# Annual Report and Accounts 2012

Grupo Águas de Portugal

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

# Annual Report and Accounts 2012

Over the past 25 years, EPAL has collected a series of tile panels by Master Eduardo Nery, which are a remarkable asset and testimony of his ingenuity, his creativity and his art. In memory and as a tribute to the master, the chosen theme to illustrate this Report and Accounts was the tiles he designed for the company.

# Índice

# Accounts

# Chairman's Statement

The highlight of the financial year 2012 was the company's positive economic result, which was well above the forecast, although there was a decrease in the volume of water supplied and, consequently, a reduction in turnover. Therefore, the adoption of a management policy guided by rigor and efficiency was the key to the results achieved, which translated into a relevant optimisation of the company's cost structure; this couldn't have been achieved without the active involvement of the workers.

We should also point out, due to its future importance, the optimisation of our investment plan, with a reduction from 245 million euros to 112 million euros in the 2012-2016 period, while still complying with the company's strict goals. In this respect, the overhaul project for the Vale da Pedra Water Treatment Plant (WTP) deserves highlight, considering it resulted in a very important optimisation, from 40 million euros to 13 million euros. In some cases, we even managed to devise a few innovative solutions, such as the change in the disinfection system, which ultimately resulted in a reduction in operating costs, bringing out the origin of the company's foundation, in the 19th century, which was based on innovation and in finding effective and efficient solutions, some of them with the added potential of global marketability. Following this line, we created EPALin, which aims to encourage excellence an innovation within the company.

2012 was marked by the launch, in South Korea, of another product with the EPAL quality label, allowing to spread the excellence of the solutions developed by the company on a global scale. We are talking about WONE, a tradeable, innovative product, 100% made in Portugal and fully developed within the company, presenting enormous marketability and even export potential. WONE has already allowed EPAL to reduce water losses in its distribution network to levels that place the company among the top world references; in 2012, these values dropped below 9%!

In 2012, EPAL obtained the certification of its Integrated Corporate Responsibility System – SIRE [Sistema Integrado de Responsabilidade Empresarial], according to the NP EN ISO 9001:2008 standard; we should also point out the excellent quality of the water supplied and the evolution of Customer satisfaction and relationship indicators.

2012 is also marked by the signing of agreements with 43 Lisbon parishes, to support the families in greater need, an initiative that preceded EPAL's proposal to create a social tariff for the first time in the history of the company.

During the financial year 2012 we also managed to resolve some situations that required adjustments in terms of working conditions, for which it was important to rely on the great sensibility and knowledge of the employees' representative bodies.

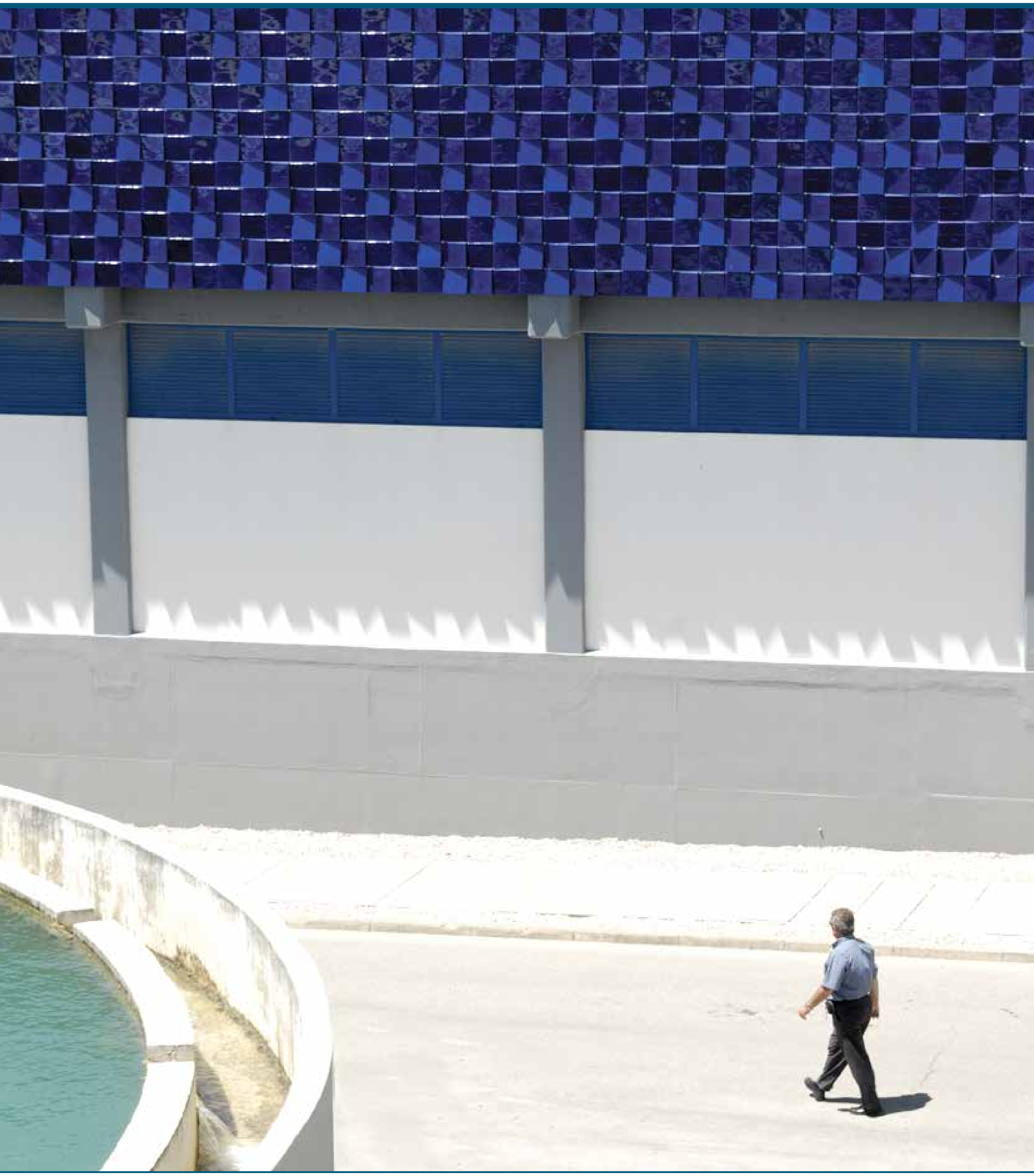
I also emphasise the intensification and strengthening of our relationships with the Shareholder, especially regarding the permanent support and monitoring of the important ongoing restructuring process.

Finally, a word of appreciation to the company's suppliers, customers and, especially, to all of EPAL's employees who, despite the difficulties inherent to the Country's situation, managed to respond, with commitment, determination and responsibility, to the new challenges they were posed with in the exercise of the public service mission that EPAL provides.

José Manuel Sardinha
*Chairman of the Board of Directors*


AL

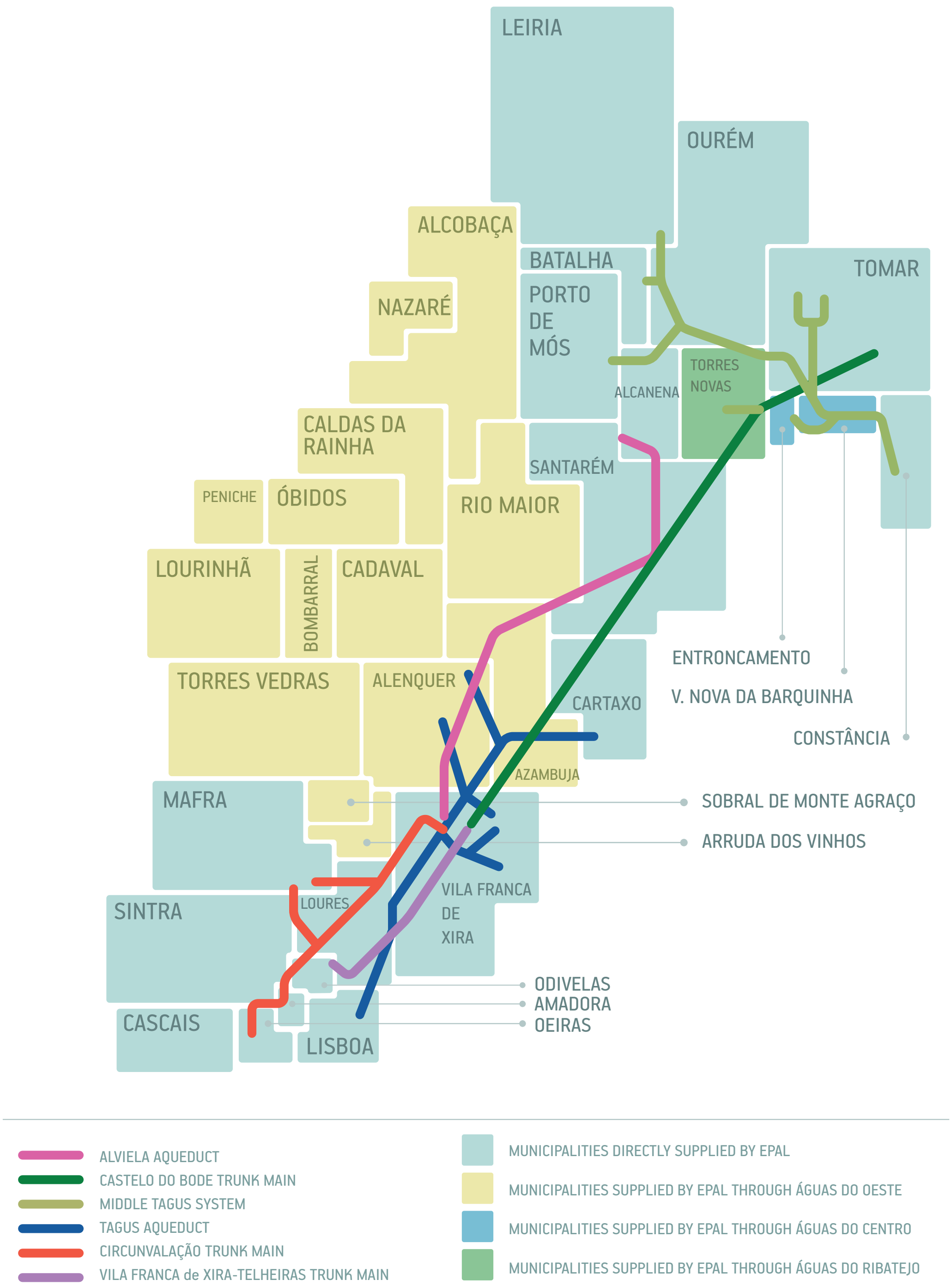
# The Company



# Company

EPAL, Empresa Portuguesa das Águas Livres, S.A. is a public limited company, which was originally established in 1868 as CAL - Companhia das Águas de Lisboa. Since 1993, it is 100% owned by AdP - Águas de Portugal, SGPS, SA.

EPAL's corporate purpose is to ensure the public supply of water for human consumption and to undertake other activities, besides rendering services related to the urban water cycle, combining a set of skills of recognised quality.



## Shareholder

Águas de Portugal was established in 1993, under private commercial law, having Parpública – Participações Públicas, SGPS, SA; Parcaixa, SGPS, SA and the Direção Geral do Tesouro as its shareholders.

AdP, SGPS, SA has the mission of contributing to solve national problems in the areas of water supply, wastewater sanitation and waste treatment and recovery, within a framework of economic, financial, technical, social and environmental sustainability.

## Financial Indicators

| | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Share capital ($10^6$ €) | 150,0 | 150,0 | 150,0 | - | - |
| Equity ($10^6$ €) | 506,1 | 524,4 | 533,0 | 8,6 | 1,63% |
| Total net assets ($10^6$ €) | 916,9 | 902,2 | 885,1 | -17,1 | -1,90% |
| Total liabilities ($10^6$ €) | 410,8 | 377,8 | 352,1 | -25,7 | -6,80% |
| Turnover ($10^6$ €) | 147,5 | 147,0 | 144,2 | -2,8 | -1,90% |
| Capital expenditure ($10^6$ €) | 23,6 | 12,0 | 13,1 | 1,1 | 9,32% |
| Medium- and long-term debt ($10^6$ €) | 239,3 | 222,4 | 205,2 | -17,2 | -7,73% |
| EBITDA | 87,0 | 86,5 | 87,9 | 1,4 | 1,64% |
| Average payment term (APT) (days) | 35,3 | 31,3 | 29,8 | -1,5 | -4,76% |
| Net profit for the period ($10^6$ €) | 45,9 | 42,6 | 43,9 | 1,3 | 3,05% |
| Return on equity (%) | 9,10 | 8,11 | 8,23 | - | - |

## Activity Indicators

| | 2010 | 2011 | 2012 | Change | % |
|---|---|---|---|---|---|
| Volume of Water sold ($m^3$) | 213.799.910 | 210.286.101 | 205.210.051 | -5.076.050 | -2,41% |
| Direct Customers | 349.413 | 348.790 | 346.121 | -2.669 | -0,77% |
| Municipal Customers | 18 | 17 | 17 | 0 | 0,00% |
| Multi-municipal Customers | 2 | 3 | 3 | 0 | 0,00% |
| Directly and Indirectly Supplied Municipalities* | 33 | 34 | 34 | 0 | 0,00% |
| Consumers | 2.825.444 | 2.870.314 | 2.870.507 | 193 | 0,01% |
| Supplied Area ($km^2$) | 6.681 | 7.090 | 7.090 | 0 | 0,00% |

* Does not include the municipality of Lisbon

## Main Events

2012 was characterised by an important reduction in water consumption, associated with a significant increase in energy costs, which is one of the main production costs. EPAL managed to face these changes as an opportunity to increase its efficiency levels, with benefits for the users and for the shareholder.

In this context, we point out the outstanding work of optimisation of our investment plan, which dropped from 245 million euros to 112 million euros in the 2012-2016 period, thus saving, 133 million euros, which is an important factor in terms of rationalisation of the invested capital and, simultaneously, the minimisation of operating costs. In this regard, due to its importance and to the fact that it was attained resorting to internal means, highlight goes to the optimisation achieved through the investment on the full overhaul of the Vale da Pedra WTP, including its enhancements in terms of treatment, which dropped from 40 million euros to 13 million euros, complying with all the prescribed requirements. This is a saving of 27 million euros in costs, which is very important for the competitiveness of the plant within the context of EPAL's system.

The reduction of losses we achieved also deserves a special highlight, considering that, for the first time in the company's history, the level of water losses dropped below the 10% mark, reaching a value lower than 9%, resulting in an additional saving of 5 million m3 of abstracted water, with significant benefits in terms of energy savings, thus lessening the effects of the enormous increase in energy costs.

In addition, there were optimisations related to several service rendering contracts, which, associated with a more efficient financial management, resulted in significant cost savings for the company.

In 2012, in line with our accurate and strict management policy, we should highlight the preparation of an application process that focused on 18 R&D projects, carried out between 2007 and 2011, for Agência de Inovação - ADI (Innovation Agency), within the scope of the Sistema de Incentivos Fiscais à I&D Empresarial - SIFIDE (Tax Incentive System for Corporate Research and Development), amounting to an overall expenditure of 3.2 million euros, whose associated tax savings are estimated at 1.6 million euros.

2012 was definitely marked by the launch, in South Korea, of another product with EPAL's brand, fully developed within the company. We are talking about WONE, a tradeable and very innovative product; modern, 100% made in Portugal, it presents enormous marketability, and even export potential. WONE has already allowed EPAL to reduce its water losses in the distribution network to levels that place the company among the top world references. AQUAMATRIX, an EPAL product with a vast market implementation, recorded an expansion of its customer range in 2012. In order to encourage the great creativity that exists in the company, 2012 is also marked by the launch of EPALin, an innovation competition which aims to select innovative - and possibly tradeable - projects, systems and products.

During the financial year 2012 it was also possible to settle situations that required adjustments, in terms of human resources, for which it was important to rely on the sensibility and knowledge of the employees' representative bodies.

We point out the signing of agreements with 43 Lisbon parishes to support families in need.

Within the scope of its vertical integration strategy, EPAL maintained contacts and negotiations with the Lisbon City Council to transfer the management and operation of the wastewater treatment and rainwater drainage systems, which are on a downturn, from the Lisbon municipality to the company.

We should also highlight the conclusion of the agreement with Parque Expo - Gestão Urbana, regarding the integration of the water distribution network from the Parque das Nações area, which formerly belonged to the Loures Municipality, into the company, representing an increase of around 2900 customers being served directly by EPAL, from January 2013.

From the activities developed in the reference year, we highlight:

• The awarding of the contract for the Recovery and Renewal of the Abstraction Point of Valada Tejo;

• The review of the Water Safety Plan (WSP) for EPAL's supply system;

• The strengthening of relationships with its main customers, namely hotels and hospitals in the city of Lisbon, to promote the adoption of best water management practices;

• The certification of the company's Quality Management System under the NP EN ISO 9001:2008 standard;

• The adoption of a new Document Management software system;

- The development of contingency plans and the performance of emergency simulations to address crisis situations likely to jeopardise the company's supply system;

- The modernisation and optimisation of the security system of the company's critical premises and infrastructures;

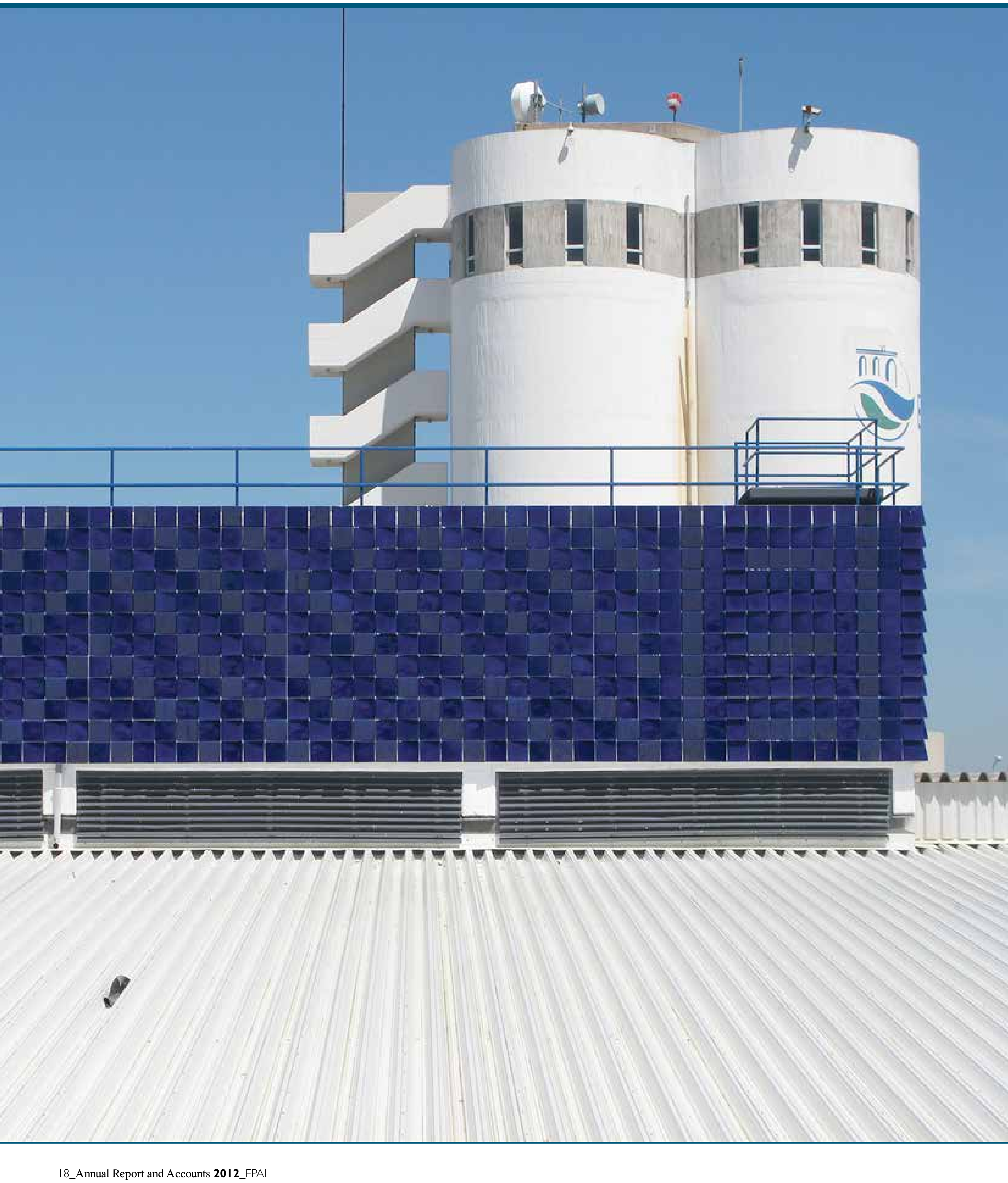
- The preparation, using only internal resources, of a project aimed at an extensive technological recast and at the optimisation of the water disinfection systems used by EPAL, which will allow eliminating the risk associated with this type of facility, besides resulting in a considerable reduction in operating costs;

- The celebration of the 25th anniversary of the Water Museum; there was also a decision to proceed with the updating and modernisation of the Water Museum, as well as of its work conditions, adjusting it to the new cultural and pedagogical demands, using internal resources. The project will also include the integration of the company's historical archive, resulting in the valorisation of spaces with great profitability potential;

- The launch of the campaign "vamos dar o litro contra a fome" (let's give it all against hunger), to encourage customers from the city of Lisbon to subscribe to our electronic invoicing service, whose profit will benefit a social welfare institution of recognised merit;

- The presence of the company in the IWA World Congress, held in Busan, South Korea, in the capacity of main responsible for the reception and organisation of the next congress, in 2014.

Celebration of the 25th Anniversary of the Castelo do Bode System - 4 June



# A. Corporate Governance

## 1. Mission, Values and Policies

### Mission

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

### Vision

To be a model Company in the Portuguese Water Sector.

To follow International Best Practice.

