



EPAL

annual

report and

2008

accounts



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# mission, vision and values

## Mission

3

EPAL's mission is to provide water services and manage the urban water cycle in a sustainable way across its chain of activities and businesses.

## Vision

EPAL's vision rests on two pillars:

- To be the reference operator in the Portuguese water sector
- To follow international best practice

## Values

In its day-to-day operations, EPAL is guided by the following values:

- Quality
- Innovation, up-to-datedness and excellence
- Socially responsible provision of essential public services
- Sustainability in management efficiency, environmental protection, respect for human beings and community involvement
- Orientation to the client as the company's reason to exist
- Integrity and transparency in its stance and relationship with stakeholders
- Competence and strictness in making decisions and taking action, setting trust as the principle to be followed in relationships with the different audiences
- Respect for and practice of legality
- Continuous improvement of the individual, knowledge, processes, business practices and society





## **I**ntroduction

Key performance indicators ● 006

Chairman's statement ● 007

## **M**anagement report

Water quality ● 013

The water cycle at EPAL ● 019

Client relationships ● 029

Capital expenditure ● 035

People ● 039

Systems and processes ● 047

Other activities ● 053

Sustainable development and social responsibility ● 057

Financial performance ● 065

Risk management ● 075

Outlook ● 081

Proposed allocation of net profit ● 085

Corporate governance ● 087

Acknowledgements ● 095

## **F**inancial statements and notes

Financial statements ● 100

Notes to the financial statements ● 105

Information required by Portuguese accounting principles ● 137

## **O**pinions and certifications

Supervisory report and opinion ● 144

Certification of accounts ● 147

Audit report ● 149



**Key Performance Indicators****OPERATIONS**Volumes/capacities in cubic metres (m<sup>3</sup>)

	2004	2005	2006	2007	2008
Volume of water sold	223 497 363	217 610 502	210 363 526	209 854 898	211 256 466
Number of direct clients	338 981	341 799	344 564	346 169	346 699
Number of consumers <sup>1</sup>	2 577 629	2 594 033	2 608 042	2 618 861	2 796 640
Number of counties directly supplied	26	26	26	26	20
Number of counties supplied by Águas do Oeste	-	-	-	-	12
Area supplied, km <sup>2</sup>	5 406	5 406	5 406	5 406	6 564
Renewed mains, km	56	85	65	28	43
Number of bursts/100 km distribution network/ year	47,95	45,18	40,07	41,57	37,82
Losses in Lisbon in % of water entering the network	23,91	23,54	20,16	17,23	15,67
Water loss to water abstracted, %	17,0%	14,8%	13,9%	13,7%	12,6%

<sup>1</sup> Resident population in the area supplied (preceding-year data)**PROFIT AND LOSS ACCOUNT**

amounts in thousand euros

Water revenues	136 464	134 034	134 424	137 377	140 942
Other revenues	5 598	5 639	4 482	4 606	5 341
Total revenues	142 266	139 673	138 906	141 983	146 283
Water revenues to total revenues, %	96,10%	96,00%	96,80%	96,80%	96,30%
Ebitda	72 084	68 562	56 058	68 073	74 233
Depreciation charges	26 961	27 189	27 899	30 427	31 693
Ebit	36 540	35 373	26 772	35 019	39 724
Profit before tax	36 665	33 295	23 265	31 785	36 839
Net profit	26 024	23 788	16 329	24 391	26 675

**BALANCE SHEET**

amounts in thousand euros

Share capital	150 000	150 000	150 000	150 000	150 000
Shareholders' equity	343 093	345 906	343 780	356 461	365 046
Revaluation reserves	101 340	118 165	114 105	107 369	101 499
Liabilities	332 276	341 880	371 405	366 879	349 278
Net assets	675 369	687 786	715 185	723 339	714 324
Equity to net assets, %	50,8%	50,3%	48,1%	49,3%	51,1%
Long-term bank indebtedness	143 605	175 208	202 190	211 171	203 070
Capital expenditure <sup>1</sup>	59 520	57 372	57 194	32 532	26 011
Return on equity, %	7,6%	6,9%	4,7%	6,8%	7,3%
Return on assets, %	3,9%	3,5%	2,3%	3,4%	3,7%

<sup>1</sup> Gross investment spending in the year



# chairman's statement

7

In financial 2008 EPAL had the best economic results ever in nominal terms. However, the satisfaction of achieving a net profit of 26.7 million euros, up 9.4% from 2007, must not make us forget that a significant part of these results is the consequence of extraordinary circumstances that are unlikely to recur in the coming years: the impact of the transition to a new post-retirement regime, the cancellation of provisions related to awarded court decisions and the disposal of assets.

The signing of the new collective agreement (*Acordo de Empresa*) was a most relevant event whose importance for EPAL's future cannot be overstated. This agreement was the outcome of long negotiations with the trade unions that started in November 2006 and evidenced an open and straightforward dialogue between the parties. As a consequence, risks arising from the pension plan will be significantly reduced for both the company and its employees.

EPAL's new strategic framework is based on a sustainable, integrated management of the urban



water cycle and a guarantee of high levels of client service. This makes structural changes imperative in the way the business is conducted in order to ensure an adequate return on invested capital.

Asset management ranks high in the management of the company and as an instrument for value creation for clients and shareholder alike. In its first phase, completed in 2008, or *Vision EPAL I*, the organisational transformation process led to the creation of the Asset Management Department. This organisational move aimed to optimise the use of assets according to pre-determined target service levels with a view to minimising their lifecycle cost, defining their critical importance and setting their acceptable risk levels.

A risk management approach is constantly required in all company activities. This means that a passive stance must be abandoned while plain risk aversion also must be avoided. This approach also requires from all management levels a proactive attitude which is oriented towards the client and the business.

This attitude requires that structure, processes and systems be changed. At EPAL change management hinges on two decisive factors: the commitment of top management and the formation of teams across the organisation with the necessary competences, motivation and leadership.

*Vision EPAL II* was launched in late 2008 to basically rebuild the company's organisational set-up. The purpose was to align the organisational structure with the value chain and integrate systems and processes on the basis of shared knowledge and skills and result-oriented team spirit.

Reflecting about the company at all levels also means launching new initiatives such as the implementation of water protection plans.

Following the methods advocated by the World Health Organization and the International Water Association, EPAL adopted preventive safety instead of the classical end-of-the-line monitoring approach. This meant a systematic analysis of risks related to each phase of the process of abstracting, producing and distributing water.

Safety issues have attracted great attention. Therefore, the company felt the need to anticipate extreme situations by simulating, testing and organising reaction mechanisms. Internal learning processes were supported by the exchange of experiences with peer companies.





A new strategic ambition must be based on the ability to combine efficiency and operational effectiveness with continuous improvement in client service indicators.

Therefore, the number of bursts was brought below 40 per 100 km of network – to 37.82. Non-invoiced water was reduced to 15.7% in the Lisbon distribution network and 12.6% across the whole EPAL network. These were the best figures ever and marked new levels in service quality.

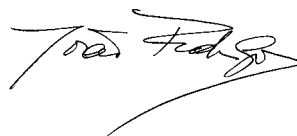
Sustainability and social responsibility also shape the management and their levels can be measured by the company's economic, environmental and social indicators.

The company's close connection to the community has prompted several initiatives. A particular instance of this, for its symbolic value, was EPAL's support to the restoration of the Monstrance of Belém, a mythical work of Portuguese art and culture.

The need to set the company's mission and values in a set of principles and guidance led to the approval of the Code of Ethics, a framework for the behaviour and attitude of both employees and company partners. The company is experienced and built every day by hundreds of people whose dedication and commitment form the basic pillar of its abilities and yearning for progress.

The celebration of the company's 140th anniversary was a superb moment for participating in a story from which the Code of Ethics derived its values: quality, social responsibility, sustainability, client orientation, integrity, competence, legitimacy and continuous improvement.

João Manuel Lopes Fidalgo  
Chairman





management report





# water quality

## Monitoring process

In 2008, EPAL executed the water quality monitoring programme, or PMQA in the Portuguese terminology, schedule of actions for sampling and analysis of water abstracted (on the surface or under the ground), transported and supplied to providers of water supply systems or distributed in the city of Lisbon. The goal for these actions was to gather data for supporting and guiding water quality management.

13

The board-approved PMQA focused on two types of control: legal control and operational, or monitoring, control.

### Legal control

This type of control included the monitoring campaigns to comply with legal requirements approved by IRAR, Portugal's water and wastewater regulator:

1. Quality control of the water distributed in the city of Lisbon through collection at consumer taps – 1,256 sampling points;
2. Quality control of the water supplied to providers of water supply systems through collection at points of delivery to municipalities/water providers or, whenever unfeasible, at sampling points mirroring these deliveries – 93 sampling points;
3. Quality control of the water supplied to direct clients using the company's transportation system through collection at points of delivery to clients/institutions located in areas managed by other water providers – 7 sampling points.



### Operational or monitoring control

This type of control aims to check the quality of drinking water throughout the whole supply system and to identify, on a timely basis, occasional or systematic anomalies, if any. The following preventive measures were taken:

1. Quality of the water distributed in the city of Lisbon by sampling at fixed points throughout the Lisbon distribution network, systematically covering important/critical high and low points such as entry points and reservoirs, among others – 116 sampling points;
2. Quality of the water throughout the transportation system by sampling at representative points (exit from the treatment stations, points for blending water from different origins, points of delivery to the Lisbon distribution network) – 35 sampling points;
3. Quality of the water at source by sampling at the different origins used by EPAL for the production of drinking water, for the purpose of tracking any abnormal outcomes across the abstraction, treatment, transportation and supply stages – 51 sampling points.

Under the PMQA, 6,755 water samples were collected and 179,367 outcomes of water quality substances/species were gathered in the process. 129 parameters were researched and 206 species were researched.

#### Outcomes in EPAL's supply system

	Number of outcomes (species)
<b>Legal control</b>	
Direct clients through transportation	922
Delivery to water providers	36 188
Lisbon distribution network (consumer taps)	19 905
<b>Sub-total</b>	<b>57 015</b>
<b>Operational/monitoring control</b>	
Underground abstractions	11 781
Surface abstractions	7 422
Treatment stations (process water)	5 836
Transportation system	37 404
Lisbon distribution network (fixed points)	59 909
<b>Sub-total</b>	<b>122 352</b>
<b>Total</b>	<b>179 367</b>



## Main features at the different sampling points

### Water quality at source

At Rio Zêzere – Albufeira do Castelo do Bode, results were not higher than the Class 1 maximum acceptable levels (MAV), except for one occurrence in the dissolved hydrocarbons parameter. The temperature parameter had 18.8% outcomes over 22°C, the defined temperature for A1, A2 and A3 parameters. These levels were only recorded at water samples made during summer and are due to the high temperatures.

At Rio Tejo – Valada Tejo, results obtained did not exceed the maximum acceptable levels (MAV). Water abstracted at Rio Tejo was integrated in A3 Class due to the levels found for the temperature and sulphate parameters. The occurrence of total coliform levels which were higher than the Class 2 maximum recommended value (MRV) was not of a systematic nature. Ali-



15

ke Castelo Bode, the temperature levels recorded during summer were higher than the classes A1/A2/A3 MRVs.

At Rio Alviela – Nascente dos Olhos de Água, water abstracted was mineralised. Throughout the year no record was found of an analytical outcome which was higher than Class A1 MAV.

Water abstracted from underground origins at Ota and Alenquer located in a limestone aquifer was quite mineralised, averagely hard or hard with a light chloride and sulphate content. In 2008 no record of an analytical outcome which was higher than the Class A1 MAV was found.

Ground water from a Miocene aquifer beneath the wet plains bordering the Tagus was quite mineralised and averagely hard, with chlorides and sulphates. The temperature and barium parameters of these underground origins exceeded the MAV for Class A1.





Ground water abstracted from the sediments at Poços de Valada was highly mineralised. The temperature parameter, with three occurrences in 15 outcomes, and the barium parameter, with seven occurrences in 15 outcomes, exceeded the Class A1 MAV.

### Drinking water quality

In order to comply with legal requirements for water quality control in the Lisbon distribution network, 19,905 outcomes were obtained, whereby samples were collected on a daily basis from taps used by private and public – hospitals, schools, health centres among other – customers. On the basis of the gathered data, it was possible to conclude that, except for some isolated cases, the quality of distributed water was in compliance with quality standards as defined by Portuguese law. Only 0.09% of the species outcomes showed non-compliant levels.

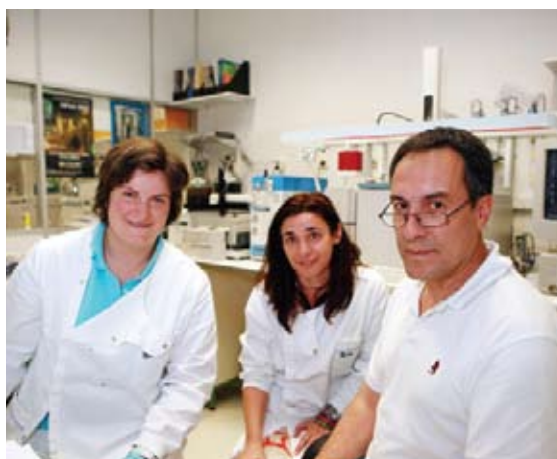


By sampling at fixed points throughout the Lisbon distribution network, which is the operational control, 59,909 outcomes were made. On the basis of the gathered data, it was possible to conclude that, except for some isolated cases, the water was in compliance with quality standards as defined by Portuguese law. Only 0.07% of the species outcomes showed non-compliant levels.

In comparison with 2007, there was an improvement in drinking water quality supplied by EPAL and the number of species outcomes with non-compliant levels in the samples collected fell.

EPAL disclosed on its website on a monthly basis statistics of quality control of the water distributed in the city of Lisbon through collection at consumer taps, quality control analysis of water collected from fixed sample points and quality control of the water supplied to providers of water supply systems through collection at points of delivery to municipalities/water providers.



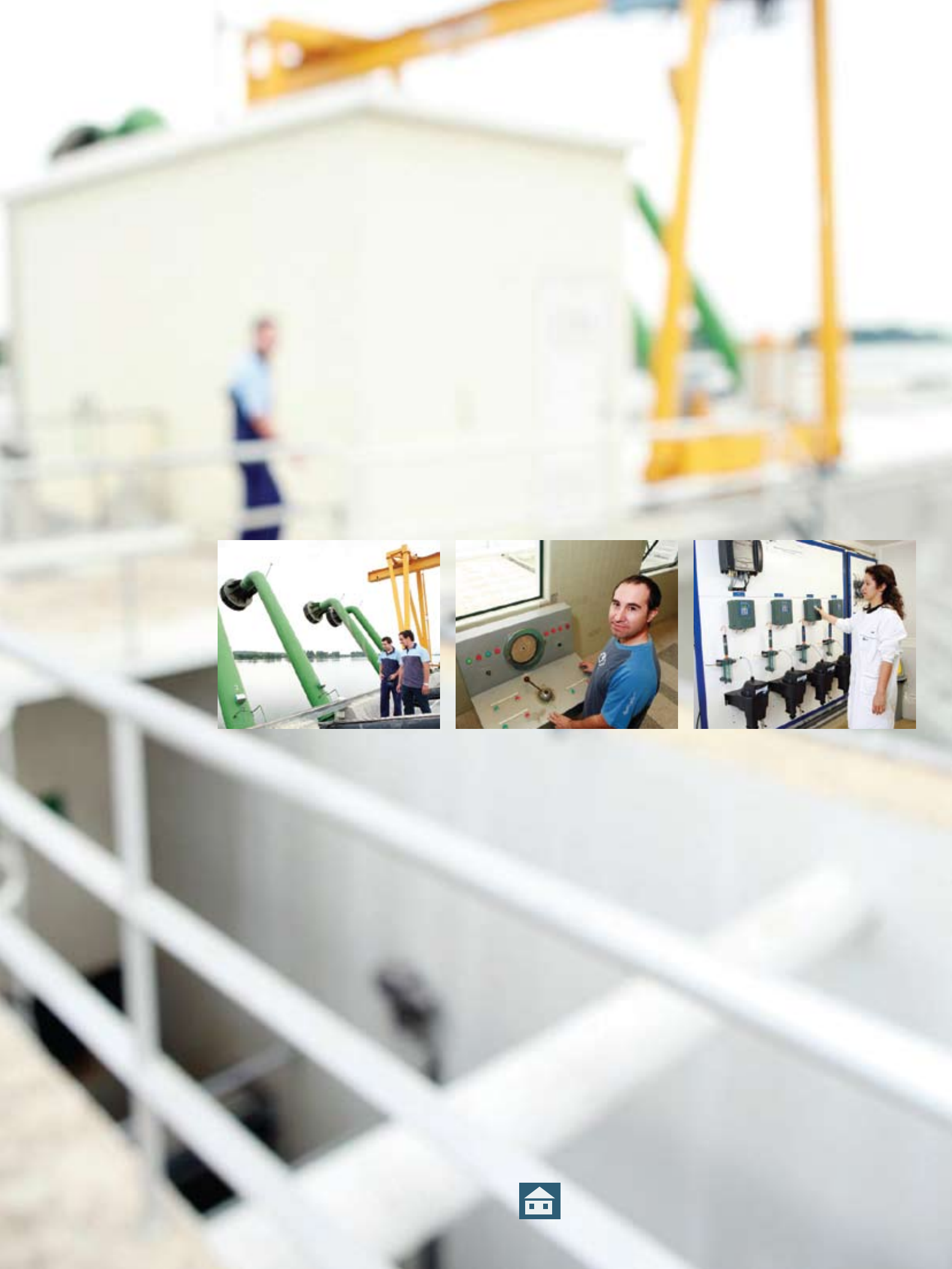


In accordance with the government decree *Decreto-Lei n.º 306/2007* of 27 August 2007, EPAL disclosed quarterly on the Portuguese press the statistics of the compliance control of the water through collection at consumer taps. According to the same decree, the statistics of the compliance control of water through collection at points of delivery to municipalities/ water providers were quarterly sent to the providers of water supply systems.

17

Like in the three previous years, further information on monitoring control in 2008 and its outcome may be reviewed in the Annual Report on Drinking Water Quality.





# the water cycle at EPAL

19

The supply of drinking water by EPAL encompasses a cycle of activities ranging from abstraction at source to transportation, treatment and delivery to the consumer's tap.

## Production

EPAL's production system has a daily capacity of 1,110,000 m<sup>3</sup> and includes three sub-systems:

- **Castelo do Bode**, which opened in 1987 and was expanded in 1996 and 2007, is currently the main sub-system with a daily production capacity of 625,000 m<sup>3</sup>;



- **Tejo**, which opened in 1940 and was expanded in 1963, has a daily production capacity of 220,000 m<sup>3</sup>;
- **Alviela**, in operation since 1880, has a daily production capacity of 55,000 m<sup>3</sup>.

The Tejo sub-system also consists of a set of underground sources with a daily abstraction capacity of 210,000 m<sup>3</sup>. The operation of these three sub-systems rests on extensive infrastructure for the transportation of abstracted and treated water.

Besides its 745 km of trunk mains, or large-diameter pipes, which are used for large-section water transportation, EPAL has two treatment stations, one at Asseiceira and the other at Vale da Pedra.



## Distribution

The overall distribution network is 1,427 km long and consists of 14 reservoirs, 9 towers and 77,500 service mains. This infrastructure allows water to be directly supplied in Lisbon to an area of 85 km<sup>2</sup> inhabited by 509,751 people, as estimated by the National Bureau of Statistics (INE) at 31 December 2006. The network is supplied by the Alviela and Tejo aqueducts and the Franca de Xira/Telheiras and Circunvalação trunk mains, whose daily capacities are 35,000 m<sup>3</sup>, 360,000 m<sup>3</sup>, 240,000 m<sup>3</sup> e 60,000 m<sup>3</sup>, respectively.

The distribution network includes four zones – lower, middle, upper and uppermost – according to their respective altitude.

Besides supplying the city of Lisbon, EPAL also supplies, directly or indirectly, 32 municipalities west and north of the city.





## Non-invoiced water

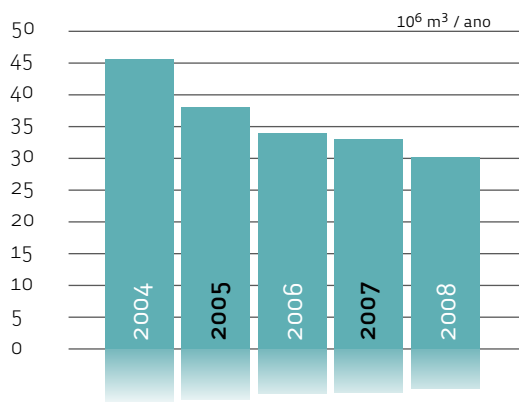
Os dados relativos a água captada, produzida e fornecida em 2008 são os seguintes:

### Water abstracted, produced and supplied – m<sup>3</sup>

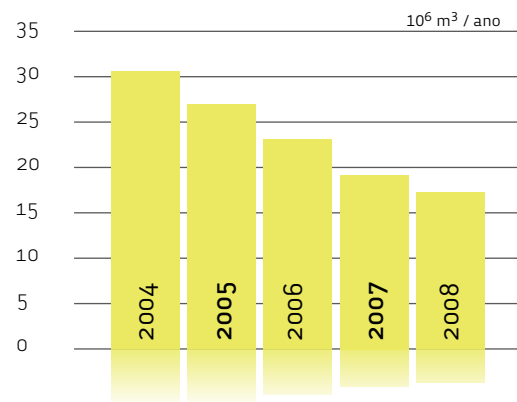
	2007	% of water abstracted	2008	% of water abstracted
Water abstracted	243 192 708	100,00%	241 110 432	100,00%
Castelo do Bode	163 762 580	67,32%	162 465 357	67,38%
Tejo	73 791 886	30,33%	77 170 097	32,00%
Alviela	5 638 242	2,31%	1 474 978	0,61%
- Process losses	97 971	0,04%	82 244	0,1%
= Water produced	242 879 655	99,87%	241 027 376	99,97%
- Transportation losses	13 513 566	5,56%	13 129 402	5,45%
- Distribution losses	19 408 684	7,98%	17 183 589	7,13%
=Water supplied	209 957 405	86,33%	210 797 441	87,42%

The amount of water lost under transportation until entry into Lisbon or delivery to municipal and multi-municipal water providers was 13.1 million m<sup>3</sup>, or 5.45% of water produced. In Lisbon distribution, losses amounted to 17.2 million m<sup>3</sup>, or 15.67% of water flowing into the city. Total water losses amounted to 30.2 million m<sup>3</sup>, that is, 12.6% of water abstracted.

Every year there are improvements in lowering the water loss. For the first time in the company's history, the water loss was under 13% of abstracted water (12.6%).



Water losses at EPAL



Network losses

In this framework, efforts made by the company since 2002 to extensively renew the distribution network by 2010 contributed to lowering the number of bursts and, hence, water loss.



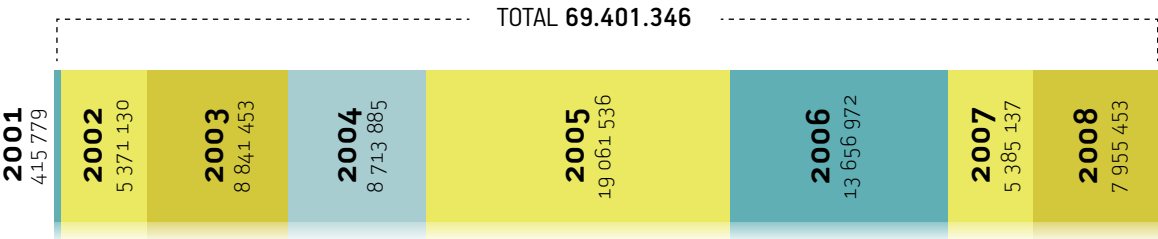


The burst rate per year per 100 km of network distribution was for the first time under 40, reaching 37.82.

