



# THE WATER MARKET IN PORTUGAL

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# 1. Overview

The water sector in Portugal comprises the activities of (i) abstraction, treatment and distribution of water for public consumption, and (ii) wastewater sanitation. The responsibility for providing the services is shared between the State and municipalities.

The State is responsible for the Multimunicipal systems, or "upstream" systems, consisting of a set of components upstream of the water distribution network and downstream of the sewage network, which allow connection to the "downstream" system.

In turn, municipalities are responsible for Municipal systems, or "downstream" systems, which allow the "upstream" system to be linked at the end user, as well as collecting residual water from the producer by rejecting them in a "upstream" system.

The State and municipalities can use different management models to carry out the activities of the sector, namely: (i) direct management, (ii) delegated management, or (iii) concession management.

The sector is characterized by a huge diversity of realities, not only in the scale and resources of the management entities but also in the management model adopted, subsisting several distinct entities that operate within the framework of different management models.

The water sector is a sector with greater prevalence of public entities. The upstream systems are made up of a universe of 14 companies, of which 9 are from the state business sector, owned by the AdP Group - Águas de Portugal. Only 3 private entities provide services in upstream, which are owned mostly by the private groups AGS and Aquapor),

In downstream systems there tends to be greater openness to private entities. Of the 61 companies that render downstream services, 30 are municipal concessions granted to private companies, 27 are delegations in municipal and intermunicipal companies, 1 is a concessionaire of a multimunicipal system, 2 were established in partnership between the State and municipalities through the AdP Group, and 1 is a state-owned company.

According to the latest data published in the Annual Report of the Portuguese Water and Waste Services | 2016 (RASARP 2016), in the multimunicipal water supply the most used management model are the multi-municipal concessions, covering a total of 174 municipalities and more than 5.1 million inhabitants. In contrast, the predominant model in municipal systems is the direct management of municipalities with a total of 70% of the total municipalities and approximately 52% of the population of mainland Portugal.

## 2. Market Timeline

- 1993      Ammendment of the Sector Delimitation Law (opening up the sector to private initiative)  
              Legal framework of the multimunicipal systems  
              Establishment of the Águas de Portugal (AdP)
- 1997      Establishment of the Water and Waste Regulatory Institute (IRAR)
- 2000      Water Framework Directive (Directive 2000/60 / EC)
- 2002      AdP takes the position of market leader  
              Ammendment of the legal framework of the multimunicipal systems
- 2005      Water Law (Law n.º 58/2005 of 29 December)
- 2007      Establishment of the Regulatory Authority for Water and Waste Services (ERSAR), which replaced IRAR  
              Reorganization of the AdP Group
- 2008      ERSAR new Organic Law
- 2009      Legal framework of the municipal systems  
              Legal framework of the Partnerships between the State and municipalities
- 2013      New ammendment of the legal framework of multimunicipal systems
- 2015      Restructuring of the multimunicipal systems
- 2017      Partial reversal of the restructuring of multi-municipal systems

# 3. Market Organization

## Multimunicipal Systems

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### Multimunicipal Systems (Upstream)

Direct management

State

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Delegated management  
Public Companies

Public Company  
(EPAL)

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Multimunicipal  
concession management

State and municipalities  
(AdP Group)

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# 3. Market Organization

## Municipal Systems



## 4. AdP Group - Águas de Portugal

Through the AdP Group, the State controls most of the "upstream" systems of supply, abstraction, treatment and distribution of water for public consumption, as well as the wastewater sanitation system.

Águas de Portugal, SGPS, S.A, is a state holding company 81% owned by Parpública - Participações Públicas, SGPS, S.A and 19% by Parcaixa, SGPS, S.A.

The AdP Group owns throughout the Portuguese territory several management entities of multimunicipal systems, which provide water supply and sanitation services to municipalities. The AdP Group also provides water supply and sanitation services directly to the population, through the delegated management resulting from the aggregation of municipal systems.

In 2015, the AdP Group underwent a restructuring process. The 19 multimunicipal systems then in existence were aggregated into 5 entities. However, the new socialist Government intends to reverse part of this process, and has already divided some of the new multimunicipal systems created in 2015.

A shareholder agreement with the AdP Group was also signed by the Government, in which the "public nature of the management company of the multimunicipal system" was assumed, and therefore, in the near future, a privatization of the company does not seem possible to happen.



### Financial Data – 2016 (first half)

**Turnover:** €291,6 million

**Operating Income:** €88,9 million

**Net profit:** €38,4 million

**EBITDA:** €145 million

**Total Assets:** €6.419,1 million

**Total Liabilities:** €5.014,9 million

## 4. AdP Group - Águas de Portugal

Águas do Norte, Águas do Douro and Paiva, SimDouro, Águas do Centro Litoral, EPAL, Águas de Lisboa and Vale do Tejo, Águas Públicas do Alentejo, Águas de Santo André and Águas do Algarve are the entities responsible for the multimunicipal systems created by Decree-Law, which cover about 285 municipalities and more than 7.5 million people.

The concession is the prevalent model for the management of multimunicipal systems, namely through the conclusion of an exclusive concession agreement with the Portuguese State for a period between 20 and 30 years.

In relation to municipal systems, Águas do Norte provides water supply and sanitation services (verticalization of the service) directly to the populations of 18 municipalities, Águas da Região de Aveiro to 10 municipalities and EPAL to the entire area of the city of Lisbon, operating for around 350 thousand customers. Municipal systems are managed through public partnerships with the State and the municipalities covered by the respective system (delegated management model).

