THE WATER MARKET IN PORTUGAL

3 of May 2017
Contents

1. Overview
2. Market Timeline
3. Market Organization
4. AdP Group – Águas de Portugal
5. Private Companies
6. Supervising Entities
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)


➢ 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 amendment of the legal framework of multimunicipal systems

➢ 2015 Restructuring of the multimunicipal systems

➢ 2017 Partial reversal of the restructuring of multi-municipal systems
### Multimunicipal Systems (Upstream)

<table>
<thead>
<tr>
<th>Management Type</th>
<th>Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct management</td>
<td>State</td>
</tr>
<tr>
<td>Delegated management Public Companies</td>
<td>Public Company (EPAL)</td>
</tr>
<tr>
<td>Multimunicipal concession management</td>
<td>State and municipalities (AdP Group)</td>
</tr>
</tbody>
</table>
## 3. Market Organization

### Municipal Systems (Downstream)

<table>
<thead>
<tr>
<th>Direct management</th>
<th>Delegated management</th>
<th>Municipal concession management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal services</td>
<td>Municipal services</td>
<td>Public-Private Partnerships (PPP)</td>
</tr>
<tr>
<td>Municipalizzate or intermunicipalizzate services</td>
<td>Municipalities associations</td>
<td></td>
</tr>
<tr>
<td>Municipalities in partnership with the State</td>
<td>Local corporate sector</td>
<td></td>
</tr>
<tr>
<td>Parish councils and users associations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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, SA, is a state holding company 81% owned by Parpública - Participações Públicas, SGPS, SA and 19% by Parcaixa, SGPS, SA.

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, SA, 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 €50 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, SA, 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.
Our Corporate Group

In today’s competitive global market, Macedo Vitorino & Associados can provide a comprehensive commercial and corporate law advice to domestic and foreign clients. We have strong relationships with many of the leading international firms in Europe, the United States and Asia, which enable us to handle effectively any cross border legal matters.

Since the incorporation of the firm we have been involved in several high profile transactions in all of the firm’s fields of practice, including banking and finance, capital markets, corporate and M&A, corporate restructurings etc.

We are ranked by The European Legal 500 in most of its practice areas, including Banking, Capital Markets, Project Finance, Corporate and M&A, Tax, Telecoms and Litigation.

Our firm is also mentioned by IFLR 1000 in Project Finance, Corporate Finance and Mergers and Acquisitions and by Chambers and Partners in Banking, Corporate and M&A, TMT, Dispute Resolution and Restructuring and Insolvency.

Macedo Vitorino & Associados has a truly international practice. We act in several domestic and cross-border transactions, including mergers and acquisitions, financings and foreign investments.

The multidisciplinary and integrated character of our corporate and commercial group allows us to efficiently solve the legal issues of our clients, in particular:

- Commercial contracts, distribution agreements and franchising
- Commercial litigation
- Competition and European law
- Copyright, intellectual property, IT, patents and trade marks
- Corporate and acquisition finance
- Employment
- Foreign investment
- Mergers, acquisitions and privatisations
- Tax

If you want to find out more about Macedo Vitorino & Associados please visit our website at www.macedovitorino.com