### Policy

Preserving the primary natural resource on which it depends - Water, promoting the creation of Value, Continuous Improvement and also Innovation and Development, contributing to a better quality of life for the Community in which it operates, EPAL is committed to the following principles, which constitute its Policy:

1. Developing its activities and provides services according to the regulatory and legal reference framework set forth in its Integrated Corporate Responsibility System, simplifying and optimising processes and resources, as instrumental factors for its continuous improvement, promoting development, innovation and research projects and initiatives that favour the effectiveness and efficiency of the System and the Company;

2. Developing the knowledge and the full potential of all its staff, which is essential for strengthening a culture of sustainable development of the Company's business, through the implementation of practices that are in line with the principles of the United Nations Global Compact;

3. Systematically revising, sharing and working on the commitments assumed with all internal and external stakeholders, in order to satisfy their needs and expectations, qualifying the identified improvement areas, a commitment that is taken up as a goal for the entire staff;

4. Guaranteeing the quality of the service it provides, resorting to qualified professionals to perform the respective activities, and ensuring, based on appropriate Plans, Processes and Procedures, the safeguarding of the quality of its essential product for public health;

5. Complying with the applicable legislation and other requirements it may subscribe to and making a commitment to continuously improve its performance efficiency, as well as to act according to its Code of Ethics and Conduct, and with the Plan for the Management of Corruption Risks and Related Offences;

6. Promoting environmental values and concerns with the aim of contributing in an active and responsible way to an environmentally sustainable future, preventing pollution and serious environmental accidents;

7. Assessing and controlling the dangers and risks to the health and safety of its staff and of all those who work for the Company, stimulating their active participation in finding solutions that reduce the possibility of health hazards and occurrence of incidents;

8. Supporting, promoting and developing socially responsible actions, ensuring the well-being of its staff, contributing to the well-being of society in general, strengthening its relationship with suppliers and service providers, stimulating their support and commitment to respecting and implementing practices according to these principles;

9. Identifying and assessing opportunities and threats with regard to its activity, defining and planning strategies and tactics, in order to minimise and mitigate the risks inherent to emergency situations, so as to be able to respond to force majeure or disruption situations, ensuring the continuity of its business, based on appropriate Emergency Plans.

## Values

EPAL is guided by the following Values:

- Quality, achieved through Innovation, Modernity and Excellence;

- Social responsibility in the rendering of essential public services;

- Sustainability and associated goals, such as management efficiency, environmental protection, respect for human beings and community involvement;

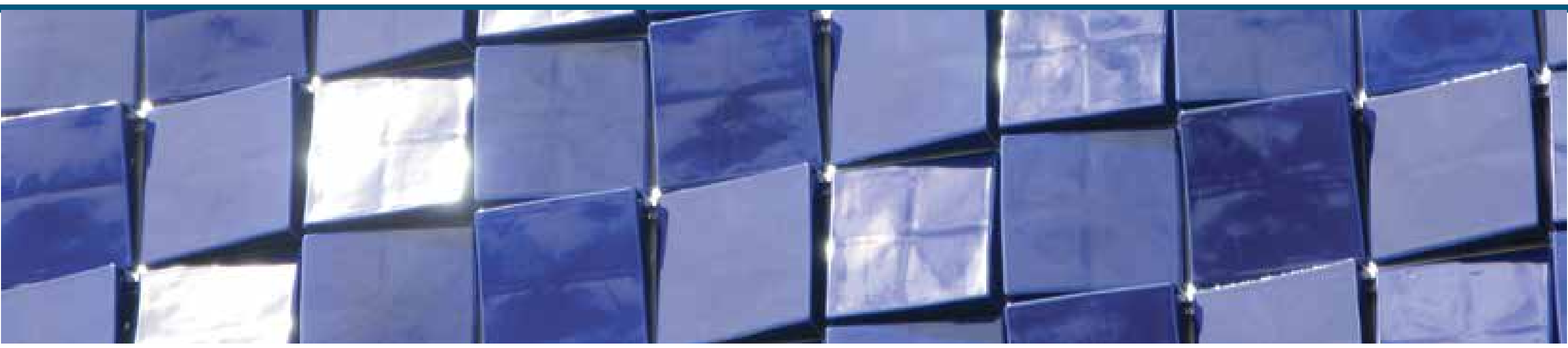
- Customer Orientation, the very reason for the Company's existence;

- Integrity and transparency in relationships with all stakeholders;

- Competence and rigor in decision-making and actions, establishing Trust as the governing principle for all relationships with its diverse audiences;

- Respect for and practice of Lawfulness;

- Continuous improvement of Persons, Knowledge, Processes, Business Practices and Society.



# 2. Internal and External Regulations

## Internal Regulations

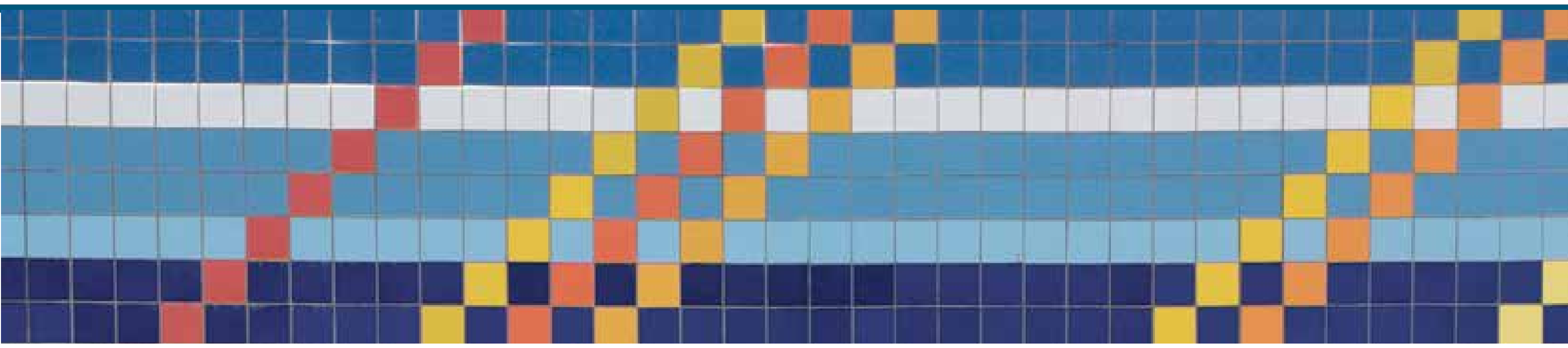
From the series of internal regulation documents in force at EPAL, we highlight the following:

- Hygiene Best Practice Code for EPAL'S Supply System
- Code of Ethics and Conduct
- SIRE – Integrated Corporate Responsibility System Guide
- Welcome Guide
- External Entities Welcome Guide
- Water Supply Infrastructure Inspection Management Guide
- Water Supply Infrastructure Inventory Guide
- Supply System Infrastructure Operation Guide
- Internal Regulation – Organisational Structure
- Internal Regulation – Definition of Departments and Responsibilities
- Internal Regulation - Responsibility Centres
- Internal Regulation – Delegation of Powers
- Plan for the Management of Corruption Risks and Related Offences
- Computer and Communication Equipment Usage Policy
- Vehicle Allocation and Usage Regulations

## Relevant Legislation

The pieces of legislation published in 2012 with an impact on EPAL's activities were the following:

- Law no. 64-B/2011 of 30 December 2011 - State Budget 2012
- Law no. 2/2012 of 6 January - Changes for the eighth time the Organisational and Procedural Law of the Constitutional Court
- Decree-Law no. 7/2012 of 17 January - MAMAOT Organic Law
- Decree-Law no. 8/2012 of 18 January - Changes to the public manager statute
- Decree-Law no. 26/2012 of 6 February - Extinction of EPAL's insurance fund
- Decree-Law no. 32/2012 of 13 February - Implementation of the State Budget 2012
- Decree-Law no. 56/2012 of 12 March - Approves the statutes of APA IP
- Law no. 20/2012 of 14 May - First change to Law no. 64-B/20ll of 30 December
- Decree-Law no. 107/2012 of 18 May - Duty to provide information and issue a previous report regarding the purchase of goods and services in the area of communication and information technologies
- Decree-Law no. 130/2012 of 22 June - Amendments to the Water Law
- Law no. 23/2012 of 25 June - Third amendment to the Labour Code
- Parliamentary Resolution no. 113/2012 - Promotes the accessibility, sustainability and quality of water supply and sanitation services
- Decree-Law no. 149/2012 of 12 July - Amends the Public Procurement Code
- Decree-Law no. 190/2012 of 22 August - Exceptional and temporary regime regarding the exemption of guarantees provided as security for the implementation of public work contracts
- Decree-Law no. 241/2012 of 6 November - Transfer of the assets and infrastructures located in the area of the Lisbon World Exhibition (Expo' 98) to the Lisbon Municipality



# 3. Information About Relevant Transactions

## Procedures adopted in terms of purchase of goods and services

EPAL follows the procedures imposed by applicable legislation currently in force, specifically regarding the public procurement rules enshrined in the Public Procurement Code, approved by Decree-Law no. 18/2008 of 29 January, with the wording provided by Law no. 59/2008 of 11 September, by Decree-Law no. 278/2009 of 2 October, by Law no. 3/2010 of 27 April and by the amendments resulting from Decree-Law no. 149/2012 of 12 July (applicable to procedures initiated after 11 August 2012).

The AdP group has a shared services unit, called AdP Serviços Ambientais, SA, which works as an operational structure for the centralisation, optimisation and rationalisation of the purchase of goods and services within the scope of the activities developed by the companies that are part of the group. The relationship between EPAL and AdP Serviços Ambientais, SA, works within the framework of an in-house relationship established on the basis of a relational model approved by AdP - Águas de Portugal SGPS, SA.

## Universe of transactions that did not occur in market conditions

Not applicable.

## Relevant transactions with related entities

• Águas de Portugal group companies: - Please see Note 28 of the Notes to the Financial Statement

• Clube de Golfe das Amoreiras, SA. - Please see Note 8 of the Notes to the Financial Statement

## List of suppliers with a turnover of more than 1 million euros

| Entity | amounts with VAT (euros) |
|---|---:|
| EDP Comercial, SA | 5.337.737,53 |
| Endesa Energia, SA | 4.499.545,01 |
| Graviner, SA | 4.214.941,66 |
| Iberdrola Generácion, SAL | 3.687.803,48 |
| CME - Construção Manutenção Eletromecânica | 3.505.731,23 |
| AdP - Águas de Portugal | 3.181.990,32 |
| Câmara Municipal de Lisboa | 2.587.162,74 |

Celebration of the 25th Anniversary of the Castelo do Bode System - 4 June

# 4. Governance Model

Pursuant to article 12 of the company's articles of association, the board of directors is composed of three or five directors, elected at a general meeting, for renewable three-year terms of office. The chairman of the board of directors, who has a casting vote, is chosen by the general meeting from the elected directors.

The Board of Directors has the powers to manage and represent the company, which are entrusted by law, by articles 13 and 14 of the articles of association and by the shareholder's resolutions.

## 4.1. Governing Bodies

EPAL has the following governing bodies, which were elected by the shareholder's resolution of 24 February 2012 for the 2012 - 2014 term of office:

### General Meeting Board

| | |
|---|---|
| Chair | AMEGA - Associação de Municípios para Estudos e Gestão da Água, representada pelo Eng.º Carlos Alberto Dias Teixeira |
| Vice-chair | Dra. Ana Cristina Rebelo Pereira |
| Secretary | Dra. Alexandra Varandas |

Besides the unanimous resolution of 24 February, recorded in minute no. 38 of the company's minute book, a general meeting was held on 30 March 2012 for the approval of the management report, of the accounts and of the proposal for the appropriation of profits attributed to the financial year 2011 and for the election of the Sustainability Advisory Board.

### Board of Directors

| | |
|---|---|
| Executive Chairman | Eng.º José Manuel Leitão Sardinha |
| Executive Director | Dra. Maria do Rosário da Silva Cardoso Águas |
| Executive Director | Dra. Maria do Rosário Mayoral Robles Machado Simões Ventura |

The meeting of the board of directors held on 29 February 2012 assigned the following departments and responsibilities to each of the directors:

## Chairman of the Board of Directors – José Manuel Leitão Sardinha

- SG – Company Secretary
- PCG – Planning and Control
- DSO – Organisational Development
- GIC – Brand and Corporate Communications
- JUR – Legal
- AUD – Internal Audit
- DOP – Operations
- Company Representation
- Coordination of Departments and Responsibilities

## Executive Director - Maria do Rosário da Silva Cardoso Águas

- DRH - Human Resources
- DGA - Asset Management
- DGO - Building Site Management
- DIR - Network Infrastructure
- LAB - Water Quality Control
- Employees' Representative Bodies

## Executive Director - Maria do Rosário Mayoral Robles Machado Simões Ventura

- DRC - Customer Relations
- DAF - Finance
- DSI - Information Systems
- LOG - Logistics
- MDA - Water Museum
- "Águas Livres" Magazine
- Historical Archives

The board of directors held 45 meetings during the year.

## Curricular notes about the members of the Board of Directors (BD)

**José Manuel Leitão Sardinha - Chairman of the Board of Directors**

With a Degree in Environmental Engineering and a Master's Degree in Sanitary Engineering, from the Nova University of Lisbon, he began his professional activity in 1991, providing consultancy in the field of water, waste water and urban solid waste and also worked as a collaborator of the Department of Environmental Sciences and Engineering of the Faculty of Sciences and Technology of the Nova University of Lisbon; after 2000, he took up the activity of guest lecturer in the field of water and urban waste water treatment and industrial effluents.

Between 1998 and 2002, he also collaborated with Hidrocontrato, where he held a position in the technical/commercial, production and operations division.

In March 2002, he joined the Águas de Portugal Group, as Managing Director of Águas do Oeste, S.A. until November 2004, when he took on a position as a non-executive member of its Board of Directors, until May 2012.

He was a member of the Southern Region Environmental Engineering Board of the Portuguese Association of Engineers [Conselho Regional Sul do Colégio de Engenharia do Ambiente da Ordem dos Engenheiros] during the 2004-2007 and 2007-2010 terms.

Between March 2004 and May 2012 he held the position of executive member of the Board of Directors at Simarsul, S.A.

Guest Lecturer at the Department of Environmental Sciences and Engineering of the Faculty of Sciences and Technology of the Nova University of Lisbon.

Member of the Southern Regional Board of the Portuguese Association of Engineers [Conselho Diretivo da Região Sul da Ordem dos Engenheiros].

Coordinator of the Southern Region Environmental Engineering Board of the Portuguese Association of Engineers [Conselho Regional Sul do Colégio de Engenharia do Ambiente da Ordem dos Engenheiros].

Member of the Board of the ARH Alentejo Hydrographic Region [Conselho de Região Hidrográfica da ARH Alentejo], on behalf of the National Council for Professional Associations [Conselho Nacional das Ordens Profissionais].

Chairman of the Board of Directors at EPAL, S.A. since February 2012"

**Maria do Rosário da Silva Cardoso Águas - Executive Director of the Board of Directors**

With a degree in Business Management and Administration from the Faculty of Human Sciences of the Portuguese Catholic University, she began her professional activity in 1985 as a Staff Accountant at Coopers & Lybrand and, after 1988, as a senior consultancy assistant at Consulteam, Consultores de Gestão, SA.

From 1989 to 1997, she was Chief Financial Officer at the company Alberto Gaspar - Indústria e Comércio de Madeiras, SA, being responsible for the financial, human resources and management control areas.

Between 1998 and 2001 she held the position of Councillor for Budget, Internal Control and Human Resources at the Figueira da Foz City Council.

In 2002 she became Senior Advisor at Grupo Águas de Portugal, SGPS, through Aquapor Serviços, S.A. being involved in the internal control assessment of water distribution concessionaires associated with the AdP Group.

In April 2002, she was elected a Member of Parliament, having requested the suspension of her employment contract at Aquapor, SA in order to take on that public office.

She was the State Secretary for Housing in the XV Portuguese Constitutional Government, having held this position from 8 April 2003 to 17 July 2004. From her work, we highlight the following: preparation of the Urban Lease Reform (PL 140/IX/3); of the Legal Regime for Urban Rehabilitation Societies (Law 106/2003) and of the Review of the PROHABITA Social Housing funding programme.

She was a Deputy State Secretary of the Minister for Social Security, Family and Children in the XVI Constitutional Government, having held the position from 21 July 2004 to 24 November 2004, having conducted important initiatives, such as: Preparation of the National Plan for Social Equipment Needs.

She was appointed State Secretary for Public Administration on 24 November 2004, holding the position until the new Government came into office, in March 2005.

She was a Member of Parliament between 2005 and 2009 for the constituency of Vila Real de Trás-os-Montes. She was the Coordinator of the Parliamentary Commission for Economic Affairs, Innovation and Regional Development and a member of the Commission for Budget and Finances.

Between 2009 and 2011, she was a Member of Parliament, elected by the constituency of Coimbra. Vice-President of the PSD Parliamentary Group, with responsibilities in the areas of Health, Labour and Social Security between October 2009 and April 2010. Member of the Parliamentary Commissions for Health, Economic Affairs, Innovation and Regional Development and member of the Commission for Labour and Social Affairs.

She holds the position of Executive Director of the Board of Directors at EPAL, SA since February 2012.

**Maria do Rosário Ventura - Executive Director of the Board of Directors**

With a degree in Business Management and Administration from the Portuguese Catholic University, she began her professional activity in 1982, first as a Technician, and then as the Director of the Department for Shareholdings, Studies and Projects of the Sociedade Financeira Portuguesa (Portuguese Financial Society, having been a part of this financial institution throughout its evolution until 2002, namely after its privatisation, in 1990, creating Banco Mello, which, in turn, was integrated into BCP in 2000; she held several Management positions, both in the area of investment banking (Large Corporate Management, Corporate Finance and Capital Market, Special Projects and Venture Capital Funds, among others), and in the retail banking area (Managing Director at Mello Crédito SFAC, Individual and Business Credit and Credit Products Unit at BCP).

Between 2002 and 2004, she was the State Secretary for Industry, Trade and Services, Ministry of Economy, of the XV Portuguese Constitutional Government.

Maria do Rosário Ventura was also the Chairwoman of the Board of Directors at Empordef - Empresa Portuguesa de Defesa SGPS, S.A. and its associated companies in 2004/05, Director at Grupo Millenniumbcp (2005), and Chief Financial Officer at Efacec Capital, SGPS between December 2005 and April 2011; she also held Managing positions in several companies of the Efacec group.

She was a non-executive member of the board of directors at Sulpedip - Sociedade para o Desenvolvimento Industrial, S.A. (1989/91), at Lisnave-Infraestruturas Navais, on behalf of Banco Mello (1998/99) and at Visa Portugal - Associação dos Operadores Visa, on behalf of Banco Comercial Português (2000/01); she was also a Member of the Municipal Assembly of Sintra, between 2005 and 2009.

She holds the position of Executive Director of the Board of Directors at EPAL since February 2012.