The share capital of the companies responsible for the multimunicipal and municipal systems is mainly owned by Águas de Portugal, SGPS, SA, with the remaining capital divided by the municipalities covered by the respective systems, except for EPAL, wholly owned by Águas de Portugal, SGPS, SA.





## 5. Private Companies

### AGS

AGS – Administração e Gestão de Sistemas de Salubridade, SA (AGS) is a private company that operates in the water sector, providing services of management and operation of infrastructures for water supply and wastewater sanitation in "upstream" and "downstream" systems.

AGS is wholly owned by two Japanese companies, Marubeni and Innovation Network Corp. of Japan, having been acquired from the Portuguese company Somague in 2014 for approximately €72 million euros.

AGS provides its services through the conclusion of concession contracts and PPP with the State and municipalities, serving 855,740 thousand people in water supply and 1.135,859 thousand in wastewater sanitation.

At present, the AGS portfolio consists of the following concessionaires: Águas do Sado, Águas da Figueira, Águas de Gondomar, Águas da Serra, Tratave, Águas de Cascais, Águas de Carrazeda, and Águas de Alenquer.

Regarding the PPP's, AGS holds interests in the entities Tavira Verde, Fagar and Águas da Covilhã.

### Aquapor

The Aquapor / Luságua Group, held by Aquapor - Serviços, S.A., is a private entity that operates at the municipal systems level in the water sector.

Previously owned by the AdP Group, the Aquapor Group was sold in 2008 to the consortium DST (Investhome) / ABB, which disbursed €63 million euros to acquire the entire share capital of Aquapor

The Group is made up of several companies that manage municipal concessions and participate in PPPs responsible for "downstream" systems, providing its services to 25 municipalities, with a total of 378,000 thousand water supply customers and 305,000 thousand customers in Water sanitation.

The asset portfolio of Aquapor is made up of the following concessionaires: Águas da Azambuja, Águas da Figueira, Águas da Teja, Águas de Alenquer, Águas de Cascais, Águas de Gondomar, Águas do Lena, Águas do Planalto, Águas do Sado, Águas do Sado Vouga, Luságua Alcanena, Luságua Lisboa and Tratave.

Through Luságua, the Aquapor Group has been diversifying its activity, investing in other sectors,, namely in renewable energy projects.

## 5. Private Companies

### Indaqua

INDAQUA – Indústria e Gestão de Água, S.A., (Indaqua) is a private company operating in the Portuguese water sector, under the municipal water supply and wastewater treatment systems.

Indaqua is owned by the Group Miya (50.06%) and Group Talanx (49.94%), which they bought respectively to Mota-Engil (in 2016, for €60 million euros) and Soares da Costa (in 2014, by the value of €29.41 million euros).

Indaqua holds 6 municipal concessions ("downstream" system), and has direct control of its concessionaires companies through majority ownership. It also holds a 49% stake though a PPP in Águas de S. João.

In total, Indaqua serves a population of 600,000 thousand inhabitants.

Indaqua Fafe, Indaqua Santo Tirso / Trofa, Indaqua Feira, Indaqua Matosinhos, Indaqua Vila do Conde and Indaqua Oliveira de Azeméis are the concessionaires of municipal systems owned by Indaqua.

### Be Water

A Be Water, S.A., (Be Water) is a private entity that provides water supply and wastewater treatment services under municipal systems, as well as operation and maintenance of multimunicipal systems.

Be Water, formerly CGEP - Compagnie Générale des Eaux (Portugal), is wholly owned by the Beijing Enterprises Water Group, a Chinese group focused on the water sector and the preservation of the environment. Be Water was acquired in 2013 from Veolia Environment, for the amount of €95 million euros, a business that marked the company's entry into activities outside China.

In Portugal, Be Water is responsible for the management of four concession contracts in the municipalities of Mafra, Ourém, Valongo and Paredes. The company provides its services to 125,337 people in water supply and 90,796 people in wastewater sanitation.

Be Water is also a service provider for Águas do Algarve, S.A., being responsible for the operation and maintenance in some areas of the system.

## 6. Supervising Entities

### ERSAR

ERSAR is the regulator of the following sectors: (i) public water supply, (ii) urban wastewater sanitation, and (iii) urban waste management.

Its regulatory activity is developed on two levels: structural regulation of the sector (macro), and behavioral regulation of management entities (micro).

ERSAR is the entity responsible for assessing the quality of water for human consumption and the performance of management entities. The results of the evaluations should be publicly disclosed. It is also responsible for the dissemination of information on the various players in the sectors regulated by it, and the drafting of legislative proposals.

The prices charged by the managing entities are regulated by ERSAR, which demonstrates its role in the protection of consumers.

ERSAR is responsible for overseeing the compliance of the management entities, applicable law, contractual and regulatory regulations. In case of illegal activities, it has jurisdiction over administrative infractions and fines.

### Portuguese Environment Agency (APA)

Among its wide range of attributions, there is the National Water Authority. Its main objective is to ensure the efficient and sustainable use of national water resources.

Among its various functions, the following stand out: (i) ensure the effective application of the Water Law, and (ii) issue titles for the use of water resources and monitor compliance with their use.

Its function is the implementation of monitoring programs for water resources, which is of the utmost importance.

The Water Law sets obligations and priorities for users. In this context, it is up to the APA to settle disputes between users in this regard.

Its mission is to manage drought and flood situations, so that the damage caused by such natural disasters is as small as possible.

Because it is the National Dams Safety Authority, it also has many responsibilities regarding dams.



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