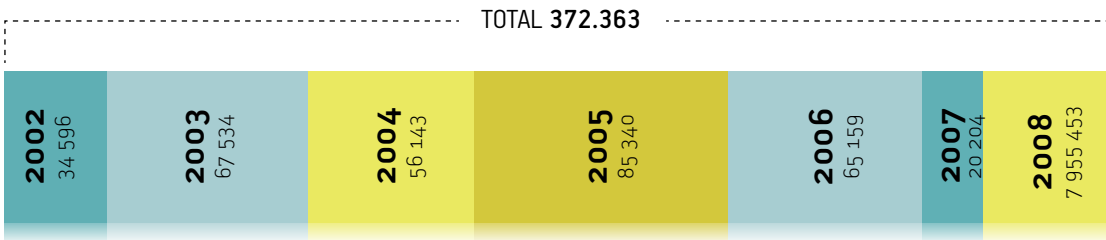
The algorithm for calculating the economic loss level, which was completed in 2008, has borne out that the globally recorded volumes are already within the target range for a favourable relationship between the cost and benefit of investment spending.

The significant expenditure effort can be judged by the length of the new piping:

23



Capital expenditure in 2001-2008



New piping installed in 2002-2008





## Network monitoring and control

### Distribution network – ZMC implementation

The Monitoring and Control Zones (ZMC) proved once again to be an important means of combating network leakages, which enable prompt identification of supply and pressure anomalies. Segmentation in monitoring zones is also useful for the evaluation of performance in supply zones in order to ascertain intervention needs in case of leakages, main renewal and commercial audits aimed at detecting fraudulent consumption.

The goal for 2008 was having 110 ZMCs, implying the coverage of 75% of clients and close to 80% of the network extension. The goal was attained covering close to 77% of clients (271 230) and 952 km of network (80%) by the end of 2008.

Between July and December 2008, 23 new ZMCs were implemented and 9 ZMCs had limit changes. The implementation of each ZMC was followed by the creation of a new monitoring point, the installation of a water flow and telemetric meter, checking and possibly closing the limit valves and the ZMC validation with a zero pressure test.





The implementation of new ZMCs continued having ambitious goals, especially about the necessary work to create monitoring points. EPAL continued the replacement of mechanical water flow meters by electromagnetic meters. The programme for expanding the number of telemetric systems continued in order to improve analysis of water use and allow a larger flexibility in terms of network exploration.

EPAL continued the implementation of the Monitoring and Control Plan for Water Losses 2006-09 aiming to create reliable systems of monitoring and analysis to reduce the volume of non-invoiced water. In this framework, the programme for expanding the number of telemetric systems for analysis of water use by municipal clients was started.

Between July and December 2008 26 meters and telemetric systems were installed in new monitoring points, 28 mechanical meters were replaced by electromagnetic meters and one



25

meter was taken off with the abandoning of the monitoring point, in a 55 intervention total. By December 2008, 130 monitoring points were activated in the network, higher than the forecasted 119 points. This represents 81% of the total 160 points estimated as necessary to create the 144 planned ZMCs.

### Production and transportation network – ZMT implementation

In 2008, the goal to create reliable systems of monitoring and analysis, which allow the implementation of actions to reduce the volume of non-invoiced water and permanently control the operational performance and the status of EPAL's operational assets, was maintained.

The project for the creation of five large ZMTs, or transportation measurement zones, aiming to separately monitor each large trunk main of the network composed of Castelo do Bode, Tejo, Alviela and Vila Franca/Telheiras. These large ZMTs will be segmented into smaller monitoring zones. The installation must be completed in 2009.



As planned and for the second consecutive year, several detections were undertaken in order to locate potential leakages with the help of SAHARA technology. Under this project, 27 inspections were executed with the system, covering close to 25 km of the production, transportation and distribution network, whereby 32 leakages were identified.

## Energy costs

In 2008, there was a 2.5 million kWh rise in electricity consumption. This increase in energy costs is due to the come into operation of a new treatment process at Asseiceira's treatment station. Total energy use in 2008 was 141.2 million kWh.



With the enforcement of the government decree *Decreto-Lei n° 71/2008* of 15 April, which deems as intensive energy users the facilities with consumption higher than 500 tep per year, the facilities of Asseiceira and Barbadinhos were considered intensive energy users. The responsibility for nine facilities with intensive energy use was passed on to EPAL.

Concerning the plans for rationalising energy use due to energy audits previously undertaken, the 2008 quarterly progress reports show that it was only possible to fulfil the goals of specific consumption in Castelo do Bode and Telheiras, as illustrated in the following table:

Facilities with intensive energy use	Consumption [Tep]	Specific consumption [kgep/m <sup>3</sup> ]	
		Goal	Outcome
EE Amadora	3 186,9	0,110	0,115
Castelo do Bode	3 083,9	0,023	0,019
EE Olivais	5 637,7	0,112	0,115
EE Telheiras	1 139,2	0,033	0,033
EE Valada-Tejo	2 260,4	0,040	0,041
EE Vale da Pedra	1 578,5	0,028	0,029
EE Vila Franca de Xira	17 032,6	0,133	0,134
Asseiceira's treatment station	1 393		
Barbadinhos	690		

The two last facilities must be submitted to an energy audit and a plan for rationalising energy use before 23 April 2010.





# client relationships

29

## Water volumes sold

EPAL's clients are classed into direct clients, when the water is supplied for their own consumption, and municipal and multi-municipal clients, when the water is supplied for distribution to third parties.

In 2008 EPAL sold 211,256,466 m<sup>3</sup> of water – 71.83% to municipal and multi-municipal clients and 28.17% to direct clients.

During the year, EPAL maintained the direct supply of 20 municipalities north and west of the municipality of Lisbon as well as the multi-municipal provider Águas do Oeste that supplies twelve municipalities with water provided by EPAL.

EPAL directly supplied water to the following municipalities: Alcanena, Amadora, Batalha, Cartaxo, Cascais, Constância, Entroncamento, Leiria, Loures, Odivelas, Mafra, Oeiras, Ourém, Porto de Mós, Sintra, Santarém, Tomar, Torres Novas, Vila Franca de Xira and Vila Nova da Barquinha. EPAL guaranteed residential distribution in the municipality of Lisbon and indirectly supplied the municipalities of Alenquer, Arruda dos Vinhos, Azambuja, Bombarral, Cadaval, Caldas da Rainha, Lourinhã, Óbidos, Peniche, Rio Maior, Sobral de Monte Agraço and Torres Vedras through Águas do Oeste.

The number of direct holders of supply contracts increased slightly, although less than in earlier years. Reinforcing the trend of earlier years, this growth was sustained by the resi-



dential segment. Although the National Bureau of Statistics' forecasts point to a reduction of Lisbon's population in the last years, the number of supply contracts in the domestic segment increased. The contracts of the Commerce/Industry segment maintained a falling trend.

#### Water sold in 2008 by type of client

million m<sup>3</sup>

Type of client	Million m <sup>3</sup>	Change compared to 2007, %
Municipal clients	133 162 879	- 0,1
Multi-municipal clients	18 966 587	16,3
Direct clients	59 127 000	- 1,8
All clients	211 256 466	0,6

### Customer service

The development of a customer service culture is a strategic goal attained by a set of initiatives directed towards the continuous improvement of the supplied service.

30

The participation in benchmarking surveys such as Customer Services Process Benchmarking Study 2007, customer service surveys and phone surveys on EPAL's technical support were important tools to identify improvement opportunities.

#### Municipal and multi-municipal clients

With a view to improving EPAL's relationship with this client category, several personal contacts and work meetings were organised in order to jointly review pending matters to find the best possible settlement.

One the most important decisions were the agreement for increased water supply to the municipality of Cartaxo, which led to the signing of a contract to supply the whole municipality, and the municipalities of Batalha, Porto de Mós and Santarém, whose terms are still under analysis.

Thanks to the joint effort of EPAL and the municipality of Mafra, the water supply to the municipality through the Arcena – Casais da Serra/S. Gião sub-system rose in 2008.

With a view to increase safety and reliability of supply conditions to the municipality of Sintra, a contract was signed for the sale of the Alto Carenque/Mercês trunk main to SMAS Sintra and for cooperation building a new conduit between Circunvalação trunk main and Carenque elevation station, which allows the replacement of the Amadora/Carenque elevation station.





As evidence of the customer service to large clients, a new point of delivery to the Jamor sport centre was created and a new supply service main was installed to service the Caxias prison.

### Direct clients

In January, EPAL made ATMs available at both the Head Office Store and the Loja do Cidadão, a multi-service store made available by the state. This new payment mode was received with enthusiasm by clients, who made 18,052 transactions in 2008.

Waiting times for personal service were affected by the enforcement of the law *Lei n° 12/2008* of 26 February 2008, which introduced monthly client invoicing. This law caused a major charge on the Contact Centre and the personal service. From June 2008 there was a 30% rise in clients in the stores and using the telephone support service. The number of enquiries whose main reason was invoice payments increased around 50%.



31

EPAL could not keep waiting times under 15 minutes for 80% of clients in the stores, decreasing to 71% in the Loja do Cidadão and to 68% in the Head Office Store. By telephone, 64% of clients were answered in a shorter waiting time than 30 seconds. EPAL's goal was to answer 75% of clients in that period of time. In order to improve results, EPAL hired more employees for the Head Office Store.

In June, the month when Children's Day is celebrated in Portugal, the Head Office Store opened a play area for children accompanying clients.

Introduced in 2007, the measurement of issues solved in a single contact had quite positive results. The customer services rapidly solved 99.7% of issues.



Enforcement of new legislation – *Lei n.º 12/2008* of 26 February 2008 – contributed to the deterioration of most performance indicators, as shown in the following table.

#### Customer service levels for Lisbon's direct clients

Performance indicators	2007	2008	Change
Invoices	2,164 milhões	3,503 milhões	62%
Number of clients served at the Head Office Store	158 691	178 749	12,6%
Number of clients served at the Loja do Cidadão	58 366	67 102	15%
Number of clients served by the Contact Centre	212 672	240 279	13%
% of clients served in less than 15 minutes	83	69	- 14%
% of telephone calls answered	91%	86%	- 5%
% of clients served by the Contact Centre in less than 30 seconds	81	64	- 17%

### Satisfaction levels

#### Municipal and multi-municipal clients

The assessment of the satisfaction levels of municipal and multi-municipal clients is made two in two years. In the 2007 survey, 95% of clients proved to be “satisfied” and even “very satisfied” with the service provided by EPAL. Concerning the quality of the product supplied, 68% proved to be “satisfied” and 32% “very satisfied”.

#### Direct clients

The determination model of EPAL's client satisfaction index has attracted favourable ratings since 2002. The last known rating was 6.8.

This circumstance explains the two following initiatives: adhering to the European Customer Satisfaction Index Portugal and creating EPAL's Water Quality Barometer in order to assess the population's types of consumption, the volume of clients who do not drink the water provided by EPAL and which are the reasons why, the clients' confidence in water quality, the clients' position towards the price of water and the price/quality relationship, among other matters. The barometer's results will also help define communication campaigns to be developed by the company, namely oriented to reinforce confidence in the water and usage efficiency. The first results will be announced in 2009.

### Complaints

#### Municipal and multi-municipal clients

In 2008 the municipal client department recorded and processed two complaints related to provided services invoicing. The department also recorded and handled seven requests for information and six enquiries.





### Direct clients

Application of law *Lei n° 12/2008* of 26 February 2008 also led to deteriorating management indicators and complaint processing.

Out of the total number of complaints that were processed by the back office, 90.6% were settled in 15 days. In 2007 this percentage was 88.7% and in 2006 82.7%. Out of the total number of closed complaints, 75.8% were accepted and 24.2% were rejected.

Files in writing went up by 10.2% in 2008 in comparison with 2007. In spite of this rise, 84.8% of closed complaints were replied in 15 days.

A client satisfaction survey regarding the manner in which EPAL settled complaints showed that about 66% of respondents expressed their satisfaction with the way the company processed the issue filed. In 2007, this percentage was 60%.

Complaint classification was reappraised in order to separate effective complaints from discontent. Hence, discontent related to water supply interruptions caused by bursts and interventions in the distribution network was no longer counted as complaints when settled in personal service or contact-centre service.

The new classification made identification of the complaints that require corrective measures more easy. This fact was confirmed by the rise of 18.5% in complaints related to supply, customer service, untimely delivery, services, damage, invoicing and other matters. In 2008, 8,400 complaints were filed.

33

### Credit control

With the enforcement of law *Lei n° 12/2008*, EPAL issued 3,500,000 invoices, up 1,340 000 from 2007. In spite of this increase, the number of metering errors declined by 3,000 thanks to improvements in metering and invoicing processes.

Accounts receivable from direct clients improved 29.4%. The increase in telephone calls and personal contacts to compensate for debt helped reduce the debt of residential clients. However, the implementation of monthly invoicing also created difficulties in the development of this initiative as well as most customer service indicators.





# capital expenditure

Investment spending of 26.2 million euros was 19% lower than in 2007.

	thousand euros	%
<b>For supply enhancement</b>	<b>19.807</b>	<b>76%</b>
Expansion of the Castelo do Bode sub-system	9 083	
Renewal of the distribution network	7 410	
Expansion of the distribution network	1 333	
Increased supply to Mafra	540	
Other increased supplies	181	
Other	1 260	
<b>For technological innovation</b>	<b>2.555</b>	<b>10%</b>
Macro-measurement of water production and transportation	1 297	
Evaluation of the distribution network efficiency	309	
Revamped telecommunications technology	216	
Installation of the Automatic Meter Reading	209	
Update of Aquamatrix	80	
Other	444	
<b>For quality improvement</b>	<b>1.532</b>	<b>6%</b>
Renewal of laboratory equipment	654	
Project for construction of a new central laboratory	266	
Update of energy consumption	239	
Equipment for laboratorial monitoring	154	
Other	219	
<b>For the safety of existing infrastructure</b>	<b>1.056</b>	<b>4%</b>
Renewal of Amadora/Carenque trunk main	482	
Renewal of Tejo sub-system	427	
Alviela aqueduct	86	
Other	61	
<b>For information technology and systems</b>	<b>936</b>	<b>4%</b>
<b>For other</b>	<b>328</b>	<b>1%</b>
Adaptation of installations	90	
Remodel of the Water Museum at Barbadinhos	86	
Other	152	
<b>TOTAL</b>	<b>26.214</b>	<b>100%</b>





The decrease in capital expenditure reflects a judicious selection that was possible through the development and application of tools for analysing and supporting investments by means of a multi-variable matrix used since 2006 to choose and prioritise renewal investments in EPAL's transportation and distribution networks.

As in 2007, supply enhancement absorbed 76% of the total capital expenditure.

36

Investment in continuous monitoring systems continued in 2008 through the implementation of new monitoring and control zones (ZMCs). At the same time, research on the implementation of new transportation measurement zones (ZMTs) continued. The implementation of five zones in the trunk main network is planned for 2009. These investments were aimed at obtaining a better knowledge of the network in order to achieve a fast tracking and intervention on possible anomalies. This contributes to improve reliability and customer service. Data obtained was an important element to analyse the performance of several supply zones under an intervention to detect leakages, renew infrastructures and make audits to identify possible illegal use.





Under the Investment Plan, the telemetric project for large clients in the Municipality of Lisbon started in 2008. This project aims at monitoring the water flow of the distribution network. It may be considered state-of-the-art continuous use monitoring. In the first of two phases, EPAL invested 220 thousand euros in the installation of 250 monitoring systems.

EPAL gave priority to investments that guarantee the attainment of the growing demands in the legislation related to drinking water quality. In the last quarter of 2007 the revamp of the first treatment line, with treatment capacity of 500,000 m<sup>3</sup> per day, of the Asseiceira water treatment station was completed and the installation of a second treatment line with 125,000 m<sup>3</sup> per day. With this revamp, a flotation phase after remineralisation and aggressiveness correction and an intermediate ozonization phase, which was introduced in replacement of pre-chlorination to reduce the formation of trihalomethanes, were introduced.



37

Regarding the Vale da Pedra treatment station, the characteristics of water abstracted from Rio Tejo, along with the reinforcement of water quality standards, encouraged EPAL to undertake studies including a risk analysis survey, with a view to optimise the revamp and the expansion of the treatment schemes of the Vale da Pedra station.

Projects for the construction of the Central Laboratory's future facilities were also completed. The construction will start in early 2009.





# people

## Payroll

At 31 December 2008 EPAL employed 788 staff, a slight decrease in comparison with 2007 (less seven employees).

39

With the creation of an Asset Management Department, which occurred at the middle of the year requiring the transfer of human resources from the Production and Distribution to the new department, there was a decrease of staff in Production and Distribution.

Staff by organisational unit	2007	2008
Production and Distribution	518	442
Investment and Asset Management	49	124
Support	213	209
Other	15	13
<b>EPAL</b>	<b>795</b>	<b>788</b>

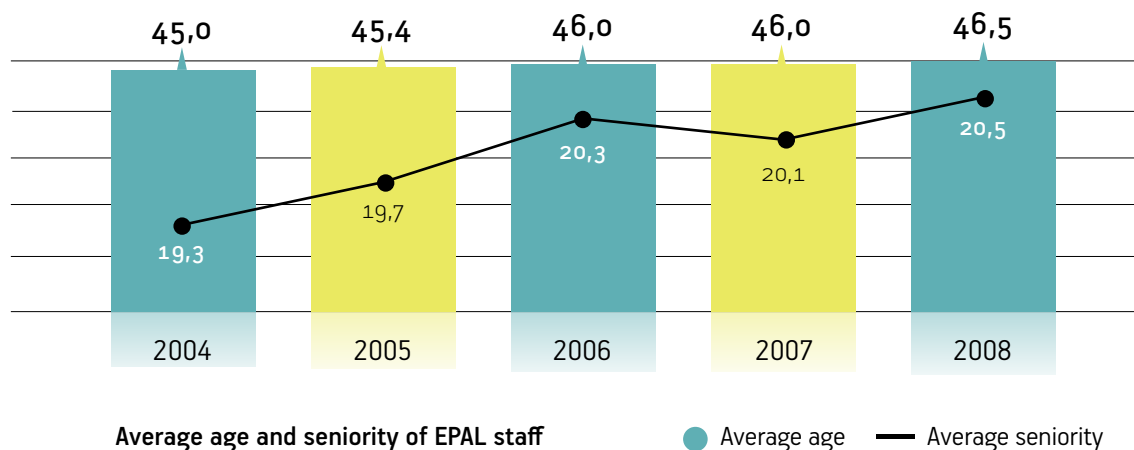
## Entries and departures

In 2008 fifteen people joined the company, of whom four were hired on a fixed-term basis. In the same period, twenty-two employees left the company. Regarding departures, early retirement of sixteen employees was the major reason.

## Average age and seniority

The average age of EPAL staff rose slightly in 2008 and at the end of the year it was 46.5 years. Average seniority also increased and was 20.5 years at the end of 2008.

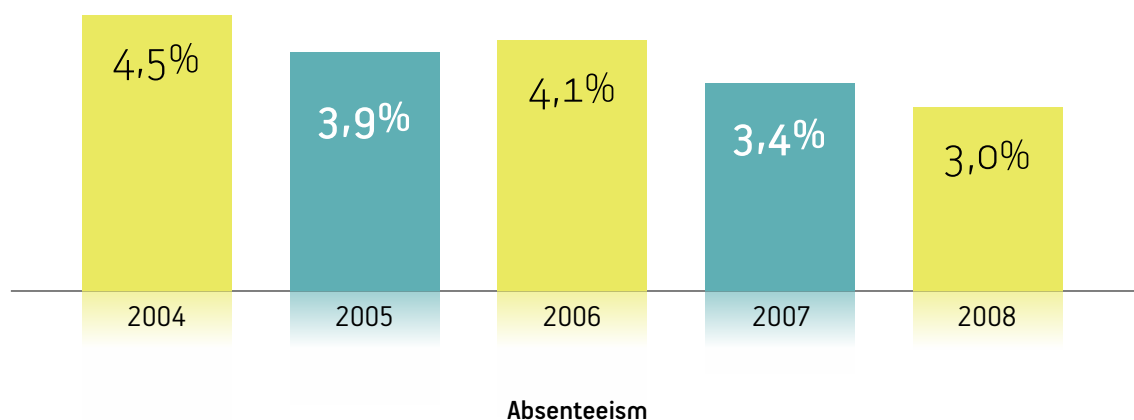




### Absenteeism

Absenteeism in 2008 was 3.0%, the lowest ever, or 41,247 hours out of a potential 1,389,290 hours. Major reasons for absence were disease and workplace accidents.

40



### Absenteeism

The good result of this indicator reflects the staff's professionalism and dedication to the company and the adequacy of the incentive system.

## Training

### Activities

At a cost of 197,395 euros, 251 training actions – of which five in house – were offered to 350 workers at several hierarchical levels. Training details are provided in the following table:



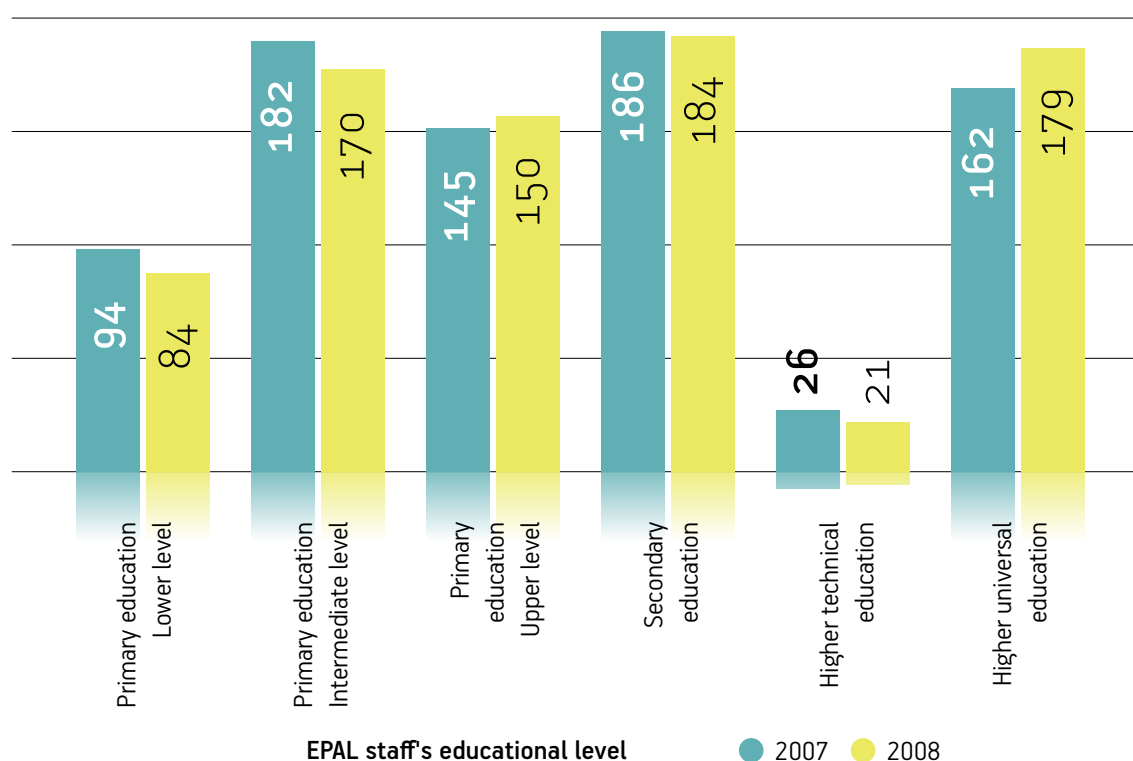


Hierarchical level	Staff under training	Participants	Training hours
Senior managers	398	84	5 011
Middle managers	290	106	4 100
Foremen	6	4	119
Highly-skilled workers	132	53	1 672
Skilled workers	257	103	5 359
Half-skilled workers	-	-	-
<b>TOTAL</b>	<b>1 083</b>	<b>350</b>	<b>16 261</b>

In training, there was a slight increase in staff under training and a decrease in the training hours as a consequence of the extinction of AdP – Formação. A relevant effort was made in 2008 on providing training to the several hierarchical levels, except for half-skilled workers whose weight in the company is very low (seven workers in 788).