## Supervisory Body

Sole Auditor - António Dias Nabais

Deputy sole auditor - Severo Praxedes Soares

Statutory Auditor - Deloitte & Associados, SROC, SA, OROC no. 43, CMVM no. 231

Deputy Statutory Auditor - Carlos Luís Oliveira de Melo Loureiro, registered at OROC under no. 572

## Remuneration Committee

Chairman – Afonso José Marçal Grilo Lobato de Faria

Member – Paulo Jorge Pinto da Silva

## Sustainability Advisory Board, elected by the general meeting of 30 March 2012:

Chairman – Carlos Pimenta

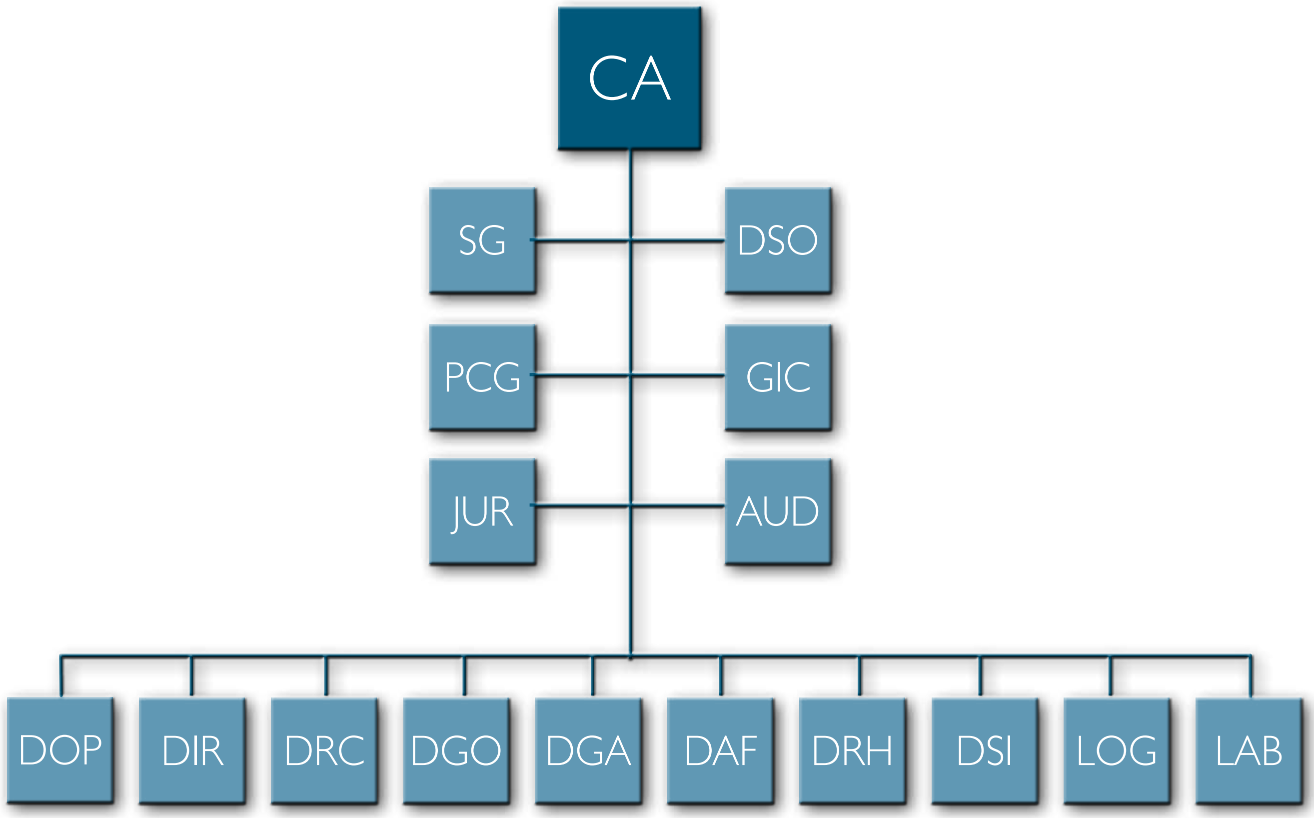
Member – Maria Paula Batista Antunes

Member – Manuel Duarte Pinheiro

The Sustainability Advisory Board did not hold any meetings in 2012 and did not receive any remuneration

## 4.2. Organisational Structure

### Organisational Chart




| | | | |
|---|---|---|---|
| CA | Board of Directors | DRC | Customer Relations |
| SG | Company Secretary | DGO | Building Site Management |
| DSO | Organisational Development | DGA | Asset Management |
| PCG | Planning and Control | DAF | Finance |
| GIC | Brand and Corporate Communications | DRH | Human Resources |
| JUR | Legal | DSI | Information Systems |
| AUD | Internal Audit | LOG | Logistics |
| DOP | Operations | LAB | Water Quality Control |
| DIR | Network Infrastructure | | |

## DOP – Operations

Role: Water abstraction, treatment, transportation and distribution, ensuring its quantity and quality

Maintenance of the operational integrity of production assets

Corrective assistance of control instrumentation

Directly subordinate bodies:

FAS - Asseiceira Water Treatment Station

FAP - Vale da Pedra Water Treatment Station

RED - Network Department

UDE – Dispatching Unit

UMD – Mobile Dispatching Unit

## DIR – Network Infrastructure

Role: Conduction of preventive and curative maintenance on trunk mains and pipings, with the goal of maximising the networks' service level and operating efficiency

Management of the implementation of additions to the distribution network

Directly subordinate bodies:

MIV - Vila Franca Maintenance Department

UMV – Vila Franca Maintenance Unit

ULO – Licensing and Construction Works Unit

MIL - Lisbon Maintenance Department

UML – Lisbon Maintenance Unit

## DRC – Customer Relations

Role: Interface between the company and all its water business customers, managing the different communication channels with these customers, as well as their requests and complaints

Directly subordinate bodies:

CLE - Strategic Customer Department

SCL - Customer Service and Local Assistance Department

ATD – Customer Service Unit

ASL – Local Assistance Unit

FCG – Invoicing and Collection Unit

MKT – Marketing Unit

NVA – New Supplies Unit

AQUAmatrix Business

## DGO – Building Site Management

Role: Promoting the development of studies and projects and managing, supervising and controlling construction works

Promoting the outsourcing, when needed, of technical services in the areas of engineering, projects, construction works and supervision

Directly subordinate bodies:

PGO - Project, Supervision and Building Works Management Department

PRO – Project Management Unit

STE – Technical Services Unit

URB - Urban Infrastructures Department

OBR – Network Building Works Unit

APO – Administrative Support Unit

## DGA – Asset Management

Role: Ensuring an integrated management of Operational Assets, which guarantees a balance between their operating effectiveness and efficiency, promoting coordination between all the areas that develop activities in each of the phases of the corresponding life cycle

Directly subordinate bodies:

PLA - Asset Planning Unit

MON - Monitoring Unit

INS - Inspections Unit

MAN - Maintenance Department

MEQ - Equipment Management Unit

MED - Meter Maintenance Unit

## DAF – Finance

Role: Financial management, official financial reporting, tax planning and management, financial risk and insurance management, management of the pension plan and fund and coordination with external supervising entities and credit risk assessors

Directly subordinate bodies:

GEF - Financial Management Unit

CTB – General Accounts and Taxes Department

PAE – Heritage Assets, Analytics and Studies Unit

## DRH – Human Resources

Role: Ensuring an integrated management of Human Resources, which can contribute to the company's development, promoting the personal and professional development of its employees

Directly subordinate bodies:

GPS - Staff Management Unit

MSS - Medicine, Health and Social Activities Unit

## DSI – Information Systems

Role: Centralised management of the company's technological platforms

Development of Information Systems, as well as their corresponding support technologies

Management of telecommunication technologies

Interface with technological entities, aiming at developing new technologies, in terms of Telecommunications and Information Systems

Directly subordinate bodies:

UIT - Infrastructures and Telecommunications Unit

UAC - Corporate Applications Unit

## LOG – Logistics

Role: Management of stocks and procurement

Management of the fleet and of the range of administrative equipment

Maintenance and cleaning of non-technical property (buildings, gardens, etc.) and of non-operational property

Directly subordinate bodies:

CGS - Procurement and Stock Management Unit

SGR - General Services Unit

## LAB – Water Quality Controle

Role: Guaranteeing water quality control throughout the entire extension of EPAL's supply system, from the water resources being used to the consumer's point of delivery, as well as on the taps of consumers in the city of Lisbon, through the conduction of laboratory tests

Ensuring the treatment of data related to water quality, as well as its disclosure to internal and external entities, namely the health authorities, the regulator and the consumers

Defining the processes and methods that guide the company's laboratory activity

Managing the laboratories' accreditation system

Managing EPAL's Water Safety Plan

Directly subordinate bodies:

UAT - Technical Support Unit

LAC – Central Laboratory Unit

LAS – Asseiceira Laboratory (Functional team)

LVP – Vale da Pedra Laboratory (Functional team)

## SG – Company Secretary

Role: Legal role of Company Secretary

Public spokesperson

Supporting the Board of Directors and managing the activities and staff directly related to the BD

Document management

## DSO – Organisational Development

Role: Promoting the improvement of EPAL's effectiveness and efficiency through the systematisation of all of the company's activities

Managing the protection of people, premises and infrastructures, environment and activities, promoting the management of crisis and emergency situations in order to ensure the continuity of the business

Managing the role centralisation project

## GIC – Brand and Corporate Communications

Role: Managing the company's image through efficient institutional communication, harmonising communication formats with internal and external stakeholderss

## PCG – Planning and Control

Role: Planning, management control, internal and external reporting, management of the company's information management system, studies and support of strategic decisions

## JUR – Legal

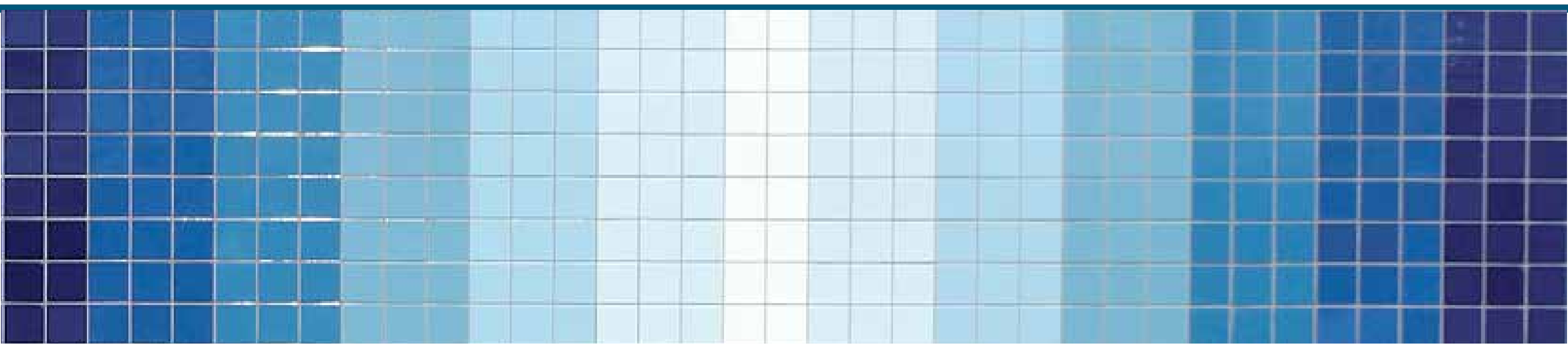
Role: Providing legal representation, consultancy and advisory support to the company

Other Units and Tasks under the Direct Responsibility of the Board:

MDA – Water Museum

Historical Archives

• ASS – Advisors to the Board of Directors

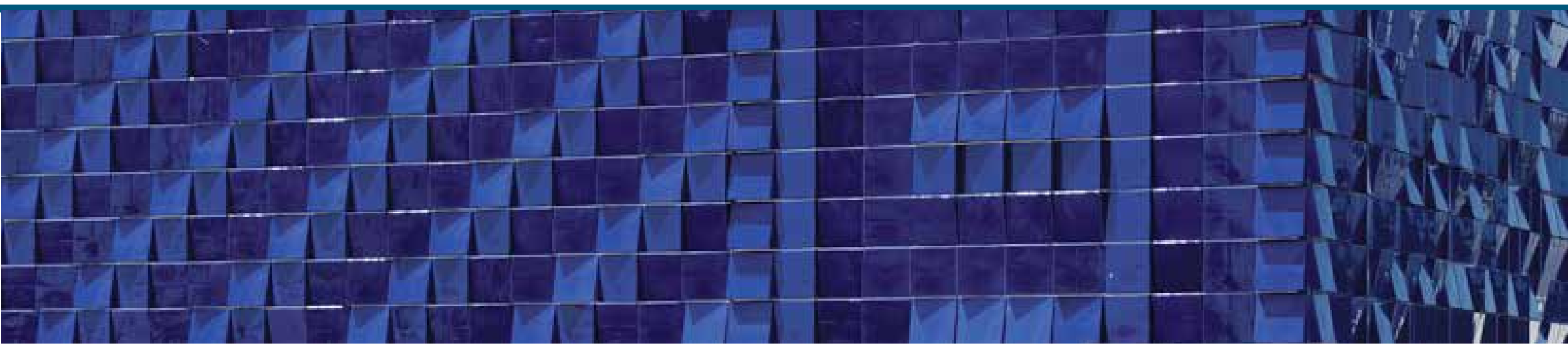


# 5. Remunerations and Other Costs

With effect from 1 April 2012, the managers' remunerations were established under the terms of the Public Manager Statute, approved by Decree-Law no. 71/2007 of 27 March, with the wording provided by Decree-Law no. 8/2012 of 18 January, corrected by Rectification no. 2/2012 of 25 January and under the terms of the Resolution of the Council of Ministers (RCM) no. 16/2012 of 14 February and of RCM no. 36/2012 of 26 March.

The amounts of the remunerations paid and the benefits and further privileges granted by the company to the members of the governing bodies are stated in the Notes to the Financial Statements – Note 30.

Celebration of the World Environment Day in the Water Museum - 5 June



# 6. Sustainability Analysis

The account of EPAL's performance regarding sustainability during 2012 can be found in the company's Sustainability Report.

The policies defined and actions developed over the reporting period allowed for a positive evolution in most economic, environmental and social indicators.

Celebration of the World Environment Day in the Water Museum - 5 June

# 7. Management of Human Capital

EPAL's guiding management principles regarding human resources are:

• Equal treatment and opportunities for men and women

• Rejection of any kind of discrimination

• Professional promotion and advancement

• Respect for personal and family life

• Fulfilment of the commitments set out in the Code of Ethics and Conduct

• Adherence to the law and the company's internal regulations

## Characterisation of human resources working for EPAL

| Number of Workers on 31 December | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| Male | 550 | 541 | 538 | -3 | -0,6% |
| Female | 196 | 198 | 198 | 0 | 0,0% |
| Total | 746 | 739 | 736 | -3 | -0,4% |

| Nature of the Employment Relationship | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| Permanent | 724 | 704 | 702 | -2 | -0,3% |
| Fixed-term | 22 | 35 | 34 | -1 | -2,9% |
| Total | 746 | 739 | 736 | -3 | -0,4% |

## Employee Turnover

| | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| Hirings | 26 | 25 | 14 | -11 | -44,0% |
| Departures | 48 | 32 | 17 | -15 | -46,9% |
| Retirement | 14 | 26 | 7 | -19 | -73,1% |
| Early Retirement | 23 | 0 | 0 | 0 | - |
| Other Reasons | 11 | 6 | 10 | 4 | 66,7% |

## Age

| | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| Average employee age | 46 | 46 | 47 | 0.7 | 1,5% |
| Number of Employees by Age Group | 746 | 739 | 736 | -3 | -0,4% |
| age - <25 | 5 | 5 | 5 | 0 | 0,0% |
| age - 25-34 | 133 | 130 | 109 | -21 | -16,2% |
| age - 35-44 | 148 | 162 | 180 | 18 | 11,1% |
| age - 45-54 | 255 | 227 | 217 | -10 | -4,4% |
| age - >55 | 205 | 215 | 225 | 10 | 4,7% |

## Seniority

| | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| Average seniority | 20 | 20 | 21 | 0.9 | 4,5% |
| Numbers of Employees by Seniority Level | 746 | 739 | 736 | -3 | -0,4% |
| seniority - <2 | 43 | 45 | 33 | -12 | -26,7% |
| seniority - 2-5 | 65 | 65 | 73 | 8 | 12,3% |
| seniority - 6-10 | 55 | 63 | 39 | -24 | -38,1% |
| seniority - 11-20 | 175 | 176 | 200 | 24 | 13,6% |
| seniority - >20 | 408 | 390 | 391 | 1 | 0,3% |

## Distribution by Professional Category

| | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| Number of Employees by Professional Category | 746 | 739 | 736 | -3 | -0,4% |
| Senior Managers | 100 | 97 | 98 | 1 | 1,0% |
| Middle Managers | 167 | 172 | 172 | 0 | 0,0% |
| Forepersons | 36 | 35 | 35 | 0 | 0,0% |
| Highly Skilled Workers | 131 | 131 | 129 | -2 | -1,5% |
| Skilled Workers | 307 | 299 | 297 | -2 | -0,7% |
| Semi-Skilled Workers | 5 | 5 | 5 | 0 | 0,0% |

## Distribution by Education Level

| | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| Number of Employees by Education | 746 | 739 | 736 | -3 | -0,4% |
| Basic | 313 | 285 | 280 | -5 | -1,8% |
| Secondary | 209 | 216 | 218 | 2 | 0,9% |
| University | 224 | 238 | 238 | 0 | 0,0% |

## Absenteeism

| | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| Absenteeism Rate | 4.29% | 5.16% | 4.32% | -0.84% | |
| Hours of Absenteeism | 58,032 | 67,176 | 55,677 | -11,499 | -17,1% |

## Training

| | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| Number of Training Hours | 15,113 | 14,724 | 12,024 | -2,700 | -18,3% |
| Number of Trainees | 1,164 | 787 | 823 | 36 | 4,6% |
| Number of Participants | 648 | 419 | 430 | 11 | 2,6% |

## Occupational Hygiene and Safety

| | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| Total Number of Workplace Accidents | 39 | 34 | 28 | -6 | -17,6% |
| Number of Workplace Accidents - with Leave | 32 | 21 | 22 | 1 | 4,8% |

## Safety Indicators

| | 2010 | 2011 | 2012 | Change 2012/2011 | |
|---|---|---|---|---|---|
| TF - Frequency rate of all workplace accidents | 32 | 29 | 21.78 | -7.56 | -25,8% |
| Tf - Frequency rate of workplace accidents with leave | 26 | 22 | 17.42 | -5.01 | -22,3% |
| Tg - Severity rate (for the current year only) * | 1.6 | 1.4 | 0.59 | -0.81 | -57,9% |
| TG -Severity rate (includes sequels of accidents in previous years) * | 1.0 | 1.24 | 1.04 | -0.20 | -16,1% |

TF=NA/HTxl06 Tf=NAita/HTxl06 TG=Ndb/HTxl03 Tg=Ndba/HTxl03

NA – Number of accidents

NAita – Number of accidents with absolute temporary disability

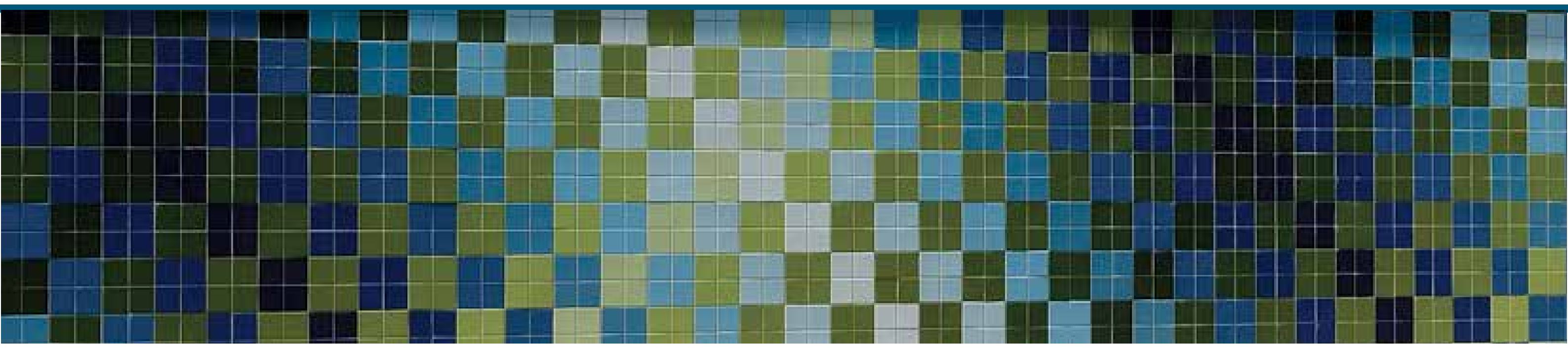
Ndb – Number of leave (calendar) days

Ndba – Number of leave (calendar) days in the year

HT – Number of hours worked

| Occupational Medicine | | | | | |
|---|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **Change 2012/2011** | |
| Total number of medical examinations | 1,052 | 936 | 1,010 | 74 | 7.9% |
| Number of dentist visits | 1,509 | 1,344 | 1,408 | 64 | 4.8% |
| Number of physical therapy treatments | 1,285 | 551 | 0 | -551 | -100.0% |
| Number of information/health campaigns | 8 | 2 | 5 | 3 | 150.0% |

| Canteens | | | | | |
|---|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **Change 2012/2011** | |
| Number of meals served | 89,926 | 89,367 | 90,646 | 1,279 | 1.4% |



# 8. R&D and Innovation

EPAL has developed, for the 1st time in 2012, an application process for R&D projects, carried out between 2007 and 2011, for the Innovation Agency (ADI), within the scope of the Sistema de Incentivos Fiscais à I&D Empresarial - SIFIDE (Tax Incentive System for Corporate Research and Development). In this process the company included 18 projects with developments in 2012, from which we highlight the following:

• Project AdaptaClima

This is the continuation of a project that aims at providing EPAL with a medium- and long-term adaptation strategy to climate change. The project is scientifically coordinated by the Faculty of Sciences of the University of Lisbon and followed by EPAL's Climate Change Group (GAC).

• Project Prepared

This is the continuation of a project whose main purpose is to create a common, European-wide platform, whereby water supply and management companies can adapt to climate change.

• Strategic Risk Management Project

Its goals are: i) to articulate and quantify, within a context of uncertainty and risk, the future trends that may have an impact on water companies; ii) to develop a series of scenarios, based on the results of future trends; iii) to identify and prioritise future operational risks, detailing their corresponding long-term impact on the business; iv) to consolidate the current risk management policies through the incorporation of a range of strategic options aimed at the long-term resilience of the system.

• WONE

WONE – Water Optimisation for Network Efficiency, developed by the company, consists of an important supply network management system, carrying out its permanent monitoring in terms of its relevant data, such as pressure, flow and other associated data regarding each of the monitoring and control zones.

• Review of the Mathematical Model

The review of the calibration of mathematical models related to the distribution network using EPANET is an ongoing project, which is currently in a phase of calibration of new models. This activity consists in the iterative process of comparison between the results of the models and real tele-management and telemetry system data, looking for models that reflect reality as accurately as possible.

• Modelling of the Water Quality in the Lisbon Distribution Network

Resorting to the implementation of multi-parametric probes with solid-state technology

- **Mathematical simulation model of the morphology and propagation of sediments, and of water quality in the river Zêzere, between Silvares and the EPAL abstraction facility at the Castelo de Bode reservoir**

  The main goal of this project is to assess the effects of a possible contamination caused by tailings from the Panasqueira mines, at the EPAL abstraction facilities at the Castelo de Bode reservoir, both in the current situation, and considering a scenario of a possible, even partial, landslide of the existing tailings located over the Zêzere riverbed.

- **Research study - "Metodologias para a Delimitação de Perímetros de Proteção das Captações de Água Superficiais da EPAL" (Methodologies for the defining of perimeters to protect EPAL's superficial water abstraction facilities)**

  In cooperation with the Faculty of Sciences and Technology of the Nova University of Lisbon and with the collaboration of the Hydrographical Institute.

- **Project - «Fungi Watch: Benefits and hurdles associated with the presence of fungi in drinking water sources»**

  In partnership with the Institute of Experimental and Technological Biology -IBET [Instituto de Biologia Experimental e Tecnológica] and the Faculty of Pharmacy of the University of Lisbon and supported by the Foundation for Science and Technology.

- **Project "ChloriDec -Tecnologia para monitorização em tempo real das taxas de decaimento do cloro em sistemas de abastecimento de Água" (Technology for the real-time monitoring of the rate of chlorine decay in Water distribution systems)**

  In collaboration with LNEC and IST.

- **Projeto LDmicrobiota,** in partnership with the National Laboratory of Civil Engineering [Laboratório Nacional de Engenharia Civil] and supported by the Foundation for Science and Technology.

- **Development of testing methods for metals in muds coming from Treatment Plants**

- **"Contaminantes Ambientais Emergentes: Produtos Farmacêuticos" (Emerging Environmental Contaminants: Pharmaceuticals)**

  Under a collaboration agreement between the Faculty of Pharmacy of the University of Lisbon and EPAL, a doctoral thesis is being prepared, which aims at developing actions within the scope of the study, implementation and validation of analytical models for the characterisation and analysis of the quality of the water abstracted, treated and distributed by EPAL in terms of the presence of pharmaceutical drugs.

