses the most efficient solutions for each category. It achieves considerable benefits such as those it received in an online auction for fixed and mobile voice services doe the entire AdP Group.

- *Measures taken in terms of* ***company vehicles*** *in relation to the guidelines set out in Article 61 (4) of Law 83-C/2013 of 31 December, complemented by Ordinances 1182/13-SET of 12 June (distributed in Circular 4238, of 1 July) and Ordinance 1668/13-SET of 6 September (distributed in Circular 7408 of 2 December).*

In compliance with the above legislation and guidelines, the AdP Group has been making an effort to reduce the costs of its company vehicles. Although it is not included in the state vehicle fleet, in the management of its vehicles, the AdP Group has a rule under which end-of-life vehicles are written off, as required by law, particularly Decree-Law 196/2003 of 23 August. It focuses on rationalising its vehicles and reducing the costs of managing them. The AdP Group has been extending operational vehicle rental contracts when appropriate on the basis of the conjugation between the maximum allowed mileage and the maximum possible duration of the contract. This results in a lower cost than a new operational vehicle rental. Before the contracts are extended, we fulfil our obligation to inform ESPAP – Entidade dos Serviços Partilhados da Administração Pública, IP (Portuguese Public Administration Shared Services

Entity) and the DGTF (Treasure and Finance Directorate–General). At the same time, the AdP Group lowered the limits , on vehicle rentals for the job categories with the right to a vehicle. The reduction introduced by the shareholder for the Governing Bodies thus extended to the entire organisation. Future vehicle contracts will be concluded under our framework agreement with ESPAP.

- *Quantify the impact of **operating cost reduction measures in** 2014 and justify any non-compliance with guidelines or goals. In the case of companies with positive EBITDA, the reduction of the weight of operating costs in turnover is measured against the previous year.*

Cost reduction plan (CRP)	2012	2013	**2014**	2013(*)	**2014(*)**
Cost of Goods Sold & Services Rendered	33.09	31.65	**31.27**	19.47	**19.47**
Supplies and services	222.35	226.90	**233.70**	177.59	**174.00**
Travel and accommodation	*3.38*	*2.83*	***3.37***	*1.80*	***1.69***
Expenses	*0.00*	*0.00*	***0.00***	*0.00*	***0.00***
Communications	*5.73*	*5.43*	***5.03***	*4.95*	***4.57***
Personnel costs not including severance pay	120.35	141.03	**129.27**	97.26	**88.79**
	384.91	**407.85**	**402.64**	**301.07**	**288.52**
Turnover without deviations	726.17	772.49	**769.68**	599.57	599.88
CRP ratio	**53%**	**53%**	**52%**	**50%**	**48%**

(*) Classification of profit/loss of EGF Group as assets/liabilities held for sale/ discontinued operations (IFRS 5).

Costs of travel and accommodation rose from 2013 to 2014, due to costs of the transport of goods. This increase of approximately half a million euros came from Valorsul, as its incinerator was out of order for most of the year. This meant that a very large amount of waste had to be transported to landfills.

Vehicle costs	2012	2013	**2014**	2013(*)	**2014(*)**
Number of vehicles	1 390	1 456	**1 361**	1 315	**1 224**
Costs in EUR million	4.58	4.90	**4.44**	4.35	**3.91**

(*) Classification of profit/loss of EGF Group as assets/liabilities held for sale/ discontinued operations (IFRS 5)

CRP	Target	2010 Exec.	2011 Exec.	2012 Exec.	2013 Exec.	**2014 Exec.**	2013(*) Without/ EGF	**2014(*) Without/ EGF**	Δ Absol 2013/2014	Var. % 2013/2014	Δ Absol. 2010/2014	Var. % 2010/2014
(3) Personnel costs		146 586 559	131 745 427	120 765 162	144 249 947	**130 511 450**	97 261 414	**99 851 578**	89 868 891	(9.50%)	(16 075 109)	(11.00%)
(3.1.) of which severance pay	n.a.	831 781	939 908	410 788	3 219 340	**1 240 528**	2 590 164	**1 078 563**	(1 978 812)	(61.50%)	408 747	49.10%
Number HR	-3% against 2012	n.a.	5 285	5 244	4 988	**4 788**	3 154	**3 072**	(200)	(4.00%)	n.a.	n.a.
N.º permanent employees		n.a.	5 060	5 035	4 777	**4 577**	2 991	**2 908**	(200)	(4.20%)	n.a.	n.a.
N.º directorship positions		n.a.	225	209	211	**211**	163	**164**	0	0.00%	n.a.	n.a.

- ***Principle of state treasury unit**, as set out in Article 123 of Law 83-C/2013 of 31 December. If an exception has been authorised, the authorising must be indicated and the date of submission of the state inflow of the amount of interest received in violation of the STU.*

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

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

- It has accompanied the companies in their relations with the Cohesion Fund in order to facilitate their access to EU support;

- It began negotiations with the EIB back in 1997 with a view to funding the first-phase projects and obtained a line of EUR 167 million;

- In 2000 it began new negotiations with the EIB for investments in the second phase and was granted three lines of funding (provided between 2005 and 2009) to a total of EUR 1,472 billion;

- It helped set up an EIB line of funding for the solid waste sector to a total of EUR145 million to partially finance investments in the final phase;

- As the EIB lines and Cohesion Fund finance provided were insufficient to fund all its projects, AdP SGPS began to access foreign markets in 2003. It performed its first private placing of 10-year debt in Japan in 2005 and three private issues of 15- and 20-year bonds in 2007, to a total of EUR 600 million.

- It began contacts with foreign entities to place long-term debt in order to prepare the market for future placings to meet the Group's financing needs.

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

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

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

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

On government instructions, the Group invested its permanent cash surpluses at Agência de Gestão da Tesouraria e da Dívida Pública - IGCP, E.P.E., while keeping its temporary surpluses as guarantees for short-term funding from banks, so that they will continue their support. As required by law, it requested authorisation from the ministry for a partial dispensation for this component of non--permanent surpluses. Permission has been granted on annual basis and was given for 2014.

Coordination and obtaining finance for the AdP Group companies' business activities are the responsibility of its holding company AdP SGPS. It endeavours to procure the necessary resources to meet the needs of its companies, while always taking care to maintain the balance of its consolidated financing structure.

The centralisation of a substantial part of the funds at AdP SGPS has enabled it to manage the Group's needs cohesively, with low impacts on its invested companies' operations. The Group has invested its permanent cash surpluses at Instituto de Gestão da Tesouraria e do Crédito Público (Treasury and Public Credit Management Institution – IGCP), while keeping its temporary surpluses as guarantees for short-term funding. Pursuant to Article 124 (1) of Law 66-B/2012 of 31 December, AdP SGPS asked for a dispensation from fulfilment of the principle of placing all cash flow with the state (PUTE). This partial dispensation was granted to the AdP Group companies under the above law by Ordinance 2671/2014 from the Secretary of State for the Treasury.

% de cash deposited at IGCP

BY type of investment **2014**	Total	IGCP	Others
Medium and long term	27.9%	74.9%	2.7%
Short term	72.1%	25.1%	97.3%
Total	**100.0%**	**100.0%**	**100.0%**

- *Furthermore, recommendations made to the company as a result of audits by the Court of Auditors, measures taken to follow them and the results thereof must be published.*

In 2014, the Court of Auditors made no recommendations to AdP - Águas de Portugal, SGPS, S.A.

- *The form below must also be completed with the information that had been disclosed on the SEE website as at 31 December.*

Information for the SEE website	Disclosure				Remarks
	Y	N	NA	Updated on	
Articles updated			X		*see note*
Company profile			X		*see note*
Ministry and shareholder			X		*see note*
Governance model/ members of Governing Bodies:			X		*see note*
Governing bodies			X		*see note*
Fixed remuneration status			X		*see note*
Disclosure of Governing Bodies' remuneration			X		*see note*
Duties and responsibilities of the members of the Board of Directors			X		see note
Short CVs of the members of the Governing Bodies			X		*see note*
Public finance contribution			X		*see note*
Summary form			X		*see note*
Historical and current financial information			X		*see note*
Principles of Good Governance			X		*see note*
Internal and external regulations to which the company is subject			X		*see note*
Relevant transactions with related parties			X		*see note*
Other transactions			X		*see note*
Analysis of economic, social and environmental sustainability			X		*see note*
- Economic			X		*see note*
- Social			X		*see note*
- Environmental			X		*see note*
Compliance with principles of			X		*see note*
Code of Ethics			X		*see note*

Legend: Y – Yes; N – No; NA - Not Applicable

Note: In accordance with DGTF guidelines, AdP does not disclose information on the website as it is not directly owned by the state.

- *For the purpose of systematisation of information on compliance with the above guidelines, the form in Appendix 2 of the Annual Report and Accounts should be filled in.*

(Appendix 2)

Compliance with legal guidelines	Compliance			Quantification	Justification
	S	N	NA		
Management goals:			X	% of fulfilment	No management goals were set for 2014.
Financial risk management	X			Average finance rate	
Limits on growth in borrowing	X			Variation in borrowing in 2014	
Average payment time to suppliers		X		+ 4 days, 53 to 57 in the 4th quarter of each year	Approximately 75% of debts to suppliers are to Group companies (Shared Services). The average time went down from 2013 to 2014. The increase in ratio, when we compare the fourth quarters of 2103 and 2014, is the result of a one-off increase in debt to suppliers in December 2014. This increase is due to management of corporate cash flow (management of payments and receipts) between AdP SGPS and the other Group companies, in particular AdP Serviços.
Payments in arrears	X				
Shareholder's recommendations on approval of account Recommendation 1 Recommendation 2 Etc.			X		No recommendations on approval of accounts were made.
Remunerations: No payment of management bonuses pursuant to Article 41 of Law 83-C/2013	X			NA	Includes Supervisory Board
Governing Bodies - Pay cuts in 2014	X			54 731.48 EUR	
External auditor - reduction in remuneration pursuant to Article 73 of Law 83-C/2013				Total reductions in remuneration in 2014	
Other employees - pay cuts in 2014	X			222 073.13 EUR	
Other employees - pay rises forbidden pursuant to Article 39 of Law 83-C/2013	X			NA	
Article 32 of Public Manager Statutes Use of credit cards	X				
Reimbursement of entertainment expenses	X				
Public contracts Company's compliance with rules on public contracts			X	Identify	
Invested companies' compliance with rules on public contracts	X			Identify	
Contracts submitted to the CoA for prior approval			X	N.º of contracts and overall value in euros	
Audits by the Court of Auditors Recommendation 1			X		No recommendations were made by the Court of Auditors
Recommendation 2					
Etc.					
Company vehicles	X			Variation in total number of vehicles used 2014 by the company compared to 2013	The AdP Group companies only enter into contracts for new vehicles directly used in operations and maintenance.
Number of vehicles				fewer than 90 vehicles	
Vehicle expenses				Less EUR 0.46 million	
Operating costs of state-owned companies (Article 61 of Law 83-C/2013)	X			Fill in form Annex 1	
Downsizing employees (Article 60 of Law 83-C/2013) Nº of employees	X			-200 (-4.2%)	Consolidated data on working employees
Nº of directorship positions	X			0 (0%)	Consolidated data on working employees
Total					
Treasury unit principle (Article 123 of Law 83-C/2013) Cash centralised at IGCP			X	% cash deposited at IGCP as at 31 December 2014	Justify non-compliance
Interest received in violation of STU and paid in to state revenue			X	Amount received and state of pay-in	

Report by the Non-executive Director
on the performance of the Executive Directors

1. Introduction

Pursuant to Article 7 of Decree-Law 8/2012 of 18 January, in my capacity as Non-executive Director elected by unanimous decision of the shareholders on 13 December 2013, it behoves me to submit a report on the performance of the Executive Directors.

2. Work

As required by law and the powers invested in me by the Public Manager Statute and the company's articles of association, from the date of my election I monitored the company's management and the performance of the Executive Directors and the Executive Committee during the year in question, subject to the limitations arising from my capacity as a Non-executive Director.

To the best of my knowledge, the information provided in the Annual Report and the Corporate Governance Report give a true picture of the work done by the company in 2014 and generally abide by the specific rules governing companies in the State Corporate Sector. The aforementioned Annual Report contains a separate chapter on fulfilment of legal requirements, which were fully complied with. The Corporate Governance Report includes the information provided for in Section II (Good Governance Practices) of Chapter II of Decree-Law 133/2013 of 3 October and the model used is in accordance with the guidelines received, including a table on good corporate governance practices.

3. Opinion

During my monitoring, I did not become aware of anything that would prevent me from giving a generally positive opinion of the performance of the executive directors and I can attest to their commitment and diligence in running the company's business with integrity and transparency.

Lisbon, 28 April 2015

The Non-executive Director

José Manuel Barros

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B - Governance report

B - Governance report

Macroeconomic framework

Global

As in the last two years, in 2014 the global economy showed moderate growth rates of around 33.5% (3% in 2013 and 3.1% in 2012). Growth was low in the United States, in line with the previous year (2.4% *vs* 2.2%), though it showed a slight improvement based on substantial growth in employment and the real-estate market. Growth in the emerging economies (China, India, Brazil, Russia, Mexico, Indonesia, Malaysia, Philippines, African countries, etc) remained much higher than the developed countries (4.4% in 2014), though at lower levels than in recent years. Three main factors explain this slowdown: **(i)** lower investment in China, which impacted the Asian economies, **(ii)** the vulnerability of the Russian economy as a result of oil prices and geopolitical tensions, and **(iii)** a fall in some commodity prices, which account for a large slice of revenue in some emerging countries.

European Union

2014 witnessed poor economic growth in the Euro Area. This can be explained by an increase in geopolitical conflicts, especially tension with Russia, and the weakening of some developed and emerging economies that have close relations with countries in central Europe. The economic performance of the three main economies, Germany, France and Italy, was decisive to weak growth in the Euro Area, as opposed to other countries, such as Ireland, Spain, Portugal and Greece, whose growth was better than expected.

Improvements in the labour market were modest, in line with economic growth, which was not strong enough to leverage the creation of jobs. The unemployment rate is expected to have been around 11.6% in 2014 according to the European Commission, better than in 2013 (11.9%), as a result of improvements in more vulnerable countries. The differences between member countries were still significant in 2014, varying between 5.1% in Germany to 26.8% in Greece. These poor improvements in the labour market had a limited impact on private spending, which is expected to have grown 0.7% in 2014, while in 2013 it fell by 0.6%. This low growth was influenced by uncertainty as to future income and slow deleveraging in the household sector. Although it was affected by the deleveraging process, in a setting of low inflation and demand, investment seems to have begun to recover in 2014, compared to the 2.4% fall in 2013, and grew 0.6%.

Inflation continued well below the 2% goal (predicted inflation in December, according to Eurostat, was -0.2% and it is expected to have been 0.4% for the whole year). It was influenced by the fall in energy and food prices and a fragile economic environment in the Euro Area. The balance on current account in the Euro Area has shown surpluses and was 2.5% of GDP in 2014. Curiously, this surplus was not due to any rise in exports, but rather to the vulnerability of domestic demand which had an unfavourable effect on imports.

Portugal

The Portuguese economy is expected to have grown by approximately 0.9% in 2014. Domestic demand contributed more than expected to annual growth, while net foreign demand made a substantially negative contribution of around -1.1 percentage points to growth that is expected to be around 0.9%. If this is the case, the unfavourable contribution of net exports is only matched by 2010 or the years immediately before the international financial crisis.

Exports were disappointing and imports rose more than expected. Several factors account for this performance. The temporary closure of the oil refinery in the first months of 2014 meant that exports performed worse than expected. The export of refined fuels was responsible for about 60% of the growth in exported goods in 2013, meaning that the stoppage had substantial effects. In the first 10 months of the year, fuel exports fell by around 22% and made a negative contribution of 2.2 p.p. to the total. The current forecast is an increase in the amount of exports of around 2.5%, as opposed to the +3.5% expected at the beginning of 2014. There was a larger than expected increase in imports, reflecting a greater recovery in internal demand and satisfaction of some pending demand, especially for durable goods.

After a degree of recovery in mid-2013, GDP has stabilised at low levels. Nonetheless, looking at the contributions of the main components for the generation of wealth, in 2014 the pattern was more balanced than during the FAP years. After three consecutive years of retraction, domestic demand has risen again, although much less than in 2010 or the years prior to the outbreak of the international crisis. Exports (excluding fuel) performed well and grew 4.7% up to November. Furthermore, contributions were quite uniform for consumer goods, industrial goods, capital goods or food and beverages. An analysis by destination also shows a good

performance in a number of markets, such as the United Kingdom, Germany, France and Spain. The performance of exports in non--EU countries was also favourable. Both products and destinations were diversified, especially in exports to the United States, Angola and China. Services currently represent about 33% of total exports and have improved their position in recent decades (in 2014, it was exports of tourist services that contributed most, contributing around 75%, with a 16% increase in the year).

Inflation has been below zero since July 2014, largely reflecting falls in prices of goods and energy, but also fragility in domestic demand and the effects of efforts to improve competitiveness of the Portuguese economy. Information released so far points to average inflation for the year of -0.3%.

Where public accounts are concerned, we can expect a reduction in the state deficit to 6.42 billion euros in the first 11 months of 2014 (on a cash basis). This reflects the good performance of tax revenue, 6.2% up on 2013, while expenditure rose only 0.8%, as well as highlights the efforts towards consolidation of public accounts in recent years, supporting a more sustainable trajectory for the public debt.

The unemployment rate was somewhere around 13.1% in 2014.

Source: IMF World Economic Outlook, BPI Research, Boletim Económico do Banco Portugal, Eurostat, INE

Sector's framework

In 2014 some of the measures set out for the water and waste sectors were implemented, as defined in the guidelines in the programme of the 19th Constitutional Government:

- Reorganise the water supply and wastewater treatment sector, with priority for its economic and financial sustainability;

- Identify and resolve the tariff deficit, revise the tariff system, allow greater openness to private entities in the operation and management of systems, foster efficiency, integration and aggregation of demanding systems, proper maintenance of old networks and equipment and prevent construction of unnecessary capacity;

- Make the waste business unit of the AdP Group autonomous and implement the necessary measures to open it up to private sector investment;

- Work done in 2014 resulted in three events representing the efforts made in the water and waste sectors since 2012;

  - The presentation of the integrated strategy for restructuring the water sector, made by the Minister of the Environment, Spatial Planning and Energy in 2014;

  - The signing in November 2014 of the sales agreement for AdP - Águas de Portugal, SGPS, S.A.'s shareholding in EGF – Empresa Geral do Fomento, S.A. to SUMA, the grouping that won the international public tender;

  - Completion of the new strategic plans for urban water services: PENSAAR 2020 – a new strategy for the water supply and wastewater treatment sector and waste management services and PERSU 2020 – a strategic household waste plan. They set the state's targets and goals for each sector.

Following changes in legislation in 2013, such as Law 35/2013 of 11 June, Decree-Law 92/2013 of 11 July and Decree-Law 96/2014 of 25 June, the following laws were published in 2014:

- Law 10/2014 of 6 March, which approved the new statutes of the water and waste service regulator (ERSAR), increasing its powers and independence:

- Law 12/2014 of 6 March, which approved itemised bills for waste and water services;

- Decree-Law 45/2014 of 20 March, which approved the reprivatisation of EGF – Empresa Geral do Fomento, S.A.

Integrated strategy for restructuring the water sector

It is considered essential to the continuity, universality, quality and sustainability of these public services and is based on four fundamental pillars:

- Ensure greater territorial equality and social cohesion and reduce disparity between tariffs resulting from the specificities of different systems and regions in the country;

- Improve the efficiency of urban water supply and wastewater treatment systems to reduce costs;

- Guarantee availability of funds for investment;

- Ensure the economic and financial sustainability of management companies with tariffs fixed transparently and meticulously.

This strategy was the subject of a consultation and opinion from the municipalities by the end of 2014.

The integrated strategy for restructuring the water sector strategy encompasses the following instruments:

- PENSAAR 2020, which in articulation with a package of financial instruments aligned with green growth and an appropriate regulatory framework, guides public policy on quality services at a sustainable price;

- POSEUR, Operational Programme for Sustainable, Efficient Use of Resources, embodies the financial instruments supporting investments aligned with intelligent, sustainable, inclusive growth with a view to foster the sector's efficient, sustainable development and allow it to achieve national and EU goals;

- Economic regulation, a new regulatory framework focusing on efficiency and quality of services by reinforcing the powers of the regulator and setting out tariff regulations representing the new regulatory model for the sector, with the introduction of itemised billing. In December 2014, ERSAR submitted to its Advisory Board initial draft tariff regulations for the water sector;

- Reorganisation of the state-owned sector involving territorial and corporate restructuring of the AdP Group in order to achieve greater efficiency, resulting in future tariff benefits. There were important developments in terms of economic and operational studies and models and of articulation with different stakeholders, concerning the aggregation of multi-municipal systems for water supply and wastewater treatment.

Reprivatisation of the waste sector

On 31 December 2014 this process was awaiting an opinion from the Anti-trust authorities. It began with the publication of Decree--Law 45/2014 of 20 March and its specifications were approved on 8 April by Council of Ministers Resolution 30/2014.

An announcement of the public tender was published in the Official Journal of the European Union, JO/S S82 of 26 April 2014 under no. 2014/S 082-143174 and in Diário da República n.º 71, 2.ª série of 10 April 2014 in Announcement of Procedure 1988/2014.

The deadline for submitting non-binding bids ended on 20 May and seven non-binding bids were received, Council of Ministers Resolution 36-A/2014 of 5 July deemed all bidders allowed to submit binding bids.

On 31 July, the deadline for the binding bids, four had been submitted and the winning bidder was chosen by the Council of Ministers on 18 September (see Council of Ministers Resolution 55-B/2014).

The privatisation process was accompanied by approval of tariff regulations for waste management services in ERSAR decision 928/2014, approved by the Minister of the Environment, Spatial Planning and Energy and published in Diário da República, 2.ª série on 15 April.

Strategic plans for the water and waste sectors

These plans (PENSAAR 2020 and PERSU 2020, respectively) were drafted in articulation with the 2014-2020 partnership agreement submitted by Portugal to the European Commission for the purpose of the Common Strategic Framework concluded in July 2014. It directs the use of European funds in the Cohesion Policy, Common Agricultural Policy, Policy Fisheries Policy and Maritime Policy.

The operational programmes of the approved plans and associated finance instruments were presented in 2015. They show the new challenges arising from a shift in paradigm for the sector and the recent positions of the European Commission aimed at sustainability and efficiency, plus stricter environmental requirements and stronger monitoring mechanisms, as shown in a number of important *ex-ante* and *ex-post* requirements.

Without prejudice to complying with the environmental requirements set out by the European Commission, especially regarding waste, infrastructural measures are now followed by investments for improvement, consolidation and strengthening of existing assets. At the same time as investment, it will also be necessary to enable management companies to progress to more efficient, empowered organisational levels.

Regulation

The AdP Group's water supply, wastewater treatment and household waste management are services of general economic interest and are essential to people's well-being, business activities and environmental protection.

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

In 2014 there were significant changes in regulations in the sectors in which the AdP Group companies operate in terms of their operations and organisation and of the regulator's powers.

The changes with the most impact on these aspects were the ongoing privatisation of the waste sector's companies, which was authorised by Law 35/2013 of 11 June. It entails revision of the legal framework for public service operation and management concessions, multi-municipal household waste systems and the possibility of aggregation and territorial reorganisation of multi-municipal public water supply and wastewater treatment systems.

Law 10/2014 of 6 March was published. It approved the new statutes of the water and waste service regulator (ERSAR). This publication followed Law 67/2013 of 28 August, which approved the framework law on independent administrative bodies that regulate the business activity of the private, public and corporate sectors.

According to the new statutes, ERSAR now has more independent action (Article 2), more entities subject to regulation (Article 4) and greater powers over regulated entities (Articles 5, 9, 10 and 11).

In view of the changes under way in the water and waste sectors, the increase in ERSAR's powers is a significant challenge for the regulator and regulated entities.

The AdP Group hopes that, with this more powerful ERSAR, the sector will have an agenda suited to its current stage of development focusing on economic, social and environmental sustainability.

In 2014, thanks to ERSAR's new regulatory power, the tariff regulations on management of household waste, decision 928/2014, was published in Diário da República, 2.ª série of 15 April. It will come into effect on 1 January 2016. This regulation changes the current regulatory model, going from a cost plus model to a revenue cap model, which remunerates an asset base at efficient capital cost and permits the recovery of operating costs in a setting of productive efficiency.

At the last meeting of the ERSAR Advisory Board in December 2014, it presented draft tariff regulations for water services. This is not a public document and, by law, under Articles 37 and 12, respectively, it requires an opinion from the ERSAR Tariff Board and a public consultation.

Due to the impact that its actions may have on the regulated companies' assets, regulatory risk management is now an even more crucial matter for them and for AdP SGPS.

The operations of the companies holding concessions to operate and manage the multi-municipal public water supply, wastewater treatment and household waste management services are subject to Decree-Laws 294/94 of 16 November, 319/94 of 24 December and 162/96 of 4 September, in the version set out in Decree-Law 195/2009 of 20 August.

In 2014, the companies holding concessions to operate and manage the multi-municipal public water supply and wastewater treatment systems conducted more studies and solutions needed to comply with Decree-Law 92/2013 of 11 July.

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

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

EPAL - Empresa Portuguesa das Águas Livres, S.A, a state-owned public limited company, is governed by Decree-Law 230/91 of 21 June, which gives it a status more in line with its participation in local solutions. EPAL has the peculiarity of being *ex lege* the management company of the Lisbon water distribution system and upstream supplier of a number of neighbouring municipalities, with which it contracts supply conditions. It does not operate under a concession agreement but rather on the basis of its legally established status, under which it manages the state-owned system.

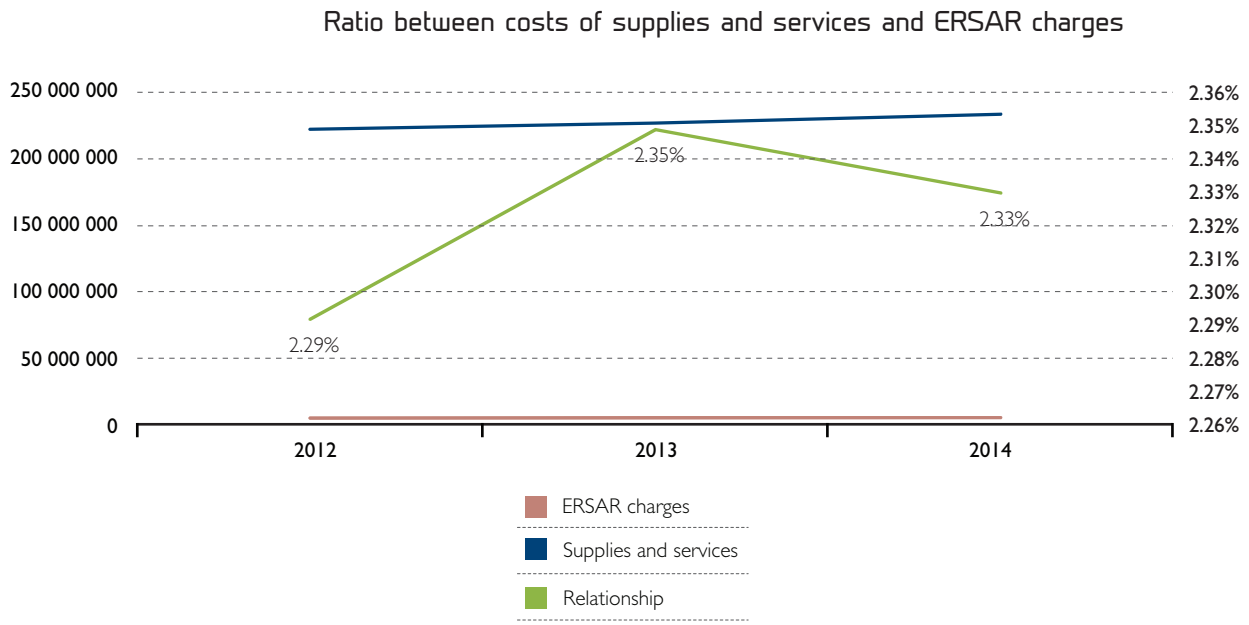
The extension of the new ERSAR statutes to EPAL when it comes to approval of tariffs and its subjection to tariff regulations depends on the revision of Decree-Law 230/91 of 21 June.

Pursuant to its statutes, ERSAR is funded by charging structural economic, quality of service and drinking water quality regulation rates from regulated management entities, regardless of their management model.

Over the years, management companies of water supply services, urban wastewater treatment and household waste management services have been paying these charges.

The graph below shows the relationship between ERSAR charges and the costs of suppliers and services borne by AdP Group managers of water supply, urban wastewater treatment and household waste management services, an item that substantial efforts have been made to reduce.

These indicators show the growth in activity, especially with regard to wastewater treatment over the three years.



Economic regulation

Pursuant to current concession contracts, the annual regulatory cycle of the management entities of concessioned multi-municipal water and waste systems begins with the presentation to the grantor and regulator of draft budgets and tariffs for the following year(s). Decree-Law 195/2009 of 20 August set the same deadline of 60 days for approving proposals for all multi-municipal systems.

In 2014, no multi-annual draft budgets or tariffs were submitted to the grantor and regulator pursuant to Ordinance 11981/2009 of 19 May, complemented by Decree-Law 195/2009 of 20 August. Nonetheless, as required by law, three management entities of multi-

-municipal waste systems charged the tariffs approved by the grantor for 2012-2014 (at constant prices). It was only for 2014 that they were updated on the basis of inflation, as set out in paragraph 4 (a) of Ordinance 11981/2009.

The 2014 budgetary cycles began in September 2013 and lasted until March 2014. It was only after the issue of the draft opinions by the regulator and the adversarial phase by the multi-municipal water and waste systems that the tariffs were approved by the grantor.

Decree-Law 195/2009 of 20 August determines that the tariffs charged to users come into effect at the beginning of the financial year to which they apply, regardless of the date on which they are approved. This means that there is a more appropriate balance between earnings and costs of providing the services.

The budgetary cycle for 2015 began in September 2014 and neither the draft budget nor draft tariff had been approved by 31 December 2014.

On that date, there were 26 draft decisions to be issued by the regulator on the draft tariff for the multi-municipal water and waste systems belonging to the AdP Group.

The draft budget and tariffs for 2014 and 2015 were submitted pursuant to Ministerial Order 269/2011 of 19 September, as required in the new ERSAR statutes.

The price scheme applicable to the sale of water by EPAL and its principles of application are fixed by an agreement between the Directorate General of Economic Activities and EPAL. The agreement is subject to the joint approval of the Ministry of the Environment, Spatial Planning and Energy and the Ministry of the Economy. The agreement abides by the price-setting system set out in Decree-Law 230/91 of 21 June and the qualification of consumers in Ministerial Order 6-A/92 of 8 January.

EPAL's draft tariffs are based on the principles of the tariff policy on public drinking water supply services set out in the Water Law, in which water is considered a scarce commodity essential to life and business activities. It should be given a fair value and its price should be a reflection of the real cost of supply, environmental costs and scarcity.

The goals of establishing tariffs are set out in Articled 82 (1) of the Water Law and Decree-Law 230/91 of 21 June, which sets out that tariffs should generate revenue that allows adequate remuneration of capital invested, appropriate levels of self-financing and coverage of operating costs.

The agreement of 2014 prices between the DGAE and EPAL was concluded on 28 July 2014 and ratified on 30 July. The overall average increase in EPAL tariffs, considering its different types of customer (direct and municipal customers supplied upstream) was 0%.

Under the management contracts, the draft tariff for state/local authority partnerships is valid for five years after approval by the Partnership Committee. It is reviewed every year as defined in the contracts.

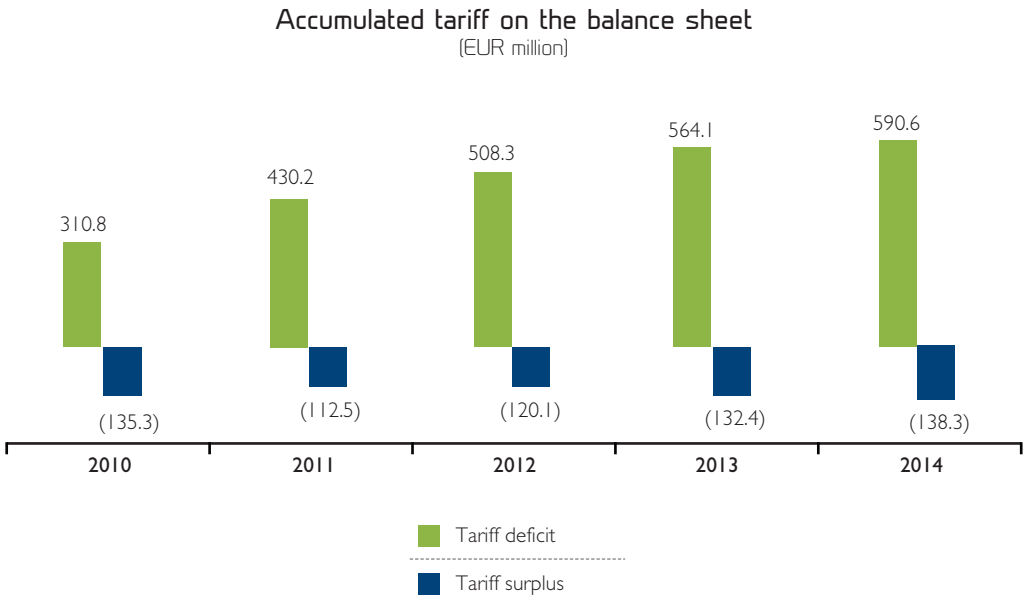
The tariff review cycle of the state/local authority partnerships begins on 15 October with the submission of the draft tariff and is subject to a non-binding opinion from ERSAR.

In accordance with the regulatory model in effect at most management companies of multi-municipal systems and state/local authority partnerships, cost plus in a setting of efficient production and under the contract terms can generate differences between the revenue necessary to cover all costs incurred by the management company, including income tax and return on equity, and the amount of income actually generated in each financial year. These differences are called tariff deviations or cost recovery deviations.

These deviations can take the form of deficits if the income generated is lower than necessary or surplus, if the income is higher than necessary, excluding gains in productivity or efficiency pursuant to the concession contracts.

The consolidated financial statements of the AdP Group for 2014 record tariff deviations or cost recovery deviations in the amount of 590.6 million euros relating to deficits (pre-tax and without excluding minority interests) and EUR138.3 million of surpluses (pre-tax and without excluding minority interests).

The graph below shows tariff deviations or cost recovery deviations (pre-tax and without excluding minority interests) in the AdP Group's c consolidated accounts between 2010 and 2014.



In 2010, the regulator submitted a bill on the recognition and recovery of tariff deviations (deficits and surpluses) or cost recovery deviations for each multi-municipal system and procedures for distributing contractual gains in productivity, as they were not sufficiently detailed in the concession contracts or legislation.

The sustainability of the management companies and sector, in strict compliance with the law, concession contracts and state/local authority partnerships, means that we can no longer put off express recognition and intensification of the regulatory model on recovery of expenditure set out in the contracts. It is necessary to define the amount of tariff deviations or cost recovery deviations at management companies and ensure recovery of cost recovery deviations generated in the concession, whose compensation rules need clarifying.

The solutions set out in Decree-Law 92/2013 of 11 July will make it possible to define the rules on recording and recovering tariff deviations under the aggregations of multi-municipal systems.

Regulation of quality of service

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

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

Volume 3 of the RASARP was published in 2014. It contained the results from the service quality evaluation system for the management companies as at 31 December 2012.

Regulation of quality of drinking water

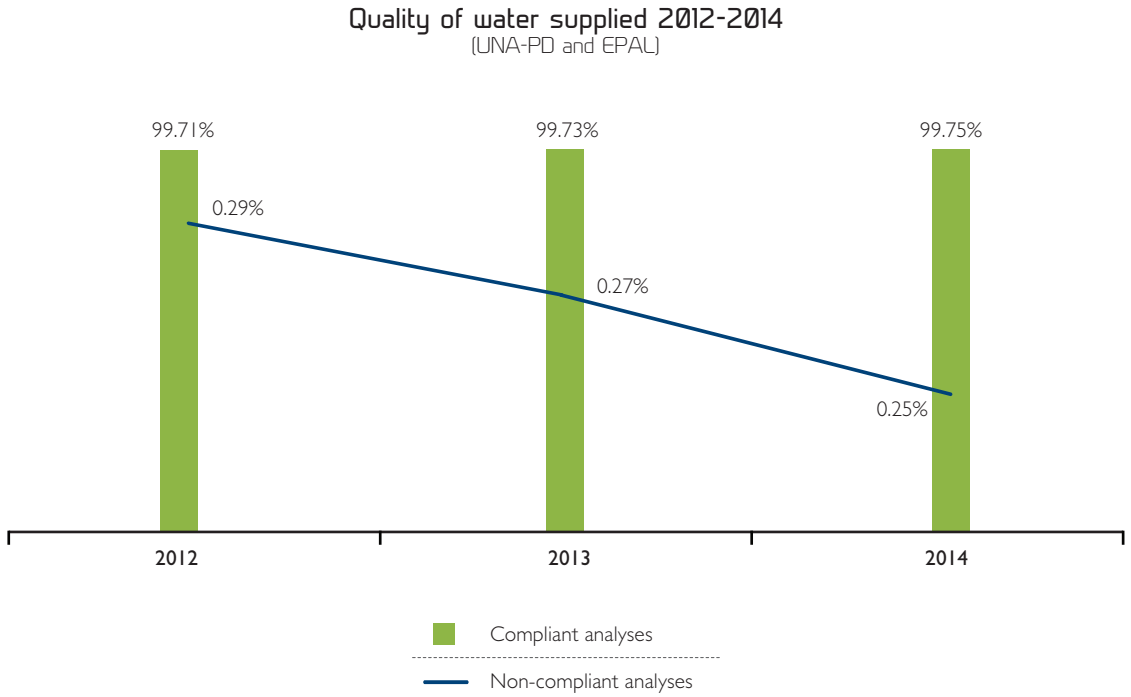
By law, the system management companies are obliged, under the authorities' supervision, to monitor drinking water quality in accordance with legal and regulatory parameters.

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

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

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

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



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

When volume 4 of the RASARP was published for the first time in 2013, the regulator gave Exemplary Drinking Water Quality Stamps to a number of entities. In 2014, this stamp was awarded to Águas do Algarve, Águas do Centro, Águas do Centro Alentejo, Águas do Douro e Paiva, Águas do Mondego, Águas do Noroeste, Águas do Oeste, Águas de Trás-os-Montes, Alto Douro e a Águas do Zêzere e Côa, Águas da Região de Aveiro, Águas de Santo André and Águas do Norte Alentejano. Águas do Centro also received a prize for Exemplary Drinking Water Quality.

Águas do Centro and Águas do Zêzere e Côa also received the stamp of quality of public water supply service.

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

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

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

Regulation of business relations

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

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

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

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

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

Environmental regulation

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

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

The APA also has acts as the national waste authority. It is responsible for control of information on waste management operations, the planning and management of all types of waste of different origins, processing of SIRER and SILOGR information, validation of the information necessary for applying the economic and financial waste management rules and implementation of the regulations on the Waste Management Charge. It defines, implements and monitors national policies and strategies for sectoral waste management, drafts and monitors execution of waste management plans and programmes, approves technical waste management models, ensures an integrated approach to licensing of waste management operations, coordinates and harmonises the criteria for licensing by the regional waste authorities, accompanies technical and environmental or economic and financial audits of waste management operators and conducts technical analyses of applications for EU funds for household waste management infrastructure.

Under the economic regulation model set out in the waste management service tariff regulations, the APA is asked to give an opinion on investments proposed by the management companies that will be part of the asset base to be remunerated.

Sustainability analysis

Sustainability is an integral part of the AdP Group's strategy because it sustains its operations in a commitment to improving natural and human capital to the benefit of people today and future generations.

The water supply, wastewater treatment and treatment and recovery of waste, all essential public services provided by the Group, are upstream and downstream of all other business activities, at the start and end of all value chains. They are fundamental channels for enabling a green economy.

The AdP Group's sustainability strategy is based on the concept of symbiosis – with the environment, shareholders, employees and the community - and takes the form of a close relationship of interdependence with all stakeholders.

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

This report, which has been published annually for six years, includes the consolidated balance sheet of the holding company and the 39 companies held directly or indirectly by AdP SGPS. It describes the strategies followed, fulfilment of targets and good practices followed by the invested companies whose operations cover the country from north to south and east to west.

The 2014 Sustainability Report, as in previous editions, follows the GRI – Global Report Initiative guidelines and ERSAR references, which can be accessed on the AdP website www.adp.pt. The 2014 report is also available in English.

The most important aspects of 2014 were pursuit of our policy of developing and constantly improving our processes, in order to provide a high-quality public service and diversifying with a view to increasing efficiency. A great contribution was made by certification of our quality, environment, safety and social responsibility systems following principles of transparency and credibility. In 2014, 95% of the Group's companies received ISO 9001 certification, 92% ISO 14001 certification, 89% OSHAS 18001 certification and 41% SA8000 certification.

We also upped our commitment to the Global Compact principles, which cover human rights, labour practices, environmental protection and anti-corruption mechanisms. The Sustainability and Social Responsibility Department collaborated with the Portuguese network in developing a guide to help members draft progress reports in complying with the Global Compact in their organisations.

In September 2014, the Group subscribed to Portugal's Commitment to Green Growth, a government initiative designed to promote a sustainable future by combining economic growth with environmental responsibility, social justice and people's quality of life.

Where social responsibility was concerned, the Group continued to bet on corporate policies and its programme of awarding study grants to help the development of its employees' children. Twenty higher education grants were awarded in 2014 to a value of 1,200 euros (10 more than in 2013). For the first time, 14 grant holders received special education grants to the amount of 1,000 euros.

The initiatives of the Group's volunteer programme included the "Drop by drop we brighten up Christmas" campaign, which consisted of collecting food, toiletries and toys for disadvantaged families. The gifts showed the sharing spirit of AdP employees and put a different shine on Christmas for 28 families, around 140 people, referred by Associação de Solidariedade Social do Alto da Cova da Moura.

Human capital management

Our employees make a decisive contribution to AdP's success. This is why our human resource management policies and practices promote their personal and professional development while contributing to achieving our strategic goals.

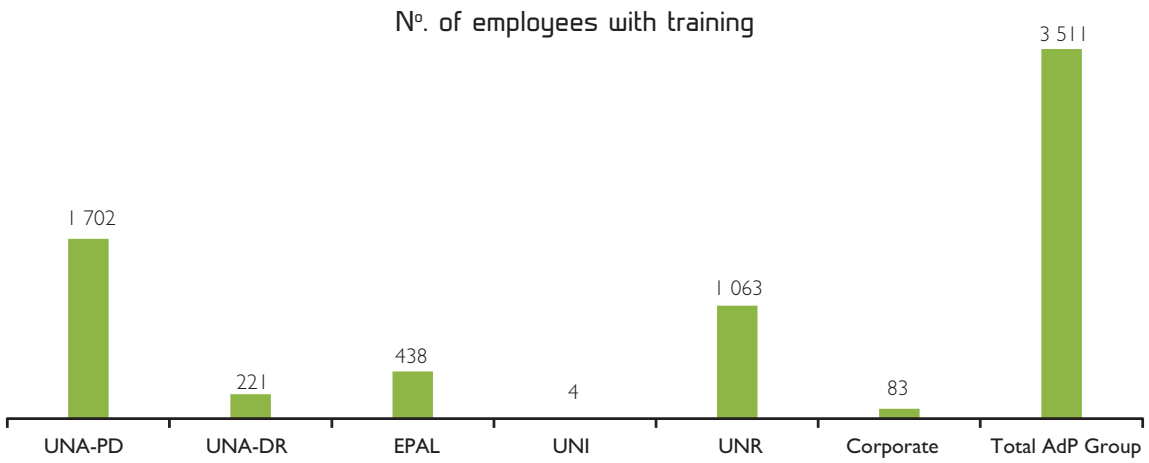
Training and development

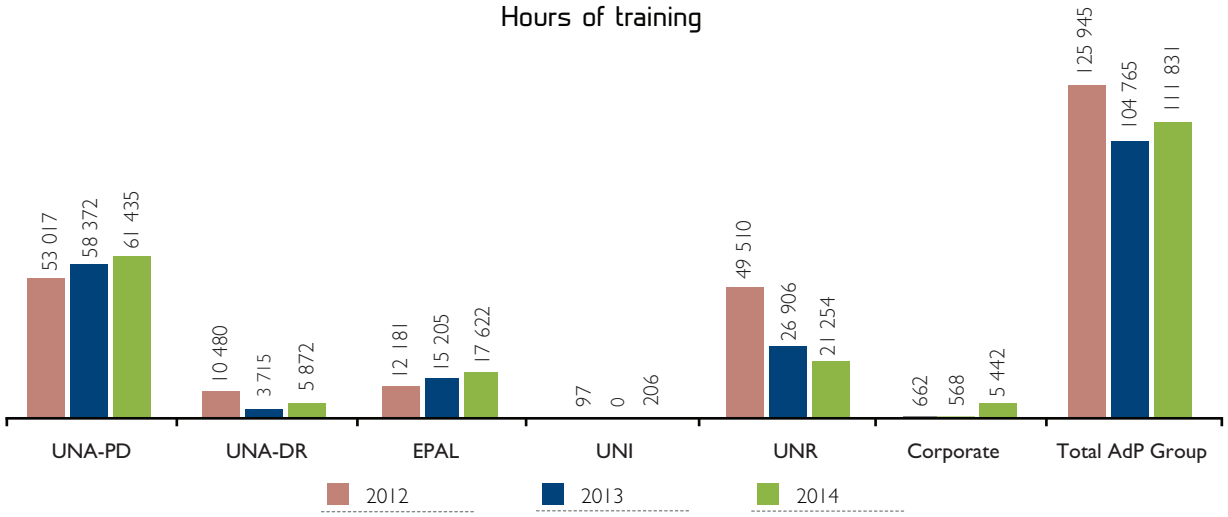
Our strategy embodies a culture of ongoing improvement and we believe that it is essential to provide our human resources with the skills they need to fulfil their potential, thereby contributing to AdP's success.

Our planning, management and training assessment processes are designed to meet training needs identified and guarantee their quality and effectiveness. We arrange for strategic across-the-board training courses to foster organisational development.

In 2014, we continued to bet on training as a development tool and there were 6.7% more training hours than in 2013. The average number of training hours per employee also increased.

In 2014, 73% of working employees (3,511) were involved in training.



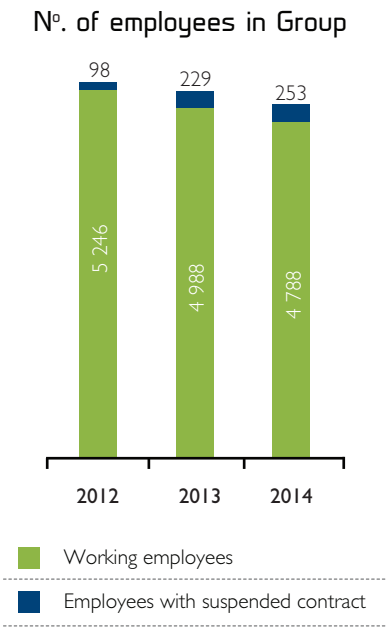


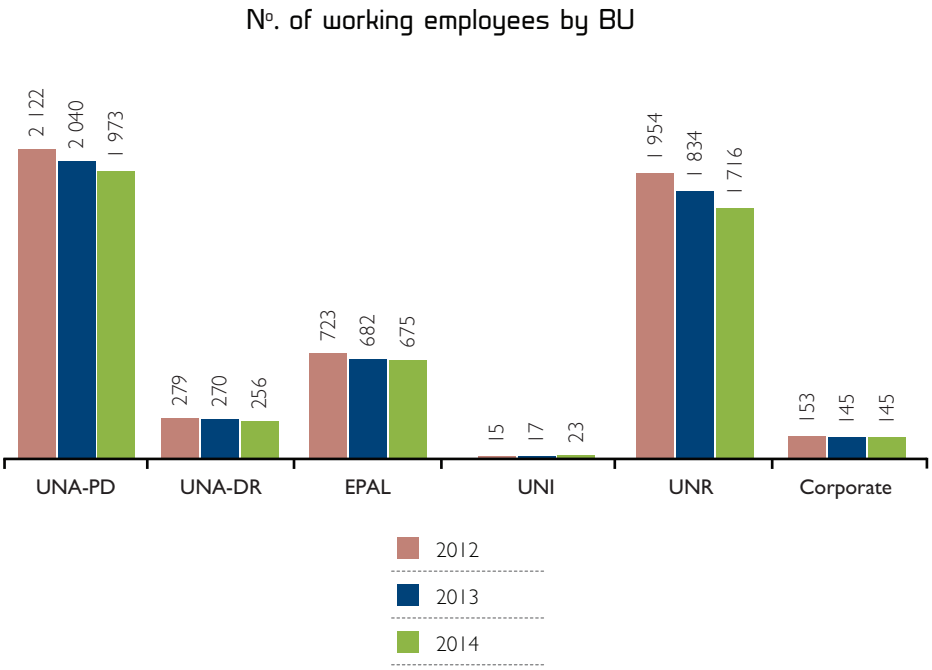
Career management

We devote a lot of attention to internal mobility of our employees in the Group, as it is an important factor in their professional development. In-house recruitment of personnel to allocate to projects or meet specific know-how needs is a process that adds value to AdP and gives employees exposure to new situations and challenges that encourage them to learn and acquire skills. The number of mobility processes has been growing gradually and there were more in 2014 than in 2013.

The Group's human resources on 31 December 2014

The number of employees was 4.2% lower than in 2013. The largest reduction was in the Waste Business Unit (UNR).

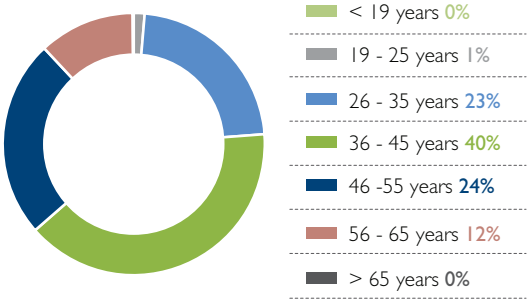




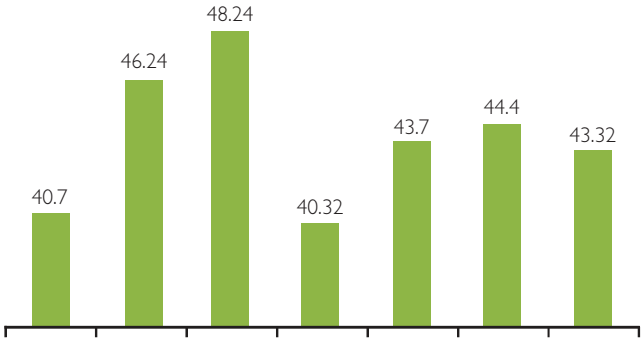
The average age of employees is 43.32 years. The International Business Unit (UNI) has the lowest average age at 40.32. EPAL has the highest average age at 48.24 years.

The most represented aged group at AdP is 36 to 45.

Age groups of working employees



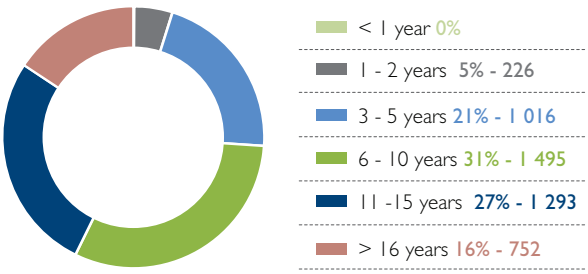
Average age of working employees



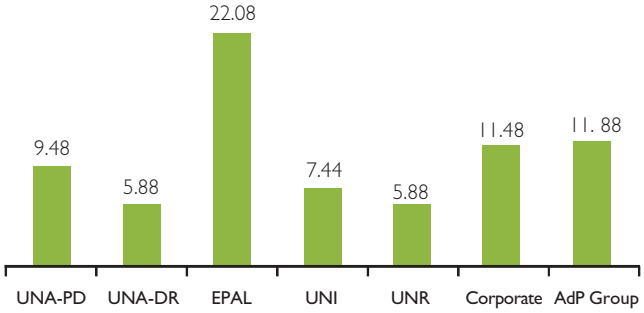
Average years of service with the Group is 11.88. Six to 10 years accounts for 31% of total human resources. EPAL has the longest years of service of the Business Units.

Years of service of working employees

(%)

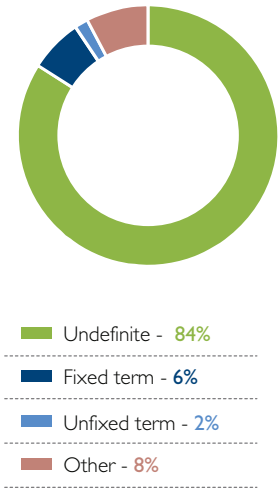


Average years of service of working employees

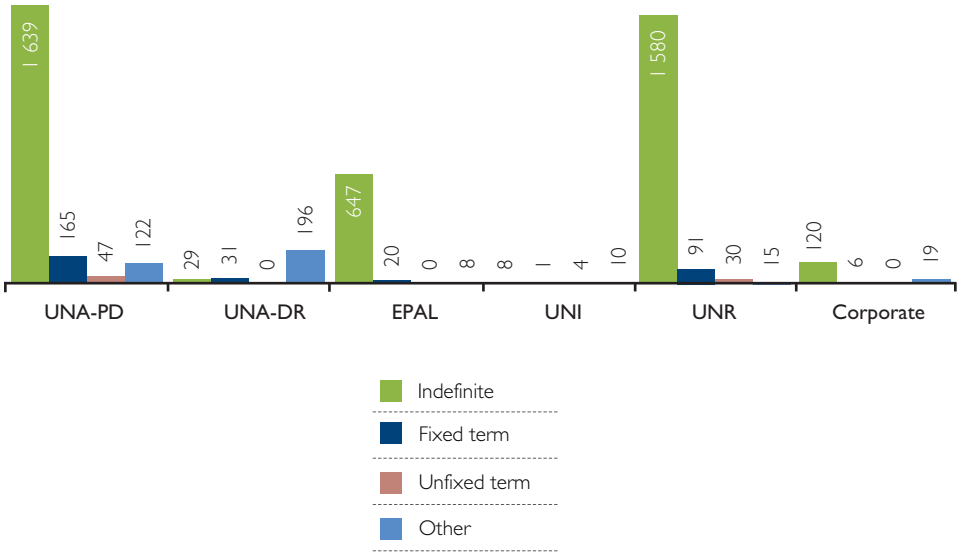


The most common type of employment agreement at AdP is still the indefinite contract, representing 84% of the total.

Type of contract of working employees

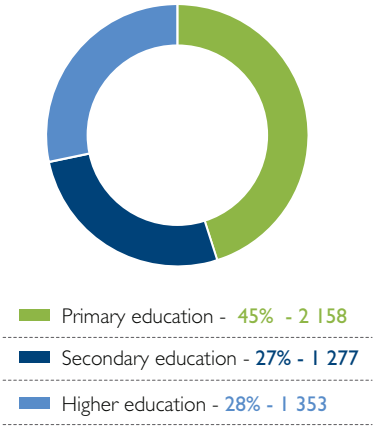


Type of contracts of working employees by BU

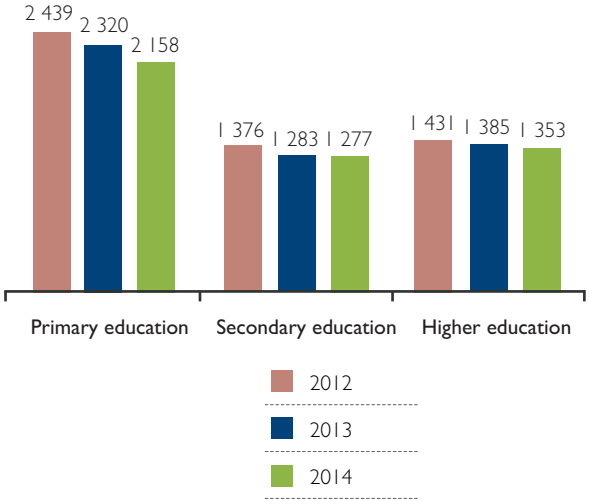


When compared to previous years, there was a relative decrease in employees with lower secondary qualifications. This was a 1% reduction against 2013.

Academic qualifications of working employees

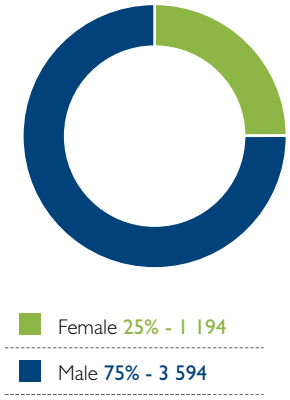


Academic qualifications of working employees

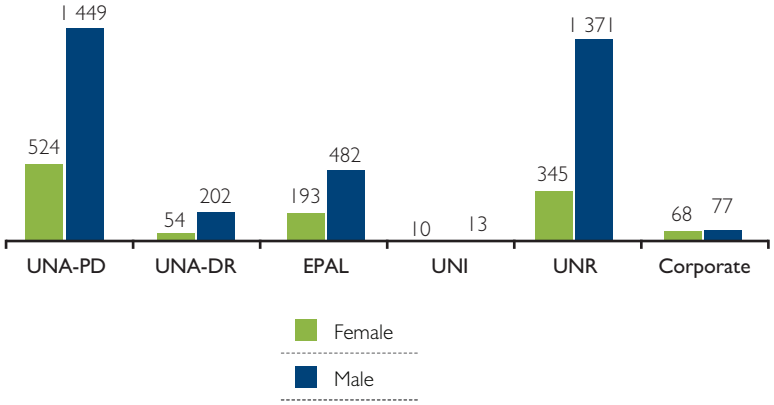


Where sex of human resources is concerned, there are more men in more operational activities. There is a balance between sexes in admin and back-office work.

Working employees by gender

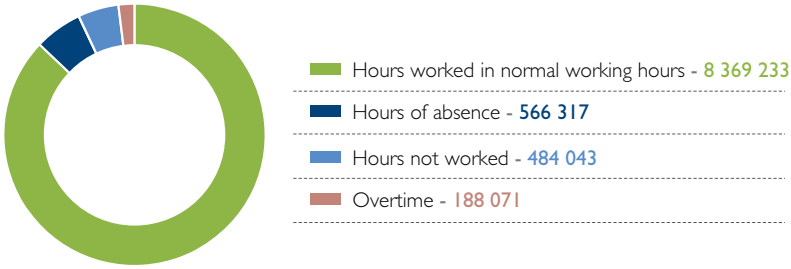


Working employees by gender and BU

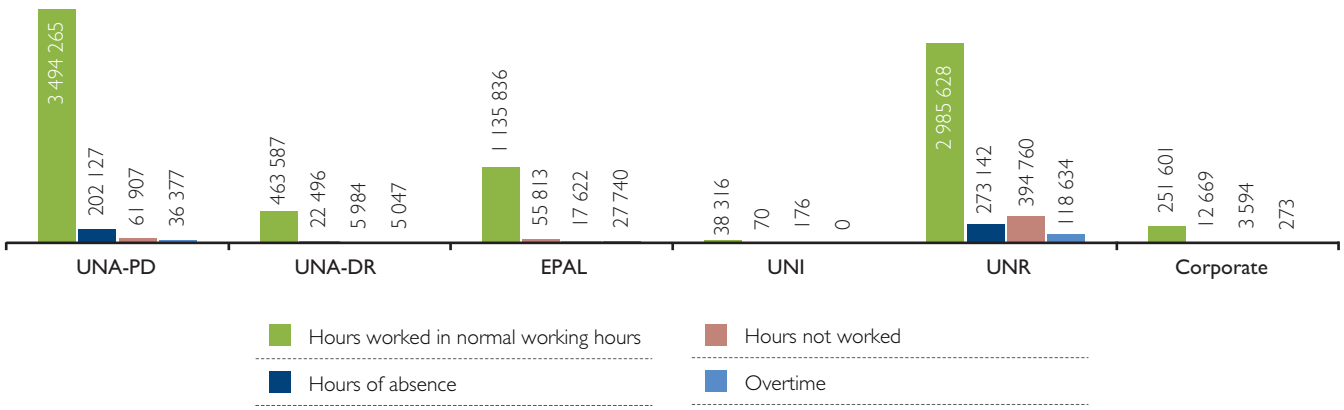


Productive and non-productive hours in the Group are within normal parameters for the sectors. Absent hours represented 6% of potential workable hours in 2014.

Time worked



Time worked



Research & Development and innovation

AdP Group's R&D and innovation strategy and network

Meetings were completed at the AdP Group companies in the first half of 2014. The aim was to identify the main R&D and innovation challenges and solutions and potential new projects.

Four working groups were set up in the R&D and innovation network: Knowledge Portal, Innovation Workshops, Water and Energy Portal and MSc and PhD Theses.

R&D at AdP SGPS included a working group to draft a document for reflection on a management strategy plan of action for sludge from water treatment stations and wastewater treatment stations at the UNA-PD companies. Its work should be completed in the first quarter of 2015.

A technical and scientific cooperation agreement was signed by AdP Group and 20 Portuguese polytechnics belonging to the CCISP – Conselho Coordenador dos Institutos Superiores Politécnicos (Council for Polytechnic Higher Education Institutes). The agreement, which was signed on 27 June, formalised and increased collaboration between AdP and CCISP members in order to combine the potential of both, in terms of training, technical capacity building, and research studies of water supply, wastewater treatment and waste management.

An agreement was also reached with a consultancy company to assist in preparing applications for the H2020 and Portugal 2020 programmes.

Knowledge portal

We completed the design and choice of contents for the AdP Group knowledge portal to be launched in 2015 with the purpose of in-house news and support for the Group's R&D and innovation. An R&D+i group was also created on Linkedin so that ideas, information and good practices can be discussed in order to optimise the AdP Group's operational management of water and wastewater systems.

Innovation workshops

Our R&D+I strategy is for the AdP Group companies' technicians to share knowledge and standardise good practices and so we began a programme of innovation workshops, including the following:

- "Good practices in operational management of supply systems in scenarios of low water consumption", 5 November 2014 at the Lever water treatment station, Águas do Douro e Paiva.

- "Good practices in saving energy in activated sludge systems", 3 December 2014 at the Alcântara wastewater treatment station – SimTejo.

Funding programmes for R&D+I projects

In 2013, a number of applications were submitted for EU funds (LIFE2014+, H2020, Marie Curie, FCT) for which we are still awaiting approval from the authorities:

- Application to LIFE SWSS (Smart Water Supply System) (LIFE2014+): consortium led by ISQ, with the following partners: R&D at Águas de Portugal, IST, Hidromod, Águas do Algarve, Águas do Oeste and Águas do Centro. Its aim is to demonstrate an innovative management system in upstream drinking water networks in order to quantify and disseminate the benefits of using this system operationally.

- Application to CleanBots - H2020 - FetOpen-1-2014 - the consortium is led by MAX PLANCK GESELLSCHAFT ZUR FOERDERUNG DER WISSENSCHAFTEN E.V., with the following partners: MPI (DE), University Of Oxford (UK), Universitat Autonoma de Barcelona (ES), INEB (PT), ETHZ (CH), Magnes AG and R&D at AdP. It develops nanotechnology robotic techniques applied to the removal and identification of micro-organisms and pollutants in water.

- Application to LIFE Impetus: Improving current barriers for controlling pharmaceutical compounds in urban wastewater treatment plants (LIFE2014+) - the consortium is led by LNEC, with the following partners: AdA, EHS, EPAL, FCUL, FFUL, SIMTEJO, UAlg. It studies the adaptation of conventional activated sludge treatment systems with a view to removing pharmaceutical micro-pollutants.

Five applications were also sent to H2020 tenders, though no approval for funding was received. They included:

- SWEEP (Smart System for Wet Weather Operation: Energy Optimization and Environment) - H2020 - Water-1a-2014: the consortium was led by R&D at AdP SGPS, with the following partners: Hidromod (PT), KU Leuven (BE), Universidade de Coimbra (PT), Hydrologic Research BV (NL), Imperial College London (UK), Lyonnaise des Eaux France SA (FR). Its aim was to demonstrate an innovative management system in upstream drinking water networks in order to quantify and disseminate the benefits of using this system operationally.

- GOS (Gas Odour from Sewers) - H2020 H2020-MSCA-ITN-ETN - the consortium was led by Institut National des Sciences Appliquees de Lyon R&D at AdP SGPS, with the following partners: Aalorg Uiversity (DK), IST (PT), Grundfos (DK), Veolia (FR), Aquafin (BE), Anglian Water (UK), R&D at AdP. Its aim was theoretical and operational knowledge of the problem of odours in wastewater treatment systems and their effects on the early deterioration of infrastructure.

Ongoing R&D+I projects

ARTICA

Our application of the project "A multivariable advanced control product for sustainable performance of nutrient removal urban WWTPs (ARTICA)", to demonstrate the use of ARTICA technology at the Chelas wastewater treatment plant to the funding programme Eco-Innovation was approved and the project has begun (http://www.artica4nr.eu/).

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

Water-Energy Portal

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

Aquavir

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

SmartWater4Energy

Smart Water 4 Energy (SW4E) is a QREN project in joint promotion to develop a smart system for energy management at WWTPs. SW4E has been ongoing since March 2013, under the consortium Simtejo (Promoter), ISQ and Hidromod. Its aim is to help with the challenge that the wastewater management sector faces all over the world of reducing energy consumption during treatment while setting stricter limits for quality of effluent discharged.

Economic and financial analysis

Net profit

The net profit of the AdP Group was around EUR102.3 million, which is EUR 2.3 million lower than in 2013.

This was due to a number of factors, such as a significant reduction in the tariff deficit of around EUR 28.6 million as a result of an improvement in the net profits of invested companies and a reduction in the rate of 10-year treasury bonds from 6.29% to 3.75%.

Operating profit

Operating profit from ongoing operations fell, against 2013, by around EUR 7.6 million, basically due to:

- An insignificant EUR 0.3 million increase in turnover with no tariff deviations.

- A substantial EUR 28.6 million reduction in the tariff deficit, as a result of an improvement in the net profits of invested companies and a reduction in the rate of 10-year treasury bonds.

- A EUR 10 million reduction in personnel costs (-10% against 2013), as a result of a downsize of 200 employees during the year and the fact that in 2013 14 months of remuneration was restored in the public sector by decision of the Constitutional, Court. This meant it was only in that year that the adjustments costs of accrual of 2014 holiday allowances were recorded.

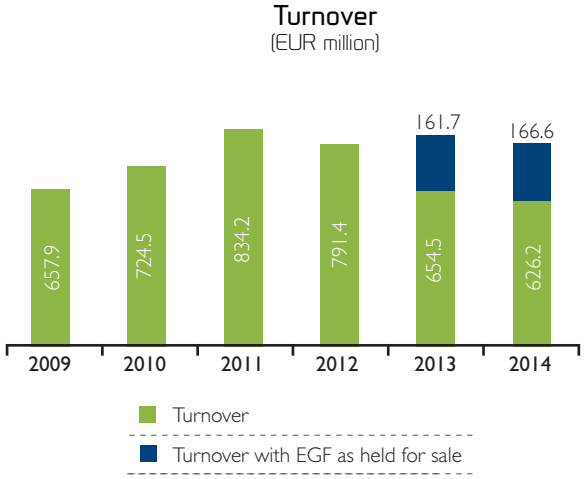
- A EUR 3.6 million reduction in supplies and services.

- Improvement in other operating gains due to the incorporation of a plot of land, as investment property, for EUR 12.9 million .

Turnover

The turnover of continued operations totalled EUR 626.2 million, EUR 28.3 million lower YoY. This variation is mainly due to the EUR 28.6 million reduction in tariff deficit. Turnover without tariff deviations grew by around EUR 0.3 million. This was mainly due to a reduction in billing of around EUR 1.1 million, offset by an increase in billing by for water supply and wastewater treatment by the UNA-PD of EUR 2.3 million.

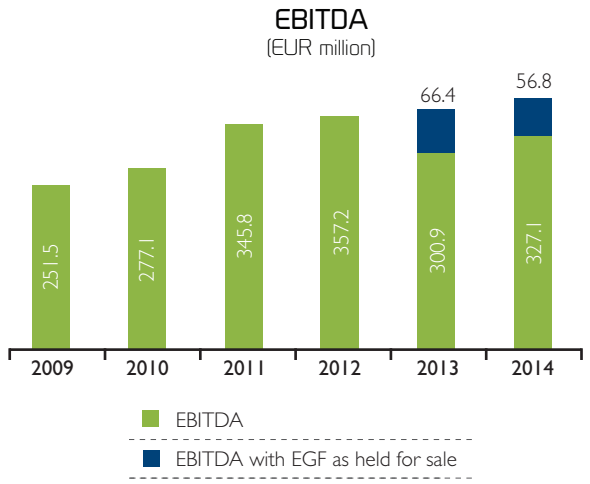
Changes in turnover, including the effect of operations held for sale, at the UNR (Waste Business Unit) were as follows:



EBITDA

EBITDA totalled EUR 327.1 million, which was 26,2 million higher than in 2013 (excluding the effect of operations held for sale), an increase of 8.7%.

The improvement in EBITDA for continued operations was mainly due to a reduction in supplies and services (EUR 3.6 million), a fall in personnel costs (EUR 10 million) and an improvement in other operating gains and losses (EUR 12.2 million – see Note 10).



Financial profit/loss

Financial losses totalled around 58.1 million. There was deterioration of EUR 8.4 million against 2013. This was due to a reduction in financial earnings of around EUR 12.4 million, which was offset in part by a fall in financial costs paid of about EUR 4 million, due to an ongoing reduction in borrowing and the average cost of capital. The financial loss in 2013 was strongly influenced by the positive effect of the cancellation of two interest rate risk hedging operations. Without this effect, the financial loss in 2014 would have been smaller by around EUR 13.2 million.

The reduction in financial expenses from short-term borrowing was mainly due to the following three factors: **i)** a lower risk factor measured by the bank spread borne, **ii)** a reduction in commissions charged to group companies and **iii)** a 10% fall in the average use of short-term funding in companies in continued operations. If the trend towards lower average bank spreads continues, we can expect reductions in the cost of short-term funding to continue in 2015.

The financial expenses of medium- and long-term borrowing from the EIB increased slightly against 2013 as a result of our choice of fixed-rate loans. Meanwhile, the average interest rate of these loans is lower than that of short-term loans. It was an average of 2.7% in 2014. Long-term funding, obtained by AdP SGPS, via direct placing on the Japanese and European markets, recorded a total average cost of 1.4%.

Interest paid represents a cost of around 3% of the group's total borrowing.

Thanks to the AdP Group's prudential debt management, aware of the need for stability and predictability of costs associated with the public services that it provides, more than 60% of its medium- and long-term debt was negotiated at fixed rates. The average spread of medium- and long-term debt is lower than 50 bps on the variable index rate or the fixed rate, at the time it was fixed.