### Educational level

EPAL staff's educational level improved with the fall in lower educational levels – primary education, both lower level and intermediate level – and the increase of staff with higher education.



By joining *Iniciativa Novas Oportunidades* (New Opportunities' Initiative) programme, EPAL promotes significant progression of its employees' educational levels to upper levels.



## Workplace safety and hygiene

Major safety indicators improved in comparison with 2007.

Indicators	2008	
TF – Frequency rate for workplace accidents	18,25	442
Tf – Frequency rate for workplace accidents with sickness absence	11,90	124
TG – Severity rate (includes sequels of accidents occurred in previous years)	0,47	466 <sup>1</sup>
Tg – Severity rate (relevant year)	0,21	209 <sup>1</sup>

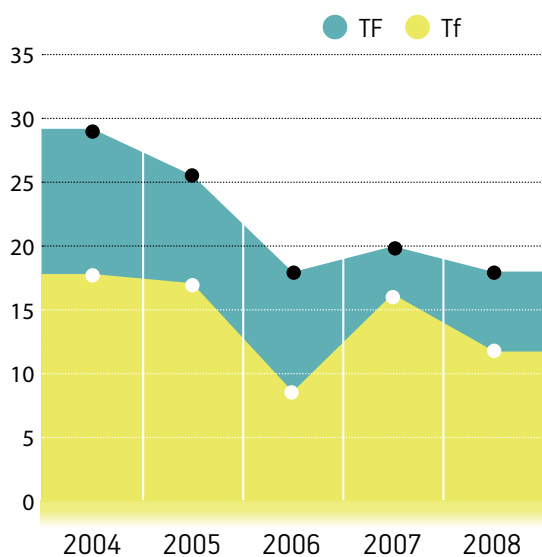
Calculation according to the ILO (International Labour Organisation) recommendation whereby the following measures were used:

TG = Number of disability days (includes previous years' accidents) X 106: number of hours of risk exposure;

Tg = Number of disability days (relevant year) X 106: number of hours of risk exposure.

There were 23 workplace accidents, of which eight did not cause sick leave, leading to 263 days' sick leave. There were five in itinere accidents leading to 129 days of sick leave. Six accidents in previous years led to 326 days of sick leave in 2008.

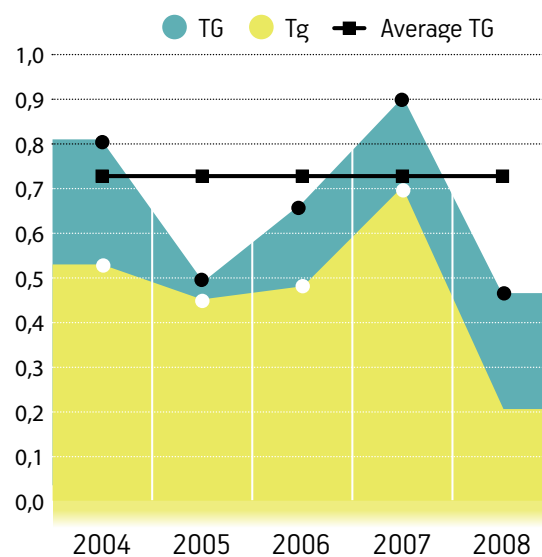
42



TF = Total number of accidents X 106: number of hours of risk exposure

Tf = Number of accidents with total temporary disability X 106: number of hours of risk exposure

Frequency rates over the last five years



TG = Number of disability days (includes workplace accidents in previous years) X 103: number of hours of risk exposure

Tg = Number of disability days (relevant year) X 103: number of hours of risk exposure

Severity rate over the last five years





## Occupational medicine

In 2008 1,196 occupational medicine examinations were performed, 527 of which were periodic and 669 occasional. The company makes dental-care rooms available at its head office and Olivais premises, with 1,592 visits received.

At these premises, the regional health administration received 3,217 visits from company staff. In parallel, flu vaccination and voluntary blood donation campaigns were carried out with the participation of 467 employees.

43

## Collective bargaining (*Acordo de Empresa*)

Under the collective agreement (*Acordo de Empresa*, AE), the revision of the consolidated text was published in the Labour and Employment Bulletin, after negotiations held in 2007 which led to an agreement signed with all concerned unions. According to the negotiated solutions, a defined contribution plan was implemented, which significantly altered complementary retirement pensions.

## Pension fund

The EPAL Pension Fund's value at the end of 2008 was 46.4 million euros. In 2008, the company contributed 2.9 million euros to the fund.

Contributions impacted significantly the funding of obligations, with the funding ratio as calculated by the Portuguese Insurance Institute (ISP) achieving 102%.





### ***Iniciativa Novas Oportunidades (New Opportunities' Initiative) programme***

Under this programme, actions were made to encourage employees who did not complete the secondary level, which represent close to 50% of the staff, to promote themselves. The following initiatives were made:

44

- One awareness session for the higher hierarchical levels;
- Seven awareness sessions for employees;
- Publishing of several articles about *Novas Oportunidades* programme in the internal newspaper *Águas Livres*;
- Announcement of contacts for support, enquiries and guidance;
- Creation of an information section in the intranet;
- Offer of four classrooms equipped with computers;
- Advance payment of 150 euros to 34 employees for the acquisition of a laptop computer.



This project was started in 2007 and will be completed in 2010. Its goal is to promote the progression of its employees' educational levels to the upper primary and secondary levels (9th and 12th years, respectively, in the Portuguese school system). The goal was set for 25% of employees with lower qualifications and in 2008 21%, or 87 employees, participated.

## Social action

At EPAL's six canteens – which were subject to 187 inspections – 89,331 meals were served in 2008.

At the end of the year, the health insurance scheme sponsored by the company for employees, early retirees and their closest relatives covered a total of 1,935 people.



45

The traditional OTL Infantil e Juvenil programme was staged once again with the participation of 45 employees' children aged between 6 and 17. For young people between 18 and 25, the OTL Empresa programme was organised with the participation of 31 youths. The programme consisted of 3-week traineeships at several company departments during the school holiday period.

Christmas baskets were distributed to all employees, early retirees and retirees as well as outside workers providing services to the company on a daily basis.

Eighty-seven suppers were served to employees on duty on Christmas Eve.







# systems and processes

47

In 2008 EPAL continued developing activities started in earlier years. The goal was to achieve a more efficient asset management.

## Integrated asset management model (MIGA)

Prepared in 2007 in cooperation with external consultants, MIGA was implemented and integrated in the company's current management through the creation of the Asset Management Department.

One of the most important initiatives implemented in 2008 was starting the works on the application that will support asset management in several maintenance types, namely the definition of the functional requirements of the system according both to the needs and restrictions. The applications must follow these restrictions in accordance with the specification and the structural model of the MIGA project – Operating Assets Management allowing a response to every maintenance need.

## Implementation of continuous monitoring systems

This project, which was started in 2005 and whose completion is expected by 2009, aims at dividing the Lisbon distribution network in zones through the implementation of ZMCs. The monitoring and control zones aim to reduce detection time and network errors reaction time, rise the reliability of customer service and identify non-invoiced water. Alike inspections, the monitoring activity was integrated in EPAL's organisational set-up in 2008.





Monitoring activity	2006	2007	9/2008	2008
No of ZMCs in the city of Lisbon	35	75	94	110
No of ZMTs in the distribution network			0	5
Network covered by ZMCs (%)	23%	55%	70%	81%
Direct clients covered by ZMCs	16%	49%	68%	78%

This continuous monitoring system has revealed itself an important instrument to explore the distribution network not only by rapidly identifying situations without corrective or preventive intervention but also by providing fundamental data to optimise current exploration.

### Study and implementation of a Global Inspection Programme

The project started in 2006 with the formulation of the approach method and the inspection files were drafted. The assets with inspection priority were identified and the first inspections were executed. In 2008, the Global Inspection Programme was integrated in the company's management. The team in charge of inspection execution was included in EPAL's organisational set-up.

Inspections	2006	2007	2008
No of inspected reservoir cells	3	7	25
No of inspected elevation stations	0	0	3
No of special works	1	4	5
Inspected trunk mains	0,5km	42km	11,0 km

The inspections allowed the determination of the reference situation of assets, the ranking of the facilities risk, the formulation of maintenance strategies and the *prioritization* of investments.

### SAHARA Project

In 2007, a pilot project to execute inspections of large-section mains was started with a leakage detection system called SAHARA. In 2008, more inspections using this system were executed. The goal is to make annual campaigns in an average extension of 20 km per year.

SAHARA Project	2007	2008
Number of inspections executed	27	27
Inspected network	21 km	25 km
Estimated water savings	5.000 m <sup>3</sup> /dia	4.340 m <sup>3</sup> /dia

### Improvement of record accuracy

The survey and service main reconciliation project, which was started in 2006 and whose completion is expected by 2009, aims to coordinate two essential information systems: the client system and the G/INTERAQUA, the geographical information system.



The project development included systematically going through Lisbon's streets and validating databases at the same time. The survey has already been conducted, while the reconciliation and validation of the data in the information systems are under way and will be completed in early 2009. The main elements of the network are also being uploaded to G/INTERAQUA. The completion of the upload is expected by 2009.

### Losses calculation

Under the development of analysis and decision support tools, EPAL completed in 2008 the model which allows the economic calculation of losses. The outcome of the model was important to set goals for the policy against losses. When uploaded, the 2007 data showed that water losses were already within the target range of economic losses.

<b>Non-invoiced water in Lisbon</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Non-invoiced water	23,9%	23,5%	20,2%	17,4%	15,7%

Also related to decision support models, the development project for the hydraulic simulation models of the water distribution network in the city of Lisbon started in early 2008. It is a project that aims to develop internal technical competences, which allow a better management of the whole supply system, both in hydraulic and energy terms.

49

### AQUAmatrix®

AQUAmatrix® is a technological tool supporting operational activity and sales management of water. It was created and developed by EPAL based on the most recent technological tools in the market for public water distributors that supply drinking water, waste water and urban solid waste.

AQUAmatrix® consists of an information system of sales management (SIGC in Portuguese), mobility and measurement systems, services and supply processes, digital functionalities and an integrated Business Intelligence tool. This application suite also includes interface functionalities with other information systems, namely ERP, document management, GIS, Telemetry and Asset Management.

Following the sales goal of this application suite, several commercial actions were made to present and announce this solution. Hence, partnerships were signed with three water distributors: SMAS Guarda, SMAS Castelo Branco and the Municipality of Pombal, which joined 12 other partners.

In 2008, new functionalities were developed as well as new versions of existing applications, such as:

- The Business Intelligence tool of the AQUAmatrix® as an information collector system to support the decision-making process;



- A new version of the Measurement Mobility application allowing the collection, storage and automatic integration of measurements and the update of the technical record;
- A totally integrated Technical Archive allowing the attachment of technical documents to any type of electronic document for the entities set in the AQUAmatrix®;
- The streamlining of the procedures and functionalities of the collection and invoicing processes reducing processing time and allowing information availability.

### Telemetry project for large clients

The project has two implementation phases. The first phase was accomplished in 2008 and encompassed the installation of 250 monitoring systems in large clients in a total investment of 220 thousand euros. The second phase will be executed in 2009 and includes the installation of 750 systems in a total investment of 500 thousand euros.

Benefits are expected in cost reduction and administrative simplification of the measurement and invoicing processes. In addition, benefits are expected in the relationship with stakeholders such as clients, the regulator and consumer protection institutions by reducing invoicing complaints and improving leakage detection and disclosure about consumption in order to promote the efficient use of water and provide the necessary information for leakage reduction projects, improvement in information reliability and a better assessment of economic losses.

### Corporate applications

Concerning the iMC – Integration, Monitoring and Control, which is the supporting application of the telemetry of large and small meters, the second development phase was executed. Hence, the whole applicational platform was strengthened, both in the quality and reliability of the information collected and the treatment of data for analysis. At the same time, an analytical method of ZMCs was implemented displaying performances and their ranking in accordance with the results obtained.

Regarding the automation of the industrial process, the programming works of automatisms that allow the automatic functioning of elevation stations and the automatic control of entrance flows at the delivery points' reservoirs continued in 2008. With these applicational developments, there was rationalisation of energy. Controlling water flow allowed the rationalisation of existing hydraulic peaks and, hence, moving water flows stabilised decreasing the efforts to which conduits are submitted due to sudden changes in the water pressure caused by the shutdown of the entrance valves of municipal and multi-municipal clients.

After the technological refurbishment of the Command Centre of Asseiceira's treatment station in 2007, integration works of the Medium Tejo sub-system in this command centre were undertaken.



EPAL's historical archive was strengthened with the inclusion of the Thesaurus application allowing access to data through any known synonym. This functionality is essential and fulfils the Library and Archive Management application.

### Telecommunications infrastructure

In 2008, the transportation network with Hertzian beam support to the facilities of Montejunto Alcanhões was expanded in order to provide broader bandwidth to the communications network to support data services.

A transportation network with Single-Pair High-speed Digital Subscriber Line (SHDSL) was installed at Valada, Valada I, Valada II and Valada Tejo and the reservoir at Pombal in order to recover the existing telecommunications cable with the implementation of digital technology. These improvements will allow the incorporation of the industrial automation system at



51

EPAL's general network with the subsequent reduction in operational costs and rise in data transmission's reliability.

The draft and the installation of the communication system between the Circunvalação trunk main and the sub-system of supply reinforcement to Mafra, which is composed of seven facilities interconnected by optical fibre and commutation in Gigabit Ethernet, were completed.





# other activities

In 2008 a set of activities were made besides EPAL's core business of abstracting, producing, treating, transporting and distributing water in the Portuguese territory.

## Project Algeria

53

EPAL has since 2005 conducted a survey for evaluating and renewing the systems to supply drinking water to three Algerian cities.

In 2008 EPAL drafted the final reports of leakage detection campaigns and measurement campaigns undertaken in Tizi Ouzou, Bejaia and Chlef. A seminar attended by 50 members of ADE - Algérienne des Eaux was held at Algiers under the theme of commercial management, exploration and water losses. This project in consortium with COBA - Consultores de Enge-







nharia e Ambiente is scheduled for completion in 2009 with the presentation of the study to the Algerian minister of hydric resources. In 2008 EPAL drafted a proposal to provide leakage detection services in the city of Bouira.

54

### **Study on the characterisation of biofilm in EPAL's water distribution network**

In a joint effort with the National Laboratory of Civil Engineering, EPAL aimed at finding out if the natural characteristics of water contribute to the formation of a nutrient film that adheres to the piping, which could cause microbiological developments in the water distributed by the company. The outcomes of the study showed that this phenomenon does not occur in EPAL's water distribution network.



## Project TECHNEAU (Technology Enabled Universal Access to Safe Water)

This project was approved in the European Union 6th Framework Programme and 30 institutions participated. EPAL's Central Laboratory participated in the area dedicated to reducing the risk of pathogenic micro-organisms being released from biofilm in the water supply system. EPAL had already started studies in this area.

## Project Metals and Related Substances in Drinking Water

The Action 637 of the European Cooperation in Science and Technology started in 2007 in order to create a forum to exchange knowledge about metals and related substances in drinking water, to promote codes of good practice on metal control in drinking water and to determine



55

environmental, social and economic consequences of adopted measures by exchanging experiences. On October, EPAL hosted the 2nd International Conference of COST ACTION 637, which brought together tens of experts from several European countries.

## Bid to IWA World Water Congress in 2014

EPAL decided to stimulate Lisbon's bid to host International Water Association World Water Congress in 2014. This congress is one of the largest and most prestigious events related to water in the world, bringing together thousands of like-minded experts and professionals. The bid was made by EPAL along with CNAIDA, the Portuguese committee of the International Water Association, and was supported by the Portuguese government through the Minister of Environment, the mayor of the Municipality of Lisbon and the chairman of the Tourism Lisbon Association.





# sustainable development and social responsibility

57

## **Sustainable development**

One of EPAL's strategic priorities is to contribute to sustainable development. Therefore, its activity is geared to attain economic, environmental and social goals. The company reports its policies in this area by the publication of sustainability reports since 2005.

In 2008, the company participated in a survey by Heidrick & Struggles of state-of-the-art sustainability practices at 500 Portuguese entities. EPAL was ranked in the TOP21 of domestic companies with best sustainability practices.

EPAL achieved an average of 81% across all measures, an improvement on the the 70% of 2007. The most important indicators were the following:

- Environmental policy and management (100%)
- Environmental reporting (100%)
- Customer relationship management (100%)
- Social reporting (100%)
- Stakeholder relationship management (90%)
- Investor relations management (90%)
- Risk and business crisis management (89.8%)



In the majority of the indicators above EPAL was considered best in class.

In stakeholder relationship management EPAL hosted the 2nd annual forum with stakeholders, namely:

- Representatives of the Municipality of Lisbon;
- Presidents of Lisbon's Juntas de Freguesia;
- Portugal's Restaurant Association (*Associação da Restauração e Similares de Portugal, ARESP*);
- Lisbon's Tourism Association (*Associação de Turismo de Lisboa, ATL*);
- Portuguese Commerce and Services Associations Union (*União de Associações de Comércio e Serviços, UACS*);
- Portuguese Association of Consumer Protection (*Associação Portuguesa para a Defesa do Consumidor, DECO*);
- Quercus (Portuguese nature conservation association);
- Portuguese Spatial Planning and Environment Research Task Force (*Grupo de Estudos Ordenamento do Território e Ambiente, GEOTA*);
- Representatives of Portugal's water and waste water regulator (*Instituto Regulador de Águas e Resíduos, IRAR*);
- Representatives of Portugal's environment agency (*Agência Portuguesa do Ambiente, APA*);
- Representatives of Lisbon's and Tagus valley Regional Coordination Committee (*Comissão de Coordenação Regional de Lisboa e Vale do Tejo, CCDR LVT*);
- Economic Activities General-Direction (*Direcção-Geral de Actividades Económicas, DGAE*).

Presentations on water quality, sustainability and ongoing projects in EPAL were part of the agenda.

## Environmental front

### Fighting forest fires

As a company of Águas de Portugal group companies, which signed a cooperation agreement with Portugal's civil protection authority, EPAL joined *Movimento ECO-Empresas Contra os Fogos* (movement ECO-companies against fires) that is composed of companies from several sectors that give their institutional support to preventing and fighting forest fires under the motto "Portugal without fires depends on everyone".

### Energy for sustainability

The Energy for Sustainability campaign was created after the cooperation agreement signed by EPAL and ADENE – Energy Agency, which aimed to implement measures to raise energy efficiency, promote decentralised energy production and reduce energy use.





This campaign's goals are to inform and create awareness to climate changes, energy efficiency and rational use of energy and water and involved every EPAL employee. The actions were aimed at motivating the staff and making employees aware of the importance of adopting efficient energy practices.

During the campaign an energy and air quality audit was executed in the Head Office and the first report was published in July. Based on audit results, EPAL will present an energy use rationalisation plan that must be approved by the Company General Direction (DGE). The approval depends on the energy efficiency certificate for each building issued by a qualified expert.

The action plan with the measures that will increase energy savings will involve structural changes that must be evaluated by a survey of economic viability. Currently, Building 18 has a



59

C level and Building 24 has a D level. The goal is to make Building 24 attain a B level certification.

An energy committee composed of EPAL staff and one representative of ADENE – Energy Agency was appointed. The committee is a consultative body of the board of directors and its mission is to promote energy efficiency in every corporate activity and monitor the implementation of the energy rationalisation plan.

In Renewable Energies, EPAL chose 12 locations to install photovoltaic production systems. The investment amounted to 297,502 euros and has an expected production of 68,000 kWh per year.





### Facilities where photovoltaic production equipments were installed under the Renewables Hour programme

Recinto de Paredes (chlorination point)

Charneca do Lumiar reservoir

Contador Mor reservoir

Monsanto reservoir

Vale Escuro reservoir

Várzea das Chaminés

Verdelha I

Malpique reservoir

Alto de Guerreiros reservoir

Quinta de Stº António delivery point

Quinta da Portela reservoir

Pombal

### For the forest

60

In 2008, EPAL started monthly invoicing, thereby raising paper use. To minimise this impact, EPAL strengthened its efforts to improve efficiency and made a commitment to *e-invoicing* (sending the invoice by email) by 2009.

## Economic front

In the financial performance chapter of this report, most economic indicators of sustainability improved in 2008. The turnover, economic value generated and distributed, employee remuneration, payments to capital providers and the sustainability of pension fund indicators rose in financial 2008.

## Social front

Regarding social indicators of sustainability, labour practices and work with dignity according to the absenteeism level, one of the lowest ever, and the severity rate and the frequency rate for workplace accidents. The severity rate was the lowest of the last five years.

Practices related to product responsibility show EPAL's high performance. This matter is treated in detail in the Water quality chapter. Monitoring and control of water quality guaranteed since the abstraction until the consumer's tap, actions to apprehend and solve parameter non-conformities, as well as efforts and investments in technological development and the update and reliability of control methods, are examples of EPAL's high level of sustainability in this area.





### Social responsibility

Getting involved with society is an attribute of EPAL's corporate culture. Every year EPAL supports several initiatives.

Concerning national heritage, a cooperation agreement was signed with IGESPAR, Portugal's architectonic and archaeological heritage management body, aiming at renewing Águas Livres aqueduct. EPAL signed a cooperation agreement with the National Museum of Ancient Art to support the restoring of the Belém monstrosity with 100,000 euros in a two-year period. EPAL signed an agreement with Portuguese Catholic University's research centre of Portuguese-speaking people and cultures (CEPCEP) in order to sponsor the publication of *O Padre António Vieira e o Mundo de Língua Portuguesa*, which is a commemorative book of the fourth centennial of the birth of Father António Vieira, and the International Fado Convention hosted by the Ethnomusicology Institute, the Music and Dance Research Centre, the Fado Museum and CEPCEP under the bid of Fado to UNESCO's world heritage cultural patrimony.

61



In sports, the 3rd regatta EPAL Trophy 2008 occurred on 1 June at Rio Tejo which involved over 60 boats and 500 competitors, an initiative whose participation rose 100% compared with 2007. EPAL participated with one team. The prize award event was attended by the Environment Minister and the chairman of Lisbon's Naval Association, among other guests. EPAL also sponsored the Portuguese swimming paralympic team, which achieved good results in Beijing Paralympic Games.

The involvement in the city of Lisbon gained importance with the 4th Photography Marathon, whose theme was "The Water and Life". Over 200 people submitted about 5,000 photos, which represents a participation increase of 100% compared with 2007. The prize ceremony and the exhibition of photos voted by the jury occurred on 5 June, the World Environment Day.



After an agreement with the University of Lisbon, EPAL sponsored a survey on the development of efficient practices in irrigation water use in the Botanic Garden.

EPAL offered all the necessary furniture to the Microbiology Laboratory of Alfredo da Costa Maternity, which amounted to 20 thousand euros.