- Methodology assessment for the development of the **Water Footprint** and installation of a pilot as part of the renewal work of the Valada do Tejo Station to calculate its **Environmental Footprint**

- **"Optimisation and Validation of a Method for the analysis of Target Organic Compounds migrating from organic materials used in contact with water intended for human consumption by SPME-GC-TOFMS**", a study developed as part of a collaboration agreement between EPAL and the Faculty of Sciences and Technology of the University of the Algarve.

- **"Optimisation and Validation of a Method for the analysis of Volatile Organic Compounds in water intended for human consumption by SPME-GC-MS"**, a study developed as part of a collaboration agreement between the Faculty of Sciences and Technology of the University of the Algarve and EPAL.

- **"Validação do método de ensaio para análise de ácidos haloacéticos"**(Validation of a method to test for haloacetic acids), a study conducted as part of a collaboration agreement between EPAL and the Faculty of Sciences of the University of Lisbon.

Creation of the **EPALin** competition, which aims to encourage business innovation, rewarding the internal development of projects that contribute to the efficiency and effectiveness of the company's processes and activities and to the valorisation and assertion of the EPAL brand within the water Sector.

# 9. Ethics and Corruption Prevention

EPAL has adopted a **Code of Ethics and Conduct**, whose distribution included all of its employees. The Code is available for consultation on the intranet and internet (www.epal.pt).

The goal of EPAL's code of ethics is to frame the company's mission, principles and values within a set of references and guidelines that should mobilise the behaviours and attitudes of all of the company's employees in their daily activities.

The Code of Ethics' references and guidelines should be followed by everyone and by every entity that works or provides services to EPAL, regardless of the legal nature of the relationship between them.

The company adopted a **Plan for the Management of Corruption Risks and Related Offences**, which is also available on the intranet and internet (www.epal.pt).

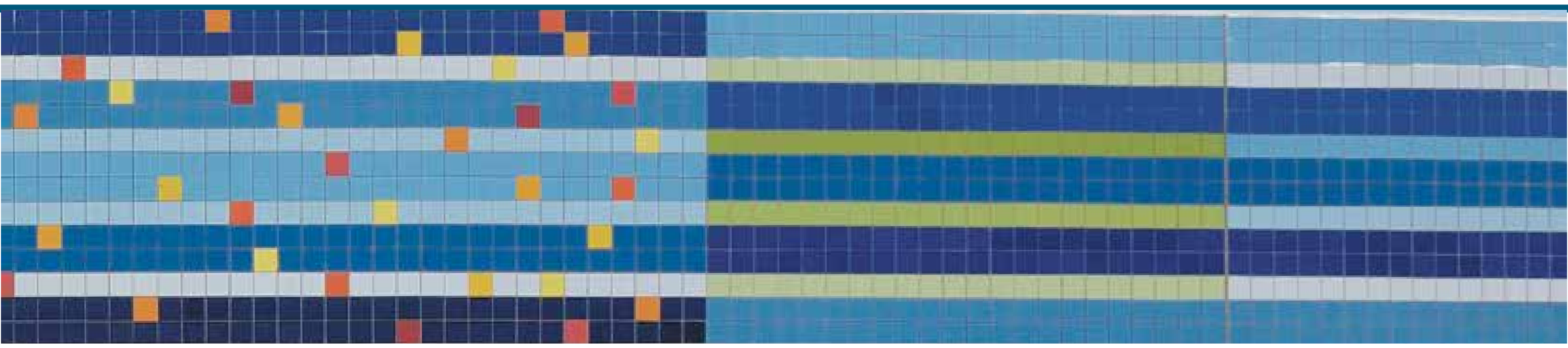
Its goals are, to a great extent, identifying the areas that might be potentially subject to the occurrence of acts of corruption, as well as the corresponding consequent risks and the control measures established by the company aiming at their mitigation.

The Plan also intends to strengthen the culture of the group and its collaborators in terms of ethical behaviours and best practices in their commercial relationship with customers, suppliers and other entities.

Comprising the entire company, this Plan complies with the recommendation from the CPC - Corruption Prevention Board, from 1 July 2009.

The Plan and the Assessment Questionnaire concerning 2011 are available on the internet and on EPAL's intranet. The Questionnaire concerning 2012 was forwarded to Adp - Águas de Portugal, SGPS, SA.

Launch of the National Programme for Efficient Water Use - 12 June



# 10. Risk Control

Risks are organised according to a structure of classes and categories defined according to the COSO (Committee of Sponsoring Organisations of the Treadway Commission) methodology, which we present below:

| Classes | Governance | Strategy and Planning | Operational/ Infrastructure | Conformity | Reporting |
|---|---|---|---|---|---|
| Categories | Corporate Governance | Social Responsibility and Sustainability | Assets | Conformity | Report |
| | Ethics | External Factors | Financial Management | | |
| | | Strategy | Human Resources | | |
| | | Planning | Information Technologies | | |
| | | | Legal | | |
| | | | Development of Products and Services | | |
| | | | Marketing, Sales and Communication | | |
| | | | *Supply Chain* | | |

Risks are assessed considering several dimensions, namely;

• Financial;

• Reputation;

• Legal or regulatory and

• Level of compliance with business goals.

The prospect of the probability of occurrence of risk is assessed also considering a broad range of factors, such as:

• The existence and efficiency of controls;

• The previous occurrence of the risk;

• The complexity of the risk; and

• The installed capacity to manage risk (people, processes, systems).

Risks related with governance, strategy and planning, conformity and reporting are handled and monitored by the company and periodically analysed by the shareholder (AdP SGPS, SA). The approach to operating and infrastructure risks, besides being ensured by EPAL and the respective management bodies, is complemented by centralised structures to monitor and control the shareholder's activity, which have the responsibility of identifying and managing the main risks.

The main risks to which the company is exposed are the following:

## Operating Risks

| Water Quality | Mitigation |
|---|---|
| Risk of adverse consequences for public health from accidents or breakdowns in the supply process | Integrated Water Quality Control Programme, encompassing legal, operating and monitoring control, as well as control of the factories' treatment processes<br>Water Safety Plan, whereby risks to consumer health and risks of water shortage are assessed, from abstraction to the tap, with an exhaustive analysis of all existing hazards and implemented control procedures |

| Failure or unavailability of assets | Mitigation |
|---|---|
| May jeopardise supply continuity | The Telemanagement System monitors and operates assets in real time<br>Risks associated with assets are identified and fed into maintenance and investment strategies |

| Physical security of premises | Mitigation |
|---|---|
| Risks of damage caused by random situations, accidents, namely of natural origin, and third-party actions | The existence of emergency plans and security schemes ensuring the integrity of the premises |

## Financial Risks

| Liquidity Risk | Mitigation |
|---|---|
| The risk of not holding sufficient funds to honour commitments | To keep a comfortable level of liquidity<br>To secure a solid financial structure by adapting the sources of financing to the operating and fixed assets<br>To ensure flexibility in the use of credit lines, in amounts that are adequate to the normal development of the business |

| Interest Rate Risk | Mitigation |
|---|---|
| Risk of exposure to volatile market rates and, on the other hand, timing risk associated to the contracting of fixed rates | Balancing fixed and floating rate debt. At the end of 2012: fixed rate: 52.9% and floating rate: 47.1%<br>Selecting the most competitive fixed rate by comparing fixed rates with floating rates plus hedging |

| Credit Risk | Mitigation |
|---|---|
| Risk of financial losses arising from defaulting customers or counterparties | Regular assessment based on the type of credit, purpose and nature of transactions, namely by monitoring accounts receivable for an assessment of delinquency risk. |

## Other Risks

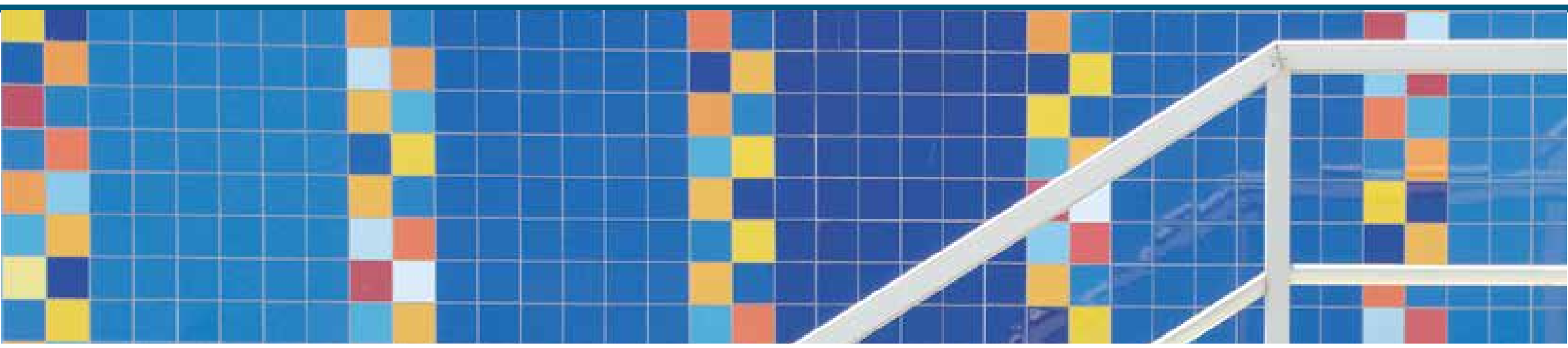
| Climate Change | Mitigation |
|---|---|
| Risk of changes to the quality and quantity of the water resources available | Project Adapta Clima, a multi-year research project to adapt the urban water cycle to climate-change scenarios, developed in partnership with the Research Group on Climate Change [Grupo de Investigação em Alterações Climáticas] of the Faculty of Sciences of the University of Lisbon.<br>Project PREPARED, co-funded by the 7th Framework Programme of the European Community, whose main purpose is the set-up of a common platform, at a European level, encompassing solutions for companies in the water supply and sanitation sector to adapt to climate changes |

| Energy Costs | Mitigation |
|---|---|
| The weight of energy costs in the company's cost structure may not be recoverable through better rates | Purchasing energy in the liberalised market<br>Investment in power generation from renewable sources - Installation of more energy-efficient equipment |

| Economic Regulations | Mitigation |
|---|---|
| Uncertainty about EPAL's specific regulatory model | Cooperation and availability to review and discuss the regulatory model |

| Legal Framework | Mitigation |
|---|---|
| Increased costs to the company arising from new legislation and regulations | Cooperation with the relevant authorities, issuing opinions on new proposed legislation and regulations<br>The permanent search for improved efficiency also contributes to mitigate this risk |

Launch of the National Programme for Efficient Water Use - 12 June



# 11. Prevention of Conflicts of Interest

The members of EPAL's Board of Directors are aware of the impediments regime defined by Law no. 64/93 of 26 August, by the Public Manager Statute - (Decree-Law no. 71/2007 of 27 March) and on the Principles of Good Governance in Companies of the Public Corporate Sector (RCM no. 49/2007 of 28 March), which establish the rules regarding the cumulative exercise of duties and the obligatoriness of non-intervention in decisions that involve these holders' own interests. They are also aware of Law no. 4/83 of 2 February, in the wording of Law no. 25/95 of 18 August.

For that purpose, the members of EPAL, SA's Board of Directors fulfil the following obligations:

- Submission of a statement disclosing all shareholdings and financial interests directly or indirectly held in the Company, as well as any professional positions, roles or activities exercised by them to the Inspectorate-General of Finance (article 22(9) of Decree-Law no. 71/2007 of 27 March);
- Submission of the Statement of Properties and Incomes to the Constitutional Court (Law no. 4/83 of 2 February, in the wording of Law no. 25/95 of 18 August, Implementing Decree no. 1/2000 of 9 March and also Law no. 28/82 of 15 November);
- Submission of the Statement of Non-Existence of Incompatibilities or Impediments (article 11 of Law no. 63/94 of 26 August and article 22(8) of Decree-Law no. 71/2007 of 27 March);
- Non-involvement in resolutions when there are direct or indirect personal interests (article 22 of Decree-Law no. 71/2007 of 27 March);
- Fulfilment of the remaining provisions in Decree-Law no. 71/2007 of 27 March, and in the Commercial Companies Code regarding this matter.

Within the sphere of the prevention of conflicts of interest, we also highlight the following mechanisms:

- Plan for the Management of Corruption Risks and Related Offences
- Disclosure and adoption of the Code of Ethics and Conduct
- Upholding and practice, in the relationship with Stakeholders, of the following values:
  - Integrity and Transparency
  - Competence and Rigour
  - Respect for the Law
  - Continuous Improvement
- Autonomous and independent audit processes
- Secondment contracts banning the exercise of other roles
- Strict compliance with the Public Procurement Code
- Diversified membership of panels set up to decide on the selection and hiring of staff and the purchase of goods and services


7th Edition of the Regata Troféu EPAL – June

# 12. Disclosure of Information

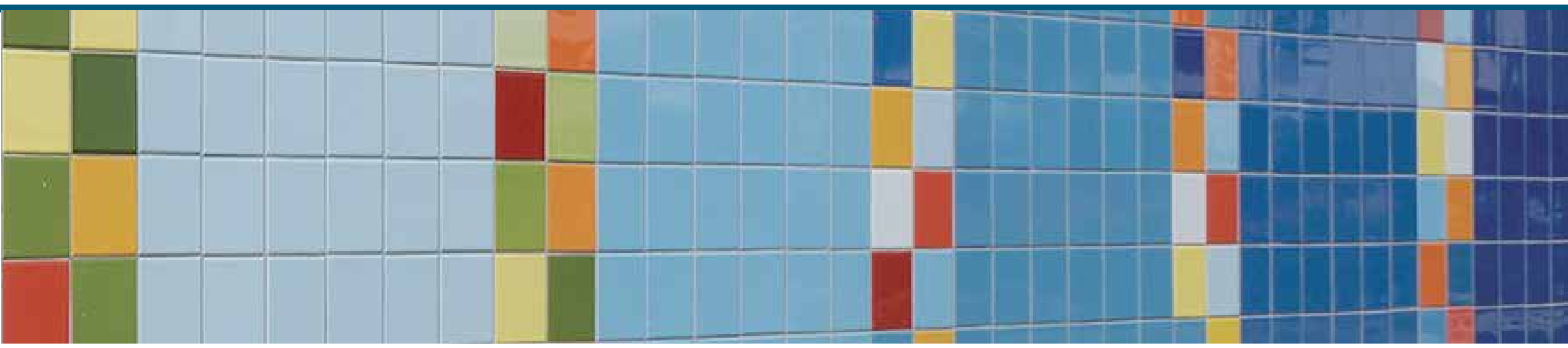
EPAL, S.A. complied with the disclosure of information requirements provided by RCM no. 49/2007 of 28 March, through the Company's website. Regarding the special information requirements provided by Order no. 14277/2008, the assessment in presented in AdP SPGS' consolidated report and accounts.

# 13. Institutional Advertising Initiatives

## Advertising carried out by the company in 2012

| Month | Media | Type | Cost € |
|---|---|---|---|
| February | Diário de Notícias | Water quality | 2 400 |
| May | Diário de Notícias | Tariffs | 525 |
| May | Diário de Notícias | Sale of goods | 525 |
| May | Diário de Notícias | Water quality | 2 400 |
| October | Diário de Notícias | Water quality | 2 400 |
| October | Water and Environment | Supplement | 1 533,75 |
| Total | | | 9 783,75 |

7th Edition of the Regata Troféu EPAL – June



# 14. Compliance with Instructions, Orders and Miscellaneous Legislation

- Full compliance with the instructions received from the shareholder during 2012 and within the context of the monitoring of the company's management and activity.

- Compliance with the current rules of public procurement, namely the guidelines set out in Order no. 438/10-SETF.

- Compliance with the guidelines provided by Law no. 64-A/2011 and regarding the "National Public Procurement System" and the "State's Motor Vehicle Fleet" are presented in the AdP group's report and accounts. The large majority of purchased goods and services is included in the categories specific to the activities of the group's companies and, therefore, those purchases are processed within the scope of AdP - Serviços Ambientais, SA., which works as an operational structure for the centralisation, optimisation and rationalisation of the purchase of goods and services within the scope of the activities developed by Group's companies. Within this framework, the company established a relational model that comprises a standardised series of goods and services whose procurement is made through the General Services and Procurement Department of AdP Serviços Ambientais.

- Regarding the recommendations of RCM no. 19/2012 of 23 February, concerning the application and safeguard of the Gender Equality Principle, EPAL is guided by a series of principles that promote Gender Equality, through the adoption of obvious practices of non-discrimination, whether against race, ethnicity, gender, age, physical disability, religious belief, political opinion or affiliation. The promotion of equal treatment and opportunities for men and women, as well as the adoption of measures intended to promote the reconciliation between personal and professional life, are part of the company's strategic goals and such commitments have been publicly announced as being part of its policy.

- The assessment of compliance with the Cost Reduction Plan defined for 2012 (according to Circular Letter no. 82 of 6 January) shall be carried out in consolidated terms and the level of compliance is reflected in the group's report and accounts.

- The assessment concerning the reduction in the number of governing bodies, managers and staff members is carried out in consolidated terms and its level of compliance is reflected in the group's report and accounts.

- From the point of view of the management of the Águas de Portugal Group, AdP SGPS requested from the authorities a partial exemption from the compliance with the principle of State treasury unity, under the terms provided by Law (Law no. 64-B/2011 - Article 89).

- Evolution of the Average Payment Term to suppliers (RCM no. 34/2008 of 22 February, and Order no. 9870/2009 of 13 April.

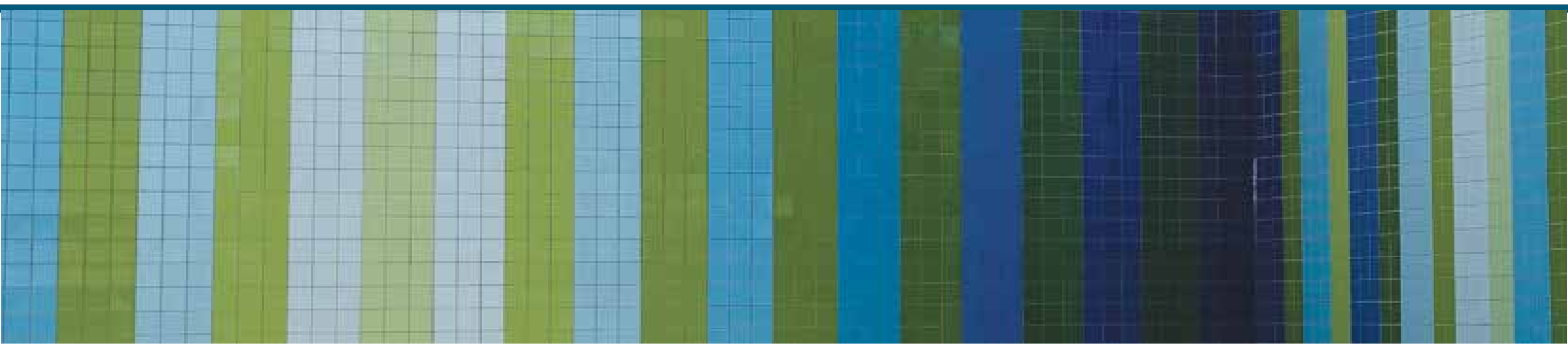
Map of the Arrears position on 31/12/2012, under the terms of DL 65-A/2011 of 17 May

(Amounts in thousands of euros)

| Nature of Goods and Services | 90 - 120 | 120 - 240 | 240 - 360 | > 360 |
|---|---|---|---|---|
| Other goods and services | 8 | 152 | 26 | 190 |
| Total | 8 | 152 | 26 | 190 |

Average payment term to suppliers under the terms of RCM 34/2008, as amended by Order no. 870/2009

| APT | 2010 | 2011 | 2012 |
|---|---|---|---|
| APT to Suppliers (days) | 35 | 31 | 30 |

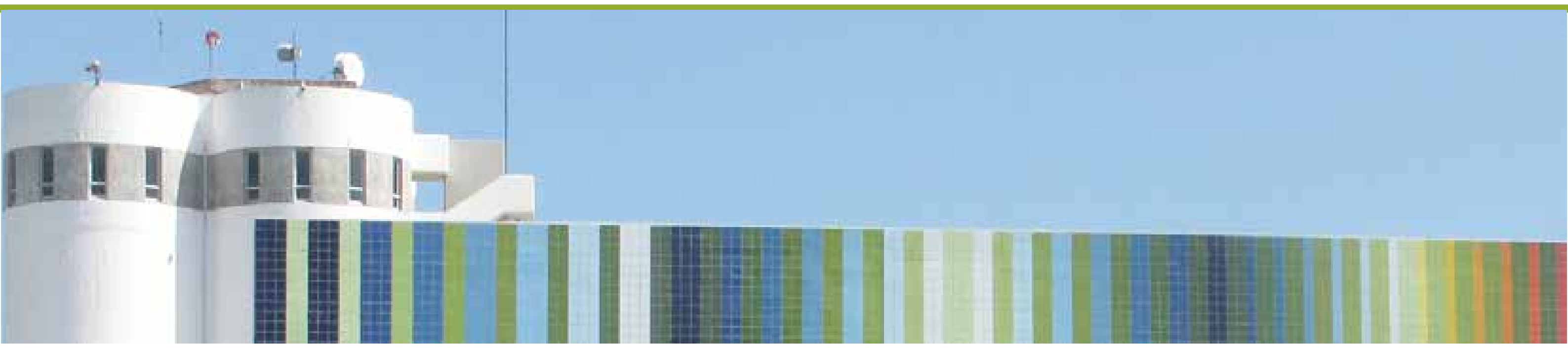


# 15. Compliance with Good Governance Principles

EPAL, S.A.'s governance respects the Good Governance Principles for Companies of the State Corporate Sector, approved by RCM no. 49/2007 of 28 March, namely those concerning:

- The disclosure and pursuit of the company's Mission, Goals and general action principles
- The preparation of annual plans and budgets
- The guarantee of equal treatment and of opportunities for men and women
- Respect for employees and promotion of their professional skills
- The reconciliation of the employees' personal, family and professional lives
- Compliance with applicable standards and regulations
- Equity in relationships with Customers, Suppliers and other stakeholders
- Existence of a Code of Ethics and Conduct
- The formal and wholesome conduct of business
- The existence of segregated executive and supervisory bodies
- Regular and systematic audits of the accounts
- Maintenance and development of adequate control systems, namely regarding risks to the business and the company
- Disclosure of relevant information

# The Company's Activity



# 1. Introduction

EPAL's activity is aimed at the abstraction, production, transportation and distribution of water for human consumption.