Our funding structure set up in recent years to cover investment has enabled us to reduce the volatility of financial expenses, by the weight that long-term borrowing carries, such as that from the EIB, or by a substantial part of loans having been obtained at a fixed rate.

Investment

The group's investment, including operations held for sale, totalled EUR 210.5 million, which is EUR 48.1 million (+29.5%) more than in 2013. Investment includes the recording of a plot of land worth EUR 12.9 million, against other operating gains, as it is the result of a transfer not subject to payment. Discounting this effect, the increase in investment totals EUR 35.2 million (+21.7%) against 2013.

Without the investment made by operations held for sale, investment in 2014 totalled EUR 169.2 million, as opposed to EUR 134.8 million year on year (+25.5%).

In 2011 the AdP Group, aware of the restrictions imposed on the public business sector under the FAP and the increase in the average time of receiving municipal debts, began a rationalisation and rescheduling programme for fulfilling contractual obligations in terms of investment. Thanks to efforts made with municipal customers, agreements on debts in arrears and financial support programmes for local authorities, the improvement in receivables reduced the group's working capital needs and allowed it to go back faster to the most urgent investments.

Working capital

In 2014 there was a 13% reduction in working capital needs resulting from a reduction in debts from municipal customers and amounts receivable from the Cohesion Fund. The debt from municipal customers not subject to payment agreements fell by around EUR 33.0 million.

(EUR thousand)

Working capital needs	Annual figures				Variation			Variation %		
	2011	2012	2013	**2014**	2012/2011	2013/2012	**2014**/2013	2012/2011	2013/2012	**2014**/2013
Cyclical assets										
Inventory	7 715	7 577	7 206	**5 594**	(138)	(371)	(1 613)	(1,8%)	(4,9%)	(22,4%)
Trade Receivables	408 814	474 811	447 478	**413 731**	65 997	(27 333)	(33 746)	16,1%	(5,8%)	(7,5%)
State	14 205	9 962	9 235	**5 627**	(4 243)	(727)	(3 608)	(29,9%)	(7,3%)	(39,1%)
Other current assets	235 737	174 074	155 483	**85 723**	(61 663)	(18 591)	(69 760)	(26,2%)	(10,7%)	(44,9%)
	666 471	**666 424**	**619 402**	**510 674**	**(47)**	**(47 022)**	**(108 728)**	**(0,0%)**	**(7,1%)**	**(17,6%)**
Cyclical liabilities										
Suppliers	125 189	108 866	79 094	**68 257**	(16 323)	(29 772)	(10 838)	(13,0%)	(27,3%)	(13,7%)
Other current liabilities	137 660	160 882	151 332	**121 699**	23 222	(9 550)	(29 632)	16,9%	(5,9%)	(19,6%)
Income Tax	20 850	11 622	12 693	**2 665**	(9 228)	1 071	(10 028)	(44,3%)	9,2%	(79,0%)
State	29 200	28 579	30 374	**19 439**	(621)	1 795	(10 935)	(2,1%)	6,3%	(36,0%)
	312 899	**309 949**	**273 493**	**212 061**	**(2 950)**	**(36 456)**	**(61 432)**	**(0,9%)**	**(11,8%)**	**(22,5%)**
Total Nec. Working capital	**353 572**	**356 475**	**345 909**	**298 614**	**2 903**	**(10 566)**	**(47 296)**	**0,8%**	**(3,0%)**	**(13,7%)**

Financing structure

The AdP Group's financing structure is a reflection of investment plans defined in concession contracts in the multi-municipal systems resulting from goals set in strategic plans for the water and waste sectors and working capital needs basically influenced by receivables from municipal customers by the AdP Group concession holders.

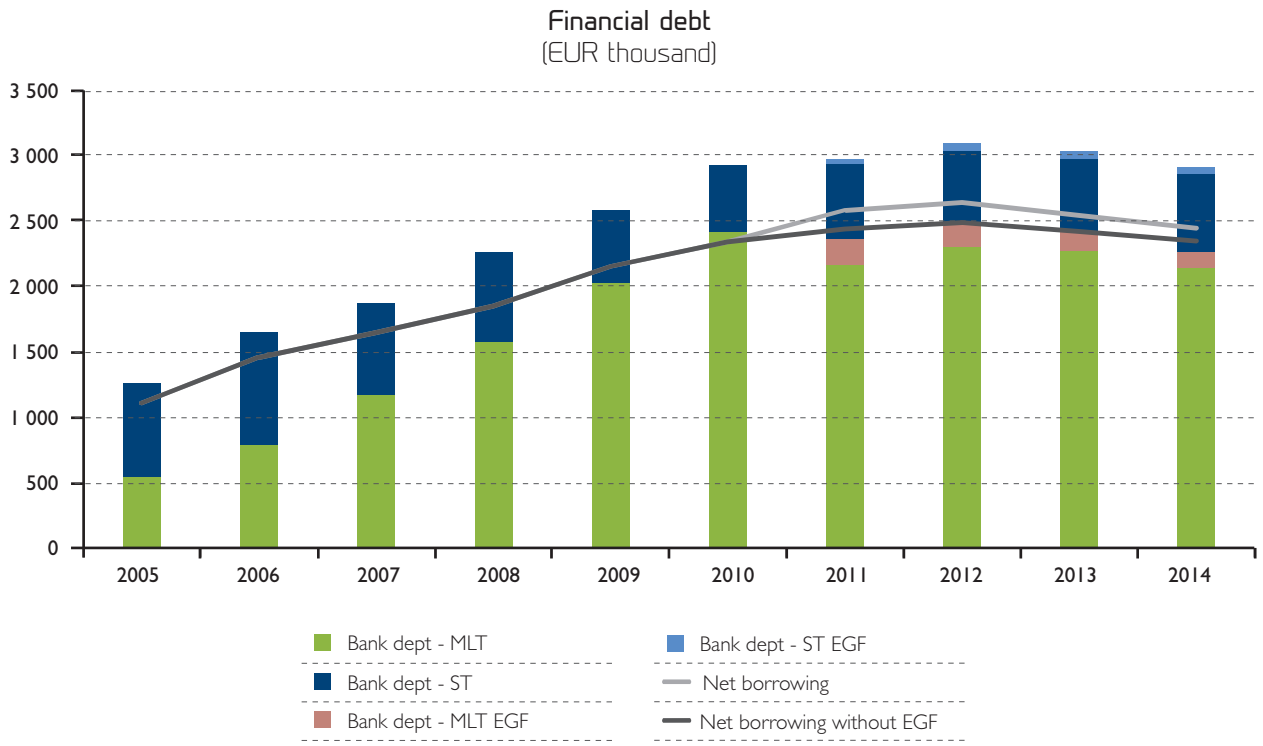
The AdP Group's gross borrowing in continued operations totalled EUR 2.7385 billion in 2014, which was 97.5 million lower than in 2013. The amount of borrowing by operations held for sale, not considering these amounts, is EUR 178.5 million.

Borrowing net of cash and permanent investments (such as the capital reconstitution fund) of continued operations is EUR 2.354 billion, which is around 70 million lower YoY.

Long-term financing reached around 78% of the group's gross borrowing, or 91.3% of net borrowing.

Medium- and long-term borrowing (EUR 2.1397 billion) is based essentially on loans from the EIB) and issued of bonds in private placings.

Total financial cost in 2014 was 3%, 2.6% of which is EIB funding and 1.1% medium and long-term funding placed directly on the market by AdP SGPS in the form of private placing of debt in the form of loan agreements or bonds.


Financial debt
(EUR thousand)
3 500
3 000
2 500
2 000
1 500
1 000
500
0
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
Bank dept - MLT
Bank dept - ST EGF
Bank dept - ST
Net borrowing
Bank dept - MLT EGF
Net borrowing without EGF

Shareholdings portfolio

Segment	Company	Holding	Head office	Business activity
Parent	AdP - Águas de Portugal, SGPS, S.A.	-	Lisbon	Holding company
EPAL	EPAL, S.A.	100,00%	Lisbon	Water upstream and distribution downstream
UNA-PD	Águas do Douro e Paiva, S.A.	51,00%	Porto	Water upstream
UNA-PD	Simria, S.A.	67,72%	Aveiro	Wastewater upstream
UNA-PD	Águas do Zêzere e Côa, S.A.	87,46%	Guarda	Water and wastewater treatment upstream
UNA-PD	Simlis, S.A.	70,16%	Leiria	Wastewater upstream
UNA-PD	Águas do Oeste, S.A.	51,00%	Óbidos	Water and wastewater treatment upstream
UNA-PD	Águas do Norte Alentejano, S.A.	51,00%	Portalegre	Water and wastewater treatment upstream
UNA-PD	Sanest, S.A.	51,00%	Cascais	Wastewater upstream
UNA-PD	Águas do Algarve, S.A.	54,44%	Faro	Water and wastewater treatment upstream
UNA-PD	Águas do Centro, S.A.	70,00%	Castelo Branco	Water and wastewater treatment upstream
UNA-PD	Águas de Trás-os-Montes e Alto Douro, S.A.	70,08%	Vila Real	Water and wastewater treatment upstream
UNA-PD	Simtejo, S.A.	50,50%	Lisbon	Wastewater upstream
UNA-PD	Águas do Noroeste, S.A.	56,66%	Barcelos	Water and wastewater treatment upstream
UNA-PD	Simarsul, S.A.	51,00%	Setúbal	Wastewater upstream
UNA-PD	Águas do Centro Alentejo, S.A.	51,00%	Évora	Water and wastewater treatment upstream
UNA-PD	Águas do Mondego, S.A.	51,00%	Coimbra	Water and wastewater treatment upstream
UNA-PD	AdRA - Águas da Região de Aveiro, S.A.	51,00%	Aveiro	Water and wastewater treatment downstream
UNA-PD	AgdA - Águas Públicas do Alentejo, S.A.	51,00%	Beja	Water and wastewater treatment upstream
UNA-PD	Águas de Santo André, S.A.	100,00%	V.N. Sto. André	Water, wastewater and waste
UNA-PD	Simdouro, S.A.	51,00%	V.N. Gaia	Wastewater upstream
UNR	Empresa Geral de Fomento, S.A.	100,00%	Lisboa	Sub-holding company
UNR	Suldouro, S.A.	60,00%	Sermonde	Treatment and recovery of solid household waste
UNR	Valorlis, S.A.	51,00%	Leiria	Treatment and recovery of solid household waste
UNR	Valorminho, S.A.	51,00%	Valença	Treatment and recovery of solid household waste
UNR	Resulima, S.A.	51,00%	Vila Nova de Anha	Treatment and recovery of solid household waste
UNR	Ersuc, S.A.	51,46%	Coimbra	Treatment and recovery of solid household waste
UNR	Amarsul, S.A.	51,00%	Moita	Treatment and recovery of solid household waste
UNR	Algar, S.A.	56,00%	Faro	Treatment and recovery of solid household waste
UNR	Valnor, S.A.	53,33%	Alter-do-Chão	Treatment and recovery of solid household waste
UNR	Resiestrela, S.A.	62,95%	Fundão	Treatment and recovery of solid household waste
UNR	Resinorte, S.A.	51,00%	Celorico de Basto	Treatment and recovery of solid household waste
UNR	Valorsul, S.A.	55,63%	S. João da Talha	Treatment and recovery of solid household waste
International	AdP Internacional, S.A.	100,00%	Lisbon	Sub-holding company
International	Aquatec, Lda.	100,00%	Maputo - Moçambique	Technical services
International	Águas do Brasil, S.A.	100,00%	Cabo Frio - Brasil	Sub-holding company for Brazil - being wound up
International	AdP Timor-Leste, Lda.	100,00%	Timor-Leste	Technical services
Services	AdP Serviços, S.A.	100,00%	Lisbon	Instrumental - shared services
Services	Aquasis, S.A.	55,00%	Lisbon	Development and implementation of geographical information system for basic sanitation
Others	AdP Energias, S.A.	100,00%	Lisbon	Environmental management
Others	AdP Imobiliária, S.A.	100,00%	Lisbon	Business activity suspended
Others	Clube de Golf das Amoreiras	100,00%	Lisbon	Company to be discontinued
Others	Trevo Oeste, S.A.	43,24%	Alcobaça	Treatment and recovery of livestock waste
Others	Miese	40,00%	Vila Real	Being divested

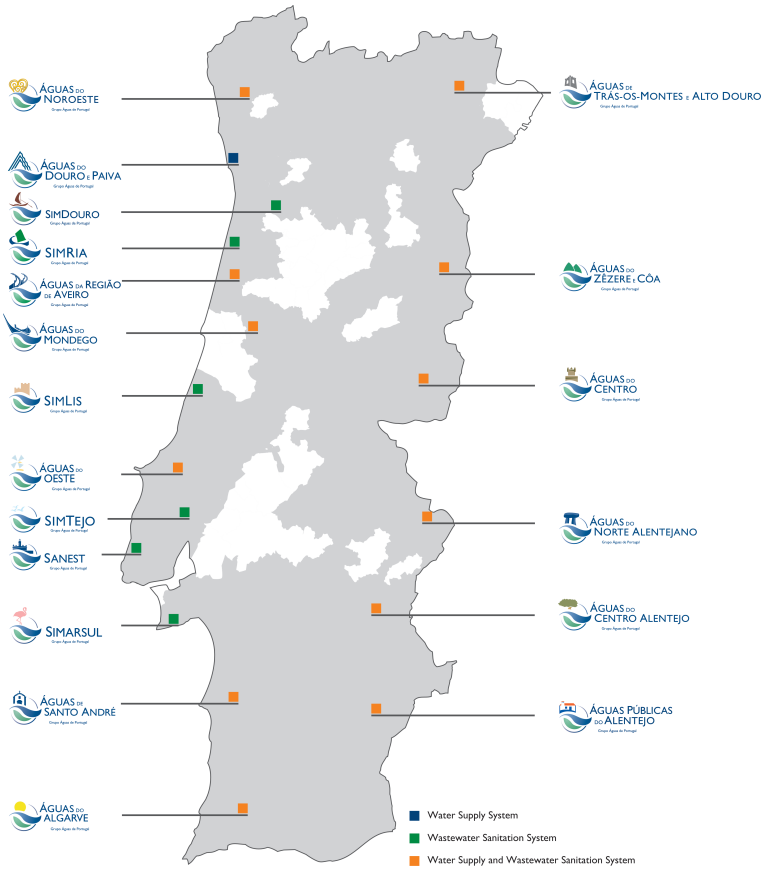
Business units

Water and wastewater

Water - Production and Purification (UNA-PD)

Framework

UNA-PD encompasses the management companies of multi-municipal systems and state/local authority partnerships. Its mission is to provide water supply services (extraction, treatment, adduction, storage and distribution) and wastewater treatment services (collection, treatment and discharge) to the municipalities served by these systems and directly to the population in the case of partnerships.



In order to consolidate the substantial investments made in recent decades, which allowed considerable progress in public water and wastewater services in Portugal, the new national strategic framework, PENSAAR 2020 – a new strategy for the water and wastewater treatment sector, is oriented towards a new paradigm, with a strategy focused on efficient management of resources. The strategic guidelines to 2020 were redefined in 2014 and succeeded PEAASAR II - strategic plan for water supply and wastewater treatment 2007-2013. They include a number of new challenges, such as the resilience and security of supply and treatment services, which are recognised as a human right or support for green growth, which requires a high-quality professional service with guaranteed sustainability from a social, economic and financial point of view.

In this context, the AdP Group was entrusted with the responsibility of acting as a lever for the pursuit of public policies and national goals in water supply and wastewater treatment. In partnership with the municipalities it designs, builds, finances, operates and manages infrastructure and its upstream systems.

Main developments

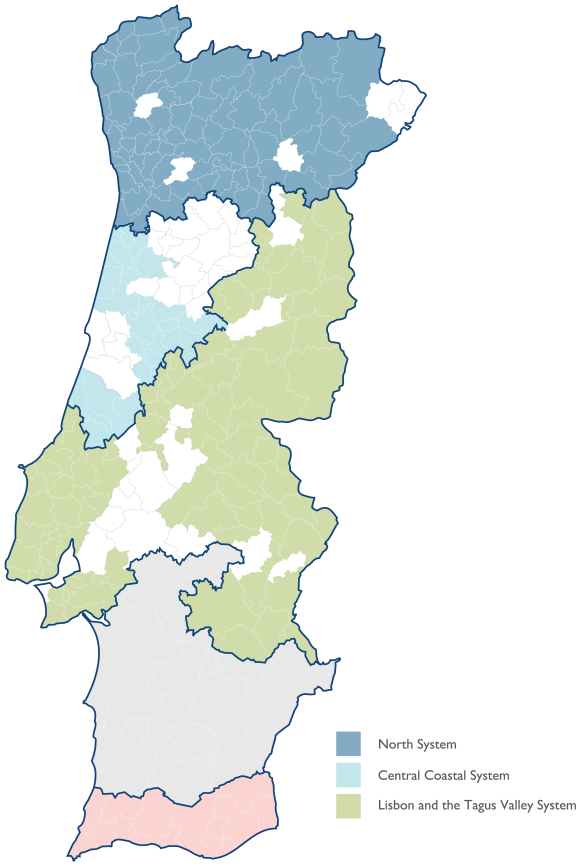
In 2014 particular focus went towards the restructuring of the water sector ordered by the Portuguese government, such as the, furthering of the plan for territorial reorganisation of the Águas de Portugal Group, favouring a management and organisation model that helps achieve gains in efficiency that leads to reductions in costs. The work of the UNA-PD focused especially on aggregating the multi-municipal systems and integrating upstream-downstream systems.

The main goals of restructuring the water sector in Portugal are **i)** to guarantee the sector's economic and financial sustainability by using the full-cost recovery system with a view to economic and financial sustainability of operations, **ii)** to make possible the investments needed in the sector, **iii)** to define a plan for resolving tariff deficits and **iv)** to create a socially fairer, more balanced sector

by respecting the principles of a universal service and tariff convergence to more balanced intervals , taking socio-economic criteria into account (e.g. asymmetries in purchasing power in different locations or income brackets).

The concept of territorial aggregation is the crux of the model and applies both to upstream and downstream systems. In the former case, it is a matter of aggregating management companies of upstream systems to achieve gains in operating efficiency by taking advantage of economies of scale (ability to dilute fixed expenses) and of scope (shared resources between water supply and wastewater treatment), boosting standardisation of tariffs by region. The latter case focuses on the promotion of integrated management of the urban water cycle with more technical efficiency, which will have a direct, immediate impact on combating water losses and infiltrations.

The following systems have been selected for upstream services:



North System – grouping together the systems currently run by Águas do Noroeste and Águas de Trás-os-Montes e Alto Douro (water supply and wastewater treatment), by Águas do Douro e Paiva (water supply) and Simdouro (wastewater treatment) to serve around 2.6 million inhabitants in water supply and 1.6 million in wastewater treatment.

Central Coastal System – systems managed by Simria and Simlis (wastewater treatment) and Águas do Mondego (water supply and wastewater treatment) serving 0.4 million inhabitants in water supply and 1.6 million in wastewater treatment.

Lisbon and the Tagus Valley System – systems managed by Águas do Zêzere e Côa, Águas do Centro, Águas do Oeste, Águas do Norte Alentejano and Águas do Centro Alentejo (water supply and wastewater treatment) e Sanest, Simtejo and Simarsul (wastewater treatment) serving 1.1 million inhabitants in supply and 3.3 million in treatment, plus the EPAL supply system (another 2.5 million inhabitants).

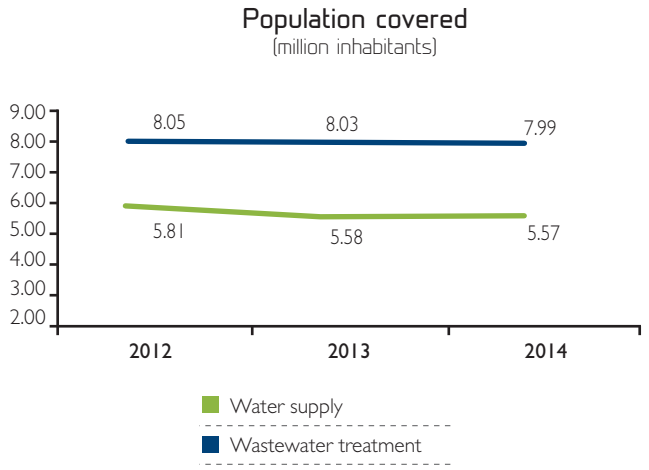
The work progressed with essential contributions to the aggregations, such as assistance in drafting requirements for the legal framework and all the necessary studies and technical annexes.

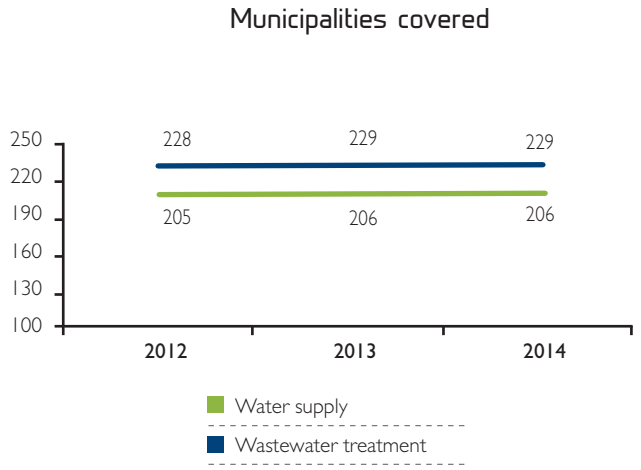
There was less work done in 2014 on the aggregation of municipal systems and their integration into the management companies of multi-municipal systems. The measures taken in several regions resulted in progress in two of them. We can expect additional developments in 2015, such as appreciation by the authorities of these two proposals and the start of enlargement of other partnerships.

Main indicators

At the end of December 2014, UNA-PD encompassed 19 management companies of water supply and wastewater treatment systems. Their layout can be seen in the above map and they provided services in 233 of the 308 municipalities in Portugal.

Of these 233 municipalities, 206 belong to water supply systems covering a population of 5.66 million inhabitants and 229 are served by wastewater treatment systems, covering around 7.99 million inhabitants.





Regarding the population actually served, the figures in 2014 were 4.962 million and 6.725 million inhabitants for water supply and wastewater treatment, which represents an increase YoY of around 1.4% and 0.7% respectively.

	2012	2013	**2014**
Municipalities covered			
Water supply	205	206	**206**
Wastewater treatment	228	229	**229**
Municipalities served			
Water supply	192	197	**197**
Wastewater treatment	212	215	**215**

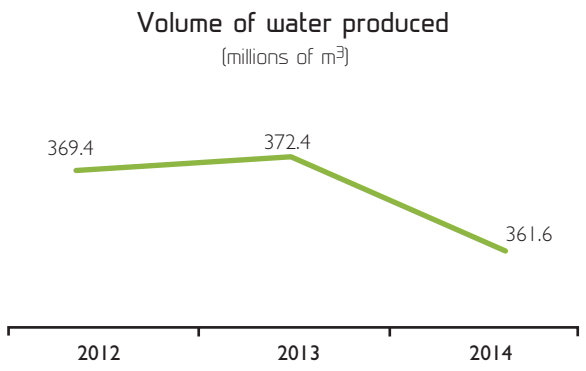
Population covered (million inhabitants)	2012	2013	**2014**
Water supply	5.81	5.58	**5.57**
Wastewater treatment	8.05	8.03	**7.98**

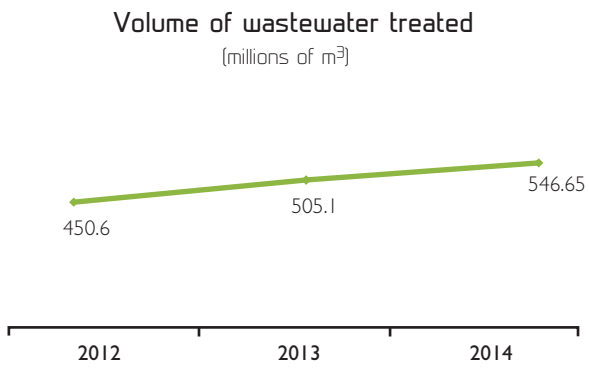
Population served (million inhabitants)	2012	2013	**2014**
Water supply	4.84	4.89	**4.96**
Wastewater treatment	6.55	6.86	**6.72**

All together, these systems produced 361.6 million m^3 of drinking water and collected and treated approximately 546.6 million m^3 of urban wastewater.

Public service provided (million m^3)	2012	2013	**2014**
Volume of water produced	369.4	372.4	**361.6**
Volume of effluent treated	450.6	505.1	**546.7**
Volume of water billed	371.4	372.1	**361.2**
Volume of effluent billed	432.9	447.7	**475.8**

In 2014, there was a 2.9% fall in the volumes of drinking water produced and an increase of about 8.2% in the volume of wastewater collected and treated by the aggregated UNA-PD systems. The data on wastewater treatment include industrial effluent covered and actually treated.





The figures allow an estimate of an average capitation in the 197 municipalities already served at around 209 litres per inhabitant per day for the drinking water supply, which is more or less that of the previous year. Average capitation for wastewater in the 215 municipalities already served is 207 litres per inhabitant per day, which is 10% higher than in 2013.

Activity per multi-municipal system management company and partnership was a follows:

Activity indicators by company in **2014**	Flow (10^3 m³/year)		Population served		Municipalities served	
	WS	WT	WS	WT	WS	WT
Águas do Noroeste, S.A.	36 350	73 882	965 142	1 461 755	19	27
Águas de Trás-os-Montes e Alto Douro, S.A.	16 953	21 427	313 577	215 884	28	29
Águas do Douro e Paiva, S.A.	98 598	-	1 585 099	-	22	-
Simdouro, S.A.	-	20 353	-	320 451	-	4
Simria, S.A.	-	36 890	-	473 419	-	13
AdRA - Águas da Região de Aveiro, S.A.	11 759	1 467	297 000	203 000	10	10
Águas do Mondego, S.A.	23 078	21 588	299 073	247 768	10	11
Águas do Zêzere e Côa, SA	16 807	19 696	170 636	153 364	16	16
Águas do Centro, S.A.	15 656	13 686	191 123	155 275	17	17
Simlis, S.A.	-	15 013	-	246 369	-	5
Águas do Oeste, S.A.	25 600	23 712	325 031	331 378	15	14
Sanest, S.A.	-	65 188	-	623 644	-	4
Simtejo, S.A.	-	135 133	-	1 269 297	-	6
Simarsul, S.A.	-	26 644	-	453 147	-	7
Águas de Santo André, S.A.	14 646	6 696	28 921	31 450	2	2
Águas do Norte Alentejano, S.A.	8 597	8 166	103 006	99 684	14	15
Águas do Centro Alentejo, S.A.	7 822	7 794	89 937	88 991	7	7
AgdA - Águas Públicas do Alentejo, S.A.	20 320	8 476	199 665	176 148	20	20
Águas do Algarve, S.A.	65 431	40 839	393 975	364 541	16	16

WS – water supply/ WT – wastewater treatment

The decrease in flows of drinking water in 2014 reflects the climate of recession in the country. This was the case in almost all the systems except Águas do Centro Alentejo, Águas Publicas do Alentejo and Águas do Algarve. There was an increase in the volume of effluent treated in all systems except Águas do Mondego, Águas de Santo André and Águas do Centro Alentejo, where it fell by around 6.5%, 14.3% and 4.3%, respectively.

Infrastructure in operation at UNA-PD companies	2012	2013	**2014**	Δ 2014/ 2013 Value	%
Water supply systems					
• Volume of water produced (10^3 m^3/year)	372 866	372 441	**361 617**	(10 824)	(2.9%)
• Number of water abstractions	831	882	**879**	(3)	(0.3%)
• Number of water treatment stations	171	221	**221**	0	0.0%
• Length of distribution mains (km)	11 686	12 124	**12 246**	123	1.0%
• Number of pumping stations	2 176	2 237	**2 319**	82	3.7%
• Number of reservoirs	1 313	1 378	**1 393**	15	1.1%
Wastewater treatment systems					
• Volume of effluent treated (10^3 m^3/year)	440 235	505 101	**546 650**	41 549	8.2%
• Length of drainage network (km)	6 685	7 119	**7 445**	326	4.6%
• Number of water treatment stations	949	938	**958**	20	2.1%

The increase in the number of pumping stations was essentially due to Águas do Noroeste, where their number rose from 210 to 225 in 2014. New facilities went into operation and, in spite of restrictions on investment, reflected our constant improvement in services.

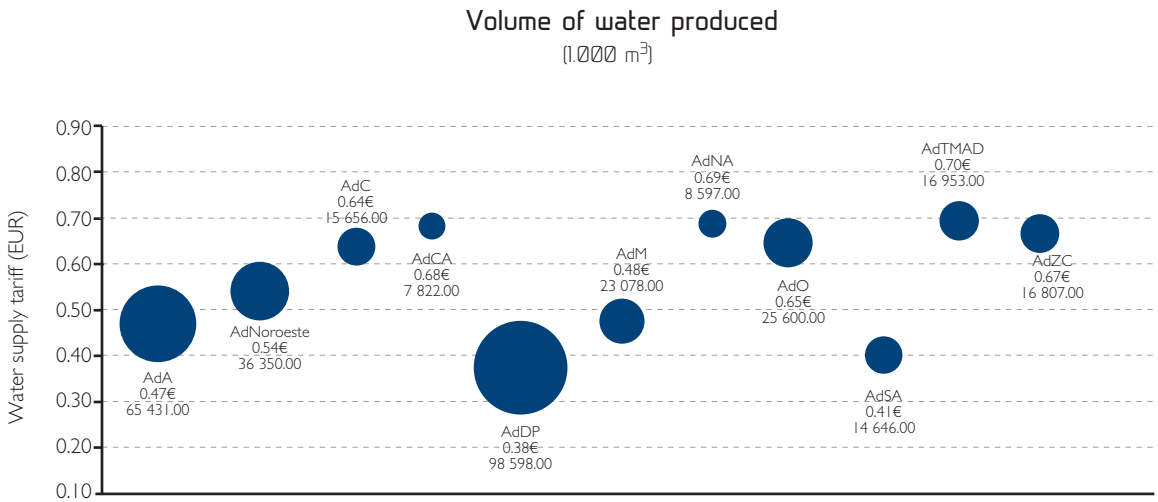
The length of the adduction network increased by 123 km, mostly due to Águas do Centro Alentejo and Águas do Oeste, while the 326 km increase in the drainage network was the result of an increase in almost all the systems. Simdouro's in particular was extended by 48 km (27.3%) and, in spite of restrictions on investment, reflected our constant efforts to improve our services.

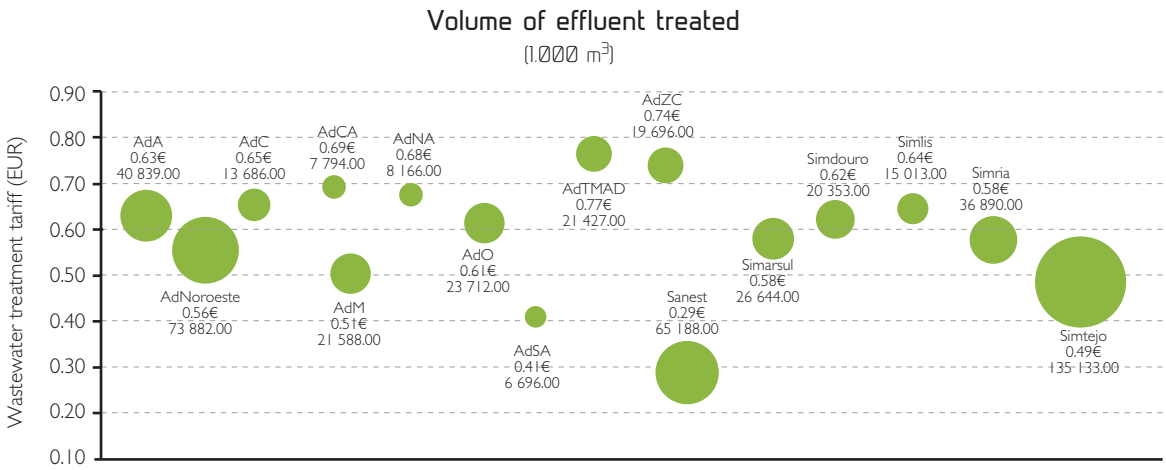
Tariffs

There are still substantial differences in tariffs between the UNA-PD companies. This is mainly due to amounts of investment and the population, based on very different terrain and population density and different amounts of grants and funding from the European Union.

Water supply tariffs varied in 2014 between 0.3803 and 0.6979 EUR per cubic metre. The maximum and minimum for wastewater treatment were 0.2888 and 0.7660 EUR per cubic metre.

The graphs below compare the tariffs charged by the multi-municipal system management companies for water supplied and effluent treated. Águas Públicas do Alentejo has not been included in these graphs due to the particularities of its tariff structure, which consists of a fixed annual component charged on the basis of the potential population served and a unit price based on use of the service.





Investment

Of the EUR 136.9 million invested in 2014, EUR 119 million went to works on water supply and wastewater treatment facilities and associated items (e.g. land, supervision, consultancy, studies and plans). Thirty-five million were for supply and 84 million for treatment, as opposed to EUR 98 million in 2013.

The cost of the market consultation for the construction of public works was EUR 89 million and 177 tenders were issued EUR - 26 million and 55 tenders for water supply and EUR 63 million and 122 tenders for wastewater treatment - as opposed to EUR 88 million and 126 tenders in 2013.

Regarding commitments made to build water supply or wastewater treatment facilities, 151 works contracts were concluded following the tenders. The value of the contracts totalled EUR 106 million - 46 contracts and 33 million for water supply and 105 contracts and 73 million for wastewater treatment- compared to 105 contracts and EUR 87 million in 2013.

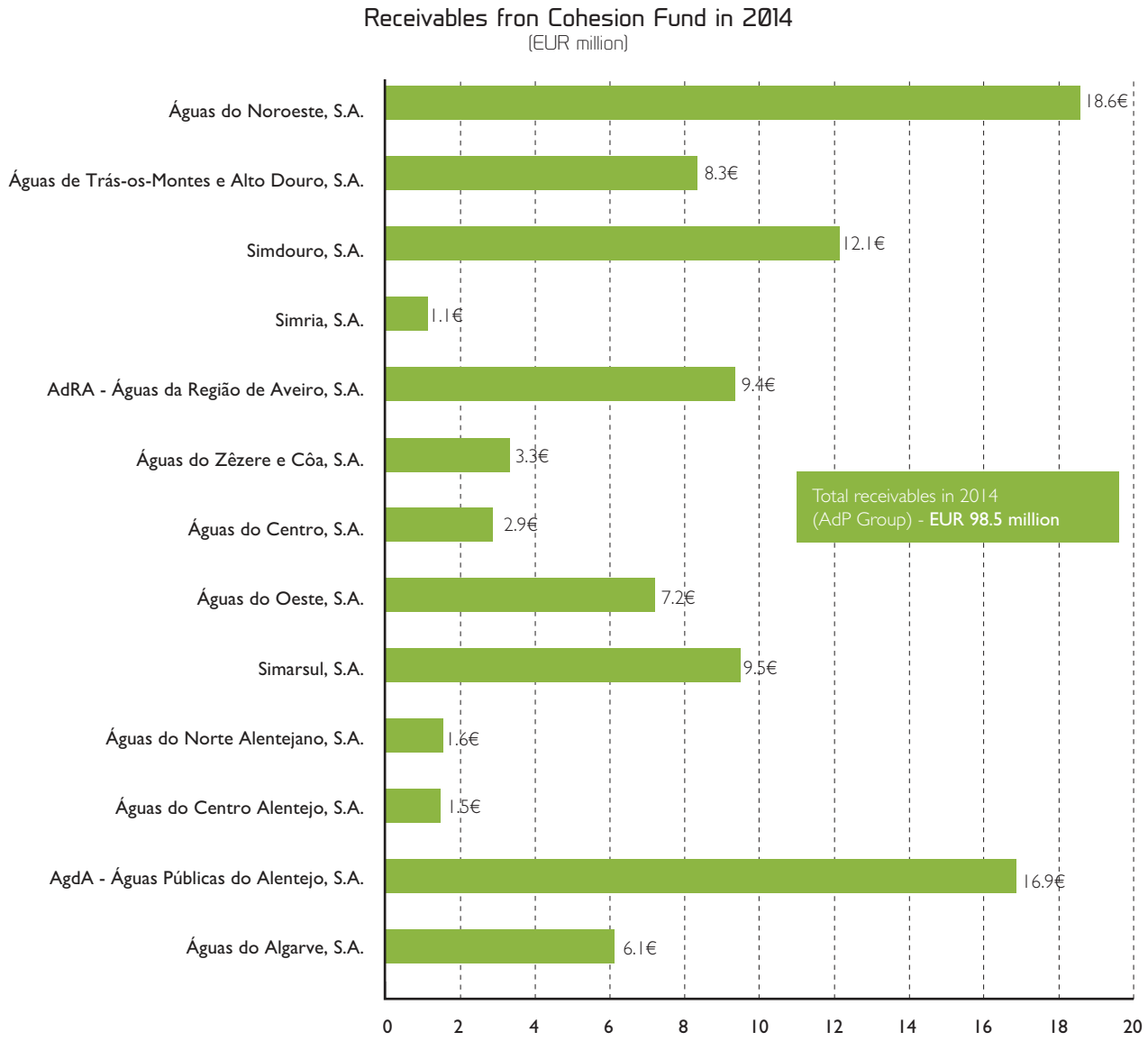
These figures are shown below compared to those from previous years for all management companies of water supply and wastewater treatment systems under the UNA-PD umbrella.

Investments in infrastructure, tenders and public works contracts

Investment in UNA-PD infrastructure				Δ 2014/ 2013	
	2012	2013	**2014**	Value	%
Investment in infrastructure (million euros)	**134**	**98**	**119**	**21**	**21.4%**
• Water supply	27	23	**35**	12	52.2%
• Wastewater treatment	107	75	**84**	9	12.0%
Number of tenders issued	**90**	**126**	**177**	**51**	**40.5%**
• Water supply	52	55	**55**		
• Wastewater treatment	38	71	**122**	51	71.8%
Value of market consultations (million euros)	**55**	**88**	**89**	**1**	**1.1%**
• Water supply	22	32	**26**	(6)	(18.8%)
• Wastewater treatment	33	56	**63**	7	12.5%
Number of contracts concluded	**79**	**105**	**151**	**46**	**43.8%**
• Water supply	40	51	**46**	(5)	(9.8%)
• Wastewater treatment	39	54	**105**	51	94.4%
Value of contracts (million euros)	**62**	**87**	**106**	**19**	**21.8%**
• Water supply	7	28	**33**	5	17.9%
• Wastewater treatment	55	59	**73**	14	23.7%

As in 2013, most of the investments made in 2014 by the management companies of multi-municipal systems and state/local authority partnerships for water supply and wastewater treatment at AdP/UNA-PD were co-funded by European Union financial instruments, especially the Cohesion Fund under the Operational Spatial Improvement Programme of the 2007-2013 NSRF, which will actually continue until the end of 2015.

As a reflection of a year marked by high investment by the Group, EUR 128 million of expenditure incurred and paid were submitted for EU co-payment in 2014. Financial support totalling EUR 98.5 million was received from the European Union from the Cohesion Fund in the same year. It was divided among the UNA-PD companies as follows:



At the end of 2014, 28 applications approved by POVT/NSRF Axis II (Urban Water Cycle) were under way, representing a total investment of around EUR 618.8 million and EU support of around EUR 374.88 million.

The total amount of investment included via requests for payment in the POVT information system was around EUR 463.7 million at the end of December 2014 (128 million more than at the end of 2013). Due to financial adjustments, the expenditure certified in the SIPOVT was EUR 409.26 million at the end of 2014. These applications resulted in EU financial transfers of around EUR 308 million.

In addition to the 28 applications mentioned above, approved investments totalling EUR 44.3 million are on the waiting list in two applications from Águas do Mondego, Simtejo and Águas do Noroeste. They can expect to receive an EU co-payment of around EUR 28.2 million. The management authority has already certified around EUR 27 million in the POVT/NSRF system for investments by Águas do Mondego. There have not yet been any transfers to the company, as approved applications are overbooked but with high maturity and awaiting the release of funds under the POVT Programme.

Another three applications are in their final stages of preparation (one from Águas do Mondego and two from Águas do Noroeste). They should also be approved by the POVT in early 2015 and will also be placed on the waiting list. Investments total EUR 34.8 million and co-payments EUR 24.4 million.

In 2014, in response to invitations or notices issued by the Operational Programme for Spatial Improvement (POVT-46-2014-89 and POVT-46-2014-86), another eight applications were submitted by UNA-PD companies. One application from SIMARSUL, with

a special invitation (Invitation POVT-46-2014-89) with a total investment of EUR 15 million and co-payment of EUR 10 million and seven others considered a priority (as they are investments intended to release the Portuguese government from EU litigation because of the implementation of the EU Urban Waste Water Treatment Directive). These applications represent total investments of EUR 21 million and a grant of EUR 15 million has been requested. Although these applications are unlikely to be approved in the current NSRF/POVT programming period, even on the waiting list, some have already been considered a priority for support of Portugal 2020 as part of the Operational Programme for Sustainable, Efficient Use of Resources (POSEUR 2014-2020).

At the end of 2014, there are still eight applications to Cohesion Fund II with final amounts still to be paid. As yet unpaid grants total around EUR 20 million.

Another four applications for loans from the EIB (EQ EIB/NSRF) were approved in 2014. With further borrowing of EUR 13,3 million, the total amount of EQ EIB/NSRF was EUR 24.6 million for eight signed contracts.

Economic and financial analysis

The UNA-PD companies ended 2014 with a net consolidated profit of EUR 33.3 million, which was EUR 7.6 million (-18.5%) less than in 2013.

This was essentially due to a deterioration in operating loss (EUR -29.2 million), which was only partially offset by the financial profit (EUR +15.7 million). When analysing net profit, we must take account of the rate on Portuguese 10-year treasury bonds, which went down from 6.29% to 3.75%. Together with the improvement in the companies' individual profits this led to a reduction in the tariff deficit of around EUR 28.6 million (-52.1%).

Operating profit without tariff deviations was EUR 108.8 million, 0.5% lower than in 2013. This was mainly due to a EUR 2.5 million increase in net operating costs (+0.8), which offset the 0.5% improvement in gross margin.

The rise in net operating costs was mostly the result of an increase in net amortisation of subsidies (EUR +1.8 million) and an increase in provisions and impairments (EUR +4 million), which more than offset the reduction in personnel costs (EUR -3.8 million).

The growth in gross margin can be explained essentially by an improvement in turnover (EUR +2.4 million).

The financial loss improved by EUR 13.5 million against 2013 as a result of a reduction in financial costs (EUR -9.1 million) and an increase in financial earnings (EUR 4.4 million).

The table below shows the performance of the economic and financial situation of the management companies of the multi-municipal systems over the last three years.

Consolidated economic and financial data on the UNA-PD systems

(Unit: EUR thousand)

	2012	2013	**2014**	Δ **2014**/ 2013 Value	%
Turnover without tariff deviations	431 426	462 621	**464 996**	2 375	0.51%
EBITDA	202 646	215 694	**220 930**	5 236	2.37%
Net profit/loss for financial year	39 750	40 892	**33 258**	(7 634)	(22.95%)
Assets	5 540 597	5 551 716	**5 530 445**	(21 271)	(0.38%)
Current liabilities	859 308	810 964	**801 691**	(9 273)	(1.16%)
Non-current liabilities	4 018 449	3 965 487	**4 024 493**	59 006	1.47%
Financial profit/loss	78 447	79 135	**65 616**	(13 519)	(20.60%)

The main economic and financial indicators under the new IFRS performed are as follows:

Economic and financial indicators	2012	2013	**2014**
EBITDA margin	50.4%	49.7%	**50.6%**
General liquidity	0.7	0.7	**0.7**
Financial structure	3.4	3.2	**2.9**
Solvency	0.69	0.73	**0.74**

The YoY reduction in the EBITDA margin in 2014 was influenced by a reduction in operating cash flow along with an increase in turnover.

The favourable historical performance of financial structure resulted in a substantial increase in equity in 2014, due to accrued earnings. This also had a favourable influence on solvency.

Important events

In 2014, the business activities of the systems' management companies included the completion of some infrastructure and the consequent start-up of supply and services to a number of subsystems, better levels of customer care and substantial improvements in operability. The progress and the associated quality of performance are also confirmed by national drinking water quality indicators, which are published annually by ERSAR.

Work on getting the Águas do Noroeste System up and running under the downstream partnership in eight municipalities in north-eastern Portugal (Amarante, Arouca, Baião, Celorico de Basto, Cinfães, Fafe, Santo Tirso and Trofa) should begin in full on 1 April 2015.

Shareholdings portfolio

Company	Management model and object	Period	Municipalities involved	Share Capital subscribed (EUR)	Share Capital paid up (EUR)	AdP holding
Águas do Noroeste, S.A.	Concession of multi-municipal water supply and wastewater treatment system	50 years 2010-2060	Arcos de Valdevez, Amarante, Amares, Barcelos, Cabeceiras de Basto, Caminha, Celorico de Basto, Esposende, Fafe, Felgueiras, Guimarães, Lousada, Maia, Melgaço, Monção, Mondim de Basto, Paredes de Coura, Ponte da Barca, Ponte de Lima, Póvoa de Lanhoso, Póvoa de Varzim, Santo Tirso, Terras de Bouro, Trofa, Valença, Viana de Castelo, Vieira do Minho, Vila do Conde, Vila Nova de Cerveira, Vila Nova de Famalicão, Vila Verde and Vizela.	70 000 000	66 361 157	56.66%
Águas de Trás-os-Montes e Alto Douro, S.A.	Concession of multi-municipal water supply and wastewater treatment	30 years 2001-2031	Alfândega da Fé, Alijó, Armamar, Boticas, Bragança, Castro d'Aire, Chaves, Freixo de Espada à Cinta, Lamego, Macedo de Cavaleiros, Mesão Frio, Mirandela, Mogadouro, Moimenta da Beira, Montalegre, Murça, Peso da Régua, Resende, Ribeira de Pena, Sabrosa, Santa Marta de Penaguião, São João de Pesqueira, Sernancelhe, Tarouca, Tabuaço, Torre de Moncorvo, Valpaços, Vila Flor, Vila Pouca de Aguiar, Vila Nova de Foz Côa, Vila Nova de Paiva, Vila Real and Vinhais.	28 000 000	27 812 177	70.08%
Águas do Douro e Paiva, S.A.	Concession of multi-municipal water supply	30 years 1996-2026	Amarante, Arouca, Baião, Castelo de Paiva, Cinfães, Espinho, Felgueiras, Gondomar, Lousada, Maia, Matosinhos, Oliveira de Azeméis, Ovar, Paços de Ferreira, Paredes, Porto, São João da Madeira, Santa Maria da Feira, Valongo and Vila Nova de Gaia.	20 902 500	20 902 500	51.00%
Simdouro, S.A.	Concession of multi-municipal wastewater treatment	50 years 2010-2060	Arouca, Baião, Castelo de Paiva, Cinfães, Paredes, Penafiel and Vila Nova de Gaia.	20 046 075	20 046 075	51.00%
Simria, S.A.	Concession of multi-municipal wastewater treatment	50 years 2000-2049	Aveiro, Águeda, Albergaria-a-Velha, Cantanhede, Espinho, Estarreja, Ílhavo, Mira, Murtosa, Oliveira do Bairro, Ovar, Santa Maria da Feira and Vagos.	16 712 225	16 712 225	67.72%
AdRA - Águas da Região de Aveiro, S.A.	State/local authorities partnership for integrated municipal systems	50 years 2009-2059	Águeda, Albergaria-a-Velha, Aveiro, Estarreja, Ílhavo, Murtosa, Oliveira do Bairro, Sever do Vouga, Vagos and Ovar.	15 000 000	15 000 000	51.00%
Águas do Mondego, S.A.	Concession of multi-municipal water supply and wastewater treatment	35 years 2004-2039	Ansião, Arganil, Coimbra, Condeixa-a-Nova, Góis, Leiria, Lousã, Mealhada, Mira, Miranda do Corvo, Penacova, Penela and Vila Nova de Poiares.	18 513 586	18 262 743	51.00%
Águas do Zêzere e Côa, S.A.	Concession of multi-municipal water supply and wastewater treatment	30 years 2000-2030	Aguiar da Beira, Almeida, Belmonte, Celorico da Beira, Figueira de Castelo Rodrigo, Fornos de Algodres, Fundão, Gouveia, Guarda, Oliveira do Hospital, Manteigas, Mêda, Penamacor, Pinhel, Sabugal and Seia.	26 607 560	26 607 560	87.46%

Company	Management model and object	Period	Municipalities involved	Share Capital subscribed (EUR)	Share Capital paid up (EUR)	AdP holding
Águas do Centro, S.A.	Concession of multi-municipal water supply and wastewater treatment	30 years 2001-2031	Alvaiázere, Castanheira de Pêra, Castelo Branco, Entroncamento, Ferreira do Zêzere, Figueiró dos Vinhos, Idanha-a-Nova, Mação, Pampilhosa da Serra, Pedrógão Grande, Proença-a-Nova, Sardoal, Sertã, Vila Nova da Barquinha, Vila Velha de Ródão, Oleiros and Tomar.	24 000 000	24 000 000	70.00%
Simlis, S.A.	Concession of multi-municipal wastewater treatment system	30 years 2000-2029	Batalha, Leiria, Marinha Grande, Ourém and Porto de Mós.	5 000 000	5 000 000	70.16%
Águas do Oeste, S.A.	Concession of multi-municipal water supply and wastewater treatment system	35 years 2001-2035	Alcobaça, Alenquer, Arruda dos Vinhos, Azambuja, Bombarral, Cadaval, Caldas da Rainha, Lourinhã, Mafra, Nazaré, Óbidos, Peniche, Rio Maior, S. Monte Agraço and Torres Vedras.	30 000 000	30 000 000	51.00%
Sanest, S.A.	Concession of multi-municipal wastewater treatment system	25 years 1995-2020	Amadora, Cascais, Oeiras and Sintra.	11 000 000	11 000 000	51.00%
Simtejo, S.A.	Concession of multi-municipal wastewater treatment system	43 years 2001-2044	Amadora, Mafra, Lisboa, Loures, Odivelas and Vila Franca de Xira.	38 700 000	38 700 000	50.50%
Simarsul, S.A.	Concession of multi-municipal wastewater treatment system	30 years 2004-2034	Alcochete, Barreiro, Moita, Montijo, Palmela, Seixal, Sesimbra and Setúbal.	25 000 000	25 000 000	51.00%
Águas do Norte Alentejano, S.A.	Concession of multi-municipal water supply and wastewater treatment system	30 years 2001-2030	Alter do Chão, Arronches, Avis, Campo Maior, Castelo de Vide, Crato, Elvas, Fronteira, Gavião, Marvão, Monforte, Nisa, Ponte de Sôr, Portalegre and Sousel.	7 500 000	7 500 000	51.00%
Águas do Centro Alentejo, S.A.	Concession of multi-municipal water supply and wastewater treatment system	30 years 2003-2032	Alandroal, Borba, Évora, Mourão, Portel, Redondo, and Reguengos de Monsaraz.	5 000 000	5 000 000	51.00%
Águas de Santo André, S.A.	Concession of the system for extraction, treatment and distribution of water, collection, treatment and disposal of effluent and collection, treatment and final disposal of waste	30 years 2001-2030	Santiago do Cacém and Sines.	1 000 000	1 000 000	100.0%
AgdA - Águas Públicas do Alentejo, S.A.	State/local authorities partnership for integrated municipal systems	50 years 2009-2059	Alcácer do Sal, Aljustrel, Almodôvar, Alvito, Arraiolos, Barrancos, Beja, Castro Verde, Cuba, Ferreira do Alentejo, Grândola, Mértola, Montemor-o-Novo, Moura, Odemira, Ourique, Santiago do Cacém, Serpa, Vendas Novas, Viana do Alentejo, and Vidigueira	3 000 000	1 520 500	51.00%
Águas do Algarve, S.A.	Concession of multi-municipal water supply and wastewater treatment system	30 years 2001-2031	Albufeira, Alcoutim, Aljezur, Castro Marim, Faro, Lagoa, Lagos, Loulé, Monchique, Olhão, Portimão, S. Brás de Alportel, Silves, Tavira, V. R. Sto. António and Vila do Bispo.	29 825 000	29 230 875	54.44%

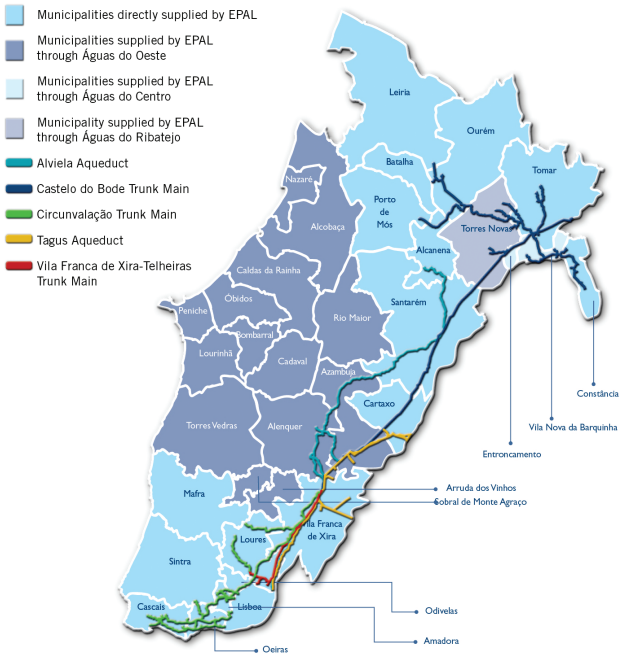
EPAL - Empresa Portuguesa das Águas Livres, S.A.

EPAL, Empresa Portuguesa das Águas Livres, S.A., is a state-owned public limited company that was originally founded in 1868 as CAL - Companhia das Águas de Lisboa. It has been 100% owned by AdP-Águas de Portugal, SGPS since 1993.

EPAL's corporate object is public drinking water supply and other activities, in addition to providing services associated with the urban water cycle, where it boasts recognised skills.

EPAL is directly or indirectly responsible for the upstream supply to 34 municipalities on the north banks of the River Tagus and for domestic distribution in the municipality of Lisbon, where it has around 350,000 direct customers. All together it covers around 2.8 million people, who represent more than ¼ of the Portuguese population. Outside the Lisbon Municipality, the water is supplied to municipal and multi-municipal management companies that distribute water to end users.

EPAL uses the following sources for extracting water:
- Castelo do Bode Reservoir
- River Tagus
- Alenquer, Lezírias and OTA wells



Supply system:

Production and transport:
- 2 treatment stations
- 710 km water mains
- 31 pumping stations
- 28 reservoirs with a capacity of 364,000 m^3
- 126 delivery points

Distribution:
- 1,446 km of mains pipelines
- 101,000 water mains
- 10 pumping stations
- 14 reservoirs with a capacity of 441,000 m^3
- 4 high zones

Overview of activity

Economic and financial indicators	2012	2013	**2014**
Volume of water extracted (m^3)	224 490 035	218 251 646	**212 028 000**
Volume of water sold (m^3)	205 210 051	198 667 724	**192 067 383**
Water not billed in Lisbon mains network	8.7%	7.9%	**8.1%**
N.º of direct customers	346 121	347 233	**349 151**
N.º municipalities supplied upstream (including Lisbon)	35	35	**35**
N.º consumers	2 870 507	2 859 714	**2 846 875**(1)
Total area supplied (km^2)	7 090	7 090	**7 095**(2)
N.º workers on 31 December	736	694	**675**

(1) Resident population in area supplied (INE estimate for 2013).
(2) Area in km^2 (data for 2013).

Main activities and projects

Economic performance in 2014 was quite positive, thanks to a sound position and financial structure. EPAL achieved its best result ever.

As for the company's core business, water supply, consumption fell once again in 2014 by around 3.3%, with an adverse impact on earnings. This was the tenth year running with a reduction in consumption, which was more accentuated in upstream supply, which fell 4.2% in 2014.

This reinforced the focus in this term of office on reducing costs by improving efficiency and processes, in order to keep up levels of customer service. This optimisation enabled the company to achieve a 9% reduction in costs of supplies and services. Between 2012 and 2014 they were reduced by 17%.

Personnel costs were also reduced as a result of a 3% decrease resulting from lay-offs by mutual agreement, after the 6% percent reduction achieved in 2013, thereby trebling the targets set in state budgets.

The main investments made in the year were the refurbishing and remodelling of extraction at Valada Tejo, which justified drafting the first contingency plan of the EPAL water supply system for Fábrica de Vale da Pedra, implemented during the remodelling work and worthy of mention.

In 2014, the contract for the design and construction for the remodelling and rehabilitation of the Vale da Pedra water treatment station was awarded and the contract for the refurbishment of the Valada crude water and treated water conduits was issued. Several contracts were awarded for the restoration of pumping stations and reservoirs in an investment of over EUR 2 million. More than 12 km of distribution mains were renovated, which was also extended by 2.3 km.

Joint investment in the improvement of the network with the operation of the WONE® system enabled EPAL to achieve its first "good assessment" in 2014 in AA11 from ERSAR – bursts in mains, having achieved a result of 29 bursts per 100km.

Another important event was the IWA World Water Congress and Exhibition in Lisbon from 21 to 26 September. It proved to be a great success and exceeded the number of participants, papers and exhibitors at previous congresses. EPAL was well represented at the congress, not only as an organiser but also because of high participation by its employees, who presented papers, attended technical meetings, showed posters and launched the first two technical books in the company's 146-year history.

As a result of an EPAL initiative, the IWA congress was the first without bottled water. Mains water dispensers were installed throughout the venue, and as a result the new reusable, recyclable Fill Forever bottle designed by EPAL was launched to foster use of tap water.

One agreement was signed with Lisbon City Council to regularise relations between the parties and another concerning an exchange of land, a situation that had been pending for more than 20 years. It allowed the transfer to EPAL of a plot of land in the Campo de Ourique area.

Sociedade Clube de Golfe das Amoreiras, S.A., 100% owned by EPAL was dissolved and liquidated after lying inactive for more than 10 years due to legal and judicial impediments.

Where non-core business was concerned, there was the sale of the AQUAMATRIX® computerised customer management system, which has a market share of around 30% and the three-year extension at Águas do Noroeste of the contract with SMAS de Loures and the start of work on a technological upgrade of the basic AQUAMATRIX® solution.

We continued to increase use of WONE® - Water Optimization for Network Efficiency for the network management and reduction of water losses involving the provision of services and supporting software. EPAL signed a service contract with Empresa Pública das Águas de Luanda involving collaboration with the Angolan company to increase efficiency in management of the supply network and reduce water losses.

In recognition of the excellence of work done at the company, the European Commission invited EPAL to join a working group that is preparing a document Best Practices on Leakage Reduction in Water Utilities. This group will also include representatives of the European Commission and Member States.

Waterbeep®, an innovative service, was introduced in late 2013. It provides information on direct customers' real water consumption and allows them to monitor it over time. It offers a warning service whenever there is unusual consumption and a new model has been introduced: WaterBeep® Premium. In 2014 EPAL also launched an innovative concept of two-schedule consumption, associated with Waterbeep® Pro and Premium.

EPAL commemorated World Ocean Day, 8 June, by adopting BEEP the seal, which plays an active part in announcing the advantages of the Waterbeep® service and responsible use of waster to children.

Waterbeep® was entered for the Green Project Awards and in early 2015 won first prize in the innovative environmental product or service category.

WONE® and Waterbeep® were in the Smart Cities Portugal Roadmap at the Smart City Event on 13 and 14 May in Amsterdam.

It is important to highlight the role of Academia das Águas Livres, as a key entity in the promotion of qualified staff at EPAL and specialists in the water and environment sectors.

In 2014 water-tasting courses continued and several were held for the general public, employees, MPs, environmentalists and journalists.

The company continued its strong commitment to innovation and development and launched myAQUA®, a free Smartphone app designed by EPAL to help our customers view and manage the data in their supply contract and access EPAL services at any time of the day.

We completed the construction of an innovative machine, the Rolermeter, which was exclusively designed by EPAL employees, to repair water meters. The first machine was sold and delivered to a meter manufacturer.

EPAL's website was renewed in 2014. New contents and functions were created in six areas – EPAL, Customers, Our Water, Products and Services, Water Museum and Suppliers.

The AdaptaClima and Prepared projects were completed in the field of climate change. AdaptaClima was presented to European Union member countries in Brussels on 22 October, at the workshop Promoting climate change adaptation, risk prevention and management in the Water Sector, organised by the JASPERS Networking Platform (managed by the EIB) in cooperation with the EU (DG Regio, DG Clima and DG Echo).

EPAL's occupational health and safety management system received OHSAS 18001:2007 certification for the entire company in 2014.

The planning and work on modernising the Water Museum were completed and it was opened on 1 October, National Water Day, in the presence of the Prime Minister and the Minister of the Environment, Spatial Planning and Energy. The project used in-house resources involving collaboration from different areas of the company, which resulted in excellent work that represented a huge saving against the original expected cost. In addition to modernising the museum itself, the project involved setting up facilities for environmental education, accommodating the whole museum team and, for the first time installing the company's library and historical and technical archives.

In partnership with the National Tile Museum and in the presence of the Minister of the Environment, Spatial Planning and Energy and Secretary of State for Culture, the exhibition "Water in 18th Century Portuguese Tiles" was opened on 18 September at Mãe d'Água das Amoreiras,

Following an environmental survey conducted to detect asbestos at the company's premises, its total removal was approved.

EPAL also undertook social responsibility activities and established important cooperation agreements, including an innovative agreement with Autoridade Nacional de Proteção Civil, Instituto de Conservação da Natureza e Florestas and Guarda Nacional Republicana, aimed at providing 12 fire hydrants. The ceremony was attended by the Minister of the Environment, Spatial Planning and Energy.

In 2014, the company received a number of awards from Portuguese and foreign entities, such as:

IWA Project Innovation Awards 2014

Which distinguished the following projects for their excellence, originality and innovation:

- WONE®, in the operation management category;
- Chave Águas Livres (CAL), award in the small projects category;
- "Future Risk Management", a method developed jointly with Cranfield University, honourable mention in the category "Projetos de Planeamento";

Green Project Awards

In January 2014, EPAL received a Green Project Award for 2013, for WONE® in the category "Efficient Resource Management".

In 2015, the Green Project Awards distinguished Waterbeep® in the product/service category for 2014.

ERSAR and Água & Ambiente

The water and waste services regulator (ERSAR) rewarded EPAL for the second time running with the seal of Exemplary Quality Drinking Water, which is given to public water supply service providers that offered exemplary drinking water quality in the previous year.

APCE

APCE – Associação Portuguesa de Comunicação de Empresa Grand Prize for Excellence in Communication gave merit awards to the following works in 2014:

- "Intranet", in the category "Intranet";
- "Águas Livres'' newspaper in the in-house publication category;
- "Vamos dar o litro contra a fome" campaign in the social responsibility category;
- Water tasting course in the special surprise us category.

One of the main events of the year was the restructuring of the water sector involving profound reorganisation of the AdP Group, including territorial aggregation of the current 19 systems to create three new ones.

The strategic lines for the restructuring of the sector were announced on 1 October by the Minister of the Environment, Spatial Planning and Energy and concluded the territorial and corporate reorganisation of the AdP Group, along with the approval of the new strategic plan (PENSAAR 2020), the new operational programme to support investment (POSEUR) in the sector and the new regulatory model. EPAL will be deeply affected by this important process of change.

The AdP shareholder saw fit to suspend negotiations between EPAL and Lisbon City Council on the possible integration of its downstream treatment into EPAL, in view of the effects that this reorganisation might have on the AdP Group and the company.

Investments

Investment totalled EUR 15.8 million in 2014. This figure includes EUR 2.7 million from capitalisation of costs.

Investments in guaranteeing the reliability and security of the supply system accounted for 64% of the total.

(EUR)

Investment	2014
Capacity guarantee	483 215
Guarantee of reliability and security	10 113 695
Quality guarantee	299 639
Sustainability and innovation	116 556
Information and communication technology	1 138 009
Other investments	3 679 668
Total	15 830 782

The following were the most important investments:

- Restoration and remodelling of extraction in Valada Tejo, to the amount of EUR 3.7 million;
- Renovation of 12.1 k in the distribution mains (conduits and trunk mains) to the amount of EUR 2.7 million;
- Remodelling of the Water Museum in Barbadinhos to the amount of EUR 1.2 million;
- Expropriations to the amount of EUR 1.1 million;
- Investments information and communication technology to the amount of EUR 1.1 million;
- Refurbishment of the Camarate Reservoir, to the amount of EUR 0.9 million;
- Extension of 2.3 km of the distribution mains in the amount of EUR 0.5 million;
- Refurbishment of the Olivais Reservoir, to the amount of EUR 0.5 million;
- Acquisition and replacement of meters to the amount of EUR 0.5 million.

Funding of investment programmes

The funding for EPAL's investment programme had been provided since 1999, exclusively from the cash flow generated by its business and bank loans, as the company has not benefited from EU funds. Between 2002 and 2010, under the EPAL III Finance Contract with the EIB, EPAL used EUR 185 million in medium- and long-term loans to fund its investment programme.

Between 2011 and 2014 EPAL funded its investment programme solely with cash flow generated by its business.

It is only through its cost rationalisation policy and careful choice of investments that it has been possible to ensure this self-financing of investment, which has kept financial costs low and created very sound finances.

Economic and financial performance

Economic performance in 2014 was quite positive and EPAL achieved its best result ever. This was also thanks to a sound position and financial structure.

The results achieved are even more significant as, although turnover continued its downward trend of recent years it was offset by a considerable, effective reduction in operating costs.

(EUR)

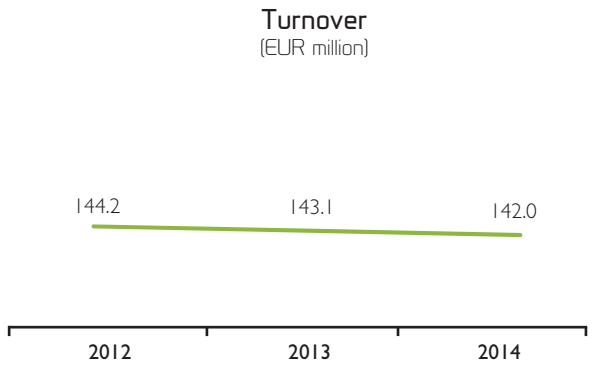
Economic and financial indicators	2012 restated	2013	**2014**
Turnover	144 205 268	143 079 105	**141 958 403**
Financial income	(1 572 398)	(982 459)	**(1 538 400)**
Net profit of financial year	43 577 439	39 961 784	**54 037 472**
EBITDA	87 537 102	81 429 608	**102 420 412**
Investment	13 071 983	6 626 841	**15 830 782**
Total assets	883 754 243	863 733 598	**865 148 284**
Current assets	107 874 064	108 245 636	**103 577 757**
Non-current assets	775 880 179	755 487 962	**761 570 528**
Equity	535 229 696	536 266 003	**561 796 151**
Total liabilities	348 524 548	327 467 595	**303 352 133**
Current liabilities	60 747 728	59 631 041	**58 994 480**
Non-current liabilities	287 776 820	267 836 554	**244 357 653**
Total customers debt	23 500 439	25 705 584	**30 836 627**

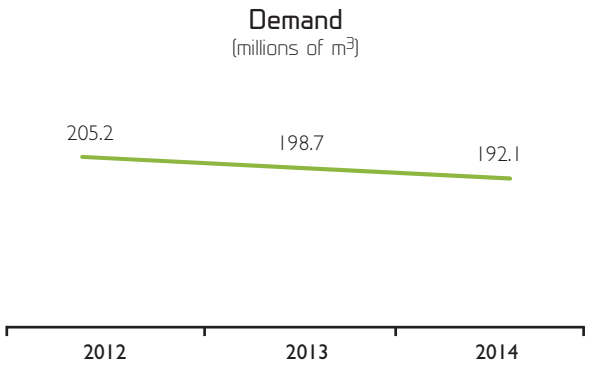
The net profit for 2014 was EUR 54 million, which was around EUR 14.1 million higher than in 2013, a 35% rise.

A decisive contribution was made to this result by the additional income from an agreement with Lisbon City Council under which a plot of land in Campo de Ourique in Lisbon was transferred to EPAL. Cost containment measures taken in 2014 also had a strong impact on this result, with special focus on supplies and services (EUR 3 million) and personnel costs (EUR 2.6 million), which offset the fall in turnover and a substantial increase in income tax, due to new scale in the state surtax that came into effect in 2014.

The turnover of EUR 142 million was EUR 1.1 million (-0.8%) lower than in 2013, basically due to a 6.6 million m^3 decrease in water sold (-3.3%).

In 2014, 192.1 million m^3 were sold, 138.9 million m^3 of which went to other management companies (municipal and multi-municipal customers) and 53.1 million m^3 to end users (direct customers). There was a fall of 6.1 million m^3 (-4.2%) in municipal and multi--municipal customers resulting once again from a reduction in consumption in Lisbon's neighbouring municipalities. There was a 0.5 million m^3 (-0.9%) reduction in sales to direct customers with state segments falling considerably.





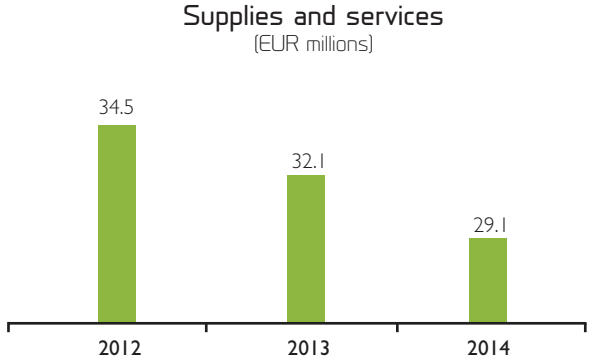
Total expenditure was EUR 85.3 million. There was a reduction of almost EUR 10 million YoY, which represents a variation of 10%.

Other operating costs, which fell by around EUR 3.5 million (-91%), were decisively influenced by the non-repetition of non-recurring costs from 2013, such as recognition of the 2012 holiday allowance (a Constitutional Court decision) and the programme of voluntary terminations with employees in order to comply with Article 63 of the State Budget Law for that year.

As part of the Plan for Reduction in Operating Costs in the State-owned Business Sector, our goal was to maintain the weight of operating costs (considering costs of goods sold and material used, supplies and services and personnel costs) with turnover. In 2014, EPAL achieved a 3% reduction compared to 2013, thereby achieving its goal.

There was also a substantial reduction in the weight of total costs in the company's turnover, in spite of a fall in turnover.

In spite of huge reductions in previous years, we were able to reduce costs of supplies and services even further, by 9.5% (around EUR 3 million) in 2014.



Electricity, an item that accounts for 34% of total supplies and services, was reduced by EUR 1.4 million (-12.1%) against 2013.