Besides the support granted to MSV (movement at the service of life), EPAL renewed the annual solidarity campaign with the offer of Christmas gift baskets to various institutions.

EPAL published five books to celebrate the 140 years: *Mirabilia Aqvarvm*, *Memória sobre chafarizes, bicas e fontes*, *Iconografia Histórica da EPAL – 2º volume*, *Aqueduto Geral de Lisboa* and *140 anos 140 imagens*.



The last book was distributed in the company's anniversary party. The celebration took place at the Mãe d'Água reservoir on 2 April and was attended by over 500 people, among employees, pre-retirees, retirees and former members of the board of directors.

It was a reunion of the several generations that contributed to EPAL's growth and to its 140 years. On 3, 4 and 5 April the celebration expanded to the public and to clients. On these days the Mãe d'Água reservoir was visited by over 2,500 people that remembered the history and mission of a company which continues working to provide an excellent service and a quality product.

In 2008 two visits to the Asseiceira water treatment station were organised for two special groups: clients and employees.

In April the company opened the doors to direct clients, which responded with enthusiasm to the invitation and went to find out how water gets to their houses.

In October, on the National Water Day, it was the turn of employees and relatives, over 100 people, to visit the company's main water factory.

Thanks to a joint effort of the Parliament and EPAL, there was a conference on water at the Parliament on 1 October, the National Water Day. The conference was attended by over 100 people, among deputies and company managers. After the conference, the chairman of the Parliament visited the Mãe d'Água reservoir, where he presented the facsimile of *Memoria sobre o Aqueducto Geral de Lisboa, de 1857*, a book published by EPAL.

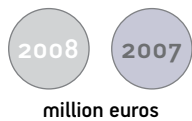
The Water Museum received 46,792 visitors, organised 50 tours to historical sites related to water distribution in Lisbon, promoted 22 graphic arts exhibitions and hosted the 11th edition of the annual contest of the pedagogical service *Águas Livres* under the theme *To save the world we will have to change*. This contest involved 1000 students and 56 teachers and 40 schools participated.



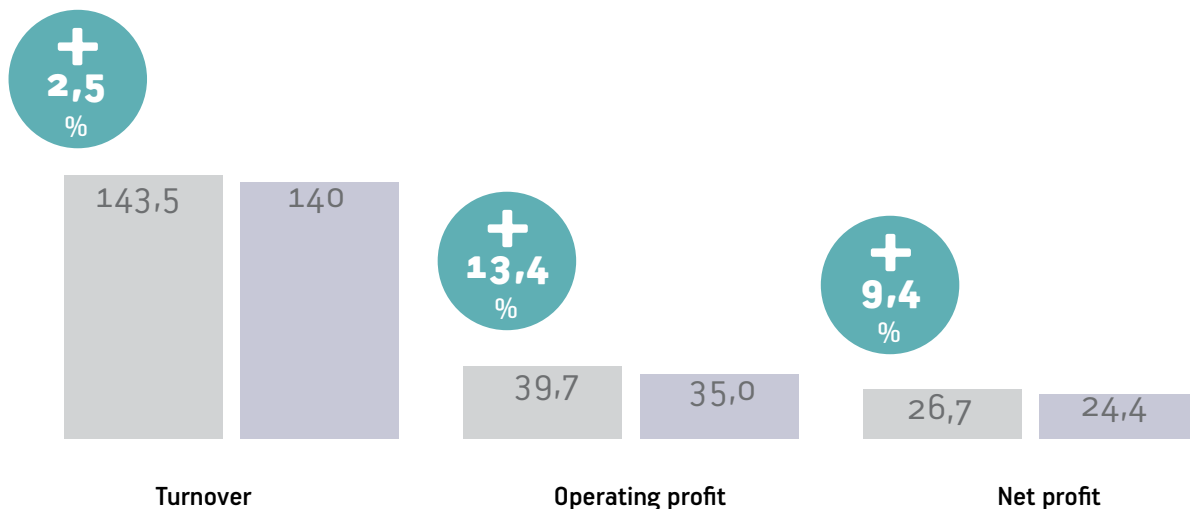


# financial performance

65



EPAL closed financial 2008 with a net profit of 26.7 million euros, up 2.3 million euros, or 9.4%, ahead of 2007. The turnover reached 143.5 million euros, up 2.5% from a year earlier, and operating costs went down to 106.6 million euros, or 0.4% short of the 2007 level. The operating profit reached 39.7 million euros, up 4.7 million euros or 13.4% from a year before, largely due to the company's good performance.



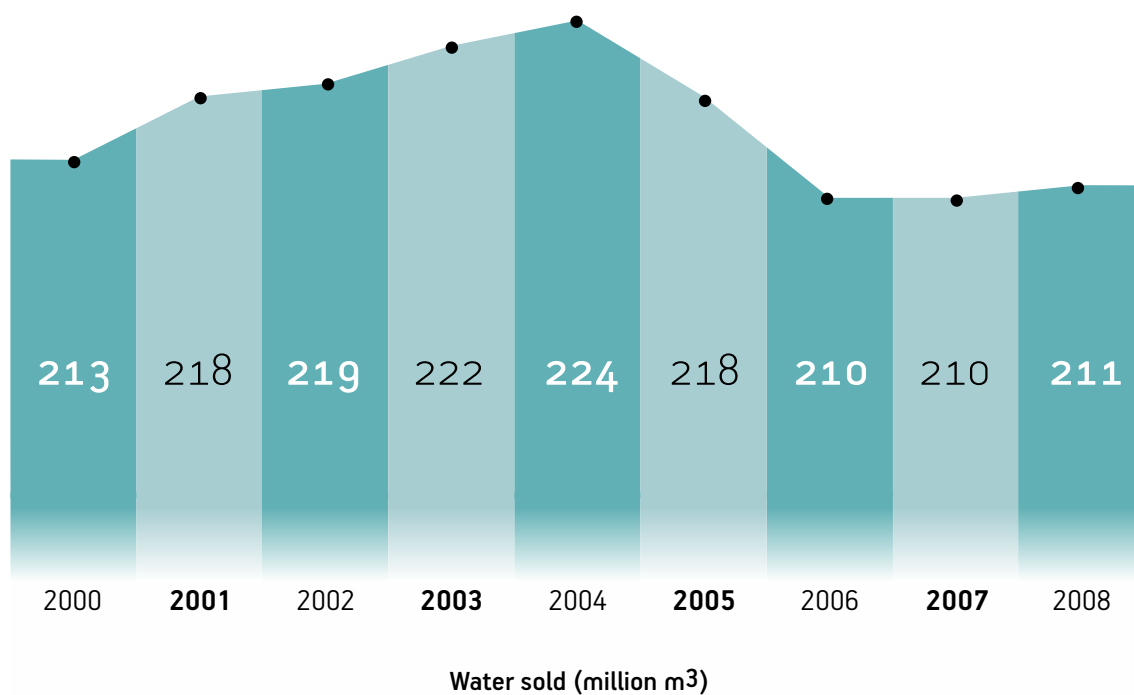


## Turnover

The company's turnover in 2008 was 143.5 million euros, up 2.5% from 2007. Total operating revenue reached 146.3 million euros, up 3% from a year earlier.

	2006	2007	2008	Change 08 - 07	
				Amount	%
Sales	134 424	137 377	140 942	3,565	2,6
Services provided	2 936	2 592	2 584	(8)	(0,3)
Supplementary provisions	1 390	1 869	1 801	(68)	(3,6)
Works made for the company	74	43	6	(37)	(86,0)
Other operating profits	82	103	950	847	822
<b>Operating profits</b>	<b>138 906</b>	<b>141 984</b>	<b>146 283</b>	<b>4,299</b>	<b>3,0</b>

66



Water sales, including the water fee, rose 2.6% in comparison with 2007. In terms of volume, 211 million m³ were sold.

The effort to recover provided-for debts from doubtful debtors allowed a significant growth of other operating revenues.



## Operating profit

The EBITDA for the year amounted to 74.2 million euros in 2008, up 9.1% from a year before. The EBITDA is 51.7% of the turnover.

Concerning operating profit, there was a 13.4% increase reaching 39.7 million euros.

	2007		2008		Change % 08/07
Turnover	139 969		143 526		
Other operating profit	2 015		2 757		
Cost of sales	-2 684	1,9%	-2 694	1,9%	0,4
Goods and services purchased	-36 771	26,3%	-39 779	27,7%	8,2
Staff costs	-33 365	23,8%	-28 304	19,7%	(15,2)
Other operating costs	-1 090	0,8%	-1 273	0,9%	16,8
<b>EBITDA</b>	<b>68 073</b>	<b>48,6%</b>	<b>74 233</b>	<b>51,7%</b>	<b>9,1</b>
Provisions	-1 135	0,8%	-2 042	1,4%	79,9
Depreciation and adjustments	-31 918	22,8%	-32 468	22,6%	1,7
<b>EBIT</b>	<b>35 019</b>	<b>25,0%</b>	<b>39 724</b>	<b>27,7%</b>	<b>13,4</b>

Operating costs fell 0.4% to 106.6 million euros, largely due to staff costs. These costs fell 15.2% as a consequence of the actuarial assumptions and the counting criteria of new early retirements.

Other costs with employees rose 12.8%, or close to 3.5 million euros, owing to (i) the change in the counting criteria of incentives for employees under the Collective Bargaining Agreement, which amounted to 1.4 million euros in 2008, and (ii) extraordinary benefits given to employees under the pension fund transition, which amounted to about 1.1 million euros. If these two effects are counted out, the rise in staff costs excluding pensions and early retirements reached 1 million euros, up 3.6% from 2007.

Costs	2007		2008		Change % 08/07
Cost of sales	2 809	2 684	2 694	10	0,4
Goods and services purchased	37 621	36 771	39 779	3 008	8,2
Taxes	692	1 009	1 213	204	20,2
Staff costs	41 703	33 365	28 304	(5 061)	(15,2)
Other operating costs	23	81	60	(21)	(26,2)
Depreciation and adjustments	28 317	31 918	32 468	550	1,7
Provisions	969	1 135	2 042	907	79,9
<b>Operating costs</b>	<b>112 134</b>	<b>106 965</b>	<b>106 560</b>	<b>(405)</b>	<b>(0,4)</b>
% of the turnover	82%	76%	74%		



Except for staff costs, the items which compose operating costs rose in 2008, particularly goods and services purchased, up 3 million euros.

There was a substantial increase in expenses with collecting, mailing invoices to clients and other expenses related to issuing invoices. This rise of 1 million euros was due to legally enforced monthly invoicing, which replaced bimonthly invoicing in May 2008.

Energy costs, which are essential for water supply activities, represented 24.3% of goods and services purchased and contributed to a 7.6% rise from 2007, due to a rise in energy tariffs.

On the contrary, maintenance costs, which have a weight of 18.2%, fell about 4.4% compared with a year earlier since the capital expenditure in refurbishing the facilities, particularly the network, allowed a reduction of corrective maintenance actions.



The increase in depreciation was due to the completion of construction and start of the exploration of important investments aimed at reinforcing the supply guarantee, namely (i) the expansion of the Castelo do Bode sub-system, (ii) the entry into operation of the water supply system to the Mafra municipality and (iii) the revamp of the Lisbon distribution network.

The provisions rose 0.9 millions euros and were aimed at supporting contingencies and on-going legal processes. Its reinforcement was the result of a judicious and substantial risk assessment and aims at supporting current or probable obligations.

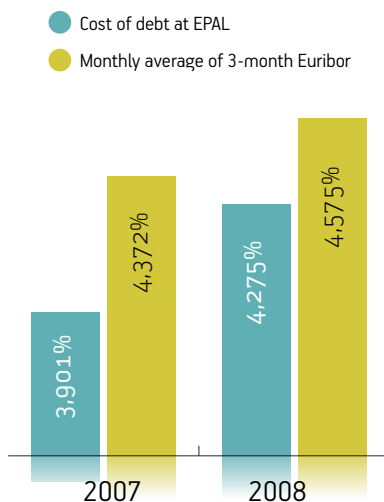
## Net profit

Net profit for the year was 26.7 million euros, up 9.4% on 2007.

( 10<sup>3</sup> EUR )

Results	2007		2008		Changer % 08/07
Operating profit	35 019	25,0%	39 724	27,7%	13,4
Financial profit	-8 483	6,1%	-8 142	5,7%	4,0
Extraordinary profit	5 248	3,7%	5 257	3,7%	0,2
Profit before tax	31 784	22,7%	36 839	25,7%	15,9
Income tax	-7 393	5,3%	-10 164	7,1%	37,5
<b>Net profit</b>	<b>24 391</b>	<b>17,4%</b>	<b>26 675</b>	<b>18,6%</b>	<b>9,4</b>
Earnings per share (euros)	0,81		0,89		9,4

### Average cost of debt



Net financial income rose 4.0% to -8.1 million euros.

Interest charges arising from medium- and long-term borrowings from the European Investment Bank (EIB) amounted to 9.2 million euros, up 9.5% from 2007. This increase stemmed from the rise in money market rates, despite 41.7% of bank indebtedness being at fixed rate. Throughout 2008, the company did not make any credit utilisation and repayments in the amount of six millions euros were made.

EPAL's policy for managing interest rate risk stipulates that (i) loans be taken up at fixed or floating rates depending on their relative competitiveness to the company and (ii) indebtedness be balanced between fixed and floating rates.

This policy delivered favourable results and kept the average cost of debt below average interbank rates even as credit spreads rose. EPAL's average funding rate of 4.275% remained below the average monthly interbank rate for comparable borrowing maturities – 4.575%. An important factor for this performance of interest costs was the timely rate fixing of 41.7% of bank debt. The weighted-average fixed rate was 3.461%, which was substantially lower than the 4.575% market average.

On average, EPAL operated with a negative spread of 0.3% that led to a favourable change in net financial income of 341 thousand euros decreasing from 6.1% to 5.7%, which corresponds to a cost reduction in the company's financial structure.

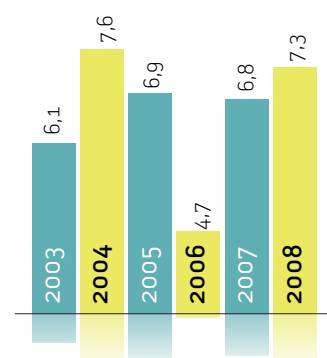


In parallel with rising interest costs, interest income also rose 110.1% compared to 2007 to 829 thousand euros, on the back of higher returns on the company's deposits and short-term treasury investments.

Extraordinary profit rose 0.2 % to 5.3 million euros, which was partly explained by (i) the sale of fixed assets related to the Alto de Carenque / Mercês trunk main and (ii) the extraordinary income resulting from cancelled provisions, particularly from the Clube de Golfe das Amoreiras process.

On the back of the net profit achieved in 2008, return on equity rose to 7.3%, the highest of the last years.

Return on equity (%)



## Financial position

In 2008, EPAL kept its investment strategy oriented towards supply quality and the efficient use of water, a precious resource. All in all, the company spent 25.8 million euros on investment, 75% of which was to (i) the expansion of the Castelo do Bode sub-system, (ii) the revamp of trunk mains and the Lisbon distribution network and (iii) the works related to the macro-measurement project of the production and transportation network.

Cash flowed in from the company's operating activities financed the capital expenditure as well as the service of bank debt and shareholder's remuneration.

### Condensed cash flow statement

2008

Cash flow from operating activities	66,5
Cash flow from investing activities	(25,5)
Payments under financing activities	
Dividends and service of bank debt	(32,5)
Change in cash and cash equivalents	8,5

The company's operating cash flow staged a solid performance with EBITDA for the year amounting to 74.2 million euros, the highest in the last decade, which testified to the importance of operating cash flow as a source of funds.



Non-current assets fell 10.4 millions euros due to the fall in fixed assets and deferred tax assets. Non-current liabilities fell 26.6 million euros due to the depreciation of bank indebtedness and the fall in pension obligations

( 10<sup>3</sup> EUR )

Balance sheet	2006	2007	2008	Change 08/07	
				Amount	%
<b>TOTAL ASSETS</b>					
Non-current assets	669 155	669 098	658 647	-10 451	(1,6)
Current assets	46 030	54 241	55 677	1 436	2,6
<b>TOTAL</b>	<b>715 185</b>	<b>723 339</b>	<b>714 324</b>	<b>(9 015)</b>	<b>(1,2)</b>
<b>EQUITY AND LIABILITIES</b>					
Shareholder's equity	343 780	356 461	365 046	8 585	2,4
Non-current liabilities	303 168	306 686	280 084	(26 602)	(8,7)
Current liabilities	68 237	60 192	69 194	9 002	15,0
<b>TOTAL</b>	<b>715 185</b>	<b>723 339</b>	<b>714 324</b>	<b>(9 015)</b>	<b>(1,2)</b>

The capital expenditures made by EPAL in the last years have been financed by EIB loans until 50% of the investments cost. The EPAL III Financing Contract, which started in January 2002, is in progress, under which EPAL made expenditures of 115.0 million euros and has a balance of 70.0 million euros.

At the end of 2008, EPAL's medium- and long-term indebtedness amounted to 203.1 million euros. Over the last six years, net medium- and long-term indebtedness rose 59.7 million euros.

At year end, shareholders' equity amounted to 365.0 million euros, up 2.4% from the end of 2007. The amount at 31 December 2008 was, however, influenced by net profit of 26.7 million euros that will not be distributed, wholly or partly, until 2009.

Current assets increased 2.6%, or 1.4 million euros, as treasury balances rose despite the company's liquidity management sought to optimise returns by investing short-term cash surpluses.



Medium- and long-term debt (million euros)





In 2008, EPAL consolidated its financial position, as shown by the indicators on the table below. Significant improvements were achieved in equity to total assets ratio (+3.7%) and equity-to-debt ratio (+7.6%).

Financial indicators	2006	2007	2008	Change 08/07 %
Cover of fixed assets by long-term capital	48%	49%	51%	3,7
Liquidity ratio	0,67	0,90	0,80	(10,7)
Solvency ratio	0,93	0,97	1,05	7,6
Working capital, thousand euros	(22 207)	(5 951)	(13 517)	(127,1)
Autonomia Financeira = Capital Próprio / Activo total	Liquidez Geral = Activo Corrente / Passivo Corrente			
Solvabilidade = Capital Próprio / Passivo total	Fundo de Maneio = Activo corrente - Passivo corrente			



Credit ratings assigned to EPAL by Companhia Portuguesa de Rating were unchanged in 2008, reflecting the company's strong ability to meet its short-, medium- and long-term commitments.

Rating	Rating
Rating, short-term obligations	A-1 +
Rating, long-term obligations	A+

## Pension fund

In 2008, EPAL changed the regime of its pension plan and two different pension plans were enforced: a defined benefit plan and a defined contribution plan. The defined contribution plan was implemented in 2008 and most employees were subject to this plan.



Along with the pension plan, the pension fund was changed and was divided into two sub-funds: one sub-fund for the defined benefit plan and another sub-fund for the defined contribution plan.

At 31 December 2008, the sub-funds of the defined benefit and the defined contribution reached 33.2 million euros and 13.2 millions euros, respectively.

In terms of contribution to the pension fund, EPAL made another substantial contribution to the fund in 2008 reaching 2.9 million euros. From 2005 to 2008, EPAL made contributions in a total of 12.8 million euros.

Contributions by the company had a major impact on the cover of obligations as defined by the Portuguese Insurance Institute (ISP). Until 2004, ISP's cover ratio was under 100% and at the end of 2008 it was 102 per cent.

## Associates

EPAL has equity holdings in the following two companies:

Clube de Golfe das Amoreiras, SA	100,0%	350.000 Euros
Ambelis, SA	0,68%	1.370 Euros
Fundec		1.500 Euros

73

### Clube de Golfe das Amoreiras, SA

EPAL is the sole shareholder of this company with a share capital of 350,000 euros that was set up to develop, build and operate an establishment designed for golf training and learning at EPAL's Amoreiras facilities, following the Municipality of Lisbon's request for use of the plot of land covering the reservoir.

Both companies signed an agreement with Supergolf Amoreiras - Academia de Golfe, SA in 1993, whereby Clube de Golfe das Amoreiras, SA undertook to assign to Supergolf Amoreiras - Academia de Golfe, SA the operation of the golf training and learning activities.

Difficulties arising from planning consent generated conflicts between the parties, which were solved by two arbitration courts.





# risk management

EPAL's operations are exposed to a set of risks, whose identification, management and possible mitigation is critical for the attainment of strategic goals. Safeguarding water quality, the facilities, equipments, client service standards and information flows inherent to the business is an essential matter.

75

Through the regular inclusion of relevant matters in the meetings' agenda, EPAL's board of directors gives attention to the analysis and management of those risks. In other company areas, identifying risks has gained an increasing importance in daily routine.

The approach to financial and operational risks is ensured by centralised structures of activity following and control. Hence, while the Finance Department manages financial risks such as the interest rate risk and the liquidity risk, the Information Systems Department is responsible for the creation and implementation of the adequate control policies for information technologies management, physical and logic control and system stability.

## Operational risks

The main risk is the deterioration of water quality, followed by threats to supply, namely through leakages in trunk mains or service mains, uncertainties in the consumption trend, decline in client service standards, delay of the entry into exploration of the supply system of EPAL's municipal and multi-municipal clients, threats to the assets' integrity and climate changes.

### Water quality

The quality of water supplied to clients is EPAL's main concern. Hence, monitoring the parameters which define high-quality drinking water is part of the company's daily routine.





To assess the impact on water quality of possible discharges upstream from the Castelo do Bode dam reservoir, a mathematical simulation of water quality is being developed in association with INAG, Portugal's water authority, and the Department of Sciences and Environmental Engineering of Universidade Nova de Lisboa.

76

In 2008, EPAL completed a study to define the protection perimeter of underground water abstractions. In the areas contiguous to abstraction points, activities that might pollute underground waters are restricted in order to limit the contamination risk.

Following methodologies advocated by the World Health Organisation and the International Water Association, EPAL started in 2007 the implementation of a water safety plan as a reinforcement of the classical method of monitoring water quality in the supply system. Identifying danger and assessing risk in the whole supply system, from the origins until the consumer's tap, was part of the project. The completion of the project is expected by late 2009.





The relevant issues for preserving the quality of the water supplied by EPAL are discussed in a separate chapter of this report.

### Uninterrupted supply

The risks that threaten the uninterrupted water supply to clients, namely through leakages in conduits or service mains, have been identified by the use of the most modern leakage detection techniques. Through the piping substitution plan in the city of Lisbon, EPAL has gained a proactive attitude towards this issue.

### Water consumption trend

Since 2004, there has been a reduction trend in consumption reversing the historic growth trend. Although it is difficult to predict the trend, the impact of the possible decrease on revenue and cash flow may be significant.

### Service standards

The increasing demands related to water quality and service standards, along with a higher environmental awareness, are factors that rise the company's challenges towards the surroundings. EPAL monitors the offered service maintaining high quality standards. The activity developed by the company is regulated by a set of high-demanding laws and requirements, from water quality and imposed tariffs to the quality of offered service.

77

### Third parties risks

The delay of the entry into exploration of the supply system of municipal and multi-municipal clients is another exogenous factor that comprises operational risk, since it may have negative effects on the company's economic performance.

### Assets' integrity

As the company operates in a capital-intensive industry, due to large capital expenditure in facilities, the integrity of the allocated assets is critical in the daily management. EPAL has several ongoing projects, namely asset assessment and use of new computer tools, to make the management of its facilities and equipments more efficient.

### Climate changes

Given the nature of its operations, EPAL may be affected by climate change. During long droughts, not only the amount and quality of the water abstracted may be affected but also the abstraction costs may rise.