Besides providing services associated with water supply, such as customer service and home support, we also provide complementary laboratory testing and control, calibration and repair of meters and network monitoring services. EPAL also sells a commercial information and management system, AQUAmatrix, intended for water, sanitation and solid waste management companies. During 2012 we also created WONE, a product that allows carrying out the control of leaks in distribution networks and whose marketing has already begun.

EPAL's market for the rendering of water supply services comprises an area of 7,090 km2, with 346,121 direct customers in the Lisbon municipality, 17 municipal customers and 3 multi-municipal customers, which represent, in their whole, 35 municipalities, involving around 2.9 million consumers.

With its area of intervention, the number of customers being served, the abstraction of 224.2 million cubic meters of water, a turnover of around 144.2 million euros and 736 employees, EPAL is the largest Portuguese company in the water supply sector and the largest company of the Águas de Portugal Group.


Support to the Portuguese Adapted Swimming National Team in the Paralympic Games – August

# 2. Macroeconomic Framework

## Global

As in 2011, in 2012 the world economy shows moderate growth levels (3.2% in 2012; 3.9% in 2011). The sovereign debt crises felt by the most advanced economies in the last few years, which led to the stagnation of their economic growth, are relevant factors which have an extreme influence on this status quo, whose recovery is seemingly slow and which began in the already distant year of 2007, in the United States of America, with the financial "subprime" crisis. If there had not been, once again, a growth in emerging economies (China, India, Brazil, Russia, Mexico, Indonesia, Malaysia, Philippines, African countries, etc.), the slowdown of the world economy would have been even more pronounced. The economic performance of the United States was quite surprising, with a growth rate higher than expected (2.3%), supported, to a great extent, by a favourable environment within the financial markets and a recovery of the real estate market. For 2013, a slight economic recovery is expected; however, the risks in the eurozone and the recession in Japan may impair this prospect

## European Union

AIn 2012, the European Union's economy recorded a relevant recession with a contraction of the Gross Domestic Product (GDP) of around 0.5%. The decrease of domestic demand, the drop in investment, the decrease of industrial production and the increase of unemployment are indicators that support Europe's serious economic crisis, with particular emphasis on the eurozone. On the other hand, the markets' lack of confidence regarding the ability of European governments and the European Central Bank to solve the sovereign debt crisis in a definitive way are also not helping to invert this negative cycle. Although, at an early stage, the crisis affected mainly countries considered peripheral (Ireland, Portugal and Greece, and, more recently, Cyprus), it is a fact that, during 2012, it also reached Spain and Italy, economies with a significant weight in the eurozone. This instability has put additional pressure over European institutions with a view to approving measures that protect the integrity of the euro as a single currency.

In this sense, the European Central Bank took measures considered decisive for a slight recovery of confidence of the eurozone. In early 2012, it undertook a second liquidity-providing operation aimed at the banking sector, which, together with the first one, of December 2011, reached an amount of 1000 million euros. Subsequently, it presented a programme for purchasing public debt securities in the secondary market, without a maximum limit. These measures, considered to be powerful instruments, together with some steps taken by national governments, which consolidated their political commitment and coordination with a view to stabilise and strengthen the monetary union, had a positive effect at the end of 2012, as regards the mitigation of systemic risks within the eurozone and a slight recovery of confidence of the markets, having contributed, in a significant way, to the sharp decline of public debt interest rates in countries under bailout programmes.

## Portugal

In 2012, there was a continuation of the adjustment program resulting from the request for Economic and Financial Assistance from the European Commission, the European Central Bank and the International Monetary Fund. Performance of the Portuguese economy

2012 was still strongly marked by the adjustment process focused on structural macroeconomic imbalances, namely by the immediate impact of the budgetary consolidation measures, as well as of restricted financing conditions, within the framework of an organised and progressive process of deleveraging of the banking sector and of the persistence of tensions associated with the sovereign debt crisis in the eurozone. In 2012, a GDP drop of around 3% confirms a recession scenario that was not felt in the Portuguese economy since 1975. This evolution is the result of an expressive and widespread drop in domestic demand, mitigated by the remarkable growth of exports throughout the year. In 2012, private consumption recorded a contraction of around 5.5%, while investment fell around 14 per cent, which translates into a decrease in all components, with special incidence on public and housing investment. Public consumption has suffered a 4.5% reduction for the second consecutive year. The slowdown in overall demand, despite the significant growth of exports, contributed for a drop by around 7% in imports, reflecting the expressive reduction in the demand for components with high imported content – consumption of durable goods and business investment.

The changes in the composition of aggregate expenditure have been positive, translating into a fast adjustment of the Portuguese economy's external financing needs. The current account and capital account balance moved from a deficit of 9.4% of GDP in 2012 to a situation close to a balance in 2012. The current projection points to a continued improvement in the goods and services account, for which there are projected surpluses of 3.1 and 4.1 % of GDP for 2013 and 2014, respectively.

The national public accounts' deficit should reach a value close to 5% of GDP in 2012, despite the significant slippage of revenues in comparison with the budgeted amounts (around 880 million euros in the case of Central Administration and Social Security). This might have been due to a decline in expenditure (of around 1622 million euros), which was more pronounced than initially foreseen - partly resulting from additional savings associated with remunerations, purchase of goods and services, investment expenditure and net interest expenditure. In terms of extraordinary measures, but on the revenue side, the budgetary implementation for 2012 benefited mainly from a non-recurrent revenue associated with the concession of public airport management services under the responsibility of ANA (800 million euros received in 2012, or nearly 0.5% of GDP).

In Portugal, the unemployment rate should reach 15.6% in 2012, higher than the average recorded for all the 27 countries of the European Union, which was 10.7%. The Portuguese unemployment rate is the third highest in Europe, right behind Greece and Spain, where unemployment is already affecting over 26% of the active population.

The great challenge that Portugal is facing concerns the promotion of development and economic growth within a new institutional framework. The coherent implementation of reforms and the redefining of the State's role are essential to stimulate investment, innovation and technical progress, without which there will be no economic growth. The challenge of economic growth involves mobilising stakeholders for the need and the benefits of reforms that ensure levels of well-being compatible with the maintenance of social cohesion.

Source: Grupo AdP; FMI world economic outlook; ES Research; Economic Bulletin of Banco de Portugal; Eurostat.

# 3. Sector Framework

The AdP Group provided public services of water supply, waste water sanitation and treatment and valorisation of urban waste during 2012, within a context of increased restrictions imposed on the State Corporate Sector within the scope of the Economic and Financial Adjustment Programme (EFAP), both in terms of cost evolution, and in terms of growth of the level of indebtedness.

2012 was marked by the beginning of the process of implementation of the measures established by the Government for the sector and, specifically for the AdP Group

# 4. Regulations

## Economic Regulations

The pricing system applicable to the sale of water by EPAL, as well as the corresponding application principles, are established annually through an Agreement between the Directorate-General of Economic Activities and the company, which is subject to the joint ratification of the Ministries of Agriculture, of the Sea; of the Environment and Territorial Planning, of Economy and of Employment. The Agreement complies with the price-setting system established by Decree-Law no. 230/91 of 21 June and with the consumer qualification established by Ordinance no. 6-A/92.

EPAL's tariff proposals are based on the pricing policy principles applicable to public water supply services, framed within the Water Law, in which water is considered to be a scarce economic resource, essential to life and to economic activities; therefore, we should assign it its fair value, and its price should reflect the real cost of the supply, environmental costs and scarcity.

The underlying goals to the setting of tariffs are enshrined in the Water Law, in its article 82(1) and in Decree-Law no. 230/91 of 21 June, which establishes, in article 10, that the calculation of the tariff should generate revenues that allow:

- an appropriate return on invested capitals;

- appropriate self-financing levels;

- the coverage of operating costs.

## Regulation of the Service Quality

The regulation of the service quality is ensured by the Water and Waste Services Regulation Authority - ERSAR [Entidade Reguladora dos Serviços de Águas e Resíduos], which also covers its monitoring and assessment, using a series of indicators, carrying out a benchmarking exercise between the different companies of the water and waste management sectors, publishing the results in its yearly report on the sector.

## Regulation of the Quality of Water for Human Consumption

The regulation of Water Quality is also the responsibility of ERSAR, which is the competent authority for the quality of water for human consumption.

Decree-Law no. 306/2007 of 27 August, is the legal diploma that, after 2008, regulates the quality of water for human consumption, defining the sampling and analysis frequency to be performed at delivery points to managing companies, direct customers supplied through the transportation network and on the taps of consumers from the city of Lisbon. It also establishes the quality standards for each parameter whose control is mandatory.

The quality of the water supplied by EPAL is demonstrated through an extensive sampling and analysis programme, implemented for abstracted water, transported water, water supplied to other supply system managing companies and distributed in the city of Lisbon; among others, its goals are the compliance with the legislation in force; the prevention/safeguard of the consumer's health and the safety of the service that is provided 24 hours a day, 365 days a year.

The results obtained within the scope of legal control are assessed annually by the Water and Waste Services Regulation Authority (ERSAR) and published once a year in the "Annual Report on the Water and Water Sector in Portugal (RASARP) [Relatório Anual do Sector de Águas e Resíduos em Portugal]".

# 5. Economic and Financial Analysis

## Main indicators (million EUR)

2012 was marked by a very positive economic performance and by the maintenance of a solid financial position and structure.

| Unit: M EUR | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Turnover | 147,5 | 147,0 | 144,2 | -2,8 | -1,9% |
| Volume of water sold (million m³) | 213,8 | 210,3 | 205,2 | -5,1 | -2,4% |
| Net profit for the period | 45,9 | 42,6 | 43,9 | +1,3 | +3,0% |
| Return on sales (Net profit/Turnover) | 31,1% | 28,9% | 30,4% | +1,5 p.p. | - |
| Total costs (includes corporate income tax) | 118,2 | 113,3 | 110,2 | -3,1 | -2,7% |
| External Supplies & Services and Staff costs | 70,9 | 60,9 | 57,4 | -3,5 | -5,7% |
| EBITDA | 87,0 | 86,5 | 87,9 | +1,4 | 1,6% |
| Total assets | 916,9 | 902,2 | 885,1 | -17,1 | -1,9% |
| Equity | 506,1 | 524,4 | 533,0 | +8,6 | 1,6% |
| Total liabilities | 410,8 | 377,8 | 352,1 | -25,7 | -6,8% |
| Working capital | 36,7 | 46,1 | 47,1 | +1,0 | 2,2% |
| Medium- and long-term debt | 239,3 | 222,4 | 205,2 | -17,2 | -7,7% |

## Net profits (million EUR)

Net profit for 2012 amounted to 43.9 million euros, recording an increase of 1.3 million euros in comparison with the results obtained in 2011.

| Unit: M EUR | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Total revenues | 164,2 | 155,8 | 154,0 | -1,8 | -1,2% |
| Total costs * | 118,2 | 113,3 | 110,2 | -3,1 | -2,7% |
| **Net Profit** | **45,9** | **42,6** | **43,9** | **+1,3** | **+3,0%** |

* Includes corporate income tax

Despite a decrease of around 1.8 million euros in revenues, the measures taken in terms of cost-cutting, which resulted in a reduction of around 3.1 million euros in Total Costs, allowed the Company's economic performance to be very positive in 2012, with a growth of nearly 3% in net profit, in comparison with the previous year.

## Total revenues (million EUR)

Total income amounted to 154 million euros (-1.8%).

| **Unit: M EUR** | **2010** | **2011** | **2012** | **Change 12/11** | |
|---|---|---|---|---|---|
| Turnover | 147,5 | 147,0 | 144,2 | -2,8 | -1,9% |
| Investment subsidies | 1,9 | 1,9 | 1,3 | -0,6 | -33,5% |
| Provisions (net reduction) | 10,9 | 0,2 | 0,8 | 0,7 | 367,5% |
| Other operating income and gains | 2,4 | 3,1 | 4,3 | 1,2 | 39,6% |
| Interest and similar income | 1,5 | 3,7 | 3,5 | -0,2 | -5,8% |
| **Total income** | **164,2** | **155,8** | **154,0** | **-1,8** | **-1,2%** |

The lower total income, compared with 2011, was primarily influenced by the reduction in turnover and by the change in investment subsidies resulting from a change in the useful life of some of the granted assets.

Interest and similar income showed a marginal decline of 0.2 million euros, resulting from the lower interest rates of financial investments.

## Turnover (million EUR)

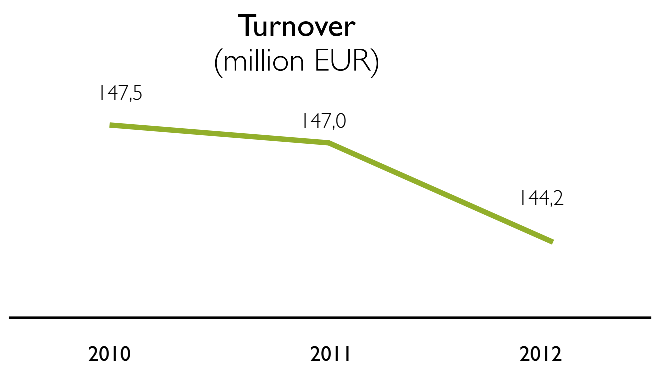
Turnover amounted to 144.2 million euros (reduction of 1.9%)

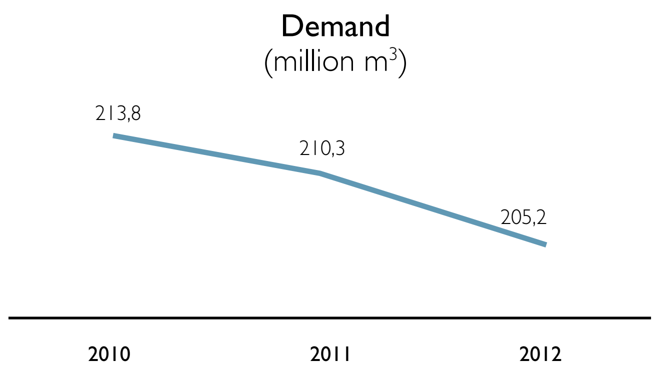
| **Unit: M EUR** | **2010** | **2011** | **2012** | **Change 12/11** | |
|---|---|---|---|---|---|
| Sales | 145,4 | 145,7 | 143,0 | -2,7 | -1,8% |
| Rendering of Services | 2,0 | 1,4 | 1,2 | -0,2 | -11,1% |
| **Turnover** | **147,5** | **147,0** | **144,2** | **-2,8** | **-1,9%** |

Turnover dropped by 2.8 million euros (-1.9%) in comparison with 2011, resulting essentially from the decrease of 5.1 million m3 in the volume of sold water (-2.4%). The revenues from the service fee (fixed component of the tariff) and the rendering of services also followed this trend, with reductions of 0.3 million euros (-1%) and 0.2 million euros (-11%), respectively.

## Sales (million $m^3$)

The volume of water sold was 205.2 million $m^3$, considering that 150.5 million $m^3$ were sold to other managing entities (municipal and multi-municipal customers) and 54.7 million $m^3$ were sold to final users (direct customers). There was a decrease of 3.5 million $m^3$ (-2.3%) in municipal and multi-municipal customers, resulting essentially from a drop in consumption in Lisbon's neighbouring municipalities. That decrease was minimised, although only partially, by a growth of 1.5% (+0.4%) in consumption of the company Águas do Oeste. Sales to direct customers recorded a reduction of 1.6 million $m^3$ (-2.8%), with the State/Embassies and Trade /Industry segments showing shortfalls above 7%.




## Total costs (million EUR)

Total costs amounted to 110.2 million euros.

| Unit: M EUR | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Cost of goods sold | 2,8 | 2,9 | 2,9 | -0,1 | -2,5% |
| External supplies and services | 39,2 | 35,1 | 34,5 | -0,6 | -1,8% |
| Staff expenses | 31,7 | 25,8 | 22,9 | -2,8 | -11,0% |
| Depreciation and impairment costs | 23,5 | 24,4 | 26,3 | 1,9 | 7,9% |
| Taxes and other levies | 1,2 | 0,9 | 1,2 | 0,3 | 32,3% |
| Impairment of debts receivable | 0,3 | 0,4 | 0,5 | 0,1 | 15,2% |
| Other operating costs | 0,6 | 0,4 | 0,6 | 0,2 | 33,8% |
| Interest and Similar Expenses | 4,3 | 5,9 | 5,0 | -0,9 | -13,9% |
| Income tax for the period | 14,6 | 17,4 | 16,2 | -1,2 | -6,8% |
| **Total costs** | **118,2** | **113,3** | **110,2** | **-3,1** | **-2,7%** |
| | | | | | |
| As % of turnover | 80% | 77% | 76% | | |

The year was marked by a significant cost-cutting effort, particularly in External Supplies and Services (-0.6 million euros); we should also highlight the reduction in Staff Costs (-2.8 million euros) and Financial Expenses (-0.8 million euros).

Within the Government's Plan for Reduction of Operating Costs in the State Corporate Sector, a goal was set for the maintenance of the weight of operating costs (considering the headings of cost of goods sold, external supplies and services and staff expenses) as a component of turnover. In 2012, EPAL recorded a reduction of 4.5%, thus complying with this guideline.

It was also found that, despite the increased tax burden observed in 2012, against 2011, EPAL recorded a reduction of nearly 6.8% in the amount of income taxes for the period, as a result of taking into account the tax benefit of the application submitted within the scope of the SIFIDE programme.

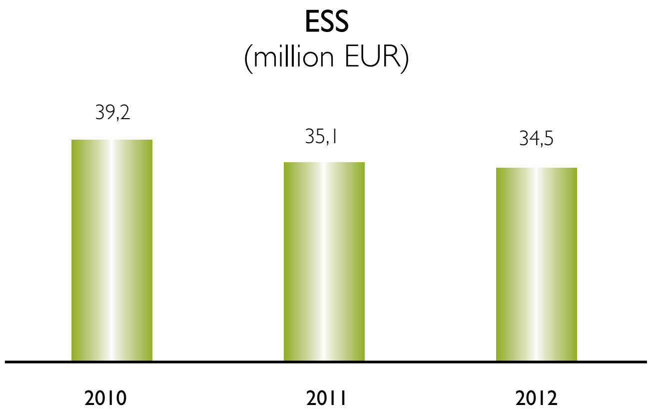
We should also highlight that the weight of total costs in the Company's turnover maintained the downward trend observed in the previous year, from 77% to 76%.

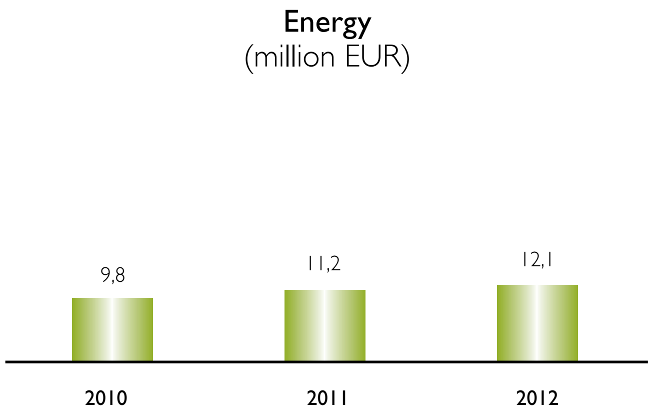
## External supplies and services

In External supplies and services (ESS) there was also a positive performance, which could have been more pronounced if there hadn't been an increase in electricity costs.

The downtrend in comparison with the previous years was maintained, showing an overall decrease of 1.8% (nearly 0.6 million euros) in 2012.

Despite the Company's efforts to improve the efficiency and rationalisation of consumption, it was not possible to mitigate the adverse effect of the significant rise in the price of electricity (+16%), causing an increase in energy costs of 0.9 million euros (+8%). EPAL has pursued a strategy to improve its efficiency levels, by installing more efficient equipment (installation of several speed changers in pumping stations), by using alternative power sources (such as the installation of photovoltaic systems) and by buying energy in the liberalised market (EPAL was one of the first companies to launch a tender for the purchase of energy in the liberalised market). In any case, the significant reduction of water losses (- 5 million m3) deserves a special highlight, as it resulted in important energy savings.




## Staff expenses

Significant decrease in staff expenses down to 22.9 million euros (-2.8 million euros)

This reduction resulted primarily from:

• The non-processing, both of the holiday and Christmas bonuses, due to legislative changes applicable to State Corporate Sector companies. This measure enabled EPAL to record savings of nearly 1.1 million euros in comparison with 2011, related to the Christmas bonus;

• A decrease of 0.2 million euros (-30%) in additional work;

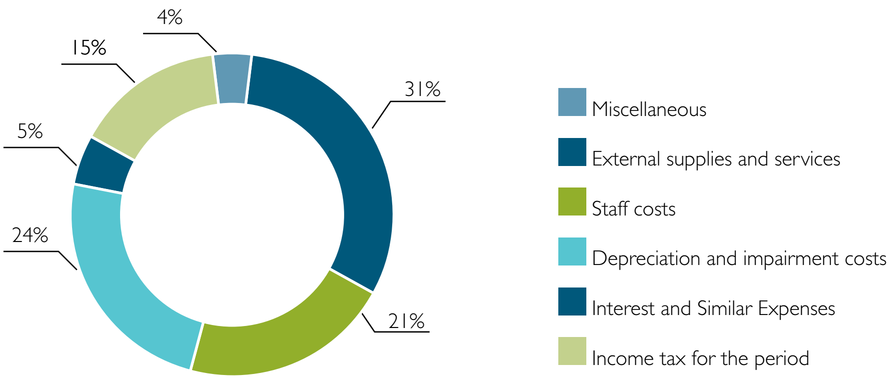
• Reduction of the average number of employees by 10 workers (0.1 million euros);

- Decrease of 1.0 million euros in costs with retirement benefits, due to the fact that there were no new early retirements during the year;

- Decrease in the remunerations of Governing Bodies by 0.2 million euros (-35%) as a result both of the reduction in the number of members, and of the entry into force of the Public Manager Statute, which implied a significant reduction in the remunerations of the Company's governing bodies.