The specialised work items fell by a substantial EUR 0.5 million (-10.8%), essentially due to rationalisation of technical assistance and software licences and in-house performance of some services and activities. The resulted in a reduction in the consultancy items.

There was also a EUR 0.3 million (-7.7%) reduction in maintenance and repairs.

The reduction in personnel costs in 2014 was around EUR 2.6 million against 2013, totalling EUR 22.7 million. This fall can be explained by a fall in remuneration items due to the average reduction in company employees, as a result of agreements reached to comply with the reduction set out in the State Budget Law for 2014 (minimum reduction of 3% of personnel against 2012. EPAL was able to achieve a reduction of 8% of its employees). EPAL closed the financial year with 675 employees, 19 fewer than in 2014.

The compensation paid has raised these items, as in 2013, due to the exceptional nature and beginning of the measure, this type of cost was considered non-recurring and so a YoY comparison is affected.

This reduction was also substantially due to capitalisation of costs of the structure allocated to the company's investments, resulting in a total capitalisable amount of around EUR 2.4 million.

As the generalised reductions in costs in 2014 largely offset the fall in turnover and a plot of land in Campo de Ourique in Lisbon transferred to EPAL under an agreement with Lisbon City Council generated substantial additional income, EBITDA totalled EUR 102.4 million, which was 25.8% higher than in 2013.

At a financial level, EPAL maintains a balanced financial structure and there is an appropriate match in terms of maturities between its investment of funds and its financing resources. At the end of 2014, the company's borrowing totalled EUR 187.4 million, all of which was from EIB loans with remaining maturities of four to 16 years. The medium- and long term EIB loan went down by around EUR 18 million. Fifty-three percent of the amount to be amortised corresponds to fixed-interest loans and 47% to variable rate loans.

In addition to its good economic performance, EPAL is still financially sound and shows a good capacity to meet its short-, medium- and long-term commitments.

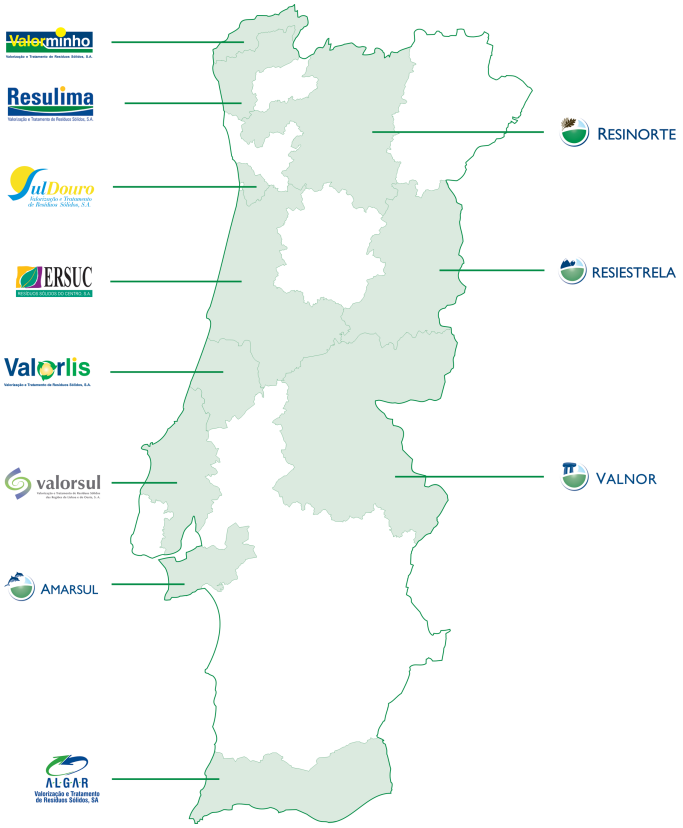
At the end of 2014, EPAL's assets totalled EUR 865.1 million and its equity and liabilities were 561.8 and EUR 303.4 million, respectively.

EPAL ended 2014 in a sound financial situation with a current ratio of 64,9% and working capital of EUR 44.6 million. Net Debt/EBITDA of 1.24 in 2014 confirms EPAL's sustainability in financial terms.

Empresa Geral do Fomento (EGF)

Framework

EGF is a holding company and the mission of its invested companies is to improve quality of life and the environment through environmentally correct, economically sustainable solutions to the issue of household waste (mAHW) and ensure that it is properly treated and reclaimed.



Eleven concession companies manage waste treatment and recovery systems. They have been set up in partnership with the municipalities they serve and every year process around 3.1 million tons of household waste produced in 174 municipalities serving 60% of Portugal's population.

EGF is a company with a structural, enabling innovative role in the solid waste treatment and recovery sector and plays an essential role in supporting the definition of environmental policies in Portugal. It is responsible for coordinating and implementing, through the multi-municipal systems, measures that comply with national and community targets and strategies for the sector. Today, the vital issues are reducing disposal of biodegradable waste in landfills, preparing it for recycling and increasing selective collection.

EGF's strategic guidelines are the implementation of professionalised management based on skills, quality parameters and higher production capacity. Its guiding principles are also the use of best management practice, Good Governance and the development of a culture of economic, environmental, social and ethical business excellence.

The investments made and work done in selective collection and the associated logistics and public awareness campaigns of the importance of separating materials and placing them in recycling bins resulted in 235,000 tonnes collected in 2014, which was slightly more than the 233,000 tonnes in 2013.

In the field of organic recovery of biodegradable waste, EGF uses cutting-edge technology to harness and use biogas produced by the decomposition of waste and produce compost for use as agricultural fertiliser. In addition to prolonging the life of landfills, organic waste recovery also reduces greenhouse gas emissions and allows generation of electricity from endogenous sources, thereby helping to reduce imports.

It also uses thermal processes to recover energy from waste such as incineration that produces heat and steam. The slag from the combustion process is also treated and recovered and can be used as inerts for construction, public works and landscaping of former quarries and mines.

Important events

The most important events in 2014 were:

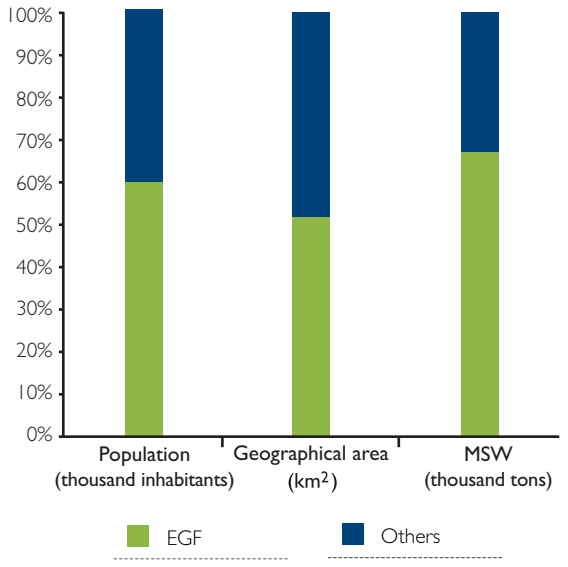
- Monitoring of the works on the Amarsul Mechanical and Biological treatment contract in Seixal, which went into phased experimental operation at the end of the year;
- Monitoring the construction of Algar's mechanical treatment unit in Portimão;
- Monitoring the refurbishment of Algar's mechanical and biological treatment unit in São Brás de Alportel, which went into service in July 2014;
- In the field of recovery of biogas for energy use from landfills, entry into service of Resinorte's electricity generation units in Vila Real, Boticas, Guimarães and Santo Tirso and another electricity generation group at Suldouro;
- For the final disposal of treated HW, ongoing work on the construction of a new Gestal landfill for Suldouro, cell 3 of the Valorminho landfill in Valença and start of construction of cell C of the Valorlis landfill in Leiria;
- Monitoring and collaboration by EGF, S.A., whenever requested, in studies and ongoing work in the process of reprivatisation of the company, in line with the guidelines of its shareholder AdP SGPS and the government programme;
- Continuation of the programme for surveying and enhancing the Group's human resources at "Academia de Liderança - Valorizamos o seu futuro", with the support of Jason Associates;
- Preparation and coordination of the Group in terms of information and management tools for new upcoming challenges, such as PERSU 2020, the tariff regulations on household waste management services, new concession bases and reprivatisation of EGF.

Business indicators

In 2014, the EGF MMSs treated and recovered 3.1 million tonnes of waste, 2.5 million of which was of municipal origin, i.e. around 64% of the country's total household waste.

Population, geographical areas and waste

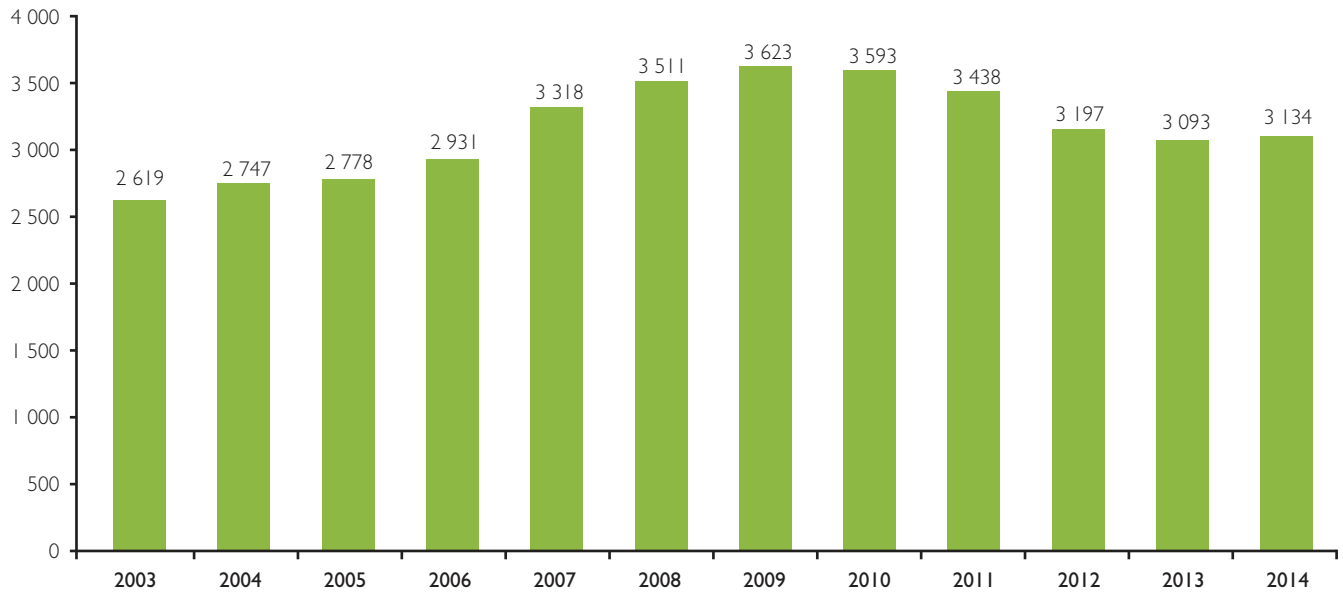
Company	Population (1,000 inhabitants)		Geographical area (km^2)		MSW (1,000 ton)	
Valorminho	76	1%	950	2%	37	1%
Resulima	318	5%	1 743	4%	132	5%
Resinorte	941	15%	8 031	17%	367	13%
Suldouro	443	7%	384	1%	188	7%
Resiestrela	195	3%	6 132	13%	74	3%
Ersuc	938	15%	6 694	14%	388	14%
Valorlis	304	5%	2 160	4%	123	4%
Valnor	262	4%	11 980	25%	133	5%
Valorsul	1 589	25%	3 391	7%	893	31%
Amarsul	781	12%	1 625	3%	439	15%
Algar	442	7%	4 997	10%	360	13%
Inerts and equivalent					(324)	
EGF	**6 289**	**60%**	**48 089**	**52%**	**2 810**	**64%**
Others	4 138	40%	44 137	48%	1 610	36%
Portugal	**10 427**	**100%**	**92 225**	**100%**	**4 420**	**100%**



From national data: INE and APA (REA-relatório do estado do Ambiente 2014- estimate for 2014 of the HW in 2013 plus 1.3% growth rate of HW in the EGF Group.)

Evolution of waste treated and recovered

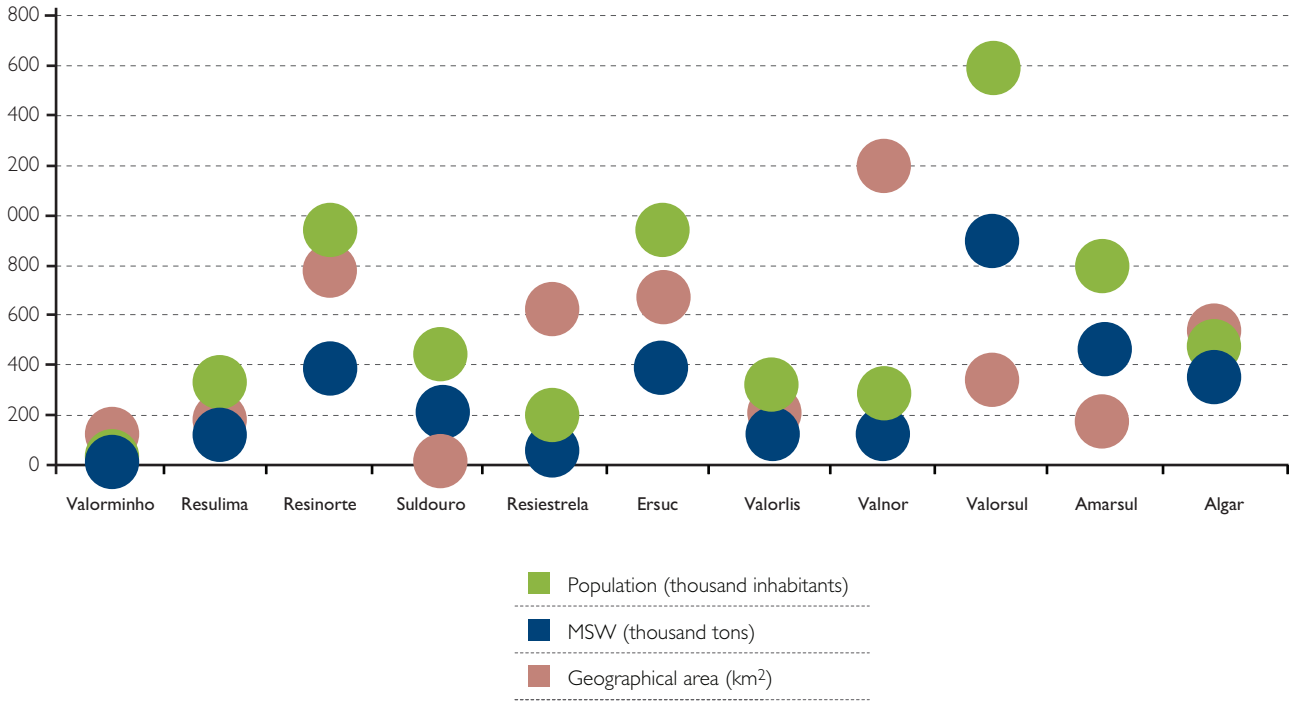
(thousand tons)



In the last five years, no new companies were incorporated, there were no new extensions to concession areas and there were no great fluctuations in population so the flow of waste treated remained within the same geographical scope. The amount of waste treated and reclaimed, which had been falling substantially since 2010, due to the economic crisis in Portugal, finally began to rise again though by only a small 1.3%. This reversal in the trend may have been the result of a recovery in domestic consumption.

The graph below shows tonnes over management, the size of the territory and population served by each Group EGF company.

Size of companies, population served, waste and geographical area



The table below shows the different types and quantities of waste treated by the EGF Group by company and type of waste.

Waste treated and reclaimed

(thousands tons)

MMS	Waste under management (entries in MMS)											2013 variation %	
	Total waste	%	Municipal SW			Municipal SW (extra concession)	Private SW + IW	Inerts/ CDW	Selective collection			Total waste	
			Total MSW	SW (Rate)	Other rates				Multi material	Organic	Others		
Valorminho	37	1%	33	33	0	0	0	0	3	0	1	35	4.5%
Resulima	132	4%	118	118	0	0	1	2	11	0	0	128	3.2%
Resinorte	367	12%	315	315	0	0	2	17	30	0	4	342	7.3%
Suldouro	188	6%	169	169	0	0	1	1	14	0	2	182	3.3%
Resiestrela	74	2%	68	68	0	0	0	0	5	0	1	71	4.1%
Ersuc	388	12%	352	352	0	0	7	0	30	0	0	377	2.9%
Valorlis *	123	4%	107	107	0	0	0	5	10	0	0	116	5.6%
Valnor	133	4%	105	105	0	0	6	7	12	0	2	137	(2.8%)
Valorsul	893	28%	615	604	11	142	29	0	69	25	14	919	(2.8%)
Amarsul	439	14%	372	372	0	0	7	36	24	0	0	434	1.1%
Algar	360	12%	294	294	0	0	20	15	29	0	3	351	2.6%
Total	**3 134**	**100%**	**2 548**	**2 537**	**11**	**142**	**73**	**84**	**235**	**25**	**27**	**3 093**	**1%**

* It doesn't includes the treatment of 25 thousands tons from Valorsul.

Finally, the table below shows some operating indicators of the different companies. The 11 concession holders of multi-municipal systems differ because of their location, the population density of their areas, the economic level of the populations served and the waste treatment technology used. There were therefore some differences in their operating performance as shown by some indicators

Performance indicators

Company	Waste (1,000 ton)	Waste/ Population served (*kg/ per capita*)	Accumul inv./ Waste (EUR/ ton.)	EBITDA/ Waste Waste (EUR/ ton)
Valorminho	37	485	355	18
Resulima	132	414	198	17
Resinorte	367	390	454	23
Suldouro	188	424	440	38
Resiestrela	74	382	488	31
Ersuc	388	414	436	14
Valorlis	123	404	454	35
Valnor	133	507	522	22
Valorsul	893	562	394	14
Amarsul	439	561	264	11
Algar	360	815	353	17
EGF	**3 134**	**498**	**387**	**18**

Financial indicators

EGF indicators

The table shows the main individual EGF, S.A. indicators for the last three years.

(EUR thousand)

(EGF - separate)	2012	2013	**2014**
Turnover	1 064	800	**334**
Operating income	(431)	(980)	**(712)**
EBITDA *	6 465	6 536	**5 110**
Financial income	5 734	6 848	**5 183**
Net profit	5 150	5 767	**4 382**
Non-current assets	90 276	88 317	**87 968**
Financial investments	*90 058*	*88 064*	***87 764***
Assets	100 714	100 816	**103 339**
Liabilities	6 443	2 778	**2 976**
Equity	94 271	98 038	**100 363**

* Includes financial gains.

Indicators of multi-municipal system concession holders

(EUR thousand)

Companies	Overall investment 2014	Net investment 2014	Accumulated investment 2014	Turnover	EBITDA	Net income	Total debt (Municipal customers)	Net assets	Net Debt	Equity
	Indicators 2014									
Valorminho	481	481	13 080	1 526	665	307	298	6 810	0	2 579
Resulima	1 245	1 245	26 082	5 237	2 260	501	404	23 438	0	5 276
Resinorte	4 052	3 585	166 633	18 447	8 596	2 466	10 733	133 727	32 417	12 170
Suldouro	10 257	10 257	82 555	12 916	7 206	2 172	8 718	65 773	17 231	12 839
Resiestrela	317	317	36 315	5 711	2 296	665	3 195	35 975	3 551	8 094
Ersuc	7 992	7 992	169 425	22 638	5 598	605	3 296	123 560	13 471	18 282
Valorlis	644	644	55 836	8 154	4 249	922	247	33 934	13 378	5 034
Valnor	1 692	1 692	69 302	9 640	2 973	641	2 015	62 001	16 906	13 604
Valorsul	4 404	4 404	351 639	52 833	12 604	241	8 771	218 599	32 188	59 091
Amarsul	5 984	5 984	115 659	16 200	4 903	216	13 365	110 283	30 749	14 643
Algar	5 333	(5 053)	127 184	16 359	5 979	267	3 644	85 512	17 022	11 820
Total invested companies	**42 401**	**31 547**	**1 213 708**	**169 660**	**57 327**	**9 005**	**54 687**	**899 611**	**176 914**	**163 432**
Total 2013	**29 129**	**29 129**	**1 182 161**	**172 711**	**67 195**	**15 232**	**69 330**	**943 073**	**192 459**	**160 807**

Note - 10.4 million euros were subtracted from Algar's investment for the residual value of CVO, which went into operation.

Considering the importance of debts from customers, especially the municipalities, below is a representation of their performance in 2010 - 2014. For the second year running there was a very encouraging 17% reduction.

Customer debts

(EUR million)

	2010	2011	2012	2013	**2014**	Absolute variation (month 14-Dec.13)	Relative variation (month 14-Dec.13)
Total debt to MMS	78.0	91.1	103.7	92.3	**76.4**	(15.9)	(17%)
Debt to municipalities	57.7	70.3	78.7	69.3	**54.7**	(14.6)	(21%)
Overdue debts (municipalities)	42.9	56.5	65.9	58.1	**43.5**	(14.6)	(25%)
Municipal debts with agreements	nd	17.9	21.0	27.5	**25.9**	(1.6)	(6%)
Agreements with municipalities (nº.)	*nd*	*34*	*31*	*30*	***29***	*(1.0)*	*(3%)*

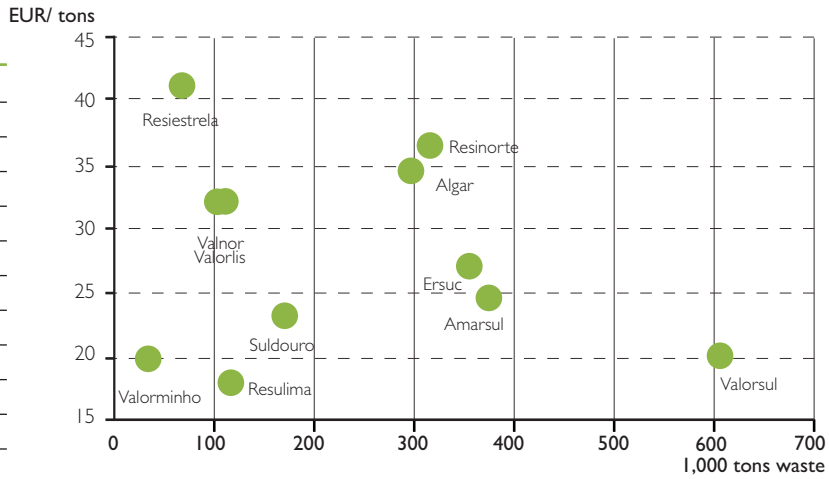
a) Costs of service, income per company/product, historical performance of income

The average tariff in 2014 was around EUR 27.09 per tonne. The largest companies normally have lower tariffs because of the scale effect. We also have to consider the effect the technologies used, as companies with less sophisticated waste treatment methods based on landfills and use of energy from them can also provide a cheaper services, such as Valorminho and Resulima.

On the other hand, the size of the territory and areas of the country with few towns and cities, such as Resiestrela and Valnor, means that the tariff goes up. These conclusions are shown in the two tables below.

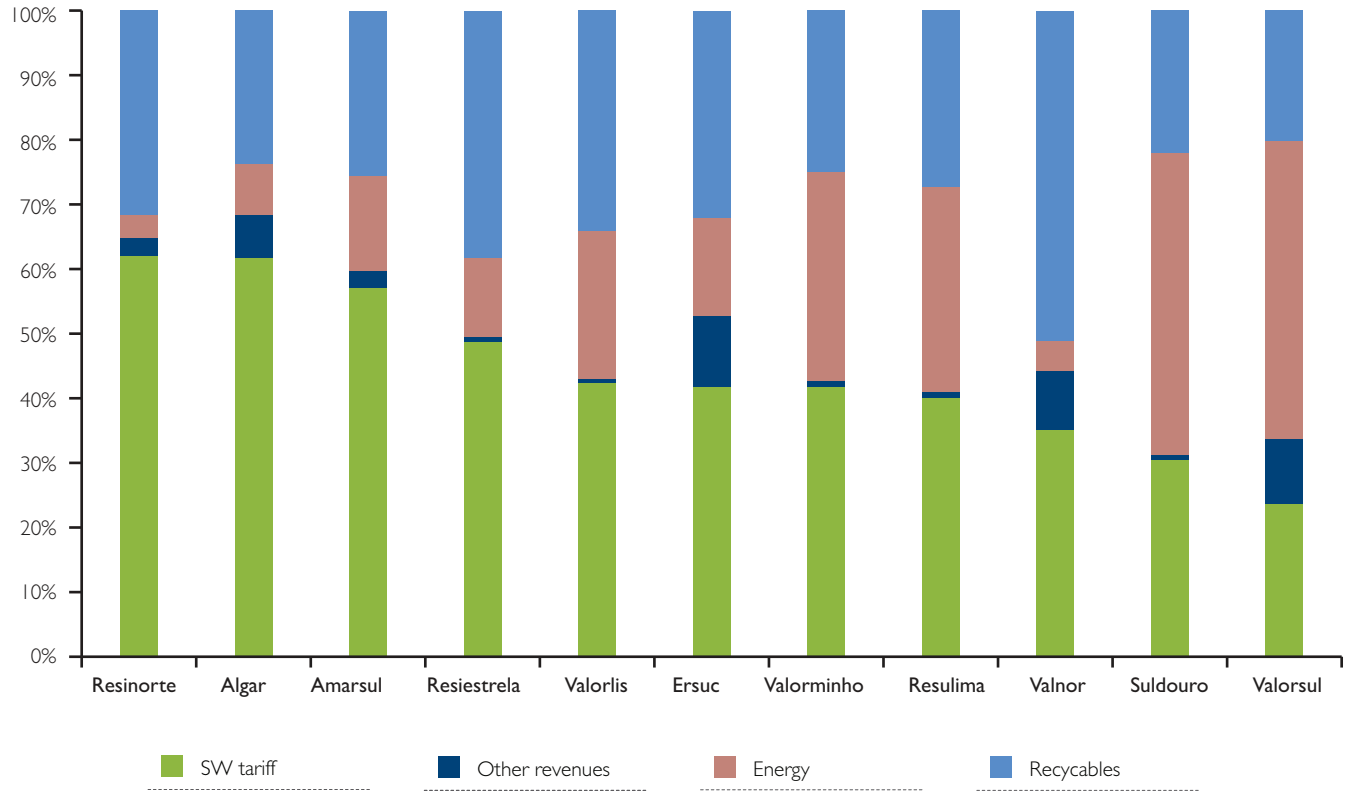
Size and tariffs

Company	MSW with tariffs (1,000 ton)	MSW tariffs (EUR/ ton)
Valorminho	33	19.96
Resulima	118	18.00
Resinorte	315	36.30
Suldouro	169	23.35
Resiestrela	68	40.94
Ersuc	352	27.00
Valorlis	107	32.27
Valnor	105	32.07
Valorsul	604	20.13
Amarsul	372	24.67
Algar	294	34.40
EGF	**2 537**	**27.09**



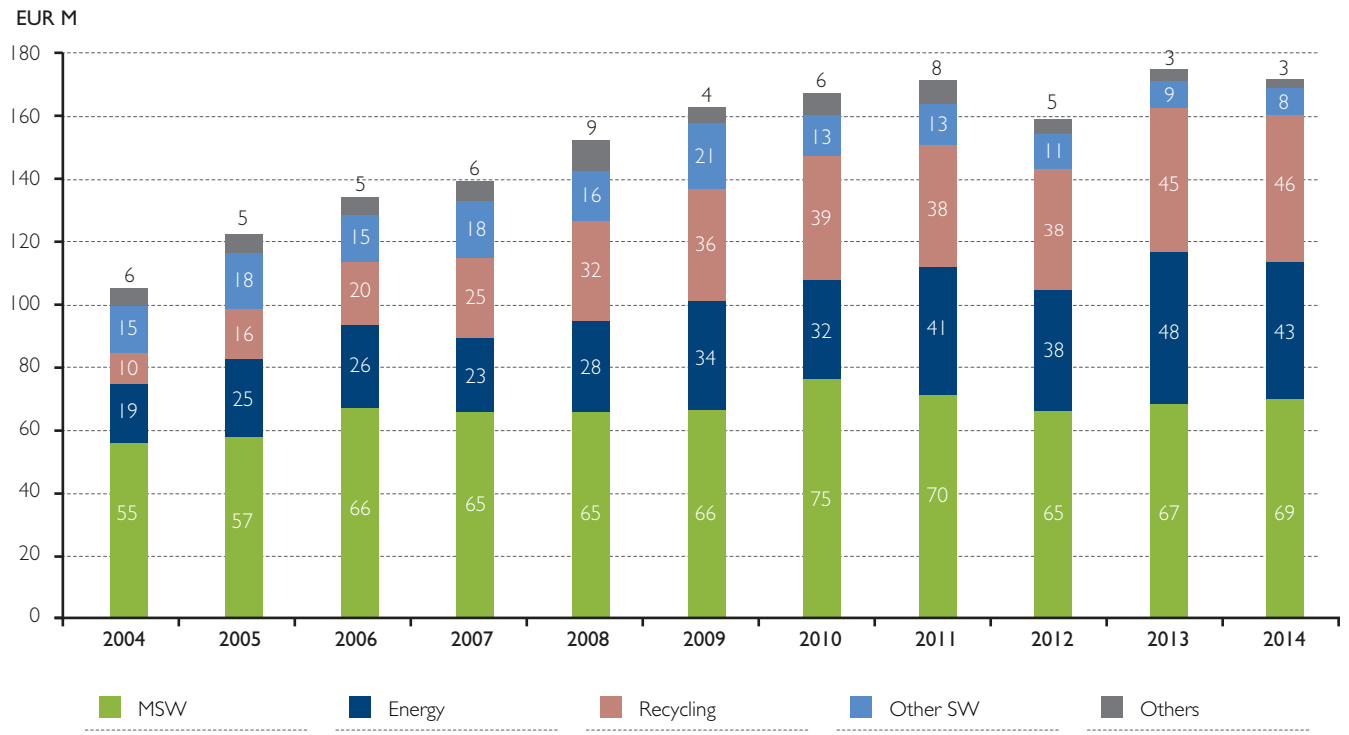
Companies with lower extra-tariff incomes need higher tariffs to bear the costs of their operations.

Turnover by company and type
(%)



The EGF Group's dependence on tariff income has been falling substantially, especially in the last three years. The energy and recyclable components are increasingly important in the companies' turnovers. In 2014, turnover was EUR 170 million, slightly less than in 2013.

Turnover by type
(EUR million)



Shareholdings portfolio

Company	Concession period	Municipalities involved	EGF shareholding	Share capital (EUR)
Valorminho, S.A.	25 years 1996-2021	Caminha, Melgaço, Monção, Paredes de Coura, Valença and Vila Nova de Cerveira.	51.00%	900 000
Resulima, S.A.	25 anos 1996-2021	Arcos de Valdevez, Barcelos, Esposende, Ponte da Barca, Ponte de Lima and Viana do Castelo.	51.00%	2 500 000
Resinorte, S.A.	30 years 2009-2039	Alijó, Amarante, Armamar, Baião, Boticas, Cabeceiras de Basto, Celorico de Basto, Cinfães, Chaves, Fafe, Guimarães, Lamego, Marco de Canaveses, Mesão Frio, Moimenta da Beira, Mondim de Basto, Montalegre, Murça, Penedono, Peso da Régua, Resende, Ribeira de Pena, S. João da Pesqueira, Sabrosa, Santo Tirso, Sernancelhe, Santa Marta de Penaguião, Tabuaço, Tarouca, Trofa, Valpaços, Vila Nova de Famalicão, Vila Pouca de Aguiar, Vila Real and Vizela.	51.00%	8 000 000
Resiestrela, S.A.	25 years 2003-2027	Almeida, Belmonte, Celorico da Beira, Figueira de Castelo Rodrigo, Fornos de Algodres, Fundão, Guarda, Manteigas, Mêda, Penamacor, Pinhel, Sabugal and Trancoso.	62.95%	3 826 655
Suldouro, S.A.	25 years 1996-2021	Vila Nova de Gaia and Santa Maria da Feira.	60.00%	3 400 000
Ersuc, S.A.	33 years 1997-2030	Águeda, Albergaria-a-Velha, Alvaiázere, Anadia, Ansião, Arganil, Arouca, Aveiro, Cantanhede, Castanheira de Pêra, Coimbra, Condeixa-a--Nova, Estarreja, Figueira da Foz, Figueiró dos Vinhos, Góis, Ílhavo, Lousã, Mealhada, Mira, Miranda do Corvo, Montemor-o-Velho, Murtosa, Oliveira de Azeméis, Oliveira do Bairro, Ovar, Pampilhosa da Serra, Pedrógão Grande, Penacova, Penela, Sever do Vouga, São João da Madeira, Soure, Vagos, Vale de Cambra and Vila Nova de Poiares.	51.46%	8 500 000
Valorlis, S.A.	25 years 1996-2021	Batalha, Leiria, Marinha Grande, Ourém, Pombal and Porto de Mós.	51.00%	2 000 000
Valnor, S.A.	35 years 2001-2036	Abrantes, Alter do Chão, Arronches, Avis, Campo Maior, Castelo Branco, Castelo de Vide, Crato, Elvas, Fronteira, Gavião, Idanha-a--Nova, Mação, Marvão, Monforte, Nisa, Oleiros, Ponte de Sôr, Portalegre, Proença-a-Nova, Sardoal, Sertã, Sousel, Vila de Rei and Vila Velha de Ródão.	53.33%	10 000 000
Valorsul, S.A.	25 years 2011-2034	Alcobaça, Alenquer, Amadora, Arruda dos Vinhos, Azambuja, Bombarral, Cadaval, Caldas da Rainha, Lisboa, Loures, Lourinhã, Nazaré, Odivelas, Óbidos, Peniche, Rio Maior, Sobral de Monte Agraço, Torres Vedras and Vila Franca de Xira.	55.63%	25 200 000
Amarsul, S.A.	25 years 1997-2022	Alcochete, Almada, Barreiro, Moita, Montijo, Palmela, Seixal, Sesimbra and Setúbal.	51.00%	7 750 000
Algar, S.A.	25 years 1996-2021	Albufeira, Alcoutim, Aljezur, Castro Marim, Faro, Lagoa, Lagos, Loulé, Monchique, Olhão, Portimão, S. Brás de Alportel, Silves, Tavira, V. R. Sto. António and Vila do Bispo.	56.00%	7 500 000

Energy and other businesses

AdP Energias

Framework

AdP Energias - Energias Renováveis e Serviços Ambientais, S.A. AdP Energias, which belongs to the AdP Group, was set up on 11 September 2001 under the name RECICLAMAS – Multigestão Ambiental, S.A.. Its registration was published in Diário da República n.º 301, 3º suplemento - III série, pág. 27 708-(358) of 31 December.

In September 2010 the company's name was changed to its current one and its company object was also altered slightly. AdP Energias's object is environmental management, such as the generation, use and supply to external consumers of different forms of renewable energy, the establishment of systems for collecting, transporting, treating or reclaiming sludge for use or final disposal, development of processes or facilities for improving energy efficiency and consultancy and services in the same and similar areas and other sectors of environment industries.

The company's new name and image are intended to demonstrate its current mission more appropriately, i.e. the role that it plays in developing different ways of using assets and endogenous AdP Group resources to generate energy.

Main events

In 2014 it continued to step up its strategy of being the AdP Group's vehicle for the energy sector, not only in renewables, maximising energy from the AdP Group's endogenous resources but also rationalising energy consumption and reducing or offsetting its greenhouse gas emissions by drafting an integrated energy efficiency plan (PIEE).

In the second half of 2014, field work was begun towards measures for optimising energy consumption under the PIEE.

AdP Energias has different areas of intervention, not only in projects that it undertook this year but also in the preparation of medium-term projects.

Biomassa

In 2014, AdP Energias maintained its 40% shareholding in MIESE, Vila Real/Alijó – Sistemas Energéticos a Biomassa, Lda. AdP Energias continued to work towards the sale of its holding in MIESE to FTP – Energia e Ambiente, S.A.

Photovoltaic - micro-generation

A partnership between AdP Energias and the different management entities of multi-municipal systems began in 2009 for the development and installation of solar photovoltaic micro-generation plants. It has continued and the plants are in their fifth year of generation.

2014 was better than 2013 but even so bad weather destroyed some plants causing natural reductions in generation. Most of the damaged facilities have been repaired though two of them went out of service due to insurance issues in the last quarter of 2014.

Photovoltaic - mini-generation

There are currently 10 solar photovoltaic mini-generation plants in operation and, like the micro-generation plants they were built in partnerships.

Four plants are in a partnership formed in 2012 between AdP Energias and Águas do Algarve and Águas do Norte Alentejano (Olhão, Boavista, Portalegre andTramaga). The other six were built in an energy services company (ESCO) type partnership involving AdP Energias, Águas do Algarve, Águas do Centro Alentejo and Águas do Norte Alentejano and the partner, selected in a market consultation, Galp Power, S.A. (Corval, Reguengos, Redondo, Borba, Tolosa and Almargem).

These six plants completed their first full year of generation and sale of energy to the public service power grid (RESP) in 2014.

A third ESCO model investment phase was prepared for power of over 10 MW in several multi-municipal systems, though the tender was unsuccessful as there was no interest on the part of market and no bids were submitted.

Micro-hydro plants

The construction of the Beiriz small hydroelectric plant continued with no problems in 2014 and was inspected by the DGEG on 26 December 2014. It is awaiting connection to the public service power grid by EDP. This work was the result of a partnership between AdP Energias and Águas do Noroeste.

Energy management in the AdP Group companies

As part of the joint strategy of AdP Energias and the AdP Group invested companies for development and implementation of the PIEE, work has already been done to optimise consumption via rational energy use.

The work began in 2012 with the aim of promoting energy efficiency and special scheme energy generation at AdP Group companies and the first steps in the field were taken in 2013.

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

After a market consultation, the first phase of award of the diagnoses began in April 2014. The process fell behind as there were complaints from some bidders in the advance hearing stage and also missteps in the submission of qualification documents of some of the selected bidders. This resulted in a change in the final awards and delayed the start of the work. At the end of 2014 some parts of the contract work had been completed. Once again, this work will be done in partnership with some AdP Group companies.

In 2015, when Portugal 2020 comes into effect, we expect the launch of a funding campaign from specific lines of support set up for the purpose for the introduction of the efficiency measures provided for and in analysis in the diagnoses.

Integrated waste management - Wastewater Treatment Plant (WWTP) sludge

The economic and financial limitations and the reformulation of the strategy for WWTP (wastewater treatment plant) sludge by the Ministry of the Environment, Spatial Planning and Energy (MAOTE) in 2010 conditioned the AdP Group's work in this area, especially integrated waste management by AdP Energias.

The development of strategic documents, such as PERSU 2020 and PENSAAR 2020, and the sale of EGF by the AdP Group made it necessary to perform a new assessment of the feasibility of construction of energy recovery centres (CVE).

The MAOTE has been issuing documentation on the treatment and final disposal of sludge in Portugal, such as its Green Growth Strategy, Operational Programme for Sustainable, Efficient Use of Resources (POSEUR) and possible formation of a new sludge management company.

In the above context, given that there is still a need to solve the problem of the final disposal of sludge from AdP Group wastewater treatment plants, the GIR at AdP Energias continued its work of recent years, such as:

- The document on sludge treatment by the AdP Group drafted by the international consultant A.T. Kearney under the memorandum of understanding signed in September 2012 between AdP SGPS and the cement industry.

- As in previous years, AdP Energias continued its collaboration with some MMS wastewater treatment management companies in identifying and analysing technically and economically more efficient solutions for the treatment and final disposal of WWTP sludge in the different regions of mainland Portugal.

- In view of the uncertain future of the sludge sector work was suspended on the construction of the first solar sludge drying unit in the Algarve, although we updated our request for information on the feasibility of the licensing of construction in São Bartolomeu de Messines. As a result of compliance with the CCP. The tender prepared for the purpose was never issued.

- The MOU signed with Dream Energy for the implementation of a WWTP sludge treatment unit that was ground-breaking for drying sludge and photovoltaic concentration received co-investment from IAPMEI. There were administrative difficulties however that prevented the licensing of the construction.

- The central region solar drying project using the facilities of an existing unit belonging to a private company was suspended for the tender to take place to select the company that will be responsible for the treatment and final disposal of Simria sludge. If the process goes ahead, AdP Energias would be involved on terms still to be negotiated by the parties.

- The GIR conducted a survey on the quantities of wastewater treatment station sludge produced by each MMS, its treatment and final disposal and the qualitative parameters of the sludge produced per WWTP. A working group was later set up, headed by UNA-PD to analyse the data received. AdP Energias was involved before the end of the first phase and played an active part in subsequent ones. The project for the generation of photovoltaic energy and adaptation of the sludge drying equipment at the Sanest wastewater treatment station in Guia was presented and discussed. The idea was to produce electricity at competitive prices and thus, after corrections in the thermal sludge drying system get it up and running.

Other projects

As in previous years, the two members on the Board of Directors of Trevo Oeste – Tratamento e Valorização de Resíduos Pecuários, S.A., employees of AdP Energias, continued to develop appropriate solutions from an economic and business point of view for the AdP Group's development of collective solutions for the treatment of effluent from pig farms.

In 2014, there was a substantial increase on AdP Energias's involvement in Trevo Oeste, as it was necessary to draft documents to prepare the company's future.

At the end of October, director Pedro Béraud resigned and no longer has any position in this company.

Financial indicators

(unit: EUR)

Financial indicators	2012	2013	**2014**	Δ **2014**/ 2013
Turnover	910 842	706 822	**678 671**	(4%)
EBITDA[1]	546 279	409 123	**390 700**	(5%)
Operating profit	250 105	141 240	**132 241**	(6%)
Financial income	(90 492)	(86 753)	**(68 219)**	21%
Net profit/loss for financial year	145 514	50 571	**56 654**	12%
Financial investments in invested companies	326 966	326 966	**326 966**	0%
Current and non-current assets	4 991 009	4 204 944	**4 244 301**	1%
Current and non-current liabilities	2 160 064	1 323 427	**1 306 130**	(1%)
Average settlement time (days)	115	97	**67**	(31%)
Average payment time (days)	120	142	**101**	(29%)

[1] EBITDA = Earnings before interest, tax, depreciation and amortisation

AdP Energias ended the 2014 financial year with a profit of EUR 57,000, which was 12% higher than in 2013 (EUR 51,000).

In 2014 AdP Energias made a profit for the third year running. A reduction in operating profit (132,000 in 2014 as opposed to 141,000 in 2013) contributed to the net profit in 2014. In 2014, its operating profit was the result of a EUR 38,000 increase in operating income of AdP Energias against 2013 and an increase in operating costs of EUR 47,000.

The rise in financial earnings (EUR 19,000 against 2013) was due to a reduction in interest rate associated with a EUR 1,200,000 loan.

AdP Energias's turnover fell by EUR 28,000 (EUR 678,000 in 2014 and 707,000 in 2013, 4% less). This decrease occurred mainly in micro-generation (EUR 518,000 in 2014 and 565,000 in 2013, -8% in income from this business). Nonetheless, in mini-generation there was an increase in turnover of EUR 35,000 against 2013.

In 2014, EBITDA totalled EUR 391,000, 18,000 euros (5%) lower than in 2013. 2014 was also the year in which AdP Energias maintained its 40% position in MIESE, recorded at EUR 327,000. In 2014 there were no changes in the amount of the loan used.

Assets at the end of 2014 totalled EUR 4.2 million, a 1% increase against 2013, i.e. around EUR 40,000. This increase is the result of cash and cash equivalents. In spite of the derecognition of studies and projects associated with VES plus the transfer to Dreen. Water.re.energy of the CPV business, AdP Energias's assets grew by EUR 39,000.

On the liabilities side, at the end of 2014 they totalled EUR 1.3 million, 1% less than in 2013, mostly due to a reduction in supplies and other payables.

Pursuant to Ordinance 9870/2009, the APT of AdP Energias on December 2014 was 101 days, which is an improvement on 2013, when it was 142 days. In 2014 average receipt time was 67 days, which is also an improvement against 2013, when it was 97 days.

International

AdP Internacional (UNI)

Framework

The Unidade de Negócios Internacional (UNI) manages the AdP Group's businesses outside Portugal in an economically sustainable manner. It acts as a showcase for the Group's capabilities abroad and a lever for its internationalisation.

Cooperation is also an important part of its work, as its support or continuation of some initiatives is based on cooperation and social responsibility as opposed to exclusively business aims. Economic sustainability is however a fundamental driver in its work.

AdP – Águas de Portugal Internacional, Serviços Ambientais, S. A. was set up in 2001 to support the Group's international strategy. (AdP I).

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

1. Consolidating existing projects favouring expansion to new businesses in markets in which it already has a significant presence or important experience;

2. Sustaining growth in the area by obtaining new business while minimising investment risks from a fee-based perspective;

3. Strengthening its organisational structure and focusing management on the creation of value for its shareholders and consequently the development of new economically sustainable businesses;

4. Supporting the internationalisation of other Portuguese companies in the environmental sector.

Main events

2014 witnessed the completion of the following technical assistance projects:

- Technical assistance for the Department of Water Supply and Wastewater Treatment of the State Secretariat of Water, Ministry of Energy and Water (DNAAS), in partnership with Ogimatech and Tese and funded by the European Union;

- Support for the creation of the water and treatment company in Caxito (Bengo Province, Angola), with Angolan government funding.

The following projects were ongoing:

- Technical assistance for the construction of the Matadi Water Treatment Plan in the Democratic Republic of Congo, in a consortium with the construction company Sousa Pedro with World Bank funding;

- Technical assistance for the National Water Department in the analysis of projects and additional studies (APEC);

- Technical assistance for the National Water Department in the analysis of projects and supervision of works (APSO);

- Technical assistance for the company Águas da Região de Maputo, Mozambique in commercial management using AQUAMATRIX® software.

The start of a technical assistance contract for the implementation of the sanitation and drainage master plan in Dili by AdP Timor Leste.

Financial indicators

The economic and financial indicators shown reflect the instrumental nature of AdP Internacional, which transfers the resources needed for its invested companies' work and the direct performance of projects in the markets in which it operates and also through its subsidiary in Angola (AdP Angola).

(EUR thousand)

Economic and financial indicators				Δ **2014**/ 2013	
	2012	2013	**2014**	Amount	%
Turnover	3 750	4 339	**2 195**	(2 144)	(49%)
EBITDA*	(545)	(933)	**(2 239)**	(1 305)	(140%)
Net assets	7 598	8 338	**9 088**	750	9%
Liabilities	8 425	9 135	**11 613**	2 478	27%
Financial income	(326)	(322)	**(393)**	(71)	(22%)
Net profit	(914)	(884)	**(2 613)**	(1 729)	(196%)

*EBITDA=earnings before interest, tax, depreciation and amortisation.

The company showed a net loss of EUR 2,613,000, though it is lower by EUR 1,729,000 YoY.

There was a EUR 2,144,000 drop in turnover in 2014, due to the end of the Sumbe and AT PF projects in 2013 and Uige and Caxito in 2014 and the derecognition of the earnings from DNAAS as of June 2014.

The deterioration in EBITDA in 2014, negative by EUR 2,239,000, was due to a deterioration in the company's operating performance against 2013.

Operating loss in 2014 fell YoY (-1,993,000 euros), which can be explained by the reduction in turnover, which was not accompanied by a reduction in operating costs. Maintenance of operating costs was due to the company's search for new markets and the reinforcement of its position in its existing markets. This deterioration in operating loss was also exacerbated by the constitution of the remainder of the EPAL-EP provision of EUR 531,000.

AdP Internacional's liabilities increased by around EUR 2,478,000 in 2014, as a direct result of an increase in borrowing from AdP SGPS and an increase in the balance of trade payables.

Net assets grew by EUR 750,000 against 2013, mainly due to a variation of EUR 355,000 in customers, a balance influenced by projects under way during the year and especially by a substantial increase in receipt time. The increase in state and other public bodies resulted from the specificities of our business (extra-community invoices), with VAT to be recovered.

Financial income went down by EUR 71,000 in 2014 and totalled around EUR -393,000. There was hardly any financial income, and financial costs increased due to a rise in borrowing as a result of borrowing due to longer average receipt times and the profile of existing projects (monthly costs and six-monthly billing), and the rise in costs of bank guarantees

Although 2014 was a year of serious deterioration in financial income of AdPI, the company plans to continue the sustained growth of its activity and consolidate the image of the AdP Group in its current markets (particularly Angola and East Timor) and in new ones such as Azerbaijan, North Africa (especially Morocco and Algeria) and Cape Verde. Important EU financing is in the offing for the water treatment sector in Portuguese-speaking countries (11th European Development Fund), the World Bank and African Development Bank, among others, and the company is working towards obtaining technical assistance contracts in these countries.

Instrumentals

Shared Services (UNSP)

The UNSP is responsible for shared services in the AdP Group and encompasses the companies that operate in support areas. Its mission is to provide the Group's Business Units and their invested companies with the common support services that they need to operate efficiently and at competitive prices, obtaining economies of scale, providing cutting-edge solutions, incorporating good management practices and making a decisive contribution to the pursuit of the Group's corporate goals in its different areas.

AdP Serviços

AdP – Águas de Portugal, Serviços Ambientais, SA (AdP Serviços) is designed to provide common support services that the Group's Business Units and companies need to operate. These services are provided by seven departments that work on activities of a corporate nature and in shared services.

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

Main activities and events

In 2014, AdP Serviços focused on group-wide processes with potential for optimisation and operating efficiency for the AdP Group companies.

AdP Serviços also continued to support AdP SGPS in drawing a roadmap for restructuring the Group, for example in monitoring aggregation and verticalisation processes.

AdP Serviços also played an important role in the corporate asset management project, coordination of functional assessments of the infrastructure of the multi-municipal systems and centralised hiring of communications for the entire Group.

In terms of procurement processes, in 2014 AdP Serviços continued to reinforce its relationship with ESPAP, especially in general categories.

AdP Serviços' mission is to take advantage of the Group's size and is responsible for centralised negotiations in strategic areas. In combination with the online procurement system it achieves process gains and operational capital gains that each company would not be able to achieve separately. Its main challenges are the streamlining of processes, the effective flow of information within the organisation, ensuring the managers' decisions fit in with the company's overall vision, eliminating duplication of processes, reducing operating costs, adding value to the companies' work, also arising from greater specialisation of procedures so that they fit in with their reality and operating needs.

In 2014 the basic premises for the central negotiation of high, medium and special low voltage electricity were set out. Since they began in 2012, their contracts totalled an overall expense of around EUR 179 million, 61% of which were the result of tenders issued by AdP Serviços. The benefits for the Group are estimated at EUR 10.9 million in 2012-2014. Also with regard to negotiation of electricity, taking advantage of our experience and tools, we successfully conducted a highly complex procedure for contracting normal low voltage electricity. This supply had previously come from EDP SU (seller of last resort) with no competition for all the 4,109 facilities that use electricity.

In 2014, the direct benefits for the invested companies resulting from DCC procedures, which resulted in the aggregation of their acquisition needs, were estimated at EUR 6 million, plus the indirect benefits by extrapolating the costs of preparing it by the awarding entities to the amount of EUR 2.9 million, to a total of EUR 8.9 million.

Other indirect benefits are the tools developed while processing the information and automatic integration of bills. Together they allow more specialised processing of information leading to gains in efficiency in the use of available resources in the management of contracts and in the preparation of future procedures closer to the companies' specificities.

The AdP Serviços departments also undertook the following projects and initiatives in 2014:

- Management of centralised pre-contract procedures for the procurements of highly specific goods and services: electricity, fuel, reagents, communications and operating vehicles to an accumulated value of contracts of EUR 69.8 million ;

- Completion of the centralised process of drafting functional aptitude reports under Decree-Law195/2009, an aggregated process for 16 UNA-PD companies.

- Coordination of the working group that defined the guidelines for implementing ISO 50001:2012;

- Implementation of water safety plans in non-AdP Group management companies, such as SIMAS Oeiras e Amadora, Águas do Porto and Conselho de Regulação da Água in Mozambique;

- Management of communication and logistics of the AdP Group's participation in the World Water Congress in Lisbon;

- Involvement of AdP Serviços in starting up the verticalisation of the Noroeste multi-municipal system;

- Legal support in drafting the legal and contractual framework for aggregations of multi-municipal systems;

- Monitoring and legal support in the revision of partnership and management contracts and participation in the negotiations for new verticalisation processes;

- Participation in the in-house working group for configuring the itemised billing system instituted by Law 12/2014 of 6 March and Decree-Law 114/2014 of 21 July;

- Overall IT management at Águas de Santo André and SANEST.

- Legal support for group companies in financial corrections by the POVT management company and Autoridade para o Desenvolvimento e Coesão, I.P.;

- Coordination of the AdP working group belonging to the working group of the Ministry of the Environment, Spatial Planning and Energy in charge of drafting a strategy for the water supply and wastewater treatment sector 2014 – 2020.

Summary of indicators

(EUR thousand)

	IFRS			
Financial indicators	**2012**	**2013**	**2014**	**Δ 2014/ 2013**
Services rendered	9 967	9 726	**9 793**	1%
Other income and gains	2 683	1 891	**1 693**	(10%)
Operating Cash-flow (EBITDA)[1]	4 431	2 902	**3 226**	11%
Current assets	5 050	4 530	**4 405**	(3%)
Non-current assets	22 425	21 449	**23 074**	8%
Current liabilities	7 140	6 194	**7 715**	25%
Non-current liabilities	15 406	13 843	**12 409**	(10%)
Financial income	(427)	(293)	**(235)**	20%
Net profit	2 244	1 013	**1 414**	40%

[1] Earnings before interest, tax, depreciation and amortisation.

In 2014, AdP Serviços made a net profit of EUR 1,414,000, which is 40% higher YoY. It essentially reflects a reduction in personnel costs (in 2013 the cost of the 2012 holiday subsidy was incurred and compensation was paid to personnel).

With EBITDA of EUR 3,226,000, 2014 showed a good operating performance with an 11% increase on 2013.

Provision of services stayed at the same level of previous years with a slight 1% increase over last year.

Other income and gains, EUR 1,693,000 (lease of the building) went down, given that in 2013 there were earnings that did not recur in 2014.

Assets totalled EUR 27,479,000 more than in 2013, due to an increase in intangible assets (Microsoft licences), in spite of the depreciation of tangible fixed assets (building) and a reduction in customer debts.

Liabilities totalled EUR 20,123,000, reflecting a reduction in loans (amortisation of loan on building and reduction in other loans). The remaining liabilities, such as debts to suppliers, increased due to the debt to Microsoft for licences.

Financial income EUR (235,000) showed a tendency to improve as a result of lower interest costs on loans and a gain from dividends from the invested company Aquasis.

Aquasis

Framework

AQUASIS, Sistemas de Informação, S.A. develops information systems specifically for the companies and basic treatment systems management companies. It is a pioneer in Portugal in this type of information technology.

Aquasis was founded in 1991 by civil engineers in the area of hydraulics technology and has belonged to the AdP Group since 2002. Its mission is:

- To develop IT solutions and services for technical management, operation and maintenance of water supply and wastewater and rainwater treatment and collection, treatment and recovery of solid household waste systems;

- To provide services and implement these solutions at AdP Group companies and at companies and management companies in the sector, in all their components, such as analysis of functional processes, IT support architecture, data treatment and processing, technical assistance, post-implementation support and training;

- To promote these solutions in the national and international markets in general.

AQUASIS, S.A.'s admission to the AdP Group gives it unique characteristics, which set it apart from other IT companies in Portugal:

- Total specialisation in areas related to management companies of water supply and drainage of wastewater and rainwater and collection, treatment and recovery of solid household waste systems;

- Proximity and performance of direct collaborative work with operational companies. This, together with its engineering know-how provide a knowledge of the business and the real problems that it faces;

- Possibility, together with the operational companies of testing methodologies and solutions in a real environment, thereby guaranteeing their suitability to the sector and the business;

- Guaranteed permanence of solutions, with permanent teams dedicated to the development, implementation and post-installation support that handle operational and technological developments and users' needs.

This has also increased its competitiveness in the national and international markets, as proven by the market shares of AQUASIS, S.A.

The internal restructuring of AQUASIS, S.A. defined a proposal of value for the company in line with its vision, which consists of the assumption that more smart water and treatment systems are born from a connection between business processes, cutting-edge technology and a passion for innovation.

These are its critical success factors:

• Activities
Meticulousness Result orientation A culture of innovation.

• Customers
Orientation towards customer satisfaction Excellence of service Demonstration of capital gains achieved.

• Organisation and processes
Knowledge management Efficient processes Organisation aligned with innovation.

• Internal culture and skills
Creativity and innovation Motivation and a team spirit Excellent core-business skills.

Main events

On 15 May 2014, the Second Forum for Sharing Experiences and Disseminating Good Practices on "Efficiency and Quality of Services: How to Add Value with IS".

The forum followed on from the one held by AQUASIS in 2013 and gave the management companies the opportunity to share and discuss their success stories in implementing information systems to support their operations.

Knowledge of work done and the growing development in the vast number of management companies using AQUASIS solutions and their diversity and quality justified this event for dissemination and sharing between management companies and companies in the sector, all of whom face the same challenges of efficiency and quality of service.

The second forum extended the subjects addressed and did not focus only on geographical information systems. It sought to address the main macro-processes at management companies from the perspective of the fundamental role of IS in their performance.

It was held in the grand auditorium at LNEC and there were 272 participants representing 119 companies. 45 were Portuguese and foreign management companies, operating in water supply and wastewater treatment. This confirmed the importance of the event which focused on giving a voice to management companies as users of information technology to manage their assets, like those that AQUASIS has been developing and implementing for over 20 years.

The opening session was attended by Anabela Carvalho from Fundação para a Ciência e Tecnologia, who focused her speech on opportunities for funding of R&I for the water sector in the Community Research and Innovation Framework Programme for 2014-2020 - Horizonte 2020.

Papers were delivered by different water supply and wastewater treatment management companies from Portugal and abroad, all of them addressing the use of solutions developed by AQUASIS, which contribute to the efficiency and competitiveness of management entities.

The closing session of the forum was the responsibility of Jaime Melo Baptista, president of ERSAR, whose central subject was information systems as a factor of efficiency and quality of water services.

In 2014, AQUASIS, S.A. worked hard in the technical and commercial areas with AdP Group companies and outside the group in Portugal and abroad.

The SIG G/InterAqua solution is an integrated solution on a common technological platform. It includes desktop, Web and mobility components which make it suitable for supporting recording of infrastructure (assets) and planning, operation and maintenance done mainly at the companies and management companies in the sector.

This solution is not only the AdP Group's corporate solution for its companies, but also undeniably the most used SIG solution in Portugal, at companies and management companies of water supply and wastewater and rainwater treatment systems.

In addition to technical assistance and maintenance of the SIG G/InterAqua, AQUASIS, S.A., acquired new customers in 2014, such as:

- RDTL – Timor-Leste: Supply of the SIG G/InterAqua solution to Dili;
- Aigues de Vilafranca: Supply of SIG G/InterAqua stations;
- EMARVR – Águas e Resíduos de Vila Real, EMM: installation of a geographical information system for support in the management of water supply networks and drainage at EMARVR.

Commercial activity was also undertaken and bids were with a good chance of being accepted to the following management companies:

- Águas da Covilhã, E.M.;
- Hidurbe-Gestão de Resíduos, S.A.;
- CM de Palmela;
- CM de Sesimbra;
- ICOVI - Infra-estruturas e Concessões da Covilhã, EEM;
- ALJARAFESA – Empresa Publica de los Ayuntamentos del Aljarafe - Seville.

AQUASIS, S.A. finished developing an operational mobility solution called AQUAField, based on the SIG G/InterAqua solution, for recording, planning and management of work orders (WOs).

AQUAField was developed after a detailed analysis of processes done by management companies for WOs related to work on the water supply and wastewater drainage networks. Its main characteristics are:

- total coverage of operational flow (from start to finish of the WO);
- registration and planning of WOs and their allocation to work teams;
- on site profiling of the WO;
- material reserves at the work site;
- integration with other IS – customer management and ERP;
- definition of optimised closure of valves.

Initially installed at Águas do Sado, a partner company in the design of the solution, its marketing and sales began in 2013 and 2014. It has already been installed at the following management companies:

- EPAL, Empresa Portuguesa das Águas Livres, S.A.;
- Águas da Figueira, S.A.;
- Serviços Municipalizados de Loures;
- Serviços Municipalizados de Água e Saneamento de Almada.

In 2015, thanks to marketing campaigns, the solution may be installed at the following management companies:

- Águas de Cascais, S.A.;
- SIMAS de Oeiras e Amadora;
- AGERE – Empresa de Água e Resíduos de Braga, E.M;
- Águas do Noroeste, S.A.;
- CM de Sesimbra.

AQUASIS, S.A. has set up a strategic partnership for maintenance and management of assets with Companhia IBM Portuguesa, S.A., in an ISV (Independent Software Vendor) contract.

Under this partnership, AQUASIS, S.A. developed the AQUAMAN solution for integrated management of asset maintenance adapted to the needs of management companies of water supply and wastewater and rainwater treatment systems.

AQUAMAN made a number of substantial technological and functional improvements, such as:

- integration with SIG G/InterAqua;
- integration with the companies' operating solutions;
- export of search results to Excel, with no need for reports;
- use autonomy in generating dynamic reports;
- extraction of variables necessary to produce ERSAR indicators;
- new planning tools for works and resources (work orders and workforce), with graphic interaction for updates;
- greater availability of the system and performance problem solving from the previous solution;

In addition to technical assistance and maintenance of the AQUAMAN solution, it was installed at the following AdP Group companies in 2014:

- Luságua - Serviços Ambientais, S.A.

Marketing was undertaken for the AQUAMAN solution and bids were sent to the following entities, with a good chance of being accepted:

- Aeroportos de Moçambique, EP;
- SIMAS de Oeiras e Amadora;
- AGERE - Empresa de Água e Resíduos de Braga, E.M.

Summary of indicators

(Unit: EUR thousand)

Financial indicators	2012	2013	**2014**	Δ **2014**/ 2013
Turnover	1 937	2 598	**2 301**	(11.4 %)
EBITDA[1]	89	257	**227**	(11.6 %)
Net profit/loss for financial year[2]	(130)	79	**(336)**	(52.5 %)
Net assets	2 146	2 451	**2 400**	(2.1 %)

1 – Earnings before interest, tax, depreciation and amortisation
2 – After the collection risk of some customers was analysed, we decided to recognise an impairment of 405,000 euros for the year.

In 2014, AQUASIS's operating income totalled EUR 2,301,000, 11.4% lower than in the previous year and 3.4% under budget. The decrease in turnover occurred solely in the international market and so the collection risk is much lower.

Although EBITDA went down around 11% in 2014 against 2013, its value represents sustained growth of the company that began in 2013, corresponding to the second highest figure in the last 10 years. EBITDA grew 23.4% in relation to the budget.

The EBITDA margin was also a significant 9.9%, similar to 2013 and around 38.1% higher than the budget. The goal of 7% set for the EBITDA margin was widely exceeded.

The net income for 2014 was severely affected by a customer impairment (EPAL, EP) to the amount of EUR 405,000. Without this impairment, the net income for the year would have been around EUR 69,000. In these circumstances, the figure would be similar to 2013 and around 97.5% higher than budget.

Outlook for the future

The future for the AdP Group involves guaranteeing the continuity, universality, quality and sustainability of the public services of water supply and wastewater treatment at socially fair prices and with equal access to water, which is essential to business, environmental services and our future as a society.

These are the prerequisites of our business and these are also the goals of restructuring the water sector currently being undertaken by the Portuguese government, which includes the current reorganisation of the AdP Group.

In this more general context, we must draw attention to the strategic guidelines of the sectoral plans and finance instruments for investments in improving asset management and the efficiency and capacity building of the management companies, which shows a change in paradigm in line with our search for sustainability.

There will be impacts on the AdP Group. There is the importance of the new law on itemised billing as it will reduce the collection risk and associated financial costs of borrowing. We hope that the new regulatory framework will focus on an agenda devoted to the economic, social and environmental sustainability of this important sector.

The territorial reorganisation of the systems managed by the AdP Group companies, which is in full swing in 2015, will generate benefits in terms of tariffs not only by reducing costs and maximising gains of scale and scope but also in terms of improving management efficiency.

One of the most important aspects is the fact that, for the first time in the history of the water sector in Portugal, we are implementing a strategy to solve the serious problem of accumulated tariff deficits. The economic and financial models of the new systems entail the elimination of tariff deficits within 25 years. Equally significant is the fact that the investments needed to comply with EU Directives for the water sector are guaranteed.

In spite of the slowdown in investment in major infrastructure, mostly due to the gradual completion of scheduled projects, we expect new challenges arising from the new paradigm of efficiency and sustainable growth, e.g. those related to the resilience and security of multi-municipal supply and treatment systems with new partnerships for the management of municipal systems and the introduction of innovative technology that can reconcile optimised resource management with the provision of high quality services. We cannot forget the importance of the POSEUR financial instruments so that, with our eyes on efficiency and sustainability, we can support the implementation of the investments needed to achieve national and EU goals for the water sector.

When the reorganisation is complete, the AdP Group will be more cohesive, with better quality of service and a reinforced regional presence with more opportunities for growth and greater financial soundness. In 2015, we will continue the rationalisation of management in order to boost earnings and foster additional synergies. The same commitment will be devoted to relations with municipal partners for projects currently being studied and also set up new partnerships for the management of municipal systems. Where waste is concerned, we hope to complete the sale of the sub-holding company EGF and its subsidiaries and we are awaiting the decision of the Anti-trust Authority.

In the international area, our strategy will continue towards consolidation and development of business in our current markets and the formation of partnerships that encourage new approaches, always with a view to economic and financial sustainability.

Finally, we would like to mention the goals that the AdP Group will pursue in the Commitment to Green Growth, an initiative of the Ministry of the Environment, Spatial Planning and Energy. Its aim is to boost a development model capable of reconciling economic growth with lower consumption of natural resources and with social justice and quality of life for the population. We will set targets for 2020 and 2030, especially for economic activities that help to increase GDP and create jobs, optimised management of resources, environmental protection and better air and water quality and the enhancement of biodiversity and ecosystem services.

Relevant events after the end of the period

The public partnership for the operation and management of water services in the north-eastern region went into operation in eight municipalities (Amarante, Arouca, Baião, Celorico de Basto, Cinfães, Fafe, Santo Tirso and Trofa).

The Council of Ministers approved Decree-Laws on the aggregation of multi-municipal systems and constitution of the new companies Aguas do Norte, Águas do Centro Litoral and Aguas de Lisboa e Vale do Tejo.

Company subsidiaries

AdP - Águas de Portugal, SGPS, S.A. AdP SGPS has not subsidiaries.

AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A., owned 100% by AdP SGPS, has one subsidiary in Angola called AdP Angola.

Final remarks

The Board of Directors acknowledges the commitment of all who directly or indirectly participated in the pursuit of the AdP Group's goals in 2014:

- AdP SGPS's managers and employees and those at all the companies for their efforts, dedication, competence and professionalism in the performance of their duties;
- the directors and managers of all the Group companies for their commitment to their work over the year;
- the members of the other Governing Bodies for their competent, impartial monitoring of the company's business activity;
- to our shareholders for their guidance, commitment, trust and support;
- to our customers, private partners and financial institutions for their trust and collaboration;
- the regulator for its cooperation and availability;
- the national and international authorities with whom we have had institutional relations, especially the coordinating, supervisory and regulatory bodies in the environment sector;
- the ministers and other members of the offices of the ministries in charge of the sector and finances of the AdP Group.

Lisbon, 28 April 2015

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria
(Chairman)

Álvaro António Magalhães Ferrão de Castello-Branco
(Member)

Gonçalo Ayala Martins Barata
(Member)

Manuel Joaquim Barata Frexes
(Member)

Manuel Maria Pereira Fernandes Thomaz
(Member)

José Manuel Barros
(Non-executive Member)

Proposed Appropriation of Profit

The net income of AdP SGPS in 2014 was EUR 47,980,586.00 (forty-seven million, nine hundred and eighty thousand five hundred and eighty-six euros).

In view of the above, pursuant to Article 19 of the articles of association and Articles 31 to 33 and 66 of the Company Code, the Board of Directors proposes that the net income of the financial year of 2014 in the separate financial statements be appropriated as follows:

- Legal reserve – EUR 2,399.029.30 (two million, three hundred and ninety-nine thousand and twenty-nine euros and thirty cents);
- Retained earnings – EUR 21,591,263.70 (twenty-one million five hundred and ninety-one thousand two hundred and sixty-three euros and seventy cents);
- Dividend pay-out – EUR 23,990,293.00 (twenty-three million nine hundred and ninety thousand two hundred and ninety three euros).

Lisbon, 28 April 2015

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria
(Chairman)

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Manuel Maria Pereira Fernandes Thomaz
(Member)

José Manuel Barros
(Non-executive Member)

Annex to the report

On the date of closing of the 2014 financial year, AdP - Águas de Portugal, SGPS, S.A.'s share capital was owned by the following shareholders:

Shareholders	%	Shares	Value (EUR)
Parcaixa, SGPS, S.A.	19.00	16 511 000	82 555 000
Parpública - Participações Públicas, SGPS, S.A.	81.00	70 389 000	351 945 000
Total	**100.00**	**86 900 000**	**434 500 000**

As required by law, there are not overdue debts to the state public sector.