## Regulatory risks

As a provider of essential public services, EPAL operates in a regulated environment. Hence, its activity is vulnerable to regulatory changes.





Impending legislation and regulation (rate regulation, new charter for the regulator, new rules for multi-municipal systems, among others) can entail higher charges for the company that may, for social reasons, be difficult to pass on to clients.

In a highly regulated environment, legislative or regulatory changes may cause the company not to be compliant with the legislation in force at all times, particularly in such periods when the business is not aligned with the new rules.

EPAL's ability of shareholder value creation may also be substantially impaired by the regulatory risk impending on the company. Lack of clarity regarding the regulatory model and the pricing structure adds to shareholder risk in achieving an adequate return on invested capital.

This risk can be minimised by setting up a transparent and shared regulatory framework that will set out applicable rules and create mechanisms designed to raise efficiency.

Increased regulation entails higher costs arising, on the one hand, from the regulator's own cost base and, on the other hand, from increased allocation of the company's resources to compliance with regulatory demands. These higher costs will have to be borne by the public, through either increased taxation or higher prices for the goods and services provided by the regulated entities.

78

## Financial risks

EPAL's operations are exposed to financial risks, namely the liquidity risk, the interest rate risk and the credit risk.

### Liquidity risk

In order to manage liquidity risk, the company has adopted the policy of keeping treasury balances at a comfortable level due to a strong financial structure that is appropriated to the assets' nature.

EPAL's policy is to make sure that credit lines can be accessed under flexible terms and for adequate amounts. To this end, the company has agreed with credible banks two credit lines for a combined amount of 12.5 million euros and a commercial paper programme for the same amount.

In order to fund its capital expenditure programme, EPAL reached an agreement with EIB on 16 January 2002, whereby the bank extended to EPAL a long-term loan facility for 185 million euros, or 50% of the planned investment spending of 370 million euros. At the end of 2008, 115 million euros had been utilised, with 70 million euros yet to be drawn.



### Interest rate risk

EPAL's interest rate risk arises from its long-term, floating-rate loan facilities. The company's financial policy rests on (i) the selection of the most favourable interest rate regime by comparing fixed rates with hedged floating rates and (ii) a balance between fixed rate and floating-rate debt instruments. At the end of 2008, 41.7% of EPAL's indebtedness to EIB was at fixed rate and 58.3% at floating rate.

### Credit risk

Credit risk consists of the possibility of having losses due to customers or third parties' default. Generally, EPAL's policies plan the mitigation of this risk through periodic evaluations of credit situations according to their nature, goal and duration. On a regular basis, the suppliers and other accounts payable are controlled in order to calculate the probability of doubtful debtors.





# outlook

The Government decree *Decreto-Lei n° 230/91* of 21 June 1991 made EPAL into a state-owned company called EPAL - Empresa Portuguesa das Águas Livres. EPAL gained an essential role in reorganising water resources management and distributing water to residential clients in the Municipality of Lisbon, as well as abstracting, treating and supplying water to the municipalities of Lisbon region.

81

The need to set a strong cooperation between the state and the municipalities in order to guarantee a higher efficiency of the public water systems requires the adoption of integrated management models of the various activities, which in the city of Lisbon and contiguous areas leads to the creation of an integrated water supply and waste water system. The system's management and exploration will be granted to EPAL in terms which ensure the involvement of possibly interested municipalities.

**Hence, EPAL drafted a revised project for the legal regime and the articles of association, which was submitted to the shareholder and the government.**

Under the new internal and international guidance, EPAL reflected about the governance model, namely the recently approved cabinet resolutions related to corporate governance.

EPAL's governance model was designed with a view to ensuring the observance of the highest criteria of transparency, ethics and accountability in order to achieve professional management practices, maximise corporate performance and safeguard the public interest as the company object is pursued.

The proposal related to EPAL's legal regime and articles of association aims to set the company's strategic goal: the sustainable management of the **urban water cycle** in the whole activity and business sequence.





Continuing the negotiations with the Municipality of Lisbon, which started in 2006, and reaching a deal is of extreme importance for the company in the short-term.

Since the mission and the goals are established, a set of actions in the organisational set-up, operating activities, processes and management tools must be implemented.

The *Vision EPAL II* project will be completed in the first half of 2009 by adjusting the company's organisational set-up to the value chain and by creating relationship models between departments that stimulate interaction and team work.

Supply guarantee and water quality explain the two most significant projects to be developed in 2009: the launch of a public tender for the **revamp of the Água de Vale da Pedra treatment station** and the **construction of EPAL's new central laboratory**.





The network segmentation project will be completed with a 100% coverage of **ZMCs**, an essential tool for the operational management of the network in terms of volume, pressure and water balance. The project will also benefit from the completion of the large clients' telemetry project.

In 2009, the implementation phase of the **water protection plan**, which is a tool of an integrated and systemic vision of the risks to supply water quality, will be completed.

Strengthening the **Asset Management** function requires the accomplishment of a set of initiatives, such as the characterisation and organisation of data on the assets and the integration of the different applications where that data is generated.

Improving the management processes must be supported on the change process that arises from *Vision EPAL II* increasing the self analysis of the company's performance and its different departments and allowing decision making to become explicit. Hence, a new Management Information System model will be launched through a crossing process that involves the whole company in the formulation of indicators, goals and information recording processes.

By quantifying the effectiveness and efficiency of the whole company and monitoring its performance, the new Management Information System will allow the creation of the support for a new **Result-Oriented Management System**, which will be launched and completed in 2009.

The strategic range of EPAL's projects and initiatives will require the commitment and competences of every employee and also the co-responsibility of the shareholder and the state in the attainment of the strategic goals. These goals are contained in a joint ministerial decision – *Despacho n.º 6008/2009* of the Ministry of Finance and Public Administration and the Ministry of Environment and Regional Development, published in the 2<sup>a</sup> *Série do Diário da República* of 23 February.







# proposed allocation of net profit

85

In accordance with Article 21 of the articles of association of EPAL - Empresa Portuguesa das Águas Livres, S.A., the board of directors proposes that net profit for financial 2008, amounting to 26,675,351.01 euros (twenty-six million six hundred and seventy five thousand three hundred and fifty one euros and one cent), should be distributed as follows:

- €335 777,91 euros (three hundred and thirty five thousand seven hundred and seventy seven euros and ninety-one cents) as legal reserves;
- €18 672 745,71 (eighteen million six hundred and seventy two thousand seven hundred and forty five euros and seventy-one cents) as shareholder's dividends;
- €7 666 827,39 (seven million six hundred and sixty six thousand eight hundred and twenty seven euros and thirty-nine cents) as retained earnings.





# corporate governance

87

EPAL is a limited liability company whose shares are solely owned by Águas de Portugal, SGPS, SA, the holding company of the Águas de Portugal group of companies, to which EPAL belongs. The corporate governance model ensures an effective separation of management and supervision functions.

Among other audit mechanisms, EPAL's annual accounts are audited by an independent entity according to the criteria applied to companies whose shares are traded in a regulated market.

## Shareholder control

Shareholder control of Águas de Portugal, SGPS, SA was changed in 2008. Its shareholders are:

- Direcção-Geral do Tesouro, with a 8.822% stake;
- Parcaixa, SGPS, SA, with a 19% stake;
- Parpública – Participações Públicas, SGPS, SA, with a 72.178% stake.

Águas de Portugal group companies offer services to over seven million people in Portugal in Portugal in the areas of water supply, waste water management and solid waste treatment.



## Governing bodies

EPAL's governing bodies are composed of the general shareholder meeting, the board of directors and a supervisory body. Given the importance of sustainable development in the company's strategy, a consultative board for sustainable development was created.

### General shareholder meeting

The general shareholder meeting convened on 31 March with the following agenda:

1. Discuss the Management Report and Accounts of financial 2007;
2. Discuss the proposed allocation of net profit;
3. Assess the management and supervision of the society;



4. Change articles 7, nº2, and 20 of the articles of association related to the consultative board for sustainable development, previously called Environmental Impact Board (*Conselho de Impacte Ambiental*);
5. Elect the governing bodies for the 2008-2010 term.

The meeting discussed and approved the first four points of the agenda, elected the governing bodies for the 2008-2010 term and was suspended until 29 April.

The meeting convened again in 30 May to approve the management awards of four members of the board of directors.

EPAL's general meeting committee, which has re-elected in 2008 for the 2008-2010 term, has the following composition:



Chairperson of the committee: AMEGA – Associação de Municípios para Estudos e Gestão da Água, representada por Carlos Alberto dias Teixeira

Vice-chairperson: Cristina Rebelo Pereira  
Secretary: Alexandra Varandas

The remuneration of the members of general meeting committee was approved by the Remuneration Committee on 15 May 2006 and is the following:

Chairperson Attendance fee of € 633,4  
Vice-chairperson Attendance fee of € 475,0  
Secretary Attendance fee of € 316,7

### Board of directors

The board of directors is the company's highest executive body and consists of a chairman and four executive directors, who have all been elected for the period from 2008 to 2010.

Chairman: João Manuel Lopes Fidalgo  
Executive director: Jorge Luís Ferrão de Mascarenhas Loureiro  
Executive director: José Alfredo Manita Vaz  
Executive director: António Bento Franco  
Executive director: Rui Manuel de Carvalho Godinho

89

In 2008, the board of directors convened for 37 times to discuss management objectives and policies, activity and capital budgeting plans and to ensure the company's day-to-day management.

The directors' remuneration does not include a variable component.

### Individual annual remuneration of EPAL's board of directors

Role	Name	Remun.	Phone	Company car	Fuel	Meal allowance	Pension plan	Life insurance
Chairman	João Manuel Lopes Fidalgo	118 230	1 111,37	13 177,56	3 157,92	1524,60		3 206,28
Exec dir	Jorge Luís Ferrão de Mascarenhas Loureiro	110 250	711,32	6 129,05	1 750,52	1530,16		
Exec dir	José Alfredo Manita Vaz	110 250	1 024,16	5 825,24	2 345,19	1530,16	581,90	3 193,61
Exec dir	António Bento Franco	110 250	1 053,78	5 781,88	2 170,27	1530,16	817,02	2 989,84
Exec dir	Rui Manuel de Carvalho Godinho	110 250	964,33	6 498,39	2 580,06	1530,16		
Total		559 230	4 864,96	37 412,12	12 003,96	7 645,24	1 398,92	9 389,73





### Supervisory body

Supervision of the company is the responsibility of sole auditor António Dias Nabais, chartered accountant, and Severo Praxedes Soares, his deputy. The sole auditor's remuneration in 2008 was 17,912 euros.

### Consultative board for sustainable development

At the general shareholder meeting on 31 March, the board's name changed and the its object became "to issue opinions and recommendations on the sustainability of the company's activities and the environmental impact of the new large investments related to the water cycle considering the standards of water quality and trunk main safety".

The consultative board for sustainable development convened on 1 October with the board of directors.



On 31 December 2008, the consultative board for sustainable development was composed of the following members:

Chairperson:	Maria Helena Veríssimo Colaço Alegre
Director:	Maria Paula Batista Antunes
Director:	Manuel Duarte Pinheiro

The remuneration of the board in 2008 was 4,427.60 euros for each member.

### Commissions

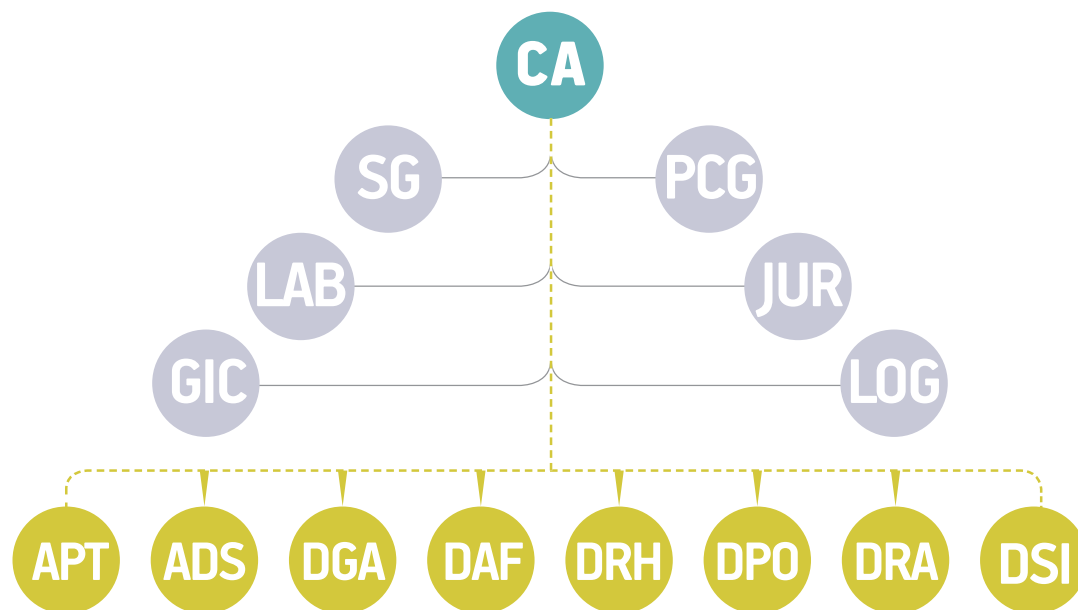
As set out in the company's articles of association, the general shareholder meeting shall decide the governing bodies' remuneration. The company has since 1992 had a remuneration



committee, which has been elected by the general shareholder meeting, and is composed of the following members:

Chairperson: Pedro Eduardo Passos da Cunha Serra  
 Director: Maria de Fátima Ferreira Pica Ferreira Borges

#### Organisational set-up



**CA** – Board of Directors  
**APT** – Production and Transportation  
**ADS** – Distribution  
**DGA** – Asset Management Department  
**DAF** – Finance Department  
**DRH** – Human Resources  
**DPO** – Projects and Works  
**DRA** – Network renewal and exp

**DSI** – Information Systems Department  
**SG** – Secretary General  
**PCG** – Planning and Control  
**LAB** – Central Laboratory  
**JUR** – Legal Department  
**GIC** – Corporate Communications Department  
**LOG** – Logistics Department

The Water Museum and the monitoring and control group (GMC) report directly to the board of directors.

### Standards and regulations

EPAL's operations are conducted in full compliance with the law. The company's activities are governed by a government decree of 21 June 1991 (*Decreto-Lei n.º 230/91*) which converted EPAL into a limited liability company under indirect state ownership and approved the company's articles of association. EPAL is also governed by special rules arising from its object of producing and distributing drinking water.



There are four types of internal standards and regulations:

- **Ordens de serviço (Board Circulars)**

These are standards issued by the board of directors which are binding upon the whole company and concern matters defining and governing the structure and workings of the organisation such as executive directors' responsibilities, organisational set-up and powers of attorney. In 2008, the seventh issue of the company's organisational regulation was released.

- **Procedimentos administrativos (Administrative procedures)**

These are standards concerning roles and processes of a primarily administrative nature. In 2008, fourteen administrative procedures were reviewed and a new procedure concerning invoice approval was issued.

- **Procedimentos operativos (Operational procedures)**

These are documents concerning roles and processes regarding the abstraction, production, treatment, transportation, distribution and measurement of water as well as maintenance activities. In 2008 five operational procedures were reviewed.

- **Instruções de trabalho (Work instructions)**

These are documents describing in detail one or more specific tasks of a process. In 2008, three work instructions were reviewed.

All these documents can be accessed on the company's intranet.





Board of Directors:

João Manuel Lopes Fidalgo, Chairman  
Jorge Luís Ferrão de Mascarenhas Loureiro, Rui Manuel de Carvalho Godinho  
António Bento Franco and José Alfredo Manita Vaz, Directors







# acknowledgements

The board of directors should like to extend its thanks to all those who contributed to EPAL's good results in 2008, in particular:

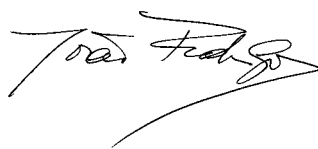
- the company's clients for recognising the quality of EPAL's products and services;
- the company's employees for their dedication and commitment;
- the company's governing body members for their valuable advice and guidance;
- the company's suppliers for unremittingly abiding by their commitments;
- the company's service providers for their timely delivery of agreed actions;
- the company's insurers for their trust in EPAL's operational controls;
- the company's bankers for their trust in EPAL's financial strategy and policy;
- the company's regulators for their good advice and guidance;
- the company's shareholder for its close monitoring of EPAL's business affairs.

95

To all we should like to extend our sincere thanks.

Lisbon, 10 March 2009

The Board of Directors



João Manuel Lopes Fidalgo  
Chairman



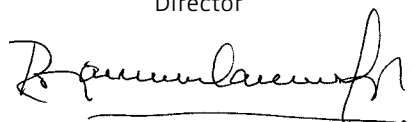
Jorge Luís Ferrão de Mascarenhas Loureiro  
Director



José Alfredo Manita Vaz  
Director



António Bento Franco  
Director



Rui Manuel de Carvalho Godinho  
Director









accounts



# main contents

Balance sheet

Income statement by nature

Income statement by function

Statement of changes in equity

Cash flow statement

Notes to the financial statements

Accounting documents required by *Plano Oficial de Contabilidade (POC)*

Balance sheet

Income statement by nature

Notes to the financial statements



# contents of the Notes

1 – EPAL's business activities
2 – Accounting principles and policies
a) Basis of presentation; b) Intangible fixed assets; c) Tangible fixed assets; d) Asset impairment; e) Financial assets; f) Accounts receivable; g) Inventories; h) Liquidity; i) Share capital; j) Employment benefits; k) Provisions; l) Investment subsidies; m) Deferred tax; n) Recognition of revenue and other income and expense; o) Dividends payable; p) Revaluation reserves
3 – Policies for managing financial risk
4 – Estimates and judgements
5 – Intangible fixed assets
6 – Tangible fixed assets
7 – Financial investments
8 – Deferred tax
9 – Clients and other accounts receivable – Medium- and long-term
10 – Inventories
11 – Clients
12 – State and state-owned entities, assets
13 – Other debtors
14 – Liquidity
15 – Share capital
16 – Reserves and other adjustments
17 – Provisions
18 – Pensions
19 – Bank loans – Medium- and long-term
20 – Investment grants
21 – Suppliers and other accounts payable
22 – State and state-owned entities, liabilities
23 – Other creditors
24 – Goods sold and services provided
25 – Cost of sales
26 – Current costs
27 – Staff costs
28 – Depreciation charges
29 – Provisions
30 – Other operating costs
31 – Additional revenue
32 – Other operating revenues and gains
33 – Financial costs
34 – Financial income
35 – Extraordinary results
36 – Taxes
37 – Contingent liabilities and guarantees provided
38 – Note to the income statement by function



## Balance sheet

	Notes	2008	2007
<b>ASSETS</b>			
Non-current assets			
Intangible fixed assets	5	21 764	22 228
Tangible fixed assets	6	637 515 131	647 583 610
Financial investments	7	361 602	360 102
Deferred tax	8	6 177 905	9 829 939
Clients and other accounts receivable	9	14 570 718	11 302 155
		658 647 120	669 098 033
Current assets			
Inventory	10	1 256 047	1 223 114
Clients	11	25 219 195	31 890 479
Public sector	12	1 474	287 544
Other debtors	13	5 679 495	5 841 052
Cash and cash equivalents	14	23 520 498	14 999 197
		55 676 709	54 241 385
<b>Total assets</b>		<b>714 323 829</b>	<b>723 339 419</b>
<b>EQUITY</b>			
Share capital	15	150 000 000	150 000 000
Reserves and other adjustments	16	153 330 251	156 761 432
Retained earnings		35 040 674	25 307 826
Net profit for the year		26 675 351	24 391 338
<b>Total shareholder's equity</b>		<b>365 046 276</b>	<b>356 460 596</b>
<b>LIABILITIES</b>			
Non-current liabilities			
Provisions	17	13 099 960	19 289 146
Pension obligations	18	15 642 752	25 392 038
Bank loans	19	203 070 470	211 171 405
Deferred tax	8	8 172 756	8 864 243
Investment grants	20	40 097 572	41 969 277
		280 083 510	306 686 108
Current liabilities			
Bank loans	19	8 100 934	6 018 390
Suppliers and other accounts payable	21	36 957 610	33 696 381
Public sector	22	2 548 281	1 419 108
Other creditors	23	21 587 218	19 058 836
		69 194 043	60 192 715
<b>Total liabilities</b>		<b>349 277 553</b>	<b>366 878 823</b>
<b>Total liabilities and equity</b>		<b>714 323 829</b>	<b>723 339 419</b>

All amounts are stated in euros

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2008



## Income statement (by nature)

	Notes	2008	2007
Sales and provision of services	24	143 526 457	139 968 824
Cost of sales	25	(2 694 207)	(2 684 150)
Goods and services purchased	26	(39 779 117)	(36 771 381)
Staff costs	27	(28 304 158)	(33 365 297)
Depreciation charges and adjustments	28	(32 468 090)	(31 918 373)
Provisions	29	(2 041 624)	(1 134 613)
Other operating costs	30	(1 272 381)	(1 090 107)
Own work		5 825	43 254
Additional revenues	31	1 800 993	1 868 600
Other operating revenues and gains	32	949 935	102 550
Operating profit		39 723 633	35 019 307
Financial costs	33	(9 291 407)	(8 901 740)
Financial revenues	34	1 149 869	419 098
Profit before extraordinary items		31 582 095	26 536 664
Net extraordinary items	35	5 256 939	5 247 869
Profit before tax		36 839 034	31 784 533
Income tax	36	(10 163 683)	(7 393 195)
Net profit for the year		26 675 351	24 391 338
Earnings per share (basic and diluted)	15	0,89	0,81

All amounts are stated in euros

The notes appended to the financial statements are an integral part of the income statement by nature at 31 December 200





## Income statement (by function)

	Notes	2008	2007
Sales and provision of services	24	143 526 457	139 968 824
Cost of sales and services provided	38	(41 583 014)	(36 397 404)
Gross profit		101 943 443	103 571 420
Other operating revenues		8 153 564	3 425 015
Distribution costs	38	(30 322 844)	(31 321 136)
Administrative costs	38	(27 386 931)	(29 807 750)
Other operating costs and losses		(5 963 277)	(5 357 032)
Operating profit		46 423 955	40 510 516
Income from other investments			
Losses from other investments		-	(335 342)
Net income from other investments		-	(335 342)
Net funding costs	38		
Financial losses		(9 275 316)	(8 527 602)
Net funding cost		(9 275 316)	(8 527 602)
Current profit		37 148 639	31 647 572
Tax on current profit	38	(10 473 288)	(7 256 234)
Net profit for the year		26 675 351	24 391 338
Earnings per share	15	0,89	0,81

All amounts are stated in euros

The notes appended to the financial statements are an integral part of the income statement by function at 31 December 2008.