## Cost structure

The most significant headings are External Supplies and Services, Staff Costs and Depreciations, which, overall, represent 76% of the Company's total costs in 2012, maintaining approximately the same proportion as in 2011.




## Operating margin (million EUR)

Increase in EBITDA to 87.9 million euros (+ 1.6%), as a consequence of the combination of the reductions in External supplies and services and Staff costs and the growth of other operating income and increase of provisions. The reduction in turnover mitigates this change in a decisive way.

Slight decrease of 2.1% in operating profit, down to 62.1 million euros.

| **Unit: M EUR** | **2010** | **2011** | **2012** | **Change 12/11** | |
|---|---|---|---|---|---|
| Turnover | 147,5 | 147,0 | 144,2 | -2,8 | -1,9% |
| Other operating income | 4,3 | 5,0 | 5,5 | 0,6 | 11,8% |
| Cost of sales | -2,8 | -2,9 | -2,9 | 0,1 | -2,5% |
| External supplies and services | -39,2 | -35,1 | -34,5 | 0,6 | -1,8% |
| Staff expenses | -31,7 | -25,8 | -22,9 | 2,8 | -11,0% |
| Impairment losses | -0,3 | -0,4 | -0,5 | -0,1 | 15,2% |
| Other operating costs | -1,7 | -1,4 | -1,8 | -0,5 | 32,8% |
| Provisions (increase / decrease) | 10,9 | 0,2 | 0,8 | 0,7 | 367,5% |
| **Operating cash flow (EBITDA)** | **87,0** | **86,5** | **87,9** | **1,4** | **1,6%** |
| Depreciation and asset impairments | -23,5 | -24,4 | -26,3 | -1,9 | 7,9% |
| **Operating profit (EBIT)** | **63,5** | **62,1** | **61,6** | **-0,5** | **-0,8%** |

These results are also significant in terms of EBITDA margin (EBITDA to Turnover), which rose from 59% to 61% (an increase of two percentage points).

| Unit: M EUR | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| EBITDA | 87,0 | 86,5 | 87,9 | 1,4 | 1,6% |
| Turnover | 147,5 | 147,0 | 144,2 | -2,8 | -1,9% |
| **EBITDA Margin** | **59%** | **59%** | **61%** | **2 p.p.** | **3,6%** |

EBITDA Margin = EBITDA / Turnover

## Net Financial Income (million EUR)

An improvement in net financial income by 0.6 million euros, which in 2012 amounted to - 1.6 million euros

| Unit: M EUR | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Financial income and gains | 1,5 | 3,7 | 3,5 | -0,2 | -5,8% |
| Financial expenses and losses | -4,3 | -5,9 | -5,0 | 0,8 | 13,9% |
| **Net financial income** | **-2,9** | **-2,2** | **-1,6** | **0,6** | **27,7%** |

The reduction in financial expenses (-0.8 million euros) was offset by the reduction in financial income (-0.2 million euros)

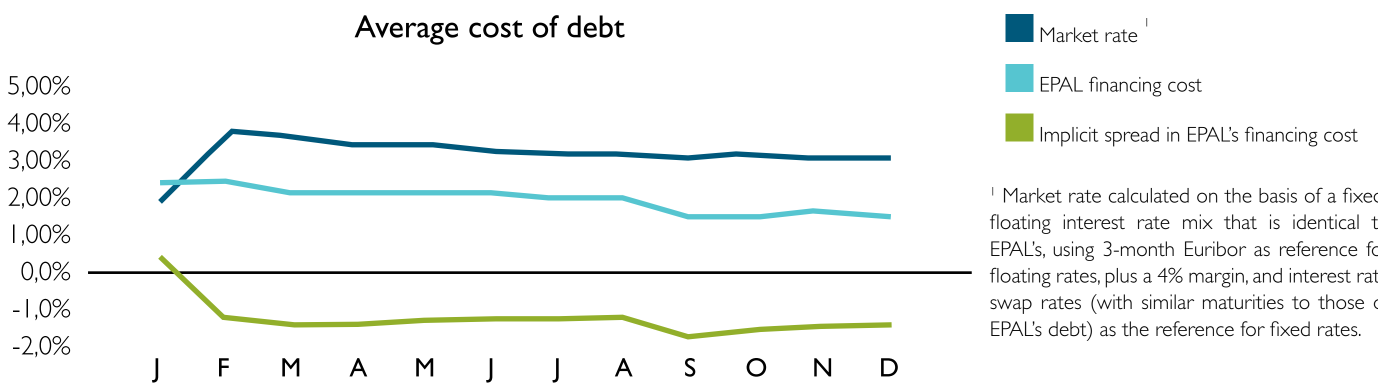
The financial income of 3.5 million euros is related mainly to interest earned on banking applications. This evolution in comparison with the previous year was due to the strong contraction of the interest rates that remunerate financial surpluses.

The financial expenses amounting to 5.0 million euros were 13.9% lower than in the previous year and correspond mainly to interest payable on the debt to the European Investment Bank (EIB).

In 2012, the company did not resort to any new financing, having carried out repayments amounting to 16 million euros related to EIB loans, according to the defined reversal plan.

## Average cost of debt

It is noted that EPAL's average funding cost reached rather attractive levels in comparison with the average market rate, as shown by the implicit spread rates achieved throughout 2012.




[1] Market rate calculated on the basis of a fixed/floating interest rate mix that is identical to EPAL's, using 3-month Euribor as reference for floating rates, plus a 4% margin, and interest rate swap rates (with similar maturities to those of EPAL's debt) as the reference for fixed rates.

## Financial position (million EUR)

At the end of 2012, EPAL's total asset amounted to 885.1 million euros and equity and liabilities totalled 533,0 million euros and 352.1 million euros, respectively.

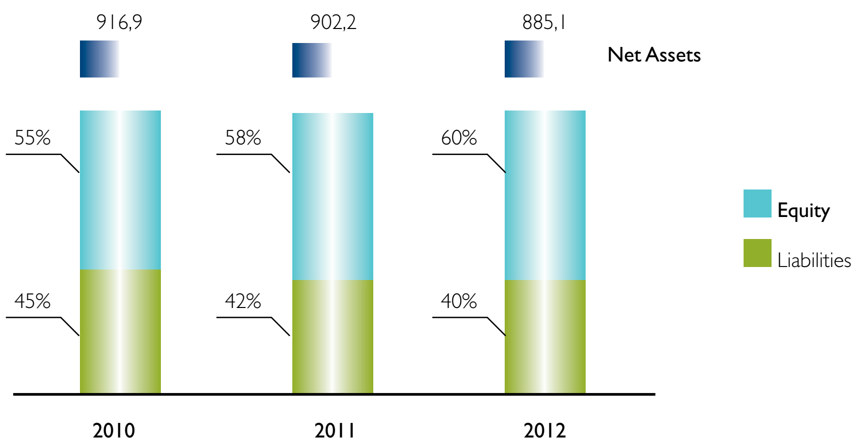
| Unit: M EUR | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Non-current assets | 804,0 | 791,5 | 777,2 | -14,3 | -1,8% |
| Current assets | 112,9 | 110,6 | 107,9 | -2,7 | -2,5% |
| **Total assets** | **916,9** | **902,2** | **885,1** | **-17,1** | **-1,9%** |
| | | | | | - |
| Equity | 506,1 | 524,4 | 533,0 | +8,6 | +1,6% |
| Non-current liabilities | 334,6 | 313,3 | 291,4 | -21,9 | -7,0% |
| Current liabilities | 76,2 | 64,5 | 60,7 | -3,8 | -5,9% |
| **Total equity and liabilities** | **916,9** | **902,2** | **885,1** | **-17,1** | **-1,9%** |

As in previous years, EPAL ended 2012 with a solid financial position, with an equity to assets ratio of 60.2% and a working capital of 47.1 million euros. The Net Debt/EBITDA value of 1.74 in 2012, which represents a positive change of 8.5%, in comparison with 2011, confirms EPAL's sustainability in financial terms.

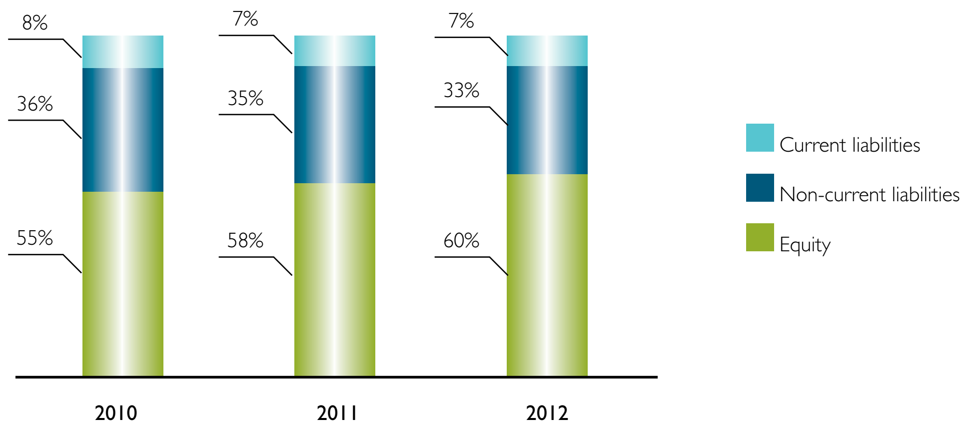
| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Solidity | 55,2% | 58,1% | 60,2% |
| Net Debt/EBITDA | 1,98 | 1,90 | 1,74 |
| Working capital (million EUR) | 36,7 | 46,1 | 47,1 |
| Solvency | 1,23 | 1,39 | 1,51 |

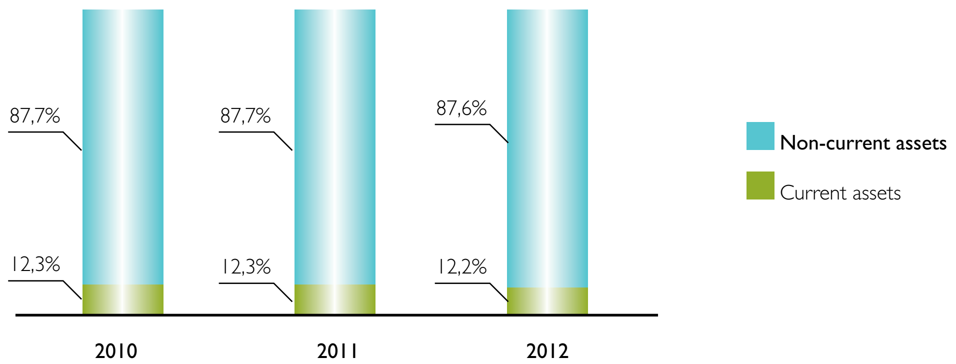
Solidity = Equity to Total Assets ratio
NET Debt/EBITDA = [Borrowings -Cash Balances]/EBITDA
Working capital = Current Assets minus Current Liabilities
Solvency = Equity to Total Liabilities ratio

EPAL continues to have a strong financial position with a balanced capital structure and a strong ability to meet its short-, medium-, and long-term obligations.



The optimisation of financial resources is still one of EPAL's priorities, seeking an appropriate correspondence between asset maturities and the respective sources of financing. At the end of 2012 there was a healthy ratio between non-current assets (87.8% of total assets) and permanent capital (defined as equity plus non-current liabilities, which, combined, accounted for 93% of the total).

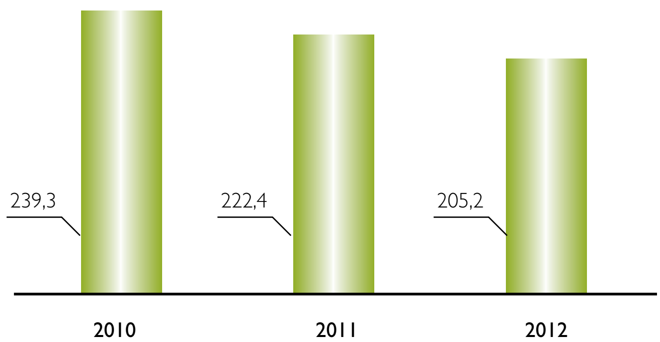



## Medium- and Long-Term Debt (million EUR)

Medium- and long-term debt amounted to 205.4 million euros at the end of 2012, less 17.2 million euros than in 2011, an evolution owed to the lack of new indebtedness in the period, coupled with continued debt service.

**Medium- and Long-Term Debt**
($10^6$ EUR)




All bank indebtedness was contracted with the European Investment Bank and accounted for a maximum of 50% of capital expenditure.

## Cash flow generated (million EUR)

The company had a net cash outflow of 5.0 million euros in the financial year.

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Cash flows from operating activities | 55,2 | 48,8 | 65,3 |
| Cash flows from investing activities | -30,9 | -10,9 | -15,0 |
| Cash flow from financing activities | | | |
| Dividend payments and debt service | -49,3 | -42,7 | -55,3 |
| Proceeds from financing activities | | | |
| Drawdowns in the year | 50 | 0 | 0 |
| **Changes in cash and cash equivalents** | **25** | **-4,8** | **-5,0** |

Despite the total net cash outflow for the year, the inflow of cash from operating activities covered the cash outflow in respect of capital expenditure and almost all cash used to service bank debt and distribute dividends.

It should be stressed that, for the purposes of the preceding map regarding the financial year 2012, an amount of 13.5 million euros was removed, as investment cash flow, which does not fulfil the accounting criteria to be classified as cash and cash equivalents, due to the fact that its maturity exceeds 6 months (see Note 4 on the Notes to the Accounts), despite being recognised in term deposits. The company adopted a procedure similar to that of previous financial years.

Self-financing is still the activity's primary source of funding.

The average payment term was 30 days and it showed a positive evolution in comparison with the previous year, in which it had been 31 days.

## Pension fund

EPAL's Defined Benefit Pension Fund amounted, at the end of the year, to 37.4 million euros, implying a coverage ratio of 106%, considering that the value of liabilities for past services amounted to 35.4 million euros. EPAL's Pension Fund corresponds to 135% of its liabilities, calculated according to the Portuguese insurance institute (ISP)'s Minimum Fund rules

The Defined Contribution Pension Fund amounted to 15.7 million euros at the end of 2012.

## Associated Companies

EPAL's financial investments were unchanged at the end of the year, when it held the following equity stakes:

| | | |
|---|---|---|
| Clube de Golfe das Amoreiras, SA | 100,0% | 350.000 Euros |
| Fundec | | 1.500 Euros |

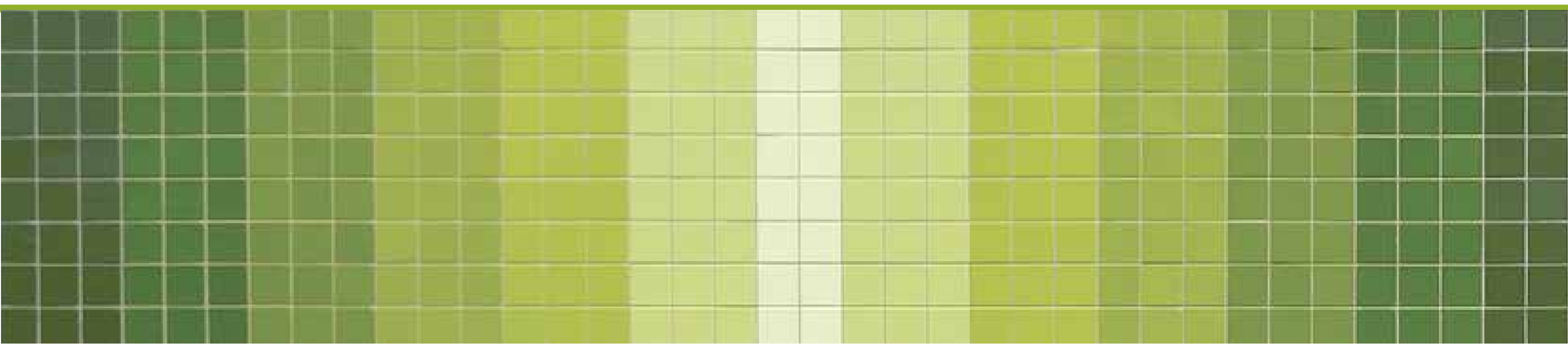
## Clube de Golfe das Amoreiras, SA

• TIts object is the development, building and operation of an establishment for the training and teaching of golf in Epal's facilities, at Amoreiras

• Its share capital is 350,000 euros.

• It has had no activity in the last few years pending the settlement of arbitration proceedings


EPAL Pavillion in the IWA World Congress in Busan, South Korea – September



# 6. Operating Activity

## Water Production

### Sources

EPAL uses the following sources for water abstraction:

- Castelo do Bode Reservoir
- Tagus River
- Alenquer, Lezírias and OTA Boreholes

### Water abstracted, treated, sold and non-invoiced

| | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| **Water abstracted (Abstracted volume by source) ($m^3$)** | **242.502.220** | **234.505.083** | **224.490.035** | **-10.015.048** | **-4,3%** |
| Castelo de Bode | 162.443.362 | 156.334.720 | 159.137.870 | 2.803.150 | 1,8% |
| Valada Tejo | 56.626.190 | 55.963.950 | 46.934.750 | -9.029.200 | -16,1% |
| Olhos de Água | 3.512 | 0 | 0 | 0 | - |
| Underground Abstractions | 23.429.156 | 22.206.413 | 18.417.415 | -3.788.998 | -17,1% |
| **Water treated/produced ($m^3$)** | **242.194.160** | **234.213.353** | **224.184.675** | **-10.028.678** | **-4,3%** |
| Castelo de Bode | 162.436.232 | 156.328.200 | 159.132.240 | 2.804.040 | 1,8% |
| Valada Tejo | 56.325.260 | 55.678.740 | 46.635.020 | -9.043.720 | -16,2% |
| Olhos de Água | 3.512 | 0 | 0 | 0 | - |
| Underground Abstractions | 23.429.156 | 22.206.413 | 18.417.415 | -3.788.998 | -17,1% |
| **Water Sold ($m^3$)** | **213.799.910** | **210.286.101** | **205.210.051** | **-5.076.050** | **-2,4%** |
| Municipal/Multi-municipal Customers | 155.128.136 | 154.012.530 | 150.510.004 | -3.502.525 | -2,3% |
| Municipal Customers | 132.655.296 | 126.851.459 | 121.545.908 | -5.305.550 | -4,2% |
| Multi-municipal Customers | 22.472.840 | 27.161.071 | 28.964.096 | 1.803.025 | 6,6% |
| Direct Customers (in Lisbon and outside Lisbon) | 58.671.774 | 56.273.571 | 54.700.047 | -1.573.524 | -2,8% |

| | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| **Non-invoiced water (m³)** | **28.702.310** | **24.218.982** | **19.279.984** | **-4.938.998** | **-20,4%** |
| Water not invoiced in the Distribution Network | 13.974.193 | 11.218.589 | 9.008.306 | -2.210.283 | -19,7% |
| Water not invoiced in Production and Transportation | 14.728.117 | 13.000.393 | 10.271.678 | -2.728.715 | -21,0% |
| **Non-invoiced water (%)** | **11.8%** | **10.3%** | **8.6%** | **-1.7 p.p.** | |
| Water not invoiced in the Distribution Network | 11.8% | 10.0% | 8.7% | -1.3 p.p. | |
| Water not invoiced in production and transportation | 6.1% | 5.5% | 4.6% | -1.0 p.p. | |

In 2012, EPAL abstracted less 10 million m³ of water, when compared to 2011, which represents a decrease of 4.3 percentage points.

There was a sharp decrease in the volumes abstracted from the Tagus River and from the Underground Abstractions and a slight increase at Castelo do Bode.

Regarding the volume of water sold, there was a decrease of 5 million m³, in comparison with the previous year, which corresponds to a drop of 2.4%. The annual volumes of water sold continue to show a declining trend.

The volume of non-invoiced water decreased nearly 4.9 million m³, in comparison with the previous year, allowing the company to record values that reveal EPAL's excellent performance in terms of policies to reduce water losses and leaks

## Transportation

| | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Piping Length (km) | 705 | 710 | 710 | 0 | -0,02% |
| Pumping Stations (no.) | 31 | 31 | 31 | 0 | 0,00% |
| Reservoirs (no.) | 28 | 28 | 28 | 0 | 0,00% |
| Delivery Points (no.) | 128 | 128 | 128 | 0 | 0,00% |

| | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Breakdowns in Ducts on the Transportation Network | 12 | 13 | 26 | 13 | 100.00% |

In 2012, there were 26 breakdowns in Production and Transportation ducts. That is 13 breakdowns more than in the previous year.

## Distribution

| | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Network Length (km) | 1.429 | 1.430 | 1.434 | 4 | 0,3% |
| Pumping Stations (no.) | 10 | 10 | 10 | 0 | 0,0% |
| Reservoirs (no.) | 13 | 14 | 14 | 0 | 0,0% |
| Service Mains (n.°) | 83.395 | 83.555 | 83.984 | 429 | 0,5% |
| Altimetric Zones (no.) | 4 | 4 | 4 | 0 | 0,0% |

| | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Renovation of the Distribution Network (km) | 17,35 | 14,17 | 12,41 | -2 | -12,4% |
| Refurbishment of ducts in the Distribution Network (as %) | 1,21% | 0,99% | 0,87% | -0.1 p.p. | |
| Refurbishment of Service Mains (as %) | 2,62% | 2,05% | 2,30% | 0.3 p.p. | |

| | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| Breakdowns in Trunk Mains (ERSAR) | 513 | 465 | 527 | 62 | 13,3% |
| Breakdowns in Trunk Mains/ 100 km/ Year in the Distribution Network | 36 | 33 | 37 | 4 | 13,8% |
| Bursts in Service Mains | 877 | 833 | 857 | 24 | 2,9% |

In 2012, a total of 12.4 kilometres of the Distribution Network, accounting for 0.9% of the network's total length, underwent renovations.