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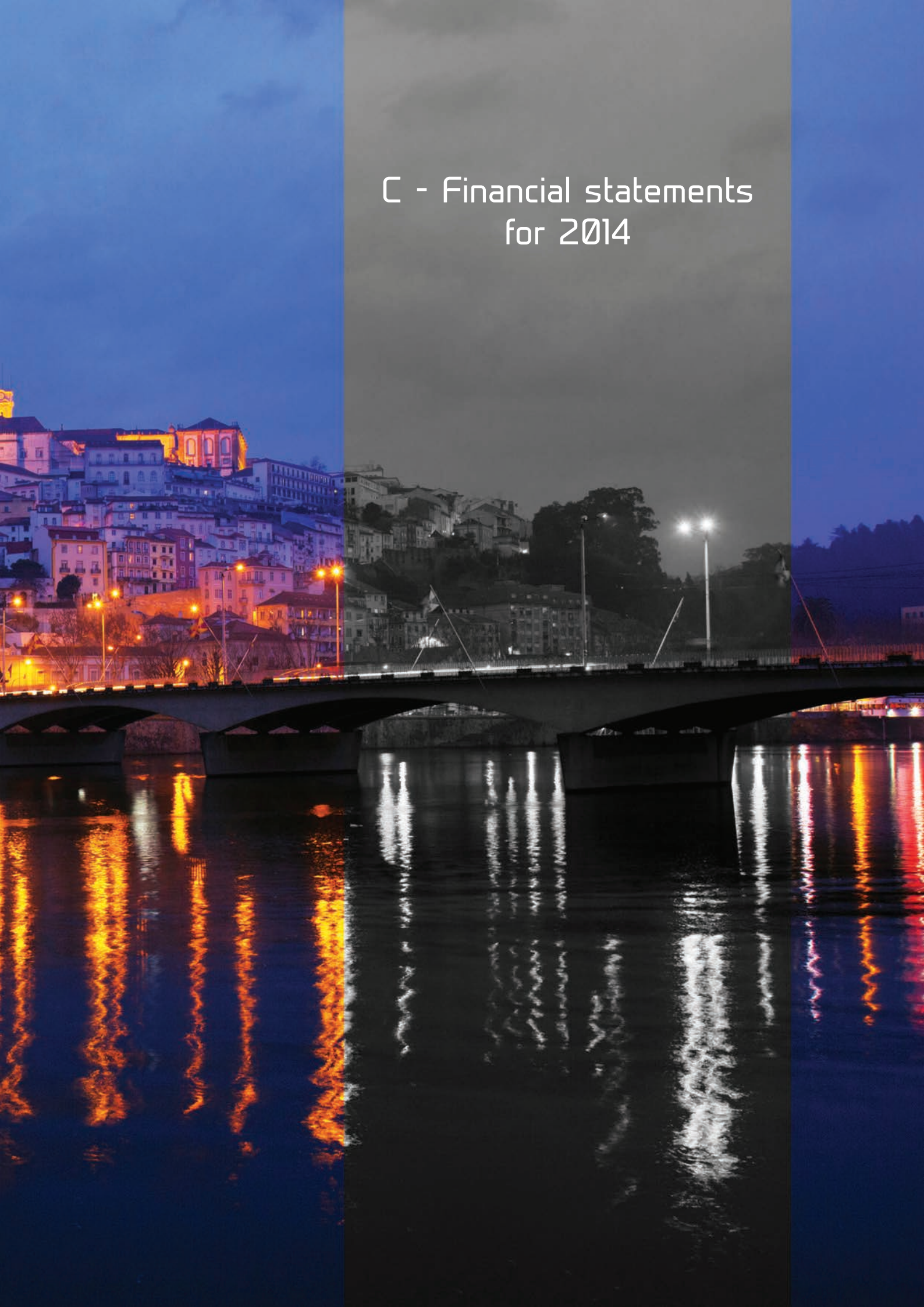
C - Financial statements for 2014



C - Individual financial statements

1. Contents

I - Statement of financial position

	Notes	2014	2013
ASSETS			
Non-current assets			
Tangible fixed assets	7	929	1 309
Financial investments	8	699 377 087	747 914 587
Loans to Group companies	9	208 616 172	192 352 517
		907 994 188	940 268 413
Current assets			
Trade receivables	10	12 338 524	18 723 078
Group Companies	11	126 038 718	83 088 856
Other receivables	12	3 052 971	5 093 569
Income tax for the year	13	1 906 084	-
Cash and cash equivalents	14	148 963 703	192 817 176
		292 300 000	299 722 679
Assets held for sale	30	66 066 525	-
Total assets		1 266 360 713	1 239 991 092
EQUITY			
Share capital	15	434 500 000	434 500 000
Adjustment of shareholdings in subsidiaries and associate companies		25 571 780	26 056 136
Fair value reserve		(2 749 242)	(718 163)
Legal reserve		18 331 201	15 001 702
Retained earnings		79 219 074	46 974 232
Net profit of financial year		47 980 586	66 589 986
Total equity		602 853 399	588 403 893
LIABILITIES			
Non-current liabilities			
Provisions	16	16 453 370	13 007 984
Bank loans	17	500 000 000	603 716 230
Derivatives	18	18 159 628	12 030 548
		534 612 998	628 754 762
Current liabilities			
Bank loans	17	107 014 660	6 502 946
Trade payables	19	640 643	777 239
Income tax for the year	13	-	10 360 555
Other payables	20	20 918 126	5 191 697
		128 573 429	22 832 437
Assets held for sale	30	320 887	-
Total Liabilities		663 507 314	651 587 199
Total Liabilities and Equity		1 266 360 713	1 239 991 092

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)
Álvaro António Magalhães Ferrão de Castello-Branco (Member)
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José Manuel Barros (Non-executive Member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Income statement

	Notes	2014	Restated[1] 2013	2013
Services provided	21	10 471 614	10 396 202	11 263 309
Turnover		**10 471 614**	**10 396 202**	**11 263 309**
Supplies and services	22	(4 810 377)	(5 880 850)	(5 880 850)
Personnel costs	23	(4 392 590)	(4 341 034)	(4 341 034)
Depreciation in financial year	24	(1 127)	(865)	(865)
Provisions and reversals in financial year	16	(3 445 386)	(1 061 095)	(1 061 095)
Other operating expenses	25	(108 249)	(116 912)	(116 912)
Other operating income and gains	26	993 033	600 513	600 513
Operating profit/loss		**(1 293 082)**	**(404 041)**	**463 066**
Financial expenses	27	(18 275 375)	(15 565 153)	(15 565 153)
Financial income	28	27 477 937	45 581 011	46 865 819
Gains on shareholdings	29	39 399 104	43 814 917	45 814 917
Financial income		**48 601 666**	**73 830 775**	**77 115 583**
Profit before tax		**47 308 584**	**73 426 734**	**77 578 649**
Income tax for the year	13	(3 015 735)	(10 988 663)	(10 988 663)
Net income as a going concern		**44 292 849**	**62 438 071**	**66 589 986**
Net income of from discontinued operations	30	3 687 737	4 151 915	-
Net profit of financial year		**47 980 586**	**66 589 986**	**66 589 986**
Earnings per share (basic and diluted)	**15**	**0.55**	**0.77**	**0.77**

[1] Classification of profit/loss of EGF Group as assets/liabilities held for sale/ discontinued operations (IFRS 5)

Statement of comprehensive income

	2014	2013
Net profit of financial year	**47 980 586**	**66 589 986**
Fair value of cash flow hedging instruments	(2 031 079)	5 811 541
Comprehensive income	**45 949 507**	**72 401 527**
Comprehensive income per share	**0.53**	**0.83**

The Board of Directors

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The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Statement of changes in equity

	Share Capital	Adjustments in shareholdings	Legal reserve	Other reserves cash-flow hedging instruments	Retained earnings	Net profit of financial year	Total
Balances as at 31 December 2012	**434 500 000**	**26 438 662**	**12 888 141**	**(6 529 704)**	**29 934 064**	**42 271 203**	**539 502 365**
Realisation of revaluation reserves (subsidiaries)	-	(382 526)	-	-	382 526	-	-
Fair value of financial (hedging) instruments	-	-	-	5 811 541		-	5 811 541
Appropriation of profit for 2012	-	-	2 113 561	-	40 157 643	(42 271 203)	-
Dividend payout	-	-	-	-	(23 500 000)	-	(23 500 000)
Net profit for 2013	-	-	-	-	-	66 589 986	66 589 986
Balances as at 31 December 2013	**434 500 000**	**26 056 136**	**15 001 702**	**(718 163)**	**46 974 232**	**66 589 986**	**588 403 893**
Realisation of revaluation reserves (subsidiaries)	-	(484 356)	-	-	484 356	-	-
Fair value of financial (hedging) instruments	-	-	-	(2 031 079)	-	-	(2 031 079)
Appropriation of profit for 2013	-	-	3 329 499	-	63 260 486	(66 589 986)	-
Dividend payout	-	-	-	-	(31 500 000)	-	(31 500 000)
Net profit for 2014	-	-	-	-	-	47 980 586	47 980 586
Balances as at 31 December 2014	**434 500 000**	**25 571 780**	**18 331 201**	**(2 749 242)**	**79 219 074**	**47 980 586**	**602 853 399**

The Board of Directors

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The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Cash flow statement

	2014	Restated[1] 2013	2013
Operating activities			
Trade receivables	**61 026 146**	53 181 647	55 356 867
Trade payables	**(5 520 200)**	(6 102 407)	(6 102 407)
Payments to personnel			
Wages	**(1 871 231)**	(1 859 059)	(1 859 059)
Social Security	**(990 911)**	(946 215)	(946 215)
Other	**(134 295)**	(107 691)	(107 691)
Income tax and VAT receipts / (payments)	**(20 424 959)**	513 712	513 712
Other receivables / (payments) related to operating activity	**(756 728)**	(9 107 568)	(9 107 568)
Total operating activities (1)	**31 327 822**	**35 572 419**	**37 747 639**
Investing activities			
Receivables from:			
Financial investments	**28 565 998**	49 922 804	49 922 804
Interest and similar income	**2 651 282**	4 105 025	4 105 025
Dividends	**40 409 521**	43 848 202	45 848 202
Sub-total	**71 626 801**	**97 876 031**	**99 876 031**
Payments for:			
Financial investments	**(110 486 854)**	(70 223 606)	(70 223 606)
Tangible fixed assets	**(789)**	-	-
Sub-total	**(110 487 643)**	**(70 223 606)**	**(70 223 606)**
Total investing activities (2)	**(38 860 842)**	**27 652 425**	**29 652 425**
Financing activities			
Receivables from:			
Borrowing	**20 000 000**	10 000 000	10 000 000
Sub-total	**20 000 000**	**10 000 000**	**10 000 000**
Payments for:			
Borrowing	**(20 455 822)**	(5 000 000)	(5 000 000)
Interest and similar expenses	**(11 500 868)**	(15 619 927)	(15 619 927)
Dividends	**(31 500 000)**	(23 500 000)	(23 500 000)
Sub-total	**(63 456 690)**	**(44 119 927)**	**(44 119 927)**
Total financing activities (3)	**(43 456 690)**	**(34 119 927)**	**(34 119 927)**
Cash flow from discontinued activities	**8 639 183**	4 175 220	-
Change in cash and cash equivalents (1 + 2 + 3)	**(42 350 527)**	**33 280 137**	**33 280 137**
Effects of exchange differences			
Cash and cash equivalents at start of period	**191 314 230**	158 034 093	158 034 093
Cash and cash equivalents at end of period	**148 963 703**	191 314 230	191 314 230
Change in cash and cash equivalents	**(42 350 527)**	**33 280 137**	**33 280 137**

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5)

The Board of Directors
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José Manuel Barros (Non-executive Member)

The Chartered Accountant
Carla Isabel Costa Pinto Ribeiro

Notes to the financial statements

1. Economic activity of AdP SGPS S.A.

1.1 Introduction

AdP - Águas de Portugal, SGPS, S.A. (hereinafter also called AdP or the Company) was incorporated on 29 September 1993, with its head office at no. 3 Rua Visconde Seabra in Lisbon. The core business of AdP, SGPS, S.A. is the management of shareholdings as an indirect way of carrying out economic activities.

1.2 Business activity

AdP SGPS, S.A. was incorporated in 1993. It was entrusted with the responsibility of developing multi-municipal systems in Portugal for the abstraction, treatment and distribution of water for public consumption and the collection, treatment and disposal of urban wastewater. The Company's mission was extended in 1996, beginning a process of diversification in terms of business segments and geographical locations. It expanded into water distribution systems and the collection of effluent directly from the communities served, in Portugal and abroad. In 2000, in the context of strategic guidelines leading to the consolidation of the main business group in the environmental area, AdP, SGPS, S.A. became sole owner of EGF - Empresa Geral do Fomento, S.A. and as a result took over control of its subsidiaries, which were responsible for developing multi-municipal systems for collecting and treating solid household waste. Council of Ministers Resolution No. 72/2004 of 16 June, which set the guidelines for restructuring of the water sector in Portugal, redefined the strategic positioning of the AdP Group, focusing it on completing the cycle of instrumental and basic sanitation infrastructure in the corporate restructuring of that sector. The AdP Group would therefore continue its business in core areas and sell off or spin-off other areas. In March 2005, the Programme of the 17th Constitutional Government emphasised the contribution of the AdP Group to the national challenge of building and managing environmental infrastructure in order to achieve the levels of service that developed countries should provide. It brought forward a strategy for the water and waste business sector different from that established by Council of Ministers Resolution No. 72/2004. The guidelines point to the consolidation of this business group, providing it with the right conditions for developing the state's environmental policy for the sector in areas such as water supply, sanitation and waste treatment, plus the possibility of establishing strategic partnerships to strengthen its response capacity, develop national capacities and structure investments, considering the goals of the Strategic Plan for Water Supply and Wastewater Treatment (PEAASAR) and the Strategic Plan for Solid Household Waste (PERSU). Joint ministerial Order No. 169/2006 of the Ministries of Finance and Public Administration and of the Environment, Spatial Planning and Regional Development approved the recommendation to the board of directors of Águas de Portugal, SGPS, S.A. concerning the company's mission for the current mandate and defined each unit's mission and guidelines. The prevailing business model in the AdP Group is based on concession agreements between the state and each of the AdP Group subsidiaries. These agreements set out the rules for the operation and management of their multi-municipal systems, on an exclusive basis, for a period of twenty-five to thirty years. These concessions establish the criteria for setting and approving the tariffs to be charged by the companies each year, to ensure the concessions' financial balance, in accordance with the following criteria:

a) Ensure, within the period of the concession, the amortisation of the effective amount of the initial investment by the concession holder, minus co-funding and non-repayable subsidies;

b) Ensure the proper functioning, maintenance and safety of all the concession's assets and the planned replacement of these assets;

c) Consider the costs of efficient management of the system and the existence of revenue not originating from the tariff;

d) Guarantee payment of the operating expenses of the Monitoring Committee, the current regulator - ERSAR (Water and Waste Services Regulator) and ensure adequate remuneration of the concession holder's equity, based on the date of paying up of capital.

1.3 Shareholders

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

	% capital	Amount subscribed	N.° of shares	Type of shares
Parpública, SGPS, S.A.	81,00%	351 945 000	70 389 000	Nominativas
Parcaixa, SGPS, S.A.	19,00%	82 555 000	16 511 000	Nominativas
	100,00%	**434 500 000**	**86 900 000**	

1.4 Approval of the financial statements

These financial statements were approved by the Board of Directors on 28 April 2015. It is the opinion of the Board of Directors that they faithfully reflect the company's operations, position, financial performance and cash flows.

2. Accounting policies

These individual financial statements have been prepared in accordance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) which preceded it, adopted by the European Union (EU), and in force for financial years starting 1 January 2014.

The most important accounting policies used in the preparation of these financial statements are set forth below. These policies have been applied consistently in comparable periods, unless otherwise specified.

2.1 Basis of presentation

2.1.1 Introduction

The amounts presented are expressed in euros (EUR), unless otherwise specified. AdP's financial statements have been prepared according to the historical cost principle, except with respect to derivatives and financial investments held for trading, which are recorded at their fair value (market value). The preparation of financial statements in accordance with the IAS/IFRS requires the use of estimates and assumptions that influence the reported amounts of assets and liabilities, and the reported amounts of income and expenses in the reporting period. Although these estimates are based on the management's best knowledge in relation to current events and actions, actual results may ultimately differ from those estimates. The management nonetheless believes that the adopted estimates and assumptions do not incorporate any significant risks that might require material adjustments to the value of assets and liabilities in the next financial year.

2.1.2 New standards and policy changes

a) Voluntary changes of accounting policies

No voluntary policy changes to accounting policies were made in the financial year with respect to those considered in the preparation of the financial information relating to the previous year.

b) New standards, interpretations and amendments coming into effect on 1 January 2014

Adoption of IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities and the amended versions of IAS 27 Separate financial statements and IAS 28 Investments in associates and joint ventures (Regulation No. 1254/2012, of 11 December)

The aim of IFRS 10 is to provide a single consolidation model that identifies the control relationship as the basis for consolidation of all types of entities IFRS 10 replaces IAS 27 Consolidated and separate financial statements and SIC 12 Consolidation - Special purpose entities. An investor controls an investee only if all the following apply: **(a)** it has power over the investee, **(b)** it is exposed, or has rights to variable returns from its involvement with the investee and **(c)** it has the ability to affect those returns through its powers over the investee. The changes made by IFRS 10 require the management to make a significant judgement to determine which entities are controlled and are therefore included in the parent company's consolidated financial statements.

IFRS 11 establishes principles for financial reporting by the parties to joint arrangements and replaces IAS 31 Interests in joint ventures and SIC 13 Jointly controlled entities - Non-monetary contributions by entrepreneurs.

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and non-consolidated structured entities. As a result of these new IFRSs, an amended version of IAS 27 and IAS 28 was also issued. IFRS 12 Disclosure of interests in other entities establishes the minimum degree of disclosures for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It therefore includes all disclosures that were mandatory in IAS 27 Consolidated and Separate financial statements concerning consolidated accounts and the mandatory disclosures included in IAS 31 Interests in joint ventures and IAS 28 Investments in associates plus additional new information. The aim of this standard is to require an entity to disclose information in its financial statements that allow users to assess: **(a)** the nature of, and risks associated with, its interests in other entities and **(b)** the effects of these interests on its financial position, financial performance and cash flows. An entity must therefore disclose: **(a)** the significant judgements and assumptions that it made in determining the nature of its interests in another entity or arrangement and in determining the type of joint arrangement in which it has an interest and **(b)** information about its interests in subsidiaries, joint arrangements and associates and structured entities that are not controlled by the vehicle. For the purpose of this standard, an interest in another entity refers to a contractual and non-contractual involvement that exposes an entity to variability in return from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in other Entities (Regulation No. 313/2013 of 4 April)

The aim of the amendments is to clarify the intention of the IASB when it first issued the transition guidance relative to IFRS 10. The amendments also provide additional transition flexibility for IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information only to the preceding comparative period. Moreover, the amendments of disclosures relating to non-consolidated structured entities eliminate the obligation to present comparative information for periods prior to the first time application of IFRS 12.

Amendment to IAS 39 Derivatives

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to benefit from the amended guidance, novation to a central counterparty must happen as a consequence of laws or regulations or the introduction of laws or regulations. All the above conditions must be met in order to continue hedge accounting in accordance with this exception. The amendment covers novations made to central counterparties and intermediaries such as members of clearing houses or their customers who are intermediaries themselves. For novations that do not meet the exception criteria, entities must evaluate the changes to the hedging instrument in light of the rules of derecognition of financial instruments and the general conditions for continuing to use hedge accounting.

Amendment to IAS 32 Derivatives (disclosures)

The amendment clarifies the meaning of "currently has a legally enforceable right of set-off" and the application of IAS 32 to offsetting criteria of offsetting systems (such as centralised clearing and settlement systems), which use gross, non-simultaneous settlement mechanisms. Paragraph 42 a) of IAS 32 requires that "a financial asset and a financial liability shall be offset and the net amount recorded in the balance sheet when, and only when, an entity currently has a legally enforceable right to set off the recognised amounts". This amendment clarifies that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendment also clarifies that rights of set-off must not be contingent on a future event. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion set out in the standard.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in other Entities and IAS 27 Separate Financial Statements (Regulation No. 1174/2013 of 20 November)

IFRS 10 is amended to better reflect the business model of investment entities. It requires these entities to measure their subsidiaries at fair value through profit or loss, rather than undertaking the respective consolidation. IFRS 12 is amended to require a specific disclosure be made about these subsidiaries of the investment entities. The amendments to IAS 27 have also eliminated the option that was given to investment entities to measure their investments in certain subsidiaries at cost or at fair value in the separate financial statements. The amendments to IFRS 10, IFRS 12 and IAS 27 imply, therefore, amendments to IFRS 1, IFRS 3, IFRS 7, IAS 7, IAS 12, IAS 24, IAS 32, IAS 34 and IAS 39 in order to ensure coherence between international accounting standards.

Amendments to IAS 36 Impairment of Assets (Regulation No. 1374/2013 of 19 December)

The main amendments involve: **(i)** removal of the requirement to disclose the recoverable amount of cash-generating units for which no impairment was reported; **(ii)** introduction of the requirement to disclose information about the key assumptions, valuation techniques and applicable level of fair value hierarchy for any individual asset (including goodwill) or for any cash-generating unit for which impairment losses were recognised or reversed during the period, and for which the recoverable amount is fair value less sales costs; **(iii)** introduction of the requirement for the disclosure of the discount rates used in the current period and in previous measurements of the recoverable amounts of impaired assets that may have been based on fair value less sales costs using the present value technique; **(iv)** removal of the term "material", as this specific reference is considered unnecessary when the standard refers to the disclosure requirements for assets (including goodwill) or cash-generating units, for which a loss or "material" reversal of impairment may have been incurred during the period.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continued Hedge Accounting (Regulation No. 1375/2013 of 19 December)

The aim of the amendments is to address situations in which a derivative designated as a hedging instrument is subject to novation between a counterparty and a central counterparty, for legal or regulatory reasons. The solution will allow the continuation of hedge accounting regardless of the novation, which would not be permitted if these amendments had not been made.

Amendments to IAS 27 Consolidated and separate financial statements (Revised in 2011)

After the introduction of IFRS 10 and IFRS 12, IAS 27 only sets out how to account for subsidiaries, jointly controlled entities and associates in separate accounts.

Amendments to IAS 28 Investments in associates and joint ventures

After the amendments to IFRS 11 and IFRS 12, IAS 28 was renamed and now describes how to apply the equity method also to joint ventures, as was already the case for associates.

The above-mentioned changes and amendments are either not applicable or they are not expected to have any relevant impact on the financial statements.

c) New standards, interpretations and amendments, entering into force for financial years beginning on or after 1 January 2015

Adoption of IFRIC 21 Levies (Regulation No. 634/2014 of 13 June)

This interpretation has regard to accounting for a liability corresponding to payment of a levy, provided that this liability is covered by IAS 37. It also refers to accounting for a liability for the payment of levy with a known timing and amount. However, this interpretation has regard to accounting for costs arising from recognition of a liability corresponding to payment of a levy. Entities must abide by other standards to determine whether recognition of a liability corresponding to payment of a levy gives rise to an asset or a cost. The following are not covered: a) outflows covered by other standards (e.g. income tax, which is covered by IAS 12 Income tax) and b) fines or other penalties imposed for infractions of legislation. The interpretation clarifies that an entity recognises a liability for a levy when the activity that gives rise to the payment occurs, as identified by the relevant legislation. For a levy that is triggered when it reaches a minimum threshold, this interpretation clarifies that no liability should be anticipated before the minimum has been reached. In its interim report, an entity must abide by the same principles for recognising levies that it follows in annual financial statements. Retrospective application is required.

IAS 19 - Employee Benefits (Amendment): Employee contributions

This amendment applies to contributions from employees or third parties for defined benefit plans. It simplifies the accounting of contributions that are independent of the number of years of service of the employee, e.g. contributions made by the employee which are calculated based on a fixed percentage of salary, which are a fixed amount throughout the period of service or an amount that depends on the employee's age. Such contributions are able to be recognised as a reduction of the cost of service during the period in which the service is provided.

Annual improvements on the 2010-2012 cycle

The IASB introduced eight improvements in seven standards, relative to annual improvements on the 2010-2012 cycle. These improvements are presented below:

IFRS 2 Share-based payments

Updates definitions, clarifies what is meant by acquisition requirements and also clarifies situations related to concerns raised about service, market and performance conditions.

IFRS 3 Business Combinations

Introduces amendments in the recognition of changes in fair value of contingent payments that are not equity instruments. Such changes shall be exclusively recognised in the income statement.

IFRS 8 Operating Segments

Requires additional disclosures (description and economic indicators) that determined the aggregation of segments. The disclosure of the reconciliation of the total assets of the reportable segments with the total assets of the entity is only required if it is also reported to the responsible manager, in the same terms of disclosure required for liabilities of the segment.

IFRS 13 Fair Value Measurement

Clarifies that receivables and payables with no stated interest rate may be measured at nominal value where the discounting impact is immaterial. Hence, the reason why paragraphs of IAS 9 and IAS 39 have been eliminated had nothing to do with changes in measurement but rather the fact that the specific situation is immaterial and, therefore, its processing as already provided for in IAS 8 is not mandatory.

IAS 16 Tangible fixed assets and IAS 38 Intangible assets

In the event of revaluation, the standard now envisages that the entity may choose to adjust the gross value based on observable market data or it may proportionally assign the variation to the change that occurred in the book value. In either case, the elimination of amortisation accumulated by offsetting the gross value of the asset is mandatory. These amendments only apply to the revaluation done in the year in which the amendment is first applied and to the immediately preceding period. The figures can be restated for all prior periods but there is no requirement to do such. If this is not done, the criteria used in these periods should be disclosed.

IAS 24 Related Party Disclosures
Clarifies that a managing entity - an entity that provides management services – is a related party subject to the associated disclosure requirements. In addition, an entity that uses the services of a managing entity is obliged to disclose costs of said services.

Annual improvements for the 2011-2013 cycle
The IASB introduced four improvements in four standards, relative to annual improvements relating to the 2011-2013 cycle. They are as follows:

IFRS 1 First-time adoption of International Financial Reporting Standards
Clarifies what is meant by standards in effect.

IFRS 3 Business Combinations
Updates the exception of applying the standard to "Joint Arrangements", clarifying that the only exclusion refers to accounting for the creation of a joint agreement in the financial statements of the joint agreement itself.

IFRS 13 Fair Value Measurement
Updates paragraph 52 so that the exception to the portfolio also includes other contracts that are under or are accounted for in accordance with IAS 39 or IFRS 9 regardless of meeting the definitions of financial assets or financial liabilities pursuant to IAS 32.

IAS 40 Investment Properties
Clarifies that it is in light of IFRS 3 that entities should determine whether a given transaction is a business combination or purchase of assets and not the description in IAS 40, which allows them to classify property as an investment or as a property occupied by its owner.

The above-mentioned changes and amendments are either not applicable or they are not expected to have any relevant impact on the financial statements.

d) New standards, interpretations and amendments not yet endorsed by the European Union coming into effect for financial years beginning on or after 1 January 2015

IFRS 9 Financial instruments (issued on 24 July 2014)
This standard was completed on 24 July 2014 and is summarised as follows by subject:

Classification and measurement of financial assets
- All financial assets are measurable at fair value on the date of initial recognition, adjusted by the transaction costs if the instruments are not accounted for at fair value through profit or loss (FVTPL). 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.

- Debt instruments are then measured on the basis of their contractual cash flows and in the business model in which these instruments are held. If a debt instrument has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding and is held within a business model aimed at holding the assets to collect contractual cash flows, then the instrument is accounted for at amortised cost. If a debt instrument has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding and is held within a business model aimed at holding the assets to collect contractual cash flows and sell financial assets, then the instrument is measured at fair value through other comprehensive income (FVOCI), with subsequent reclassification for results.

- All other debt instruments are subsequently accounted for at FVTPL. In addition, there is an option allowing financial assets to be designated as FVTPL on initial recognition if that eliminates or significantly reduces an accounting mismatch in the results for the financial year.

- Capital instruments are usually measured at FVTPL. However, entities have an irrevocable option on an instrument-to-instrument basis to record changes in the fair value of non-commercial instruments in the statement of comprehensive income (with no subsequent reclassification for results of the financial year).

Classification and measurement of financial liabilities
- For financial liabilities designated as FVTPL using the fair value option, the amount of the change in fair value of these financial liabilities that is attributable to changes in credit risk must be recorded in the statement of comprehensive income. The rest of the change in fair value must be recorded in profit or loss unless the recording of the change in fair value for the credit risk of the liability in the income statement will create or increase an accounting mismatch in the results of the financial year.

- All the other requirements for classification and measurement of financial liabilities in IAS 39 were transferred to IFRS 9, including the rules on separation of embedded derivatives and the criteria for using the fair value option.

Impairment

- Impairment requirements are on based on an expected credit loss (ECL) model, which replaces the incurred loss model in IAS 39.

- The ECL model applies to: **(i)** debt instruments measured at amortised cost or at fair value or at fair value through other comprehensive income, **(ii)** most loan commitments, **(iii)** financial guarantee contracts, **(iv)** contractual assets under IFRS 15 and **(v)** lease receivables under IAS 17 - Leases.

- Entities are usually obliged to recognise ECLs for 12 months or their whole lives, depending on whether there has been a significant increase in the credit risk since initial recognition (or when the commitment or guarantee was concluded). For trade receivables without a significant financing component, depending on an entity's choice of accounting policy for other customer credits, and accounts receivable from leases, a simplified approach may be taken in which whole-life ECLs are always recognised.

- Measurement of ECLs must reflect the weighted probability of the profit/loss, the effect of the time value of the money and be based on reasonable, supportable information that is available at no cost or excessive effort.

Hedge accounting

- Hedging efficacy tests must be prospective and may be qualitative, depending on the complexity of the hedge.

- A risk component of a financial or non-financial instrument can be designated as the hedged item if the risk component is separately identifiable and reliably measurable.

- The time value of an option, the forward element of a futures contract and any spread base of a foreign currency can be excluded from the designation as hedging instruments and be recorded as hedging costs.

- Larger sets of items can be designated as hedged items, including layered designations and some net positions.

This standard is effective for financial years beginning on or after 1 January 2018. Early application is permitted provided it is adequately disclosed. Application varies on the basis of the standard's requirements and is partially retrospective and partially prospective.

IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture (amendments issued on 11 September 2014)

The amendments to IFRS 10 define the criteria for recognition of gains and losses when a parent loses control of a subsidiary that does not contain a business, as defined in IFRS 3 – Business Combinations, as a result of a transaction that involves an associate or joint venture that is accounted for using the equity method. The profit or loss on the transaction is included in the investor's income statement only to the extent that is not related to the investment in the associate or joint venture. The remainder is deducted from the book value of the investment in the associate or joint venture. If the parent continues to maintain an investment in an old subsidiary and the subsidiary has become an associate or joint venture accounted for using the equity method, the parent recognises the gain or loss of the remeasurement at fair value in the income statement only to the extent that is not related to the new investment in the associate or joint venture. The remainder is deducted from the book value of the investment retained in the associate or joint venture. If the investment in the previous subsidiary changes to measurement at fair value, then the gain or loss of the remeasurement is recognised in the investor's entire income statement. The amendments to IAS 28 introduce different recognition criteria for the effects of sales or contributions of assets by an investor (including its consolidated subsidiaries) to its associate or joint venture depending on whether or not the transactions involve assets that constitute a business, as defined in IFRS 3 Business Combinations. If transactions constitute a business combination on the required terms, the gain or loss must be recognised in its entirety in the investor's income statement for the period. *The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is prospective.*

IFRS 10, IFRS 12 and IAS 28: Investment entities Application of the consolidation exception (amendments issued on 18 December 2014)

The amendments to IFRS 10 clarify that an investment entity does not need to prepare consolidated financial statements if **(i)** its immediate or ultimate parent prepares financial statements in IFRS for public use in which its subsidiaries are consolidated or measured at fair value through profit or loss or if **(ii)** its subsidiaries are measured at fair value through profit or loss (all subsidiaries, except those that are not investment entities and whose purpose and business activities are to provide services related to the investment activities of the investment entities that own them). The amendments to IAS 28 clarify that an entity does not need to use the equity method in an associate or joint venture if: **(i)** the parent can enjoy the exemption from consolidation defined in IFRS 10 or **(ii)** among all the conditions of IAS 28 necessary for the purpose, its immediate or ultimate parent prepares IFRS financial statements for public

use in which subsidiaries are consolidated or measured at fair value through profit or loss. An entity that is not an investment entity and uses the equity method when valuing associates or joint ventures that are investment entities can continue valuing the subsidiaries of these investment entities at fair value through profit or loss.
The consequent amendments to IFRS 12 require an investment entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss to present the disclosures required by IFRS 12 with regard to investment entities.*The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is retrospective.*

IFRS 11: Accounting for the acquisition of holdings in joint arrangements (amendments issued on 6 May 2014)
The amendments require that where an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, it must, in proportion to its share, apply all of the principles on business combinations accounting as set out in IFRS 3 Business Combinations, and other IFRS standards that do not conflict with IFRS 11 and make the corresponding disclosures required by said standards on business combinations. The amendments also apply if, in the formation of the joint operation, the entity contributed a business. In the event of an acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, the previously held interest cannot be remeasured if the operator maintains joint control. *The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is prospective.*

IAS 27: The equity method in separate financial statements (amendment issued on 12 August 2014)
The purpose of these amendments is to restore the option to use the equity method when valuing subsidiaries and associates in separate accounts. Their valuation options are now: **(i)** cost, **(ii)** IFRS 9 (or IAS 39) or **(iii)** the equity method in which the same accounting must be used for each category of investments. The consequent amendment was also made to IFRS 1 - First time adoption of the International Financial Reporting Standards in order to allow entities adopting the IFRS for the first time and using the equity method in separate financial statements to benefit from exemption of business combinations formed prior to the acquisition of the investment. *The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is retrospective.*

IFRS 14 Regulated deferral accounts (issued on 30 January 2014)
This standard allows an entity whose activities are subject to regulated tariffs to continue to apply most of its accounting policies for regulated deferral accounts pursuant to the previous accounting standard when adopting the IFRS for the first time. The following are not allowed to apply the standard: **(i)** entities that already prepare IFRS financial statements, **(ii)** entities whose current GAAP does not allow recognition of assets and liabilities with regulated tariffs and **(iii)** entities whose current GAAP allows recognition of assets and liabilities with regulated tariffs but that had not adopted this policy in their accounts before adopting the IFRS. Regulated deferral accounts must be presented on a separate line in the statement of financial position and entries must be presented on separate lines in the profit and loss statement and comprehensive income statement. The nature and risks of the entity's regulated tariff and the effects of the regulation on its financial statements must be disclosed. *This interpretation is applicable to financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is retrospective.*

IFRS 15 Revenue for contracts with customers (issued on 28 May 2014)
This standard applies to all revenue from contracts with customers and replaces the following standards and interpretations: IAS 11 - Construction Contracts, IAS 18 – Revenue, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the construction of real estate, IFRIC 18 - Transfers of assets from customers and SIC 31 – Revenue - Barter transactions involving advertising services. It also provides a model for recognising and measuring sales of some non-financial assets, including the sale of goods, equipment and intangible assets. The principles of this standard are applied in five stages: **(i)** identify the contract(s) with a customer, **(ii)** identify the performance obligations in the contract **(iii)** determine the transaction price **(iv)** allocate the transaction price to the performance obligations in the contract, and **(v)** recognise revenue when (or as) the entity satisfies a performance obligation. This standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to the fulfilment of a contract. *This interpretation is applicable to financial years beginning on or after 1 January 2017. Early application is permitted provided it is adequately disclosed. Application is retrospective.*

IAS 1: Clarification on disclosures in financial reporting (amendments issued on 18 December 2014
The amendments to the IFRS can be summarised as follows:

Materiality
The decision on aggregation of information in the financial statements and notes is material and requires judgement based on all the facts and circumstances. The amendments clarify that **(i)** information should not be obscured by aggregating or by providing immaterial information; **(ii)** the disclosure of immaterial information is not prohibited, unless it is obscured and **(iii)** the disaggregation of information is more likely to add transparency than the contrary. The guidance on materiality is application even when an IFRS requires specific

disclosure or describes minimum disclosure requirements. Preparers must assess whether, in addition to specific disclosures, other disclosures should be included to make the financial statements understandable.

Information to be disclosed in financial statements
The presentation requirements for the items in each line of the statement of financial position and income statement can be met by disaggregating the information included in each item on each line. When subtotals are used, they **(i)** must contain only items recognised and measured in the accordance with the IFRS, **(ii)** must be presented and labelled in such a way as to make the subtotal understandable, **(iii)** must be consistent from one period to another, **(iv)** must not be more highlighted than the totals and subtotals required by the IFRS. In the income statement and statement of comprehensive income, additional subtotals must be reconciled with the subtotals required and each line excluded must be identified. In the statement of comprehensive income, the share of the items related to associates and joint ventures must be presented so that the items that will or will not be subsequently reclassified to profit/loss of the financial year can be identified.

Structure of notes
Entities now have flexibility in ordering the notes as they see fit, but when deciding on the order of the notes they must consider the understandability and comparability of the financial statements. Examples of order of notes: **(i)** highlight the most important activities for an understanding of the entity's financial performance and financial position (e.g. groups of specific operating activities), **(ii)** aggregate information on items that can be measured in the same way, **(iii)** order of the statement of comprehensive income or **(iv)** order of the statement of financial position.

Disclosures
IAS 1 no longer refers to a "summary" of accounting policies and no longer contains potentially unhelpful guidelines and examples for identifying a significant accounting policy (although it maintains the description: policies that users of financial statements would expect to be disclosed in view of the entity and the nature of its operations). Significant judgements made when applying accounting policies (except those involving estimates) must be disclosed together with the significant policies or other notes in question.
The disclosure requirements of IAS 8 § 28-30 are no longer applicable (i.e. about standards not yet adopted and the first application of a standard).
The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is retrospective.

IAS 16 and IAS 41: Agriculture: bearer plants (amendments issued on 30 June 2014)
The changes made to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture changed the scope of IAS 16 to include biological assets that meet the definition of bearer plants (e.g. fruit trees). The produce growing on bearer plants (e.g. fruit growing on a tree) will remain within the scope of IAS 41. As a result of the amendments, bearer plants will be subject to all the recognition and measurement requirements in IAS 16, including the choice between the cost model and revaluation model, and government subsidies for these plants will be accounted for in accordance with IAS 20 and not IAS 41.
The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is retrospective (two possible methods).

IAS 16 and IAS 38: Clarification of acceptable methods of calculating depreciation and amortisation (amendments issued on 12 May 2014)
The amendments clarify that the principle included in the standards reflects a pattern of economic benefits that are generated from the operation of a business (of which the asset is part) and not that by which the economic benefits are consumed through use of the asset. As a result, the proportion of the revenue generated in relation to total revenue expected to be generated cannot be used to depreciate the goods of fixed asset and can only be used in very limited circumstances to amortise intangible assets.
The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is prospective.

Annual improvements for the 2012-2014 cycle (issued on 25 September 2014)
The IASB introduced five improvements in four standards in annual improvements in the 2012-2014 cycle. They are summarised below:

IFRS 5 – Non-current assets held for sale and discontinued operations
This improvement clarifies that cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa do not result in any change in the plan and that they should be considered a continuation of the asset's original plan.
Application is prospective.

IFRS 7 Financial Instruments: Disclosures
It eliminates some disclosure requirements in interim financial statements.

It also clarifies that when an entity transfers a financial asset it can retain the right to a service related to the financial asset via a certain predetermined amount, such as a maintenance contact, and that, in these circumstances, the continued involvement resulting from this contract must be analysed for the purpose of determining disclosures.
It is not necessary to apply the amendments for any period presented that starts before the annual period in which the amendments are applied for the first time. This exemption also applies to entities that are using the IFRS for the first time.

IAS 19 - Employee Benefits
This improvement clarifies that the discount rate must be determined on the basis of high-quality securities in a regional market that shares the same currency (e.g. the Eurozone) and not those in each country.
This improvement applies as of the oldest opening balances presented in the comparisons of the statements in which the amendment will be applied for the first time.

IAS 34 – Interim financial reporting
Disclosure of significant events and transactions can now be made directly either in interim financial statements or by cross-reference to other accounting documents (e.g. annual report or risk report). However, interim financial statements are considered incomplete if their users do not have access, on the same terms and at the same time, to cross-referenced information.
Application is retrospective.

The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed.

The above-stated standards are not applicable or they are not expected to have any impact on the financial statements of AdP SGPS.

2.2 Shareholdings in subsidiaries and associates

Shareholdings are recognised on the AdP balance sheet on the date on which control or significant influence was obtained or negotiation or contracting were held, which is the date on which AdP undertakes to acquire or dispose of the asset. In the transition, the shareholdings were recognised in accordance with the presumed cost or deemed cost (paragraph 31, IFRS 1), that is, at the value that was transposed from the financial statements prepared according to the previous standard on that date, instead of at acquisition cost. Shareholdings are initially recognised at acquisition cost plus directly attributable transaction costs. These assets are derecognised when: **(i)** the contractual rights of AdP expire on receipt of its cash flows; **(ii)** AdP has substantially transferred all the risks and benefits associated with holding them; or **(iii)** AdP has transferred control over the assets although it may retain part, but not substantially all, the risks and benefits associated with holding them. Recognition of dividends is recorded in the income statement on the date on which they were reported.

The invested companies are:

Business Unit/Company	Head office	% share capital	Shareholding
Water and Sewerage			
Águas do Algarve, S.A.	Faro	54.0%	29 230 875
Águas do Centro Alentejo, S.A.	Évora	51.0%	5 000 000
Águas do Centro, S.A.	Castelo Branco	70.0%	24 000 000
Águas do Douro e Paiva, S.A.	Porto	51.0%	20 902 500
Águas do Mondego, S.A.	Coimbra	51.0%	18 262 743
Águas do Norte Alentejano, S.A.	Portalegre	51.0%	7 500 000
Águas do Noroeste, S.A.	Barcelos	57.0%	63479 158
Águas do Oeste, S.A.	Óbidos	51.0%	30 000 000
Águas de Santo André, S.A.	Vila Nova de Santo André	100.0%	1 000 000
Águas de Trás-os-Montes e Alto Douro, S.A.	Vila Real	71.0%	26 966 250
Águas do Zêzere e Côa, S.A.	Guarda	87.0%	26 607 560
AgdA - Águas Públicas Alentejo, S.A.	Beja	51.0%	500 000
Sanest, S.A.	Cascais	51.0%	11 000 000
Simarsul, S.A.	Setúbal	51.0%	25 000 000
Simdouro, S.A.	Vila Nova de Gaia	51.0%	13 062 228
Simlis, S.A.	Leiria	70.0%	5 000 000
Simria, S.A.	Aveiro	68.0%	16 712 225
Simtejo, S.A.	Lisbon	51.0%	38 700 000
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51.0%	15 000 000
EPAL			
EPAL, S.A.	Lisbon	100.0%	150 000 000
Waste			
Algar, S.A.	Faro	56.0%	7 500 000
Amarsul, S.A.	Moita	51.0%	7 750 000
Empresa Geral do Fomento, S.A.	Lisbon	100.0%	56 000 000
Ersuc, S.A.	Coimbra	51.0%	8 500 000
Resiestrela, S.A.	Fundão	63.0%	3 750 875
Resinorte, S.A.	Coimbra	51.0%	8 000 000
Resulima, S.A.	Viana do Castelo	51.0%	2 500 000
Suldouro, S.A.	Sermonde	60.0%	3 400 000
Valnor, S.A.	Alter-do-Chão	53.0%	10 000 000
Valorlis, S.A.	Leiria	51.0%	2 000 000
Valorminho, S.A.	Valença	51.0%	900 000
Valorsul, S.A.	S. João da Talha	56.0%	25 200 000
International			
AdP Internacional, S.A.	Lisbon	100.0%	175 000
Águas do Brasil, S.A.	Rio de Janeiro - Brasil	100.0%	2 050 100
Aquatec, Lda.	Maputo - Moçambique	100.0%	2 476 580
Corporate services			
AdP Serviços, S.A.	Lisbon	100.0%	50 000
Aquasis, S.A.	Lisbon	55.0%	50 000
AdP Energias, S.A.	Lisbon	100.0%	250 000
Associates			
Trevo Oeste, S.A.	Alcobaça	43.2%	1 336 085

2.3 Currency conversion

2.3.1 Functional and presentation currency

The items included in the financial statements of AdP are measured in the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements of AdP and notes thereto are presented in euros, unless otherwise stated.

2.3.2 Transactions and balances

Transactions in currencies other than the euro are converted into the functional currency using the exchange rates on the transaction dates. Foreign exchange gains or losses resulting from the settlement of transactions and from 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 at 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/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 AdP is obtained by using the exchange rate on the transaction date.

2.3.3 Exchange rates used

The foreign currency rates used for converting transactions denominated in currencies other than the euro or to update balances denominated in foreign currencies were as follows:

Country	Currency	**31.12.2014**		31.12.2013	
		average	closing	Average	closing
Brazil	Real	**3.22**	**3.25**	2.89	3.23
Cape Verde	Escudo C.V.	**110.27**	**110.27**	110.27	110.27
Mozambique	Metical	**38.53**	**40.67**	39.67	41.24
Japan.	Yen	**145.23**	**147.06**	130.18	144.85
USA	USD	**1.22**	**1.23**	1.33	1.38

Source: Bank of Portugal

2.4 Tangible fixed assets

Tangible fixed assets are measured at cost, less any impairment losses, and are depreciated according to their estimated useful life. Expenditure directly attributable to the acquisition of assets and their preparation and commissioning is taken at its balance sheet value.

The subsequent costs are included in the book value of the asset or recognised as separate assets, as appropriate, only when it is probable that economic benefits will flow to the company and the cost can be reliably measured. The depreciation of these assets is done during their remaining useful life or until the next repair, whichever happens first. The replaced component of the asset is identified and recognised in the income statement.

The financial charges related to loans obtained for financing investments in progress are totally capitalised until the time they are available for use.

All other expenditure on repairs and maintenance is recognised as an expense in the period in which it is incurred.

Tangible fixed assets assigned to operations are depreciated based on the estimated useful life measured from when they are ready for commissioning. The depreciable value is calculated by deducting the expected residual value at the end of the estimated useful life.

The estimated useful lives for tangible fixed assets are expressed as the following percentages:

Type	Maximum annual rate
Buildings and other constructions	2.00%
Basic equipment	12.50%
Transport equipment	25.00%
Tools and utensils	14.28%
Office equipment	14.28%

Land is not subject to depreciation.

The depreciation of assets intended for sale is suspended and these are classified as assets held for sale.

Whenever there are signs of the loss of value of tangible fixed assets, impairment tests are carried out to estimate the recoverable value of the asset and register an impairment loss if necessary. The recoverable value is determined as the higher of the net selling price and the value in use of the asset. Value in use is calculated based on the current value of estimated future cash flows, arising from the continued use and disposal of the asset at the end of its useful life.

At the end of each financial year the Board of Directors reviews the depreciation methods and the estimated useful life of each asset to ensure that the consumption trend of the benefits of the assets in the years used by AdP is faithfully reflected. Any changes to these assumptions will be handled as a change in an accounting estimate and earmarked for prospective application.

Gains or losses arising from write-downs or disposals are calculated as the difference between receivables from disposals and the accounting amount of the asset and are recognised in the income statement as income or expenses.

2.4.1 Leasing

The leasing of assets for which AdP substantially holds all the risks and benefits inherent to ownership of the asset are classified as finance leases. Also classified as finance leases are arrangements in which the analysis of one or more specific points of the contract indicate such a nature. This classification is made according to the substance and not the form of the contract. Finance leases are capitalised at the start of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The liability is recognised in other long-term liabilities, net of financial charges. The assets acquired through finance lease agreements are depreciated for the lesser of the asset's useful life and the term of the lease agreement. All other leases are classified as operating leases. The payments of lease arrangements are recognised as an expense on a linear basis over the lease term.

2.5 Intangible assets

2.5.1 Other intangible assets

The intangible assets (software development expenditure, costs of intellectual property and other rights) are included in the accounts at cost net of accumulated amortisation. These headings are amortised using the straight-line method, usually for three to ten years. Investments that improve the performance of software programmes beyond their original specifications are added to the original cost of the software. The costs of implementing software recognised as assets are amortised using the straight-line method over their useful lives, i.e. from three to six years.

2.6 Financial assets and liabilities

2.6.1 Classification of financial assets

The financial assets of AdP are classified in the categories indicated below. The classification depends on the purpose for acquiring the investment and it is determined at the time of initial recognition (trade date) of investments and revalued each subsequent reporting date. The Board of Directors decides the classification of its investments on the acquisition date and revalues this classification on a regular basis. AdP classifies its financial assets in the following categories: **i)** loans and receivables; **ii)** investments held to maturity; **iii)** investments measured at fair value through profit or loss (held for trading); **iv)** financial assets available for sale.

2.6.1.1 Borrowing and receivables

These are financial assets other than derivatives, with fixed or determinable income for which there is no active listed market. These assets may be: **(i)** assets originating from normal operating activities and other associated services, and for which there is no intention to trade them; and **(ii)** investments in companies holding multi-municipal concessions which, according to the special terms and conditions of the underlying concession agreements, qualify as a loan granted, remunerated at an agreed rate.

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

Impairment losses are recorded when there are impartial indicators that AdP will not collect all the amounts owed according to the original terms of the contract established. The indicators used to identify impairment situations are: analysis of breach; non-compliance for more than 6 months; debtor's financial difficulties; and probability of bankruptcy of the debtor.

When the sums receivable from trade receivables or other debtors are due and their terms are under renegotiation, they are no longer regarded as overdue and are treated as new credits.

2.6.1.2 Investments held to maturity

Investments held to maturity are classified as non-current investments, unless they mature less than 12 months from the balance sheet date. The investments recorded under this heading are those with fixed maturity that AdP intends to and has the ability to keep until such date. Investments held to maturity are recorded at amortised cost, less any impairment losses.

2.6.1.3 Financial assets measured at fair value through profit or loss

This category encompasses: **(i)** financial assets for trading which are acquired principally for the purpose of being traded in the short term; **(ii)** financial assets designated at the time of their initial recognition at fair value with changes recognised in profit or loss. This category includes the derivatives that do not qualify for hedge accounting purposes.

The changes in fair value are recognised directly in the income statement for the year. These assets are classified as current assets if they are held for sale or if their realisation is expected within 12 months of the balance sheet date.

2.6.1.4 Financial assets available for sale

The assets available for sale are non-derivative financial assets which: **(i)** the company intends to keep for an indefinite period; **(ii)** are defined as available for sale on initial recognition; or **(iii)** do not fit in the above categories. They are presented as non-current assets unless their disposal is intended within 12 months of the balance sheet date.

The assets available for sale are recorded, after individual recognition, at fair value by reference to their market value at the balance sheet date without any deduction for transaction costs that may be incurred up to the sale. The respective changes in fair value are directly recognised in equity under the item "fair value reserve" until the asset is derecognised or an impairment loss is identified, at which time the accrued value of potential gains and losses recognised in reserves is transferred to the income statement. In relation to equity instruments, a significant or prolonged decline in the fair value to below cost is essential for declaring the existence of impairment.

Equity instruments that are not shares in subsidiaries, joint ventures or associates, are classified as financial assets available for sale, in accordance with IAS 39. If there is no market value, these assets are held at cost, subject to impairment tests.

2.6.2 Financial liabilities

Financial liabilities are classified according to the contractual terms, regardless of their legal form. IAS 39 - Financial Instruments: recognition and measurement envisages the classification of financial liabilities into two categories: **(i)** financial liabilities at fair value through profit or loss; **(ii)** other financial liabilities. Other financial liabilities include loans obtained, and Trade payables and other accounts payable.

2.6.2.1 Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss include non-derivative liabilities for selling in the short term and derivative financial instruments that do not qualify for hedge accounting purposes, and are classified in this manner on initial recognition. Gains and losses arising from changes to the fair value of liabilities measured at fair value through profit or loss are recognised in the income statement.

2.6.2.2 Bank loans

Borrowing is initially recognised at fair value net of transaction costs incurred and is subsequently measured at amortised cost. Any difference between the issue amount (net of transaction costs incurred) and the nominal value is recognised in profit or loss over the term of the loans in accordance with the effective interest method. Borrowings are classified as non-current liabilities, except if it is expected that AdP will settle the liability within 12 months of the balance sheet date, in which case they are classified as current liabilities.

2.6.2.3 Trade payables and other accounts payable

The balances of trade payables and other accounts payable are initially recorded at their nominal value, which is taken to be fair value, and are afterwards recorded at amortised cost in accordance with the effective interest method. Financial liabilities are derecognised when the underlying obligations are eliminated by payment, are cancelled or expire.

2.7 Fair value hierarchy

The assets and liabilities of AdP measured at fair value are classified according to the following levels of fair value hierarchy, as established in IFRS 7: **Level 1**, the fair value of financial instruments is based on active net market prices on the reference date of the balance sheet. This level essentially includes equity, debt (e.g. NYSE Euronext) and futures instruments listed on active markets; **Level 2**, the fair value of financial instruments is not based on active market prices but on the use of valuation models. The main inputs of the models used are observable in the market. This level includes, for example, over-the-counter derivatives and **Level 3**, the fair value of financial instruments is not determined based on active market prices but with valuation models whose main inputs are not observable in the market. The table with the assets and financial liabilities at fair value classified by level is presented in Note 6.

2.8 Derivative financial instruments and hedge accounting

AdP, SGPS, S.A. uses derivatives solely to manage the financial risks to which it is exposed. AdP does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by AdP are effective instruments in the hedging of risks not all of them qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash flow method and option pricing models, in accordance with generally accepted market assumptions. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

2.8.1 Hedge accounting

Hedge accounting is used whenever there is a relationship between the hedged item and the hedging instrument, meeting the following conditions:

i) the hedge relationship is identified and formally documented on the date it starts;
ii) the hedge relationship is expected to be highly effective at the transaction date (prospectively) and throughout the operation (retrospectively);
iii) with respect to cash flow hedges, there should be a high probability that they will occur;
iv) the hedge is evaluated on an ongoing basis and effectively determined as having been highly effective for the entire financial reporting period for which the hedge was designated.

The necessary criteria established by IAS 39 for two of the derivatives that the company holds to be considered as hedges, were met as at 1 January 2012.

Changes in the fair value of the derivatives that do not qualify as hedges are recognised directly in equity.

2.9 Trade receivables and other accounts receivables

The balances of trade receivables and other accounts receivable are amounts received for the sale of goods or services provided to the Group in the normal course of its business activities. They are initially recorded at fair value and afterwards measured at amortised cost by the effective interest method, less impairment losses.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits, other short-term highly liquid investments with original maturities of six months or less. Bank overdrafts are reported on the balance sheet as current liabilities, under "Loans", which are also considered in the preparation of the consolidated cash flow statement.

2.11 Impairment

2.11.1 Impairment of financial assets

AdP SGPS analyses for objective evidence of either a financial asset or group of financial assets being impaired, at the balance sheet date.

Financial assets available for sale

For financial assets classified as available for sale, a prolonged or significant decline in the fair value of the instrument below its cost is regarded as indicating that the instruments are impaired. If there is any similar evidence for financial assets classified as available for sale, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset that has already been recognised in the income statement - is removed from equity and recognised on the income statement. Impairment losses of equity instruments recognised in profit or loss are not reversed through the income statement.

Trade receivables, debtors and other financial assets

Adjustments for impairment losses are recorded when there are impartial indicators that AdP SGPS will not collect all the amounts owed according to the original terms of the contracts established. The various indicators used to identify impairment situations include: **(i)** analysis of breach; **(ii)** debtor's financial difficulties; and **(iii)** probability of bankruptcy of the debtor.

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

2.11.2 Impairment of non-financial assets

The assets of AdP SGPS are reviewed at each balance sheet date in order to detect indications of possible impairment losses. If such indication exists, the asset's recoverable amount is evaluated. For other intangible assets with indefinite useful lives, the recoverable amount is estimated annually at the balance sheet date. Whenever there are indications of potential losses due to impairment the recoverable value of the assets of AdP SGPS is ascertained. Whenever the book value of an asset or cash-generating unit to which it belongs exceeds the recoverable amount, it is reduced to the recoverable amount and this impairment loss is recognised in the income statement for the period.

For cash-generating units that started business operations less than a certain period of time previously (2 to 3 years), AdP SGPS performs an analysis of the impairment. However, since the respective businesses will have not yet reached sufficient maturity, impairment losses are recognised when there are unequivocal indicators that recoverability is considered remote.

Determining assets' recoverable amount

The recoverable amount of receivables in the medium and long run corresponds to the present value of expected future receivables, using the effective interest rate of the original operation as a discount factor. The recoverable amount of other types of asset is whichever is the higher of its net sale price and its value in use. In the calculation of the value in use of an asset, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of the money and the specific risks of the asset in question. The recoverable amount of the assets that alone do not generate independent cash flows is determined together with the cash generating unit to which they belong.

Reversal of impairment losses

Impairment losses recognised in medium and long-term receivables are only reversed when the reason for increasing the recoverable amount is based on an event that occurred after the date of recognition of the impairment loss. Impairment losses relative to other assets are reversed whenever there are changes in the estimates used to calculate the respective recoverable amount. Impairment losses are reversed up to the amount, net of amortisations, that the asset would have had if the impairment loss had not been recognised.

2.12 Share capital

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

2.13 Dividends payable

Dividends are recognised as a liability when declared.

2.14 Government grants

Grants (related to assets) for investment are recognised when there is reasonable certainty that the grant will be received and that AdP SGPS will meet all the obligations inherent in their receipt. Investment grants for the acquisition and/or construction of tangible and/or intangible assets are included under non-current liabilities and are credited on the income statement based on the same amortisation method as that for the underlying assets.

Other grants are deferred and recognised in the income statement in the same period as the expenses they are intended to offset.

2.15 Provisions, contingent assets and liabilities

Provisions are only recognised when an obligation exists that results from past events, the settlement of which is likely to require the allocation of internal resources in an amount that can be reasonably estimated. Whenever any criterion is not met or the existence of the obligation depends on the (non-)occurrence of a particular future event, AdP will disclose this fact as a contingent liability, unless an evaluation of the requirement to pay funds for its settlement is considered unlikely. When there are a large number of similar obligations, the probability of generating an outflow of internal resources is determined for them as a whole. The provision is recognised even where the likelihood of an outflow of internal resources relating to an item of the same class of obligations may be small. Current obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract exists when the company is an integral party to a contract which has associated costs with respect to its compliance and which cannot be avoided and exceed the future economic benefits derived from the same. The provisions are measured at the present value, on the balance sheet date, of the best estimate of the Board of Directors regarding the expenditure required to discharge the obligation. The discount rate used to calculate the present value reflects the current market expectation for the period of the discount and for the risk of the provision in question.

Provisions for future operating losses are not recognised.

Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the financial statements, but disclosed in the attached notes. When the likelihood of an outflow of resources that incorporate economic benefits is remote, or if it is unlikely that there will be an inflow of economic benefits, the relevant contingent liabilities or contingent assets are not disclosed.

2.16 Tax

Income tax for the period includes current tax and deferred tax. Income tax is recognised in the income statement, except where

it is related to items that are recognised directly in equity. The amount of current tax payable is calculated based on the pre-tax profit, adjusted according to tax rules.

Deferred tax is recognised using the balance sheet liability method, considering the temporary differences between the tax base of assets and liabilities and their carrying amount on the financial statements. Deferred tax that arises from the initial recognition of an asset or liability in a transaction that is not a merger, and which on the transaction date has not affected either the accounting outcome or the tax outcome, is not recorded. Deferred tax assets are recognised when it is probable that future taxable profit will be available against which temporary differences can be utilised or when the reversal of a deferred tax asset is expected for the same time and with the same authority.

Deferred taxes are calculated based on the current rate or the rate officially announced at the balance sheet date and which is expected to apply on the date on which deferred tax assets are realised or deferred tax liabilities are paid. Differences that may arise from expected changes in the rates that will reverse temporary tax differences are considered in the income statement.

Deferred taxes are recognised on temporary differences arising from investment in subsidiaries and associates except when AdP is able to control the timing of the reversal of the temporary difference and it is likely that the temporary difference will not be reversed in the foreseeable future.

Deferred taxes are recorded in the net profit or in "Other reserves", depending on how the transaction or event giving rise to them is recorded.

2.17 Revenue

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

2.17.1 Services provided

Revenue is recognised based on the service provided in the period in which this occurs.

2.17.2 Interest

Interest income is recognised based on the effective interest rate and is recorded in the period in which it is earned, according to the accruals principle.

When a receivable is adjusted for impairment, AdP SGPS reduces its book value to its recoverable value, though estimated future cash flows are still discounted at the initial effective interest rate (before impairment) and the correction of the discount is considered to be interest income.

2.17.3 Dividends receivable

Dividends are recognised when the shareholder's right has been established, which is usually by decision of the General Meeting of the subsidiary or associate.

2.18 Own work capitalised

The costs of resources directly allocated to tangible and intangible assets during their development/construction stage are recognised in this item when it is concluded that they are recoverable through the realisation of those assets. Capitalised financial expenses as well as some personnel expenditure are particularly important. They are measured at cost based on internal information specially prepared for the purpose (internal costs) or on the respective purchase costs plus other expenses inherent therein, meaning therefore they are recognised without any profit margin. Capitalised expenses are carried directly on the balance sheet without impact on the income statement, and they are disclosed in the notes whenever such is applicable.

2.19 Expenses and losses

Expenses and losses are recorded in the period to which they relate, regardless of when they are paid or received, according to an accruals basis.

2.20 Subsequent events

Events occurring after the balance sheet date that convey additional information on conditions prevailing at the balance sheet date are reflected in the financial statements. Post-balance sheet date events that convey information on conditions that occur after the balance sheet date are, if material, disclosed in the notes to the financial statements.

3. Financial risk management policies

3.1 Risk factors

The business operations of AdP, SGPS are exposed to a number of financial risk factors: credit risk, liquidity risk and market risk (interest rate risk, cash flows risk associated with the interest rate). The AdP Group has developed and implemented a risk management programme which, together with the permanent monitoring of the financial markets, seeks to minimise potential adverse effects on the financial performance of AdP and its subsidiaries. Risk management is the responsibility of the central treasury department, according to the policies approved by the Board of Directors. The treasury department identifies, assesses and undertakes operations designed to minimise the financial risk, in close cooperation with the AdP Group's operational units. The Board of Directors drafts the principles for risk management as a whole and policies that cover specific areas such as currency conversion risk, interest rate risk, credit risk, the use of derivatives, other non-structured instruments and the investment of surplus liquidity. The Board of Directors is responsible for establishing the general risk management principles and also the exposure limits. All transactions undertaken using derivative instruments require the prior approval of the Board of Directors, which sets the parameters for each transaction and approves the formal documents describing the specific objectives.

3.2 Credit risk

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

Credit risk in operations is basically related to receivables for services rendered to customers and from loans granted. This risk is theoretically low, given the nature of the service rendered (to the group companies). However, given the specific economic and financial situation of the country in the previous year, with direct consequences on local government, non-payment to the Group companies can have a direct impact on the credit risk. The AdP Group has been warning the Central Government of the unsustainability of the current arrears situation of some municipalities, with the aim being to try to find alternative ways of collecting the overdue amounts to the Group companies.

Impairment losses for receivables are calculated considering: **i)** the customer's risk profile, depending on whether a corporate or business customer; **ii)** the average collection period, which varies from business to business; and **iii)** the customer's financial health.

The following table shows the maximum exposure of AdP to credit risk (not including customers' and other debtors' balances) as at 31 December 2014, not taking into consideration any collateral held or other credit enhancements. The defined exposure for assets on the balance sheet is based on their carrying amount as reported on the main balance sheet.

Banking financial assets	**2014**
Current accounts	7 843 981
Term deposits	134 816 000
	142 659 981

Rating	**2014**
B1	14 249 935
B2	20 033 065
B3	5 072
Ba1	31 318 137
Ba3	21 712 471
Baa1	47 024
Baa2	1 733 250
Baa3	53 353 484
Caa1	206 542
n.a	1 000
	142 659 981

Note: Moody's rating obtained from financial institutions' websites in January 2015.

3.3 Exchange rate risk

Exposure to currency risk derives primarily from financing in foreign currency and future business transactions. This risk basically encompasses financing obtained in foreign currencies and future commercial transactions, recognised assets and liabilities, as well as net investments in foreign operations not incurred or expressed in AdP's operating currency. The AdP Group's central treasury

manages the net exposure of the Group in each currency, contracting swaps centrally so as to minimise commercial risks, recognised assets and liabilities. AdP has investments denominated in foreign currency with net assets exposed to exchange rate risk through conversion, and funding in foreign currency exposed to exchange rate risk. The exchange rate risk inherent to the net assets in foreign currency is managed by taking out loans in the same currency, and loans with hedging exchange rate swaps.

3.4 Liquidity risk

The management of liquidity risk requires keeping a reasonable level of cash and cash equivalents and implies the consolidation of floating debt through an adequate amount of credit facilities and the ability to liquidate market positions. AdP's treasury department, given the dynamics of the underlying businesses, intends to secure floating debt flexibility, keeping the credit lines available for that purpose. AdP manages liquidity risk by taking out and maintaining credit lines and financing facilities with a firm underwriting commitment, with domestic and international financial institutions holding a high credit rating that provide immediate access to funds. This practice has been greatly restricted in the last financial year by Portugal's well-known difficulties in gaining access to the credit markets, and by the growing increase of customer debt.

The table below shows AdP's liabilities by intervals of contracted residual maturity. The amounts shown in the table are the non-discounted contractual cash flows, for future payment (without the interest which these liabilities incur).

2014	< 1 year	1 to 5 years	> 5 years
Loans	**107 014 660**	**-**	**500 000 000**
Trade payables and other liabilities	**12 030 548**	**-**	**-**

2013	< 1 year	1 to 5 years	> 5 years
Loans	6 502 946	103 716 230	500 000 000
Trade payables and other liabilities	5 968 936	-	-

3.5 Cash flow risk and fair value risk linked to interest rates

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

Analysis of sensitivity to interest rate changes

		2014	2013
Interest incurred	Actual	**8 225 135**	12 068 149
Interest incurred	average rate +1%	**12 686 445**	16 171 288
Interest incurred	average rate -1%	**6 730 899**	10 680 253

3.6 Capital risk

AdP's goal with respect to managing capital, which is a broader concept than the capital disclosed on the balance sheet, is to maintain an optimal capital structure through the prudent use of debt to enable it to reduce the cost of capital. The goal of managing the capital risk is to safeguard the Group as a going concern, with a reasonable return for shareholders and the generation of benefits for all stakeholders

The policy of the Group is to have the parent company, AdP, SGPS, S.A. contract loans with financial corporations (except for investment loans), which in turn gives loans to its subsidiaries. This policy aims to optimise the capital structure for greater tax efficiency and to reduce the average cost of capital.

	2014	2013
Non-current borrowing	**500 000 000**	603 716 230
Current borrowing	**107 014 660**	6 502 946
Cash assets	**(148 963 703)**	(192 817 176)
Debt	**458 050 957**	**417 402 000**
Total equity	**602 242 488**	588 403 893
Capital	**1 060 293 445**	**1 005 805 893**
Debt/Total capital	**0.43**	**0.41**

4. Estimates and judgements

The estimates and judgements that have an impact on AdP's financial statements are assessed continuously and they represent, at the date of each report, the best estimate of the Board of Directors, bearing in mind the historic performance, accumulated experience and expectations with respect to future events which, in the circumstances in question, are believed to be reasonable. The intrinsic nature of the estimates can mean that the real reflection of situations that have been the target of an estimate may, for the purposes of financial reporting, differ from the estimated amounts. The estimates and judgments that generate a significant risk of leading to a material adjustment in the book value of assets and liabilities over the next financial year are:

4.1 Provisions and adjustments

AdP regularly analyses any obligations arising from past events and which must be recognised or disclosed. AdP is party to several ongoing legal proceedings in relation to which it has made a judgement, based on the opinion of its lawyers, to decide if a provision should be set up for these contingencies (note 16).

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

4.2 Tangible fixed assets and intangible assets

The determination of assets' useful lives and the depreciation method are essential to calculate the amount of depreciation and amortisation to be recognised in the consolidated income statement.

4.3 Impairment

The calculation of an impairment loss can be triggered by a number of events, many of which are outside the influence of AdP, such as the future availability of funding, the cost of capital and the maintenance of the present market regulation structure, not to mention any other internal or external changes to AdP. The identification of impairment indicators, the estimate of future cash flows and the determination of the fair value of assets (or a group of assets) requires a high degree of judgment by the Board of Directors, in terms of identifying and assessing the different impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Adjustments to accounts receivable are mainly calculated based on the age of the receivables, the risk profile of customers and their financial situation. The estimates related to the adjustments in receivables differ from business to business.

The impairment of any of the reported assets at the issue date of the financial statements of AdP is not considered likely. If, for the purpose of any assessment currently under way, any sign of impairment is found, the relevant book amount of the asset on the balance sheet will be adjusted against the profit or loss for the year. In addition to the above-mentioned uncertainties, there are some areas of judgement with an impact reflected in the financial statements. Although it is thought unlikely that they will lead to a material change in the next financial year they may nonetheless bring about a change in the assumptions or assessment by the Board of Directors of AdP.

4.4 Fair value of derivatives

The fair value of financial instruments that do not have an active market is calculated based on evaluations that reflect the mark-to-market of such instruments. AdP uses its judgment to choose the evaluation techniques and assumptions to use to assess the derivatives contracted at the financial reporting date.

5. Relevant events affecting profit or loss for the year

5.1 Classification of the EGF Group as held for sale/discontinued operations

In Decree-Law 45/2014 of 20 March, the government approved the reprivatisation of EGF by selling 100% of its share capital, which was held by AdP – Águas de Portugal, SGPS, S.A. The decree-law also determined that the divestment would be done by internal public tender. It set out the phases and the workers' right to acquire 5% of the share capital of EGF. It determined the sale option and pre-emptive rights to be granted to the municipalities holding shares in the multi-municipal systems in which EGF is a shareholder. In Council of Ministers Resolution 30/2014 of 3 April, published in Diário da República of 8 April, the government approved the specifications that regulate the terms of the public tender for the sale and determined its issue. On 31 July 2014, four of the seven bidders invited to tender for acquisition of the EGF shares submitted their bids. Council of Ministers Resolution 55-B/2014 of 19 September selected Agrupamento SUMA, formed by the companies Suma - Serviços Urbanos e Meio Ambiente, S.A., Mota - Engil Ambiente e Serviços, SGPS, S.A, and Urbaser, S.A., as the successful bidder in the public tender for the reprivatisation of EGF. On 6 November 2014 the purchase and sale contract for 95% of the share capital of EGF was signed by AdP - Águas de Portugal, SGPS, S.A. and Suma Tratamento, S.A., the company set up by the members of Agrupamento SUMA. The remaining 5% of the share capital

is reserved for purchase by EGF employees after the completion of the transaction. Suma Tratamento, S.A. informed the anti-trust authority of the purchase of the EGF shares and is awaiting final approval of the operation, which is a sine qua non for its completion, which will take place with the transfer of the EGF shares from AdP - Águas de Portugal SGPS, S.A. to Suma Tratamento, S.A. For this reason, in accordance with IFRS 5, these financial statements carry the balances, operations and results of the EGF Group as held for sale/discontinued operations (see Note 30).

5.2 Derivatives

In April 2013, AdP SGPS cancelled two derivatives, contracted with BNP, as part of the general negotiations led by the Portuguese State. This operation generated a capital gain of approximately EUR 10 million. The remaining hedging instruments increased, resulting in a reported impact on profits of approximately EUR 3.6 million. The two effects described above had a positive impact on profit of EUR 13.6 million in 2013. Derivatives had a negative impact on profit of approximately EUR 2.3 million in 2014, as a result of general falls in interest rates.

5.3 Personnel costs

In 2012, by order of the state budget law, Christmas allowance was not paid, nor was the accruals of holiday pay to be paid in 2013 recorded. In 2013, by order of the decision of the Constitutional Court, in addition to the accrual of the month of holiday pay to be paid in 2014, the Christmas allowance was also paid as well as the holiday allowance paid in 2013 that was not accrued in the previous year. Thus, 15 months are recorded in personnel expenses in 2013 against 14 in 2014. The amounts are therefore not directly comparable.