## Statement of changes in equity

Item	Share capital	Adjust equity holdings	Revaluation Reserves	Legal reserves	Other reserves	Retained earnings	Net profit	Total
1 January 2007.	150 000 000	(4 064)	114 105 399	25 592 236	22 171 377	15 586 585	16 328 528	343 780 062
Allocation of 2006 net profit	-	-	-	1 632 853	-	14 695 675	(16 328 528)	-
Dividend distribution								
– staff	-	-	-	-	-	(941 221)	-	(941 221)
Dividend distribution								
– shareholder	-	-	-	-	-	(10 769 583)	-	(10 769 583)
Revaluation reserves realised in financial 2007	-	-	(7 527 889)	-	-	7 527 889	-	-
Deferred tax on revalued reserves realised in financial 2007	-	-	791 520	-	-	(791 520)	-	-
Net profit of financial 2007	-	-	-	-	-	-	24 391 338	24 391 338
31 December 2007	150 000 000	(4 064)	107 369 030	27 225 089	22 171 377	25 307 826	24 391 338	356 460 596
Allocation of 2007 net profit	-	-	-	2 439 134	-	21 952 204	(24 391 338)	-
Dividend distribution								
– staff	-	-	-	-	-	(1 015 735)	-	(1 015 735)
Dividend distribution								
– shareholder	-	-	-	-	-	(17 073 936)	-	(17 073 936)
Revaluation reserves realised in financial 2008 (Note 16)	-	-	(6 560 510)	-	-	6 560 510	-	-
Deferred tax on revalued reserves realised in financial 2008 (Note 16)	-	-	690 195	-	-	(690 195)	-	-
Net profit of financial 2008	-	-	-	-	-	-	26 675 351	26 675 351
31 December 2008	150 000 000	(4 064)	101 498 715	29 664 223	22 171 377	35 040 674	26 675 351	365 046 276

All amounts are stated in euros

The notes appended to the financial statements are an integral part of the statement of changes in equity at 31 December 2008



## Cash flow statement

	Notes	2008	2007
Operating activities			
Receipts from clients		187 275 603	174 011 002
Payments to suppliers		(50 393 102)	(40 850 723)
Payments to staff		(38 946 882)	(34 712 342)
Cash flow generated by operations		97 935 620	98 447 937
Payments/receipts in respect of income tax		(5 782 316)	(7 266 099)
Other receipts/payments in respect of operating activities		(20 062 969)	(9 861 064)
Cash flow generated before extraordinary items		(25 845 285)	(17 127 163)
Receipts related to extraordinary items		409 631	159 384
Payments related to extraordinary items		(5 998 913)	(420 177)
Cash inflow from operating activities (1)		(5 589 283)	(260 793)
Investing activities		66 501 052	81 059 981
Receipts in respect of:			
Tangible fixed assets		1 544 718	467 224
Interest and related income		1 128 626	401 803
		2 673 345	869 027
Payments in respect of:			
Financial investments		(1 500)	(345 853)
Loans		(10 000)	-
Tangible fixed assets		(28 129 727)	(59 893 385)
Intangible fixed assets		-	(1 391)
		(28 141 227)	(60 240 630)
Cash outflow from investing activities (2)		(25 467 882)	(59 371 603)
Financing activities			
Receipts in respect of:			
Loans		-	15 000 000
		-	15 000 000
Payments in respect of:			
Loans		(6 018 390)	(6 018 390)
Interest and related income		(9 419 543)	(8 432 195)
Dividends		(17 073 936)	(10 769 583)
		(32 511 869)	(25 220 168)
Cash outflow from financing activities (3)		(32 511 869)	(10 220 168)
Change in cash and cash equivalents (4)=(1)+(2)+(3)		8 521 301	11 468 210
Cash and cash equivalents at the start of the period	14	14 999 197	3 530 987
Cash and cash equivalents at the end of the period	14	23 520 498	14 999 197
Changes in cash and cash equivalents		8 521 301	11 468 210

All amounts are stated in euros

The notes appended to the financial statements are an integral part of the cash flow statement at 31 December 2008.





# notes to the financial statements at 31 December 2008

105

## 1. EPAL's business operations

### 1.1 Introduction

EPAL, whose full name is EPAL – Empresa Portuguesa das Águas Livres, S.A. (“EPAL” or the “Company”), is a limited liability company with its shares entirely owned by state entities.

The object of the company is to abstract, treat, transport and distribute water for public consumption as well as to undertake any complementary or related industrial, commercial or research activities or provision of services, namely those related to the water cycle.

### 1.2 Business operation

EPAL abstracts, transports, treats and distributes water for human consumption and aims to provide a quality service respecting essential social and environmental concerns. Its supply services cover residential distribution in the city of Lisbon and the bulk delivery of water to 23 municipalities in the Greater Lisbon area.

EPAL's water pricing regime is regulated by a government decree of 21 June 1991 (*Decreto-Lei n° 230/91*) that provides for an agreement to be reached between EPAL and the Portuguese state as represented by the Ministry of Economy's Direcção Geral da Empresa.



### 1.3 Approval of the financial statements

The reported financial statements have been approved in a meeting of the board of directors on 26 March 2009. The board's opinion is that they reflect in a reliable way EPAL's operations, financial position, performance and cash flows.

## 2. Accounting policies and valuation criteria

### a) Basis of presentation

EPAL's financial statements for 2007 consisting of the balance sheet, income statement – by nature and by function – cash flow statement, statement of changes in equity and respective notes, have been prepared on a going concern assumption, on the basis of the company's books and accounting records, kept in accordance with accounting principles that are generally accepted in Portugal except for a waiver on Accounting Guideline n° 19 following the company's adoption in previous years of the “corridor” method as set out in IAS 19 for recording the obligations arising from its post-employment benefit plan (**Note 2**).

The company's balance sheet at 31 December 2008 and 31 December 2007 and the income statement by nature for the financial year ended on that date are presented in a format that is different from the one provided in the official accounting plan (*Plano Oficial de Contabilidade or POC*), with the notes presented in sequential order for the balance sheet and the income statement. Despite this difference, the accounts and notes contain, together with the statement of changes in equity, the information required by the POC; likewise, the total asset and equity amounts at 31 December 2007 and 31 December 2006 and the net result for the year ended on that date are equal to those resulting from the presentation of the balance sheet and the income statement by nature according to the format required by the POC. These are also attached in the section “Documents required by the POC”.

The preparation of financial statements in accordance with accounting principles generally accepted in Portugal requires the use of estimates, assumptions and judgement in the application of policies to be adopted by EPAL as these affect the amounts reported as assets or liabilities as well as revenue and cost items for the reporting period.

Although these estimates are based on management experience and best estimates relating to current and future events and actions, present and future outcomes may, in the final analysis, differ from those estimates. The areas involving a higher degree of judgement or complexity and those where assumptions or estimates are significant for the financial statements are presented in **Note 4**.

Unless otherwise indicated, all amounts are stated in euros.

### b) Intangible fixed assets

The total amount entered to the “Intangible fixed assets” account includes (i) an item of 21,300 euros that is related to a right over a share of third-party land which is crossed by EPAL



mains; because it is an unlimited-use right, it is not depreciated; and (ii) an item of 464 euros regarding a patent under straight-line depreciation for three years.

#### c) Tangible fixed assets

Tangible fixed assets are recorded at cost or for the re-valued amount in accordance with legal rules.

Depreciation is calculated using the straight-line method for the asset's estimated economic life (**Note 6**).

Depreciation rates used are generally equal to the maximum rates that are accepted for tax purposes and are the following

Type of asset	Depreciation rates
Buildings	2% - 10%
Production equipment	2% - 25%
Transportation equipment	6,2% - 25%
Tools	10% - 25%
Office equipment	10% - 25%
Containers	14,28%
Other tangible fixed assets	6,66% - 12,5%

107

Transport mains, which are entered under Production equipment (*Equipamento Básico*) or assets used for the company's main activities, are depreciated at the rate of 2% as their economic life is estimated to be 50 years. The use of this rate has been authorised for tax purposes by the relevant authorities.

Expenses incurred for current maintenance are charged to the year's results.

Tangible fixed assets that have not been fully depreciated are charged to the year's results if no future economic benefits are expected from either their use or disposal. Whenever an asset's book value is greater than its recoverable value, the value is brought down to the asset's estimated recoverable value.

Gains or losses arising from write-offs or disposals are determined by the difference between the proceeds from the disposal and the asset's book value and are recognised on the income statement as income or expense. When goods that have been revalued are sold, the amount entered in the revaluation reserve account (*Reserva de Reavaliações*) is transferred to the retained earnings account (*Resultados Transitados*).

#### d) Impairment of fixed assets

Assets under depreciation are tested for impairment whenever any events or changes in circumstances suggest that the amount at which they are carried on the financial statements may not be recoverable.





An impairment loss is recognised for the excess of the carrying amount of an asset over its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and its value in use. If it is not possible to determine the recoverable amount for a particular asset, it should be aggregated with other assets for the joint generation of independent cash flows and, thus, the set-up of a cash-generating unit (CGU).

An impairment loss is recognised through income statement in the year the circumstances arise for its record. Annually, it is added or reversed, in total or in part, whenever the circumstances having given rise to its initial record shall change or cease to exist.

#### e) Financial assets

##### ***Group companies and associates***

Investments in equity holdings in group companies or associates are recorded at cost and valued according to the equity method. According to this method, gains and losses obtained by these companies are recorded, for the proportional stake held, as financial results.

##### ***Other investments***

Other financial investments in securities or other placements are valued at cost after deduction of any adjustments for estimated losses on their disposal

#### f) Accounts receivable

Adjustments to doubtful debts are calculated on the basis of a specific economic evaluation of the total or partial losses that are estimated from the failure to collect receivables from clients or other debtors after considering the existence of collateral or any other form of security (**Note 11**).

#### g) Inventories

Inventory for EPAL's productive process includes primarily (i) reagents such as liquid chlorine, aluminium sulphate, carbon dioxide and other products used for water treatment and (ii) hydraulic equipment for civil construction.

Inventories are valued at the lower of acquisition cost (including all expenses until inventories are stored) and net realisable value (NRV). NRV is determined as the estimated selling price in the company's normal course of business, after deduction of any variable selling expenses. When NRV is lower than the carrying amount, a write-down is made for the difference.

Inventories sold are valued at weighted-average cost.

#### h) Liquidity

Liquidity includes cash and cash equivalents, bank deposits, other highly liquid, short-term investments initially maturing in one year (three months, in the case of the cash flow statement) and overdraft facilities. Overdraft facilities are presented on the balance sheet under



current liabilities, “Debts to credit institutions – Short term”, and are also considered in the preparation of the cash flow statement.

Marketable securities are valued at the lower of acquisition cost and market value.

#### **i) Share capital**

Common stock is classed under shareholders' equity.

#### **j) Employee benefits – Pensionss**

The company has in force a system of social benefits for its employees (defined benefits) involving the payment of complements to retirement pensions (for long service or disability) while additionally sustaining the obligations arising from early retirement.

At 22 March 2008, EPAL changed the benefit system allowing its employees to choose between the defined benefit plan and the defined contribution plan.

A defined contribution plan is a pension plan, in which the company has as only obligation making fixed contributions to a separate entity, which is a fund.

A defined benefit plan is a pension plan, in which a retired employee receives a specific amount based on one or more factors, such as age, years of service and remuneration.

109

The obligations arising from the benefit plan in force are calculated annually by independent actuaries using the Projected Unit Credit Method. The present value of obligations is determined by discounting future benefit payments using the yield on high-quality corporate bonds denominated in the currency in which the benefits will be paid, with a term to maturity close to the term of the actual obligations.

The costs incurred by these obligations are recognised in accordance with IAS 19 (**Note 18**).

Costs related to the defined contribution plan are annually recorded based on a percentage of each employee's remuneration.

#### **k) Provisions**

Provisions are only recognised when there is a present obligation resulting from past events for whose settlement an outflow of internal resources is probable and whose amount can be estimated reliably. Whenever one of these criteria is not met or the obligation's existence is subject to the occurrence (or non-occurrence) of a future event, EPAL will disclose such fact as a contingent liability, except when the possibility of an outflow of resources for settlement of the obligation is considered to be remote.

When there are a large number of similar obligations, the probability for an outflow of internal resources to occur is determined in combination. The provision is recognised even though



the probability of outflow of internal resources in respect of a particular item in the class may be reduced.

Provisions are not recognised for future operating losses.

#### **l) Investment grants**

Investment grants are recognised when there is reasonable assurance that the grant will be received and EPAL will comply with the conditions attached to its receipt.

Investment grants for the acquisition of tangible fixed assets are recorded as non-current liabilities and are credited to the income statement using the straight-line method for the expected remaining life of the related assets.

Other grants are deferred and recognised in the income statement in the same period as the expenses they are designed to off set.

#### **m) Deferred tax**

Deferred taxes are recognised using the balance sheet liability method whereby such temporary differences are considered that arise from the difference between the tax base of assets and liabilities and their carrying amounts.

Deferred taxes are not recognised that arise from the initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit.

Deferred tax assets are recognised to the extent future taxable profits are likely to be available for use of the temporary difference or when reversal of a deferred tax asset is expected for the same occasion and with the same authority.

Deferred taxes are measured at the tax rates that have been enacted or substantively enacted by the balance sheet date and that are expected to apply when the deferred tax is reversed. The differences that may arise from expected changes in the rates at which the temporary taxable differences will be reversed are considered in the income statement.

The annual entries in deferred tax assets or liabilities are made against the same accounts where the transactions or events that originated them have been recorded. The revaluation reserve amount in shareholders' equity is carried net of the related deferred tax liability (**Note 16**).

Deferred tax assets and liabilities are not offset against each other.

#### **n) Recognition of revenue and other income and expense**

Revenue consists of the fair value of the sale of goods and provision of services, net of taxes and discounts, and is recognised as follows:



**Water sales and service fee**

The sale of water and service fee is supported by contracts signed with the clients whereby the price is clearly defined by means of a duly approved price grid.

During the year, revenue arising from the sale of water is recognised on the basis of metered consumption or, when consumption has not been metered, estimated consumption.

At the end of the year, according to the matching principle, accrued income is recognised for the consumption estimated but not metered or invoiced. At the end of each financial year, the amount recorded as water sales relates to actual consumption in the year as measured by the quantities metered and, in the cases this is not feasible, reliable consumption estimates (Note 11).

**Interest expense**

Interest payable on obtained loans is recognised as a cost for the year in which interest payments fall due, even when the purpose of the loans is to fund the acquisition of fixed assets (Note 23).

**Other income and expense**

Other income and expense is recorded in the year when it has been generated or incurred, regardless of the moment for its receipt or payment, in accordance with the matching principle. The differences between received or paid amounts and the related income or expense are recorded as accruals or deferrals.

111

**o) Dividend payable**

Dividend payable is recognised in the year when it is approved by the annual general meeting.

**p) Revaluation reserves**

The amounts entered in the “Revaluation reserves” account are initially recorded for the net asset increase resulting from revaluations performed in accordance with the law (Note 6) and annually transferred to the “Retained earnings” account as the assets are realised through sale, write-off or amortisation.

**3. Policies for managing financial risk****Financial risk factors**

EPAL’s operations are exposed to a variety of financial risk factors: liquidity risk and cash flow risk linked to interest rates.



**Liquidity risk**

Management of liquidity risk requires readily available funds to be kept at a reasonable level, the consolidated fluctuating debt to be supported by an adequate amount of credit facilities and market positions to be closed selectively. EPAL aims to ensure flexibility of the fluctuating debt and to maintain, to that end, available credit lines. EPAL manages liquidity risk by securing from financial institutions committed credit lines and funding facilities that provide immediate access to funds under flexible terms.

**Cash flow risk and fair value risk linked to interest rates**

As EPAL does not earn significant income on its assets, profit and operating cash flows are substantively independent from changes in market interest rates.

EPAL's interest rate risk arises primarily from its long-term borrowings. In this context, loans obtained at floating interest rates expose EPAL to cash flow risk while loans obtained at fixed interest rates expose EPAL to fair value risk linked to interest rates. EPAL's policy is to keep a balance between fixed-rate and floating-rate loans.

**4. Estimates and judgements**

Estimates and judgements with an impact on EPAL's financial statements are continually evaluated and represent, at each reporting date, management's best estimate considering historic performance, accumulated experience and expectations about future events which, under the circumstances, are believed to be reasonable.

The very nature of estimates may lead to actual outcomes that may differ, for financial reporting purposes, from the estimated amounts.

The estimates and judgements presenting a significant risk of material adjustments to the carrying amount of assets and liabilities in the ensuing financial year are the following:

**Provisions**

EPAL reviews periodically obligations arising from past events that should be the subject of recognition or disclosure.

The subjectivity that is inherent to determining the probability and amount of the outflow of internal resources required for the settlement of obligations may lead to significant adjustments either because the assumptions have changed or because previously disclosed contingent liabilities will be recognised in the future as provisions.

**Impairment of assets**

At the date for presentation of EPAL's financial statements for the year ended on 31 December 2008, the existence of any situation of impairment of reported assets is not considered as probable.



## 5. Intangible fixed assets

Intangible fixed assets of 21.764 euros refer predominantly to a right over part of third-party land crossed by EPAL mains, valued at 21.300 euros. Because it is an unlimited-use right, it is not depreciated.

	2008	2007
Intellectual property and other rights	21 764	22 228
	21 764	22 228

Intangible fixed assets and their accumulated depreciation at the end of 2008 were as follows:

Item	2007	Additions	Transfers	Write-offs and dispo- sals	2008
Gross assets					
Intellectual property and other rights	22 692	-	-	-	22 692
	22 692	-	-	-	22 692
Accumulated depreciation					
Intellectual property and other rights	464	464	-	-	928
	464	464	-	-	928
		(note 28)			

113

## 6. Tangible fixed assets

Tangible fixed assets net of depreciation have the following composition:

	2008	2007
Land and natural resources	49 761 829	49 869 219
Buildings	41 514 131	43 684 298
Production equipment	523 744 602	516 187 645
Transportation equipment	1 119	3 515
Tools	789 768	1 042 121
Office equipment	2 089 438	1 594 142
Containers	403	748
Other tangible fixed assets	1 508 994	2 019 150
Fixed assets in progress	17 969 734	32 027 635
Advances on tangible fixed assets	135 113	1 155 135
	637 515 131	647 583 610

At the end of 2008, the “Production equipment” account included assets in third parties’ possession, namely water meters in the distribution network for an amount of 1,213,140 euros.





Tangible fixed assets and their accumulated depreciation at the end of 2008 were as follows:

Item	2007	Additions	Transfers	Write-offs and disposals	2008
<b>Tangible fixed assets</b>					
Land and natural resources	49 869 219	-	57 265	(164 655)	49 761 829
Buildings	116 895 064	-	1 560 970	(35 124)	118 420 910
Production equipment	907 591 807	908 995	35 825 917	(6 405 449)	937 921 270
Transportation equipment	1 655 748	-	-	-	1 655 748
Tools	10 276 847	232 059	605	(154 150)	10 355 361
Office equipment	16 677 495	168 935	1 269 504	(433)	18 115 501
Containers	8 134	-	-	-	8 134
Other tangible fixed assets	10 542 481	10 139	38 249	-	10 590 869
Fixed assets in progress	32 027 635	24 281 968	(37 557 488)	(782 381)	17 969 734
Advances on tangible fixed assets	1 155 135	175 000	(1 195 022)	-	135 113
	1 146 699 565	25 777 096	-	(7 542 192)	1 164 934 469
<b>Accumulated depreciation</b>					
Buildings	73 210 766	3 731 137	-	(35 124)	76 906 779
Production equipment	391 404 162	25 990 786	-	(3 218 280)	414 176 668
Transportation equipment	1 652 233	2 396	-	-	1 654 629
Tools	9 234 726	466 772	-	(135 905)	9 565 593
Office equipment	15 083 353	942 818	-	(108)	16 026 063
Containers	7 386	345	-	-	7 731
Other tangible fixed assets	8 523 331	558 544	-	-	9 081 875
	499 115 957	31 692 798	-	(3 389 417)	527 419 338
		(Note 28)			

The “Production equipment” heading includes primarily the distribution network, mains, reservoirs, water and electricity facilities, water works and meters.

Additions to tangible fixed assets in financial 2008 amounted to approximately 25.8 million euros and relate mainly to expansion of the Castelo do Bode sub-system, revamp of trunk mains and Lisbon distribution network and works of the macro-measurement project for the production and transportation network.

The reduction in “Assets in progress” by approximately 37.5 million euros is mainly the result of the completion in 2008 of part of the works related to the expansion of the Castelo do Bode sub-system, the entry into operation of the water supply system to the Mafra municipality and the revamp of the Lisbon distribution network.



At 31 December 2008, “Assets in progress” refers mainly to works for increased water supply to the Municipality of Mafra, the revamp of the Lisbon distribution network, the macro-measurement project for the production and transportation network and several land ownership processes.

Reductions in tangible fixed assets in financial 2008 by approximately 7.5 million euros (net of accumulated depreciation of approximately 9 million euros) refer primarily to the disposal of fixed assets from the Alto de Carenque / Mercês trunk main (Note 9 and Note 35). Reductions in tangible fixed assets by approximately 0.8 million euros refer mainly to the recognition of amounts related to non-completed projects which were abandoned.

### Revaluations

Tangible fixed assets have been revalued in previous years pursuant to the following pieces of legislation:

- *Decreto-Lei n.º 430/78*, as amended by *Decreto-Lei n.º 24/82* of 30 January 1982
- *Decreto-Lei n.º 219/82* of 2 June 1982
- *Decreto-Lei n.º 399-G/84* of 28 December 1984
- *Decreto-Lei n.º 118-B/86* of 27 May 1986
- *Decreto-Lei n.º 111/88* of 2 April 1988
- *Decreto-Lei n.º 49/91* of 25 January 1991
- *Decreto-Lei n.º 264/92* of 24 November 1992
- *Decreto-Lei n.º 31/98* of 11 February 1999

115

Historic acquisition costs for tangible fixed assets and related revaluations at 31 December 2008 net of accumulated depreciation are detailed below:

	Historical cost a)	Revaluations a) b) (Note 16)	Amounts after revaluation a)
Tangible fixed assets			
Land and natural resources	12 297 248	32 992 766	45 290 014
Buildings	5 853 180	3 776 766	9 629 946
Production equipment	94 125 980	72 851 812	166 977 792
	112 276 408	109 621 344	221 897 752

a) Net of depreciation

b) Includes successive revaluations



## 7. Financial investments

At 31 December 2008 and 2007 financial investments were the following:

	2008	2007
Equity holdings in group companies	250 000	250 000
Equity holdings in other investee companies	2 870	1 370
Securities and other financial investments	108 732	108 732
	361 602	360 102

### Group companies

Equity holdings in group companies that were accounted for according to the equity method, as well as related equity and results, were the following at 31 December 2008:

Company	Head office	Share %	Equity	Net profit	B/S amount	Adjustments	Net amount
Clube de Golfe das Amoreiras	Lisboa	100%	234 509	46 760	250 000	-	250 000

a) relates to supplementary capital

116

At 31 December 2008, this subsidiary had negative equity of 15.491 euros excluding supplementary capital. Under applicable accounting rules, EPAL discontinued the equity method when accumulated losses exceeded the financial investment recorded on the balance sheet.

EPAL is the sole shareholder in Clube de Golfe das Amoreiras, S.A., a company set up with a share capital of 350,000 euros for the purpose of developing, building and operating a golf school and driving range in a plot of land owned by EPAL at Amoreiras in central Lisbon. The project was pursued following a request by the City of Lisbon for ideas to develop the land over a water reservoir. Both companies agreed in 1993 with Supergolf Amoreiras-Academia de Golfe, SA, that Clube de Golfe das Amoreiras, S.A. would assign the operation of the facilities to Supergolf Amoreiras-Academia de Golfe, SA for golf training and teaching.

Following earlier arbitration and by request of Supergolf Amoreiras - Academia de Golfe, SA, an arbitration court was constituted in 2006 to ascertain responsibilities. In 2008, this arbitration court awarded a decision that set the compensation, comprising an amount which was already paid and a currently undecided unpaid balance, which is estimated and recorded in the financial statements at 31 December 2008.



