

SUMMARY: Audit of AdP – Águas de Portugal. SGPS, SA, Report nº 23/2008-2ªS

1. INTRODUCTION

The Court conducted a performance audit of AdP, SGPS, SA - an exclusively state-owned company that manages shareholdings in companies operating within the environment sector in Portugal. The audit aimed to analyse the State's financial commitment and evaluate the Group's financial and economic evolution. The audit focused on the financial years between 2003 and 2006.

2. CONCLUSIONS

- . The Águas de Portugal Group, led by AdP, SGPS, receives strong support from Community funds, but in the present circumstances and from an aggregate perspective, it has a weak economic and financial outlook, with several group companies in risk of immediate economic non-feasibility.

At the date of this audit, as a result of the current divestment policy in progress in international markets, the main concerns for the AdP Group are associated to tariff deficits - given that the tariffs practised by several Multi-municipal systems (especially in Portugal's interior regions) are, «(...) in many cases, significantly lower than the levels which would enable recovery of the invested capital and achieve the guaranteed minimum level of remuneration consecrated in the contracts (...)». Hence, given that it is necessary to guarantee the sustainability of multi-municipal systems, while continuing to practise a socially acceptable tariff policy, the sector urgently requires immediate and effective restructuring (that has already begun via PEAASAR II) fostered by the Portuguese Government and articulated with the Águas de Portugal Group and with the Local Authorities involved.

- . The consolidated accounts of AdP, SGPS stipulate a right to receive an amount of €50 million from the State (Tariff Deviations), which corresponds to the amount required in order to restore the financial and economic equilibrium of the concession contracts of the multi-municipal systems signed between the State, as the contracting authority, and the concessionaire companies of the AdP Group.
- . Until 2005, the AdP Group, strongly influenced by the positive effect of the aforementioned community funds, ended its financial years with a positive and growing Net Result for the Year. In 2006, however, this trend significantly inverted and the Group presented a Net Loss for the Year, in the amount of €24.2 million, as a result of business losses recorded by the International Unit.
- . In the period between 2003-2007, AdP SGPS spent around €56.1 million in financial assistance.

In 2007, Local Authorities owed a total amount of €174 million to AdP Group companies pertaining to UNA-PD and UNR.

3. RECOMMENDATIONS

The main recommendations made by the Court to the company and to the Government were as follows:

To the State, as the sole direct and indirect shareholder, and as the entity to which the company reports:

- . Implement, while upholding the principle of social equity, measures required for business restructuring of the AdP Group, thus ensuring that it has sound financial-economic sustainability, which will enable it to successfully implement the mission that has been legally attributed to it by the Portuguese Government, in particular the objectives set in PEAASAR II.

- . Strive, in conjunction with the concessionaire companies of the AdP Group, to find a swift solution to regularise the Tariff Deviations that have been verified in the accounts of these companies.

- . In renegotiation of the concession contracts signed with AdP Group companies, carry out prior analysis of the risk sharing - in order to ensure compliance with their contractual obligations and also stimulate the efficiency of the concessionaire companies, wherein the State shouldn't assume their business and management risks.

- . Implement a control and monitoring system for execution of concession contracts signed with AdP Group companies, from the perspective of the contracting authority, that will enable opportune intervention in situations of contractual non-compliance.

- . Sign management contracts with the public managers of AdP, SGPS, in conformity with the Public Manager's Statute, DL 71/2007, of 27 March.

To the Board of Directors of AdP – Águas de Portugal, SGPS, S.A.,:

- . Develop a performance appraisal model of human resources, based upon objectives associated to quality standards.

- . Establish a transparent and widely disseminated process for attribution of bonuses, if applicable, to employees of the AdP Group, associated to clear, quantifiable and pre-determined objectives, ensuring that such bonuses are only paid when this can be legitimated by the companies' economic indicators.

- . Impose effective barriers between the activities developed by AdP, GPS and those executed by AdP Serviços, in order that the latter may enjoy complete individuality and thus ensure full compliance with the provisions stipulated in Decree Law 495/88, of 30-12 (which prohibits holding companies from providing services other than business and management technical services).

- . Foster the business sustainability of the AdP Serviços company and impede it from practising prices that are lower than the production costs.

- . Stimulate the financial and economic self-sustainability and efficiency of the companies, in general, and in particular of the companies included within the area of Instrumental Services.

- . Strive to ensure the reimbursement of the management fees that were illegally charged by AdP Formação to the companies of the AdP Group.

- . Draw up a formal and well-sustained cost-benefit analysis in relation to personalised service vehicles and circumscribe properly such assignment.