6. Financial instruments by category of IAS 39

	Loans and receivables (assets)	Liabilities at amortised cost	Liabilities at fair value through profit or loss	Liabilities at fair value through equity	Total	Not classified as financial instruments	Balance sheet total as at **2014**
Tangible fixed assets					0	929	**929**
Financial investments					0	760 028 618	**760 028 618**
Loans to Group companies	208 616 172				208 616 172		**208 616 172**
Other receivables	3 052 971				3 052 971		**3 052 971**
Trade receivables	12 753 518				12 753 518		**12 753 518**
Group companies	131 038 718				131 038 718		**131 038 718**
Income tax for the year	1 295 173				1 295 173		**1 295 173**
Cash and cash equivalents	148 963 703				148 963 703		**148 963 703**
Total assets	**505 720 255**	**0**	**0**	**0**	**505 720 255**	**760 029 547**	**1 265 749 802**
Provisions					0	17 064 281	**17 064 281**
Bank loans		607 014 660			607 014 660	0	**607 014 660**
Derivatives			12 972 000	5 187 628	18 159 628	0	**18 159 628**
Trade payables		640 643			640 643	0	**640 643**
Other Creditors		20 628 102			20 628 102	0	**20 628 102**
Total Liabilities	**-**	**628 283 405**	**12 972 000**	**5 187 628**	**646 443 033**	**17 064 281**	**663 507 314**

	Loans and receivables (assets)	Liabilities at amortised cost	Liabilities at fair value through profit or loss	Liabilities at fair value through equity	Total	Not classified as financial instruments	Balance sheet total in 2013
Intangible assets					0	0	0
Tangible fixed assets					0	1 309	1 309
Financial investments					0	747 914 587	747 914 587
Loans to Group companies	192 352 517				192 352 517		192 352 517
Other receivables	5 093 569				5 093 569		5 093 569
Trade receivables	18 723 078				18 723 078		18 723 078
Group companies	83 088 856				83 088 856		83 088 856
Derivatives					0		0
Income tax for the year					0		0
Cash and cash equivalents	192 817 176				192 817 176		192 817 176
Total assets	**492 075 196**	**0**	**0**	**0**	**492 075 196**	**747 915 896**	**1 239 991 092**
Provisions					0	13 007 984	13 007 984
Bank loans		610 219 176			610 219 176	0	610 219 176
Derivatives			10 863 485	1 167 063	12 030 548	0	12 030 548
Trade payables		777 239			777 239	0	777 239
Other Creditors		5 191 697			5 191 697	0	5 191 697
Income tax for the year		10 360 555			10 360 555	0	10 360 555
Total Liabilities	**-**	**626 548 667**	**10 863 485**	**1 167 063**	**638 579 215**	**13 007 984**	**651 587 199**

Fair value hierarchy

	31 December 2014			31 December 2013		
	level 1	level 2	level 3	level 1	level 2	level 3
Financial liabilities at fair value through profit or loss						
Derivatives		(33 684 031)			(31 001 077)	
Financial liabilities at fair value through comprehensive income						
Derivatives		(5 187 628)			(3 156 548)	

7. Tangible fixed assets

	2014	2013
Office equipment	929	1 309
	929	1 309

7.1 Movements in the period

Gross Assets	2013	Additions	Decrease	**2014**
Office equipment	108 080	748	-	108 828
	108 080	748	-	108 828

Amortisation and adjustments	2013	Additions	Decrease	**2014**
Office equipment	(106 771)	(1 128)	-	(107 899)
	(106 771)	(1 128)	-	(107 899)

8. Financial investments

	2014	2013
Financial investment in associates	692 970 258	747 707 109
Other financial investments	6 406 829	207 478
	699 377 087	747 914 587

8.1 Movements in the period

	2014	2013
Opening balance	747 707 109	744 740 200
Capital increase	5 030 557	2 052 750
Loss apportionment	884 123	914 159
Reclassification of assets held for sale (EGF)	(60 651 531)	-
Closing balance	692 970 258	747 707 109

In the current year AdP SGPS accompanied the capital increase of Simdouro in the amount of EUR 2,052,750, Águas do Noroeste in the amount of EUR 2.457.352 and Águas Públicas do Alentejo in the amount of EUR 520.455. It also hedged the losses in AdP Internacional (loss apportionment).

8.2 Individual value of shareholdings

	2014	2013
EPAL	366 116 761	366 116 761
EGF	-	60 651 531
Águas do Noroeste	58 758 627	56 301 275
Águas do Zêzere e Côa	29 451 416	29 451 416
Águas de Trás-os-Montes e Alto Douro	28 284 126	28 284 126
Águas do Centro	26 360 773	26 360 773
Águas do Algarve	25 834 640	25 834 640
Simtejo	24 636 148	24 636 148
Simria	19 406 641	19 406 641
Águas do Oeste	18 772 261	18 772 261
Simarsul	16 792 440	16 792 440
Águas do Douro e Paiva	11 656 901	11 656 901
Águas do Mondego	11 170 388	11 170 388
Simdouro	11 730 000	9 677 250
AdRA - Águas da Região de Aveiro	7 650 000	7 650 000
Águas do Norte Alentejano	6 062 066	6 062 066
AdP Internacional	6 918 563	6 034 440
Sanest	5 915 483	5 915 483
Simlis	5 877 947	5 877 947
AdP Energias	4 733 226	4 733 226
Águas do Centro Alentejo	3 180 419	3 180 419
Águas de Santo André	2 298 412	2 298 412
AdP Serviços	587 465	587 465
AgdA - Águas Públicas do Alentejo	775 455	255 000
Aquasis	100	100
Subsidiaries	692 970 258	747 707 109
Trevo Oeste	572 991	572 991
Impairment of financial investments	(572 991)	(572 991)
Associates	-	-
Total	692 970 258	747 707 109

9. Loans to Group companies (medium and long-term)

	2014	2013
Águas do Algarve	40 000 000	45 000 000
Águas do Noroeste	35 961 565	43 942 667
Águas de Trás-os-Montes e Alto Douro	40 000 000	40 000 000
Águas do Centro	27 000 000	-
Simria	25 000 000	25 000 000
Simdouro	20 600 000	20 600 000
Águas do Zêzere e Côa	13 000 000	13 000 000
Águas do Norte Alentejano	5 907 050	2 715 050
Simarsul	1 000 000	2 000 000
Águas do Brasil	91 800	71 800
Trevo Oeste	55 757	23 000
	208 616 172	192 352 517

9.1 Movements in the period

	2014	2013
Opening balance	192 352 517	201 680 575
Loan (Simdouro)	-	3 000 000
Loan (Simarsul)	-	2 000 000
Loan (Águas do Norte Alentejano)	3 192 000	1 686 275
Loan (Águas do Noroeste)	-	942 667
Loan (Trevo Oeste)	32 757	23 000
Loan (Águas do Brasil)	20 000	20 000
Repayment (Simtejo)	-	(17 000 000)
Loan (Águas do Centro)	27 000 000	-
Repayment (Águas do Algarve)	(5 000 000)	-
Repayment (Simarsul)	(1 000 000)	-
Repayment (Águas do Noroeste)	(3 981 102)	-
Transfer to current loans (Águas do Noroeste) (see Note 11)	(4 000 000)	-
Closing balance	208 616 172	192 352 517

10. Trade receivables

	2014	2013
Águas do Noroeste	2 548 045	2 314 456
Águas do Algarve	2 448 365	5 681 680
Águas de Trás-os-Montes e Alto Douro	1 920 654	5 181 419
Águas do Norte Alentejano	1 322 775	614 296
Águas do Zêzere e Côa	703 695	89 463
Simarsul	504 866	1 131 166
EGF	-	210 949
AgdA - Águas Publicas do Alentejo	411 085	1 414 856
Águas do Centro	370 877	59 002
Simdouro	311 452	35 665
Águas do Mondego	294 080	1 298 740
EPAL	284 002	-
AdRA - Águas da Região de Aveiro	228 041	211 660
Simtejo	160 534	133 337
Águas de Santo André	126 998	49 631
AdP Internacional	125 232	11 185
Águas do Douro e Paiva	119 027	57 300
Simlis	98 880	13 689
Águas do Oeste	86 416	39 088
Águas do Centro Alentejo	83 771	30 854
AdP Serviços	77 605	58 630
Simria	32 911	27 129
Aquasis	32 124	7 742
Sanest	30 787	29 484
AdP Energias	14 361	21 543
Trevo Oeste	1 829	-
Other trade payables balances	112	114
	12 338 524	18 723 078

11. Group companies

	2014	2013
Águas do Noroeste	34 400 000	21 350 000
Águas do Zêzere e Côa	21 700 000	4 000 000
AgdA - Águas Públicas do Alentejo	20 000 000	10 000 000
Águas de Trás-os-Montes e Alto Douro	13 944 684	13 944 684
Águas do Mondego	8 417 000	8 417 000
Águas do Oeste	8 000 000	8 000 000
AdP Internacional	7 000 000	300 000
Valorsul	-	10 000 000
Águas do Norte Alentejano	2 750 000	2 350 000
AdP Serviços	1 500 000	-
AdP Energias	1 200 000	1 200 000
Aquasis	436 000	436 050
Águas de Santo André	-	1 010 497
Consolidated tax	6 690 904	2 077 698
Other	130	2 927
	126 038 718	83 088 856

The amounts presented in the table above correspond to short-term loans (cash support), with the exception of consolidated tax.

11.1 Tax - consolidated tax

Consolidated tax	2014	2013
AdP Serviços	142 594	-
Águas de Santo André	-	497 037
EPAL	6 545 716	1 559 396
AdP Energias	2 594	21 265
	6 690 904	2 077 698

12. Other accounts receivable - current

	2014	2013
Revenue to be billed	1 479 430	2 108 743
Term deposit interest	123 492	580 949
Bank charges	542 840	685 654
Insurance	82 405	81 434
Board of Directors' shareholdings	-	792 452
Other trade payables balances	824 804	844 337
	3 052 971	5 093 569

13. Income tax for the year

	2014	2013
Income tax for the year	3 118 222	10 988 663
Excess estimate from preceding year	(102 487)	-
	3 015 735	10 988 663

13.1 Tax calculated

	2014	2013
Profit before tax	**47 308 584**	**77 578 649**
Profit from discontinued operations	3 687 737	
Profit before tax	**50 996 321**	**77 578 649**
Dividends received	(41 399 104)	(45 814 917)
Other adjustments	1 626 144	10 761 222
Assessment base (tax loss)/ tax profit	**11 223 361**	**42 524 954**
Deduction of losses	-	(9 014 125)
Taxable amount	**11 223 361**	**33 510 829**
23% | 25% Corporate Income Tax	2 581 373	8 377 707
1.5% Municipal surtax	168 350	637 874
State surtax	366 168	1 931 248
Corporate income tax and surtax (recoverable)/ payable	**3 115 891**	**10 946 829**
Amounts taxed separately	2 331	41 834
Current tax	**3 118 222**	**10 988 663**
Tax payment on account	7 981 284	44 169
Tax withheld at source	2 151 043	1 757 641
Current tax in tax perimeter	(5 108 021)	(1 173 702)
	1 906 084	(10 360 555)

13.2 Effective taxation rate

	2014	2013
Profit before tax - adjusted	**50 996 321**	**77 578 649**
Taxation rate	26.87%	29.12%
	13 704 387	22 587 947
Fair value of derivatives	(409 246)	1 730 372
Transition adjustments	45 467	(491 832)
Tax benefits code	-	1 224 570
Other accruals	-	290 258
Dividends	(10 142 780)	(12 140 953)
Other deductions	(81 935)	-
Deduction of tax losses	-	(2 253 532)
Amounts taxed separately	2 331	41 834
Current tax	**3 118 223**	**10 988 663**
Effective taxation rate	6.1%	14.2%

13.3 Income tax for the year

	2014	2013
Corporate Income Tax 23%| 25%	2 581 373	8 377 707
Surtax	168 350	637 874
State surtax	366 168	1 931 248
Amounts taxed separately	2 331	41 834
Tax for the year	**3 118 222**	**10 988 663**

14. Cash and cash equivalents

	2014	2013
Current accounts	7 843 981	1 014 929
Term deposits	134 816 000	191 148 345
Cash	6 303 722	653 902
	148 963 703	192 817 176
Bank overdrafts and similar	-	(1 502 946)
	148 963 703	191 314 230

The amount shown as cash in hand comes from cheques received at the end of the year and deposited in early January.

15. Equity

Shareholders as at 31.12.2014	% capital	Amount subscribed	No. of shares	Type of shares
Parpública	81%	351 945 000	70 389 000	Nominativas
Parcaixa	19%	82 555 000	16 511 000	Nominativas
	100%	**434 500 000**	**86 900 000**	

15.1 Net income and comprehensive earnings per share

	2014	2013
Net profit of financial year	**47 980 586**	66 589 986
Number of shares	**86 900 000**	86 900 000
Resultado por ação	**0.55**	**0.77**

	2014	2013
Comprehensive income	**45 949 507**	72 401 527
Number of shares	**86 900 000**	86 900 000
Earnings per share	**0.53**	**0.83**

16. Provisions

	2014	2013
Liabilities with subsidiaries and associates	**11 453 370**	8 007 984
Other liabilities	**5 000 000**	5 000 000
	16 453 370	**13 007 984**

The provision related to subsidiaries and associates arises from liabilities in the international area. The provision recognised in other liabilities is related to potential contractual liabilities.

16.1 Movements in the period

	Subsidiaries and associates	Other liabilities	Total
Balance as at 31 December 2012	**6 946 889**	**5 000 000**	**11 946 889**
Establishment of provisions	1 061 095	-	1 061 095
Balance as at 31 December 2013	**8 007 984**	**5 000 000**	**13 007 984**
Establishment of provisions	3 445 386	-	3 445 386
Balance as at 31 December 2014	**11 453 370**	**5 000 000**	**16 453 370**

17. Borrowing

	2014	2013
Loans in foreign currency - JPY	**-**	100 000 000
Bond loans	**500 000 000**	500 000 000
JPY exchange rate adjustment	**-**	(18 410 847)
Exchange swap hedge	**-**	22 127 077
Non-current borrowing	**500 000 000**	**603 716 230**
Short-term borrowing	**5 000 000**	5 000 000
Loans in foreign currency - JPY	**100 000 000**	-
Bank overdrafts	**-**	1 502 946
JPY exchange rate adjustment	**(18 697 371)**	-
Exchange swap hedge	**20 712 031**	-
Current borrowing	**107 014 660**	**6 502 946**
Total borrowing	**607 014 660**	**610 219 176**

17.1 Loans by maturity

	2014	2013
Less than 1 year	**107 014 660**	6 502 946
1 to 2 years	**-**	100 000 000
2 to 3 years	**-**	-
3 to 4 years	**-**	-
4 to 5 years	**-**	-
Over 5 years	**500 000 000**	500 000 000
	607 014 660	**606 502 946**

17.2 Loans by interest rate type

Floating interest rate	**2014**	2013
Less than 1 year	**107 014 660**	6 502 946
1 to 2 years	**-**	100 000 000
2 to 3 years	**-**	-
Over 3 years	**500 000 000**	500 000 000
	607 014 660	**606 502 946**

18. Derivatives

Swap	Risk hedged	Notional	Maturity	Fair value 31.12.**2014**	Fair value 31.12.2013	In profit/loss **2014**	In comprehensive income **2014**
Mitsubishi – exchange rate	EUR/JPY exchange rate	100000000	2015	**(20 712 031)**	(22 127 077)	**1 415 046**	**-**
Foreign exchange update	EUR/JPY exchange rate	100000000	2015	**18 697 371**	18 410 857	**286 514**	**-**
Subtotal (1)				**(2 014 660)**	**(3 716 220)**	**1 701 560**	**-**
Citibank. – interest rate	Interest rate	50000000	2022	**(12 972 000)**	(8 874 000)	**(4 098 000)**	**-**
BBVA – interest rate	Interest rate	20000000	2023	**(5 187 628)**	(3 156 548)	**-**	**(2 031 080)**
Subtotal (2)				**(18 159 628)**	**(12 030 548)**	**(4 098 000)**	**(2 031 080)**
Total				**(20 174 288)**	**(15 746 768)**	**(2 396 440)**	**(2 031 080)**

(1) Reported under Loans together with the foreign exchange impact of JPY.
(2) Reported under Derivatives on the balance sheet (liabilities).

AdP uses derivatives solely to manage the financial risks to which it is exposed. AdP does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by AdP are effective in hedging risks they do not all qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated by the discounted cash flow method determined by external entities, based on generally accepted market valuation techniques. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

Financial instruments associated with the loans from Depfa (notional of EUR 20 million) are considered as cash flow hedging instruments, and so any changes in fair value is recorded directly in equity as of 2012. Evaluations of the effectiveness of the instruments were made and the results were within the 80% to 125% range.

19. Trade payables

	2014	2013
Trade payables current account - Portugal	**169 440**	263 408
Trade payables current account - Group companies	**471 203**	449 256
Fixed asset payables current account	**-**	64 575
	640 643	**777 239**

20. Other current liabilities

	2014	2013
Advance on account of sale of EGF	14 204 044	0
Interest payable	1 870 803	1 858 462
State and other public entities	627 125	530 161
Holidays and holiday pay	495 246	450 863
Sundry accrued expenses	194 052	155 786
Group companies - share capital restoration fund (IGCP)	1 805	455 823
Group Companies - other liabilities	510 869	778 194
Group companies - consolidated tax	1 261 997	758 761
Other Creditors	1 752 185	203 646
	21 239 013	5 191 697

20.1 State and other public entities

	2014	2013
Tax withheld at source (employees and other income)	76 110	77 727
VAT	464 962	371 002
Social Security	75 765	72 363
Other taxation	10 288	9 069
	627 125	530 161

20.2 Consolidated tax

	2014	2013
EGF [(a)]	320 888	366 361
AdP Serviços	-	124 788
AdP Internacional	620 300	267 612
Águas de Santo André	641 696	-
Total with EGF	1 582 884	758 761
Total without EGF	1 261 997	758 761

(a) The value of EGF was reclassified on the balance sheet as a liability held for sale.

21. Services provided

	2014	2013 Restated	2013
EPAL	2 484 272	2 489 071	2 489 071
Empresa Geral do Fomento	-	-	867 107
AdRA - Águas da Região de Aveiro	873 492	839 750	839 750
Águas do Noroeste	781 447	833 093	833 093
Águas do Algarve	800 449	809 350	809 350
Simtejo	753 949	740 216	740 216
Águas do Douro e Paiva	554 673	566 716	566 716
Águas de Santo André	408 487	496 644	496 644
Águas de Trás-os-Montes	655 688	465 826	465 826
Águas do Oeste	494 539	461 949	461 949
Águas do Zêzere e Côa	333 570	320 809	320 809
Águas do Mondego	320 644	313 326	313 326
Sanest	287 641	287 650	287 650
Simria	272 175	265 629	265 629
Águas do Centro	244 425	238 845	238 845
Simarsul	233 048	238 218	238 218
AdP Serviços	213 032	232 212	232 212
AgdA - Águas Públicas do Alentejo	214 590	212 840	212 840
Simdouro	173 025	173 547	173 547
Águas do Centro Alentejo	157 726	145 666	145 666
Águas do Norte Alentejano	139 932	140 078	140 078
Simlis	126 792	124 767	124 767
Correction	(51 982)	-	-
	10 471 614	10 396 202	11 263 309

The services correspond to the management fee charged to the Group companies.

22. Supplies and services

	2014	2013
Specialised work - audits	189 862	115 972
Specialised work -studies and consultancy	109 566	199 076
Specialised work -financial advice	830 573	826 197
Specialised work -legal advice	478 953	579 995
Specialised work -IT assistance	388 217	420 686
Specialised work - concession of space	1 255 323	1 255 323
Specialised work - studies and vertical integration projects	-	994 431
Specialised work - other	511 349	407 611
Advertising and marketing	475 056	571 666
Rents and leases	233 589	234 700
Travel and accommodation	80 759	63 883
Other supplies and services	257 130	211 310
	4 810 377	5 880 850

Costs of financial, legal, and IT advice, concession of space and studies and projects for aggregations and vertical integration are almost entirely debited by Group companies, in particular AdP Serviços, which provides shared services to the Águas de Portugal group.

23. Personnel costs

	2014	2013
Remuneration of the governing bodies	418 472	438 775
Payroll	2 889 455	2 930 056
Compensation	-	23 449
Payroll expenses	766 517	763 275
Other personnel costs	294 394	184 814
Corrections for previous years	23 752	665
	4 392 590	4 341 034

As in 2013, in 2014 we continued to comply with Law 12-A/2010 of 30 June, aimed at reducing the salaries of corporate bodies by 5%, and with the 2013 State Budget Law that aims at reducing managers' salaries by 10% from January 2011. In 2012, the directors appointed for the 2011-2014 term began to receive the remuneration provided for in the new Statute on Public Managers.

In 2014, the reductions in salaries pursuant to the State Budget and the reversals established by the Constitutional Courts resulted in the following account during the year: **(i)** there were cuts ranging from 2.5% to 12% between January and May; **(ii)** there were no reductions between June and mid-September and there were reductions from 3.5% to 10% between mid-September and December, as in 2013 (which began in January 2011).

As provided for in the State Budget for 2013, expenses on holiday allowances in 2012 were not accrued. In 2012 only 12 months of personnel expenses were recorded, also due to the suspension of the payment of the Christmas allowance. In 2013, by decision of the Constitutional Court, expenses on holiday allowance for the previous year were incurred, with the restoration of the allowances for Christmas plus expenses related to holiday allowances and the holiday allowance for next year, as stipulated by the law. Thus, 15 months of personnel expenses are recorded in 2013 compared to 12 months the previous year and 14 in the current year.

23.1 Remuneration of governing bodies

	2014	2013
Board of Directors	352 759	375 146
Supervisory Board	45 908	43 564
Statutory Auditor	22 923	18 495
General Meeting	1 570	1 570
	418 472	438 775

23.2 Number of people employed by the company

Type	average number		end of year	
	2014	2013	2014	2013
Board of Directors	5	5	5	5
Supervisory Board	4	4	4	4
Permanent/ temporary employees	55	54	55	54
	64	63	64	63

24. Amortisations, depreciation and reversals in financial year

	2014	2013
Depreciation of tangible fixed assets	1 127	865
Amortisation of intangible assets	-	-
	1 127	865

25. Other operating expenses

	2014	2013
Taxes and charges	90 925	99 877
Fines and penalties	-	1 355
Donations and membership fees	16 675	16 930
Corrections for previous years	649	(1 250)
	108 249	116 912

26. Other operating income and gains

	2014	2013
Additional earnings	561 172	529 307
Tax rebates	332 370	-
Other operating income and gains	32 134	71 206
Corrections for previous years	67 357	-
	993 033	600 513

Additional income relates to debits corresponding to remuneration of the positions that AdP SGPS staff hold in the governing bodies of companies in which the Company has shareholdings.

27. Financial expenses

	2014	2013
Interest paid - bond loans	5 520 115	9 311 309
Interest paid- M/L-term loan (Japan)	2 705 020	2 756 840
Interest paid- other interest	5	3 187
Fair value of financial instruments [(a)]	2 396 440	-
Other costs and financial losses	4 888 913	417 724
Bank commissions	2 764 881	3 076 093
	18 275 375	15 565 153

[(a)] See note 19 - financial instruments.

28. Financial income

	2014	2013 Restated	2013
Interest on cash support and loans to the Group	15 140 257	16 819 442	18 104 250
Term deposit interest	1 920 340	2 955 361	2 955 361
Commissions	10 417 340	12 124 713	12 124 713
Derivatives - capital gains	-	10 045 993	10 045 993
Financial instruments - fair value [(a)]	-	3 635 502	3 635 502
	27 477 937	45 581 011	46 865 819

[(a)] See note 19 - Financial instruments.

29. Income from shareholdings

	2014	2013 Restated	2013
EPAL	31 969 427	35 081 798	35 081 798
Empresa Geral do Fomento	-	-	2 000 000
Simtejo	1 934 429	2 154 483	2 154 483
Águas do Algarve	1 635 140	1 816 005	1 816 005
Águas do Douro e Paiva	995 379	1 927 394	1 927 394
Águas do Mondego	738 303	-	-
AdRA - Águas da Região de Aveiro	735 352	1 814 487	1 814 487
Simria	595 312	780 282	780 282
Sanest	361 607	80 822	80 822
Simdouro	291 429	-	-
Águas de Santo André	118 130	133 007	133 007
AgdA - Águas Públicas do Alentejo	24 516	26 639	26 639
Aquasis	80	-	-
	39 399 104	43 814 917	45 814 917

The amounts are the dividends declared and paid to AdP, SGPS.

30. Assets and liabilities held for sale and profits from discontinued operations

	2014
Shareholding in EGF	60 651 531
Trade receivables - EGF	414 994
Cash support - Valorsul	5 000 000
	66 066 525
Other accounts payable (EGF consolidated tax)	320 887
	320 887
Turnover - EGF	848 476
Financial income - interest - EGF	407 958
Financial income - interest - Valorsul	431 303
Financial income - dividends - EGF	2 000 000
	3 687 737

31. Transactions with related parties

2014	Subsidiaries	Shareholders	Governing bodies
Income			
Revenue	38 041 853	-	-
Dividends received/paid	41 399 104	-	-
Expenses			
Personnel costs	-	-	350 415
Other expenses	2 941 008	-	-
Assets			
Trade receivables	12 751 577	-	-
Borrowing	212 468 615	-	-
Other debtors	128 486 551	-	-
Liabilities			
Trade payables	459 747	-	-
Other Creditors	2 139 784	-	-
Cash Flows			
Dividends paid out	-	31 500 000	-

2013	Subsidiaries	Shareholders	Governing bodies
Income			
Revenue	40 360 317	-	-
Dividends received/ paid	45 814 917	-	-
Expenses			
Personnel costs	-	-	378 842
Other expenses	3 065 012	-	-
Assets			
Trade receivables	18 722 966	-	-
Borrowing	192 257 718	-	-
Other debtors	81 008 231	-	-
Liabilities			
Trade payables	438 300	-	-
Other Creditors	778 194	-	-
Cash flows			
Dividends paid out	-	23 500 000	-

32. Contingent assets and liabilities

Any of the Company's financial commitments and liabilities that are not entered in the balance sheet are as follows:

	Financial institutions **2014**	Financial institutions 2013
Guarantees	**1 714 014 044**	1 633 913 766
Comfort letters	**10 526 908**	10 526 908
Surety	**150 046 746**	183 143 552
	1 874 587 698	**1 827 584 226**

33. Information required by law

Of the information legally required under other laws, specifically in Articles 66, 324, 397, 447 and 448 of the CSC - Código das Sociedades Comerciais (Companies Code), the provisions arising from Decree-Law 328/95 of 9 December and those in Decree-Law 411/91 of 17 October, it should be noted that:

a) In compliance with the provision of Article 324(2) of the CSC, the Company does not hold any treasury shares, nor has it undertaken to date any deals involving such shares.

b) In compliance with Article 397(4) of the CSC, no business was conducted between the Company and any members of its governing bodies in 2014.

c) In compliance with Article 21 of Decree-Law 411/91 of 17 September, the Company does not have payments outstanding to any welfare agency. The amounts of the balances reported as at 31 December 2014 resulting from withholding at source the income tax discounts and contributions relating to December, which were paid in January 2014, within the legal time limit.

34. Litigation and contingencies

Following an audit by the Court of Auditors on the degree of compliance of the Treasury Unit of the State by State Enterprises set out in the State Budget Law of 2010 and reiterated in the subsequent State Budget Laws, some AdP Group companies were notified by this Court that they were not complying with that law for the 2012 financial year. Accordingly, the AdP Group exercised its right of reply on the notification of the Court of Auditors, defending its understanding that there was no non-compliance since, pursuant to that law, it had requested a partial waiver of compliance with that legislation, and it had presented the relevant grounds for that purpose. Moreover, in this respect and in relation to the same process, the Secretary of State of the Treasury stated the following [included in the Court of Auditors report]: "The reasons given by State-owned companies to waive compliance with the principle of the Treasury Unit are wholly justifiable in the current economic climate." The definitive findings of the case are not yet known, and the Board of Directors of AdP, SGPS, SA does not expect that any punitive action will be taken against the Group companies. The Group companies were excluded from application of the above-mentioned legislative provision for 2014.

35. Important information

35.1 Sale of the EGF Group

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

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

On 6 November 2014 the purchase and sale contract for 95% of the share capital of EGF was signed by AdP - Águas de Portugal, SGPS, S.A. and Suma Tratamento, S.A., the company set up by the members of Agrupamento SUMA. The remaining 5% of the share capital is reserved for purchase by EGF employees after the completion of the transaction.

Suma Tratamento, S.A. informed the anti-trust authority of the purchase of the EGF shares and is awaiting final approval of the operation, which is a sine qua non for its completion, which will take place with the transfer of the EGF shares from AdP - Águas de Portugal SGPS, S.A. to Suma Tratamento, S.A.

36. Subsequent events

On 9 April 2015, the Council of Ministers approved the formation of the Norte de Portugal multi-municipal water supply and sanitation system, the Centro Litoral de Portugal multi-municipal water supply and sanitation system and the Lisboa e Vale do Tejo multi-municipal water supply and sanitation system. In the first of these cases, four multi-municipal water supply and sanitation systems and their management companies are closed down and replaced by the Norte de Portugal multi-municipal water supply and sanitation system and the company Águas do Norte, S.A. is set up to replace the companies that were closed down. In the second of these cases, three multi-municipal water supply and sanitation systems and their management companies are closed down and replaced by the Centro Litoral de Portugal multi-municipal water supply and sanitation system and the company Águas do Centro Litoral, S.A. is set up to replace the companies that were closed down. Finally, eight multi-municipal water supply and sanitation systems and their management companies are closed down and replaced by the Lisboa e Vale do Tejo multi-municipal water supply and sanitation system and the company Águas de Lisboa e Vale do Tejo, S.A. is set up to replace the companies that were closed down. During this process, the assets, liabilities, rights and responsibilities of the 15 management companies will be transferred to the new entities that will continue their current work under new concession agreements. This process is expected to be completed in the second half of 2015.

Lisbon, 28 April 2015

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria
(Chairman)

Álvaro António Magalhães Ferrão de Castello-Branco
(Member)

Gonçalo Ayala Martins Barata
(Member)

Manuel Joaquim Barata Frexes
(Member)

Manuel Maria Pereira Fernandes Thomaz
(Member)

José Manuel Barros
(Non-executive Member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

ÁGUAS DE PORTUGAL

SUPERVISORY BOARD'S REPORT AND OPINION ON THE SEPARATE ACCOUNTING DOCUMENTS

REPORT

1 – In compliance with the applicable legal and statutory provisions, the Supervisory Board hereby issues this report and opinion on the annual report and accounts and other separate accounting documents of AdP - Águas de Portugal, S.G.P.S., S.A., submitted by the Board of Directors for 2014.

2 – The Supervisory Board monitored the management and business performance of AdP - Águas de Portugal, SGPS., S.A. namely via contacts with its directors and by reading the minutes of the meetings of the Board of Directors and Executive Committee. It held regular meetings which were normally attended by the Financial Director and the Statutory Auditor. The Supervisory Board was given all the clarifications requested and the documentation that it deemed necessary to perform its supervisory duties.

3 – The Supervisory Board also verified compliance with the applicable legal and statutory provisions and exercised its powers in accordance with Article 420 of the Company Code. No materially relevant non-compliances were detected.

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 accounting documents provide information on sustainability, even though a complete analysis of the group in the economic, social, environment, innovation and equality fields are described in the Sustainability Report for 2014.

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ÁGUAS DE PORTUGAL

6 – The disclosure obligations set out in Article 44 of Decree-Law 133/2013 of 3 October have been fulfilled for the part concerning the annual rendering of accounts analysed here.

7 – Regarding the pay reductions set out in Law 12-A/2010 of 30 June, Law 83-C/2013 of 31 December and Law 75/2014 of 12 September, these were complied with. We must point out that the limits established by the shareholders at the General Meeting of 14 May 2013 for caps on communications, fuel and toll fees for the members of the Board of Directors were exceeded, while in the company's service.

8 – The slight increase in the average payment time to suppliers was the result of a one-time increase in debt as at 31 December 2014 to ADP group companies.

9 – The Corporate Governance Report includes materially relevant information on the matters regulated in Section II (Good Governance Practices) of Chapter II of Decree-Law 133/2013 of 3 October.

10 – The Supervisory Board notes however that, with regard to the principles of good corporate governance, the shareholders did not define the management goals for 2014.

11 – The Supervisory Board is familiar with the report issued by the external auditors on its separate accounts, and has no objections to its content.

12 – The Supervisory Board examined the legal certification of separate accounts issued as required by law by the statutory auditor, which includes three highlights, which are considered to have been reproduced here. The Supervisory Board is in agreement with them and is familiar with the annual report of the said auditor on its supervision.

13 – As a result of the work done, the Supervisory Board considers that the Board of Directors' report and the separate financial statements (which include the separate Statement of financial position as at 31 December 2014, the income statements by nature and of comprehensive income, the Statement

AdP – Águas de Portugal, SGPS, S.A.
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of changes in equity, the cash flow statement of the year ended on that date and the Notes to the financial statements), provide an understanding of the assets of AdP - Águas de Portugal, S.G.P.S., S.A. as at 31 December 2014 and the way in which the results were formed and business activity was performed.

14 – The Supervisory Board draws attention to all the collaboration that it obtained from the Board of Directors, through the financial director, the statutory auditor and departments of AdP - Águas de Portugal, S.G.P.S., S.A.

OPINION

As a result of the above, the Supervisory Board is in favour of the following being approved by the General Meeting of AdP - Águas de Portugal, S.G.P.S., S.A.:

a) The Annual Report and Separate Accounts for 2014;

b) The appropriation of profits proposed by the Board of Directors in its report.

Lisbon, 30 April 2015

THE SUPERVISORY BOARD

Carla Maria Lamego Ribeiro
(Chair)

Mário José Alveirinho Carrega
(Member)

Ana Luísa Videira Gomes
(Member)

AdP – Águas de Portugal, SGPS, S.A.
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3. Legal certification of accounts

ALVES DA CUNHA, A. DIAS & ASSOCIADOS
SOCIEDADE DE REVISORES OFICIAIS DE CONTAS, Lda.

LEGAL CERTIFICATION OF SEPARATE ACCOUNTS

Introduction

1. We have examined the separate financial statements of AdP - Águas de Portugal, SGPS, SA, which include the Statement of financial position as at 31 December 2014 (showing a total of EUR 1,266,361,000 and total equity of EUR 602,853,000, including a net profit of EUR 47,981,000), the Income statement for the period, the Statement of comprehensive income, the Statement of changes in equity and Cash flow statement for the financial year ending on that date and the Notes to the financial statements.

Responsibilities

2. The Board of Directors is responsible for preparing consolidated financial statements that truly and appropriately reflect the financial situation of the company, the results of its operations and cash flows and for following appropriate accounting criteria and policies and maintaining suitable internal control systems.

3. Our responsibility is to express a professional, independent opinion based on our examination of these financial statements.

Scope

4. Our examination was performed in accordance with the technical rules and auditing guidelines of the Association of Official Auditors, which require that it be planned and performed in such a way as to obtain an acceptable degree of certainty that the financial statements are free of any materially relevant distortions. For the purpose, our examination included:

Commercial company • Share capital 25,000 euros • Registered at CRL Lisboa with the number 502 289 740
Registered on the list of Official Auditors under no. 74 • Registered with the CMVM under no. 2699
Rua Américo Durão, 6 - 8º Esq. - 1900-064 LISBOA - PORTUGAL • TEL: 21 829 28 80 - FAX: 21 847 07 80 • acad@acad.pt • www.acad.pt

a) Using sampling to check the supporting documents for the amounts and disclosures in the financial statements and evaluating the estimates, based on judgements and criteria established by the Board of Directors and used in their preparation;

b) Appraising the adequacy of the accounting policies used and their disclosure, taking the circumstances into account;

d) Checking the applicability of the going concern principle; and

e) Assessing whether the presentation of the financial statements was appropriate in overall terms.

5. Our examination also included checking that the financial information in the annual report was consistent with the financial statements.

6. We believe that the examination performed provides an acceptable basis for our opinion.

Opinion

7. In our opinion, the aforementioned financial statements give a true, appropriate picture, in all materially relevant aspects, of the consolidated financial position of AdP - Águas de Portugal, SGPS, SA as at 31 December 2014, the profit or loss and comprehensive income of its operations, changes in equity and cash flows during the period ended on that date, in accordance with international accounting standards accounting practices as adopted in the European Union.

Report on other legal requirements

8. It is also our opinion that the information set out in the annual report is in accordance with the

financial statements for the year.

Highlight

9. Without affecting decision expressed in paragraphs 7 and 8, we draw attention to the fact that, as mentioned in Point 3.2 of the Notes to the financial statements, the recovery of debts from local authorities to Group companies may have direct effects on the credit risk of AdP - Águas de Portugal, SGPS, SA and also on the assessment of its shareholdings.

Lisbon, 29 April 2015

ALVES DA CUNHA, A. DIAS & ASSOCIADOS
Sociedade de Revisores Oficiais de Contas, Lda.
represented by José Luis Areal Alves da Cunha

4. Auditor's report

Ernst&Young
Audit1 & Associados - SROC, S.A.
Avenida da República, 90-6°
1600-206 Lisboa
Portugal

Tel:+351 217 912 000
Fax:+351 217 957 586
www.ey.com

Audit report on the separate financial statements

Introduction

1. We have examined the separate financial statements of AdP - Águas de Portugal, SGPS, S.A., which include the Statement of financial position as at 31 December 2014 (showing a total of 1,266,360,713 euros and total equity of 602,853,399 euros, including a net profit of 47,980,586 euros), the Income statement, the Statement of comprehensive income, the Statement of changes in equity and Cash flow statement for the financial year ending on that date and the Notes to the financial statements.

Responsibilities

2. The Board of Directors is responsible for preparing consolidated financial statements that truly and appropriately reflect the financial situation of the company, the profit or loss and comprehensive income of its operations, changes in its equity and cash flows and for following appropriate accounting criteria and policies and maintaining a suitable internal control system.

3. Our responsibility is to express a professional, independent opinion based on our examination of these financial statements.

Scope

4. Our examination was performed in accordance with the technical rules and auditing guidelines of the Association of Official Auditors, which require that it be planned and performed in such a way as to obtain an acceptable degree of certainty that the financial statements are free of any materially relevant distortions. For the purpose, our examination included:

- using sampling to check the supporting documents for the amounts and disclosures in the financial statements and evaluating the estimates, based on judgements and criteria established by the Board of Directors and used in their preparation;

Public limited company - share capital 1,335,000 euros - Registration no. 178 at the Association of Official Auditors - Registration no. 9011 at CMVM
Tax number 505 988 283 - Lisbon Company Registry under the same number
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- appraising the adequacy of the accounting policies used and their disclosure, taking the circumstances into account;
- checking whether the principle of going concern was applied;
- assessing whether the presentation of the consolidated financial statements was appropriate in overall terms.

5. Our examination also included checking that the financial information in the annual report was consistent with the financial statements.

6. We believe that the examination performed provides an acceptable basis for our opinion.

Opinion

7. In our opinion, the aforementioned financial statements give a true, appropriate picture, in all materially relevant aspects, of the financial position of AdP - Águas de Portugal, SGPS, S.A. as at 31 December 2014, the profit or loss and comprehensive income of its operations, changes in equity and cash flows during the period ended on that date, in accordance with international accounting standards accounting practices as adopted in the European Union.

Lisbon, 29 April 2015

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas (no. 178)
Represented by:

Rui Abel Serra Martins (Official Auditor no. 1119)

C - Consolidated financial statements

1. Contents

Consolidated statement of financial position

	Notes	2014	2013
Non-current assets			
Intangible assets	8	**4 000 831 840**	4 688 624 825
Tangible fixed assets	9	**761 707 116**	771 152 867
Investment properties	10	**13 745 673**	973 390
Financial investments	11	**109 336 519**	126 611 839
Financial investment in associates	12	**264 541**	236 784
Deferred tax assets	13	**166 348 090**	262 342 817
Tariff deviation	15	**590 618 917**	564 124 345
Trade receivables and other non-current assets	16	**127 712 085**	192 687 897
Total non-current assets		**5 770 564 781**	**6 606 754 764**
Current assets			
Inventories	17	**5 593 557**	7 206 366
Trade receivables	18	**413 731 193**	447 477 536
State and other public entities	19	**5 626 742**	9 234 782
Other current assets	20	**85 722 768**	155 483 093
Cash and cash equivalents	21	**281 885 233**	369 391 115
Assets held for sale	5.1	**928 619 048**	-
Total current assets		**1 721 178 541**	**988 792 892**
Total assets		**7 491 743 322**	**7 595 547 656**
Shareholders' equity			
Share capital	22	**434 500 000**	434 500 000
Reserves and other adjustments	23	**18 293 680**	15 557 518
Retained earnings	24	**431 729 030**	362 253 443
Net profit for financial year		**102 323 920**	104 678 511
		986 846 630	**916 989 472**
Non-controlling interests	25	**340 817 884**	325 286 843
Total equity		**1 327 664 514**	**1 242 276 315**
Non-current liabilities			
Provisions	26	**10 868 754**	12 412 060
Pension liabilities	27	**4 540 000**	4 260 079
Borrowing	28	**2 139 652 747**	2 423 505 635
Trade payables and other non-current liabilities	29	**115 094 242**	129 279 953
Deferred tax liabilities	13	**235 998 708**	305 054 337
Accrued contractual investment expenses	30	**348 002 682**	497 244 254
Investment grants	31	**1 630 392 783**	1 943 203 034
Tariff surplus	15	**61 014 412**	132 377 898
Derivatives	14	**20 174 297**	15 746 778
Total non-current liabilities		**4 565 738 625**	**5 463 084 028**
Current liabilities			
Borrowing	28	**598 892 627**	616 695 220
Trade payables	32	**68 256 956**	79 094 478
Other current liabilities	33	**121 699 235**	151 331 559
Income tax for the year	34	**2 665 453**	12 692 551
State and other public entities	19	**19 438 999**	30 373 505
Assets held for sale	5.1	**787 386 913**	-
Total current liabilities		**1 598 340 183**	**890 187 313**
Total Liabilities		**6 164 078 808**	**6 353 271 341**
Total liabilities and equity		**7 491 743 322**	**7 595 547 656**

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)
Álvaro António Magalhães Ferrão de Castello-Branco (Member)
Gonçalo Ayala Martins Barata (Member)
Manuel Joaquim Barata Frexes (Member)
Manuel Maria Pereira Fernandes Thomaz (Member)
José Manuel Barros (Non-executive Member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Consolidated income statement

	Notes	2014	Restated[1] 2013	2013
Sales	35	341 371 243	342 226 127	435 423 833
Provision of services	35	258 506 656	257 340 557	337 069 287
Cost recovery tariff deficit/surplus	35.2	26 308 099	54 940 270	43 695 727
Turnover		**626 185 998**	**654 506 954**	**816 188 847**
Sales costs/variation in inventories	36	(19 466 419)	(19 471 653)	(31 647 252)
Gross margin		**606 719 579**	**635 035 301**	**784 541 595**
Supplies and services	37	(174 001 351)	(177 588 706)	(226 902 326)
Personnel costs	38	(89 868 891)	(99 851 578)	(144 249 946)
Amortisations, depreciation and reversals in financial year	39	(189 984 697)	(188 417 186)	(246 229 603)
Provisions and reversals in financial year	40	(593 523)	523 050	348 766
Impairment losses and reversals in financial year	41	(2 509 084)	(183 495)	(341 850)
Investment grants	31	55 784 241	55 953 674	74 091 884
Other operating expenses and losses	42	(9 357 840)	(10 497 247)	(13 516 246)
Other operating income and gains	43	19 887 364	8 742 631	11 139 887
Operating profit/loss		**216 075 798**	**223 716 444**	**238 882 161**
Financial expenses	44	(95 812 122)	(99 883 795)	(107 456 887)
Financial income	45	37 762 276	50 236 096	57 176 623
Gains/ (losses) on investments	46	(500)	-	(2 348)
Financial income		**(58 050 346)**	**(49 647 699)**	**(50 282 612)**
Profit before tax		**158.025 452**	**174 068 745**	**188 599 549**
Income tax for the year	47	(56 446 453)	(54 738 266)	(69 153 065)
Deferred tax	47	15 766 030	3 465 398	10 449 973
Net income of financial year as a going concern		**117 345 029**	**122 795 877**	**129 896 457**
Profit from discontinued operations (I)	5.1	5 511 083	7 100 580	-
Net Profit of Period		**122 856 112**	**129 896 457**	**129 896 457**
Net profit allocatable to shareholders of AdP SGPS		102 323 920	104 678 511	104 678 511
Net profit allocatable to non-controlling interests		20 532 192	25 217 946	25 217 946
		122 856 112	129 896 457	129 896 457
Earnings per share	22.2	1.18	1.20	1.20
Earnings per share without discontinued operations		1.14	1.15	1.20

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5)

Consolidated statement of comprehensive income

	2014	Restated[1] 2013	2013
Net profit of financial year	122 856 112	129 896 457	129 896 457
Foreign exchange gains/ losses	(64 906)	119 855	119 855
Fair value of hedging instruments	(2 031 079)	5 811 541	5 811 541
Gains/ losses to be reclassified through profit or loss	(2 095 985)	5 931 396	5 931 396
Other gains and losses - IAS 19 pensions	2 719 965	(1 720 962)	(1 720 962)
Associated deferred tax	(1 217 317)	499 079	499 079
Gains/ losses not to be reclassified through profit or loss	1 502 648	(1 221 883)	(1 221 883)
Comprehensive income	122 262 775	134 605 970	134 605 970
Net profit allocatable to shareholders of AdP SGPS	101 730 583	109 388 024	109 388 024
Net profit allocatable to non-controlling interests	20 532 192	25 217 946	25 217 946
	122 262 775	134 605 970	134 605 970

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5)

Consolidated statement of changes in equity

	Equity	Foreign exchange reserve	Legal reserve	Reserves - Fair value negative hedging instruments	Other reserves	Retained earnings	Profit for the year	Total	Non-controlling interests	Total equity
Balance as at 31/12/2012	**434 500 000**	**109 687**	**12 888 142**	**(6 529 704)**	**2 541 128**	**294 044 696**	**93 566 283**	**831 120 232**	**307 047 919**	**1 138 168 151**
Appropriation of profit for 2012	-	-	2 113 560	-	(274 808)	91 727 531	(93 566 283)	-	-	-
Foreign exchange	-		-	-	-	-	-	-	-	-
Dividend payout	-	-	-	-	-	(23 500 000)	-	(23 500 000)	(11 403 214)	(34 903 214)
Paid-in capital	-	-	-	-	-		-	-	4 405 409	4 405 409
Other adjustments	-	-	-		-	(18 784)	-	(18 784)	18 783	(1)
Comprehensive income	-	119 855	-	5 811 541	(1 221 883)		-	4 709 513	-	4 709 513
Net profit in December 2013	-	-	-	-	-	-	104 678 511	104 678 511	25 217 946	129 896 457
Balance as at 31/12/2013	**434 500 000**	**229 542**	**15 001 702**	**(718 163)**	**1 044 437**	**362 253 443**	**104 678 511**	**916 989 472**	**325 286 843**	**1 242 276 315**
Appropriation of profit for 2013	-	-	3 329 499	-	-	101 349 012	(104 678 511)	-	-	-
Dividend payout	-	-	-	-	-	(31 500 000)	-	(31 500 000)	(9 349 813)	(40 849 813)
Paid-in capital	-	-	-	-	-	-	-	-	4 030 870	4 030 870
Change in perimeter	-	-	-	-	-	(326 371)	-	(326 371)	-	(326 371)
Other	-	-	-	-	-	(46 875)	-	(46 875)	317 792	(270 917)
Comprehensive income	-	(64 906)	-	(2 031 079)	1 502 648	-	-	(593 337)	-	(593 337)
Net profit in December 2014	-	-	-	-	-	-	102 323 920	102 323 920	20 532 192	122 856 112
Balance as at 31.12.2014	**434 500 000**	**164 636**	**18 331 201**	**(2 749 242)**	**2 547 085**	**431 729 030**	**102 323 920**	**986 846 630**	**340 817 884**	**1 327 664 514**

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)
Álvaro António Magalhães Ferrão de Castello-Branco (Member)
Gonçalo Ayala Martins Barata (Member)
Manuel Joaquim Barata Frexes (Member)
Manuel Maria Pereira Fernandes Thomaz (Member)
José Manuel Barros (Non-executive Member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Consolidated of cash flow statement

	2014	Restated[1] 2013	2013
Operating activities			
Flows generated by operations			
Trade receivables	722 338 822	694 934 037	911 624 765
Trade payables	(238 194 318)	(258 351 654)	(340 201 877)
Payments to personnel	(66 296 185)	(71 008 187)	(101 555 679)
Flows generated by operations	417 848 319	365 574 196	469 867 209
Other operating flows			
Corporate income tax (payable)/ receivable	(60 371 768)	(54 747 145)	(65 241 327)
Other receivables/ payables from operating activity	(70 428 367)	(76 706 366)	(110 779 382)
Other operating flows	(130 800 135)	(131 453 511)	(176 020 709)
Total operating activities (1)	287 048 184	234 120 685	293 846 500
Investing activities			
Receivables from:			
Financial investments	17 183 079	289 591	2 715 605
Tangible fixed assets	154	294 724	318 724
Intangible assets	815 276	672	9 617
Investment grants	92 109 514	123 135 320	130 776 170
Interest and similar income	10 784 781	12 005 489	13 806 472
Subtotal	120 892 804	135 725 796	147 626 588
Payments for:			
Financial investments	(32 511 701)	(29 967 185)	(33 175 132)
Tangible fixed assets	(15 645 940)	(7 725 330)	(8 089 742)
Intangible assets	(173 653 769)	(150 046 586)	(175 457 726)
Subtotal	(221 811 410)	(187 739 101)	(216 722 600)
Total investing activities (2)	(100 918 606)	(52 013 305)	(69 096 012)
Financing activities			
Receivables from:			
Borrowing	297 303 038	351 630 091	369 633 325
Paid-in capital, additional capital contributions	3 955 090	1 948 056	4 405 408
Subtotal	301 258 128	353 578 147	374 038 733
Payments for:			
Borrowing	(408 220 382)	(380 208 747)	(423 701 254)
Interest and similar expenses	(91 282 546)	(96 497 288)	(104 271 527)
Dividends	(36 946 582)	(31 135 965)	(34 558 058)
Subtotal	(536 449 510)	(507 842 000)	(562 530 839)
Total financing activities (3)	(235 191 382)	(154 263 853)	(188 492 106)
Changes in cash and cash equivalents (1 + 2 + 3)	(49 061 804)	27 843 527	36 258 382
Effects of exchange differences	5 171	(10 132)	(10 132)
Cash and cash equivalents at start of period	152 515 499	172 015 815	172 015 815
Changes in perimeter	122 568	-	-
Assets held for sale	-	(47 333 711)	
Cash and cash equivalents at end of period	103 581 434	152 515 499	208 264 065

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5)

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)
Álvaro António Magalhães Ferrão de Castello-Branco (Member)
Gonçalo Ayala Martins Barata (Member)
Manuel Joaquim Barata Frexes (Member)
Manuel Maria Pereira Fernandes Thomaz (Member)
José Manuel Barros (Non-executive Member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Notes to the consolidated financial statements

1. General information

1.1 Introduction

AdP - Águas de Portugal, SGPS, S.A. (AdP, SGPS, S.A. hereinafter also called AdP group when intending to refer to AdP, SGPS, S.A. and its subsidiaries and associates) was incorporated on 29 September 1993, with its head office at Rua Visconde Seabra no. 3, in Lisbon.

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

Shareholders on 31 December **2014**	% Capital	Amount subscribed	N.° of shares	Type of shares
Parpública, SGPS, S.A.	81%	351 945 000	70 389 000	Nominative
Parcaixa, SGPS, S.A.	19%	82 555 000	16 511 000	Nominative
	100%	**434 500 000**	**86 900 000**	

AdP SGPS was entrusted with developing multi-municipal systems in Portugal for the abstraction, treatment and distribution of water for public consumption, the collection, treatment and disposal of urban wastewater and the treatment and recycling of solid household waste. The Company's mission was extended in 1998, beginning a process of diversification in terms of business segments and geography. It expanded into water distribution systems and the collection of effluent directly from the communities served, in Portugal and abroad.

1.2. Business activity

1.2.1 Regulated and licensed business activity and partnerships

The standard concession agreement created for multi-municipal systems has the following features: **(i)** the infrastructure and equipment of the concession are constructed or acquired by the concession holding company; **(ii)** these acquisitions/ constructions are partially funded by non-repayable grants from the European Union and long-term loans from the European Investment Bank; **(iii)** the concession holder is obliged to establish a fund to reconstitute capital (to cover the return on invested capital on termination of the concession); **(iv)** the sale prices (tariffs) charged are set by the concession grantor, endorsed by the regulatory authority (ERSAR) and include a return on invested capital component, corresponding to a base rate of Treasury Bill issues, the six-month Euribor rate or the Treasury Bond rate, plus three percentage points as a risk premium. The AdP Group has ensured its remuneration through rebalancing clauses in concession and partnership contracts. These concessions and partnerships generally have a duration of 25 to 50 years.

UNA-PD (Water Business Unit - Production and Purification) and partnerships

The companies of this segment have an exclusive concession granted by the State for the provision of water supply and wastewater treatment and disposal services, or they form part of a State-Local Government partnership to deliver the same type of service. The concession agreements are characterised by high levels of investment to be made by the concession holder. Funding is obtained through EU funds, bank loans, equity and the resources generated by business operations. The municipalities to which the company provides services are also its shareholders. The service provided is paid through the tariff established by the concession grantor, endorsed by the regulator (ERSAR) and billed to the municipalities served by each of the concessions. One of the features of the concession agreement is the guaranteed return on invested capital. The partnership agreements signed by the State and local government to which the services are delivered are characterised by high levels of investment to be made by the concession holder. Funding is obtained through EU funds, bank loans, equity and the resources generated by business operations. The municipalities to which the company provides services are also its shareholders. The service is paid for through the tariff established by the partnership committee.

UNA-DR (Water Business Unit - Distribution and Collection)

The companies of this segment are the result of a partnership agreement between the state and the municipalities whose areas are covered by the agreement. The municipalities delegate responsibility for managing the integrated system to the state in this agreement. The integrated system results from the aggregation of the individual systems, including infrastructures and resources, in accordance with the adopted technical solution. Thus, the partnership has exclusive rights to drinking water distribution and, when applicable, the abstraction and treatment of water for this purpose and to the collection of urban wastewater and, when applicable, its treatment and disposal, in the areas covered by the system. It also includes the construction, renewal, repair, maintenance and improvement of the infrastructure, equipment and facilities that make up the partnership, primarily funded by loans, grants and equity. The partnership is obliged to pay rent to the municipalities, which is indexed to turnover. The service provided is paid through the tariff established and billed to the customers (those residing in the municipality) of each of the partnerships. One of the features of the partnership agreement is to guarantee the return on invested capital and its infrastructures. This business unit is managed within the UNAPD.

UNR (Waste Business Unit) - classified as held for sale/ discontinued operations

In 2000, in the context of strategic guidelines on the consolidation of the main business group in the environmental area, AdP, SGPS, S.A. became sole owner of Empresa Geral do Fomento, S.A., and therefore controlled its subsidiaries, which have been made responsible for developing the multi-municipal systems for treating and recycling solid household waste. The companies of this segment have an exclusive concession granted by the state for the management and recycling of solid waste. The concession agreements include requirements for extensive investments to be made by the concession holder, funded by EU funds, bank loans, equity and the resources generated by business operations. The municipalities to which the company provides services are also its shareholders. The service provided is paid through the tariff established by the concession grantor, endorsed by the regulator (ERSAR) and billed to the municipalities served by each of the concessions. One of the features of the concession agreement is guaranteed return on invested capital.

See Note 5.1. on the sale of the EGF Group

1.2.2 Unregulated activity

EPAL

EPAL is responsible for the abstraction, transport, treatment and distribution of drinking water, aiming to provide a quality service and respecting essential social and environmental criteria. It covers distribution to the city of Lisbon (residential distribution) and upstream supply to 23 municipalities of the Greater Lisbon region. EPAL has a delegated management mandate, embodied in Decree-Law 230/91 of 21 June, which approves its articles of association. The mandate does not have any time limitation, investment obligation or return on investment clause. The tariffs are regulated administratively.

International

This segment develops international business and comprises operations abroad. It currently has technical assistance agreements in Angola and Timor.

Corporate services

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

1.3 Strategy

Pursuant to the law on the state-owned business sector and the Public Manager Statute, the state, as the shareholder, sets out strategic guidelines for the Board of Directors of AdP SGPS, SA.

The strategic guidelines for the 2012-2014 term of office are based on the following principles:

- a philosophy of professional management based on appropriate powers and growth in production capacity according to the highest quality standards in order to fulfil its mission;
- the best management practices abiding by the principles of good corporate governance in state-owned companies;
- the development of an organisational culture focusing on performance excellence based on key business practices that ensure the company's success on the path towards business sustainability, fundamentally based on a management philosophy that encompasses economic, environmental, social and ethical fields.

Within the framework of its mission, AdP SGPS, must pursue the following strategic guidelines:

- Follow the sector policies that govern its activity and the creation of shareholder value, with special focus on prudential risk management and the mobilisation of financial resources;
- Streamline the investments required to deliver the services, focusing on the suitable sizing of new infrastructure and maintenance of that already existing;
- Reorganise the water supply and wastewater treatment segments, with priority to the economic and financial sustainability of operations in these areas and improvement of efficiency in the delivery of services;
- Continue to foster efficiency, increasing the grouping of systems and promoting integrated solutions for management of the urban water cycle;

- Make it possible for private entities to participate in managing the systems;
- Continue to identify solutions that help to solve the tariff deficit problem, in terms of sustainability;
- Make the waste business unit of the AdP Group autonomous and implement the necessary measures to open it up to private sector investment;
- Contribute to sustainable development by finding solutions to harness endogenous assets and resources, rationalise energy consumption and reduce or offset emissions;
- Capitalise on the skills and capabilities available in the Group and implement projects in international markets;
- Develop an integrated R&D strategy, in harmony with national goals;
- Ensure the continuity of other important projects in accordance with government guidelines.

1.4 Mission and future guidelines

The AdP Group is responsible for providing essential public services in the fields of water supply, wastewater disposal and the management of solid waste. The positive impacts in the areas of national cohesion, public health and the environment are universally recognised.

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

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

1.5 Organisation

The business and organisational model adopted at the core level by the AdP Group is based on three fundamental factors: **(i)** the division of the business into five business units, with independent management and adequate finances for the nature of each activity, supported by resources available at corporate level and shared services; **(ii)** a legally defined relationship; **(iii)** an integrated, scalable information system platform for the entire Group.

1.6 Approval of the financial statements

These consolidated financial statements were approved and authorised for publication by the Board of Directors on 28 April 2015.

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 2014.

The most important accounting policies used in the preparation of these financial statements are set forth below. These policies have been applied consistently in comparable periods, unless otherwise specified.

2.1 Basis of presentation

2.1.1 Introduction

The amounts presented are expressed in euros (EUR), unless otherwise specified. AdP's financial statements have been prepared according to the going concern and historical cost principle, except with respect to derivatives and financial investments held for trading which are recorded at their fair value (market value). The preparation of financial statements in accordance with the IAS/IFRS requires the use of estimates and assumptions that influence the reported amounts of assets and liabilities and income and expenses in the reporting period. Although these estimates are based on the management's best knowledge in relation to current events and actions, actual results may ultimately differ from those estimates. The management nonetheless believes that the adopted estimates and assumptions do not incorporate any significant risks that might require material adjustments to the value of assets and liabilities in the next financial year.

2.1.2 New standards and policy changes

a) Voluntary changes of accounting policies

No voluntary policy changes to accounting policies were made in the financial year with respect to those considered in the preparation of the financial information relating to the previous year.

b) New standards, interpretations and amendments coming into effect on 1 January 2014

Adoption of IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities and the amended versions of IAS 27 Separate financial statements and IAS 28 Investments in associates and joint ventures (Regulation Nº. 1254/2012, of 11 December)

The aim of IFRS 10 is to provide a single consolidation model that identifies the control relationship as the basis for consolidation of all types of entities. IFRS 10 replaces IAS 27 Consolidated and separate financial statements and SIC 12 Consolidation - Special purpose entities. An investor controls an investee only if all the following apply: **(a)** it has power over the investee, **(b)** it is exposed, or has rights, to variable returns from its involvement with the investee and **(c)** it has the ability to affect those returns through its powers over the investee. The changes made by IFRS 10 require the management to make a significant judgement to determine which entities are controlled and are therefore included in the parent company's consolidated financial statements.

IFRS 11 establishes principles for financial reporting by the parties to joint arrangements and replaces IAS 31 Interests in joint ventures and SIC 13 Jointly controlled entities - Non-monetary contributions by entrepreneurs.

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and non-consolidated structured entities. As a result of these new IFRSs, an amended version of IAS 27 and IAS 28 was also issued. IFRS 12 Disclosure of interests in other entities establishes the minimum degree of disclosures for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It therefore includes all disclosures that were mandatory in IAS 27 Consolidated and Separate financial statements concerning consolidated accounts and the mandatory disclosures included in IAS 31 Interests in joint ventures and IAS 28 Investments in associates plus additional new information. The aim of this standard is to require an entity to disclose information in its financial statements that allows users to assess: **(a)** the nature of, and risks associated with, its interests in other entities and **(b)** the effects of these interests on its financial position, financial performance and cash flows. An entity must therefore disclose: **(a)** the significant judgements and assumptions that it made in determining the nature of its interests in another entity or arrangement and in determining the type of joint arrangement in which it has an interest and **(b)** information about its interests in subsidiaries, joint arrangements and associates and structured entities that are not controlled by the vehicle. For the purpose of this standard, an interest in another entity refers to a contractual and non-contractual involvement that exposes an entity to variability in return from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in other Entities (Regulation Nº. 313/2013 of 4 April)

The aim of the amendments is to clarify the intention of the IASB when it first issued the transition guidance relative to IFRS 10. The amendments also provide additional transition flexibility for IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information only to the preceding comparative period. Moreover, the amendments of disclosures relating to non-consolidated structured entities eliminate the obligation to present comparative information for periods prior to the first time application of IFRS 12.

Amendment to IAS 39 Derivatives

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to benefit from the amended guidance, novation to a central counterparty must happen as a consequence of laws or regulations or the introduction of laws or regulations. All the above conditions must be met in order to continue hedge accounting in accordance with this exception. The amendment covers novations made to central counterparties and intermediaries such as members of clearing houses or their customers who are intermediaries themselves. For novations that do not meet the exception criteria, entities must evaluate the changes to the hedging instrument in light of the rules of derecognition of financial instruments and the general conditions for continuing to use hedge accounting.

Amendment to IAS 32 Derivatives (disclosures)

The amendment clarifies the meaning of "currently has a legally enforceable right of set-off" and the application of IAS 32 to offsetting criteria of offsetting systems (such as centralised clearing and settlement systems), which use gross, non-simultaneous settlement mechanisms. Paragraph 42 a) of IAS 32 requires that "a financial asset and a financial liability shall be offset and the net amount recorded in the balance sheet when, and only when, an entity currently has a legally enforceable right to set off the recognised amounts". This amendment clarifies that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendment also clarifies that rights of set-off must not be contingent on a future event. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion set out in the standard.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in other Entities and IAS 27 Separate Financial Statements (Regulation Nº. 1174/2013 of 20 November)

IFRS 10 is amended to better reflect the business model of investment entities. It requires these entities to measure their subsidiaries at fair value through profit or loss, rather than undertaking the respective consolidation. IFRS 12 is amended to require a specific disclosure be made about these subsidiaries of the investment entities. The amendments to IAS 27 have also eliminated the option that was given to investment entities to measure their investments in certain subsidiaries at cost or at fair value in the separate financial statements. The amendments to IFRS 10, IFRS 12 and IAS 27 imply, therefore, amendments to IFRS 1, IFRS 3, IFRS 7, IAS 7, IAS 12, IAS 24, IAS 32, IAS 34 and IAS 39 in order to ensure coherence between international accounting standards.

Amendments to IAS 36 Impairment of Assets (Regulation Nº. 1374/2013 of 19 December)

The main amendments involve: **(i)** removal of the requirement to disclose the recoverable amount of cash-generating units for which no impairment was reported; **(ii)** introduction of the requirement to disclose information about the key assumptions, valuation techniques and applicable level of fair value hierarchy for any individual asset (including goodwill) or for any cash-generating unit for which impairment losses were recognised or reversed during the period, and for which the recoverable amount is fair value less sales costs; **(iii)** introduction of the requirement for the disclosure of the discount rates used in the current period and in previous measurements of the recoverable amounts of impaired assets that may have been based on fair value less sales costs using the present value technique; **(iv)** removal of the term "material", as this specific reference is considered unnecessary when the standard refers to the disclosure requirements for assets (including goodwill) or cash-generating units, for which a loss or "material" reversal of impairment may have been incurred during the period.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continued Hedge Accounting (Regulation Nº. 1375/2013 of 19 December)

The aim of the amendments is to address situations in which a derivative designated as a hedging instrument is subject to novation between a counterparty and a central counterparty, for legal or regulatory reasons. The solution will allow the continuation of hedge accounting regardless of the novation, which would not be permitted if these amendments had not been made.

Amendments to IAS 27 Consolidated and separate financial statements (Revised in 2011)

After the introduction of IFRS 10 and IFRS 12, IAS 27 only sets out how to account for subsidiaries, jointly controlled entities and associates in separate accounts.

Amendments to IAS 28 Investments in associates and joint ventures

After the amendments to IFRS 11 and IFRS 12, IAS 28 was renamed and now describes how to apply the equity method also to joint ventures, as was already the case for associates.

The above-mentioned changes and amendments are either not applicable or they are not expected to have any relevant impact on the financial statements.

c) New standards, interpretations and amendments, entering into force for financial years beginning on or after 1 January 2015

Adoption of IFRIC 21 Levies (Regulation No. 634/2014 of 13 June)

This interpretation has regard to accounting for a liability corresponding to payment of a levy, provided that this liability is covered by IAS 37. It also refers to accounting for a liability for the payment of levy with a known timing and amount. However, this interpretation has regard to accounting for costs arising from recognition of a liability corresponding to payment of a levy. Entities must abide by other standards to determine whether recognition of a liability corresponding to payment of a levy gives rise to an asset or a cost.

The following are not covered: **(a)** outflows covered by other standards (e.g. income tax, which is covered by IAS 12 Income tax) and **(b)** fines or other penalties imposed for infractions of legislation. The interpretation clarifies that an entity recognises a liability for a levy when the activity that gives rise to the payment occurs, as identified by the relevant legislation. For a levy that is triggered when it reaches a minimum threshold, this interpretation clarifies that no liability should be anticipated before the minimum has been reached. In its interim report, an entity must abide by the same principles for recognising levies that its follows in annual financial statements. Retrospective application is required.

IAS 19 - Employee Benefits (Amendment): Employee contributions

This amendment applies to contributions from employees or third parties for defined benefit plans. It simplifies the accounting of contributions that are independent of the number of years of service of the employee, e.g. contributions made by the employee which are calculated based on a fixed percentage of salary, which are a fixed amount throughout the period of service or an amount that depends on the employee's age. Such contributions are able to be recognised as a reduction of the cost of service during the period in which the service is provided.

Annual improvements on the 2010-2012 cycle

The IASB introduced eight improvements in seven standards, relative to annual improvements on the 2010-2012 cycle. These improvements are presented below:

IFRS 2 Share-based payments

Updates definitions, clarifies what is meant by acquisition requirements and also clarifies situations related to concerns raised about service, market and performance conditions.

IFRS 3 Business Combinations

Introduces amendments in the recognition of changes in fair value of contingent payments that are not equity instruments. Such changes shall be exclusively recognised in the income statement.

IFRS 8 Operating Segments

Requires additional disclosures (description and economic indicators) that determined the aggregation of segments. The disclosure of the reconciliation of the total assets of the reportable segments with the total assets of the entity is only required if it is also reported to the responsible manager, in the same terms of disclosure required for liabilities of the segment.

IFRS 13 Fair Value Measurement

Clarifies that receivables and payables with no stated interest rate may be measured at nominal value where the discounting impact is immaterial. Hence, the reason why paragraphs of IAS 9 and IAS 39 have been eliminated had nothing to do with changes in measurement but rather the fact that the specific situation is immaterial and, therefore, its processing as already provided for in IAS 8 is not mandatory.

IAS 16 Tangible fixed assets and IAS 38 Intangible assets

In the event of revaluation, the standard now envisages that the entity may choose to adjust the gross value based on observable market data or it may proportionally assign the variation to the change that occurred in the book value. In either case, the elimination of amortisation accumulated by offsetting the gross value of the asset is mandatory. These amendments only apply to the revaluation done in the year in which the amendment is first applied and to the immediately preceding period. The figures can be restated for all prior periods but there is no requirement to do such. If this is not done, the criteria used in these periods should be disclosed.

IAS 24 Related Party Disclosures

Clarifies that a managing entity - an entity that provides management services – is a related party subject to the associated disclosure requirements. In addition, an entity that uses the services of a managing entity is obliged to disclose costs of said services.

Annual improvements for the 2011-2013 cycle

The IASB introduced four improvements in four standards, relative to annual improvements relating to the 2011-2013 cycle. They are as follows:

IFRS 1 First-time adoption of International Financial Reporting Standards

Clarifies what is meant by standards in effect.

IFRS 3 Business Combinations

Updates the exception of applying the standard to "Joint Arrangements'', clarifying that the only exclusion refers to accounting for the creation of a joint agreement in the financial statements of the joint agreement itself.

IFRS 13 Fair Value Measurement
Updates paragraph 52 so that the exception to the portfolio also includes other contracts that are under or are accounted for in accordance with IAS 39 or IFRS 9 regardless of meeting the definitions of financial assets or financial liabilities pursuant to IAS 32.

IAS 40 Investment Properties
Clarifies that it is in light of IFRS 3 that entities should determine whether a given transaction is a business combination or purchase of assets and not the description in IAS 40, which allows them to classify property as an investment or as a property occupied by its owner.

The above-mentioned changes and amendments are either not applicable or they are not expected to have any relevant impact on the financial statements.

d) New standards, interpretations and amendments not yet endorsed by the European Union coming into effect for financial years beginning on or after 1 January 2015

IFRS 9 Financial instruments (issued on 24 July 2014)
This standard was completed on 24 July 2014 and is summarised as follows by subject:

Classification and measurement of financial assets
- All financial assets are measurable at fair value on the date of initial recognition, adjusted by the transaction costs if the instruments are not accounted for at fair value through profit or loss (FVTPL). 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.

- Debt instruments are then measured on the basis of their contractual cash flows and in the business model in which these instruments are held. If a debt instrument has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding and is held within a business model aimed at holding the assets to collect contractual cash flows, then the instrument is accounted for at amortised cost. If a debt instrument has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding and is held within a business model aimed at holding the assets to collect contractual cash flows and sell financial assets, then the instrument is measured at fair value through other comprehensive income (FVOCI), with subsequent reclassification for results.