**Investee companies**

Changes in financial investments and related adjustments were as follows:

Companies	Head office	Share %	Equity	Net profit	B/S amount	Adjustments	Net amount
Ambelis	Lisboa	0,7%			1 370	-	1 370
Fundec	Lisboa				1 500	-	1 500
					2 870	-	2 870

**Securities and other short-term balances**

Changes in financial investments and related adjustments were as follows:

	2008	2007
Amounts at the order of a court of law	108 072	108 072
OT's	660	660
FIP's	-	-
	108 732	108 732

**Changes in the financial year**

Changes in financial investments and related adjustments were as follows

	2007	Reinforcement	Reduction	2008
Equity holdings in group companies	250 000	-	-	250 000
Equity holdings in other investee companies	1 370	1 500	-	2 870
Securities and other financial investments	108 732	-	-	108 732
Adjustments to financial investments (Note 33)	-	-	-	-
	360 102	1 500	-	361 602

117

The increase in "Equity holdings in other investee companies" was related to EPAL's participation in the constitution of FUNDEC - Associação para a Formação e o Desenvolvimento em Engenharia Civil e Arquitectura.

**8. Deferred tax**

For the measurement of the final balances of deferred tax, the rate contained in the state budget for 2009 was used. This is a state income tax of 25% to which a local tax at the rate of 1.5% on taxable profit is added, resulting in an aggregate tax rate of 26.5%.



Changes in deferred tax in 2008 were the following:

Item	2007	Additions	Reversals	2008
Provisions above tax limits	35 544 201	8 353 244	(22 134 503)	21 762 942
Reversal of taxed income	1 549 908	-	-	1 549 908
Tax base	37 094 109	8 353 244	(22 134 503)	23 312 850
Tax rate:				
State income tax (25%)	9 273 527	2 088 311	(5 533 626)	5 828 212
Local income tax (1.5%)	556 412	125 299	(332 018)	349 693
Deferred tax assets	9 829 939	2 213 610	(5 865 644)	6 177 905
Revaluation of fixed assets	33 255 939	-	(2 604 508)	30 651 431
Amount net of reinvested capital gains	194 035	-	(4 877)	189 158
Tax base	33 449 974	-	(2 609 385)	30 840 589
Tax rate:				
State income tax (25%)	8 362 493	-	(652 346)	7 710 147
Local income tax (1.5%)	501 750	-	(39 141)	462 609
Deferred tax liabilities	8 864 243	-	(691 487)	8 172 756

At 31 December 2008, the effect of deferred tax on the financial statements amounted to 2,960,547 euros (**Note 36**) as a result of the changes in the “Deferred tax”.

## 9. Clients and other accounts receivable – non-current

The balances of this account at 31 December 2008 and 2007, 14,570,718 and 11,302,155 euros, respectively, relate to medium- and long-term debts under “Other debtors” and include mainly the disposal of the fixed assets from the supply sub-systems of Alenquer / Torres Vedras and Arruda dos Vinhos / Sobral de Monte Agraço. This account receivable has a schedule for annual repayments for 27 years. The increase over the year in “Clients and other accounts receivable – non-current” is primarily related to the registration in 2008 of the disposal of fixed assets from the Alto de Carenque / Mercês trunk main (Note 6). From the amount receivable by 31 December 2008, 12,026,274 euros will be paid by 2033 and 2,544,444 euros will be paid by 2012, with the instalments subject to annual update. The repayment plan is as follows:

Year	Amount
2010	1.349.242
2011	1.349.242
2012	1.349.242
2013	501.094
> 2013	10.021.898
	-----
	14.570.718
	=====



## 10. Inventories

In 2008, the changes in “Inventories” were the following:

Item	2007	Additions	Transfers	Regularis.	Reductions	2008
Inventories						
Raw materials, intermediate and ready to use	1 223 114	2 765 922	-	-	(2 694 208)	1 294 828
Goods	-	-	306 380	696	-	307 076
	1 223 114	2 765 922	306 380	696	(2 694 208)	1 601 904
					(Note 25)	
Adjustments to inventories						
Consumption raw materials	-	(60 950)	-	-	-	(60 950)
Intermediate materials	-	(284 907)	-	-	-	(284 907)
	-	(345 857)	-	-	-	(345 857)
		(Note 28)				
	1 223 114	2 420 065	306 380	696	(2 694 208)	1 256 047

## 11. Accounts receivable

This account’s composition was the following at 31 December 2008 and 2007:

119

	2008	2007
Clients, current account	15 928 703	20 635 621
Clients, doubtful debtors	3 922 324	4 774 764
Adjustments for doubtful debtors	(2 960 345)	(3 477 453)
Subtotal, clients	16 890 682	21 932 932
Accrued income on account of water to be invoiced	7 175 877	7 889 743
Accrued income on account of service fee to be invoiced	1 069 922	1 972 240
Accrued income on account of services provided, to be invoiced	82 714	95 564
	25 219 195	31 890 479

### Changes in the year

Changes in the balances for doubtful debtors and related adjustments in 2008 were the following:

	2007	Additions	Reductions	2008
Doubtful debtors	4 774 764	567 353	(1 419 793)	3 922 324
Adjustments to doubtful debtors (Notes 28 e 32)	(3 477 453)	(428 970)	946 078	(2 960 345)
	1 297 311	138 383	(473 715)	961 979

Increases in the balances of and adjustments to Doubtful debtors follow from the evaluation of collection risk to client receivables.





Decreases result primarily from the recovery of previously provided claims.

The balance of Doubtful debtors amounts to 3,922,324 euros and is composed of 2,960,345 euros where collection risk is borne by the company and entirely provided for 1,297,311 euros relating to treatment fee and supplement where the risk is borne by third parties.

## 12. Claims on public-sector entities

At 31 December 2008 and 2007, claims receivable from the state and other public-sector entities had the following composition:

	2007	2008
State income tax		
Estimate	-	(6 712 340)
Advances	-	6 915 096
Withheld at source	-	8 043
Subtotal, state income tax	-	285 800
VAT receivable	1 474	1 744
	1 474	287 544

120

## 13. Other debtors

At 31 December 2008 and 2007 “Other debtors” had the following composition:

	2008	2007
Group companies	1 353 246	1 343 246
Advance payment to suppliers	1 082 983	-
Staff	32 325	31 521
Other debtors	2 510 160	3 918 306
Adjustments to other doubtful debtors	(623 124)	(623 124)
Subtotal	4 355 590	4 669 949
Other accrued income	379 437	74 083
Deferred cost for prepaid insurance premiums	840 034	593 247
Other deferred costs	104 434	503 772
	5 679 495	5 841 052

### Associates

The amount recorded under “Group companies and associates” is exclusively related to shareholder loans extended to Clube de Golfe das Amoreiras, S.A.



**Changes in “Adjustments to other doubtful debtors”**

Changes in the year were as follows:

	2008	2007
Opening balance	623 124	634 907
Additions (Note 28)	-	10 298
Reversals (Note 32)	-	(22 082)
Ending balance	623 124	623 124

**14. Cash and cash equivalents**

At 31 December 2008 and 2007 “Cash and cash equivalents had the following composition:

	2008	2007
Cash on hand	37 562	36 037
Bank deposits	4 782 936	3 963 160
Subtotal	4 820 498	3 999 197
Other treasury investments	18 700 000	11 000 000
	23 520 498	14 999 197

**15. Share capital**

121

The company’s share capital of 150 million euros is evidenced by 30 million shares of 5 euros each and is fully paid up.

**Shareholders**

At 31 December 2008, the company was entirely owned by AdP – Águas de Portugal, SGPS, S.A.

**Earnings per share**

	2008	2007
Net profit for the year	26 675 351	24 391 338
Average number of shares	30 000 000	30 000 000
(Basic and diluted) earnings per share	0,89	0,81



## 16. Reserves and other adjustments

At 31 December 2008, reserves and other adjustments were as follows:

	2008	2007
Adjustments to equity holdings in associates	(4 064)	(4 064)
Revaluation reserves	101 498 715	107 369 030
Legal reserves	29 664 223	27 225 089
Free reserves	22 171 377	22 171 377
	153 330 251	156 761 432

Note: Compare with the statement of changes in equity.

The change in “Revaluation reserves” in 2008 was as follows:

	2007	Transfers	Others	2008
Revaluation reserves				
Revaluation reserves booked	256,514,383	-	-	256,514,383
Revaluation reserves realised	(140,332,529)	(6,560,510)	-	(146,893,039)
(Note 6)	116,181,854	(6,560,510)	-	109,621,344
Resulting deferred tax				
Deferred tax booked	(21,042,483)	-	-	(21,042,483)
Deferred tax realised	12,229,659	690,195	-	12,919,854
(Note 8)	(8,812,824)	690,195	-	(8,122,629)
Net amount of revaluation reserves	107,369,030	(5,870,315)	-	101,498,715

**Transfers:** Amounts in the “Transfers” column relate to the transfer to “Retained earnings” of the portion of revaluation reserves realised through amortisation, disposal or write-off of the related fixed assets and deferred taxes in 2008.

**Legal reserves:** Commercial law stipulates that at least 5% of net profit for the year – EPAL’s articles of association raise this level to 10% - should be allocated to increasing legal reserves until these represent at least 20% of share capital. These reserves may not be distributed unless the company is liquidated but may be used to cover losses after the other reserves have been used or to issue a stock dividend.

**Allocation of net profit:** Pursuant to a resolution by the shareholder meeting of 31 March 2008, the company allocated net profit of 24,391,338 euros for the year ended 31 December 2007 as follows:



Transfers	
To legal reserves	2 439 134
To retained earnings	3 862 533
	<u>6 301 667</u>
Distribution	
Of dividends	17 073 936
Of share of net profit to the staff	1 015 735
	<u>18 089 671</u>
	<u>24 391 338</u>

## 17. Provisions

At 31 December 2008 and 2007 the composition of provisions was the following:

	2008	2007
Ongoing litigation	9 322 593	8 430 553
Workplace accidents	174 956	255 346
Other risks and charges	3 602 411	10 603 246
	<u>13 099 960</u>	<u>19 289 146</u>

123

Changes in “Provisions” in 2008 are detailed as follows:

	2007	Increases	Decreases	2008
Ongoing litigation	8 430 553	1 542 459	(650 419)	9 322 593
Workplace accidents	255 346	-	(80 390)	174 956
Other risks and charges	10 603 246	499 165	(7 500 000)	3 602 411
	<u>19 289 146</u>	<u>2 041 624</u>	<u>(8 230 809)</u>	<u>13 099 960</u>
		(Nota 29)		

The company conducted a careful and thorough review of the situation regarding commitments, present, probable or contingent obligations, lawsuits, unsettled tax cases and complaints or contentious issues. On the basis of this review and after a careful risk analysis, the company considered that the 13,099,960 euros in “Provisions” at 31 December 2008 was an adequate amount to provide against the identified risks.

The reductions in “Provisions” are mainly due to the settlement of legal issues in which EPAL was involved.



## 18. Pension obligations

The company has in force a system of social benefits for its employees with two plans, a defined benefits plan and a defined contributions plan, both involving the payment of complements to retirement pensions (for long service or disability) granted by the Social Security while additionally sustaining the obligations arising from early retirement (Note 21).

Obligations deriving from the pension plan are funded by EPAL's pension fund, set up in November 1990, while early retirement is borne directly by the company.

In financial 2008, EPAL reformulated the Collective Agreement with its employees and trade unions, namely the pension plan. The reformulation included primarily the transference of some of the employees to a defined contribution plan in replacement of the defined benefit plan. The end of the previous plan and the enforcement of the new plan occurred at 22 March 2008.

In addition, following the financial year ended at 31 December 2008, the board of directors decided to discontinue the early retirement benefit policy.

At 31 December 2008 and 2007 the obligations arising from the benefit plan in force and early retirements were the following:

Change in obligations	2008	2007
Obligations at the start of the period	88 397 822	95 464 704
Current-service cost	715 000	2 298 000
Interest cost	3 037 000	4 395 000
Cut in the fund's assets	(35 722 000)	-
Actuarial (gains) / losses	(200 000)	(8 321 670)
Benefits paid	(5 605 386)	(5 438 212)
Obligations at the end of the period	50 622 436	88 397 822

The obligations in the above table are calculated on the basis of the following actuarial and financial assumptions:

	2008	2007
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80
Annual discount rate	5,25%	5,25%
Annual rate of return	5,25%	5,25%
Salary growth rate	2,50%	2,50%
Salary growth rate, Social Security	2,50%	2,50%
Growth rate of pre-retirement contributions	2,50%	2,50%



The company's overall obligations are covered by the pension fund's assets and a specific provision recorded as a liability.

The change in the fund's assets was the following:

<b>Pension Fund</b>	<b>2008</b>	<b>2007</b>
Obligations at the start of the period	48 454 982	45 960 297
Return	(3 100 538)	1 714 685
Cut in the fund	(13 203 000)	-
EPAL's contribution	2 902 789	2 593 857
Benefits paid	(1 902 789)	(1 813 857)
Obligations at the end of the period	33 151 444	48 454 982

The amount of 13,203,000 euros was transferred to the new contribution plan.

As a complement to the fund's assets, the company recognised at 31 December 2008 a provision of 15.6 million euros for pension obligations

The overall situation is summed up in the following table:

	<b>2008</b>	<b>2007</b>
Obligations at the end of the period	50 622 436	88 397 822
Asset value at the end of the period	33 151 444	48 454 982
Provision for pensions	15 642 752	25 392 038
Deferred actuarial losses	1 828 240	14 550 802
Deferred actuarial losses	-	2 251 036
Losses within the 10% corridor	1 828 240	8 839 782
Losses in excess of the 10% corridor	-	3 459 984

The overall cost of post-employment benefits was as follows:

	<b>2008</b>	<b>2007</b>
Current service cost	715 000	2 298 000
Interest cost	3 037 000	4 395 000
Expected return on the assets	(1 942 000)	(2 199 000)
Cut in the fund's assets	(7 301 000)	-
Recognition of new early retirements	2 192 000	-
Recognition of prior service cost	89 000	399 000
Recognition of deferred actuarial losses	66 000	941 286
Period cost	(3 144 000)	5 834 286





The amount of 7,301,000 euros is related to the cut in the previous benefit plan based on calculations made by an independent and specialised entity at 22 March 2008, which was the enforcement date of the new plan.

The deferred actuarial losses that exceed the 10% limit of funds allocated to cover the company's obligations or 10% of the responsibilities for past services, whichever is the highest, are recognised for the period between the average age of employees and the retirement age, starting the next financial year.

Following the proposed change to the present pension plan and the company's continued goal of raising the obligations' funded ratio, the board decided to contribute a robust 2.9 million euros to the fund in 2008.

In 2008, EPAL recorded in "Staff costs" the amount of 391,873 euros as the cost of the new contribution plan.

## 19. Bank loans

126

Bank loans at 31 December 2008 and 2007 are detailed as follows:

	2008				2007			
	Maturing in one year	Maturing in 1 to 5 years	Maturing more than 5 years	Total	Maturing in one year	Maturing in 1 to 5 years	Maturing more than 5 years	Total
European Invest- ment Bank	8 100 934	55 445 404	147 625 066	211 171 404	6 018 390	43 335 556	167 835 849	217 189 795
Total - bank loans		203 070 470				211 171 405		

## 20. Investment grants

At 31 December 2008 and 2007 liabilities relating to investment grants are detailed as follows:

	2008	2007
Investment grants	66 471 846	82 884 731
Recognised income	(26 374 274)	(40 915 455)
	40 097 572	41 969 277



The change of 1,871,705 euros in the year relates to the annual portion of the grants recognised in the income statement, to the same extent of annual depreciation charges and adjustments (Note 35).

## 21. Suppliers and other accounts payable

At 31 December 2008 and 2007, the balances of “Suppliers and other accounts payable” had the following composition:

	2008	2007
Suppliers, current account	24 481 482	24 867 155
Suppliers, invoices received under processing	35 439	24 301
Suppliers of fixed assets	9 137 637	7 279 530
Accrued costs	3 303 052	1 525 394
	36 957 610	33 696 381

## 22. Debts to the state and other public-sector entities

At 31 December 2008 and 2007 debts to the state and other public-sector entities were as follows:

127

	2008	2007
State company income tax (IRC)		
Estimate	7 203 136	-
Advances	(5 587 824)	-
Withheld at source	(170 687)	-
Subtotal IRC	1 444 625	-
Value-added tax	256 712	586 276
Personal income tax (IRS)	302 828	304 047
Social Security	533 266	517 230
Stamp duty	10 850	11 555
	2 548 281	1 419 108



## 23. Other creditors

At 31 December 2008 and 2007 balances of “Other creditors” were as follows:

	2008	2007
Municipality of Lisbon		
Treatment rate (Portaria 399/85)	12 700 182	12 472 643
Additional rate (Portaria 309/84)	1 601 662	1 400 710
Holidays and holiday allowance	3 885 439	3 682 061
Water resources rate	1 651 066	-
Interest payable	1 083 822	1 214 738
Insurance premiums payable	186 773	130 864
Staff	4 206	4 092
Other creditors	474 068	153 728
	21 587 218	19 058 836

The change in “Other creditors” was mainly related to the amount payable for the Water Resources Fee, in accordance with a government decree of 11 June 2008 (Decreto-Lei 97/2008).

128

## 24. Sales and provision of services

In 2008 and 2007 sales and provision of services were detailed as follows:

	National market
Financial year ended 31 December 2008	
Water sales and service fee	140 942 021
Services provided	2 584 436
	143 526 457
Financial year ended 31 December 2007	
Water sales and service fee	137 376 839
Services provided	2 591 985
	139 968 824

## 25. Cost of sales

In 2008 and 2007 the cost of sales was broken down as follows:

	2008	2007
Opening inventories	1 223 114	1 190 293
Purchases	2 765 922	2 715 784
Transfers	306 380	-
Adjustments to inventories (Note 35)	696	1 186
Closing inventories	1 601 904	1 223 114
	2 694 208	2 684 150
	(Note 10)	



## 26. Goods and services purchased

In 2008 and 2007 goods and services purchased were detailed as follows::

	2008	2007
Electricity	9 676 871	8 994 745
Maintenance and repair	7 232 993	7 566 213
Specialist jobs	7 644 718	6 356 580
Communications	1 777 552	1 397 289
Insurance premiums	1 288 840	1 276 035
Rents	1 235 139	1 282 974
Sub-contracts	1 113 165	1 046 447
Security	1 010 316	841 142
Advertising	706 732	589 330
Cleaning	643 071	653 654
Fuel	613 242	520 760
Other	6 836 478	6 246 213
	39 779 117	36 771 381

## 27. Staff costs

In 2008 and 2007 staff costs were detailed as follows:

	2008	2007
Remuneration	23 841 900	20 895 664
Other	4 462 258	12 469 634
	28 304 158	33 365 297

The reduction in “Staff costs” is mainly related to the effects of the cut in the pension plan (**Note 18**).

### **Remuneration of governing bodies**

Remunerations earned by the governing bodies in 2008 were the following:

Board of directors	690.167
Chartered accountant	<u>17.912</u>
	<u>708.079</u>

### **Average number of employees**

The average number of employees at the company's service at 31 December 2008 and 2007 was as follows:

	2008	2007
Governing bodies	4	4
Permanent employees and others	797	815
	801	819



## 28. Depreciation and adjustments in the year

Depreciation and period adjustments in 2008 and 2007 are detailed as follows:

	2008	2007
Depreciation of tangible fixed assets (Note 6)	31 692 798	30 426 392
Depreciation of intangible fixed assets (Note 5)	464	464
Adjustments to client receivables (Note 11)	428 970	1 481 220
Adjustments to inventories (Note 10)	345 857	-
Adjustments to other receivables (Note 13)	-	10 298
	32 468 090	31 918 373

## 29. Provisions for the year

Provisions in 2008 and 2007 are detailed as follows:

	2007	2008
From litigation	1,542,459	1,124,613
From tax	417,165	-
From other risks and charges	82,000	10,000
	2,041,624	1,134,613
	(Note 17)	

## 30. Other operating costs

“Other operating costs” in 2008 and 2007 are detailed as follows:

	2007	2008
Taxes and levies	1,212,735	1,008,739
Other operating costs	59,646	81,368
	1,272,381	1,090,107



### 31. Additional revenues

Additional revenues in 2008 e 2007 are detailed as follows:

	2008	2007
Aquamatrix service	626 470	840 387
Treatment fees	334 206	319 623
Laboratory analyses	147 595	146 746
Tender specifications	46 300	141 050
Rents for space lent	89 985	99 070
Legal help with expropriations	114 954	67 514
Royalties	69 580	64 867
Social services	12 096	12 204
Meter repair	18 732	3 337
Other	341 075	173 802
	1 800 993	1 868 600

### 32. Other operating revenues and gains

Other operating revenues and gains in 2008 and 2007 are detailed as follows:

	2008	2007
Reversal of adjustments to client receivables (Note 11)	946 078	80 468
Exploration grant	3 857	-
Reversal of adjustments to other receivables (Note 13)	-	22 082
	949 935	102 550

131

### 33. Financial costs

Financial costs in 2008 e 2007 are detailed as follows:

	2008	2007
Interest paid	9 163 320	8 429 160
Adjustments to financial adjustments	-	335 342
Unfavourable exchange differences	2 780	361
Other financial costs and losses	125 307	136 878
	9 291 407	8 901 740



### 34. Financial income

Financial income in 2008 and 2007 is broken down as follows:

	2008	2007
Interest received	828 853	394 557
Favourable exchange differences	6 635	497
Discounts for cash payment obtained	360	113
Reversals and other financial income and gains	314 021	23 930
	1 149 869	419 098

### 35. Extraordinary results

The statement of extraordinary results for 2008 and 2007 is as follows:

	2008	2007
Donations	131 251	97 500
Losses on fixed assets	83 168	38 359
Losses on inventories (Note 25)	1 022	1 351
Fines and penalties	500	5 911
Corrections to previous financial years' accounts	267	1 385
Other extraordinary costs and losses	811 422	360 682
Total costs and losses	1 027 630	505 187
Gains on inventories (Note 25)	1 718	2 537
Gains on fixed assets (b)	1 216 174	37 762
Reductions in provisions (c)	2 619 419	898 834
Corrections to previous financial years' accounts	233 950	-
Investment grants (Note 20)	1 871 705	4 579 281
Other extraordinary costs and losses	341 603	234 643
Total income and gains	6 284 569	5 753 056
Extraordinary results	5 256 939	5 247 869

a) The "Other extraordinary costs and losses" in the amount of 811,422 euros relate primarily to (i) the insufficient 2007 tax estimate of 475,527 euros; and (ii) the 325,742 euros paid in financial 2008 for leakage compensations.

b) This amount relates essentially to the gain with the disposal of fixed assets from the Alto de Carenque / Mercês trunk main (**Note 6**);

c) The reduction in provisions relates primarily to the recognition in the income statement of the settlement of legal processes.





## 36. Taxes

At 31 December 2007 and 2006, the company was liable for company income tax at the standard rate of 25% which may be increased by local tax up to a maximum of 1.5%, resulting in an aggregate tax rate of 26.5%.

According to the law, tax returns may be reviewed and corrected by tax authorities for a period of four years (ten years for Social Security up to and including year 2000 and five years from 2001) except when there have been tax losses, tax benefits granted, ongoing tax audits or claims filed, in which cases, according to the circumstances, standard terms are extended or suspended. As the company's tax returns for the years up to and including 2003 have been audited, returns for the years from 2004 to 2007 may still be audited. The company's board understands that corrections, if any, that may result from tax audits will not have a significant effect on the financial statements at 31 December 2008.

Income tax (IRC) recorded as period cost for the years ended 31 December 2008 and 2007 is corrected by the accounting of deferred taxes in accordance with Accounting Guideline n° 28 (**Note 8**).