Compared to the previous year, there was an increase in the number of malfunctions and bursts.

## Quality

### Water Quality

Compliance with the Water Quality Control Plan - PCQA [Plano de Controlo da Qualidade da Água] ensures quality control in EPAL's Water Supply System. The Plan comprises Legal Control, as set forth under Decree-Law no. 306/2007, of 27 August, Operational Control/Monitoring as well as the Control of treatment processes at the Asseiceira and Vale da Pedra Facilities and at the Alenquer Decarbonation Plant.

#### Sampling Points

To bring about compliance with Legal Control, 1248 sampling points are used on customers' taps, 95 points installed at delivery points to Managing Bodies, and 7 installed at delivery points to customers located in the intervening areas of other Managing Bodies.

In terms of **Operational Control/Monitoring** there are 181 fixed sampling points along the Distribution Network in the city of Lisbon, 57 points representing the Supply and Transportation System, and 50 installed at water sources.

For the purpose of **Process Control,** 102 sampling points are used, representing the process control carried out at the Asseiceira and Vale da Pedra facilities, as well as at the Alenquer Decarbonation Plant

#### Samples and Measurements

In 2012, 9448 water samples were taken, as part of Legal and Operational Control/Monitoring, with 24,207 samples taken as part of the Process Control. In all, those samples were tested for 178 parameters and 278 substances.

375.515 individual substances were isolated, distributed as follows:

| | No. of Outcomes (substances) |
|---|---|
| **Legal Control** | |
| Direct Customers Via the Transportation Network | 814 |
| Deliveries to Managing Bodies | 24.695 |
| Consumers' Taps in the City of Lisbon | 16.032 |
| **Sub-total** | **41.541** |
| **Operational Control/Monitoring:** | |
| Underground Abstractions | 11.086 |
| Surface Water Abstractions | 25.884 |
| Transportation Systems (ex-works) | 64.522 |
| Distribution Network (fixed points) | 48.424 |
| **Sub-total** | **149.916** |
| **Process Control** | |
| Asseiceira Plant | 67.024 |
| Vale da Pedra Plant | 114.040 |
| Alenquer Decarbonation Station | 2.994 |
| **Sub-total** | **184.058** |
| **Total** | **375.515** |

As a result of complaints, non-compliance procedures regarding warning and parameter levels, as well as reservoir and duct washing and disinfecting operations, we collected over 839 samples that resulted in 10.724 outcomes of individual substances.

## Evolution of Water Quality

**Water at the Source**

### Zêzere River - Castelo do Bode Reservoir

Water quality in the Castelo do Bode Reservoir was deemed Class A2 for parameters such as faecal Coliforms and overall Coliforms. However, the Asseiceira Water Treatment Plant has installed a treatment plan suitable to the water quality of this abstraction.

### Tagus River - Valada Tejo

Water quality has remained stable, with occasional worsening, caused by rain and drought. As for the Temperature parameter, the River water falls under the Class above A3, with the parameter total Coliforms being classified as Class A3. For parameters faecal Coliforms, Colour, Faecal streptococci and Phosphates, the water quality at this abstraction falls under Class A2, with Class AI for all other controlled parameters.

Temperature readings exceeding limit values for Classes AI/A2/A3 are the result of the normal climate for Portugal at certain times of the year. This in itself is not considered an indicator of water contamination.

The Vale da Pedra WTP has installed a treatment plan suitable to the water quality of this abstraction.

### Underground Abstractions

Medium or hard mineralised waters, whose parameters generally comply with the figures of Class A1, without a noticeable evolution of quality.

Quality parameters exceeding the Maximum Permissible Value (MPV) defined for Class A1 under Decree-Law no. 236/98, of 1 August, were only Barium, dissolved Hydrocarbons and Temperature, in groundwater abstractions of the Lezírias.

### Supplied/Distributed Water

### In Lisboa

The quality of the consumer's tap water complied with the standards set forth under Portuguese law, with the exception of a few non-repetitive cases, with non-compliant readings occurring in 0.26% (42 non-compliances) of overall outcomes of substances.

At fixed sampling points installed in the distribution network, the number of outcomes carried out allowed us to conclude that, with the exception of a few non-repetitive cases, the water met the quality standards set forth under Portuguese law, with 0.12% non-compliant readings, out of the total outcomes of substances (56 non-compliances).

### To Managing Bodies

In the outcomes performed on samples collected at water delivery points to Water Supply System Management Bodies, there were 0.08% non-compliant readings (20 non-compliances).

Compared to 2011, we can conclude that there was a slight worsening of the quality of the water supplied by EPAL, as shown by the increase in the number of non-compliances in the collected water samples for verification of legal requirements, as well as those taken for operational control and surveillance.

## Data Disclosure

Each month, statistical charts of compliance tests conducted on water collected from the taps of consumers and at delivery points of Managing Bodies are disclosed at the company's website - www.epal.pt.

Quarterly:

- Statistical charts obtained during compliance tests conducted on water collected from the taps of consumers are published on national press;
- Statistical charts obtained during compliance tests conducted at the delivery points of water distribution entities are sent to their respective governing bodies;
- Haemodialysis Systems Management Entities are sent the statistical charts obtained during tests conducted on water samples collected at sampling points representing the supply.

## Investment

Change during the three-year period

| 2010 | 2011 | 2012 | Change 2012/2011 | Total in the three-year period |
|---|---|---|---|---|
| 23.574.412 | 11.957.901 | 13.071.983 | 9,3% | 48.604.296 |

| Major Investment Groups | 2010 | 2011 | 2012 |
|---|---|---|---|
| **Capacity Assurance** | **3.269.759** | **3.707.331** | **2.844.273** |
| Expansion of the Castelo do Bode subsystem | 2.420.369 | 2.560.762 | 112.221 |
| Expansion of the Distribution Network | 832.712 | 1.087.025 | 2.427.927 |
| Other | 16.678 | 59.544 | 304.124 |
| **Assurance of Reliability and Safety** | **8.872.843** | **6.356.255** | **6.083.344** |
| Renovation of the Distribution network | 4.067.750 | 2.867.095 | 1.391.821 |
| Renovation of the Transportation network | 139.903 | 1.427.593 | 3.475.116 |
| Refurbishment of Pumping Stations and Reservoirs | 4.084.949 | 850.048 | 344.168 |
| Other | 580.240 | 1.211.519 | 872.239 |
| **Quality Assurance** | **8.785.450** | **435.039** | **543.576** |
| New Central Laboratory | 7.973.258 | 20.031 | 36.922 |
| Other | 812.193 | 415.008 | 506.654 |
| **Sustainability and Innovation** | **535.904** | **192.128** | **651.000** |
| Monitoring and control | 471.946 | 38.738 | 210.149 |
| Energy efficiency | 63.959 | 153.391 | 440.852 |
| **Information and Communication Technologies** | **830.469** | **698.623** | **456.503** |
| Aquamatrix | 290.892 | 348.861 | 46.100 |
| Infrastructure and Remote Management | 410.193 | 237.209 | 115.698 |
| Other | 129.384 | 112.553 | 294.704 |
| **Other Investments** | **1.279.986** | **568.524** | **2.493.288** |

- In 2012, the assurance of reliability and safety absorbed 47% of the overall investment, while capacity assurance accounted for 22%.

Notable investments

- **Replacement of the piping installed over the Reguengo Bridge:** mains for raw water from the Tagus River and from the underground abstractions of Valada, in the amount of 2.4 million euros

- **Detour on the course of the Circunvalação Trunk Main in the area of the New Hospital of Vila Franca de Xira**, costing 2.0 million euros

- **Renovation of 12.4 km of the Distribution Network (Trunk and Service Mains)**, in the amount of 1.4 million euros

- **1.4 million euros toward the Expansion of the Distribution Networ**k, with the installation of 4.9 km, most notably along Avenida Carolina Michaelis de Vasconcelos

- **The acquisition of** the Parque Expo Water Supply Network for 1.0 million euros

- **Refurbishing of raw water mains, installed at Pontoon 1, between Valada Tejo and the Vale da Pedra WTP**, in the amount of 9 million euros

- **Half a million euros in Information and Communication Technologies**, of which 0.1 million euros went to Infrastructures and Remote Management, 0.1 million euros toward implementing NAVIA and 0.1 million toward the new Document Management system


Portuguese participation in the IWA World Congress held in Busan, South Korea – September

# 7. Commercial Activity

## Area and population served

| | 2010 | 2011 | 2012 | Change12/11 | |
|---|---|---|---|---|---|
| **Total supplied area (km$^2$)** | **6.681** | **7.090** | **(1) 7.090** | **0** | **0,00%** |
| Lisbon | 85 | 85 | 85 | 0 | 0,00% |
| Municipalities | 6.596 | 7.005 | 7.005 | 0 | 0,00% |
| | | | | | |
| **Number of consumers** | **2.825.444** | **2.870.314** | **(2) 2.870.507** | **193** | **0,01%** |
| Lisbon | 479.884 | 547.631 | 547.733 | 102 | 0,02% |
| Municipalities | 2.345.560 | 2.322.683 | 2.322.774 | 91 | 0,00% |

(1) Area in km$^2$ (2012 data with reference to 2011)

(2) Population living in the supplied area (population data with reference to the Census date)

## Customers and Market

### Direct Customers

| | 2010 | 2011 | 2012 | Change 12/11 | |
|---|---|---|---|---|---|
| **Direct Customers (in and outside Lisbon)** | **349.413** | **348.790** | **346.121** | **-2.669** | **-0,77%** |
| Domestic | 298.464 | 298.506 | 297.336 | -1.170 | -0,39% |
| Industry and Trade | 43.479 | 42.943 | 41.712 | -1.231 | -2,87% |
| The Government, Câmara Municipal de Lisboa (Lisbon City Hall) and Embassies | 4.732 | 4.624 | 4.367 | -257 | -5,56% |
| Private Institutions under Public Law | 2.736 | 2.715 | 2.704 | -11 | -0,41% |
| Military Facilities | 2 | 2 | 2 | 0 | 0,00% |

With the exception of Military Facilities, the number of direct customers decreased from 2011 to 2012.

## Municipal Customers

In 2012 the number of Municipal Customers directly supplied by EPAL remained unchanged, at 17:

| | | | | | |
|---|---|---|---|---|---|
| ALCANENA | AMADORA | BATALHA | CARTAXO | CASCAIS | CONSTÂNCIA |
| LEIRIA | LOURES | MAFRA | ODIVELAS | OEIRAS | OURÉM |
| PORTO DE MÓS | SANTARÉM | SINTRA | TOMAR | VILA FRANCA DE XIRA | |

## Multi-Municipal Customers

In 2012, EPAL supplied the following Multi-municipal Customers

• Águas do Oeste

Comprises 14 municipalities indirectly supplied by EPAL:

| | | | | |
|---|---|---|---|---|
| ALENQUER | ALCOBAÇA | ARRUDA DOS VINHOS | AZAMBUJA | BOMBARRAL |
| CADAVAL | CALDAS DA RAINHA | LOURINHÃ | NAZARÉ | ÓBIDOS |
| PENICHE | RIO MAIOR | SOBRAL DE MONTE AGRACO | TORRES VEDRAS | |

• Águas do Centro

Supplies EPAL water to 2 municipalities:

| | |
|---|---|
| ENTRONCAMENTO | VILA NOVA DA BARQUINHA |

• Águas do Ribatejo

Provides 1 municipality with water from EPAL:

| |
|---|
| TORRES NOVAS |

## Rendering of services

Sale of Water a ($m^3$)

| | 2010 | 2011 | 2012 | Change 12/11 |
|---|---|---|---|---|
| Direct Customers | 58.671.774 | 56.273.571 | 54.700.047 | -2,8% |
| Municipal Customers | 132.655.296 | 126.851.459 | 121.545.908 | -4,2% |
| Multi-municipal Customers | 22.472.840 | 27.161.071 | 28.964.096 | 6,6% |
| **Total** | **213.799.910** | **210.286.101** | **205.210.051** | **-2,4%** |

In 2012, there was a decrease of around 5 million m3 of water sold against the previous year, which corresponds to 2.4% less.

The drop was 2.8% in direct customers and 2.3% in municipal and multi-municipal customers.

In terms of direct customers, there is a more significant annual decrease in the segments of Industry & Trade (-7%) and Government (-8%), while the slide for domestic customers was not very significant (-1%).

In the case of municipal and multi-municipal customers, with the exception of a few customers that increased demand, there was a general trend for decreased water consumption.

Overall, as in the last few years, there is a clear trend for decreased volumes of water sold by EPAL.

## Invoicing and Collection

In 2012, as concerns invoicing, there was a noticeable increase in the number of invoices sent via electronic media. Indeed, of the some 2.4 million invoices issued, 13% were sent via e-bill, whereas in the previous year, that percentage was at 11.7%.

With regard to the invoicing frequency, the number of customers who requested monthly invoicing rose to 14.6%.

In the financial year at issue, the company's debt recorded an increase of around 1.5 million euros, against the previous period. In the case of municipal and multi-municipal customers, overdue debt rose by 1.2 million euros, essentially due to non-payment of invoices regarding minimum supply. As for direct customers, there was an increase of about 0.3 million euros, which doesn't include provisioned debt.

The increase in the amount of overdue debt should also be framed within a context of some difficulty experienced by our customers, resulting from the economic and financial situation the country is undergoing.

### Customer Service

#### Contact Centre

| | 2010 | 2011 | 2012 | Change 12/11 |
|---|---|---|---|---|
| Customers served (no.) | 251.840 | 260.747 | 246.935 | -5,3% |
| Average waiting time (sec) | 27 | 29 | 25 | -12,9% |
| Service Level | 92% | 93% | 94% | 1,1% |
| Calls answered in less than 30 sec | 79% | 76% | 72% | -4,5% |

## Personal service

| | 2010 | 2011 | 2012 | Change 12/11 |
|---|---|---|---|---|
| Customers served in stores (no.) | 214.947 | 190.323 | 174.356 | -8,4% |
| Waiting time up to 15 m (head office store) | 89% | 90% | 83% | -7,6% |
| Average waiting time (head office store) (min) | 6 | 5 | 8 | +46,0% |

# Service Levels

| **Service suspensions with impact on Customers** | **2010** | **2011** | **2012** | **Change 12/11** | |
|---|---|---|---|---|---|
| By Time (h) | **4.213** | **3.153** | **3.197** | **44** | **1,40%** |
| **Total Production and Transportation** | **199** | **337** | **375** | **38** | **11,28%** |
| Scheduled | 172 | 324 | 375 | 51 | 15,74% |
| Unscheduled | 27 | 13 | 0 | -13 | -100,00% |
| **Total Distribution** | **4.014** | **2.816** | **2.822** | **6** | **0,21%** |
| Scheduled | 894 | 696 | 698 | 2 | 0,29% |
| Unscheduled | 3.120 | 2.120 | 2.124 | 4 | 0,19% |
| By quantity | **1.041** | **861** | **858** | **-3** | **-0,35%** |
| **Total Production and Transportation** | **21** | **27** | **14** | **-13** | **-48,15%** |
| Scheduled | 18 | 25 | 14 | -11 | -44,00% |
| Unscheduled | 3 | 2 | 0 | -2 | -100,00% |
| **Total Distribution** | **1.020** | **834** | **844** | **10** | **1,20%** |
| Scheduled | 192 | 170 | 179 | 9 | 5,29% |
| Unscheduled | 828 | 664 | 665 | 1 | 0,15% |

| **Service effectiveness** | **2010** | **2011** | **2012** | **Change 12/11** | |
|---|---|---|---|---|---|
| Service interruptions > 4h - Municipal Customers | 17 | 26 | 14 | -12 | -46,15% |
| Service interruptions > 4h - Direct Customers | 368 | 287 | 289 | 2 | 0,70% |
| Service interruptions > 12h - Municipal Customers | 7 | 12 | 7 | -5 | -41,67% |
| Service interruptions > 12h - Direct Customers | 25 | 11 | 6 | -5 | -45,45% |
| Number of delivery points affected (> 4h) | 43 | 45 | 28 | -17 | -37,78% |

# Complaints

In 2012, there was a 17% decrease in the number of complaints: the total was 6.630, 1.381 complaints less than in 2011.

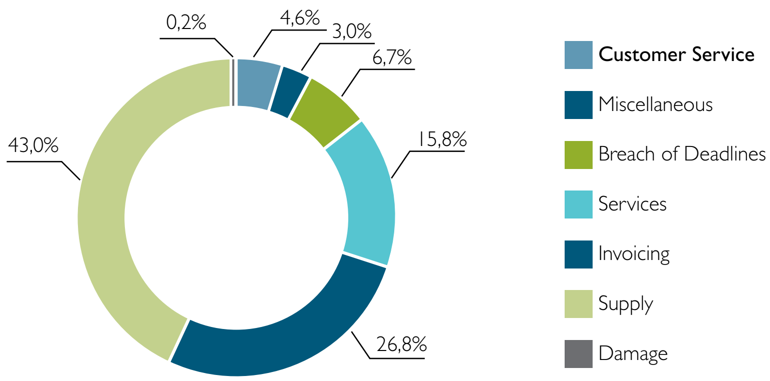
As in previous years, the category showing the most complaints was Supply (43%), despite having recorded a 10% drop.

The category Invoicing shows the second highest figure, accounting for 27% of the total, followed by Services, with 16%.

Of the total number of complaints received, 20% were resolved at the front-office, while the remaining (5.286) were reviewed in back office. 85.4% were resolved in less than 15 days and 69.3% were deferred.

About 15% of complaints were submitted in writing (971), 91% of which were resolved in less than 15 calendar days. Regarding the ERSAR indicator, in 2012, 99.8% of written complaints were answered in less than 22 business days, representing a slight decrease against 2011 (99.9%).

### Distribution of Complaints by Categories/Subject Matters




## Satisfaction levels

EPAL continued to take part in the ECSI – Estudo Nacional de Satisfação de Clientes (National Customer Satisfaction Study). This study comprises a system for evaluating the quality of goods and services by applying a customer satisfaction survey that assesses the quality of various sectors of activity (water, banking, insurance, fuel, electricity, gas, passenger transportation and communications), providing EPAL not only with the satisfaction level of its customers, but also its comparison against the water sector and other sectors nationwide.

**EPAL's positioning in the Water sector in 2012**

EPAL achieved an Overall Satisfaction Level of 7.75, edging slightly higher than in 2010 (7.74), with a performance above the sector's average in all variables and an improvement of its position in terms of Image, Quality and Complaints.

| Variables | EPAL | | | | Water Sector | | | | "Change 2011 EPAL - Water Sector " |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2011 | 2010 | 2009 | 2008 | |
| Image | 7,81 | 7,79 | 7,84 | 7,51 | 7,53 | 7,78 | 7,30 | 7,23 | 0,28 |
| Expectations | 7,66 | 7,65 | 7,70 | 7,04 | 7,29 | 7,35 | 7,07 | 6,87 | 0,37 |
| Quality | 8,09 | 7,98 | 7,94 | 7,40 | 7,65 | 7,73 | 7,27 | 7,19 | 0,44 |
| Value | 6,73 | 6,90 | 7,09 | 6,29 | 6,41 | 6,49 | 6,10 | 5,80 | 0,32 |
| Satisfaction | 7,75 | 7,74 | 7,71 | 7,32 | 7,31 | 7,42 | 7,04 | 6,84 | 0,44 |
| Complaints | 7,24 | 7,03 | 7,13 | 6,48 | 6,54 | 6,86 | 6,46 | 5,98 | 0,70 |
| Confidence | 7,97 | _ | _ | _ | 7,42 | _ | _ | _ | 0,55 |
| Loyalty | 7,28 | 7,29 | 7,38 | 6,92 | 6,78 | 6,88 | 6,54 | 6,48 | 0,50 |

Scale of 1 to 10: ≤ 4 negative assessment 4-6 neutral assessment ≥ 6 positive assessment ≥ 8 very positive assessment

Overall, its highest score ever was achieved in "Quality", with 8.09 points: contributing to this result were the assessments of the sub-criteria "Suitability of payment methods" (8.7), and "Invoicing Frequency", "Supply" and "Customer service facilities", all with 8.4. Compared to other companies in the sector, EPAL achieved the best score in "Diversity of services" (8.1) and "Customer Service" (8.3).

With regard to habits of water usage, the percentage of customers who "drink tap water" edged slightly higher, from 83.1% to 84.3%.

To increase the level of satisfaction, EPAL's priority should involve improving the "image" and "quality" categories, as these have the most influence in satisfaction levels. With regard to "image", it is mostly important to improve the criteria "innovative and geared towards the future" and "shows concern for Customers", as well as "quality", "water quality", "reliability of products and services" and "functioning of emergency services."

Additionally, EPAL should maintain the initiatives that encourage "drinking tap water" and clarify the "difference between the price of tap/bottled water", recommendations that have persisted since the methodology was first applied and to which EPAL needs to continue to focus on, in order to improve Customer satisfaction and its position in the Water sector.

## Other Services

In 2012, EPAL provided the following services to external entities:

- Laboratory Tests

  In all, 1,669 samples were received, on which there were around 9,683 outcomes of individual substances

  Invoiced amount - 84,557 euros

- Repair of Water Meters

  There were 552 such services provided, corresponding to the number of water meters or water flow measuring instruments that underwent repairs

  Invoiced amount - 38,859 euros

- Monitoring of Networks

  There were 8 services performed with regard to monitoring of networks

  Invoiced amount - 64,195 euros

In mid-2012, we decided to develop a project for the creation of a product that would be tradeable on the domestic and international market. It's called WONE, a product launched in September, in South Korea.

## AQUAmatrix

In 2012, AQUAmatrix was implemented at the following new Customers:

- Municipality of Marinha Grande

• Municipality of Ansião

• Port of Lisbon (Luságua Lisboa)

In the Municipality of Estarreja, integrated in AdRA – Águas da Região de Aveiro (Waterworks of the Aveiro Region), AQUAmatrix started including Municipal Solid Waste customers.

We should point out the recovery of the contract with Águas da Região do Maputo (formerly Águas de Moçambique) and the renewal, for another 3 years, of contracts with Águas do Ribatejo and with the Municipality of Pombal. The contract with the SMAS (Waterworks) of Sintra was also extended for one more year.