- All other debt instruments are subsequently accounted for at FVTPL. In addition, there is an option allowing financial assets to be designated as FVTPL on initial recognition if that eliminates or significantly reduces an accounting mismatch in the results for the financial year.

- Capital instruments are usually measured at FVTPL. However, entities have an irrevocable option on an instrument-to-instrument basis to record changes in the fair value of non-commercial instruments in the statement of comprehensive income (with no subsequent reclassification for results of the financial year).

Classification and measurement of financial liabilities
- For financial liabilities designated as FVTPL using the fair value option, the amount of the change in fair value of these financial liabilities that is attributable to changes in credit risk must be recorded in the statement of comprehensive income. The rest of the change in fair value must be recorded in profit or loss unless the recording of the change in fair value for the credit risk of the liability in the income statement will create or increase an accounting mismatch in the results of the financial year.

- All the other requirements for classification and measurement of financial liabilities in IAS 39 were transferred to IFRS 9, including the rules on separation of embedded derivatives and the criteria for using the fair value option.

Impairment
- Impairment requirements are on based on an expected credit loss (ECL) model, which replaces the incurred loss model in IAS 39.

- The ECL model applies to: **(i)** debt instruments measured at amortised cost or at fair value or at fair value through other comprehensive income, **(ii)** most loan commitments, **(iii)** financial guarantee contracts, **(iv)** contractual assets under IFRS 15 and **(v)** lease receivables under IAS 17 - Leases.

- Entities are usually obliged to recognise ECLs for 12 months or their whole lives, depending on whether there has been a significant increase in the credit risk since initial recognition (or when the commitment or guarantee was concluded). For trade receivables without a significant financing component, depending on an entity's choice of accounting policy for other customer credits, and accounts receivable from leases, as simplified approach may be taken in which whole-life ECLs are always recognised.

- Measurement of ECLs must reflect the weighted probability of the profit/loss, the effect of the time value of the money and be based on reasonable, supportable information that is available at no cost or excessive effort.

Hedge accounting

- Hedging efficacy tests must be prospective and may be qualitative, depending on the complexity of the hedge.

- A risk component of a financial or non-financial instrument can be designated as the hedged item if the risk component is separately identifiable and reliably measurable.

- The time value of an option, the forward element of a futures contract and any spread base of a foreign currency can be excluded from the designation as hedging instruments and be recorded as hedging costs.

- Larger sets of items can be designated as hedged items, including layered designations and some net positions.

This standard is effective for financial years beginning on or after 1 January 2018. Early application is permitted provided it is adequately disclosed. Application varies on the basis of the standard's requirements and is partially retrospective and partially prospective.

IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture (amendments issued on 11 September 2014)

The amendments to IFRS 10 define the criteria for recognition of gains and losses when a parent loses control of a subsidiary that does not contain a business, as defined in IFRS 3 – Business Combinations, as a result of a transaction that involves an associate or joint venture that is accounted for using the equity method. The profit or loss on the transaction is included in the investor's income statement only to the extent that is not related to the investment in the associate or joint venture. The remainder is deducted from the book value of the investment in the associate or joint venture. If the parent continues to maintain an investment in an old subsidiary and the subsidiary has become an associate or joint venture accounted for using the equity method, the parent recognises the gain or loss of the remeasurement at fair value in the income statement only to the extent that is not related to the new investment in the associate or joint venture. The remainder is deducted from the book value of the investment retained in the associate or joint venture. If the investment in the previous subsidiary changes to measurement at fair value, then the gain or loss of the remeasurement is recognised in the investor's entire income statement. The amendments to IAS 28 introduce different recognition criteria for the effects of sales or contributions of assets by an investor (including its consolidated subsidiaries) to its associate or joint venture depending on whether or not the transactions involve assets that constitute a business, as defined in IFRS 3 Business Combinations. If transactions constitute a business combination on the required terms, the gain or loss must be recognised in its entirety in the investor's income statement for the period. *The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is prospective.*

IFRS 10, IFRS 12 and IAS 28: Investment entities Application of the consolidation exception (amendments issued on 18 December 2014)

The amendments to IFRS 10 clarify that an investment entity does not need to prepare consolidated financial statements if **(i)** its immediate or ultimate parent prepares financial statements in IFRS for public use in which its subsidiaries are consolidated or measured at fair value through profit or loss or if **(ii)** its subsidiaries are measured at fair value through profit or loss (all subsidiaries, except those that are not investment entities and whose purpose and business activities are to provide services related to the investment activities of the investment entities that own them). The amendments to IAS 28 clarify that an entity does not need to use the equity method in an associate or joint venture if: **(i)** the parent can enjoy the exemption from consolidation defined in IFRS 10 or **(ii)** among all the conditions of IAS 28 necessary for the purpose, its immediate or ultimate parent prepares IFRS financial statements for public use in which subsidiaries are consolidated or measured at fair value through profit or loss. An entity that is not an investment entity and uses the equity method when valuing associates or joint ventures that are investment entities can continue valuing the subsidiaries of these investment entities at fair value through profit or loss.

The consequent amendments to IFRS 12 require an investment entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss to present the disclosures required by IFRS 12 with regard to investment entities. *The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is retrospective.*

IFRS 11: Accounting for the acquisition of holdings in joint arrangements (amendments issued on 6 May 2014)

The amendments require that where an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, it must, in proportion to its share, apply all of the principles on business combinations accounting as set out in IFRS 3 Business Combinations, and other IFRS standards that do not conflict with IFRS 11 and make the corresponding disclosures required by said standards on business combinations. The amendments also apply if, in the formation of the joint operation, the entity contributed a business. In the event of an acquisition of an additional interest in a joint operation in which the activity of the joint

operation constitutes a business, the previously held interest cannot be remeasured if the operator maintains joint control. *The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is prospective.*

IAS 27: The equity method in separate financial statements (amendment issued on 12 August 2014)

The purpose of these amendments is to restore the option to use the equity method when valuing subsidiaries and associates in separate accounts. Their valuation options are now: **(i)** cost, **(ii)** IFRS 9 (or IAS 39) or **(iii)** the equity method in which the same accounting must be used for each category of investments. The consequent amendment was also made to IFRS 1 - First time adoption of the International Financial Reporting Standards in order to allow entities adopting the IFRS for the first time and using the equity method in separate financial statements to benefit from exemption of business combinations formed prior to the acquisition of the investment. *The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is retrospective.*

IFRS 14 Regulated deferral accounts (issued on 30 January 2014)

This standard allows an entity whose activities are subject to regulated tariffs to continue to apply most of its accounting policies for regulated deferral accounts pursuant to the previous accounting standard when adopting the IFRS for the first time. The following are not allowed to apply the standard: **(i)** entities that already prepare IFRS financial statements, **(ii)** entities whose current GAAP does not allow recognition of assets and liabilities with regulated tariffs and **(iii)** entities whose current GAAP allows recognition of assets and liabilities with regulated tariffs but that had not adopted this policy in their accounts before adopting the IFRS. Regulated deferral accounts must be presented on a separate line in the statement of financial position and entries must be presented on separate lines in the profit and loss statement and comprehensive income statement. The nature and risks of the entity's regulated tariff and the effects of the regulation on its financial statements must be disclosed. *This interpretation is applicable to financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is retrospective.*

IFRS 15 Revenue for contracts with customers (issued on 28 May 2014)

This standard applies to all revenue from contracts with customers and replaces the following standards and interpretations: IAS 11 - Construction Contracts, IAS 18 – Revenue, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the construction of real estate, IFRIC 18 - Transfers of assets from customers and SIC 31 – Revenue - Barter transactions involving advertising services. It also provides a model for recognising and measuring sales of some non-financial assets, including the sale of goods, equipment and intangible assets. The principles of this standard are applied in five stages: **(i)** identify the contract(s) with a customer, **(ii)** identify the performance obligations in the contract **(iii)** determine the transaction price **(iv)** allocate the transaction price to the performance obligations in the contract, and **(v)** recognise revenue when (or as) the entity satisfies a performance obligation. This standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to the fulfilment of a contract. *A interpretação é aplicável para exercícios que se iniciem em ou após 1 de janeiro de 2017. This interpretation is applicable to financial years beginning on or after 1 January 2017. Early application is permitted provided it is adequately disclosed. Application is retrospective.*

IAS 1: Clarification on disclosures in financial reporting (amendments issued on 18 December 2014

The amendments to the IFRS can be summarised as follows:

Materiality

The decision on aggregation of information in the financial statements and notes is material and requires judgement based on all the facts and circumstances. The amendments clarify that **(i)** information should not be obscured by aggregating or by providing immaterial information, **(ii)** the disclosure of immaterial information is not prohibited, unless it is obscured and **(iii)** the disaggregation of information is more likely to add transparency than the contrary. The guidance on materiality is application even when an IFRS requires specific disclosure or describes minimum disclosure requirements. Preparers must assess whether, in addition to specific disclosures, other disclosures should be included to make the financial statements understandable.

Information to be disclosed in financial statements

The presentation requirements for the items in each line of the statement of financial position and income statement can be met by disaggregating the information included in each item on each line. When subtotals are used, they **(i)** must contain only items recognised and measured in the accordance with the IFRS, **(ii)** must be presented and labelled in such a way as to make the subtotal understandable, **(iii)** must be consistent from one period to another, **(iv)** must not be more highlighted than the totals and subtotals required by the IFRS. In the income statement and statement of comprehensive income, additional subtotals must be reconciled with the subtotals required and each line excluded must be identified. In the statement of comprehensive income, the share of the items related to associates and joint ventures must be presented so that the items that will or will not be subsequently reclassified to profit/loss of the financial year can be identified.

Structure of notes
Entities now have flexibility in ordering the notes as they see fit, but when deciding on the order of the notes they must consider the understandability and comparability of the financial statements. Examples of order of notes: (i) highlight the most important activities for an understanding of the entity's financial performance and financial position (e.g. groups of specific operating activities), (ii) aggregate information on items that can be measured in the same way, (iii) order of the statement of comprehensive income or (iv) order of the statement of financial position.

Disclosures
IAS 1 no longer refers to a "summary" of accounting policies and no longer contains potentially unhelpful guidelines and examples for identifying a significant accounting policy (although it maintains the description: policies that users of financial statements would expect to be disclosed in view of the entity and the nature of its operations). Significant judgements made when applying accounting policies (except those involving estimates) must be disclosed together with the significant policies or other notes in question.
The disclosure requirements of IAS 8 paragraph 28-30 are no longer applicable (i.e. about standards not yet adopted and the first application of a standard).
The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is retrospective.

IAS 16 and IAS 41: Agriculture: bearer plants (amendments issued on 30 June 2014)
The changes made to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture changed the scope of IAS 16 to include biological assets that meet the definition of bearer plants (e.g. fruit trees). The produce growing on bearer plants (e.g. fruit growing on a tree) will remain within the scope of IAS 41. As a result of the amendments, bearer plants will be subject to all the requirements recognition and measurement requirements in IAS 16, including the choice between the cost model and revaluation model, and government subsidies for these plants will be accounted for in accordance with IAS 20 and not IAS 41.
The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is retrospective (two possible methods).

IAS 16 and IAS 38: Clarification of acceptable methods of calculating depreciation and amortisation (amendments issued on 12 May 2014)
The amendments clarify that the principle included in the standards reflects a pattern of economic benefits that are generated from the operation of a business (of which the asset is part) and not that by which the economic benefits are consumed through use of the asset. As a result, the proportion of the revenue generated in relation to total revenue expected to be generated cannot be used to depreciate the goods of fixed asset and can only be used in very limited circumstances to amortise intangible assets.
The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed. Application is prospective.

Annual improvements for the 2012-2014 cycle (issued on 25 September 2014)
The IASB introduced five improvements in four standards in annual improvements in the 2012-2014 cycle. They are summarised below:

IFRS 5 – Non-current assets held for sale and discontinued operations
This improvement clarifies that cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa do not result in any change in the plan and that they should be considered a continuation of the asset's original plan.
Application is prospective.

IFRS 7 – Financial Instruments: Disclosures
It eliminates some disclosure requirements in interim financial statements.
It also clarifies that when an entity transfers a financial asset it can retain the right to a service related to the financial asset via a certain predetermined amount, such as a maintenance contact, and that, in these circumstances, the continued involvement resulting from this contract must be analysed for the purpose of determining disclosures.
It is not necessary to apply the amendments for any period presented that starts before the annual period in which the amendments are applied for the first time. This exemption also applies to entities that are using the IFRS for the first time.

IAS 19 - Employee Benefits
This improvement clarifies that the discount rate must be determined on the basis of high-quality securities in a regional market that shares the same currency (e.g. the Eurozone) and not those in each country.
This improvement applies as of the oldest opening balances presented in the comparisons of the statements in which the amendment will be applied for the first time.

IAS 34 – Interim financial reporting
Disclosure of significant events and transactions can now be made directly either in interim financial statements or by cross reference to other accounting documents (e.g. annual report or risk report). However, interim financial statements are considered incomplete if their users do not have access, on the same terms and at the same time, to cross-referenced information.
Application is retrospective.

The amendments are effective for financial years beginning on or after 1 January 2016. Early application is permitted provided it is adequately disclosed.

The above-stated standards are not applicable or they are not expected to have any impact on the consolidated financial statements of AdP SGPS.

2.2 Consolidation

2.2.1 Dates

The consolidated financial statements reflect the assets, liabilities, results and cash flows of AdP, SGPS, S.A. and subsidiaries and the profits proportional to the shareholding in associate companies, for the financial year ended on 31 December 2014 (and comparisons with 31 December 2013).

2.2.2 Shareholdings in subsidiaries

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

Acquisitions subsequent to 2010:
In the acquisition method the difference between: **(i)** the consideration transferred together with the non-controlling interests and the fair value of the equity interests previously held and **(ii)** the net amount of identifiable assets acquired and liabilities taken on, is recognised at the date of acquisition as goodwill, if positive, or as a gain if it is negative. The transferred consideration is measured at fair value calculated as the aggregate of the fair values, at the date of acquisition of the transferred assets, liabilities incurred and equity instruments issued by the Group. For the purpose of calculating the goodwill/gain from the combination, the transferred consideration is purged of any part of the consideration relating to any other transaction (e.g. payment for the provision of future services or the settlement of pre-existing relations) and the margin is separately recognised in profit or loss. The transferred consideration includes the fair value of any contingent consideration at the acquisition date. Subsequent changes in this value are recognised: **(i)** as equity if the contingent consideration is classified as equity; **(ii)** as expense or income in profit or loss or as other comprehensive income if the contingent consideration is classified as an asset or liability under IAS 39; and **(iii)** as an expense in accordance with IAS 37 or other applicable standards, in all other cases. The expenses related to the acquisition are not part of the consideration transferred and so do not impact on the calculation of the goodwill/ gain from the acquisition. They are recognised as expenses in the year they occur. At the date of acquisition, the classification and designation of all assets acquired and liabilities transferred are reassessed in accordance with IFRS, except for leases and insurance contracts, which are classified and designated based on the contractual terms and conditions on the contract start date. Assets arising from contractual indemnities from the seller regarding the outcome of contingencies wholly or partly related to a specific liability of the combined entity, now have to be recognised and measured using the same principles and assumptions as related liabilities. Calculating the fair value of the assets and liabilities acquired takes into account the fair value of contingent liabilities that result from a present obligation caused by a past event (if the fair value can be reliably measured), regardless of a probable outflow being expected. The Group can choose to measure the "non-controlling interests" for each acquisition, at its fair value or the respective proportional share of the transferred assets and liabilities of the acquired company. The choice of one method or the other influences the calculation of the amount of goodwill to be recognised. When the business combination is undertaken in stages, the fair value at the preceding date of acquisition of the interests held is remeasured to the fair value on the date control is obtained, against profit/loss in the period in which control is achieved, which impacts on the calculation of goodwill. Goodwill is considered to have an indefinite useful life and is therefore not amortised. It undergoes annual impairment tests regardless of whether or not there are signs of it being impaired. Whenever a combination is not completed at the reporting date the provisional amounts recognised at the acquisition date and/or additional assets and liabilities recognised if new information is obtained about facts and circumstances that existed at the acquisition date and, had they been known would have resulted in the recognition of these assets and liabilities at that date, will be adjusted retrospectively during a maximum period of one year from the date of acquisition.

Acquisitions prior to 2010:
Main differences:

- the cost of an acquisition includes the costs directly attributable to the acquisition, thus impacting on the calculation of goodwill;

- non-controlling interests in the acquired company (formerly known as "minority interests") were measured only according to their share of the identifiable net assets of the acquired company but not included in the calculation of goodwill/gain of the combination;

- when the business combination is undertaken in stages, the fair value on the acquisition date preceding the interests held is not remeasured on the date control is obtained, so the previously recognised goodwill remained unchanged;

- any contingent acquisition value was only recognised if the Group had a present obligation, the outflow was considered probable and the estimate was reliably determinable; subsequent changes in this value were recognised against goodwill;

Intragroup balances and transactions, and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction shows proof of impairment of a transferred asset. Accounting policies of subsidiaries are changed whenever necessary to ensure consistency with the policies adopted by the Group. In situations where the Group holds, in substance, control of entities created for a specific purpose, even if it has no direct shareholding in these entities, they are consolidated by the full consolidation method.

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

Business Unit/ Company	Head office	% share capital Held		Capital Equity	Equity	Res. Net Financial year
UNA-PD						
Águas do Algarve, S.A.	Faro	54.44%	EUR	29 290 875	40 640 752	5 139 191
Águas do Centro Alentejo, S.A.	Évora	51.00%	EUR	5 000 000	2 538 149	28 915
Águas do Centro, S.A.	Castelo Branco	70.00%	EUR	24 000 000	6 622 845	(1 362 206)
Águas do Douro e Paiva, S.A.	Porto	51.00%	EUR	20 902 500	29 815 502	2 452 397
Águas do Mondego, S.A.	Coimbra	51.00%	EUR	18 262 743	23 325 981	2 480 853
Águas do Norte Alentejano, S.A.	Portalegre	51.00%	EUR	7 500 000	(7 209 269)	(731 774)
Águas do Noroeste, S.A.	Barcelos	56.66%	EUR	70 012 689	59 198 430	(608 799)
Águas do Oeste, S.A.	Óbidos	51.00%	EUR	30 000 000	17 247 972	(391 502)
Águas de Santo André, S.A.	Vila Nova de Santo André	100.00%	EUR	1 000 000	18 915 662	2 582 750
Águas de Trás-os-Montes e Alto Douro, S.A.	Vila Real	70.08%	EUR	27 812 177	17 034 441	6 947 043
Águas do Zêzere e Côa, S.A.	Guarda	87.46%	EUR	26 607 560	13 795 468	1 603 756
AgdA - Águas Públicas Alentejo, S.A.	Beja	51.00%	EUR	1 520 500	1 563 056	32 463
Sanest, S.A.	Cascais	51.00%	EUR	11 000 000	28 909 326	1 703 120
Simarsul, S.A.	Setúbal	51.00%	EUR	25 000 000	21 443 119	(1 336 166)
Simdouro, S.A.	Vila Nova de Gaia	51.00%	EUR	20 046 075	20 990 372	487 531
Simlis, S.A.	Leiria	70.16%	EUR	5 000 000	(165 733)	683 657
Simria, S.A.	Aveiro	67.72%	EUR	16 712 225	19 132 148	2 006 403
Simtejo, S.A.	Lisbon	50.50%	EUR	38 700 000	70 002 536	6 008 668
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51.00%	EUR	15 000 000	16 397 360	1 065 811
EPAL						
EPAL, S.A.	Lisbon	100.00%	EUR	150 000 000	561 796 151	54 037 472
UNR						
Algar, S.A.	Faro	56.00%	EUR	7 500 000	11 820 277	267 280
Amarsul, S.A.	Moita	51.00%	EUR	7 750 000	14 642 905	215 716
Empresa Geral do Fomento, S.A.	Lisbon	100.00%	EUR	56 000 000	100 362 970	4 382 243
Ersuc, S.A.	Coimbra	51.46%	EUR	8 500 000	18 281 975	605 006
Resiestrela, S.A.	Fundão	62.95%	EUR	3 826 655	8 094 164	664 713
Resinorte, S.A.	Coimbra	51.00%	EUR	8 000 000	12 169 882	2 466 382
Resulima, S.A.	Viana do Castelo	51.00%	EUR	2 500 000	5 275 542	501 418
Suldouro, S.A.	Sermonde	60.00%	EUR	3 400 000	12 838 805	2 172 487
Valnor, S.A.	Alter-do-Chão	53.33%	EUR	10 000 000	13 604 238	641 372
Valorlis, S.A.	Leiria	51.00%	EUR	2 000 000	5 033 984	922 318
Valorminho, S.A.	Valença	51.00%	EUR	900 000	2 579 043	307 468
Valorsul, S.A.	S. João da Talha	55.63%	EUR	25 200 000	59 090 881	240 531
International						
AdP Internacional, S.A.	Lisbon	100.00%	EUR	175 000	(2 525 509)	(2 613 010)
AdP Timor Leste, Lda. [a]	Timor	100.00%	USD	5 000	127 356	523 607
Águas do Brasil, S.A.	Rio de Janeiro - Brazil	100.00%	BRL	2 050 100	(1 331 794)	-
Aquatec, Lda.	Maputo - Mozambique	100.00%	MZN	2 476 580	(37 849 798)	(6 441 278)
Corporate services						
AdP Serviços, S.A.	Lisbon	100,00%	EUR	50 000	7 355 884	1 414 092
Aquasis, S.A.	Lisbon	55,00%	EUR	50 000	(2 110)	(336 394)
AdP Energias, S.A.	Lisbon	100,00%	EUR	250 000	2 938 171	56 654

[a] As it went into operation, this subsidiary was included in the consolidation perimeter using the full consolidation method in 2014.

2.2.3 Investments in associates

Investments in associates are presented at the value resulting from the equity method. The consolidated financial statements, under this method, include the Group's share of the total recognised gains and losses from the date that significant influence commences until the date it effectively ends. Associates are entities in which the Group holds between 20% and 50% of the voting rights, or over which the Group has significant influence but cannot exert control. Unrealised gains or losses in transactions between the Group and its associates are eliminated. The dividends paid out by the company invested in are considered reductions of the investment held.

When the share of the losses of an associate exceeds the investment made in the associate, the book value of the investment is reduced to zero and the Group recognises additional losses in the future associated with liabilities already taken on. Any surplus of the acquisition cost of a financial investment over the Group's shareholding in the fair value of the assets, liabilities and contingent liabilities identified at the date of acquisition of the shareholding in the associate is recognised as goodwill, and it is included in the value of the shareholding and its recovery is annually assessed as an integral part of the investment. If the cost of acquisition is lower than the fair value of the net value of the assets of the acquired associate, the difference is registered directly in the income statement.

The entities qualifying as associates are listed below.

Companies	Head office	% Capital held	Capital Equity	Assets	Liabilities	Capital	Profit Net
Trevo Oeste, S.A. [1]	Alcobaça	43%	1 336 085	3 201 206	787 045	2 414 161	(39 880)
Miese, Lda.	Vila Real	40%	200 000	12 737	27 955	(15 218)	(12 757)

[1] Amounts reporting to 2013

2.2.4 Investments in subsidiaries resident abroad

See Note 2.4.3.

2.2.5 Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the identifiable assets and liabilities attributable to the Group at the date of acquisition or the first consolidation. If the cost of acquisition is lower than the fair value of the net value of the assets of the acquired subsidiary, the difference is recognised directly in profit or loss. Goodwill is not amortised and it is assessed annually or whenever there is evidence, it is tested for recoverability (impairment). An impairment loss is recognised in profit/loss for the period whenever the book value of goodwill exceeds its recoverable value. For the purposes of testing for impairment, goodwill is allocated to the most elementary cash flow generating units (CGU) to which it belongs and compared with the present value of future cash flows generated by the same. The gain or loss on disposal of an entity includes the carrying amount of goodwill relating to that entity, unless the business to which this goodwill is associated keeps on generating benefits for the Group.

2.2.6 Balances and transactions

Intragroup balances and transactions, dividends distributed between Group companies, balances and unrealised gains on transactions between Group companies are eliminated.

2.3 Information by business area

A business area is a group of assets and operations engaged in supplying products or services that are subject to risks and benefits that are different from other business areas. A business area is engaged in supplying products or services in a specific economic environment with different risks and benefits to those influencing the business areas that operate in other economic environments. The AdP Group presents the current report by business area because the transactions by the international companies of the group are presented as an isolated business area.

The identified business areas are:

I – Regulated activities
a. UNA-PD (and UNA-DR)
b. UNR

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

2.4 Foreign exchange

2.4.1 Functional and presentation currency

The items included in the financial statements of the AdP Group are measured in the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements of the AdP Group and notes thereto are presented in euros, unless otherwise stated.

2.4.2Transactions and balances in foreign currency

Transactions in currencies other than the euro are converted into the functional currency using the exchange rates on the transaction dates. Foreign exchange gains or losses resulting from the settlement of transactions and conversion of monetary assets and liabilities denominated in foreign currencies at the rate of the balance sheet date are recognised in the income statement, except when they relate to an extension of investment in a foreign operation, in which case they are deferred in equity in accordance with IAS 21. Non-monetary items measured at fair value are adjusted at the exchange rate on the date of their calculation. The exchange rate effect is recorded together with the change in the fair value of those items. Exchange rate differences are recognised in profit or loss or in "Other reserves", according to the appropriate registration for the recognition of gains or losses on the non-monetary item in question. The conversion of non-monetary items measured at historical cost into the functional currency of the AdP Group is obtained by using the exchange rate on the transaction date.

2.4.3 Group Companies

The results and financial position of all the entities of the AdP group that have a functional currency different from the presentation currency and that is not the currency of a hyperinflated economy are translated into the presentation currency as follows: **(i)** the assets and liabilities of each balance sheet are converted at the exchange rate on the date of the consolidated balance sheet; **(ii)** income and expenses of each income statement are converted at average exchange rates (unless the average rate is not a reasonable approximation of the cumulative impact of the rates in force on the transaction dates, in which case the income and expenses are converted at the exchange rates prevailing on the transaction dates); and **(iii)** the resulting exchange differences are recognised as a separate component of the consolidated statement of comprehensive income.

On consolidation, exchange differences arising from the conversion of a monetary item that forms part of the net investment in foreign entities are reclassified to equity. When a foreign operation is sold, the exchange differences are recognised in the consolidated income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments resulting from the acquisition of a foreign entity are handled as assets or liabilities of the subsidiary and converted at the exchange rate on the consolidated balance sheet date.

2.4.4 Exchange rates used

The foreign currency rates used for converting transactions denominated in currencies other than the euro or to update balances denominated in foreign currencies were as follows:

Country	Currency	**31.12.2014**		31.12.2013	
		closing	average	closing	average
Angola	Kwanza	**129.99**	**125.11**	128.16	134.59
Brazil	Real	**3.25**	**3.22**	2.89	3.23
Cape Verde	Escudo C.V.	**110.27**	**110.27**	110.27	110.27
Mozambique	Metical	**40.67**	**38.53**	39.67	41.09
Japan	Yen	**147.06**	**145.23**	130.18	144.85
USA	USD	**1.23**	**1.21**	1.33	1.38

Source: Bank of Portugal

2.5 Regulated activity - recognition of regulatory assets and liabilities

2.5.1 Introduction

The SMM (multi-municipal systems) management companies operate under the umbrella of regulated activities. The greatest effect of regulation on the company's activity is the scrutiny by the regulator (ERSAR - DL 362/98 of 18 November, amended by Decree--Law 151/2002 of 23 May, and Decree-Law 277/2009 of 2 October) of the tariff levied on the services provided to users and its annual budget. According to this scrutiny, the tariffs charged by the companies require the approval of the grantor, following the opinion issued by the regulator on its suitability.

Considering the hierarchy defined in IAS 8 and the specific circumstances of the concession contracts in force, the Group companies with regulated activities adopted rules internationally applied to companies that operate in markets with these characteristics (FAS 71 issued by the FASB and the new IFRS issued by the IASB on regulated activities). Hence, a set of criteria for the recognition of assets and liabilities related to regulatory rules have been defined. These rules establish that a company must recognise the effects of its operations in its financial statements, providing it supplies services with a price subject to regulation. Regulatory assets and liabilities are only likely to be recognised if, and only if: **(i)** an accredited body (the regulator, for example) defines the price that an entity should charge its customers for the goods or services it provides, and this price binds the customer to accept it, and **(ii)** the price established by regulation (tariff) is defined so as to recover specific costs incurred with providing the goods or services and to obtain a specific remuneration. The activity of the multi-municipal enterprises of the Águas de Portugal Group is regulated, meaning that the prices are set by a third party (Ministry of Agriculture, Sea, Environment and Spatial Planning) on the advice of the regulator - ERSAR, I.P., Entidade Reguladora dos Serviços de Água e Resíduos, I.P., meaning that it is covered by legislation.

In short, a company is required to recognise regulatory assets or regulatory liabilities if the regulator allows the recovery of costs previously incurred or the reimbursement of amounts previously charged, and to be repaid on its regulated activities through adjustments to the price charged to customers. In other words, when there is the right to increase or the obligation to decrease tariffs in future periods as a result of current or expected action by the regulator: **(i)** an entity must recognise a regulatory asset in order to recover a cost previously incurred and obtain a certain remuneration, or **(ii)** an entity must recognise a regulatory liability in order to repay amounts previously charged and pay an appropriate remuneration. The effect of applying the requirements referred to in the previous paragraph corresponds to the initial recognition of an asset (or liability) that would otherwise be recognised in the income statement as an expense (or income).

The Board of Directors believes that not only tariff deviations but also accrued expenses for contractual investment fall within this category. Thus, according to the rule of recognition of regulatory assets and liabilities, these assets (and/or liabilities) should be recognised on the balance sheet since the recovery of the cost (and/or repayment of liabilities) is necessarily eligible for the regulator to set the tariff in subsequent periods, ensuring a correct equilibrium between revenue and expenses.

2.5.2 Tariff deviation assets and liabilities

In legal terms, the shareholders of subsidiaries are entitled to a guaranteed return on invested capital under law and as defined in the concession contracts, which establish the criteria for setting the tariffs or guaranteed values on an annual basis, ensuring full recovery of investment, operational, financial and tax costs and also the adequate remuneration of the equity of the concession holders. This remuneration may also potentially be supplemented by the remuneration of productivity gains. The extraordinary distribution of such gains requires the approval of the ministry.

Thus, the calculation of the difference between the earnings generated from operations and guaranteed remuneration on invested shareholder capital is performed annually. The gross value is recorded in an income account - tariff deviations - and the tax generated by this in a deferred tax account, offset against balance, in light of the recognition of regulatory assets and liabilities.

The value of the tariff deviation corresponds to the correction (credit or debit) to make to the revenue from regulated activities, so that the income of such activity is that required to comply with contractual provisions relating to full recovery of costs, including income taxes (IRC) and guaranteed annual remuneration.

If the tariff is greater than the required tariff, a tariff surplus is generated (negative tariff deviation) that should be debited on income. This register gives rise to the recognition of a deferred tax asset relating to the correction of the output tax associated with the debit to income. The net effect corresponds to the correction of the net income for the total cost recovery and the shareholder's annually guaranteed remuneration.

If the tariff is lower than the required tariff, a tariff deficit is generated (positive tariff deviation) that should be credited on income. This entry gives rise to the recognition of a deferred tax liability relating to the correction of the output tax associated with the credit on income. The net effect corresponds to the correction of the net income for the total cost recovery and the shareholder's annually guaranteed remuneration.

2.5.3 Accrued expenses for contractual investment and amortisation policy

In compliance with the provisions of the concession and partnership management contracts, and according to regulatory rules, and where applicable, the tariffs aim to recover the costs incurred with the investment and the costs to be incurred on investments not yet made (regulated) or on expansion and modernisation investments (regulated) of the concession or partnership. This revenue is balanced by the accrued expenses related to the annual share of the estimate of compliance with these contractual obligations being annually recognised. These accruals are calculated on the basis of the standard of economic benefits associated with the contractual investment defined in the supporting economic model of the concession contract. In relation to the concession companies of the AdP Group, the economic benefits obtained are determined by economic regulation.

In relation to investments (which are embodied in the right to use infrastructure - IFRIC 12) with useful lives longer than the concession period, the amortisation of upfront investments or those that may subsequently be approved or imposed by the grantor and which embody the expansion or modernisation of the initial obligations, should normally be done throughout the concession period. However, additional expansion or modernisation investment, with a useful life extending beyond the concession period will give rise to an indemnity equal to the difference between the depreciable amount and the amount depreciated to that date. Amortisation is calculated taking into account the upfront investments and those still to be made, which are stated in the economic and financial feasibility study used, for the concession period. Amortisation is calculated based on the effluent flow billed that year and the effluent to be billed to the end of the concession period, as forecast in the said study.

It should be noted that the 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, during the term

in which the concession agreements signed with the state are in force. These accruals correspond, in practice, to an accountability for reimbursement at future tariffs, allowing their stabilisation as well as the balancing of the above-referred income (tariffs) and expenses (incurred and to be incurred), during the term the concession agreements signed with the state are in force.

The accruals are recognised in expenditure 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.

2.6 Concession activity

2.6.1 Introduction

The business activities of the concession holding companies of the AdP Group comprise services of general economic interest, essential to people's well-being, business activities and protection of the environment (30 multi-municipal concessions and partnerships - 11 in waste and 19 in water and sanitation). These activities are undertaken in a framework of continuous improvement in the public services of water supply, wastewater treatment and the processing and recovery of waste with growing gains in productive and environmental efficiency. The regulated activities performed by the Group are those undertaken under concession by the management companies of multi-municipal water supply, wastewater treatment and waste processing and recovery systems (upstream services). These activities take place in a context defined by current laws and regulations, the provisions of the public service concession agreements signed with the state and the provisions and recommendations issued by the Water and Waste Services Regulator (ERSAR). The AdP Group concession holding companies, as suppliers of a public service, operate in a highly regulated environment. The Regulator - ERSAR - pursuant to current legislation, regulates the tariff to be charged for the services rendered, among other aspects. The Regulator can, in balancing the public interest with the economic and financial equilibrium of the companies, pursuant to the concession contract, implement measures with a negative impact on cash flow, with all the adverse consequences arising therefrom. The concessions managed by the AdP Group are the BOT type (Build-Operate-Transfer), generally including the taking over of infrastructure already built by the municipalities (on payment of a consideration or not), the construction of new infrastructure, their maintenance and operation. At the end of the concession term these infrastructures are transferred back to the grantor (and/or municipalities) in full working order. As the full usufruct of the infrastructure is not held (e.g. there are restrictions on their sale, provisions as collateral, etc), they are classified as a right of use (intangible asset) in light of IFRIC 12, as expressed in the following paragraphs.

Concessions, terms and benchmarks

Water and sewerage	Concession/ Partnership	Term	Period	Addenda under analysis by the grantor	Shareholder remuneration - rate	Applying to[1]
Águas do Algarve	Concession	30 years	2001-2031	37 years	10-year Government Bond + 3%	Share capital + legal reserve
Águas do Centro	Concession	30 years	2001-2031	50 years	10-year Government Bond + 3%	Share capital + legal reserve
Águas do Centro Alentejo	Concession	30 years	2003-2032	50 years	10-year Government Bond + 3%	Share capital + legal reserve
Águas do Douro e Paiva	Concession	30 years	1996-2026	-	10-year Government Bond + 3%	Share capital + legal reserve
Águas do Mondego	Concession	35 years	2004-2039	-	10-year Government Bond + 3%	Share capital + legal reserve
Águas do Norte Alentejano	Concession	30 years	2001-2030	50 years	10-year Government Bond + 3%	Share capital + legal reserve
Águas do Noroeste	Concession	50 years	2010-2060	-	10-year Government Bond + 3%	Share capital + legal reserve
Águas do Oeste	Concession	35 years	2001-2035	-	10-year Government Bond + 3%	Share capital + legal reserve
AdRA - Águas da Região de Aveiro	Partnership	50 years	2009-2059	-	10-year Government Bond + 3%	Share capital + legal reserve
Águas de Santo André	Concession	30 years	2001-2030	-	10-year Government Bond + 3%	Share capital + legal reserve
Águas de Trás-os-Montes e Alto Douro	Concession	30 years	2001-2031	50 years	10-year Government Bond + 3%	Share capital + legal reserve
Águas do Zêzere e Côa	Concession	30 years	2000-2030	50 years	10-year Government Bond + 3%	Share capital + legal reserve
AgdA - Águas Públicas do Alentejo	Partnership	50 years	2009-2059	-	10-year Government Bond + 3%	Share capital + legal reserve
Sanest	Concession	25 years	1995-2020	-	TBA + 3%	Share capital + legal reserve
Simarsul	Concession	30 years	2004-2034	-	10-year Government Bond + 3%	Share capital + legal reserve
Simdouro	Concession	50 years	2009-2059	-	10-year Government Bond + 3%	Share capital + legal reserve
Simlis	Concession	30 years	2000-2029	50 years	Euribor 6-month rate + 3%	Share capital + legal reserve
Simria	Concession	50 years	2000-2049	-	10-year Government Bond + 3%	Share capital + legal reserve
Simtejo	Concession	43 years	2001-2044	-	10-year Government Bond + 3%	Share capital + legal reserve

Waste	Concession/ Partnership	Term	Period	Shareholder remuneration - rate	Applying to[1]
Algar	Concession	25 years	1996-2021	TBA + 3%	Share capital + legal reserve
Amarsul	Concession	25 years	1997-2022	TBA + 3%	Share capital + legal reserve
Ersuc	Concession	33 years	1997-2030	TBA + 3%	Share capital + legal reserve
Resiestrela	Concession	25 years	2003-2027	TBA + 3%	Share capital + legal reserve
Resinorte	Concession	30 years	2009-2039	10-year Government Bond + 3%	Share capital + legal reserve
Resulima	Concession	25 years	1996-2021	TBA + 3%	Share capital + legal reserve
Suldouro	Concession	25 years	1996-2021	TBA + 3%	Share capital + legal reserve
Valorlis	Concession	25 years	1996-2021	TBA + 3%	Share capital + legal reserve
Valorminho	Concession	25 years	1996-2021	TBA + 3%	Share capital + legal reserve
Valorsul	Concession	25 years	2011-2034	10-year Government Bond + 3%	Share capital + legal reserve
Valnor	Concession	35 years	2001-2036	10-year Government Bond + 3%	Share capital + legal reserve

[1] Shareholder remuneration includes, besides share capital and the legal reserve, where applicable, remuneration and debt (dividends not paid out) in its calculation.

2.6.2 Accounting framework

IFRIC 12 defines the rules on accounting for concession contracts, given the services provided and the power of control over the concession assets. Pursuant to this standard, the concession holding companies of the AdP Group provide two kinds of services: construction, modernisation and renewal of the infrastructure of the system and the operation and management (operate and maintain) of the system composed of the infrastructure, necessary for the delivery of services to users. Accordingly, the company must recognise and measure revenue (profit) from the services provided in accordance with the provisions of IAS 11 - Construction contracts and IAS 18 - Revenue.

If the company provides more than one service under one single concession contract (i.e. construction or modernisation of the services and operation), the value (prices or tariffs) receivable should be distributed according to the fair values, when these are individually (separately) identifiable. The nature of the price and the tariff determines how they are handled in the accounting. The company must recognise **(i)** the revenue and expenses related to the construction or modernisation of infrastructure in accordance with IAS 11 and **(ii)** the revenue and expenses related to operations in accordance with IAS 18. Moreover, it establishes that infrastructure under IFRIC 12 must not be recognised as tangible assets of the operator (or concession holder) because the concession contract does not give them control rights. The operator has access to and operates the infrastructure to deliver a public service on behalf of the grantor in accordance with the terms of the contract. Pursuant to the concession contract, the operator (or concession holder) acts as a service provider for the purposes of interpretation under this standard. The operator (or concession holder) builds or modernises the infrastructure (construction or modernisation of services) used to provide the public services and it operates and maintains the same (operation) over a specific period of time. If the operator (or concession holder) builds or modernises the infrastructure, the value (tariff) received or receivable by the operator must be recognised at fair value, and this corresponds to a value embodied in a right corresponding to: **(a)** a financial asset, or **(b)** an intangible asset. The operator (or concession holder) must recognise a financial asset to the extent that it has a contractual right to receive cash or another financial asset from the Concession Grantor for the construction services. The Concession Grantor has no way of avoiding payment since the contract is enforceable in law. The operator (or concession holder) has unconditional entitlement to receive cash if the Concession Grantor contractually guarantees this payment to the operator, corresponding to **(a)** a specific sum, or **(b)** to the difference, if such exists, between the sums received from the users of the public service and another specific amount, even if the payment is contingent to the operator (or concession holder) ensuring the infrastructure is in agreement with quality and efficiency requirements. The operator (or concession holder) must recognise an intangible asset since it receives a right (permission) to charge users for a public service. The right to charge users for a public service is not an unconditional right to collection because the amounts are dependent on the users actually using the service.

2.6.3 Infrastructure classification

The group companies are contractually based on models classifying the infrastructure as a financial asset, since they do not present risk. They are entitled to (minimum) annual remuneration that is contractually guaranteed. The receipt of this remuneration may be deferred in time, but it is guaranteed.

However, the definition of a financial asset established by IAS 32 is not associated with the risk but with the present and unconditional entitlement to receive cash or another financial asset. Of the various mechanisms for re-equilibrium of the concession contracts of the companies of the AdP Group: the increase of tariffs, direct indemnity payable to the Concession Grantor and/or extension of the concession period, the extension of the period does not comply with the requirements established in that standard (IAS 32) since it constitutes a future right to charge the users, making the option for recognition of the financial asset unfeasible. Accordingly, the SMM concession holding companies or partnership managers of the AdP Group classify the infrastructures of the systems they operate as intangible assets - Right of use of infrastructures.

The intangible assets are registered at acquisition or production cost, including the (net) expenses and income directly and indirectly related with the investment projects, which are capitalised under fixed assets in progress. The expenses that can be capitalised are those related with undertaking investments. The operating costs are assigned to the intangible asset in progress in accordance with the allocation of staff to the respective projects. The financial charges related to loans obtained for financing investments in progress are totally capitalised until they are available for use.

Investments deemed to be for expansion or modernisation, through economic regulation of the concessions, are specifically remunerated since they are a component in the calculation of the tariff (i.e. they have a recovery that is implicit to the approval of the amortisation by the Regulator). Therefore, they are reported in accounts as intangible assets. Current upkeep and maintenance costs are recognised as expenses in the financial year in which they occur.

2.6.4 Amortisation

The intangible asset, rights of use of infrastructures, is amortised on a systematic basis according to the standard for obtaining economic benefits associated thereto, determined by economic regulation and by the approval of amortisation expenses in the annual calculation of the tariffs by the regulator.

Amortisation in the companies of UNA-PD and partnerships is calculated by the sum of the units method, i.e. by amortisation of the contracted investments established in the economic and financial feasibility study that is used. It is based on the flow of effluent billed in that year and the effluent to be billed until the end of the concession period, as envisaged in the economic and financial feasibility study attached to the concession contract. The amortisation in the companies of the UNR is calculated based on the concession term envisaged in the concession contract.

2.6.5 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).

2.6.6 Revenue - construction services

In accordance with IFRIC 12 - Concession arrangements, the revenue from construction services must be recognised in accordance with IAS 11 - Construction contracts. It should also be noted that during the infrastructure construction phase the AdP Group acts as an "agent"/ intermediary, transferring the risks and returns to a third party (that performs the construction) in the course of its operating activity, without appropriating any profit. The revenue and cost of the acquisition of infrastructure therefore register the same amount. Hence, taking into account the regulated activity of the AdP Group companies, recognised revenue is that which strictly results from the levying of the tariffs approved by the Concession Grantor and assessed by the Regulator, plus or minus the underlying tariff deviation, as provided for in the concession contracts. The revenue from construction services is therefore not recognised.

2.7 Tangible fixed assets

Tangible fixed assets are generally measured at cost, less any impairment losses, and are depreciated according to their estimated useful life. Expenditure directly attributable to the acquisition of assets and their preparation and commissioning is taken at its balance sheet value.

A significant part of the tangible fixed assets of the AdP Group (EPAL) acquired before 31 December 2008 are recorded at acquisition cost or deemed cost, which encompasses the effects of revaluations made according to law and the effect of free revaluations, based on a valuation carried out by an independent specialised entity, with reference to the transition date (1 January 2009).

The subsequent costs are included in the book value of the asset or recognised as separate assets, as appropriate, only when it is probable that economic benefits will flow to the company and the cost can be reliably measured. The depreciation of these assets is done during their remaining useful life or until the next repair, whichever happens first. The replaced component of the asset is identified and recognised in the income statement.

All other expenditure on repairs and maintenance is recognised as an expense in the period in which it is incurred.

Tangible fixed assets assigned to operations are depreciated based on the estimated useful life measured from when they are ready for commissioning. The depreciable value is calculated by deducting the expected residual value at the end of the estimated useful life.

The estimated useful lives for tangible fixed assets are expressed as the following percentages:

Type	Years
Buildings and other constructions	10 - 75
Basic equipment	3 – 55
Transport equipment	4 - 16
Tools and utensils	4 - 10
Office equipment	4 - 10

Land is not subject to depreciation.

The depreciation of assets intended for sale is suspended and these are classified as assets held for sale.

Whenever there are signs of the loss of value of tangible fixed assets, impairment tests are carried out to estimate the recoverable value of the asset and register an impairment loss if necessary. The recoverable value is determined as the higher of the net selling price and the value in use of the asset. Value in use is calculated based on the current value of estimated future cash flows, arising from the continued use and disposal of the asset at the end of its useful life.

At the end of each financial year the Board of Directors reviews the depreciation methods and the estimated useful life of each asset to ensure that the consumption trend of the benefits of the assets in the years used by AdP is faithfully reflected. Any changes to these assumptions will be handled as a change in an accounting estimate and earmarked for prospective application.

Gains or losses arising from write-downs or disposals are calculated as the difference between receivables from disposals and the accounting amount of the asset and are recognised in the income statement as income or expenses.

2.7.1 Leasing

The leasing of assets for which the AdP Group substantially holds all the risks and benefits inherent to ownership of the asset are classified as finance leases. Also classified as finance leases are arrangements in which the analysis of one or more specific points of the contract indicate such a nature. This classification is made according to the substance and not the form of the contract. Finance leases are capitalised at the start of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The liability is recognised in other long-term liabilities, net of financial charges. The assets acquired through finance lease agreements are depreciated for the lesser of the asset's useful life and the term of the lease agreement. All other leases are classified as operating leases. The payments of lease arrangements are recognised as an expense on a linear basis over the lease term.

2.8 Intangible assets

2.8.1 Rights to use infrastructure

See note 2.6.3.

2.8.2 Other intangible assets

The intangible assets (software development expenditure, costs of intellectual property and other rights) are included in the accounts at cost net of accumulated amortisation. These headings are amortised using the straight-line method, usually for three to ten years. Investments that improve the performance of software programmes beyond their original specifications are added to the original cost of the software. The costs of implementing software recognised as assets are amortised using the straight-line method over their useful lives, i.e. from three to six years.

2.9 Investment properties

The investment properties of the AdP Group are the 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 good is ready for use, in accordance with the straight line method by twelfths, depending on the estimated useful life for each class of goods (see Note 2.7).

For the purpose of analysing and disclosing the recovery value of investment properties, the company has external appraisals made by specialised external entities at the end of each financial year in which there is considered to have been a change in market conditions or exceptional events that may cause significant variations in the fair value of investment properties, as determined in the appraisals made immediately before. Whenever, on the reporting date, the value of investment properties, net of accumulated depreciation, is higher than its fair value on the reporting date, the company records the loss of impairment.

2.10 Financial assets and liabilities

2.10.1 Classification of financial assets

The financial assets of the AdP Group are classified in the categories indicated below. The classification depends on the purpose for acquiring the investment and it is determined at the time of initial recognition (trade date) of investments and revalued each subsequent reporting date. The Board of Directors decides the classification of its investments on the acquisition date and revalues this classification on a regular basis. The AdP Group classifies its financial assets in the following categories: **i)** loans and receivables; **ii)** investments held to maturity; **iii)** investments measured at fair value through profit or loss (held for trading); **iv)** financial assets available for sale.

Borrowing and receivables

These are financial assets other than derivatives, with fixed or determinable income for which there is no active listed market. These assets may be: **(i)** assets originating from normal operating activities and other associated services, and for which there is no intention to trade them; and **(ii)** investments in companies holding multi-municipal concessions which, according to the special terms and conditions of the underlying concession agreements, qualify as a loan granted, remunerated at an agreed rate.

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

Impairment losses are recorded when there are impartial indicators that the AdP Group will not collect all the amounts owed according to the original terms of the contract established. The indicators used to identify impairment situations are: analysis of breach; non-compliance for more than 6 months; debtor's financial difficulties; and probability of bankruptcy of the debtor.

When the sums receivable from trade receivables or other debtors are due and their terms are under renegotiation, they are no longer regarded as overdue and are treated as new credits.

Investments held to maturity

Investments held to maturity are classified as non-current investments, unless they mature less than 12 months from the balance sheet date. The investments recorded under this heading are those with fixed maturity that the AdP Group intends to and has the ability to keep until such date. Investments held to maturity are recorded at amortised cost, less any impairment losses.

Financial assets measured at fair value through profit or loss

This category encompasses: **(i)** financial assets for trading which are acquired principally for the purpose of being traded in the short term; **(ii)** financial assets designated at the time of their initial recognition at fair value with changes recognised in profit or loss.

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

The changes in fair value are recognised directly in the income statement for the year. These assets are classified as current assets if they are held for sale or if their realisation is expected within 12 months of the balance sheet date.

Financial assets available for sale

The assets available for sale are non-derivative financial assets which: **(i)** the company intends to keep for an indefinite period; **(ii)** are defined as available for sale on initial recognition; or **(iii)** do not fit in the above categories. They are presented as non-current assets unless their disposal is intended within 12 months of the balance sheet date.

The assets available for sale are recorded, after individual recognition, at fair value by reference to their market value at the balance sheet date without any deduction for transaction costs that may be incurred up to the sale. The respective changes in fair value are directly recognised in equity under the item "fair value reserve" until the asset is derecognised or an impairment loss is identified, at which time the accrued value of potential gains and losses recognised in reserves is transferred to the income statement. In relation to equity instruments, a significant or prolonged decline in the fair value to below cost is essential for declaring the existence of impairment.

Equity instruments that are not shares in subsidiaries, joint ventures or associates, are classified as financial assets available for sale, in accordance with IAS 39. If there is no market value, these assets are held at cost, subject to impairment tests.

2.10.2 Financial liabilities

Financial liabilities are classified according to the contractual terms, regardless of their legal form. IAS 39 - Financial Instruments: recognition and measurement envisages the classification of financial liabilities into two categories: **(i)** financial liabilities at fair value through profit or loss; **(ii)** other financial liabilities. Other financial liabilities include loans obtained, trade payables and other accounts payable.

Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss include non-derivative liabilities for selling in the short term and derivative financial instruments that do not qualify for hedge accounting purposes, and are classified in this manner on initial recognition. Gains and losses arising from changes to the fair value of liabilities measured at fair value through profit or loss are recognised in the income statement.

Bank loans

Borrowing is initially recognised at fair value net of transaction costs incurred and is subsequently measured at amortised cost. Any difference between the issue amount (net of transaction costs incurred) and the nominal value is recognised in profit or loss over the term of the loans in accordance with the effective interest method. Borrowings are classified as non-current liabilities, except if it is expected that the AdP Group settle the liability within 12 months of the balance sheet date, in which case they are classified as current liabilities.

Trade payables and other accounts payable

The balances of trade payables and other accounts payable are initially recorded at their nominal value, which is taken to be fair value, and are afterwards recorded at amortised cost in accordance with the effective interest method. Financial liabilities are derecognised when the underlying obligations are eliminated by payment, are cancelled or expire.

2.11 Fair value hierarchy

The assets and liabilities of the AdP Group measured at fair value are classified according to the following levels of fair value hierarchy, as established in IFRS 7: **Level 1**, the fair value of financial instruments is based on active net market prices on the reference date of the balance sheet. This level essentially includes equity, debt (e.g. NYSE Euronext) and futures instruments listed on active markets; **Level 2**, the fair value of financial instruments is not based on active market prices but on the use of valuation models. The main inputs of the models used are observable in the market. This level includes, for example, over-the-counter derivatives and **Level 3**, the fair value of financial instruments is not determined based on active market prices but with valuation models whose main inputs are not observable in the market. The table with the assets and financial liabilities at fair value classified by level is presented in Note 7.2.

2.12 Derivative financial instruments and hedge accounting

The Group uses derivatives solely to manage the financial risks to which it is exposed. The Group does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by the AdP Group are effective instruments in the hedging of risks they do not all qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash flow method and option pricing models, in accordance with generally accepted market assumptions. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

2.12.1 Hedge accounting

Hedge accounting is used whenever there is a relationship between the hedged item and the hedging instrument, meeting the following conditions:

i) the hedge relationship is identified and formally documented on the date it starts;

ii) the hedge relationship is expected to be highly effective at the transaction date (prospectively) and throughout the operation (retrospectively);

iii) with respect to cash flow hedges, there should be a high probability that they will occur;

iv) the hedge is evaluated on an ongoing basis and effectively determined as having been highly effective for the entire financial reporting period for which the hedge was designated.

Changes in the fair value of the derivatives classified as hedges are recognised directly in the consolidated statement of comprehensive income.

2.13 Trade receivables and other accounts receivable

The balances of trade receivables and other accounts receivable are amounts received for the sale of goods or services provided by the Group in the normal course of its business activities. They are initially recorded at fair value and afterwards measured at amortised cost by the effective interest method, less impairment losses.

2.14 Inventories

Inventories are valued at the lower of acquisition cost (which includes all expenses until entry in the warehouse) or net realisable value. The net realisable value results from the estimated sale price during the normal business activity of the Company, less variable selling expenses. The costing method used for the valuation of warehouse outflows is average cost.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits, other short term highly liquid investments with original maturities of six months or less, and overdrafts, at no significant risk of a change in value. Bank overdrafts are reported on the balance sheet as current liabilities, under "Loans", which are also considered in the preparation of the consolidated cash flow statement.

2.16 Impairment

2.16.1 Impairment of financial assets

The AdP Group analyses for objective evidence of either a financial asset or group of financial assets being impaired, at the balance sheet date.

2.16.2 Impairment of financial assets available for sale

For financial assets classified as available for sale, a prolonged or significant decline in the fair value of the instrument below its cost is regarded as indicating that the instruments are impaired. If there is any similar evidence for financial assets classified as available for sale, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset that has already been recognised in the income statement - is removed from equity and recognised on the income statement. Impairment losses of equity instruments recognised in profit or loss are not reversed through the income statement.

2.16.3 Impairment of trade receivables, debtors and other financial assets

Adjustments for impairment losses are recorded when there are impartial indicators that the Group will not collect all the amounts owed according to the original terms of the contracts established. The various indicators used to identify impairment situations include: **(i)** analysis of breach; **(ii)** debtor's financial difficulties; and **(iii)** probability of bankruptcy of the debtor.

The adjustment for impairment losses is determined by the difference between the recoverable amount and the carrying amount of the financial asset and it is recognised against the profit or loss of the financial year. The carrying amount of these assets is reduced to the recoverable value through the use of an adjustments account. When an amount receivable from customers and debtors is considered irrecoverable it is written off using the adjustments account for accrued impairment losses. Subsequent recoveries of amounts that may have been written off are recognised in profit or loss. When the sums receivable from trade receivables or other debtors are due and their terms are renegotiated, they are no longer regarded as overdue and are treated as new credits.

The group does not generally recognise impairment losses on public entities, since it deems the current risk of their insolvency to be remote.

2.16.4 Impairment of non-financial assets

The Group's assets are reviewed at each balance sheet date in order to detect indications of possible impairment losses. If such indication exists, the asset's recoverable amount is evaluated. In relation to goodwill and other intangible assets with an indefinite useful life, the recoverable amount is evaluated annually on the balance sheet date. The recoverable value is, bearing in mind the basis of the concession contracts, the value in use and this in turn corresponds to the guaranteed remuneration (share dividends) in each one of the years over the concession term. These sums are an integral part of the EVEF (economic and financial feasibility study) attached to the contracts of concession that are regularly sent to the sector's regulator. Whenever there are indications of potential losses due to impairment the recoverable value of the Group's assets is ascertained. When the book value of an asset or cash-generating unit to which it belongs exceeds the recoverable amount, it is reduced to the recoverable amount and this impairment loss is recognised in the income statement for the period.

The Group performs impairment tests on cash generating units that began business operations within a certain period of time (2 to 3 years). In the event the respective businesses have not yet reached sufficient maturity, impairment losses are recognised when there are unequivocal indicators that recoverability is considered remote.

2.16.5 Determining assets' recoverable amount

The recoverable amount of receivables in the medium and long run corresponds to the present value of expected future receivables, using the effective interest rate of the original operation as a discount factor. The recoverable amount of other types of asset is whichever is the higher of its net sale price and its value in use. In the calculation of the value in use of an asset, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of the money

and the specific risks of the asset in question. The recoverable amount of the assets that alone do not generate independent cash flows is determined together with the cash generating unit to which they belong.

2.16.6 Reversal of impairment losses

Impairment losses recognised in medium and long-term receivables are only reversed when the reason for increasing the recoverable amount is based on an event that occurred after the date of recognition of the impairment loss. Impairment losses relative to other assets are reversed whenever there are changes in the estimates used to calculate the respective recoverable amount. Impairment losses are reversed up to the amount, net of amortisations, that the asset would have had if the impairment loss had not been recognised.

2.17 Share capital

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

2.18 Dividends payable

Dividends are recognised as a liability when declared.

2.19 Government grants

Grants related to assets (investment) are recognised when there is reasonable certainty that the grant will be received and that the AdP Group will meet all the obligations inherent in its receipt. Investment grants for the acquisition and/or construction of tangible and/or intangible assets are included under non-current liabilities and are credited on the income statement based on the same amortisation method as that for the underlying assets.

Other grants are deferred and recognised in the consolidated income statement in the same period as the expenses they are intended to offset.

2.20 Provisions, contingent assets and liabilities

Provisions are only recognised when an obligation exists that results from past events, the settlement of which is likely to require the allocation of internal resources in an amount that can be reasonably estimated. Whenever any criterion is not met or the existence of the obligation depends on the (non-)occurrence of a particular future event, the AdP Group will disclose this fact as a contingent liability, unless an evaluation of the requirement to pay funds for its settlement is considered unlikely. When there are a large number of similar obligations, the probability of generating an outflow of internal resources is determined for them as a whole. The provision is recognised even where the likelihood of an outflow of internal resources relating to an item of the same class of obligations may be small. Current obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract exists when the company is an integral party to a contract which has associated costs with respect to its compliance and which cannot be avoided and exceed the future economic benefits derived from the same. The provisions are measured at the present value, on the balance sheet date, of the best estimate of the Board of Directors regarding the expenditure required to discharge the obligation. The discount rate used to calculate the present value reflects the current market expectation for the period of the discount and for the risk of the provision in question.

Provisions for future operating losses are not recognised.

Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the financial statements, but disclosed in the attached notes. When the likelihood of an outflow of resources that incorporate economic benefits is remote, or if it is unlikely that there will be an inflow of economic benefits, the relevant contingent liabilities or contingent assets are not disclosed.

2.21 Employee benefits

EPAL and EGF have a system of social benefits for their workers, which comprises the payment of retirement pension top-ups (for old age or disability), in addition to supporting liabilities arising from pre-retirement situations. The system of pension benefits of the two companies embodies two types of pension plans, with defined contribution and defined benefits.

Defined contribution

It is a pension plan in which the company's only monetary obligation is to make fixed contributions to a separate entity (a fund). These contributions are recognised as an expense in the period they refer to.

Defined benefit

A defined benefits plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, normally dependent on one or more factors such as age, years of service and salary.

The obligation of the defined benefits plan is calculated annually/ half-yearly by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the discount of the future payments of benefits, using the interest rate of top-quality bonds in the same currency in which the benefits are to be paid and with maturities close to those of the liabilities taken on.

The liabilities recognised on the balance sheet relative to defined benefits plans are the present value of the benefit obligation defined at the balance sheet date, less the fair value of the assets of the plan, together with adjustments for past service expenses.

Past service expenses are recognised as income on a straight-line basis over the period until the corresponding benefits are actually acquired. They are immediately recognised since the benefits have already been fully acquired.

EPAL

The EPAL benefits plan is restricted to the payment of a top-up of the retirement pension (for old age or disability) awarded by the Social Security system, and the payment of pre-retirement situations. Liabilities with the retirement top-up are financed through the independent fund that has been set up and the liabilities with pre-retirement are directly borne by EPAL, and independently managed by a financial institution. In other words, EPAL has set up an independent fund to provide a retirement top-up plan for its employees, comprising a defined benefits plan. The Company changed the defined benefits pension plan on 22 March 2008 for a mixed defined benefit and defined contribution plan.

EGF

The EGF benefits plan refers to the payment of a top-up of the retirement pension (for old age or disability) awarded by the Social Security system. Liabilities with the retirement top-up are financed through the independent fund managed by BPI Pensões. EGF changed the pension plan from one of defined benefits to defined contributions, on 31 December 2006. This change had no impact on liabilities, since those were totally hedged.

2.22 Tax

AdP SGPS is covered by the special scheme of taxation for groups of companies that includes all the companies in which AdP SGPS directly or indirectly holds at least 70% of the share capital and which are also resident in Portugal and liable for payment of corporate income tax. The other subsidiaries that are not encompassed by the special taxation scheme for the AdP Group are taxed individually, on the basis of the respective taxable income and at the applicable tax rates.

The parent and subsidiaries in which control is directly or indirectly held are taxed at the 23% rate, plus the municipal tax rate to a maximum of 1.5% of the taxable profit. The State surtax is 2.5% on the taxable profit that exceeds EUR 1.5 million to a ceiling of EUR 7.5 million, and then at the 4.5% rate for taxable profit over EUR 7.5 million, up to a limit of EUR 35 million. Amounts above EUR 35 million are taxed at 6.5%.

Income tax for the period includes current tax and deferred tax. Income tax is recognised in the consolidated income statement, except where it is related to items that are recognised directly in equity. The amount of current tax payable is calculated based on the pre-tax profit, adjusted in accordance with tax rules.

Deferred tax is recognised whenever temporary differences between the tax base of assets and liabilities and their carrying amount on the consolidated financial statements are deemed to exist. Deferred tax that arises from the initial recognition of an asset or liability in a transaction that is not a merger, and which on the transaction date has not affected either the accounting outcome or the tax outcome, is not recorded. Deferred tax assets are recognised when it is probable that future taxable profit will be available against which temporary differences can be utilised or when the reversal of a deferred tax asset is expected for the same time and with the same authority.

Deferred taxes are calculated based on the current rate or the rate officially announced at the balance sheet date (the tax rate in 2014 is 21%) and which is expected to apply on the date on which deferred tax assets are realised or deferred tax liabilities are paid. Differences that may arise from expected changes in the rates that will reverse temporary tax differences are considered in the consolidated income statement.

Deferred taxes are recognised on temporary differences arising from investment in subsidiaries and associates except when the AdP Group is able to control the timing of the reversal of the temporary difference and it is likely that the temporary difference will not be reversed in the foreseeable future.

Deferred taxes are recorded in the net profit or in other reserves, depending on how the transaction or event giving rise to them is recorded.

2.23 Assets and liabilities held for sale

This item includes non-current assets (or groups for divestment), whose book value will be recovered mainly by a sales transaction instead of by continued use, which meet the following conditions:

- They are available for immediate sale in their current condition subject only to the usual, customary terms for the sale of said assets (or groups for divestment) and their sale is highly likely.

- In other words:
  - The appropriate management hierarchy is committed to selling the asset (or group for divestment);
  - The programme for finding a buyer and concluding the plan has started;
  - The asset (or group for divestment) has been widely publicised for sale at a reasonable price in relation to its fair value;
  - The sale will be completed within one year of the classification date.

Events or circumstances that may prolong the period for completing the sale beyond one year do not preclude an asset (or group for divestment) being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and if there is sufficient proof that the entity is still committed to selling the asset (or group for divestment).

Immediately before the initial classification of the non-current assets (or groups for divestment) as held for sale, the book values of the assets (or all assets and liabilities in the group) are measured in accordance with applicable standards. On the date of initial recognition, non-current assets (or groups for divestment) held for sale are measured at their book amount or fair value less sales costs, whichever is lower, or, if acquired as part of a concentration of business activities, at fair value less sales costs. If the sale is expected to occur beyond one year ahead, sales costs are measured at their present value. Any increase in the present value of sales costs resulting from the passage of time is recognised in profit/loss as a financing cost. Any initial or later reduction in the asset (or group for divestment) to fair value less sales costs is recognised as an impairment loss. Any gain resulting from a later increase in fair value less sales costs of an asset is recognised but not beyond the loss by cumulative impairment previously recognised. Interest and other costs attributable to liabilities of a group for divestment classified as held for sales are still recognised.

2.24 Revenue

Revenue comprises the fair value of the sale of goods and provision of services, net of taxes and discounts and after eliminating internal sales. The concession holding and regulated companies, as referred to in note 2.6.6, only recognise revenue that results from the charging of the tariffs approved by the Grantor or partnership commission and examined by the regulator. Revenue is recognised as follows:

2.24.1 Services provided

Regulated activity - Upstream services - Wastewater treatment and partnerships

Revenue is recognised based on **(i)** minimum guaranteed amounts, or **(ii)** consumption, i.e. revenue is recorded as the product of the approved tariff and consumption measured and/or estimated.

Regulated activity - Upstream services - Waste treatment and recovery - unsorted waste

Revenue is recognised based on consumption, i.e. revenue is recorded as the product of the approved tariff and consumption measured and/ or estimated.

Unregulated activity

The availability tariff is based on a contract established with the customer, with a defined rental price. The value of the contract is recognised every month in the month to which the delivery of the service refers.

2.24.2 Sale of goods

Regulated activity - Upstream services - Water supply

Revenue is recognised based on **(i)** minimum guaranteed amounts, or **(ii)** consumption, i.e. revenue is recorded as the product of the approved tariff and consumption measured and/or estimated.

Regulated activity - Upstream services - Waste treatment and recovery - sale of products

Treatment and recovery of waste - products: the sale of products obtained from the recycling of waste is registered at the time of the transaction.

Regulated activity - Downstream services - Partnerships

Revenue is composed of two components, one fixed and the other variable. Revenue is recorded as the product of the approved tariff for each bracket and the consumption measured and/or estimated of that bracket (variable component). The fixed component corresponds to the availability of the service and it is pegged to the meter's debit capacity. Recognition is done in fractions of twelve.

Unregulated activity

Water supply – end consumer: the sale of water to end consumers is based on m3 consumed. The tariffs of each one of the concessions and non-concessions (EPAL) apply. In some cases consumption estimates are made, which are then corrected when the individual meters of each customer are read.

2.24.3 Tariff deficit and surplus

See note 2.5.2.

2.24.4 Interest

Interest income is recognised based on the effective interest rate and is recorded in the period in which it is earned, according to the accruals principle.

When a receivable is adjusted for impairment, the Group reduces its book value to its recoverable value, though estimated future cash flows are still discounted at the initial effective interest rate (before impairment) and the correction of the discount is considered to be interest income.

2.24.5 Dividends receivable

Dividends are recognised when the shareholder's right has been established, which is usually by decision of the General Meeting of the subsidiary or associate.

2.25 Own work capitalised

The costs of resources directly allocated to tangible and intangible assets during their development/construction stage are recognised in this item when it is concluded that they are recoverable through the realisation of those assets. Capitalised financial expenses as well as some personnel expenditure are particularly important. They are measured at cost based on internal information specially prepared for the purpose (internal costs) or on the respective purchase costs plus other expenses inherent therein, meaning therefore they are recognised without any profit margin. Capitalised expenses are carried directly on the balance sheet without impact on the income statement, and they are disclosed in the notes whenever such is applicable.

2.26 Expenses and losses

Expenses and losses are recorded in the period to which they relate, regardless of when they are paid or received, according to an accruals basis.

2.27 Subsequent events

Events occurring after the balance sheet date that convey additional information on conditions prevailing at the balance sheet date are reflected in the financial statements. Post-balance sheet date events that convey information on conditions that occur after the balance sheet date are, if material, disclosed in the notes to the financial statements.

3. Financial risk management policies

3.1 Risk factors

The business operations of the AdP Group are exposed to a number of financial risk factors: credit risk, liquidity risk and cash flow risk associated with the interest rate). The AdP Group has developed and implemented a risk management programme which, together with the permanent monitoring of the financial markets, seeks to minimise potential adverse effects on the financial performance of AdP and its subsidiaries. Risk management is the responsibility of the central treasury department, according to the policies approved by the Board of Directors. The treasury department identifies, assesses and undertakes operations designed to minimise the financial risks, in close cooperation with the AdP Group's operational units. The Board of Directors drafts the principles for risk management as a whole and policies that cover specific areas such as currency conversion risk, interest rate risk, credit risk, the use of derivatives, other non-structured instruments and the investment of surplus liquidity. The Board of Directors is responsible for establishing the general risk management principles and also the exposure limits. All transactions undertaken using derivatives require the prior approval of the Board of Directors and the ministry, which set the parameters for each transaction and approve the formal documents describing the specific objectives.

3.2 Credit risk

Credit risk is essentially related to the risk of a counterparty defaulting on their contractual obligations, resulting in a financial loss for the Group. The AdP Group is exposed to the credit risk in the course of its operational, investment and cash management activities. Credit risk in operations is basically related to receivables for services rendered to customers (water, wastewater and waste services). This risk is theoretically low, given the nature of the service rendered (to State entities - municipalities). However, given the specific economic and financial situation of the country of recent years, with direct consequences on local government, the amount of customer debts has remained at significant values (see notes 16 and 18 – trade receivables). Impairment losses for receivables are calculated considering: **i)** the customer's risk profile, depending on whether a corporate or business customer; **ii)** the average collection period, which varies from business to business; and **iii)** the customer's financial health. The AdP Group has been warning the Central Government of the unsustainability of the current arrears situation of some municipalities, with the aim being to try to find alternative ways of collecting the overdue amounts.

The Board of Directors of AdP SGPS constantly assesses measures aimed at ensuring the recovery of the balances receivable from municipalities, which include the PAEL programme, activating the preferential claims mechanism (which is focused on current debts), concluding payment agreements and bringing injunctions or legal action.

It is still the understanding of the Board of Directors of AdP SGPS that there are no indicators to date that may lead, in relation to such balances, to the recognition of impairment losses, despite the uncertainty that exists regarding the time period taken for municipal customers to ensure compliance with their obligations.

The following table shows the maximum exposure of the Group to credit risk (not including customers' and other debtors' balances) as at 31 December 2014, not considering any collateral held or other credit enhancements. The defined exposure for assets on the balance sheet is based on their carrying amount as reported on the main balance sheet.