At 31 December 2008 and 2007 the nominal tax rate is reconciled with the effective tax rate as follows:

	2008	2007
Profit before tax	36 839 034	31 784 533
Expected tax at the nominal rate of 26.5%	9 762 344	8 422 901
Effect of permanent differences	101 789	(1 161 283)
Separate taxation	299 550	131 577
Tax charge	10 163 683	7 393 195
Current tax	7 203 136	6 712 340
Deferred tax (Note 8)	2 960 547	680 856
Effective tax rate	27,59%	23,26%

## 37. Contingent liabilities and guarantees provided

### *Contingent liabilities*

The company has carefully evaluated its risks and contingencies whereupon provisions were made that, in the face of the identified risks, were considered to be adequate. The said evaluation did not identify, beyond the recorded provisions, any other contingent obligations that should be disclosed as liabilities.



### Guarantees

At 31 December 2008 and 2007 the company had obligations arising from guarantees issued as follows:

	2008	2007
Municipalities	22 511 467	18 873 923
European Investment Bank	7 921 611	12 613 707
Courts of law	5 433 496	5 433 496
Other	19 817	476 512
	35 886 391	37 397 638

## 38. Note to the income statement by function

At 31 December 2008, the main items of the income statement by function were as follows:

### a) Cost of sales and provision of services

The item “Cost of sales and provision of services” included 43,069,199 euros relating to operating costs for the Production business area less 1,486,185 euros in income from the annual transfer of investment grants for assets allocated to the Production area.

The allocation of 1,871,705 euros in annual income from investment grants to the various items in the income statement by function in 2008 is as follows:

	2008	2007
Cost of sales and services provided	1 486 185	4 193 762
Distribution costs	381 779	381 779
Other operational costs and losses	3 741	3 741
	1 871 705	4 579 281

### b) Distribution costs

This item reflects primarily operating costs in the Distribution business area which amounted in 2008 to 30,322,844 euros.

### c) Administrative costs

At 31 December 2008, this item included mainly operating costs from all supporting areas in the company.

### d) Net borrowing cost

This item includes interest on bank loans for an amount of 9,162,288 euros and costs of 113,028 euros incurred with bank guarantees for EIB loans.



**e) Tax on operating profit**

Reconciliation between tax in the income statement by nature and tax in the income statement by function is as follows:

	2008	2007
Total tax for the period	10 163 683	7 393 195
Tax estimate shortfall (a)	309 605	45 300
Tax refunds (a)	-	(182 262)
	10 473 288	7 256 234

(a) Entered in the income statement by nature as extraordinary results





# accounting documents required by the Official Accounting Plan

137



## Balance sheet at 31 December 2008 and 2007

ASSETS	Financial years			
	2008		2007	
	Gross assets	Acc depreciation and adjustments	Net assets	Net assets
<b>FIXED ASSETS</b>				
Intangible fixed assets				
Intellectual property rights	22 692	928	21 764	22 228
<b>Total</b>	<b>22 692</b>	<b>928</b>	<b>21 764</b>	<b>22 228</b>
Tangible fixed assets				
Land and natural resources	49 761 829	-	49 761 829	49 869 219
Buildings	118 420 910	76 906 779	41 514 131	43 684 298
Production equipment	937 921 270	414 176 668	523 744 602	516 187 645
Transportation equipment	1 655 748	1 654 629	1 119	3 515
Tools	10 355 361	9 565 593	789 768	1 042 121
Office equipment	18 115 501	16 026 063	2 089 438	1 594 142
Containers	8 134	7 731	403	749
Other tangible fixed assets	10 590 869	9 081 875	1 508 994	2 019 150
Fixed assets in progress	17 969 734	-	17 969 734	32 027 635
Advances on tangible fixed assets	135 113	-	135 113	1 155 135
<b>Total</b>	<b>1 164 934 469</b>	<b>527 419 338</b>	<b>637 515 131</b>	<b>647 583 610</b>
Financial investments				
Equity holdings in associates	252 870	-	252 870	251 370
Securities and other financial investments	108 732	-	108 732	108 732
<b>Total</b>	<b>361 602</b>	<b>-</b>	<b>361 602</b>	<b>360 102</b>
<b>MEDIUM- AND LONG-TERM DEBTORS</b>				
Other debtors	14 570 718	-	14 570 718	11 302 155
<b>Total</b>	<b>14 570 718</b>	<b>-</b>	<b>14 570 718</b>	<b>11 302 155</b>
<b>CURRENT ASSETS</b>				
Inventories				
Raw materials, intermediate and ready to use	1 295 524	60 950	1 234 574	1 223 114
Goods	306 380	284 907	21 473	-
<b>Total</b>	<b>1 601 904</b>	<b>345 857</b>	<b>1 256 047</b>	<b>1 223 114</b>
Short-term debtors				
Clients, current account	15 928 703	-	15 928 703	20 635 621
Clients, doubtful debtors	3 922 324	2 960 345	961 979	1 297 311
Associates	1 353 246	-	1 353 246	1 343 246
Advance payment to suppliers	1 082 983	-	1 082 983	-
Public sector	1 474	-	1 474	287 544
Other debtors	2 542 485	623 123	1 919 362	3 326 704
<b>Total</b>	<b>24 831 215</b>	<b>3 583 468</b>	<b>21 247 747</b>	<b>26 890 425</b>
Marketable securities				
Other treasury investments	18 700 000	-	18 700 000	11 000 000
<b>Total</b>	<b>18 700 000</b>	<b>-</b>	<b>18 700 000</b>	<b>11 000 000</b>
<b>BANK DEPOSITS AND CASH ON HAND</b>				
Bank deposits	4 782 936	-	4 782 936	3 963 160
Cash on hand	37 562	-	37 562	36 037
<b>Total</b>	<b>4 820 498</b>	<b>-</b>	<b>4 820 498</b>	<b>3 999 197</b>
<b>ACCRUALS AND DEFERRALS</b>				
Accrued income	8 707 949	-	8 707 949	10 031 630
Deferred costs	944 468	-	944 468	1 097 019
Deferred tax assets	6 177 905	-	6 177 905	9 829 939
<b>Total</b>	<b>15 830 322</b>	<b>-</b>	<b>15 830 322</b>	<b>20 958 588</b>
Total accumulated depreciation and adjustments		531 349 591		
<b>Total assets</b>	<b>1 245 673 420</b>		<b>714 323 829</b>	<b>723 339 419</b>

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2008

**The financial manager and accountant**  
Daniela Marina Alves Fernandes Valle Santos

**The board of directors**  
João Manuel Lopes Fidalgo, Chairman  
Jorge Luís Ferrão de Mascarenhas Loureiro, Executive Director  
José Alfredo Manita Vaz, Executive Director  
António Bento Franco, Executive Director  
Rui Manuel de Carvalho Godinho, Executive Director



## SHAREHOLDER'S EQUITY AND LIABILITIES

	Financial years	
	2008	2007
<b>EQUITY</b>		
Share capital	150 000 000	150 000 000
Adjustments to equity holdings in subsidiaries and associates	(4 064)	(4 064)
Revaluation reserves	101 498 715	107 369 030
<b>Reserves:</b>		
Legal reserves	29 664 223	27 225 088
Other reserves	22 171 377	22 171 377
Retained earnings	35 040 674	25 307 826
Sub-Total	338 370 925	332 069 258
Net profit for the year	26 675 351	24 391 338
Total shareholder's equity	365 046 276	356 460 596
<b>LIABILITIES</b>		
Provisions for risks and charges		
Other provisions for risks and charges	13 099 960	19 289 146
Total	13 099 960	19 289 146
Medium- and long-term debt		
Bank debt		
Suppliers, current account	203 070 470	211 171 405
Total	203 070 470	211 171 405
Short-term debt		
Bank debt	8 100 934	6 018 390
Suppliers, current account	24 481 482	24 867 155
Suppliers - invoices received under processing	35 439	24 301
Suppliers of fixed assets, current account	9 137 637	7 279 530
Public sector	2 548 281	1 419 108
Other creditors	16 428 368	14 029 393
Total	60 732 141	53 637 878
<b>ACCRUALS AND DEFERRALS</b>		
Cost accruals	24 101 838	31 945 095
Deferred income	40 100 388	41 971 057
Deferred tax liabilities	8 172 756	8 864 243
Total	72 374 982	82 780 395
Total assets	349 277 553	366 878 823
Total shareholder's equity and liabilities	714 323 829	723 339 419

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2008

## The financial manager and accountant

Daniela Marina Alves Fernandes Valle Santos

## The board of directors

João Manuel Lopes Fidalgo, Chairman  
 Jorge Luís Ferrão de Mascarenhas Loureiro, Executive Director  
 José Alfredo Manita Vaz, Executive Director  
 António Bento Franco, Executive Director  
 Rui Manuel de Carvalho Godinho, Executive Director





## Income statement by nature for the years ended on 31 December 2008 and 2007

COSTS AND LOSSES	Financial years			
	2008	2007		
Cost of goods sold:				
Materials	2 694 225	2 694 207	2 684 150	2 684 150
Goods and services purchased		39 779 117		36 771 381
Staff costs:				
Remuneration	23 841 899		20 895 664	
Social charges:				
Pensions	10 952 873		2 593 857	
Other	(6 490 614)	28 304 158	9 875 776	33 365 297
Depreciation charges (tangible and intangible fixed assets)	31 693 263		30 426 855	
Adjustments	774 827		1 491 518	
Provisions	2 041 624	34 509 714	1 134 613	33 052 986
Taxes	1 212 735		1 008 739	
Other operating costs and losses	59 646	1 272 381	81 368	1 090 107
A.....		106 559 577		106 963 921
Interest and similar costs	9 291 407	9 291 407	8 901 740	8 901 740
C.....		115 850 984		115 865 661
Extraordinary costs and losses		1 027 630		505 187
E.....		116 878 614		116 370 849
Company income tax		10 163 683		7 393 195
G.....		127 042 297		123 764 044
Net profit for the year		26 675 351		24 391 338
		153 717 648		148 155 382
INCOME AND GAINS				
Sales:				
Products	140 942 021		137 376 839	
Services provided	2 584 436	143 526 457	2 591 985	139 968 824
Own jobs	5 825		43 254	
Supplementary income	1 800 993		1 868 600	
Subsidies to operations	3 857		-	
Reversal of depreciation and adjustments	946 078	2 756 753	102 550	2 014 404
B.....		146 283 210		141 983 228
Interest and similar income	1 149 869	1 149 869	419 098	419 098
D.....		147 433 079		142 402 326
Extraordinary income and gains		6 284 569		5 753 056
F.....		153 717 648		148 155 382
SUMMARY				
Operating profit:	(B) - (A) =	39 723 633		35 019 307
RNet financial items:	(D - B) - (C - A) =	(8 141 538)		(8 482 643)
Profit before extraordinary items :	(D) - (C) =	31 582 095		26 536 664
Profit before tax:	(F) - (E) =	36 839 034		31 784 533
Net profit for the year:	(F) - (G) =	26 675 351		24 391 338

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2008

**The financial manager and accountant**  
Daniela Marina Alves Fernandes Valle Santos

**The board of directors**  
João Manuel Lopes Fidalgo, Chairman  
Jorge Luís Ferrão de Mascarenhas Loureiro, Executive Director  
José Alfredo Manita Vaz, Executive Director  
António Bento Franco, Executive Director  
Rui Manuel de Carvalho Godinho, Executive Director



## Appended notes

The numbering of the appended notes as required by the Official Accounting Plan is reconciled with the numbering of the presented notes as follows:

Note POC	Description	Presented Notes
1.	POC rules waived in the period	2
2.	Comparability	n.a
3.	Bases of presentation and main valuation criteria	2
4.	Share prices	n.a
5.	Tax benefits relevant for the period	n.a
6.	Income tax	37
7.	Average number of employees	28
8.	Note to the accounts for establishment costs and research and development	n.a
9.	Explanation for depreciating establishment transmission value beyond five years	n.a
10.	Changes in fixed assets and related depreciation and adjustments	5,6,7 e 29
11.	Funding of fixed assets booked for the period	n.a
12.	Revaluation of tangible fixed assets (legislation)	6
13.	Table detailing revaluations	6
14.	Fixed assets in third parties' possession	6
15.	Goods used under financial leases	n.a
16.	Equity holdings in group companies and associates	7
17.	Shares and parts of the Marketable securities account exceeding 5% of current assets	n.a
18.	Breakdown of account 4154 - Funds	n.a
19.	Materially relevant differences between market prices and valuation of current assets	n.a
20.	Valuation of current-asset items below market prices	n.a
21.	Adjustments	11 e 13
22.	Inventory in third parties' possession	n.a
23.	Doubtful debts	11 e 13
24.	Loans extended to governing body members	n.a
25.	Debts to and claims on company staff	13 e 24
26.	Debts materialised by balance sheet items but not reported on the balance sheet	n.a
27.	Dated and undated bonds issued by the company	n.a
28.	Overdue amounts on the Public sector account	n.a
29.	Debts to third parties maturing after five years	19
30.	Debts to third parties backed by collateral	n.a
31.	Commitments not reported on the balance sheet	18
32.	Guarantees tendered	38
33.	Difference between debts payable and related amounts	n.a
34.	Provisions	17
35.	Equity increases and reductions	n.a
36.	Composition of the share capital	15
37.	Identification of legal persons owning more than 20% of the share capital	15
38.	Shares and parts subscribed in the period	n.a
39.	Change in revaluation reserves in the period	16
40.	Changes in Shareholders' equity	Statement of changes in equity
41.	Statement of cost of goods sold	26
42.	Statement of change in production	n.a
43.	Remuneration of governing bodies	28
44.	Breakdown of sales and services provided	25
45.	Statement of net financial income	34 e 35
46.	Statement of net extraordinary income	35
47.	Disclosures required by law	n.a
48.	Other relevant disclosures	12,13,14,19, 23 e 24

n.a. - not applicable





# opinions and certifications

143



## Report and opinion of the Sole Auditor

Pursuant to the law and the company's articles of association, EPAL's sole auditor has prepared his annual report including the analysis of the board of directors' annual report and accounts 2008 as well as the allocation of net profit for the year as proposed by the board.

### A. REPORT

In the fulfilment of his duties, the sole auditor followed the company's key operations using as tools for his analysis the monthly accounting reports and their respective support documents; operating and capital budgets; third-party accounts; loans obtained to fund capital expenditure; the amounts of water produced and sold and relevant losses as well as the information prepared by the planning and control department regarding budgetary execution and the company's financial performance.

This work is described in the quarterly reports sent to the board of directors, in accordance with the relevant provisions of the Companies Code.

**In discharging his responsibilities, the supervisory body adopted the following – deemed as essential – procedures:**

- Evaluation of the management of specific areas of the company, particularly sales and purchases, human resources, operating and financial costs, capital expenditure and loans.
- Verification that the company holds title to the goods and amounts allocated to its operations. In this regard, it was concluded that tangible fixed assets are recorded on the balance sheet at acquisition cost or their re-valued amount and depreciation charges of 31.693 million euros for the year were calculated on the basis of the respective assets' estimated economic life, applying the highest accepted tax rates.
- Verification of the adequacy and consistency of accounting policies and asset valuation criteria adopted for the preparation of financial statements, which are disclosed in the notes to the financial statements, so as to reliably express the company's financial position and the result of its operations in the financial year.
- Control of the execution of operating and capital budgets. Execution levels are very satisfactory, not only because of the favourable variances achieved but also because of the magnitude of the year-on-year changes. In this regard, emphasis should be given to the favourable variances in revenues – 7.698 million euros, or 5.3%, compared to budget and 5.562 million euros, or 3.8%, year on year. Variances in costs were also favourable – 5.632 million euros, or 4.6%, below budget and 0.4% above the year before.



The capital budgeting plan was executed at 68%, with a nominal value of 26.161 million euros and the volume of commitments amounted to 79% of the plan, or 30.402 million euros. These indicators evidence a satisfactory financial performance in terms of capital expenditure, in line with earlier years.

- Water losses in the year were analysed at all stages of the cycle, from abstraction to use by the end client, whereby it was concluded that the overall loss rate, 12.57% of water abstracted, was one of the lowest ever, which was in keeping with the board's goals in this respect. Accordingly, and with a view to creating the right conditions to continually curb water losses, the company executed significant investments in the renewal and expansion of the Lisbon network, which reached 8 million euros in 2008, an effort in line with earlier years.

Considering the relatively low cost of water losses, they are within the target range for the cost-benefit balance of the company's investment in this area.

- Confirmation that the management report is in accordance with the financial statements and that its preparation followed the requirements of the Companies Code and other applicable legislation.

- The company's obligations with the pension plan fell by 37.8 million euros in 2008 compared to the year before, which was influenced by the changes in the plan's financing parameters, cuts in the value of the assets of the fund and relevant adjustments to the company's obligations with the pensions. The assets fell by 13.2 million euros and the obligations by 35.7 million euros.

145

At the end of the year, the fund had the following composition: EPAL's obligations 50.662 million euros; value of the assets of the fund 33.151 million euros; provisions made 15.643 million euros; deferred actuarial losses 1.83 million euros, which are within the 10% established limit. EPAL's financial support of 2.9 million euros in 2008 contributed decisively to attain ISP's requirements.

- The financial performance was reinforced with a significant improvement in critical indicators – equity-to-debt ratio (+7.6%), equity to total assets ratio (+3.7%) and borrowing capacity (+5.6%), whose amounts at the end of the year reflect a sufficiently solid and balanced financial structure and ensuring operation of the company under normal conditions.

The returns on sales, equity and assets reached 6.6%, 17.8% and 9.6%, respectively. The improvement in these indicators was due to the increase in the net profit by 9.36% reaching 26.675 million euros, one of the highest ever. The operating cash flow reached 74.2 million euros in 2008, up 9.1% from 2007, and represented about 52% of the turnover, which amounted to 143.53 million euros.

- Equity rose to 365.05 million euros, up 2.4% from a year earlier. The increase stemmed primarily from retained earnings of 12 million euros.

Net profit of 26.7 million euros for 2008 may influence equity in 2009 pending the AGM's decision on its allocation.



- In operating costs, the savings with staff costs (-15,2%) and adjustments (-48,1%) were positive factors and costs with goods and services purchased and provisions, up 8.2% and 80%, respectively, in year-on-year changes, were negative factors.

The rise in costs with goods and services purchased was due to the rise in energy (7.6%) and special works (20.3%). Overall, these costs represent 43.5% of total costs with goods and services purchased, up 8.2% from 2007.

In spite of the unfavourable variances in some of its most important components, operating profit reached 39.724 million euros, up 13.4%, or 4.7 million euros, from a year earlier.

- As a final note, we should like to emphasise the strategy that aims to raise service quality while ensuring a sustainable financial profile coupled with an adequate and fair return on capital employed. This approach is based on increased operational efficiency through implementation of a quality management system and involves a centralised purchasing function as a way to control the cost of acquiring goods and services. These measures have impacted favourably the company's economics, particularly operating and net profit, which have shown significant growth in recent years.

. We are of the opinion that the proposed allocation of net profit contained in the management report is compliant with the law and the articles of association and, in particular, what is stipulated in the Companies Code.

146

## B. OPINION

In view of the foregoing, it is the sole auditor's opinion that the following should deserve the AGM's approval:

- the annual report and accounts of 2008;
- the proposed allocation of net profit,

as presented by the board of directors.

Lisbon, 24 March 2009.

The Sole Auditor,

(António Dias Nabais)





## Certification of Accounts

### Introduction

1. We have examined the financial statements presented by **EPAL - Empresa Portuguesa das Águas Livres, S.A.** consisting of the balance sheet at 31 December 2008 evidencing net assets of **714,323,829** euros and equity of **365,046,276** euros including net profit for the year of **26,675,351** euros; the statements of **changes in equity** and **cash flows** for the financial year ended on the mentioned date, and the appended **Notes** to the financial statements.

### Responsibilities

2. It is the board of directors' responsibility to prepare such financial statements that shall truly and appropriately evidence the company's financial position, the result of its operations and cash flows as well as adopt adequate accounting policies and principles and keep an appropriate internal control system.

3. Our responsibility is to express a professional and independent opinion, based on the examination of the mentioned financial statements.

147

### Scope

4. We performed our examination in accordance with the technical standards and auditing guidelines of the Institute of Chartered Accountants, which require the examination to be planned and executed with a view to obtaining an acceptable confidence level about the financial statements being free of materially relevant distortions. To this end, the examination included:

- checking, on a sampling basis, the support for the amounts and disclosures contained in the financial statements and assessing the estimates used in their preparation that have resulted from the judgements and criteria defined by the board of directors;
- judging whether the adopted accounting policies and their disclosure are adequate, considering the circumstances;
- checking the applicability of the principle of continuity; and
- evaluating the overall adequacy of the financial statements presentation.



5. Our examination included checking the conformity of financial information in the management report with the presented financial statements.

6. A remark is in order that the balance sheet and the income statement by nature for 2007 and 2008 are presented in a format that is different from the one required by the Official Accounting Plan (POC); this is, indeed, stated in Note 2.a) to the financial statements, where the notes are sequentially presented – the income statement after the balance sheet; however, all information required by the POC, particularly regarding total assets, equity and net profit, is – jointly with the statement of changes in equity – reported in both years for the same amounts as those contained in the balance sheet and income statement by nature according to the format required by the POC, also presented in a separate section;

7. We consider that the performed examination provides a sufficient basis for expressing our opinion on the company's reporting package.

## Opinion

8. In our opinion, the mentioned financial statements truly and appropriately reflect, in all materially relevant aspects, in compliance with the accounting principles generally accepted in Portugal, EPAL - Empresa Portuguesa das Águas Livres, S.A.'s financial position at 31 December 2008, the result of its operations and the cash flows in the financial year ended on that date.

Lisbon, 24 March 2009.

The Chartered Accountant,

(António Dias Nabais)



## Audit Report



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Portugal

### AUDIT REPORT

#### Introduction

1. We have examined the attached financial statements of EPAL – Empresa Portuguesa de Águas Livres, S.A. (the “company”), which include the balance sheet at 31 December 2008 evidencing a total of 714.323.829 euros and equity of 365.046.276 euros including net profit of 26.675.351 euros, the income statements by nature and function, the statement of changes in equity and the cash flow statement for the year ended in the said date as well as the relevant notes.

#### Responsibilities

2. It is the board of directors’ responsibility to prepare such financial statements that will present in a true and appropriate way the company’s financial position, the result of its operations and its cash flows as well as the adoption of adequate accounting policies and principles and the maintenance of an appropriate internal control system. Our responsibility is to express a professional and independent opinion based on our examination of the said financial statements.

#### Scope

3. Our examination was performed in accordance with the technical standards and the auditing guidelines of the Portuguese Institute of Chartered Accountants, which require the examination to be planned and executed with a view to obtaining an acceptable degree of confidence that the financial statements are free of materially relevant distortions. This examination included checking, on a sampling basis, the support for amounts and disclosures in the financial statements and assessing the estimates based on the board of directors’ judgements and criteria that were used for their preparation. This examination also included evaluating the adequacy of the adopted accounting policies and their disclosure, in view of the circumstances, checking the applicability of the principle of continuity of operations and assessing the overall adequacy of the financial statements’ presentation. Our view is that the conducted examination provides an acceptable basis for the expression of our opinion.

#### Opinion

4. Our opinion is that the financial statements referred to in paragraph 1 above present in a true and appropriate way all materially relevant aspects, the financial position of EPAL – Empresa Portuguesa de Águas Livres, S.A. at 31 December 2008 as well as the result of its operations and its cash flows in the financial year ended in the said date, in accordance with the accounting principles generally accepted in Portugal (Note 2.a).

Lisbon, 26 March 2009

DELOITTE & ASSOCIADOS, SROC S.A.  
Represented by João Luís Falua Costa da Silva

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EPAL

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