Banking financial assets	**31.12.2014**	31.12.2013
Current Accounts	51 140 074	50 323 459
Term deposits	207 377 232	297 944 658
Other securities	23 014 228	18 362 041
Equipment renewal fund	-	2 677 885
Capital replenishment fund	102 667 587	123 316 515
	384 199 121	492 624 558

Rating	**31.12.2014**
A2	871 321
B1	31 490 228
B2	66 978 290
B3	5 072
Ba1	137 157 946
Ba3	48 135 274
Baa1	5 174 176
Baa2	3 880 016
Baa3	78 126 220
Caa1	2 873 378
No known rating	9 507 200
	384 199 121

Note: Rating obtained from financial institutions sites in December 2014.

3.3 Exchange rate risk

Exposure to exchange rate risk of the AdP Group is not relevant. This risk basically encompasses future commercial transactions, recognised assets and liabilities, as well as net investments in foreign operations not incurred or expressed in the AdP Group's operating currency. The AdP Group's central treasury manages the net exposure of the Group in each currency, contracting swaps centrally so as to minimise commercial risks, recognised assets and liabilities. The AdP Group has investments denominated in foreign currency with net assets exposed to exchange rate risk through conversion, and funding in foreign currency exposed to exchange rate risk. The exchange rate risk inherent to the net assets in foreign currency is managed by taking out loans in the same currency, and loans with hedging exchange rate swaps.

3.4 Liquidity risk

The management of liquidity risk requires keeping a reasonable level of cash and cash equivalents and implies the consolidation of floating debt through an adequate amount of credit facilities and the ability to liquidate market positions. The AdP Group's treasury department, given the dynamics of the underlying businesses, intends to secure floating debt flexibility, keeping the credit lines available for that purpose. The Group manages liquidity risk by taking out and maintaining credit lines and financing facilities with a firm underwriting commitment, with domestic and international financial institutions providing immediate access to funds. This practice has been greatly influenced in recent financial years by Portugal's well-known difficulties in gaining access to the credit markets, and by the high level of customer debt. In view of this problem, the Group has analysed its investment commitments and rescheduled the Group's investments, mapping them according to importance and financial, economic, and environmental impact. This ensures the minimisation of all risks associated with commitments made to different entities. The table below shows the AdP Group's liabilities by intervals of contracted residual maturity. The amounts shown in the table are the non-discounted contractual cash flows, for future payment (without the interest which these liabilities incur).

	< 1 year	1 to 5 years	> 5 years
Loans	598 892 627	362 605 605	1 777 047 142
Trade payables and other liabilities	189 956 191	69 112 410	45 981 832

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

3.5 Cash flow risk and fair value risk linked to interest rates

The interest rate risk of the AdP Group basically stems from taking out long-term loans. Such loans with interest at floating rates expose the AdP Group to cash flow risk whereas loans with fixed interest rates expose the Group to fair value risk linked to the interest rate. Águas de Portugal, SGPS manages interest rate-linked cash flow risk by taking out swaps that allow loans with floating interest rates to be converted to fixed interest rate loans. Likewise, the guaranteed remuneration of concession contracts, and consequently the tariff deviation, is associated with the volatility of interest rates. The table below provides an approximate sensitivity analysis of the financial costs of the AdP Group.

	31.12.2014	Average rate + 1%	Average rate - 1%
Interest incurred	87 640 704	111 921 850	61 048 282
	87 640 704	**111 921 850**	**61 048 282**

3.6 Capital risk

The AdP Group's goal with respect to managing capital, which is a broader concept than the capital disclosed on the balance sheet, is to maintain an optimal capital structure through the prudent use of debt to enable it to reduce the cost of capital. The aim of managing capital risk is to safeguard the Group as a going concern, with a reasonable return for shareholders and the generation of benefits for all stakeholders The policy of the AdP Group is to have the parent company, AdP, SGPS, S.A. contract loans with financial corporations (except for EPAL and investment loans - EIB), which in turn gives loans to its subsidiaries. This policy aims to optimise the capital structure for greater efficiency and to reduce the average cost of capital.

	31.12.2014	31.12.2013
Non-current borrowing	2 139 652 747	2 423 505 635
Current borrowing	598 892 627	616 695 220
Cash assets	(281 885 233)	(369 391 115)
Debt	**2 456 660 141**	**2 670 809 740**
Investment grants	1 630 392 783	1 943 203 034
Total equity	1 327 664 514	1 242 276 315
Capital and subsidies	**5 414 717 438**	**5 856 289 089**
Debt/Total capital	**0.45**	**0.46**

The financing model of the AdP Group is fundamentally based on two major categories that allow the equilibrium of the capital structure, bank loans, in particular loans contracted from EIB, and equity and non-repayable investment grants.

3.7 Regulatory risk

Regulation is the most significant restriction on the profit of the economic activities undertaken by the Group. The Regulator can take measures with a negative impact on cash flow, with all the adverse consequences arising therefrom. AdP has sought to monitor

the activities of the Regulator more closely in order to minimise these risks, thereby seeking to anticipate potential negative impacts on the companies arising from rules issued by ERSAR.

The plan of the 19th Constitutional Government, as well as the Plan for Economic and Financial Assistance, foresee the autonomisation of the waste sub-sector of the Águas de Portugal Group (AdP) and the need to implement the necessary measures to open up to private investment. Several measures are being implemented that shall lead to a restructuring of the sector, including the sale of the EGF sub-holding (waste). To this date, the Board of Directors of AdP SGPS has no knowledge of the impact that those measures may have on the consolidated financial statements of the AdP Group, besides those already disclosed in these financial statements.

Law 10/2014 of 6 March approved the new statutes of ERSAR, which is now an independent administrative body with greater autonomy in terms of organisation, functions and financial matters. It is equivalent to the other independent regulators. Law 12/2014 of 6 March altered Decree-Law 194/2009 of 20 August for the second time (already amended by Decree-Law 92/2010 of 26 July). It establishes the rules on municipal water supply, urban wastewater treatment and management of household waste, changing the rules on billing and misdemeanours.

The allocation of greater powers to ERSAR as an independent regulator, accentuated the need for it to guarantee prices that ensure the economic and financial viability of household waste management companies. Under the powers vested in the Management Board of ERSAR, on 17 February 2014 it approved the tariff regulations for the household waste management service, which applies to all providers of these services, regardless of each one's management model. This regulation was published in Diário da República IIª Série on 15 April 2014.

4. Estimates and judgements

The estimates and judgments that have an impact on the AdP Group's financial statements are assessed continuously and they represent, at the date of each report, the best estimate of the Board of Directors, bearing in mind the historic performance, accumulated experience and expectations with respect to future events which, in the circumstances in question, are believed to be reasonable. The intrinsic nature of the estimates can mean that the real reflection of situations that have been the target of an estimate may, for the purposes of financial reporting, differ from the estimated amounts. The estimates and judgments that generate a significant risk of leading to a material adjustment in the book value of assets and liabilities over the next financial year are:

4.1 Provisions

The companies of the AdP Group regularly analyse any obligations arising from past events and which must be recognised or disclosed. The Group is party to several ongoing legal proceedings in relation to which it has made a judgement, based on the opinion of its lawyers, to decide if a provision should be set up for these contingencies (Notes 26 and 50.2).

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

4.2 Tangible and intangible assets

The determination of assets' useful lives and the depreciation/amortisation method are essential to calculate the amount of depreciation and amortisation to be recognised in the consolidated income statement.

These two parameters were defined in accordance with the best estimate of the Board of Directors for the assets and business in question. However, since it is mostly a concession and regulated activity, the useful life of assets is associated with the pattern of economic benefits obtained, which are determined by economic regulation (for the concession flows and term). The estimates of flows to be treated or supplied are subject to periodic revisions based on new information, which is being analysed as part of the restructuring of the sector.

When determining a contractual investment, the Group uses as a depreciation base the value of contractual investments provided for in concession contracts and/or EVEF's submitted later to the grantor, which may be subject to revision and approval by it with a resulting impact on the Group's financial statements.

4.3 Impairment of receivables

The calculation of an impairment loss can be triggered by a number of events, many of which are outside the influence of the AdP Group, such as the future availability of funding, the cost of capital and the maintenance of the present market regulation structure, not to mention any other internal or external changes to the AdP Group. The identification of impairment indicators, the estimate of future cash flows and the determination of the fair value of assets (or a group of assets) requires a high degree of judgment by the Board of Directors, in terms of identifying and assessing the different impairment indicators, expected cash flows, applicable discount

rates, useful lives and residual values. In the specific case of the AdP Group, impairment indicators change with the growth of the infrastructure network, the expected tariff changes or the current strategies of AdP shareholders, which together with other factors may lead to changes in the pattern or amount of future cash flows. Impairment losses on trade receivables are mainly calculated based on the age of receivables, the risk profile of customers and their financial situation. The estimates related to the evaluation of the impairment of receivables differ from business to business.

The impairment of any of the reported assets at the issue date of the consolidated financial statements of the AdP Group is not considered likely, beyond the impairment losses already recognised in these financial statements. If, for the purpose of any assessment, any sign of impairment is found, the relevant book amount of the asset on the balance sheet will be adjusted against the profit or loss for the year. In addition to the above-mentioned uncertainties, there are some areas of judgment with an impact reflected in the financial statements. Although it is thought unlikely that they will lead to a material change in the next financial year they may nonetheless bring about a change in the assumptions or assessment by the Board of Directors of the AdP Group companies.

4.4 Fair value of derivatives

The fair value of financial instruments that do not have an active market is calculated based on evaluations that reflect the mark-to-market of such instruments. The Group uses its judgment to choose the evaluation techniques and assumptions to use to assess the derivatives contracted at the financial reporting date. Changes in the fair value of the derivatives that do not qualify as hedges are recognised in profit or loss and those classified as hedges are recognised directly in the consolidated statement of comprehensive income.

4.5 Post-employment benefits

The determination of liabilities for retirement pensions and other employee benefits requires the use of assumptions and estimates, including the use of actuarial projections, estimated rates of return on investments, discount rates and growth of pensions and salaries and other factors that may impact on the costs and liabilities of pension plans, health care plans and on other benefits. The main actuarial assumptions used to calculate the liability for retirement benefits are described in Note 27.1.

4.6 Estimate of tax and deferred tax

The AdP Group believes that any review of tax returns will not result in material corrections in the consolidated financial statements, which may require the creation of any provision for taxes. Deferred tax assets are recognised for all recoverable losses to the extent it is probable that there will be taxable profits against which the losses can be offset.

The Board of Directors, considering the current climate and the impact such may have on future results, needs to make judgments to determine the amount of deferred tax assets that can be recognised in view of: the date and probable amount of future taxable profit and future tax planning strategies.

The estimates were based on the best information available at the date of preparation of the consolidated financial statements. However, situations may occur in subsequent periods that were not foreseeable at the time and were not considered in these estimates. In accordance with IAS 8, changes to the estimates that occur after the consolidated financial statements date are corrected prospectively in profit or loss.

5. Relevant events affecting profit or loss for the year

The profit and financial position of the AdP Group are influenced by some relevant facts in 2014.

5.1 Classification of the EGF Group as held for sale/discontinued operations

In Decree-Law 45/2014 of 20 March, the government approved the reprivatisation of EGF by selling 100% of its share capital, which was held by AdP – Águas de Portugal, SGPS, S.A. The Decree-Law also determined that the divestment would be done by internal public tender. It set out the phases and the workers' right to acquire 5% of the share capital of EGF. It determined the sale option and pre-emptive rights to be granted to the municipalities holding shares in the multi-municipal systems in which EGF is a shareholder. In Council of Ministers Resolution 30/2014 of 3 April, published in Diário da República of 8 April, the government approved the specifications that regulate the terms of the public tender for the sale and determined its issue. On 31 July 2014, four of the seven bidders invited to tender for acquisition of the EGF shares submitted their bids. Council of Ministers Resolution 55-B/2014 of 19 September selected Agrupamento SUMA, formed by the companies Suma - Serviços Urbanos e Meio Ambiente, S.A., Mota - Engil Ambiente e Serviços, SGPS, S.A, and Urbaser, S.A., as the successful bidder in the public tender for the reprivatisation of EGF. On 6 November 2014 the purchase and sale contract for 95% of the share capital of EGF was signed by AdP - Águas de Portugal, SGPS, S.A. and Suma Tratamento, S.A., the company set up by the members of Agrupamento SUMA. The remaining 5% of the share capital is reserved for purchase by EGF employees after the completion of the transaction. Suma Tratamento, S.A. informed the anti-trust authority of the purchase of the EGF shares and is awaiting final approval of the operation, which is a sine qua non for its completion,

which will take place with the transfer of the EGF shares from AdP - Aguas de Portugal SGPS, S.A. to Suma Tratamento, S.A. on the closing date of the operation. For this reason, in accordance with IFRS 5, these financial statements carry the balances, operations and results of the EGF Group as held for sale /discontinued operations (see Note 30).

Assets and liabilities held for sale can be broken down as follows:

	31.12.2014
Assets	
Intangible assets	660 984 028
Financial investments	30 603 288
Deferred tax assets	81 592 013
Trade receivables and other non-current assets	29 546 581
Current trade receivables	57 872 599
Other current assets	20 303 825
Cash and cash equivalents	45 061 376
Other assets	2 655 338
	928 619 048
Liabilities	
Borrowing	178 522 303
Deferred tax liabilities	35 007 824
Change of contractual investment	182 015 569
Investment grants	273 180 468
Tariff deviation	77 263 273
Other liabilities	41 397 476
	787 386 913

Profit from discontinued operations can be broken down as follows:

	31.12.2014
Turnover	169 804 250
Cost recovery tariff deficit/surplus	(3 194 472)
Sales costs/variation in inventories	(11 798 662)
Supplies and services	(59 698 442)
Personnel costs	(40 642 559)
Amortisations, depreciation and reversals in financial year	(59 036 905)
Investment grants	18 134 022
Other operating costs and income	(794 410)
Operating profit/loss	12 772 822
Financial income	371 264
Tax	(7 633 003)
Net income of financial year as a going concern	5 511 083
Net profit allocatable to shareholders of AdP SGPS	3 393 633
Net profit allocatable to non-controlling interests	2 117 450
	5 511 083

5.2 Derivatives

In April 2013, AdP SGPS cancelled two derivatives, contracted with BNP, as part of the general negotiations led by the Portuguese State. This operation generated a capital gain of approximately EUR 10 million. The remaining hedging instruments increased, resulting in a reported impact on profits of approximately EUR 3.6 million. The two effects described above had a positive impact on profit of EUR 13.6 million in 2013. Derivatives had a negative impact on profit of approximately EUR 2.3 million in 2014, as a result of general falls in interest rates.

5.3 Personnel costs

In 2012, by order of the state budget law, Christmas allowance was not paid, nor was the accruals of holiday pay to be paid in 2013 recorded. In 2013, pursuant to a decision of the Constitutional Court, in addition to the accrual of the month of holiday pay to be paid in 2014, the Christmas allowance was also paid as well as the holiday allowance for 2012 paid in 2013 that was not accrued in the previous year. Thus, 15 months are recorded in personnel expenses in 2013 against 14 in 2014. The amounts are therefore not directly comparable.

5.4 Income from investment properties

As a result of an agreement with Lisbon Municipal Council, EPAL incorporated in its assets a plot of land that was recorded as investment property with a value of approximately EUR 12.8 million against profit/loss as it was a donation (see detail in Note 10).

6. Information by business segment

31.12.2014	Regulated activity Production, treatment Transport	Unregulated activity EPAL	Unregulated activity Internacional	Unregulated activity Corporativos	Adjustments	Net profit from discontinued operations	Consolidated total
External sales	490 616 016	130 175 013	4 166 340	1 228 629	-		626 185 998
Inter-segment sales	13 762 825	11 783 390	-	19 150 879	(44 697 094)		-
Total revenue	**504 378 841**	**141 958 403**	**4 166 340**	**20 379 508**	**(44 697 094)**	**-**	**626 185 998**
Cost of sales/variation of inventories	(16 994 468)	(2 189 866)	-	(282 085)	-		(19 466 419)
Supplies and services	(141 723 284)	(25 667 118)	(4 149 351)	(2 461 598)	-		(174 001 351)
Personnel costs	(56 569 153)	(22 649 295)	(1 402 727)	(9 247 716)	-		(89 868 891)
Amort. deprec. and reversals in financial year	(163 571 047)	(25 009 466)	(92 036)	(1 312 148)	-		(189 984 697)
Provisions and reversals in financial year	(980 946)	(63 456)	450 878	1	-		(593 523)
Impairment losses and reversals	(2 051 564)	(52 146)	-	(405 374)	-		(2 509 084)
Fair value gains and losses	-	-	-	-	-		-
Investment grants	54 508 264	1 275 977	-	-	-		55 784 241
Other operating expenses and losses	(7 322 412)	(1 298 604)	(522 970)	(213 854)	-		(9 357 840)
Other operating income and gains	4 848 258	14 235 759	354 385	448 962	-		19 887 364
Inter-segment operating profit	(39 380 078)	(3 129 242)	(409 873)	(1 787 250)	44 706 443		-
Total operating profit	**135 142 411**	**77 410 946**	**(1 605 354)**	**5 118 446**	**9 349**	**-**	**216 075 798**
External financial profit	(40 603 298)	(1 586 681)	(264 457)	(15 595 910)	-		(58 050 346)
Inter-segment financial income	(25 013 168)	48 281	(141 453)	25 115 689	(9 349)		-
Profit before tax	**69 525 945**	**75 872 546**	**(2 011 264)**	**14 638 225**	**-**	**-**	**158 025 452**
Income tax	(17 696 811)	(19 932 758)	602 521	(3 653 375)	-		(40 680 423)
Net income of financial year as a going concern	**51 829 134**	**55 939 788**	**(1 408 743)**	**10 984 850**	**-**	**-**	**117 345 029**
Net profit from discontinued operations						5 511 083	5 511 083
Net profit for period	**51 829 134**	**55 939 788**	**(1 408 743)**	**10 984 850**	**-**	**5 511 083**	**122 856 112**
Allocatable to non-controlling interests	18 570 874	-	-	(156 132)		2 117 450	20 532 192
Allocatable to shareholders of AdP SGPS, S.A.	33 258 260	55 939 788	(1 408 743)	11 140 982		3 393 633	102 323 920
	51 829 134	**55 939 788**	**(1 408 743)**	**10 984 850**	**-**	**5 511 083**	**122 856 112**

Note: Total revenue includes tariff deviations of the period.

31.12.2013	Regulated activity Production, treatment Transport	Unregulated activity EPAL	Unregulated activity Internacional	Unregulated activity Corporativos	Adjustments	Net profit from discontinued operations	Consolidated total
External sales	516 962 443	131 411 024	4 414 192	1 719 295	-		654 506 954
Inter-segment sales	13 580 805	11 668 080	31 593	18 940 987	(44 221 465)		-
Total revenue	**530 543 248**	**143 079 104**	**4 445 785**	**20 660 282**	**(44 221 465)**	**-**	**654 506 954**
Cost of sales/variation of inventories	(16 705 633)	(2 285 541)	-	(480 479)	-		(19 471 653)
Supplies and services	(142 057 027)	(28 458 633)	(3 448 664)	(3 624 382)	-		(177 588 706)
Personnel costs	(60 533 638)	(28 596 114)	(1 138 955)	(9 582 871)	-		(99 851 578)
Amort. deprec. and reversals in financial year	(161 889 210)	(25 008 814)	(73 846)	(1 445 316)	-		(188 417 186)
Provisions and reversals in financial year	693 268	(338 026)	167 808	-	-		523 050
Impairment losses and reversals	337 857	(524 459)	-	3 107	-		(183 495)
Fair value gains and losses	-	-	-	-	-		-
Investment grants	54 586 658	1 275 977	-	91 039	-		55 953 674
Other operating expenses and losses	(8 101 264)	(1 583 777)	(515 799)	(296 407)	-		(10 497 247)
Other operating income and gains	6 085 327	2 329 744	77 410	250 150	-		8 742 631
Inter-segment operating profit	(38 596 886)	(3 468 668)	(427 551)	(1 785 749)	44 278 854		-
Total operating profit	**164 362 700**	**56 420 793**	**(913 812)**	**3 789 374**	**57 389**	**-**	**223 716 444**
External financial profit	(51 652 839)	(1 306 144)	(293 691)	3 604 975	-		(49 647 699)
Inter-segment financial income	(27 482 540)	323 685	(19 096)	27 235 340	(57 389)		-
Profit before tax	**85 227 321**	**55 438 334**	**(1 226 599)**	**34 629 689**	**-**	**-**	**174 068 745**
Income tax	(21 911 941)	(18 098 346)	267 612	(11 530 193)	-		(51 272 868)
Net income of financial year as a going concern	**63 315 380**	**37 339 988**	**(958 987)**	**23 099 496**	**-**	**-**	**122 795 877**
Net profit from discontinued operations						7 100 580	7 100 580
Net profit for period	**63 315 380**	**37 339 988**	**(958 987)**	**23 099 496**	**-**	**7 100 580**	**129 896 457**
Allocatable to non-controlling interests	22 422 933	-	-	34 472		2 760 541	25 217 946
Allocatable to shareholders of AdP SGPS, S.A.	40 892 447	37 339 988	(958 987)	23 065 024		4 340 039	104 678 511
	63 315 380	**37 339 988**	**(958 987)**	**23 099 496**	**-**	**7 100 580**	**129 896 457**

7. Financial instruments by IAS 39 category

7.1 Classification of financial assets and liabilities according to IAS 39

31.12.2014	Financial assets at fair value through profit or loss	Borrowing and receivables at amortised cost	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total financial instruments
Financial investments	6 405 500	102 931 018	-	-	109 336 518
Trade receivables and other non-current assets	-	127 712 085	-	-	127 712 085
Trade receivables	-	413 731 193	-	-	413 731 193
Other current assets	-	85 722 768	-	-	85 722 768
Cash and cash equivalents	-	281 885 233	-	-	281 885 233
	6 405 500	**1 011 982 297**	**-**	**-**	**1 018 387 797**
Non-current borrowing	-	-	-	2 139 652 747	2 139 652 747
Trade payables and other non-current liabilities	-	-	-	115 094 242	115 094 242
Derivatives	-	-	20 174 297	-	20 174 297
Borrowing	-	-	-	598 892 627	598 892 627
Trade payables	-	-	-	68 256 956	68 256 956
Other current liabilities	-	-	-	121 699 235	121 699 235
	-	**-**	**20 174 297**	**3 043 595 807**	**3 063 770 104**

31.12.2013	Financial assets at fair value through profit or loss	Borrowing and receivables at amortised cost	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total financial instruments
Financial investments	34 068	126 577 771	-	-	126 611 839
Trade receivables and other non-current assets	-	192 687 897	-	-	192 687 897
Trade receivables	-	447 477 536	-	-	447 477 536
Other current assets	-	155 483 093	-	-	155 483 093
Cash and cash equivalents	-	369 391 115	-	-	369 391 115
	34 068	**1 291 617 412**	**-**	**-**	**1 291 651 480**
Non-current borrowing	-	-	-	2 423 505 635	2 423 505 635
Trade payables and other non-current liabilities	-	-	-	129 279 953	129 279 953
Derivatives	-	-	15 746 778	-	15 746 778
Borrowing	-	-	-	616 695 220	616 695 220
Trade payables	-	-	-	79 094 478	79 094 478
Other current liabilities	-	-	-	151 331 559	151 331 559
	-	**-**	**15 746 778**	**3 399 906 845**	**3 415 653 623**

7.2 Fair value hierarchy

All financial instruments at fair value are classified in one of three hierarchy levels, as follows:

	31 december 2014			31 december 2013		
	level 1	level 2	level 3	level 1	level 2	level 3
Financial assets at fair value through profit or loss						
Investments in shares	**-**	**-**	**-**	34 068	-	-
Investments in bonds	**-**	**6 405 500**	**-**	-	-	-
Financial liabilities at fair value through profit or loss						
Derivatives	**-**	**14 986 669**	**-**		12 030 548	-
Financial liabilities at fair value through comprehensive income						
Derivatives	-	**5 187 628**	**-**	**-**	3 156 548	-

8. Intangible assets

	31.12.2014	31.12.2013
Right to use infrastructure - IFRIC 12	3 719 752 618	4 341 306 512
Goodwill and lease transfers	209 965	3 785 877
Development costs	2 650 922	4 750 927
Industrial property and other rights	2 685 677	24 526 858
Computer software	23 813	272 914
Other intangible assets	13 370 622	21 486 835
Intangible assets in progress	262 138 223	292 494 902
	4 000 831 840	4 688 624 825

The Group does not recognise internally generated intangible assets.

8.1 Movements in the period

Gross value	31.12.2013	Increases	Foreign exchange	Reversals	Reclassification	Transf.	Other	Assets held for sale	31.12.2014
Right to use infrastructure	5 981 635 231	9 539 923	-	(3 250 401)	70 538	114 222 814	-	(1 090 227 172)	5 011 990 933
Goodwill	3 785 877	-	-	-	-	-	-	(3 575 912)	209 965
Development projects	10 812 650	-	879	-	-	-	-	(4 516 216)	6 297 313
Industrial property	37 791 851	2 334 771	-	-	-	(27 387 411)	-	(1 437 150)	11 302 061
Computer software	293 879	-	-	-	-	-	-	(263 312)	30 567
Other intangible assets	35 829 145	19 618	(705)	-	-	646 797	-	(13 948 750)	22 546 105
Intangible assets in progress	292 494 902	127 493 437	-	-	(227 169)	(87 480 376)	-	(70 142 571)	262 138 223
	6 362 643 535	139 387 749	174	(3 250 401)	(156 631)	1 824	-	(1 184 111 083)	5 314 515 167

Accumulated amortisation	31.12.2013	Increases	Foreign exchange	Reversals	Reclassification	Transf.	Other	Assets held for sale	31.12.2014
Right to use infrastructure	(1 640 328 719)	(128 744 634)	-	9 050	(7 552 429)	(4 741 651)	6 252	489 113 816	(1 292 238 315)
Development projects	(6 061 723)	(53 922)	(879)	-	-	-	-	2 470 133	(3 646 391)
Industrial property	(13 264 993)	(861 733)	-	-	(35)	4 684 128	-	826 249	(8 616 384)
Computer software	(20 965)	(663)	-	-	-	-	-	14 874	(6 754)
Other intangible assets	(14 342 310)	(529 609)	705	-	(167 280)	57 553	-	5 805 458	(9 175 483)
	(1 674 018 710)	(130 190 561)	(174)	9 050	(7 719 744)	30	6 252	498 230 530	(1 313 683 327)
Net value	4 688 624 825	9 197 188	-	(3 241 351)	(7 876 375)	1 854	6 252	(685 880 553)	4 000 831 840

8.2 Right to use of infrastructure and intangible assets in progress

Gross value	31.12.2013	Increases	Foreign exchange	Reversals	Reclassification	Transf.	Other	Assets held for sale	31.12.2014
Right to use infrastructure	5 981 635 231	9 539 923	-	(3 250 401)	70 538	114 222 814	-	(1 090 227 172)	5 011 990 933
Intangible assets in progress	292 494 903	127 493 437	-	-	(227 169)	(87 480 376)	-	(70 142 571)	262 138 223
	6 274 130 134	137 033 360	-	(3 250 401)	(156 631)	26 742 438	-	(1 160 369 743)	5 274 129 156

Accumulated amortisation	31.12.2013	Increases	Foreign exchange	Reversals	Reclassification	Transf.	Other	Assets held for sale	31.12.2014
Right to use infrastructure	(1 640 328 719)	(128 744 634)	-	9 050	(7 552 429)	(4 741 651)	6 252	489 113 816	(1 292 238 315)
	(1 640 328 719)	(128 744 634)	-	9 050	(7 552 429)	(4 741 651)	6 252	489 113 816	(1 292 238 315)
Net value	4 633 801 415	8 288 726	-	(3 241 351)	(7 709 060)	22 000 787	6 252	(671 255 927)	3 981 890 841

The reclassification of accumulated amortisation is the result of amounts transferred from the item accrued contractual investment expenses to right to use infrastructure - firm (Note 30).

In 2013, as in the previous year, there was a significant reduction in investment by the AdP Group. This reduction is due to the constraints of the economic situation in the country, Portugal's macroeconomic performance and the regulatory framework.

The most significant investments of the year by company and nature are:

(these amounts have been rounded up or down)

Water supply	Abstractions	Water treatment plants	Water mains	Pumping stations	Reservoirs
Águas de Trás-os-Montes e Alto Douro	3 560 000	-			
Águas do Noroeste	884 000	-			
Águas do Douro e Paiva	-	-	1 408 000		
Águas do Mondego		-	1 235 000		
Águas do Centro		-	2 341 000		
Águas Públicas do Alentejo		1 935 000	7 882 000	1 063 000	2 006 000
	4 444 000	**1 935 000**	**12 866 000**	**1 063 000**	**2 006 0003**

Wastewater treatment	Wastewater treatment plants	Sewage pipes	Pumping stations		
Águas do Noroeste	5 987 000	9 086 000	3 120 000		
Águas do Mondego	1 695 000				
Águas do Centro	4 167 000				
Simtejo	3 005 000	5 299 000	2 298 000		
Águas do Centro Alentejo	1 575 000				
Águas do Algarve		1 021 000	3 182 000		
Águas Públicas do Alentejo	7 297 000	1 566 000			
Águas da Região de Aveiro		1 039 000	2 311 000		
Simdouro	8 287 000	5 273 000			
	32 013 000	**23 284 000**	**10 911 000**	**-**	**-**
	36 457 000	**25 219 000**	**23 777 000**	**1 063 000**	**2 006 000**

8.3 Goodwill

	31.12.2014	31.12.2013
Goodwill		
Valorsul, S.A.	**-**	3 306 807
Algar, S.A.	**-**	130 604
Aquasis, S.A.	**209 965**	209 965
	209 965	**3 647 376**
Goodwill and lease transfers		
Empresa Geral do Fomento, S.A.	**-**	138 501
	-	138 501
	209 965	**3 785 877**

8.4 Leasing

Net book value of intangible assets acquired by leasing:

	31.12.2014	31.12.2013
DUI - Land and natural resources	**918 453**	936 072
DUI - Buildings and other constructions	**2 762 247**	2 812 763
DUI - Basic equipment	**-**	700 205
DUI - Transport equipment	**-**	851 681
	3 680 700	**5 300 721**

9. Tangible fixed assets

	31.12.2014	31.12.2013
Land and natural resources	122 710 236	121 652 416
Buildings and other constructions	114 816 384	115 192 694
Basic equipment	509 974 784	521 621 857
Transport equipment	239 732	407 985
Office equipment	2 999 730	2 577 006
Other	2 334 901	2 131 286
Investments in progress	8 631 349	7 569 623
	761 707 116	771 152 867

9.1 Movements in the period

Gross value	31.12.2013	Increases perimeter	Variation in exchange	Foreign disposals	Decreases/	Reclassification for sale	Transf.	Assets held	31.12.2014
Land and natural resources	121 652 416	-	-	-	-	-	1 060 014	(2 194)	122 710 236
Buildings and other constructions	219 220 621	807 784	-	-	-	(18 443)	4 080 093	-	224 090 055
Basic equipment	1 044 180 132	1 088 224	-	-	(47 814)	(169 649)	7 124 406	(831 673)	1 051 343 626
Transport equipment	3 688 546	31 068	56 691	4 151	(160 731)	(23 317)	-	(1 084 095)	2 512 313
Office equipment	29 356 693	710 402	-	2 205	55 537	(198 021)	655 275	(227 545)	30 354 546
Other	25 000 376	97 342	-	2 499	(606 740)	(255)	766 247	(429 847)	24 829 622
Investments in progress	7 569 623	14 768 969	-	-	-	-	(13 707 243)	-	8 631 349
	1 450 668 407	17 503 789	56 691	8 855	(759 748)	(409 685)	(21 208)	(2 575 354)	1 464 471 747

Accumulated amortisation	31.12.2013	Increases perimeter	Variation in exchange	Foreign disposals	Decreases/	Reclassification	Transf. for sale	Assets held	31.12.2014
Land and natural resources	-	-	-	-	-	-	-	-	-
Buildings and other constructions	(104 027 927)	(5 260 551)	-	-	-	14 807	-	-	(109 273 671)
Basic equipment	(522 558 275)	(19 770 919)	-	-	47 814	155 136	-	757 402	(541 368 842)
Transport equipment	(3 280 561)	(249 846)	(5 710)	(1 583)	160 731	20 293	-	1 084 095	(2 272 581)
Office equipment	(26 779 687)	(938 199)	-	(1 207)	(55 537)	197 518	-	222 296	(27 354 816)
Other	(22 869 090)	(431 220)	-	(2 499)	606 740	255	-	201 093	(22 494 721)
	(679 515 540)	(26 650 735)	(5 710)	(5 289)	759 748	388 009	-	2 264 886	(702 764 631)

Impairment losses	31.12.2013	Increases perimeter	Variation in exchange	Foreign disposals	Decreases/	Reclassification	Transf. for sale	Assets held	31.12.2014
Basic equipment	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Net value	771 152 867	(9 146 946)	50 981	3 566	-	(21 676)	(21 208)	(310 468)	761 707 116

Almost all the tangible assets originate from EPAL (except the head office of the group). The net amounts reported in the transfers column relate to the transfer of advance payments of investments.

	31.12.2014
Tangible fixed assets	(21 208)
Intangible assets	1 855
Advance payment on investments	19 353
	-

9.2 Leasing

Net book value of tangible fixed assets acquired using leasing:

	31.12.2014	31.12.2013
Land and natural resources	5 050 000	5 050 000
Buildings and other constructions	13 471 259	15 081 721
Transport equipment	22 424	77 478
	18 543 683	20 209 199

10. Investment properties

		31.12.2014	31.12.2013
Land	i)	12 883 737	7 347
Buildings		2 537 817	2 576 989
Accumulated depreciation		(1 675 881)	(1 610 946)
		13 745 673	973 390

i) As a result of an agreement with Lisbon Municipal Council, EPAL incorporated in its assets a plot of land that was recorded as investment property with a value of approximately EUR 12.8 million against profit/loss as it was a donation. Pursuant to said agreement, concluded in 1992, Lisbon Municipal Council undertook to transfer building land to EPAL. Developments in 2014 culminated in the effective transfer on 31 December by public deed between Lisbon Municipal Council and EPAL (see Note 43).

The fair value of the investment properties is not significantly different from their book value. The fair value of each investment property was determined by valuation with reference to 31 December 2014, performed by a duly qualified, specialised independent entity. The Board of Directors of the Group does not consider it to have changed significantly as at 31 December 2014.

11. Financial investments

	31.12.2014	31.12.2013
Renewal fund	-	2 677 885
Capital replenishment fund	102 667 586	123 316 515
Other financial investments	6 668 933	818 348
Impairment losses on financial investments	-	(200 909)
	109 336 519	126 611 839

On the date of the establishment of the multi-municipal concession holding companies, these were obliged to keep the goods and resources assigned to the concession in good working order, maintenance and safety conditions, ensuring such by carrying out the necessary repairs, renewals and adaptations. The Company, after the beginning of the service operations, should have set up a Renewal Fund for this purpose. Decree-Law 195/2009 of 20 August amended the legal scheme of the multi-municipal systems, whereby the companies were no longer obliged to keep such renewal funds, from 1 January 2010, the date on which that law came into force. The concession holding and regulated companies are obliged, in accordance with the concession contracts, to set up a Capital Replenishment Fund in an institution authorised by the Bank of Portugal. The amount of that fund corresponds to the annual amortisation amount of the capital for the creation of a Capital Replenishment Fund, which will be managed by the concession holder and which it is entitled to receive at the end of the contract. The income of the Fund shall be deducted from expenses and charges in each year, in order to safeguard the interests of users, since the rate of return on invested capital is incorporated in the tariff. These funds were transferred and are deposited with IGCP - the Agency that manages the Treasury and Public Debt. For the Group companies that had their concession period extended, the Capital Replenishment Fund was not increased, since it was already higher at that time than that required by contract. In these cases it was not used, i.e. it was not reduced, maintaining the value already deposited and duly securitised with IGCP.

The table below details the value of the funds by Group company:

	31.12.2014		31.12.2013	
	Capital replenishment fund	Equipment renewal fund	Capital replenishment fund	Equipment renewal fund
UNA-PD				
Águas do Algarve, S.A.	8 267 571	-	8 267 571	-
Águas do Centro Alentejo, S.A.	1 136 390	-	1 136 390	-
Águas do Centro, S.A.	7 860 016	-	7 424 059	-
Águas do Douro e Paiva, S.A.	12 010 557	-	11 202 199	-
Águas do Mondego, S.A.	5 217 927	-	4 696 134	-
Águas do Norte Alentejano, S.A.	2 177 301	-	2 177 301	-
Águas do Noroeste, S.A.	11 584 853	-	11 584 853	-
Águas do Oeste, S.A.	9 666 478	-	8 701 624	-
Águas de Santo André, S.A.	371 327	-	279 868	2 677 885
Águas de Trás-os-Montes e Alto Douro, S.A.	6 444 684	-	6 444 684	-
Águas do Zêzere e Côa, S.A.	6 397 595	-	5 836 591	-
AgdA - Águas Públicas Alentejo, S.A.	-	-	-	-
Sanest, S.A.	8 445 198	-	7 994 351	-
Simarsul, S.A.	6 116 343	-	4 865 147	-
Simdouro, S.A.	1 179 079	-	786 944	-
Simlis, S.A.	2 084 319	-	2 001 014	-
Simria, S.A.	4 848 355	-	4 509 387	-
Simtejo, S.A.	8 859 593	-	7 864 911	-
	102 667 586	-	95 773 028	2 677 885
Corporate services[1]	-	-	207 477	-
	-	-	207 477	-
Assets held for sale	-		27 336 010	
	102 667 586	-	123 316 515	2 677 885

[1] The amount presented by AdP SGPS refers to the amounts received from Group companies and invested in Instituto de Gestão e Crédito Público (IGCP). Since IGCP does not allow investment of amounts below EUR 100,000, all the investments of the Group companies below that amount were concentrated in the holding company prior to being invested in IGCP.

11.1 Accumulated impairment losses on financial investments

	31.12.2014
Opening balance	(200 909)
Increase	-
Decrease	-
Assets held for sale	200 909
Closing balance	-

12. Investments in associates

		31.12.2014	31.12.2013
Miese, Lda.	i)	208 783	208 783
Águas de Timor, Lda.	ii)	-	5 001
Trevo Oeste, S.A. (loans)	i)	55 758	23 000
		264 541	236 784

i) These companies engaged in no business activity in 2014.

ii) Águas de Timor, Lda. was incorporated in the consolidation perimeter for the first time in December 2014, as it had been reactivated.

13. Deferred tax

	31.12.2014	31.12.2013
Deferred tax assets	166 348 090	262 342 817
	166 348 090	262 342 817
Deferred tax liabilities	235 998 708	305 054 337
	235 998 708	305 054 337

13.1 Movements in the period

31.12.2013	Opening balance	Held fo sale	Corrections	Allocation	Utilisation	Closing balance
DEFERRED TAX ASSETS						
Provisions						
Provisions - risks and charges	3 125 845	(174 129)	-	517 362	(723 743)	2 745 335
Provisions - impairment losses	9 986 758	(16 650)	-	1 047 964	(2 104 370)	8 913 702
Provisions – pensions	3 558 042	-	(1 559 787)	193 000	(1 851 255)	340 000
Provisions – other	1 198 644	-	-	-	(904 274)	294 370
Losses	17 465 458	-	(15 304 109)	(181 494)	(1 979 855)	-
Other	-	-	-	-	-	-
Amortisation not accepted as valid/ unrealised contractual investment	750 682 708	(245 029 188)	(61 516 096)	43 905 671	(15 339 591)	472 703 504
Tax amortisation / accounting / grant difference	132 699 552	(10 610 377)	(3 469 551)	3 961 710	(8 735 379)	113 845 955
Amortised cost	206 231	(206 231)	-	-	-	-
Tariff deviation	132 377 897	(74 479 198)	(7 319 907)	20 202 303	(8 297 919)	62 483 176
Transition Adjustments - Grants	8 079 988	(4 833 594)	149 751	-	(252 834)	3 143 311
Others (detail others in commentary)	3 750 763	9 414	11 687 949	100 000	(189 263)	15 358 863
Assessment base	**1 063 131 886**	**(335 339 953)**	**(77 331 750)**	**69 746 516**	**(40 378 483)**	**679 828 216**
Corporate Income Tax	236 926 985	(81 478 812)	(16 271 677)	14 758 485	(7 961 909)	145 973 072
Surtax	25 415 832	(5 722 469)	(229 584)	1 868 636	(957 397)	20 375 018
Recognised deferred tax assets	**262 342 817**	**(87 201 281)**	**(16 501 261)**	**16 627 121**	**(8 919 306)**	**166 348 090**
DEFERRED TAX LIABILITIES						
Revaluations						
Tax revaluations	25 203 888	-	115 837	-	(103 942)	25 215 783
Free revaluations	114 378 486	-	-	-	-	114 378 486
Reinvestment of capital gains	164 773	-	-	-	-	164 773
Other	-	-	-			-
Amortisation not accepted as valid/ unrealised contractual investment	417 388 965	(147 676 679)	(16 830 128)	2 723 160	(39 334 577)	216 270 741
Tax amortisation / accounting / grant difference	38 900 802	(11 182 030)	14 266 833	756 255	(12 454 635)	30 287 225
Tariff deviation	564 124 345	-	(14 128 090)	68 527 008	(3 159 901)	615 363 362
Others (detail others in commentary)	3 260 389	(1 935 777)	480 944	-	(209 123)	1 596 433
Assessment base	**1 163 421 648**	**(160 794 486)**	**(16 094 604)**	**72 006 423**	**(55 262 178)**	**1 003 276 803**
Corporate Income Tax	278 886 152	(39 081 529)	(25 744 137)	12 436 455	(13 187 043)	213 309 898
Surtax	26 168 185	(3 096 672)	(137 862)	918 071	(1 162 913)	22 688 809
Recognised deferred tax liabilities	**305 054 337**	**(42 178 201)**	**(25 881 999)**	**13 354 526**	**(14 349 956)**	**235 998 707**

The initial balances for deferred tax assets and liabilities have been adjusted according to the change in tax rate reflected in Law 82-B/2014 of 31 December, which reduced tax from 23% to 21%. The effect is recorded in the corrections column.

Deferred tax	Value
Tax assets	(8 793 446)
Tax liabilities	26 877 429
Deferred tax in period	**18 083 983**
AdP Internacional (Angola)	610 911
Reclassification of deviations	(2 929 240)
Tax recognised in income statement	**15 765 654**

A number of Group companies have expected tax results in the future that will not allow the deferred tax assets generated by the reported losses to be recovered, and so deferred tax assets were not calculated.

Tax losses not highlighted as deferred taxes (by extinction date)	**31.12.2014**
2015	3 996 571
2016	184 485
2017	3 109 199
2018	3 287 096
2019	3 539 164
2020	3 406 856
	17 523 371

14. Derivatives

	31.12.2014	31.12.2013
Currency swaps	(20 712 040)	(22 127 077)
Impact of JPY exchange rate	18 697 370	18 410 857
Net effect	(2 014 670)	(3 716 220)
Interest rate swaps	(18 159 627)	(12 030 548)
	(20 174 297)	(15 746 768)

Swap	Risk hedged	Notional	Maturity	J.V. 31.12.**2014**	J.V. 31.12.2013	Change	In profit or loss	In equity
Mitsubishi – tx de câmbio	EUR/JPY exchange rate	100000000	2015	(20 712 040)	(22 127 077)	1 415 037	1 415 037	-
Foreign exchange update	EUR/JPY exchange rate	100000000	2015	18 697 370	18 410 857	286 513	286 513	-
Subtotal				**(2 014 670)**	**(3 716 220)**	**1 701 550**	**1 701 550**	**-**
Citibank - interest rate	Interest rate	50000000	2022	(12 972 000)	(8 874 000)	(4 098 000)	(4 098 000)	-
BBVA - interest rate	Interest rate	20000000	2023	(5 187 627)	(3 156 548)	(2 031 079)	-	(2 031 079)
Subtotal				**(18 159 627)**	**(12 030 548)**	**(6 129 079)**	**(4 098 000)**	**(2 031 079)**
Total				**(20 174 297)**	**(15 746 768)**	**(4 427 529)**	**(2 396 450)**	**(2 031 079)**

AdP uses derivatives solely to manage the financial risks to which it is exposed. AdP does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by AdP are effective in hedging risks they do not all qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated by the discounted cash flow method determined by external entities, based on generally accepted market valuation techniques. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

Financial instruments associated with the loans from Depfa (notional of EUR 50 million) are considered as cash flow hedging instruments, and so any changes in fair value are recorded directly in equity as of 2012. Evaluations of the effectiveness of the instruments were made and the results were within the 80% to 125% range.

15. Tariff deviation

	31.12.2014	31.12.2013
Regulatory assets - gross tariff deviation	590 618 917	564 124 345
Regulatory liabilities - gross tariff deviation	(61 014 412)	(132 377 898)
Total	529 604 505	431 746 447

Conciliation of gross tariff deviations		Tariff deviation asset	Tariff deviation liability	Net total deviation	In sales
Balance as at 31 December 2013		**564 124 345**	**(132 377 898)**	**431 746 447**	
Deviations and surplus of 2014	35.2	51 640 953	(16 486 740)	35 154 213	35 154 213
Reclassification of deviations of the year		(6 460 981)	6 460 981	-	
		45 179 972	**(10 025 759)**	**35 154 213**	**35 154 213**
Historical correction		(939 276)	5 152 275	4 212 999	4 212 999
Reclassification		(3 297 410)	368 171	(2 929 239)	
Changes in income tax rate and others	i)	(14 448 714)	1 389 601	(13 059 113)	(13 059 113)
Assets held for sale		-	74 479 198	74 479 198	
		(18 685 400)	**81 389 245**	**62 703 845**	**(8 846 114)**
Balance as at 31 December 2014		**590 618 917**	**(61 014 412)**	**529 604 505**	**26 308 099**

i) Resulting from the change of tax rate and given that deferred tax assets and liabilities should be entirely measured at the tax rate on income at the date of future materialisation, the company considered the adjustment as a reclassification in the financial year, because of contractual clauses that determine guaranteed income for the group companies. This adjustment only affects the financial position of the AdP Group, through reclassification of deferred tax assets and liabilities against the tariff deviation and deferred tax for the year.

16. Trade receivables and other non-current assets

		31.12.2014	31.12.2013
Trade receivables	16.1	**65 041 610**	137 994 352
Investment grants - Cohesion fund and others	20 1	**1 097 021**	9 191 249
Concession charges - Accrued investment		**31 844**	34 854
Residual value	16.2	**39 343 996**	36 957 364
Other non-current assets	16.3	**23 502 313**	9 814 777
		129 016 784	193 992 596
Impairment losses	16.4	**(1 304 699)**	(1 304 699)
		127 712 085	**192 687 897**

16.1 Trade receivables

	31.12.2014	31.12.2013
General	**201 037**	1 693 220
Municipalities	**64 840 573**	**137 119 908**
	65 041 610	138 813 128
Amortised cost (effective interest rate)	**-**	(818 776)
	65 041 610	**137 994 352**

The following table presents the main municipalities with debts under non-current trade receivables, i.e. resulting from agreements signed with customers:

		31.12.2014	31.12.2013
Seixal Municipality		**8 490 162**	7 510 528
Ambiolhão, EM		**6 665 204**	9 077 112
Loures Municipality		**4 184 723**	6 554 524
Portalegre Municipality		**4 073 449**	2 340 734
Palmela Municipality		**3 107 827**	3 773 790
Lagos Municipality		**2 661 491**	4 445 949
Chaves Municipality		**2 498 584**	4 241 333
TROFÀGUAS - Serviços Ambientais, EEM		**2 225 979**	-
Grândola Municipality		**2 129 748**	1 189 231
Reguengos de Monsaraz Municipality		**2 097 066**	-
Vila Nova de Poiares Municipality		**1 910 611**	2 037 422
Beja Municipality		**1 755 499**	772 252
Leiria Municipality		**1 713 767**	2 570 651
Odivelas Municipality		**1 654 482**	2 755 549
Serpa Municipality		**1 435 247**	-
Moura Municipality		**1 374 701**	-
Moimenta da Beira Municipality		**1 342 431**	615 688
Barreiro Municipality		**1 268 939**	1 522 726
Ourique Municipality		**1 031 830**	-
Vendas Novas Municipality		**1 012 442**	756 529
Other group companies	i)	**12 206 391**	67 367 549
Assets held for sale		**-**	19 588 341
		64 840 573	**137 119 908**

The variation in the item Customers - Municipalities is the result of a reduction due to payment of agreements and default on others (reclassification to current), and:

i) reclassification of the debt to Simria for other non-current assets (Nota 16.3) and payment of around EUR 23 million by Lisbon Municipal Council to Simtejo.

16.2 Residual value

Significant changes in the amount of investment with a substantial useful life beyond the concession period mean that, as set out in the concession contracts recognition of the residual value corresponds to the balances presented.

	31.12.2014	31.12.2013
Águas do Algarve, S.A.	**11 526 236**	10 209 532
Águas do Douro e Paiva, S.A.	**11 755 192**	11 875 084
Sanest, S.A.	**16 062 568**	14 872 748
Total	**39 343 996**	**36 957 364**

16.3 Other non-current assets

Other		**31.12.2014**	31.12.2013
Simria, S.A.	i)	**16 179 339**	1 971 963
EPAL, S.A.	ii)	**4 585 841**	898 615
Other		**2 737 133**	1 643 875
Assets held for sale		**-**	5 300 324
Total		**23 502 313**	**9 814 777**

This item also reflects a significant variation originating from the following subsidiaries:

(i) Simria signed a payment agreement in a concession contract with the municipalities, involving future distribution of dividends that the municipalities renounce to the amount of EUR 14 million. Trade receivables were duly reclassified.

(ii) The amount recorded by EPAL also includes the EUR 4,200,000 of surplus hedging of the pension plan, as disclosed in Note 27.2.

16.4 Accumulated impairment losses on other non-current assets

	31.12.2014
Opening balance	(1 304 699)
Decrease	-
Reclassification	-
Closing balance	(1 304 699)

17. Inventories

	31.12.2014	31.12.2013
Goods	235 888	270 109
Raw materials and consumables	5 702 711	6 095 694
Finished and semi-finished products	-	1 192 879
Reclassification and correction of stocks	11 777	4 503
Accumulated impairment losses on inventories	(356 819)	(356 819)
	5 593 557	7 206 366

17.1 Accumulated impairment losses on inventories

	31.12.2014
Opening balance	(356 819)
Increase	-
Reversals	-
Closing balance	(356 819)

18. Current trade receivables

		31.12.2014	31.12.2013
Trade receivables - current account		344 987 425	396 782 122
Trade receivables - Interest on arrears	18.2	27 561 804	23 198 765
Doubtful debtors		20 149 535	18 445 046
Estimate of services to be billed		39 190 676	25 668 552
Impairment losses on trade receivables		(18 158 247)	(16 616 949)
Total		413 731 193	447 477 536

Trade receivables - current account		**31.12.2014**	31.12.2013
General	18.1	33 975 730	55 249 117
Municipalities		358 723 034	383 176 816
Estimate of services to be billed		39 190 676	25 668 552
		431 889 440	464 094 485
Impairment losses on trade receivables		(18 158 247)	(16 616 949)
		413 731 193	447 477 536

18.1 Trade receivables

General trade receivables	**31.12.2014**	31.12.2013
EPAL, S.A.	**20 573 402**	17 977 570
AdRA - Águas da Região de Aveiro, S.A.	**4 508 478**	5 532 563
Águas de Santo André, S.A.	**2 413 859**	2 238 400
AdP Internacional, S.A.	**2 404 028**	3 102 029
Aquasis, S.A.	**1 198 483**	1 246 437
Águas do Noroeste, S.A.	**1 156 623**	737 048
Other group companies	**1 720 857**	2 207 357
Assets held for sale	**-**	22 207 713
	33 975 730	**55 249 117**

General trade receivables result mostly from downstream distribution activity (EPAL, AdRA - Águas da Região de Aveiro, and Águas de Santo André).

The variation in general customers is the result of reclassification of balances of waste companies for assets held for sale resulting from recycling and electricity generation.

18.2 Interest on arrears

Trade receivables - Interest on arrears	**31.12.2014**	31.12.2013
General	**411 041**	423 608
Municipalities	**27 150 763**	22 775 157
	27 561 804	**23 198 765**

The debit of late-payment interest is the result of default on payment of services rendered by the agreed deadline.

18.3 Trade receivables - Municipalities

Reconciliation of debt of current and non-current trade receivables with the framework of debts by municipality:

	31.12.2014	31.12.2013
Non-current municipal customers		
Trade receivables – Municipalities	**-**	-
Municipal customers - agreements	**64 840 573**	137 119 908
Municipal customers - others	**-**	-
Total non-current municipal trade receivables	**64 840 573**	**137 119 908**
Discount of trade receivables debts	**-**	(818 776)
Total non-current municipalities at discounted value	**64 840 573**	**136 301 132**
Current municipal customers		**-**
Municipal trade receivables - TRH	**2 959 354**	3 948 325
Municipal customers - agreements	**24 575 387**	50 898 917
Municipal customers - injunctions	**95 012 510**	97 253 461
Municipal customers - others	**198 805 794**	200 127 783
Municipal customers - doubtful debts	**10 219 226**	7 816 786
Trade receivables Municipalities - late-payment interest	**27 150 763**	22 775 157
Municipal customers	**-**	356 387
	358 723 034	**383 176 816**
Customer impairment - municipalities	**(10 016 037)**	(6 512 259)
Total current municipal trade receivables	**348 706 997**	**376 664 557**
Total municipal trade receivables	**413 547 570**	**512 965 689**
Total municipal trade receivables (nominal value)	**413 547 570**	**513 784 465**

Debts of municipal entities over EUR 2,000,000:

	Outstanding at N-2	Outstanding at N-1	Outstanding at N	Total Outstanding	Total not yet due	Total debt **31.12.2014**	Total debt 31.12.2013
Lisbon Municipality	-	362 349	26 935 238	27 297 587	4 765 656	**32 063 243**	44 834 718
Évora Municipality	6 712 626	7 516 624	6 806 726	21 035 976	1 115 952	**22 151 928**	23 961 161
Fundão Municipality	10 716 398	4 360 589	3 353 634	18 430 621	477 208	**18 907 829**	15 255 520
Guarda Municipality	6 635 701	4 932 611	4 966 354	16 534 666	1 976 555	**18 511 222**	13 561 601
VRSA SGU EM, S.A.	5 340 263	2 552 974	4 962 044	12 855 280	448 861	**13 304 141**	9 877 605
Chaves Municipality	83 882	4 564 691	3 464 544	8 113 117	3 883 193	**11 996 310**	17 460 825
Seixal Municipality	-	639 521	9 222 907	9 862 428	503 183	**10 365 611**	13 943 243
Loures Municipality	-	-	2 125 853	2 125 853	8 141 129	**10 266 982**	13 019 708
Ambiolhão, EM	-	-	379 302	379 302	7 284 270	**7 663 572**	11 559 646
Viana do Castelo Municipality	2 028 144	2 354 856	(69 357)	4 313 643	2 689 670	**7 003 313**	4 112 982
Alcobaça Municipality	-	2 326 913	1 635 367	3 962 280	2 903 770	**6 866 050**	5 761 662
Alenquer Municipality	3 739 869	-	1 833 138	5 573 007	579 474	**6 152 480**	5 838 821
Odivelas Municipality	-	45 347	1 827 921	1 873 268	3 605 829	**5 479 097**	8 034 625
Sabugal Municipality	2 723 309	1 228 716	1 376 656	5 328 681	7 063	**5 335 744**	4 120 513
Mirandela Municipality	-	1 654 314	2 922 885	4 577 200	721 311	**5 298 510**	4 790 740
Palmela Municipality	-	619 459	431 223	1 050 681	4 210 272	**5 260 954**	5 187 233
Reguengos de Monsaraz Municipality	154 092	232 855	1 447 196	1 834 143	3 257 039	**5 091 183**	4 103 951
Nazaré Municipality	3 115 869	1 135 903	346 213	4 597 986	328 853	**4 926 839**	5 381 156
Portalegre Municipality	-	-	237 017	237 017	4 658 613	**4 895 630**	4 417 895
Gouveia Municipality	1 606 507	1 568 488	1 412 530	4 587 525	217 860	**4 805 385**	3 334 773
Lamego Municipality	-	1 154 962	2 342 503	3 497 465	1 283 244	**4 780 710**	2 737 610
TROFÀGUAS - Serviços Ambientais, EEM	-	-	884 335	884 335	3 559 846	**4 444 181**	2 046 171
Lagos Municipality	-	-	969 901	969 901	3 466 215	**4 436 115**	6 678 990
Coimbra Municipality	931 743	(207 091)	1 206 456	1 931 107	2 421 633	**4 352 740**	4 350 505
Pinhel Municipality	1 157 441	1 344 973	1 189 591	3 692 005	198 221	**3 890 226**	2 640 182
Alcochete Municipality	1 551 356	1 333 237	787 108	3 671 701	198 764	**3 870 465**	3 390 094
Taviraverde, EM	2 065 208	86 545	1 040 688	3 192 441	295 348	**3 487 789**	4 690 830
Alandroal Municipality	22 550	377 299	759 939	1 159 788	2 316 924	**3 476 712**	2 850 141
Macedo de Cavaleiros Municipality	-	1 195 032	1 837 004	3 032 036	431 221	**3 463 257**	8 074 424
Penamacor Municipality	170 905	1 182 818	1 031 818	2 385 541	1 048 530	**3 434 071**	2 715 928
Almeida Municipality	713 629	1 264 719	1 277 327	3 255 675	159 817	**3 415 492**	2 081 869
Manteigas Municipality	1 782 638	829 057	534 286	3 145 981	64 579	**3 210 560**	2 665 964
Peso da Régua Municipality	-	2 075 791	38 769	2 114 560	1 084 927	**3 199 487**	3 255 600
Vila Real Municipality	-	1 235 275	1 351 827	2 587 102	605 617	**3 192 719**	6 828 430
Bragança Municipality	86 529	1 387 916	1 116 932	2 591 377	597 734	**3 189 112**	2 389 139
Figueira de C. Rodrigo Municipality	182 750	615 990	927 300	1 726 040	1 454 110	**3 180 151**	2 799 305
Serpa Municipality	-	-	756 763	756 763	2 264 692	**3 021 455**	1 818 855
FAGAR, EM	325 009	1 550 188	164 162	2 039 359	922 857	**2 962 216**	5 134 577
Leiria Municipality	-	-	-	-	2 950 327	**2 950 327**	4 165 899
Sintra Municipality	2 185 656	-	-	2 185 656	763 971	**2 949 627**	2 185 656
Sesimbra Municipality	-	54 261	1 552 736	1 606 997	1 285 022	**2 892 019**	2 398 932
Vila do Bispo Municipality	554 771	698 764	898 345	2 151 880	729 759	**2 881 639**	1 788 712
Albufeira Municipality	1 718 903	395 416	338 227	2 452 546	409 769	**2 862 316**	7 192 012
Belmonte Municipality	84 003	1 011 705	981 380	2 077 088	741 935	**2 819 023**	2 098 402
Celorico da Beira Municipality	70 157	357 542	1 134 297	1 561 996	1 221 526	**2 783 522**	2 508 677
Grândola Municipality	-	-	-	-	2 715 449	**2 715 449**	2 335 833
Beja Municipality	-	-	114 595	114 595	2 565 441	**2 680 035**	2 444 396
Barreiro Municipality	7 245	-	383 355	390 601	2 218 884	**2 609 485**	3 482 026
Azambuja Municipality	856 505	(43 733)	1 428 282	2 241 054	325 664	**2 566 718**	2 603 454
Vila Nova de Poiares Municipality	2 323 423	1 386 076	(1 208 749)	2 500 749	57 476	**2 558 225**	2 413 544
Caminha Municipality	219 914	141 283	1 217 458	1 578 655	801 710	**2 380 365**	2 560 248
Valpaços Municipality	-	546 542	863 774	1 410 316	910 101	**2 320 417**	1 779 575
Tabuaço Municipality	-	1 082 389	391 816	1 474 205	831 551	**2 305 756**	1 911 304
Moimenta da Beira Municipality	-	-	703 556	703 556	1 496 482	**2 200 038**	2 523 776
Vila do Bispo Municipality	-	-	59 700	59 700	2 085 259	**2 144 959**	1 815 671
Vieira do Minho Municipality	-	195 727	422 991	618 717	1 442 576	**2 061 293**	1 134 177
Torres Vedras Municipality	454 806	(156 907)	333 299	631 199	1 389 678	**2 020 876**	1 626 623
Trade receivables with balance under EUR 2,000,000	8 435 253	9 825 214	21 581 356	39 841 823	53 803 375	**93 492 000**	109 782 421
Assets held for sale	-	-	-	-	-	**-**	69 326 135
	68 757 054	**67 017 200**	**125 030 518**	**260 804 771**	**152 895 995**	**413 547 570**	**513 784 465**

Note: the balances include the balances of municipal companies when applicable.

Given the maturity of debt (2 years) the Group companies have been using the legal mechanisms available to ensure the recovery of the amounts in question, namely bringing proceedings for an injunction and/or other legal proceedings.

The variation in balances is essentially the result of reclassification of the debts of customers of the EGF group to assets held for sale.

	Outstanding at N-2	Outstanding at N-1	Outstanding at N	Total Outstanding	Total not yet due	Total debt 31.12.2014	Total debt 31.12.2013
Municipal trade receivables	68 757 054	67 017 200	125 030 518	260 804 771	152 895 995	413 547 570	444 458 330
Municipal trade receivables held for sale	6 051 840	5 393 343	13 538 815	24 983 998	29 625 314	54 609 312	69 326 135
	74 808 894	**72 410 543**	**138 569 333**	**285 788 769**	**182 521 309**	**468 156 882**	**513 784 465**

18.4 Impairment losses on trade receivables

	31.12.2014
Opening balance	**(16 616 949)**
Increase	(3 705 932)
Transfers	609 983
Reversals	456 260
Foreign exchange differences	(55)
Assets held for sale	1 098 446
Closing balance	**(18 158 247)**

Recognition of balances with impairments of current trade receivables in 2014 occurred mainly in the following Group companies:

Increase	**31.12.2014**
Águas do Algarve, S.A.	(587 398)
Águas do Mondego, S.A.	(466 173)
AdRA - Águas da Região de Aveiro, S.A.	(310 859)
Águas de Santo André, S.A.	(996 306)
Aquasis, S.A.	(405 374)
EPAL, S.A.	(922 962)
Other group companies	(16 860)
	(3 705 932)

19. State and other public entities

	31.12.2014	31.12.2013
Income tax withheld by third parties	311 626	485 339
VAT receivable	2 639 673	5 067 012
Other	2 675 443	3 682 431
State and other public entities - assets	**5 626 742**	**9 234 782**
Income tax withheld on behalf of third parties - IRC	(1 156 219)	(1 650 735)
VAT payable	(1 956 208)	(2 509 809)
Social security contributions	(1 169 120)	(1 937 702)
Local government tax	(4 728)	(30 808)
TRH / TGR	(13 586 622)	(22 717 206)
Other taxes and charges	(1 566 102)	(1 527 245)
State and other public entities - liabilities	**(19 438 999)**	**(30 373 505)**
Net value of state and other public entities balances	**(13 812 257)**	**(21 138 723)**

The variation in liability balances is essentially the result of reclassification of the EGF Group to liabilities held for sale.

20. Other current assets

		31.12.2014	31.12.2013
Advances to suppliers		4 670 588	7 336 579
Personnel		174 399	486 921
Accrued interest and others		22 770 488	29 687 827
Investment grants - Cohesion fund and others	20.1	30 084 066	71 542 862
Advances to investment suppliers		1 416 856	2 013 462
Deferrals		9 401 003	11 538 128
Other accounts receivable		20 924 021	38 513 051
Accumulated impairment losses		(3 718 653)	(5 635 737)
		85 722 768	155 483 093

The variation in Other Accounts Receivable was due to:

i) reclassification of EUR 9 million to assets held for sale;

ii) ceased to include the approximate amount of EUR 10 million debited to the consortium responsible for the Contract to Improve the Guia wastewater treatment plant regarding a fine for failing to meet the deadline for the contract, due to the fact that in 2014 EUR 9.9 million were credited after the court decision.

20.1 Investment grants by group company

Amounts receivable from the cohesion fund	Nota	31.12.2014	31.12.2013
Investment grants - Cohesion fund MLT	16	1 097 021	9 191 249
Investment grants - Cohesion fund CP		30 084 066	71 542 862
Advance on Investment grants - Cohesion fund (liabilities)		(18 372 718)	(3 250 628)
		12 808 369	77 483 483

Investment grants - Cohesion fund CP and MLT	31.12.2014	31.12.2013
Águas do Algarve, S.A.	831 686	2 841 546
Águas do Centro Alentejo, S.A.	136 010	3 309 998
Águas do Centro, S.A.	964 538	1 396 536
Águas do Norte Alentejano, S.A.	2 125 917	1 984 927
Águas do Noroeste, S.A.	9 601 597	15 688 895
Águas do Oeste, S.A.	4 961 904	12 181 704
AdRA - Águas da Região de Aveiro, S.A.	3 014 153	14 297 856
Águas do Zêzere e Côa, S.A.	2 190 268	1 735 925
AgdA - Águas Públicas Alentejo, S.A.	5 391 989	356 860
Simarsul, S.A.	239 190	11 483 633
Simdouro, S.A.	442 262	4 303 074
Simria, S.A.	-	1 011 303
Simtejo, S.A.	1 281 574	1 277 002
Assets held for sale		8 864 851
	31 181 088	80 734 110

Advances on payments from the cohesion fund	31.12.2014	31.12.2013
Águas do Algarve, S.A.	3 532 515	2 310 119
Águas de Trás-os-Montes e Alto Douro, S.A.	2 023 381	940 509
Águas Públicas Alentejo, S.A	8 235 733	-
Simdouro, S.A.	4 454 706	-
Simria, S.A.	126 383	-
	18 372 718	3 250 628

The change in this item is due to the receipt of part of the funds:

Amounts receivable from the cohesion fund opening balance	note	77.483.483
Recognition of fund entitlement	31.1.1	37 442 454
Income in period	20.1.1	(83 636 791)
Corrections to recognition of entitlement	31.1.2	(12 326 005)
Other corrections		2 710 080
Assets held for sale		(8 864 852)
Amounts receivable from the cohesion fund opening balance		**12 808 369**

20.1.1 Receivables

The difference between the amount of receivables reflected under this item and under the amount receivable item (Note 20.1), refers to amounts received and directly reflected under income to be recognised and receivables of other subsidies, respectively.

Receivables	Note	**31.12.2014**
Receivables cohesion fund - rights to revenue to be recognised		4 259 046
Amounts receivable from the cohesion fund	20.1	83 636 791
Cash flow receivables		**87 895 837**
Receivables other subsidies (Águas de Santo André, S.A.)		4 213 677
Cash flow receivables		**92 109 514**

20.2 Impairment losses on other current assets

	31.12.2014
Opening balance	(5 635 737)
Increases	(25 907)
Reversals	766 496
Reduction (direct to debt)	698 725
Assets held for sale	477 770
Closing balance	(3 718 653)

21. Cash and cash equivalents

	31.12.2014	31.12.2013
Cash	6 867 927	2 922 997
Current accounts	51 140 074	50 323 459
Term deposits	207 377 232	297 944 659
Other securities	16 500 000	18 200 000
	281 885 233	369 391 115

22. Equity

The share capital of EUR 434,500,000 is composed of 86,900,000 shares of EUR 5 each, and it is fully paid up.

22.1 Shareholders

	31.12.2014		31.12.2013	
	Value	%	Value	%
Parpública, S.G.P.S., S.A.	351 945 000	81%	351 945 000	81%
Parcaixa, S.G.P.S, S.A.	82 555 000	19%	82 555 000	19%
	434 500 000	100%	434 500 000	100%

22.2 Net earnings per share

	31.12.2014	31.12.2013
Net profit for financial year	102 323 920	104 678 511
Average number of shares	86 900 000	86 900 000
Earnings per share (basic and diluted)	1.18	1.20

23. Reserves and other adjustments

	31.12.2014	31.12.2013
Legal reserve	18 331 201	15 001 702
Free reserve	2 547 085	1 044 437
Reserves of fair value of hedging instruments	(2 749 242)	(718 163)
Currency conversion reserve	164 636	229 542
	18 293 680	15 557 5180

		31.12.2013	Increases/ decreases	Dividends	Allocation of net reserve	31.12.2014
Legal reserve		15 001 702	-	-	3 329 499	18 331 201
Free reserve		1 044 437	1 502 648	-	-	2 547 085
Reserves of fair value of hedging instruments	14	(718 163)	(2 031 079)	-	-	(2 749 242)
Currency conversion reserve	23.1	229 542	(64 906)		-	164 636
		15 557 518	(593 337)	-	3 329 499	18 293 680
Retained earnings		362 253 443	(373 425)	(31 500 000)	101 349 012	431 729 030
Net profit		104 678 511	102 323 920	-	(104 678 511)	102 323 920
		466 931 954	101 950 495	(31 500 000)	(3 329 499)	534 052 950
		482 489 472	101 357 158	(31 500 000)	-	552 346 630

23.1 Variation of currency conversion reserve

	31.12.2014	31.12.2013
Opening balance	229 542	109 687
- Águas do Brasil, S.A.	(4 696)	83 824
- Águas de Timor, Lda.	1 617	-
- Aquatec, Lda.	(61 827)	36 031
Closing balance	164 636	229 542

24. Retained earnings

	31.12.2014
Opening balance	362 253 443
Appropriation of net profit of 2013	101 349 012
Dividends distributed	(31 500 000)
Other variations	(373 425)
Closing balance	431 729 030

25. Non-controlling interests

	31.12.2014
Opening balance	325 286 843
Appropriation of net profit of 2013	20 532 192
Dividends distributed	(9 349 813)
Paid-in capital	4 030 870
Other	317 792
Closing balance	340 817 884

The subsidiaries that underwent share capital increases and paid-in capital were:

	Paid-in capital
Águas do Algarve, S.A.	60 000
Águas do Noroeste, S.A.	1 939 736
Águas Públicas Alentejo, S.A	500 045
Resiestrela, S.A.	75 780
Simdouro, S.A.	1 455 309
	4 030 870

26. Provisions

	31.12.2014	31.12.2013
Tax	**-**	28 923
Legal proceedings	**1150 308**	593 742
Occupational accidents	**81 703**	114 442
Other	**9 636 743**	11 674 953
	10 868 754	**12 412 060**

26.1 Movements in the period

	31.12.2013	Increase	Decrease	Reversals	Assets held for sale	Foreign exchange	**31.12.2014**
Tax	28 922	-	-	-	(28 922)	-	**-**
Legal proceedings	593 742	858 472	-	(97 517)	(205 868)	1 478	**1 150 307**
Occupational accidents	114 442	-	(32 740)	-	-	-	**81 702**
Other	11 674 954	1 037 189	(469 271)	(723 743)	(1 882 384)	-	**9 636 745**
	12 412 060	**1 895 661**	**(502 011)**	**(821 260)**	**(2 117 174)**	**1 478**	**10 868 754**

The movements in the period by group company are:

Provisions - others	31.12.2013	Increase	Decrease	Reversals	Assets held for sale	**31.12.2014**
Águas do Algarve, S.A.	78 511	519 828	-	-	-	**598 339**
Águas do Norte Alentejano, S.A.	46 918	-	-	-	-	**46 918**
AdP - Águas de Portugal, SGPS, S.A.	5 326 966	-	-	-	-	**5 326 966**
AdP Internacional, S.A.	1 336 839	-	(450 878)	-	-	**885 961**
AdP Serviços, S.A.	338 896	-	-	-	-	**338 896**
Águas de Santo André, S.A.	1 174 674	517 361	-	(123 743)	-	**1 568 292**
EPAL, S.A.	1 050 000	-	-	(600 000)	-	**450 000**
Sanest, S.A.	369 590	-	-	-	-	**369 590**
Simlis, S.A.	40 361	-	(801)	-	-	**39 560**
Simria, S.A.	29 815	-	(17 592)	-	-	**12 223**
Liabilities held for sale	1 882 384	-	-	-	(1 882 384)	**-**
Total	**11 674 954**	**1 037 189**	**(469 271)**	**(723 743)**	**(1 882 384)**	**9 636 745**

The provision recognised in other liabilities is related to potential contractual liabilities.

27. Pension liabilities

	31.12.2014	31.12.2013
EPAL pension fund	**4 540 000**	4 260 079
	4 540 000	**4 260 079**

27.1 Actuarial assumptions

	31.12.2014	31.12.2013
Standard retirement age	66 years	65 years
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80
Rate of return	2.50%	3.10%
Discount rate	2.50%	3.10%
Wage growth rate	2.50%	0.00%
Pension growth rate	1.30%	0.00%
Pre-retirement contributions growth rate	1.30%	0.00%

27.2 Fund summary

	31.12.2014	31.12.2013
Liability at end of period	39 814 000	41 368 042
Value of assets at end of period	(39 474 000)	(37 810 000)
Provision for liabilities	340 000	3 558 042

	31.12.2014	31.12.2013
Other current assets	4 200 000	702 037
Pension liabilities	(4 540 000)	(4 260 079)
	(340 000)	(3 558 042)

The overall liabilities (EPAL) are hedged through assets of the pension fund and a specific provision recorded in liabilities, in the amount of EUR 4,540,000 (EUR 4,260,079 on 31 December 2013) Non-current assets (Note 16) record an excess of coverage for the defined benefits plan in the amount of EUR 4,200,000.

27.3 Change in liabilities

	31.12.2014	31.12.2013
Value at start of period	41 368 042	41 406 079
Current services cost	166 000	193 000
Interest costs	1 191 000	1 476 000
Changes to plan	-	245 000
Actuarial gains/losses	(841 000)	267 000
(Gains)/losses changes in financial assumptions	1 989 000	2 261 963
Benefits paid	(4 059 042)	(4 481 000)
Liabilities at end of period	39 814 000	41 368 042

The liability sensitivity for defined benefits against variations in the main assumptions (discount rate) is as follows:

	Change in assumptions	Defined benefit liabilities
Fund return	-0.5%	Increase of 5.1%

The 5.1% increase in liabilities corresponds to a variation in liabilities of around EUR 1.8 million, meaning that they rose to around EUR 37 million. The sensitivity analysis shown was calculated by varying assumptions (discount rate) and maintaining the other constant variables. In practice, this scenario is unlikely, as the changes in some assumptions may be correlated.

27.4 Change in fund assets

	31.12.2014	31.12.2013
Fund at start of period	**37 810 000**	**37 480 000**
Fund return	1 164 000	1 371 000
(Actuarial) gains and losses	2 705 000	1 213 000
Benefits paid	(2 205 000)	(2 254 000)
Fund at end of period	**39 474 000**	**37 810 000**

27.5 Cost of Period

	31.12.2014	31.12.2013
Current services cost	166 000	193 000
Interest costs	27 000	106 000
Changes to plan		245 000
Total	**193 000**	**544 000**

27.6 Composition of fund assets

	31.12.2014	31.12.2013
Equity instruments	12 671 786	13 831 360
Debt instruments	23 514 803	22 760 271
Other	3 287 411	1 218 369
	39 474 000	**37 810 000**

Investment policy

The investment policy of the Pension Fund takes into account the nature of the benefits covered by the Pension Plans, the characteristics of the population covered and the time horizon of the liabilities assumed (including the breakdown between liabilities with the participants and beneficiaries of the pension fund), the level of hedging of the Pension Fund and the management structure of the Pension Fund. The investment policy will be subject to review at least every three years or when a change in the assumptions listed above justifies such. The investment policy of the Pension Fund aims to maximise the potential return of the fund investments in the medium and long term, based on rules and procedures founded on prudence and in-depth knowledge of the markets in order to avoid inappropriate risks of loss. Investment in financial investments should be made in a diversified and prudent manner, with particular regard to the interest rate, credit and liquidity risks.

Restrictions/Notes on the Overall Fund and each Portfolio

- Investing in stocks and/or bonds may be done directly or through collective investment in transferable securities (UCITS) that meet the requirements of legislation adopted pursuant to Council Directive Nº. 85/611/EEC of 20 December, amended by Directive Nº. 2001/108/EC of 21 January 2002.

- In principle, the fund makes foreign exchange risk hedging for shares denominated in currencies other than the euro, so there should be no significant currency risk in these investments.

- Direct investment in bonds will be made in securities denominated in euros or another currency, provided the corresponding currency hedging is undertaken.

- In principle, the fund makes foreign exchange risk hedging for other instruments denominated in currencies other than the euro that are not direct investments in bonds or shares, so there should be no significant currency risk in these investments.

- For the purposes of compliance with the allocation to non-Euro bonds, the criterion of classification of securities shall be the currency of issuance of the bonds, and not exposure to foreign exchange risk. Hence, a bond issued in USD will be considered a non-Euro bond, regardless of the currency hedging policy of the management entity.

- Exposure to the bond class is limited to rated bonds.

- Fixed rate Euro bonds should have a minimum rating of "BBB" or equivalent. The share of 'BBB' rated bonds should not exceed 30% of the bond component. The 'BBB' rating covers debt securities with ratings of 'BBB- ' and ' BBB+ '. Bonds rated below BBB,

except Portuguese sovereign debt, shall be classified in the class of high yield and their share may go up to 7.5% of the entire asset value. Portuguese (private and public) debt bonds will be classified in the Euro fixed rate class and are not subject to the minimum BBB rating. They may represent up to 15% of the bond component.

- Whenever the downgrade of a bond occurs that involves non-compliance with the rating limits, and if the Management entity wants to keep the security in the portfolio, then the situation should be reported to the Member and the respective approval obtained.

- Any change to the classification for purposes of the limits set forth in the Investment Policy shall require the prior written approval of the Member.

- The "Government" component of the bonds shall not constitute less than 40% of the bond class. "Government" means the fixed rate debt issued by central government and quasi-government agencies. Emerging markets and high yield issues (albeit in Euros) are not included. Portuguese government debt issues are included.

- The limit on securities that are not traded on stock exchanges or other regulated markets in Member States of the European Union, or similar markets of OECD countries, is 5%.

- Assets denominated in non-euro currencies may not exceed the 25% ceiling.

- No investment in venture capital funds may be made without the prior written approval of the Member.

- The manager will ensure the sectoral management (public debt/private debt), management of the country and duration of the bond component within the limits and restrictions set forth in this investment policy.

The Pension Fund may use repo transactions and securities lending operations with the aim of increasing the portfolio's profitability. Operations with derivatives and lending operations must be mandatorily carried out: i) on a regulated market; or ii) with a financial institution legally authorised to do so in a Member State of the European Economic Area or in another OECD country, provided that the rating of this institution is qualitatively equal to or greater than "BBB"/"Baa2" in accordance with ratings universally used or other classifications proven to be equivalent. The risk of the pension fund portfolio is monitored, in terms of evaluation and control of financial risks (market risk, credit risk and currency risk), in accordance with internally set limits using the VaR (Value at Risk) methodology for this purpose.

27.7 Evolution of liabilities in the last 5 years

	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010
Liability at end of period	**39 814 000**	41 368 042	41 406 079	42 943 162	48 434 848
Value of assets at end of period	**39 474 000**	37 810 000	37 480 000	35 360 261	36 918 960
Unrecognised actuarial gains and losses		-	-	(1 808 008)	(1 121 918)
Hedging excess	**(4 200 000)**	(702 037)	(2 115 000)	24	(2 932)
Provision for liabilities	**4 540 000**	**4 260 079**	**6 041 079**	**9 390 885**	**12 640 738**

28. Borrowing

Non-current	**31.12.2014**	31.12.2013
Bank loans - EIB	**1 571 834 202**	1 718 467 460
Bond loans	**500 000 000**	500 000 000
Other bank loans and private placement of debt	**53 002 296**	188 827 279
Loans obtained - adjustment for amortised cost	**(413 539)**	(1 132 670)
Other loans	**97 799**	437 058
Bank loans	**2 124 520 758**	**2 406 599 127**
Debts to leasing companies	**15 131 989**	16 906 508
Total non-current borrowing	**2 139 652 747**	**2 423 505 635**

Current	31.12.2014	31.12.2013
Bank overdrafts	178 303 799	161 127 050
Bank loans	418 841 917	452 071 250
Other loans	65 197	1 497 211
Bank loans	**597 210 913**	**614 695 511**
Debts to leasing companies	1 681 714	1 999 709
Total current borrowing	**598 892 627**	**616 695 220**
Total bank loans	**2 721 731 671**	**3 021 294 638**
Total borrowing	**2 738 545 374**	**3 040 200 855**

Loans in foreign currency and bonds are subject to ownership clauses, which state that any changes to the shareholder structure of the company can lead to immediate repayment of the debt. In relation to loan agreements with the European Investment Bank, the AdP Group, besides the usual constraints (payment default, compliance with general and environmental law, cross default, pari passu, negative pledge, false statements, bankruptcy, insolvency, settlement, material changes), also takes into consideration:

- Changes in the shareholder structure of the companies of the AdP Group;
- Changes due to spin-off, merger or sale of companies;
- Changes to companies' assets;
- Change/ termination of businesses;
- changes in the shareholder structure of AdP/EGF;
- Operations performed with a guarantee/collateral of AdP/ EGF;
- Compliance with obligations defined in the concession/ management agreements;
- Changes in turnover of the companies.

Moreover, and in connection with such financing agreements, the Portuguese Republic is the guarantor of the AdP Group to the European Investment Bank for the timely and full implementation of all financial obligations and payments.

The divestment of EGF does not affect finance contracts to water and sanitation companies. The continuation of the shareholder structure as mainly public for water and sanitation companies makes it possible to maintain finance contracts within the framework of the restructuring mentioned in Note 52.

28.1 Loans by maturity

	31.12.2014	31.12.2013
Non-current		
Bank loans - EIB	1 571 834 202	1 718 467 460
Bank loans - commercial banks	-	-
Bond loans	500 000 000	500 000 000
Other bank loans and private placement of debt	53 002 296	188 827 279
Current		
Bank loans	418 841 917	452 071 250
	2 543 678 415	2 859 365 989

By maturity	31.12.2014	31.12.2013
Up to 1 year	418 841 917	452 071 250
1 to 2 years	75 568 034	182 062 981
2 to 3 years	95 845 339	91 493 178
3 to 4 years	90 396 304	104 774 335
4 to 5 years	85 979 678	108 245 781
Over 5 years	1 777 047 143	1 920 718 464
	2 543 678 415	2 859 365 989

The variation in this item reflects the reclassification of the EGF Group to liabilities held for sale, to the amount of EUR 178,197,539.

28.2 Loans by interest rate type

Floating interest rate	**31.12.2014**	31.12.2013
Up to 1 year	268 022 782	388 150 712
1 to 2 years	15 038 492	27 562 286
2 to 3 years	15 316 050	29 202 140
Over 3 years	667 008 430	956 529 051
	965 385 754	1 401 444 189

Fixed interest rate	**31.12.2014**	31.12.2013
Up to 1 year	150 819 135	63 920 538
1 to 2 years	60 529 542	154 500 695
2 to 3 years	80 529 289	62 291 038
Over 3 years	1 286 414 695	1 177 209 529
	1 578 292 661	1 457 921 800
	2 543 678 415	2 859 365 989

28.3 Leasing

Leasing	**31.12.2014**	31.12.2013
Current	1 681 714	1 999 709
Non-current	15 131 989	16 906 508
	16 813 703	18 906 217

Outstanding principal by type of asset acquired	**31.12.2014**	31.12.2013
Buildings and other constructions	16 753 076	18 371 817
Basic equipment	-	228 371
Transport equipment	60 627	306 029
Office equipment	-	-
	16 813 703	18 906 217

Future minimum payments	**31.12.2014**	31.12.2013
Up to 1 year	1 757 960	2 122 209
1 to 5 years	6 931 080	7 157 936
Over 5 years	8 531 608	10 252 044
	17 220 648	19 532 189

Interest	**31.12.2014**	31.12.2013
Up to 1 year	76 246	122 500
1 to 5 years	230 799	329 047
Over 5 years	99 900	174 425
	406 945	625 972

Present value of minimum payments	**31.12.2014**	31.12.2013
Up to 1 year	1 681 714	1 999 709
1 to 5 years	6 700 281	6 828 889
Over 5 years	8 431 708	10 077 619
	16 813 703	18 906 217

29. Trade payables and other non-current liabilities

	31.12.2014	31.12.2013
Amounts owed to municipalities for addition to infrastructure assets		
AdRA - Águas da Região de Aveiro, S.A.	**42 711 497**	40 699 873
Águas do Zêzere e Côa, S.A.	**13 698 352**	14 758 249
Simdouro, S.A.	**12 668 091**	19 048 671
Águas do Centro, S.A.	**6 223 884**	6 756 182
Águas de Santo André, S.A.	**5 825 697**	6 062 590
Águas de Trás-os-Montes e Alto Douro, S.A.	**5 646 405**	9 415 698
Simarsul, S.A.	**5 232 258**	5 455 744
Águas do Algarve, S.A.	**4 817 838**	4 685 364
AgdA - Águas Públicas Alentejo, S.A.	**4 265 792**	4 204 073
Águas do Noroeste, S.A.	**2 832 888**	2 768 497
Águas do Mondego, S.A.	**2 144 238**	3 183 931
Águas do Centro Alentejo, S.A.	**1 545 440**	2 141 561
Águas do Oeste, S.A.	**1 059 897**	1 620 194
	108 672 277	**120 800 627**
Other suppliers of investment and other natures	**6 421 965**	5 710 287
Liabilities held for sale	**-**	2 769 039
	115 094 242	**129 279 953**

30. Accrued contractual investment expenses

The companies, as stated in note 2.5.3 and based on the provisions of the concession and management agreements of the partnerships, as well as in accordance with regulatory requirements, and where applicable, annually recognise the share of estimated expenses to meet contractual costs with unrealised investments or expansion and modernisation investments approved or imposed by the Concession Grantor. Thus, the accrued contractual investment expenses recognised are those expressed in the following table:

	31.12.2014	31.12.2013
Water - Production, Treatment and Transport		
Águas do Algarve, S.A.	**50 575 787**	47 024 346
Águas do Centro Alentejo, S.A.	**3 939 516**	3 313 464
Águas do Centro, S.A.	**6 465 206**	5 583 230
Águas do Douro e Paiva, S.A.	**21 867 445**	22 488 971
Águas do Mondego, S.A.	**10 244 460**	9 049 093
Águas do Norte Alentejano, S.A.	**3 829 169**	5 009 309
Águas do Noroeste, S.A.	**28 694 757**	27 750 409
Águas do Oeste, S.A.	**10 407 754**	9 742 848
Águas de Santo André, S.A.	**9 993 628**	11 732 552
Águas de Trás-os-Montes e Alto Douro, S.A.	**26 590 946**	24 757 866
Águas do Zêzere e Côa, S.A.	**6 572 682**	6 041 873
AgdA - Águas Públicas Alentejo, S.A.	**2 989 514**	3 033 039
Sanest, S.A.	**36 290 042**	35 699 278
Simarsul, S.A.	**9 636 159**	8 257 245
Simdouro, S.A.	**5 601 524**	4 035 102
Simlis, S.A.	**3 039 448**	2 707 150
Simria, S.A.	**5 933 976**	5 227 989
Simtejo, S.A.	**75 708 513**	68 019 809
AdRA - Águas da Região de Aveiro, S.A.	**29 622 156**	23 197 161
	348 002 682	**322 670 734**
Assets held for sale	**-**	174 573 520
	348 002 682	**497 244 254**

30.1 Movements in the period

		31.12.2014
Amortisation contractual investment opening balance		497 244 254
Amortisation in financial year	39	33 051 692
Definitive transfer	8.2	(7 552 429)
Assets held for sale		(174 573 521)
Other		(167 314)
Amortisation contractual investment closing balance		348 002 682

31. Investment grants

	31.12.2014	31.12.2013
Investment grants - Cohesion fund	1 381 320 516	1 663 123 827
Investment grants - Others	8 603 891	25 734 256
Addition to infrastructure assets	240 468 376	254 344 951
	1 630 392 783	1 943 203 034

31.1 Movements in the period

		31.12.2014
Investment grants opening balance		1 663 123 827
Recognition of fund entitlement	31.1.1	41 701 500
Recognition of income	31.2	(43 523 174)
Corrections to recognition of income		842 222
Corrections to recognition of entitlement	31.1.2	(11 273 597)
Liabilities held for sale		(269 550 262)
Investment grants closing balance		1 381 320 516

31.1.1 Recognition of fund entitlement

Recognition of fund entitlement		31.12.2014
Recognition of fund entitlement - amounts receivable	20.1	37 442 454
Recognition of fund entitlement - amounts received		4 259 046
		41 701 500

Recognition of fund entitlement by company	31.12.2014
Águas do Noroeste, S.A.	8 481 459
Águas do Centro, S.A.	3 317 786
Águas Públicas Alentejo, S.A	13 683 758
Simdouro, S.A.	8 540 724
Águas de Trás-os-Montes e Alto Douro, S.A.	2 641 264
Águas do Zêzere e Côa, S.A.	2 310 365
Other group companies	2 726 144
	41 701 500

31.1.2 Corrections

Corrections	31.12.2014
Águas do Centro Alentejo, S.A.	1 713 690
AdRA - Águas Região de Aveiro	1 917 221
Águas de Trás-os-Montes e Alto Douro, S.A.	1 261 867
Simarsul, S.A.	1 746 085
Simdouro, S.A.	4 712 565
Águas do Zêzere e Côa, S.A.	591 683
Other corrections	382 894
Corrections other debtors	12 326 005
Other direct corrections to revenue to be recognised	(1 052 408)
Corrections to revenue to be recognised	11 273 597

The corrections resulted from recalculations of bids, adjustments of final amounts and rescheduling of bids. These corrections have no material impact on profit/loss and their effect was mostly between receivables and payables to be recognised on the balance sheet.

31.2 Amounts recognised in profit/ loss of the period

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Investment grants - Cohesion fund	43 523 174	43 795 664	61 308 947
Investment grants - Others	776 624	2 488 242	3 113 169
Addition to infrastructure assets	11 484 443	9 669 768	9 669 768
	55 784 241	55 953 674	74 091 884

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

32. (Current) trade payables

	31.12.2014	31.12.2013
Trade payables current account - General	26 024 866	38 849 016
Investment suppliers	40 075 829	35 825 233
Trade payables - invoices being checked	940 987	2 133 365
Other trade payables balances	1 215 274	2 286 864
	68 256 956	79 094 478

The amounts recorded for investment suppliers chiefly relate to debts to municipalities for the integration of assets in the multi-municipal systems (non-current debts are presented in note 29). The table below contains the subsidiaries with the most significant values:

Investment suppliers	31.12.2014	31.12.2013
Águas do Noroeste, S.A.	7 189 786	2 723 835
AgdA - Águas Públicas Alentejo, S.A.	5 293 168	2 974 181
Águas de Trás-os-Montes e Alto Douro, S.A.	4 269 848	3 683 446
Águas do Mondego, S.A.	3 272 727	530 569
Simdouro, S.A.	3 224 441	3 117 021
Simtejo, S.A.	2 902 826	2 099 225
Águas do Zêzere e Côa, S.A.	1 818 637	2 089 983
EPAL, S.A.	1 768 854	2 113 453
Águas do Centro, S.A.	1 766 565	919 813
Águas do Algarve, S.A.	1 076 276	703 396
Águas do Oeste, S.A.	1 052 117	607 621
Other group companies	6 440 584	7 341 602
Liabilities held for sale		6 921 088
	40 075 829	35 825 233

33. Other current liabilities

		31.12.2014	31.12.2013
Advances to trade receivables		151 548	137 724
Accrued personnel costs		11 312 984	15 311 333
Shareholders		30 368	587 921
Accrued expenses creditors	i)	25 782 716	35 512 970
Deposits to suppliers		4 886 203	6 088 903
Municipal sanitation charges and solid household waste	ii)	16 333 422	16 816 597
Advance on Investment grants - cohesion fund	20.1	18 372 718	3 250 628
Advance on account of sale of EGF		14 204 044	-
Other Creditors	iii)	10 095 103	45 470 346
Deferrals	iv)	20 530 129	28 155 137
		121 699 235	151 331 559

The difference is essentially the result of classification of the EGF Group as held for sale.

i) Accrued expenses contains accrued interest, electricity, insurance, etc.

ii) This item includes a subsoil charge payable to Lisbon Municipal Council by EPAL to the amount of EUR 14,645,000 and solid household waste by the subsidiary AdRA to the amount of EUR 1,689,000.

iii) The variation in Other creditors is the result of payment of rents to Castelo Branco municipality by the subsidiary Águas do Centro.

iv) See Note .

34. Income tax payable

	31.12.2014	31.12.2013
Income tax - Assets	-	-
Income tax - Liabilities	2 665 453	12 692 551
	2 665 453	12 692 551

Value of income tax in period. There are no payments in arrears to tax authorities.

35. Sales and services

35.1 Sales and services by nature

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Sales			
Water – Production and Depuration	212 178 263	211 883 832	211 883 832
EPAL	129 078 389	130 228 306	130 228 306
Solid Waste			93 197 706
Corporate services	114 591	113 989	113 989
	341 371 243	342 226 127	435 423 833
Services Rendered			
Water - Production and Depuration	252 129 654	250 138 341	250 138 341
EPAL	1 096 624	1 182 718	1 182 718
Solid Waste			79 403 044
International	4 166 340	4 414 192	4 414 192
Corporate services	1 114 038	1 605 306	1 930 992
	258 506 656	257 340 557	337 069 287
Tariff deviations			
Water - Production and Depuration	26 308 099	54 940 270	54 940 270
Solid Waste	-	-	(11 244 543)
	26 308 099	54 940 270	43 695 727
	626 185 998	654 506 954	816 188 847

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

35.2 Tariff deviations

35.2.1 By nature

Tariff deviations	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Deviations and surplus of financial year	26 308 099	54 940 270	43 695 727
Gross tariff deviations	26 308 099	54 940 270	43 695 727

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

In 2014, there was a significant variation in tariff adjustments as a result of better performance of group companies (best individual net earnings), with the historical value being recalculated creating an effect on deviations, and a slight decrease in the indexer used in the calculation of guaranteed remuneration (see tables below).

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Guaranteed income	46 091 922	58 316 152	64 109 551
Net profit/ loss	(18 847 406)	(10 020 983)	(25 258 856)
Tax	7 909 698	15 671 942	12 607 179
	35 154 214	63 967 111	51 457 874
Changes in income tax rate and others	(8 846 114)	(9 026 840)	(7 762 145)
	(8 846 114)	(9 026 840)	(7 762 145)
Total	26 308 099	54 940 271	43 695 729

	31.12.2014	31.12.2013	Change
TBA	0,22%	0,24%	-0,02%
Treasury bills	3,75%	6,35%	-2,60%

A risk premium of 3% is added to this rate.

35.2.2 By Group company

Gross tariff deviations	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Water - Production, Treatment and Transport			
Águas do Algarve, S.A.	(2 944 149)	1 304 220	1 304 220
Águas do Centro Alentejo, S.A.	932 149	1 088 079	1 088 079
Águas do Centro, S.A.	4 878 029	9 122 058	9 122 058
Águas do Douro e Paiva, S.A.	(2 246 482)	(385 520)	(385 520)
Águas do Mondego, S.A.	(895 255)	1 207 642	1 207 642
Águas do Norte Alentejano, S.A.	1 686 391	3 148 429	3 148 429
Águas do Noroeste, S.A.	11 686 199	12 452 846	12 452 846
Águas do Oeste, S.A.	6 244 662	10 873 353	10 873 353
Águas de Trás-os-Montes e Alto Douro, S.A.	(5 344 306)	(1 361 872)	(1 361 872)
Águas do Zêzere e Côa, S.A.	1 101 838	3 664 059	3 664 059
AgdA - Águas Públicas Alentejo, S.A.	(1 249 662)	(576 468)	(576 468)
Sanest, S.A.	2 738 444	493 320	493 320
Simarsul, S.A.	5 235 719	5 323 152	5 323 152
Simdouro, S.A.	3 066 862	1 431 962	1 431 962
Simlis, S.A.	679 164	(1 576 907)	(1 576 907)
Simria, S.A.	(6 153)	3 095 996	3 095 996
Simtejo, S.A.	(3 551 660)	(1 087 330)	(1 087 330)
AdRA - Águas da Região de Aveiro, S.A.	4 296 309	6 723 251	6 723 251
Total Water – Production and Depuration	26 308 099	54 940 270	54 940 270
Solid Waste			(11 244 543)
Total	26 308 099	54 940 270	43 695 727

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

36. Cost of sales

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Cost of goods sold & services rendered - Goods	311 127	496 711	7 065 893
Cost of goods sold & services rendered - raw materials	12 370 226	12 313 192	12 466 028
Cost of goods sold & services rendered - consumables	4 896 037	4 632 790	6 168 497
Cost of goods sold & services rendered - sundry materials	1 955 408	2 186 915	6 351 665
Prior-year corrections	1 703	(75 275)	(75 275)
	19 534 501	19 554 333	31 976 808
Capitalisation of Cost of goods sold & services rendered	(68 082)	(82 680)	(110 394)
	19 466 419	19 471 653	31 866 414
Variations in production	-	-	(219 162)
	19 466 419	19 471 653	31 647 252

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

37. Supplies and services

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Subcontracts	**28 026 890**	29 886 361	34 308 889
Specialised work - Technical assistance	**2 951 633**	2 619 646	2 718 377
Specialised work - Waste treatment	**7 147 498**	4 783 210	4 980 526
Specialised services - Security	**2 242 336**	2 165 669	4 485 554
Specialised work - IT assistance	**3 204 363**	2 735 653	2 954 322
Maintenance and repairs	**22 170 762**	22 058 081	34 790 587
Specialised services - others	**15 419 049**	16 880 055	21 866 403
Materials	**1 918 889**	1 646 375	6 329 272
Energy	**68 137 413**	70 098 114	81 773 778
Travel and accommodation	**1 690 483**	1 804 560	2 834 326
Rents and leases	**7 978 346**	8 620 660	9 671 911
Communications	**4 571 133**	4 946 941	5 434 989
Insurance	**6 253 669**	6 224 318	8 573 312
Other	**6 457 222**	6 694 316	10 796 658
Prior-year corrections	**(6 165)**	2 435	(827 117)
	178 163 521	**181 166 394**	**230 691 787**
Capitalised supplies and services	**(4 162 170)**	(3 577 688)	(3 789 461)
	174 001 351	**177 588 706**	**226 902 326**

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

38. Personnel costs

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Remuneration	**72 424 874**	77 859 207	110 651 758
Payroll expenses	**16 325 004**	17 260 753	24 767 504
Insurance	**3 999 444**	3 932 526	5 457 244
Compensation for contract termination	**1 078 563**	2 590 164	3 219 340
Other personnel costs	**2 861 473**	3 117 601	4 919 338
Prior-year corrections	**255 359**	212 579	479 803
	96 944 717	**104 972 830**	**149 494 987**
Capitalised personnel costs	**(7 075 826)**	(5 121 252)	(5 245 041)
	89 868 891	**99 851 578**	**144 249 946**

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

As in 2013, in 2014 we continued to comply with Law 12-A/2010 of 30 June, aimed at reducing the salaries of corporate bodies by 5%, and with the 2013 State Budget Law that aims at reducing managers' salaries by 10% from January 2011. In 2012, the directors appointed for the 2011-2014 term began to receive the remuneration provided for in the new Statute on Public Managers.

In 2014, the reductions in salaries pursuant to the State Budget and the reversals established by the Constitutional Courts resulted in the following account during the year: **(i)** there were cuts ranging from 2.5% to 12% between January and May; **(ii)** there were no reductions between June and mid-September and there were reductions from 3.5% to 10% between mid-September and December, as in 2013 (which began in January 2011).

As provided for in the State Budget for 2013 expenses on holiday allowances in 2012 were not accrued. In 2012 only 12 months of personnel expenses were recorded, also due to the suspension of the payment of the Christmas allowance. In 2013, by decision of the Constitutional Court, expenses on holiday allowance for the previous year were incurred, with the restoration of the allowances for Christmas plus expenses related to holiday allowances and the holiday allowance for next year, as stipulated by the law. Thus, 15 months of personnel expenses are recorded in 2013 compared to 12 months the previous year and 14 in the current year.

The reduction in personnel costs also reflects a reduction in the number of personnel (year-on-year there was a downsize of 238 employees), with a direct impact on the payroll item.

38.1 Remuneration of governing bodies

	31.12.2014	31.12.2013
Board of Directors	352 759	375 146
Supervisory Board	45 908	43 564
Statutory Auditor	22 923	18 495
Other	1 570	1 570
	418 472	438 775

38.2 Average number of employees

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Governing bodies	103	93	155
Permanent employees and others	3 141	3 265	5 194
	3 244	3 358	5 349

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

39. Amortisations, depreciation and reversals in financial year

		31.12.2014	Restated[1] 31.12.2013	31.12.2013
Amortisation - Investment properties		94 779	94 779	95 882
Amortisation - Tangible assets		26 650 734	26 684 084	26 752 987
Amortisation - Intangible assets		1 445 927	1 619 683	2 483 398
Amortisation - DUI		128 744 634	114 126 109	154 309 279
Depreciation of contractual investment	30	33 051 692	45 930 640	62 689 019
		189 987 766	188 455 295	246 330 565
Reversals, depreciation and amortisation		(3 069)	(38 109)	(38 110)
		189 984 697	188 417 186	246 292 455
Corrections for previous years				(62 852)
		189 984 697	188 417 186	246 229 603

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

40. Provisions and reversals in financial year

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Provisions in financial year - Ongoing legal proceedings	858 472	220 351	320 519
Provisions in financial year - Others	1 037 189	998 585	1 172 714
	1 895 661	1 218 936	1 493 233
Reversals of tax provisions	-	(81 938)	(81 938)
Reversal of provisions - Ongoing legal proceedings	(97 517)	(235 731)	(262 659)
Reversal of provisions - Others	(723 743)	(1 424 317)	(1 497 402)
	(821 260)	(1 741 986)	(1 841 999)
Corrections for previous years	(480 878)	-	-
	593 523	(523 050)	(348 766)

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

Consult together with note 26.

41. Impairment losses and reversals in financial year

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Impairment losses - debts receivable - current accounts	3 705 932	2 182 027	2 469 760
Impairment losses - debts receivable - other debtors	25 908	62 517	87 077
Impairment losses - financial investments	-	-	300
	3 731 840	2 244 544	2 557 137
Reversal of impairment losses - trade receivables	(456 260)	(2 033 412)	(2 126 783)
Reversal of impairment losses - other trade receivables	(766 496)	(27 637)	(82 368)
	(1 222 756)	(2 061 049)	(2 215 287)
	2 509 084	183 495	341 850

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

42. Other operating expenses

		31.12.2014	Restated[1] 31.12.2013	31.12.2013
Direct and indirect taxes	42.1	7 315 336	7 959 811	10 465 338
Losses on inventories		16 133	12 752	13 976
Losses on non-financial investments		29 690	487 713	502 139
Donations		239 997	233 814	348 326
Exchange differences in non-financial operations		318 030	118 391	118 391
Other expenses and losses		1 425 923	1 354 123	1 714 026
Prior-year corrections		36 983	332 347	355 754
		9 382 092	10 498 951	13 517 950
Capitalised expenses		(24 252)	(1 704)	(1 704)
		9 357 840	10 497 247	13 516 246

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

42.1 Direct and indirect taxes

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Stamp duty	1 928 256	2 496 034	2 691 289
IRAR charge	4 189 496	4 089 318	5 147 204
Water resource levy	176 360	115 890	597 599
Charges	422 290	405 479	830 900
Other	598 934	853 090	1 198 346
	7 315 336	7 959 811	10 465 338

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

43. Other operating income

		31.12.2014	Restated[1] 31.12.2013	31.12.2013
Additional income	43.1	5 289 359	5 547 779	5 977 115
Operating grants		232 638	221 628	290 169
Other income and gains	10	14 267 921	2 438 416	4 162 998
Prior-year corrections		97 446	534 808	709 605
		19 887 364	8 742 631	11139 887

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

43.1 Additional Income

		31.12.2014	Restated[1] 31.12.2013	31.12.2013
Equipment hire		4 156	4 145	166 431
Sale of energy		1 289 106	1 156 692	1172 141
Studies, projects and technological assistance		22 147	4 121	22 627
Company positions		37 024	3 983	3 983
Social services		10 730	12 071	12 071
Other	(i)	3 926 196	4 366 767	4 599 862
		5 289 359	5 547 779	5 977 115

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

i) The other additional income item includes works carried out by Group companies on behalf of and debited to third parties.

44. Financial expenses

		31.12.2014	Restated[1] 31.12.2013	31.12.2013
Interest incurred	44.1	87 640 704	97 377 119	104 164 360
Unfavourable foreign exchange differences		12 391	1 568	1 568
Other financial expenses	44.2	12 317 678	8 089 556	9 815 928
Prior-year corrections		(48 201)	359 561	(211 046)
		99 922 572	105 827 804	113 770 810
Financial expenses capitalised		(4 110 450)	(5 944 009)	(6 313 923)
		95 812 122	99 883 795	107 456 887

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

The decrease in financial expenses capitalised is directly related to the decrease in the volume of investments.

44.1 Interest incurred

Interest incurred	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Interest incurred - commercial paper	1 277 881	-	618 955
Interest incurred - EIB	43 435 426	40 840 589	43 993 439
Interest incurred - leasing operations	342 375	343 031	353 533
Interest incurred - bond loans	5 520 115	9 311 309	9 311 309
Late payment interest	849 062	1 727 628	1 945 406
Interest incurred - bank finance	36 215 845	45 154 562	47 941 718
	87 640 704	97 377 119	104 164 360

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

Interest incurred - bank finance	31.12.2014	31.12.2013
Águas de Trás-os-Montes e Alto Douro, S.A.	5 713 720	7 433 210
Águas do Noroeste, S.A.	5 370 423	6 116 721
AdRA - Águas da Região de Aveiro, S.A.	4 455 124	4 604 787
Águas do Douro e Paiva, S.A.	3 505 636	3 847 777
AdP - Águas de Portugal, SGPS, S.A.	2 705 020	2 760 027
Águas do Centro, S.A.	2 099 318	3 145 911
Simdouro, S.A.	2 043 295	834 351
Other group companies	10 323 309	16 411 777
	36 215 845	45 154 561

44.2 Other financial expenses

Other financial expenses		31.12.2014	Restated[1] 31.12.2013	31.12.2013
Borrowing - Commissions/ guarantees		4 442 645	5 287 556	5 384 261
Losses on financial instruments at fair value	44.2.1	2 396 450	-	
Other		5 478 583	2 802 000	4 431 667
		12 317 678	8 089 556	9 815 928

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

44.2.1 Losses on financial instruments at fair value

		31.12.2014	31.12.2013
Exchange rate swap		1 701 550	1 339 501
Interest rate swaps (positive)		-	2 276 000
Interest rate swaps (negative)		(4 098 000)	
		(2 396 450)	3 615 501
Cancellation of derivatives		-	10 065 994
	14	(2 396 450)	13 681 495

45. Financial income

Other financial gains		31.12.2014	Restated[1] 31.12.2013	31.12.2013
Interest earned	45.1	36 947 702	36 264 429	42 768 703
Other financial income and gains		822 686	503 624	939 877
Gains on financial instruments at fair value	44.2.1	-	13 681 495	13 681 495
Prior-year corrections		(8 112)	(213 452)	(213 452)
		37 762 276	50 236 096	57 176 623

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

45.1 Interest earned

		31.12.2014	Restated[1] 31.12.2013	31.12.2013
Deposits		3 288 482	4 468 672	5 416 566
Financial investments		6 934 762	7 604 414	9 023 734
Late-payment interest	45.1.1	23 528 165	19 792 502	23 289 082
Other interest		3 196 293	4 398 841	5 039 321
		36 947 702	36 264 429	42 768 703

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

45.1.1 Late-payment interest (by Group company)

Late-payment interest	31.12.2014	31.12.2013
Águas de Trás-os-Montes e Alto Douro, S.A.	3 963 412	3 751 193
Águas do Algarve, S.A.	3 845 474	1 527 530
Águas do Zêzere e Côa, S.A.	3 812 286	3 015 210
Simtejo, S.A.	3 615 506	2 954 319
Águas do Centro Alentejo, S.A.	1 996 046	2 130 966
Águas do Noroeste, S.A.	1 668 467	1 975 670
Simarsul, S.A.	1 292 640	1 333 026
Águas do Oeste, S.A.	1 119 897	1 247 400
Other group companies	2 214 437	1 857 188
	23 528 165	19 792 502

46. Income from shareholdings

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Expenses and losses - other	(500)	-	-
Income and gains - other	-	-	(2 348)
	(500)	-	(2 348)

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

47. Income tax for the year

	31.12.2014	Restated[1] 31.12.2013	31.12.2013
Income tax for the year	(57 002 050)	(55 201 755)	(69 008 856)
Excess income tax estimate	895 224	1 460 354	1 490 491
Underestimated income tax	(339 627)	(996 865)	(1 634 700)
	(56 446 453)	(54 738 266)	(69 153 065)
Deferred tax	15 766 030	3 465 398	10 449 973
	15 766 030	3 465 398	10 449 973
	(40 680 423)	(51 27 868)	(58 703 092)

[1] Classification of profit/ loss of EGF Group as assets/ liabilities held for sale/ discontinued operations (IFRS 5).

Item	Value
Consolidated profit before tax	**158 025 452**
Losses	6 945 666
Depreciation and amortisation	34 508 641
Asset variations	26 849 350
Provisions	15 896 898
Recovery of impairment losses	(3 662 858)
Other (IFRC 12 and tariff deviations)	(3 330 211)
Assessment base	**235 232 938**
Municipal surtax base	233 184 751
Remaining base	2 048 186
Tax	**32 668 970**
State surtax	7 916 861
Amounts separately taxed and others	666 496
Settlement of prior-year's tax	(16 307)
Tax overheads	**41 236 020**
Current tax	57 002 050
Deferred tax	(15 766 030)

48. Balances and transactions with related parties

2014	Parent company	Other shareholders	Executive committee	Other related parties
Assets				
Municipalities	-	-	-	441 760 174
Liabilities				
Municipalities	-	-	-	50 638 936
Income				
Sales and services to municipalities	-	-	-	279 133 591
Other income from municipalities	-	-	-	12 957 380
Expenses				
Costs of non-executive directors	-	-	-	
Costs of executive directors	-	-	350 415	
Other expenses municipalities	-	-	-	5 791 629
Dividends	25 515 000	5 985 000		-
	25 515 000	**5 985 000**	**350 415**	**790 281 710**

2013	Parent company	Other shareholders	Executive committee	Other related parties
Assets				
Municipalities	-	-	-	551 888 007
Liabilities				
Municipalities	-	-	-	89 607 658
Income				
Sales and services to municipalities	-	-	-	446 497 293
Other income from municipalities	-	-	-	27 724 758
Expenses				
Costs of non-executive directors	-	-	-	-
Costs of executive directors	-	-	378 842	-
Other expenses municipalities	-	-	-	16 468 076
Dividends	19 035 000	4 465 000	-	-
	19 035 000	**4 465 000**	**378 842**	**1 132 185 792**

49. Contractual investment

The estimated off-balance sheet financial commitments made by the AdP Group, arising from the award of the concession contracts relative to initial investment, replacement, renovation and expansion to occur during the remaining term of the concession is as follows:

	Contractual investments	Investments already made	Investments in progress	Unrealised contractual investment (N+1)	Unrealised contractual investment (N+2..N+5)	Unrealised contractual investment (>N+5)
UNA-PD	6 994 106 021	4 809 571 908	239 034 599	159 328 792	351 874 001	1 434 296 722
	6 994 106 021	**4 809 571 908**	**239 034 599**	**159 328 792**	**351 874 001**	**1 434 296 722**

Amount of the contractual investment of the EGF Group reflected in held for sale, corresponding to :

	Contractual investments	Investments already made	Investments in progress	Unrealised contractual investment (N+1)	Unrealised contractual investment (N+2..N+5)	Unrealised contractual investment (>N+5)
UNR	1 416 275 862	994 905 847	70 055 504	60 982 265	111 603 678	189 593 898
	1 416 275 862	**994 905 847**	**70 055 504**	**60 982 265**	**111 603 678**	**189 593 898**

The following table presents the future commitments of the Group regarding rents payable to the municipalities for the integration of the infrastructures, as defined in the concession contracts.

	Rent already recognised	Rent recognised as overdue	Future rents (N+1)	Future rents Remaining	**31.12.2014**	31.12.2013
Águas do Algarve, S.A.	1 677 374	-	206 304	4 465 545	**6 349 223**	4 770 543
Águas do Centro Alentejo, S.A.	1 603 476	-	145 110	1 545 440	**3 294 026**	3 839 970
Águas do Mondego, S.A.	32 906 028	-	1 519 217	1 842 029	**36 267 274**	36 267 272
Águas do Norte Alentejano, S.A.	419 387	7 913	56 649	1 089 990	**1 573 939**	1 918 519
Águas do Noroeste, S.A.	5 256 603	-	-	3 634 818	**8 891 421**	9 298 790
Águas do Oeste, S.A.	44 781	-	4 727	108 050	**157 558**	157 557
Águas de Santo André, S.A.	6 224 997	-	478 846	7 661 535	**14 365 378**	14 365 379
Águas de Trás-os-Montes e Alto Douro, S.A.	8 357 212	1 834 273	528 725	9 142 756	**19 862 966**	22 138 118
Águas do Zêzere e Côa, S.A.	6 965 139	1 795 485	994 522	17 919 448	**27 674 594**	27 791 513
AgdA - Águas Públicas do Alentejo, S.A.	-	702 428	173 818	13 995 172	**14 871 418**	14 871 419
Simarsul, S.A.	2 349 256	135 806	376 405	5 266 737	**8 128 204**	8 712 163
Simdouro, S.A.	57 114 882	-	4 574 336	12 668 091	**74 357 309**	74 357 308
Simlis, S.A.	1 571 742	-	101 414	1 205 922	**2 879 078**	2 879 077
December 2014	**124 490 877**	**4 475 905**	**9 160 073**	**80 545 533**	**218 672 388**	**221 367 628**

50. Contingent assets and liabilities

50.1 Treasury Unit (Águas de Portugal Group)

Following an audit by the Court of Auditors on the degree of compliance of the Treasury Unit of the State by State Enterprises set out in the State Budget Law of 2010 and reiterated in the subsequent State Budget Laws, some AdP Group companies were notified by this Court that they were not complying with that law for the 2012 financial year. Accordingly, the AdP Group exercised its right of reply on the notification of the Court of Auditors, defending its understanding that there was no non-compliance since, pursuant to that law, it had requested a partial waiver of compliance with that legislation, and it had presented the relevant grounds for that purpose. Moreover, in this respect and in relation to the same process, the Secretary of State of the Treasury stated the following [included in the Court of Auditors report]: "The reasons given by State-owned companies to waive compliance with the principle of the Treasury Unit are wholly justifiable in the current economic climate." The definitive findings of the case are not yet known, and the Board of Directors of AdP, SGPS, SA does not expect that any punitive action will be taken against the Group companies. The Group companies were excluded from application of the above-mentioned legislative provision for 2014.

50.2 Ongoing legal proceedings

	Description of proceedings	Valuation	Favourable to the company	Favourable to third parties
Águas de Santo André, S.A.	Injunction and ordinary administrative cases against Santiago do Cacém Municipal Council concerning collecting and treating urban wastewater.	2 913 356.21	×	
Águas de Santo André, S.A.	Injunction and ordinary administrative cases against Sines Municipal Council concerning collecting and treating urban wastewater and upstream supply of drinking water.	3 438 419.28	×	
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence due to lack of licensing (the work was duly licensed by CCDRN, in accordance with licence P. DV. Nº. 266/07) AdTMAD has already presented its defence in these proceedings. Case nº. 403549.	2 500 000.00		×
Águas de Trás-os-Montes e Alto Douro, S.A.	AdTMAD has already presented its defence in these proceedings. Case nº. 2063/2008.	2 500 000.00		×
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence for disposal of wastewater into gutter. AdTMAD has already presented its defence in these proceedings. Case nº. 5955/2008.	2 500 000.00		×
Águas de Trás-os-Montes e Alto Douro, S.A.	AdTMAD has already presented its defence in these proceedings. Case nº. 403549.	2 500 000.00		×
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence for disposal of wastewater into underground water course. AdTMAD has already presented its defence in these proceedings. Case nº. 10586/2009.	2 500 000.00		×
Águas de Trás-os-Montes e Alto Douro, S.A.	This case alleges that the Defendant imposed a series of alterations to the initial design of the contract for the Construction of Pretarouca Dam, modifying its purpose and the initial form of the tendering procedure, in order to obtain compensation. The case was contested, and sufficient documentary evidence was provided that is considered important for the expiry of the case. In both situations, the scheduling of the hearing is pending. It is currently not possible to state, with a degree of reasonable probability, the final estimate of division of liability, including court costs and other charges. Case nº. 334/10.	4 383 551.95		×
Águas de Trás-os-Montes e Alto Douro, S.A.	Declaratory proceedings for conviction due to non-payment of invoices issued by AdTMAD. Case nº. 149/12.	1 736 979.58	×	
Águas de Trás-os-Montes e Alto Douro, S.A.	Common administrative case, where the SADE/EDIOC consortium petitions for the sum of EUR 3,053,327.10 as indemnity for extra work costs. AdTMAD contested and counterclaimed, filing for the amount of EUR 1,917,816.48 as indemnity for damages caused by the Plaintiff to AdTMAD for the delay in completing the work. ATMAD imposed contractual fines on this consortium that are still not being argued in court.	1 859 935.84	×	
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative case filed by Conduril at the Mirandela administrative court concerning the contract to build Olgas Dam. Case nº. 280/09.	2 019 888.40		×
Águas do Centro Alentejo, S.A.	Case Nº. 360365/10.4YIPRT which is being heard by the 1st Civil Circuit Court of Évora Judicial District. AdCA is the plaintiff and Évora Municipality the defendant. The case concerns the conversion into ordinary proceedings of the injunction brought in November 2010, for payment of the debt of EUR 5,599,742.96. Under the PAEL, the municipality has already paid most of the capital owed. To date, around €107,737.39 of the capital and late-payment interest remain to be paid. Meanwhile a decision was issued ordering Évora Municipal Council to pay the amount owed, €107,737.38 and the late-payment interest on the entire capital in the case. The decision is not yet res judicata.	5 599 742.96, includes capital, interest and court charges on the date the suit was filed.	×	

	Description of proceedings	Valuation	Favourable to the company	Favourable to third parties
Águas do Centro Alentejo, S.A.	• Case Nº. 358/13.1BEBJA being heard in the Beja Administrative and Tax Court. It is the result of injunction proceeding 98658/13.5YIPRT against Évora Municipality for the collection of EUR 7,498,698.00. It is the conversion into ordinary proceedings of the injunction filed in July 2013, owing to opposition by the municipality concerned. The probability of winning the case is high. The municipality paid a number of the invoices claimed in this case, under the PAEL, and currently owes capital amounting to €3,377,884.27.	7 498 698.00 includes capital, interest and court charges on the date the suit was filed.	×	
Águas do Centro Alentejo, S.A.	• Case Nº. 359/13.0BEBJA being heard in the Beja Administrative and Tax Court. It is the result of injunction proceedings 99440/13.5YIPRT against Évora Municipality for the collection of EUR 7,030,769.97. It is the conversion into ordinary proceedings of the injunction filed in July 2013, owing to opposition by the municipality concerned. The probability of winning the case is high.	7 030 769.97 includes capital, interest and court charges on the date the suit was filed.	×	
Águas do Noroeste, S.A.	AMM - case closed Awaiting res judicata.	8 457 484.60		×
Águas do Noroeste, S.A.	IM - Supply of water to non-municipal customer.	8 200 000.00		×
Águas do Noroeste, S.A.	Injunction Alcobaça Municipality (collection of minimum guaranteed amounts from 2010).	2 377 802.70	×	
Águas do Oeste, S.A.	Injunction Alenquer Municipality.	3 736 617.00	×	
Águas do Oeste, S.A.	Case nº. 82/14.8BELRA Alcobaça Municipality (collection of minimum guaranteed amounts from 2011).	1 535 950.31	×	
Águas do Zêzere e Côa, S.A.	- Case nº. 740/14.7 BECTB, brought by AdZC on 15.12.2014 against Guarda Municipality claiming the amount of €2,204,887.04 (capital) + €250,368.77 (late-payment interest). Awaiting challenge.	2 455 256.00	×	
Águas do Zêzere e Côa, S.A.	- Case nº. 297/14.9 BECTB, brought by AdZC on 24.06.2014 against Guarda Municipality claiming the amount of €1,822,736.94 (capital) + €218,729.34 (late-payment interest). Awaiting scheduling of hearing.	1 822 738.00	×	
Águas do Zêzere e Côa, S.A.	Arbitrational case filed by Fundão Municipality, where this entity claims the payment of indemnity totalling EUR 43,394,957.71 (forty-three million three hundred and ninety-four thousand nine hundred and fifty-seven euros and seventy-one cents). In parallel, ÁzC claims from Fundão Municipality the payment of indemnity in the amount of EUR 186,149 (one hundred and eighty-six thousand one hundred and forty-nine euros). By agreement of 29 October 2010, the Arbitrational Court only partially agreed with the claim of Fundão Municipality, with an amount to be set in the enforcement of the ruling and with a limit-value of EUR 762,022.59 (seven hundred and sixty-two thousand and twenty-two euros fifty-nine cents). In turn, in relation to ÁZC, the claim for indemnity was judged to be partially well-founded, with the award of compensation also to be set in the enforcement of the ruling and with the maximum limit of EUR 364,615 (three hundred and sixty-four thousand six hundred and fifteen euros). Both parties appealed on the decision to the Arbitrational Court, and the case is, at this moment, still awaiting the decision of the Central Administrative Court of South Portugal.	43 394 958.00		×
Águas do Zêzere e Côa, S.A.	Case nº. 450/11.7BECTB – Common administrative case, in the form of ordinary proceedings, filed at the Castelo Branco Administrative and Tax Court by Aguiar da Beira Municipality, Almeida Municipality, Belmonte Municipality, Celorico da Beira Municipality, Figueira de Castelo Rodrigo Municipality, Fornos de Algodres Municipality, Fundão Municipality, Gouveia Municipality, Guarda Municipality, Manteigas Municipality, Meda Municipality, Penamacor Municipality, Pinhel Municipality and Sabugal Municipality Against the Ministry of Agriculture, Sea, Environment and Spatial Planning and AdZC. In this case the municipalities file to have **(i)** the concession contract for operation and management of the multi-municipal water supply system for public consumption and for the collection, treatment and disposal of wastewater, signed on 15 September 2000 between the Portuguese State and AdZC declared null and void, that **(ii)** the contracts for wastewater collection and water supply, entered into on the same date, between the Plaintiffs and AdZC be declared null and void, and that **(iii)** the contracts for the lease and maintenance of municipal infrastructure between the Plaintiffs and AdZC be declared null and void. The court issued a decision dismissing the case due to violation of an arbitration agreement. The Municipalities appealed and are awaiting a decision.	n/a		×
Águas do Zêzere e Côa, S.A.	Case nº. 736/14.9BECTB – common administrative suit under way at the Castelo Branco Administrative and Tax Court, brought by AdZC, in which it requests that Fundão Municiaplity be ordered to pay invoices issued between December 2012 and June 2013 plus interest owed and interest not yet due to a total of €1,508,254.59 (one million five hundred and eight thousand two hundred and fifty-four euros and fifty-nine cents). Awaiting the completion of the argument phase.	1 508 255.00	×	
Ersuc, S.A.	Case no. 40/15.5BECBR Coimbra Administrative and Tax Court, judicial challenge against the decision and fixation of challenged asset value: Customs and Excise Authority - Aveiro 2 Tax Office challenged by: ERSUC S.A. on the taxable amount of EUR 12,765,890		×	
Sanest, S.A.	Nature of proceedings: Injunction Nº. 389714/08.3YIPRT, that converted to Case Nº. 119/09.2BELSBTAC Lisbon. Description of proceedings: Injunction proceedings filed by Sanest as per instructions of AdP against Sintra Municipality for the recovery of debts of the respective SMAS related to the provision of effluent collection services in the area of the respective municipality, billed following the implementation of the billing system based on flow measurements, in accordance with the Concession contract and Effluent Collection Contract.	1 845 277.04	×	

	Description of proceedings	Valuation	Favourable to the company	Favourable to third parties
Sanest, S.A.	Nature of proceedings: Case Nº. 3872/07.4TBCSC and Attached/ Cascais – setting compensation for expropriation Description of proceedings: Appeal to Dispute Compensation Arbitration in relation to the expropriation by Sanest of Plot 1 necessary for the construction of the new Guia WWTP, Liquid Phase, which refers to the DUP of Order Nº. 26441/2005, the Secretary of State of Territorial Planning and Cities, published in the Government Gazette nº. 244 of 22/12/2005.	1 382 600.00		×
Sanest, S.A.	Nature of proceedings: Case Nº. 1263/12.4BELSB – Lisbon Administrative and Tax Court Description of Proceedings: Common Administrative Proceedings - ordinary form, filed by Sintra Municipality against SANEST for alleged losses caused by non-rectification/ refund of VAT paid in excess by the plaintiff in bills issued by Sanest from July 2000 to April 2003, for Wastewater Collection and Treatment services under the Concession Contract and Effluent Collection Contract.	1 564 420.13		×

50.3 Guarantees

Liabilities for bank guarantees provided by the business units of the companies included in the consolidation perimeter are as follows:

BU	Courts	Financial institutions	Concession Grantors	Other	**31.12.2014**	31.12.2013
UNA-PD	7 442 342	-	-	14 021 219	**21 463 561**	23 537 982
EPAL	5 175 900	165 722 314	-	325 028	**171 223 242**	135 728 955
UNA-DR	-	-	-	406 866	**406 866**	313 582
UNI	-	2 524 480	-	782 082	**3 306 562**	2 551 989
Corporate services	-	1 714 514 044	-	1 408 579	**1 715 922 623**	1 629 092 412
Total	**12 618 242**	**1 882 760 838**	**-**	**16 943 774**	**1 912 322 854**	**1 791 224 920**

The holding of the AdP Group (AdP SGPS), under the loans contracted from the EIB, is guarantor of good compliance with the contracted obligations.

Amount of the guarantees of the EGF Group reflected in held for sale, corresponding to :

	Courts	Financial institutions	Concession Grantors	Other	**31.12.2014**	31.12.2013
UNR	132 379	12 004 795	1 483 590	4 925 724	**18 546 488**	10 931 244
Total	**132 379**	**12 004 795**	**1 483 590**	**4 925 724**	**18 546 488**	**10 931 244**

51. Auditor's and Statutory Auditor's fees

The fees of the Auditor and Statutory Auditor of the AdP Group as at 31 December 2014 were the following:

	Statutory Auditor	Auditor	Other Services	Total
PricewaterhouseCoopers	15 000	4 586	56 653	76 239
Ernst & Young	182 421	206 369	67 029	455 819
BDO	-	-	4 893	4 893
Alves da Cunha, A. Dias & Associados, SROC	28 161	-	-	28 161
KPMG	-	-	43 815	43 815
Held for sale	123 448	80 481	11 166	215 095
	349 030	**291 436**	**183 556**	**824 022**

52. Subsequent events

On 9 April 2015, the Council of Ministers approved the formation of the Norte de Portugal multi-municipal water supply and sanitation system, the Centro Litoral de Portugal multi-municipal water supply and sanitation system and Lisboa e Vale do Tejo multi-municipal water supply and sanitation system. In the first of these cases, four multi-municipal water supply and sanitation systems and their management companies are closed down and replaced by the Norte de Portugal multi-municipal water supply and sanitation system and the company Águas do Norte, S.A. is set up to replace the companies that were closed down. In the second of these cases, three multi-municipal water supply and sanitation systems and their management companies are closed down and replaced by the Centro Litoral de Portugal multi-municipal water supply and sanitation system and the company Águas do Centro Litoral, S.A. is set up to replace the companies that were closed down. Finally, eight multi-municipal water supply and sanitation systems and their management companies are closed down and replaced by the Lisboa e Vale do Tejo multi-municipal water supply and sanitation system and the company Águas de Lisboa e Vale do Tejo, S.A. is set up to replace the companies that were closed down. During this process, the assets, liabilities, rights and responsibilities of the 15 management companies will be transferred to the new entities that will continue their current work under new concession agreements. This process is expected to be completed in the second half of 2015.

Lisbon, 28 April 2015

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria
(Chairman)

Álvaro António Magalhães Ferrão de Castello-Branco
(Member)

Gonçalo Ayala Martins Barata
(Member)

Manuel Joaquim Barata Frexes
(Member)

Manuel Maria Pereira Fernandes Thomaz
(Member)

José Manuel Barros
(Non-executive Member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

ÁGUAS DE PORTUGAL

SUPERVISORY BOARD'S REPORT AND OPINION ON THE CONSOLIDATED ACCOUNTING DOCUMENTS

REPORT

1 – In compliance with the applicable legal and statutory provisions, the Supervisory Board hereby issues this report and opinion on the annual report and accounts and other consolidated accounting documents of AdP - Águas de Portugal, S.G.P.S., S.A., submitted by the Board of Directors for 2014.

2 – The Supervisory Board monitored the management and business performance of AdP - Águas de Portugal, S.G.P.S., S.A., namely via contacts with its directors and by reading the minutes of the meetings of the Board of Directors and Executive Committee. It held regular meetings which were normally attended by the Financial Director and the Statutory Auditor. The Supervisory Board was given all the clarifications requested and the documentation that it deemed necessary to perform its supervisory duties.

3 – The Supervisory Board also verified compliance with the applicable legal and statutory provisions and exercised its powers in accordance with Article 420 of the Company Code. No materially relevant non-compliances were detected.

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 accounting documents provide information on sustainability, even though a complete analysis of the group in the economic, social, environment, innovation and equality fields are described in the Sustainability Report for 2014.

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6 – The Supervisory Board is familiar with the report issued by the external auditors on its consolidated account, and has no objections to its content.

7 – The Supervisory Board examined the legal certification of consolidated accounts issued as required by law by the statutory auditor, which includes three highlights, which are considered to have been reproduced here. The Supervisory Board is in agreement with them and is familiar with the annual report of the said auditor on its supervision.

8 – Regarding the highlight on Note 52 of the ABDR, the Supervisory Board has noted the impact that the reorganisation of the multi-municipal water and sanitation systems may have on the ADP Group from an economic, financial and legal point of view in the provision of the services related to its object.

9 – The Supervisory Board underlines that the restructuring of the water sector in Portugal, which began in 2012, should stem the accumulation of deviations in recovery of costs and recognition of existing ones.

10 – The Supervisory Board also highlights the reduction in debts owed by municipal customers against 2013, which totalled EUR 413.5 million at the end of 2014, which is EUR 30.9 million less than in the previous year. Trade receivables recognised as assets held for sale are not considered in these two years. Nonetheless, the Supervisory Board believes that the materiality of this debt requires the Board of Directors to follow its policy of reducing overdue debts by concluding settlement agreements.

11 – As a result of the work done, the Supervisory Board considers that the Board of Directors' report and the consolidated financial statements (which include the consolidated Statement of financial position as at 31 December 2014, the consolidated income statements by nature and of comprehensive income, the consolidated Statement of changes in equity, the consolidated cash flow statement of the year ended on that date and the Notes to the consolidated financial statements), provide an understanding of the assets of the business group headed by AdP - Águas de Portugal, S.G.P.S., S.A. as at 31 December 2014 and the way in which the results

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were formed and business activity was performed.

12 – The Supervisory Board draws attention to the collaboration that it obtained from the Board of Directors, though the financial director, the statutory auditor and departments of AdP - Águas de Portugal, S.G.P.S., S.A., and the external auditor.

OPINION

As a result of the above, the Supervisory Board is in agreement with the annual report and consolidated accounts for 2014 of AdP - Águas de Portugal, S.G.P.S., S.A., and is in favour of their being approved by the General Meeting.

Lisbon, 30 April 2015

THE SUPERVISORY BOARD

Carla Maria Lamego Ribeiro
(Chair)

Mário José Alveirinho Carrega
(Member)

Ana Luísa Videira Gomes
(Member)

Registration and tax number – 503 093 742 · C.R.C. Lisboa · share capital €434,300,000

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3. Legal certification of accounts

ALVES DA CUNHA, A. DIAS & ASSOCIADOS
SOCIEDADE DE REVISORES OFICIAIS DE CONTAS, Lda.

LEGAL CERTIFICATION OF CONSOLIDATED ACCOUNTS

Introduction

1. We have examined the consolidated financial statements of AdP - Águas de Portugal, SGPS, SA, which include the Consolidated Statement of financial position as at 31 December 2014 (showing a total of EUR 7,491,743,000 and total equity of EUR 1,327,665,000, including a net profit of EUR 102,324,000), the Consolidated Income statement for the period, the consolidated Statement of comprehensive income, the consolidated Statement of changes in equity and consolidated Cash flow statement for the financial year ending on that date and the Notes to the consolidated financial statements.

Responsibilities

2. The Board of Directors is responsible for preparing consolidated financial statements that truly and appropriately reflect the financial situation of the companies included in the consolidation, the results of their operations and consolidated cash flows and for following appropriate accounting criteria and policies and maintaining suitable internal control systems.

3. Our responsibility is to express a professional, independent opinion based on our examination of these financial statements.

Scope

4. Our examination was performed in accordance with the technical rules and auditing guidelines of the Association of Official Auditors, which require that it be planned and performed in such a way as to obtain an acceptable degree of certainty that the consolidated financial statements are free of any materially relevant distortions. For the purpose, our examination included:

Commercial company • Share capital 25,000 euros • Registered at CRL Lisboa with the number 502 289 740
Registered on the list of Official Auditors under no. 74 • Registered with the CMVM under no. 2699
Rua Américo Durão, 6 - 8º Esq. - 1900-064 LISBOA - PORTUGAL • TEL: 21 829 28 80 - FAX: 21 847 07 80 • acad@acad.pt • www.acad.pt

a) Checking that the financial statements of the companies included in the consolidation had been appropriately examined and, in any significant cases in which they had not, using sampling to check the supporting documents for the amounts and disclosures in the financial statements and evaluating the estimates, based on judgements and criteria established by the Board of Directors and used in their preparation;

b) Checking consolidation operations and the application of the equity method;

c) Appraising the adequacy of the accounting policies used, their uniform application and their disclosure, taking the circumstances into account;

d) Checking the applicability of the going concern principle; and

e) Assessing whether the presentation of the consolidated financial statements was appropriate in overall terms.

5. Our examination also included checking that the financial information in the annual report was consistent with the consolidated financial statements.

6. We believe that the examination performed provides an acceptable basis for our opinion.

Opinion

7. In our opinion, the aforementioned consolidated financial statements give a true, appropriate picture, in all materially relevant aspects, of the consolidated financial position of AdP - Águas de Portugal, SGPS, SA as at 31 December 2014, the consolidated profit or loss and comprehensive income of its operations, changes in equity and consolidated cash flows during the period ended on that date, in accordance with international accounting standards accounting practices as adopted in the European Union.

Report on other legal requirements

8. It is also our opinion that the information set out in the annual report is in accordance with the consolidated financial statements for the year.

Highlight

9. Without affecting the opinion expressed in paragraphs 7 and 8, we draw attention to the following situations:

   a) As mentioned in Points 2.5.2, 15 and 35 of the Notes, the consolidated financial statements of AdP - Águas de Portugal, SGPS, SA show tariff deviation assets of EUR 590,619,000 (EUR 564,124,000 in 2013) and tariff deviation liabilities of EUR 61,014,000 (132,378,000 em 2013). These amounts refer to differences between tariffs and prices charged and those that would correspond to the recovery of added costs incurred from remuneration of equity and gains from productivity provided for in the concession contracts of the water production and purification companies and management and recovery of waste. The recovery or restoration of these deviations will depend on the way used by the grantor to achieve economic and financial rebalance of the concession contracts, when justified. The difference between the tax liability variations in 2013 and 2014 were partly due to the amount of 74,479,000 that is included in liabilities held for sale in 2014.

   The net tariff deviation (deficits less surpluses) for business activity in 2014 totalled 26,308,000 euros, while in 2013 it was EUR 51,458,000 (43,696,000 after historical value adjustments). This performance was due in part to a slight alteration in the indexer used to calculate guaranteed income, which in addition to three percentage points, went down to 9.35% to 6.75%, the effect of recalculating historic value by reducing the income tax rate and the effect of recognising discontinued operations.

b) As demonstrated by Points 3.2 and 18.3 of the Notes, debts from municipal customers went from EUR 444,458,000 in 2013 to EUR 413,548,000 in 2014 (not recognising in these two years customers considered as assets held for sale). There was a reduction of around 7% in line with the trend in recent years. The administration of AdP - Águas de Portugal, SGPS, SA has expressed its conviction that, by the agreements already concluded and to be concluded, municipal customers will fulfil their obligations and that to date there are no indicators leading to recognition of impairment losses.

c) As disclosed in Point 52 of the Notes, on 9 April 2015 the Council of Ministers approved the reorganisation of the AdP group. Fifteen of the current multi-municipal water supply and sanitation systems and their management companies were dissolved and replaced by three new systems and their management companies. They will succeed the dissolved companies, take over their assets, liabilities, rights and responsibilities and continue their current activities under new concession contracts.

Lisbon, 29 April 2015

ALVES DA CUNHA, A. DIAS & ASSOCIADOS
Sociedade de Revisores Oficiais de Contas, Lda.
represented by José Luis Areal Alves da Cunha

4. Auditor's report

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Audit report on the consolidated financial statements

Introduction

1. We have examined the attached consolidated financial statements of AdP - Águas de Portugal, S.G.P.S., S.A., which include the consolidated Statement of financial position as at 31 December 2014 (showing a total of 7,491,743,322 euros and total equity of 1,327,664,514 euros, including a net profit allocated to the owners of the company's share capital, as the group's parent company, of 102,323,920 euros), the Consolidated Income statement by nature, the Consolidated Statement of comprehensive income, the Consolidated Statement of changes in equity and Consolidated Cash flow statement for the financial year ending on that date and the Notes to the financial statements.

Responsibilities

2. The Board of Directors is responsible for preparing consolidated financial statements that truly and appropriately reflect the financial situation of the companies included in the consolidation, the consolidated profit or loss and comprehensive income of their operations, consolidated changes in their equity and consolidated cash flows and for following appropriate accounting criteria and policies and maintaining suitable internal control systems.

3. Our responsibility is to express a professional, independent opinion based on our examination of these financial statements.

Scope

4. Our examination was performed in accordance with the technical rules and auditing guidelines of the Association of Official Auditors, which require that it be planned and performed in such a way as to obtain an acceptable degree of certainty that the financial statements are free of any materially relevant distortions. For the purpose, our examination included:

- checking that the financial statements of the companies included in the consolidation had been appropriately examined and, in any significant cases in which they had not, using sampling to check the supporting documents for the amounts and disclosures in the financial statements and evaluating the estimates, based on judgements and criteria

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established by the Board of Directors and used in their preparation;

- checking consolidation operations;
- appraising the adequacy of the accounting policies used, their uniform application and their disclosure, taking the circumstances into account;
- checking whether the principle of going concern was applied;
- assessing whether the presentation of the consolidated financial statements was appropriate in overall terms.

5. Our examination also included checking that the financial information in the annual report was consistent with the consolidated financial statements.

6. We believe that the examination performed provides an acceptable basis for our opinion.

Opinion

7. In our opinion, the aforementioned financial statements give a true, appropriate picture, in all materially relevant aspects, of the consolidated financial position of AdP - Águas de Portugal, S.G.P.S., S.A. as at 31 December 2014, the profit or loss and consolidated comprehensive income of its operations, changes in consolidated equity and consolidated cash flows during the period ended on that date, in accordance with international reporting standards as adopted in the European Union.

Highlights

8. Without affecting our expressed opinion on the financial statements, we draw attention to the following situations:

8.1 As described in Note 2.5.2 of the notes to the consolidated financial statements, the AdP Group recognises in its accounts the value of insufficiencies / surpluses in tariffs and prices charged in relation to those that would be necessary to recover the costs of the concession and to remunerate the capital invested, thereby ensuring economic and financial balance in the concessions, as set out in the concession contracts. The AdP group chose to reflect this situation in its consolidated financial statements even though the competent authorities had not yet approved the mechanisms for reflecting these insufficiencies / surpluses in tariffs and prices.

8.2 As set out in Note 52 of the consolidated financial statements and in the annual report, on 9 April 2015 the Council of Ministers approved the Decree-Law that lays down the strategy for setting up three new multi-municipal water supply and wastewater treatment systems and their management entities to replace the existing 15 multi-municipal systems. As a result, in the second half of 2015 we can expect the dissolution of the current multi-municipal water supply and wastewater treatment systems and their assets and liabilities will be transferred to the new management entities set up by the Decree-Law. Under new concession contracts, these entities will continue the work of the water supply and wastewater treatment concession holders of the AdP Group .

Lisbon, 29 April 2015

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas (no. 178)
Represented by:

Rui Abel Serra Martins (ROC 1119)

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STATEMENT

The documents entitled "Report and Opinion of the Audit Committee"; Legal Certification of Separate Accounts" and "Auditor's Report" shown on pages 146 to 153 and the documents entitled "Report and Opinion of the Audit Committee"; Legal Certification of Consolidated Accounts" and "Auditor's Report" shown on pages 233 to 242 of this annual report were translated by Traducta, Tradução, Interpretação e Informática, Lda from the original documents included in Águas de Portugal "Relatório e Contas 2014".

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