2012 was the year in which the AQUAmatrix website was launched, intended to promote a greater dissemination of the business potential and to provide an on-line digital channel, permanently available on the market.

In terms of new functionalities, we should point out the development of new applications supporting Mobility in Meter Reading, Mobility of Services and Mobility of Inspections, compatible with the most modern operating systems for mobile phones and tablets.

The total current AQUAmatrix Customers now account for about 29% of the domestic market share.


25th Anniversary of the Water Museum - 1 October

# 8. Management Goals

The following table shows the management goals for 2012, as set forth by the Shareholder, as well as the respective assessment parameters and corresponding performance:

| Indicators | Goal | Performance | Assessment |
|---|---|---|---|
| Operating Costs / Turnover | 41,4% < x ≤ 44,5% | 41.9% | Achieved |
| Overdue commercial debt | 1,05 M€ ≤ x < 1,39 M€ | 1,13 M€ | Achieved |
| ACT - Average Collection Term | 38 dias | 29 dias | Surpassed |
| APT - Average Payment Term | 31 dias | 30 dias | Surpassed |
| PEC Debt | 247 M€ < x ≤ 251 M€ | 223 M€ | Surpassed |
| ROCE | 3,5% ≤ x ≤ 4% | 7.8% | Surpassed |
| EBITDA Margin | 57.7% | 59.9% | Surpassed |
| Water Quality: Distribution Network | 99,6% ≤ x < 99,9% | 99.6% | Achieved |
| Rate of Losses in Down Time | 11,4% ≤ x < 10,0% | 8.7% | Surpassed |

Signing of the Protocol with 43 Parish Councils of Lisbon to Provide Support for Families in Need - 1 October

# 9. Outlook

The Restructuring of the Water Sector provides EPAL with new and greater challenges.

The planned aggregation of multi-municipal water supply and sanitation systems in the Lisbon and Tagus River Valley Region, resulting in the creation of a new larger system which, according to the guidelines from Águas de Portugal, will have EPAL as a shareholder. The project will require significant efforts in terms of organisation, rationalisation and planning; thus, the company's collaboration will be important, given the commitment, professionalism and knowledge it is recognised for.

Following contacts and negotiations undertaken with the Lisbon City Hall throughout 2012, the company still faces the challenge of integrating the management and operation of the wastewater treatment system and the inefficient rainwater drainage in the City of Lisbon into EPAL, which will amount to expanding the company's operations to the entire urban water cycle.

Internally, and in view of the current context of reduced consumption, the challenge posed to the company involves adapting the water supply system to demand conditions, in order to be able to cover fixed expenditures and realise the capital employed, while continuing to provide customers with excellent service levels at fair prices.

Also in this context, we highlight the effort undertaken to optimise the investment policy, within a perspective of rationalisation of the employed capital and minimisation of operating costs. In this respect, we highlight the planned refurbishment of the Vale da Pedra WTP and the Valada Tejo Abstraction facilities. The VFX/Telheiras Trunk Main Recovery Plan is also expected to resume, after its suspension in 2004, with continuing efforts for the refurbishing of mains in the Lisbon network, so that, in the next few years, an average annual percentage of 1.8% of the distribution network can undergo maintenance.

We highlight the intended increased investment in innovation and in developing new procedures and technologies, as well as tradeable products with export potential, such as AQUAMATRIX and WONE, along with others currently being prepared, resulting from the profitable use of the enormous skills that exist within the company, thereby making it a major player in the sector and bringing continuity to its obvious global calling.

With the approval, in late 2012, of the proposal submitted by EPAL, in 2013, for the first time in its history, the company will see the creation of a social tariff, thus reinforcing its socially responsible and active attitude.

Lastly, we need to express our confidence in the fruits of the company's relationship with its stakeholders, certain that its mission, goals, history and future will encourage them to give the best of themselves, in order to overcome the challenges that we face in 2013.


Ceremony to present the SIRE (Sistema Integrado de Responsabilidade Empresarial - Integrated Corporate Liability System) Certification Diploma – December

# 10. Closing Remarks

As we conclude the report of yet another year of EPAL's operations, wishing to share with the concerned parties the company's success and difficulties, its present accomplishments and outlook for the future, we should point out the Board of Directors' high level of appreciation and acknowledgement towards all those who directly and indirectly contributed to the results achieved.

To Her Excellency, Assunção Cristas, Ph.D., the Minister of Agriculture, Sea, Environment and Spatial Planning, for her concern and careful monitoring;

To the Shareholder Águas de Portugal, SGPS, SA, for the commitment and support it has devoted to the company;

To ERSAR and DGAE, for the excellent relationship we have maintained in the course of their operations;

To Banks and Insurers, for the quality of the services they provide

To Suppliers and Service Providers, for the professionalism and diligence with which they have responded to the company's needs;

To the members of the General Meeting Board, the Sole Auditor and the Statutory Auditor for their willingness, interest and dedication with which they have performed their duties;

To EPAL employees, for the sense of responsibility, commitment and professionalism with which they have responded to challenges and performed their duties in service to the company;

To our Customers, for their confidence and for the strength they give us to serve them better.

The Chairman of the Board of Directors

José Manuel Leitão Sardinha

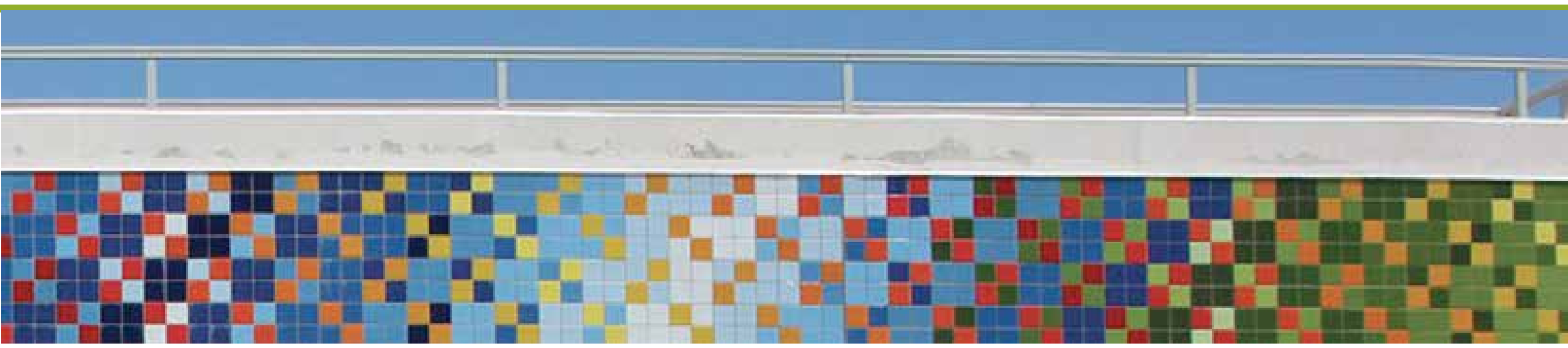
Executive Director of The Board of Directors

Maria do Rosário da Silva Cardoso Águas

Executive Director of The Board of Directors

Maria do Rosário Ventura

Official opening of the Galeria dos Inventores da EPAL (EPAL Gallery of Inventors) and presentation of the EPALIn 2012 Award - December

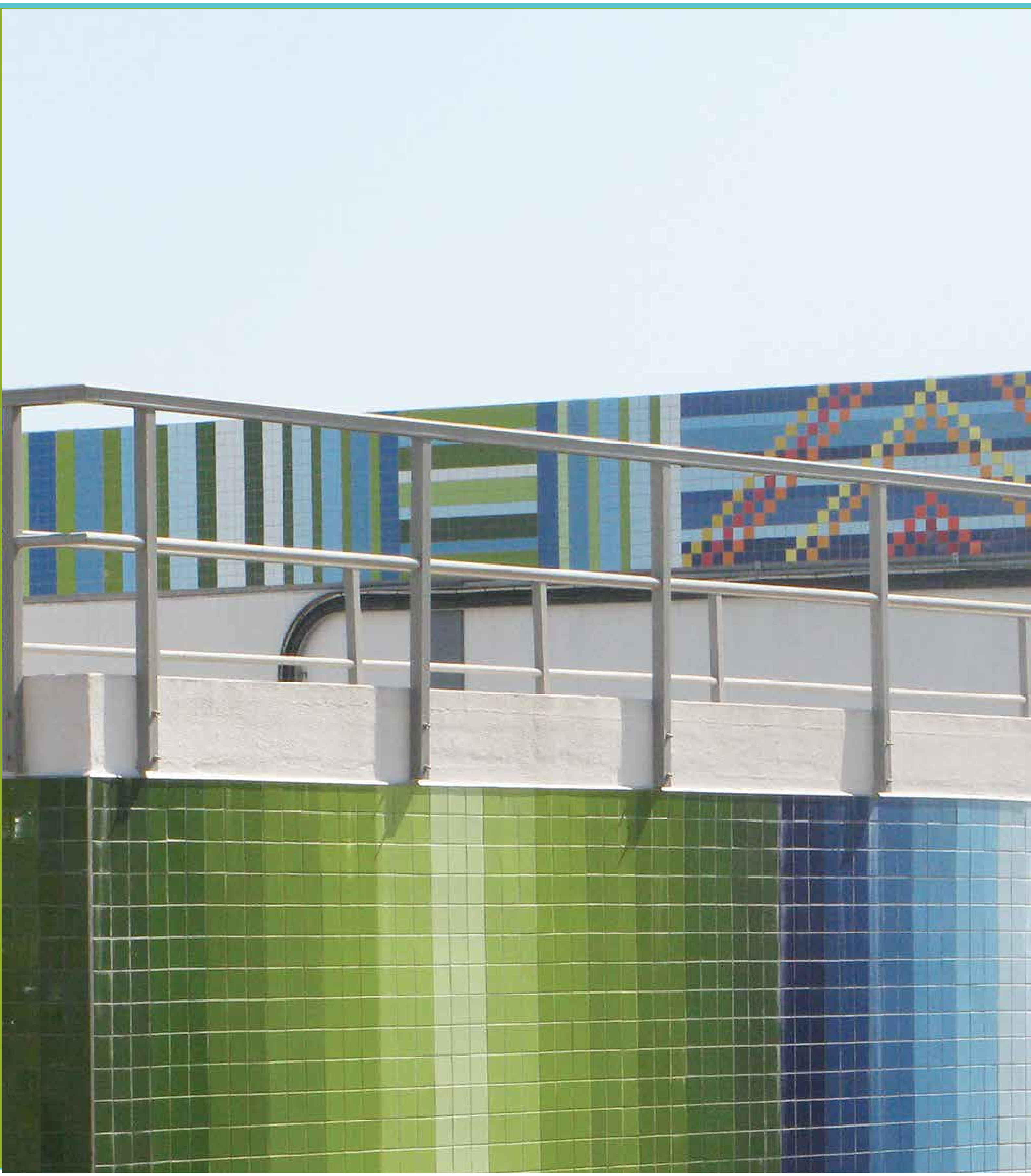


# 12. Proposed Appropriation of Net Profit

Pursuant to the provisions under article 21 of the Articles of Association of EPAL – Empresa Portuguesa das Águas Livres, S.A., the Board of Directors proposes that the Net Profit for the Financial Year 2012, in the amount of € 43,852,247.46 (forty-three million, eight hundred and fifty-two thousand, two hundred and forty-seven euros and forty-six cents) be appropriated as follows:

**€ 35.081.797,97** (thirty-five million, eighty-one thousand, seven hundred and ninety-seven euros and ninety-seven cents) to be distributed as dividends to Shareholders

**€ 8.770.449,49** (Eight million, seven hundred and seventy thousand, four hundred and forty-nine euros and forty-nine cents) as Retained Earnings



# Accounts

# Statements of Financial Position on 31 December 2011 and 2012

| ASSETS | Notes | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| NON-CURRENT ASSETS: | | | |
| Tangible fixed assets | 6 | 760.381.486,46 | 773.552.649,94 |
| Investment properties | 7 | 1.051.493,78 | 1.146.269,83 |
| Investments in subsidiaries | 8 | - | - |
| Other financial assets | 9 | 110.230,68 | 110.230,68 |
| Deferred tax assets | 10 | 5.446.496,50 | 5.998.822,78 |
| Other non-current assets | 11 | 10.222.151,61 | 10.727.537,62 |
| Total non-current assets | | 777.211.859,03 | 791.535.510,85 |
| | | | |
| CURRENT ASSETS: | | | |
| Inventories | 12 | 1.159.767,84 | 1.147.041,23 |
| Customers | 13 | 18.713.329,93 | 18.640.903,13 |
| State and other public entities | 20 | 1.610.534,00 | - |
| Other accounts receivable | 13 | 15.329.663,20 | 14.625.090,67 |
| Prepaid expenses | 14 | 882.308,98 | 1.042.544,33 |
| Other financial assets | 4 and 9 | 67.500.000,00 | 72.500.000,00 |
| Cash and bank deposits | 4 | 2.678.460,18 | 2.671.769,42 |
| Total current assets | | 107.874.064,13 | 110.627.348,78 |
| **Total assets** | | 885.085.923,16 | 902.162.859,63 |
| | | | |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Paid-up capital | 15 | 150.000.000,00 | 150.000.000,00 |
| Legal reserve | 15 | 30.000.000,00 | 30.000.000,00 |
| Other reserves | 15 | 22.171.377,45 | 22.171.377,45 |
| Retained Earnings | 15 | 286.943.814,52 | 279.691.887,70 |
| Other changes in equity | | (4.063,81) | (4.063,81) |
| | | 489.111.128,16 | 481.859.201,34 |
| Net profit for the period | | 43.852.247,46 | 42.555.549,69 |
| Total equity | | 532.963.375,62 | 524.414.751,03 |
| | | | |
| LIABILITIES: | | | |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 16 | 205.216.386,67 | 222.356.429,06 |
| Investment subsidies | 17 | 35.226.391,44 | 34.556.839,74 |
| Post-Employment Benefit Obligations | 18 | 9.639.078,57 | 12.119.946,37 |
| Deferred tax liabilities | 10 | 41.292.962,91 | 44.190.405,99 |
| Total non-current liabilities | | 291.374.819,59 | 313.223.621,16 |
| | | | |
| CURRENT LIABILITIES: | | | |
| Provisions | 19 | 1.058.504,35 | 1.872.347,02 |
| Trade payables | 16 | 12.784.865,90 | 15.037.933,03 |
| State and Other Public Entities | 20 | 4.276.240,46 | 4.418.400,31 |
| Borrowings | 16 | 18.393.159,30 | 17.864.687,39 |
| Other accounts payable | 16 | 24.234.957,94 | 25.331.119,69 |
| Total current liabilities | | 60.747.727,95 | 64.524.487,44 |
| Total liabilities | | 352.122.547,54 | 377.748.108,60 |
| Total equity and liabilities | | 885.085.923,16 | 902.162.859,63 |

The notes are an integral part of the statements of financial position on 31 December 2012.

**The CFO and Chartered Accountant**
Marcos Levi Santinho de Faria Miguel

**The Board of Directors**
José Manuel Leitão Sardinha
Maria do Rosário da Silva Cardoso Águas
Maria do Rosário Mayoral Robles Machado Simões Ventura

# Separate Income Statements for the financial years ended 31 December 2012 and 2011

| Income and Expense | Notes | 2012 | 2011 |
|---|---|---|---|
| Sales and services rendered | 21 | 144.205.267,87 | 147.038.145,26 |
| Investment subsidies | 17 | 1.252.533,96 | 1.882.458,72 |
| Cost of goods sold | 12 | (2.876.183,62) | (2.949.695,85) |
| External supplies and services | 22 | (34.527.224,65) | (35.142.672,51) |
| Staff expenses | 23 | (22.910.213,62) | (25.750.686,32) |
| Debtor impairment (losses) / reversals | 13 | (496.708,03) | (431.001,05) |
| Provision (increases) / reductions | 19 | 829.168,40 | 177.362,26 |
| Other income and gains | 24 | 4.289.797,15 | 3.072.866,13 |
| Other expenses and losses | 25 | (1.842.335,72) | (1.387.465,00) |
| **Profit before depreciations, financing expenses and taxes** | | 87.924.101,74 | 86.509.311,64 |
| | | | |
| Depreciation and amortisation expenses | 26 | (24.796.339,13) | (24.404.732,45) |
| Impairment of depreciable and amortisable assets (losses) / reversals | 26 | (1.541.296,23) | - |
| **Operating profit (before financing expenses and taxes)** | | 61.586.466,38 | 62.104.579,19 |
| | | | |
| Interest and similar income | 27 | 3.463.847,81 | 3.676.557,86 |
| Interest and similar expenses | 27 | (5.036.245,54) | (5.851.398,91) |
| **Profit before taxes** | | 60.014.068,65 | 59.929.738,14 |
| | | | |
| Income tax for the period | 10 | (16.161.821,19) | (17.374.188,45) |
| **Net profit for the period** | | 43.852.247,46 | 42.555.549,69 |
| | | | |
| | | | |
| **Basic earnings per share** | 31 | 1,46 | 1,42 |

The notes are an integral part of the separate income statement for the financial year ended 31 December 2012

**The Board of Directors**
José Manuel Leitão Sardinha
Maria do Rosário da Silva Cardoso Águas
Maria do Rosário Mayoral Robles Machado Simões Ventura

**The CFO and Chartered Accountant**
Marcos Levi Santinho de Faria Miguel

# Statements of comprehensive income for the financial years ended 31 December 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Net profit for the period | 43.852.247,46 | 42.555.549,69 |
| Deferred tax adjustments | - | (248.640,00) |
| **Comprehensive income for the period** | **43.852.247,46** | **42.306.909,69** |

The notes are an integral part of the statement of comprehensive income for the financial year ended 31 December 2012

**The Board of Directors**
José Manuel Leitão Sardinha
Maria do Rosário da Silva Cardoso Águas
Maria do Rosário Mayoral Robles Machado Simões Ventura

**The CFO and Chartered Accountant**
Marcos Levi Santinho de Faria Miguel

# Statements of changes in Equity for the financial years ended 31 December 2012 and 2011

| | Notes | Paid-up capital | Legal reserve | Other Reserves | Retained Earnings | Other changes | Net profit for the year | Total equity |
|---|---|---|---|---|---|---|---|---|
| Position at the start of 2011 | | 150.000.000,00 | 30.000.000,00 | 22.171.377,45 | 258.053.435,94 | (4.063,81) | 45.887.091,77 | 506.107.841,35 |
| | | | | | | | | |
| Changes in the year: | | | | | | | | |
| Effect of changes in tax rates on deferred taxes | 10 | | | | (248.640,00) | | | (248.640,00) |
| Other changes recognised in equity: | | | | | | | | |
| Appropriation of net profit | | - | - | - | 45.887.091,77 | - | (45.887.091,77) | - |
| | | | | | | | | |
| | | 150.000.000,00 | 30.000.000,00 | 22.171.377,45 | 303.691.887,71 | (4.063,81) | - | 505.859.201,35 |
| | | | | | | | | |
| Net profit for 2011 | | | | | | | 42.555.549,69 | 42.555.549,69 |
| | | | | | | | | |
| Equity transactions with owners in the period | | | | | | | | |
| Dividend distribution | 15 | - | - | - | (24.000.000,00) | - | - | (24.000.000,00) |
| | | - | - | - | (24.000.000,00) | - | - | (24.000.000,00) |
| | | | | | | | | |
| **Position at the end of 2011** | | **150.000.000,00** | **30.000.000,00** | **22.171.377,45** | **279.691.887,71** | **(4.063,81)** | **42.555.549,69** | **524.414.751,04** |
| | | | | | | | | |
| **Position at the start of 2012** | | **150.000.000,00** | **30.000.000,00** | **22.171.377,45** | **279.691.887,71** | **(4.063,81)** | **42.555.549,69** | **524.414.751,04** |
| | | | | | | | | |
| Changes in the year: | | | | | | | | |
| Effect of changes in tax rates on deferred taxes | 10 | - | - | - | | - | - | - |
| Other changes recognised in equity: | | | | | | | | |
| Appropriation of net profit | | - | - | - | 42.555.549,69 | - | (42.555.549,69) | - |
| Adjustments to the investment subsidy (change in service lives) | 17 | - | - | - | (1.259.183,13) | - | - | (1.259.183,13) |
| | | | | | | | | |
| | | 150.000.000,00 | 30.000.000,00 | 22.171.377,45 | 320.988.254,27 | (4.063,81) | - | 523.155.567,91 |
| | | | | | | | | |
| Net profit for 2012 | | | | | | | 43.852.247,46 | 43.852.247,46 |
| | | | | | | | | |
| Equity transactions with owners in the period | | | | | | | | |
| Dividend distribution | 15 | - | - | - | (34.044.439,75) | - | - | (34.044.439,75) |
| | | - | - | - | (34.044.439,75) | - | - | (34.044.439,75) |
| | | | | | | | | |
| Position at the end of 2012 | | 150.000.000,00 | 30.000.000,00 | 22.171.377,45 | 286.943.814,52 | (4.063,81) | 43.852.247,46 | 532.963.375,62 |

The notes are an integral part of the statements of changes in equity for the financial year ended 31 December 2012

**The CFO and Chartered Accountant**
Marcos Levi Santinho de Faria Miguel

**The Board of Directors**
José Manuel Leitão Sardinha
Maria do Rosário da Silva Cardoso Águas
Maria do Rosário Mayoral Robles Machado Simões Ventura

# Statements of cash flows for the financial years ended 31 December 2012 and 2011

| | Notes | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | | | |
| Receipts from customers | | 184.256.218,16 | | 183.870.184,00 | |
| Payments to suppliers | | (45.519.230,64) | | (61.482.031,76) | |
| Payments to staff | | (25.089.023,21) | | (30.800.339,18) | |
| Cash generated by operations | | 113.647.964,31 | | 91.587.813,06 | |
| Payment/receipt of income tax | | (23.357.099,28) | | (16.139.573,75) | |
| Other receipts/payments | | (24.971.794,29) | | (26.671.156,23) | |
| Flows from operating activities [1] | | | 65.319.070,74 | | 48.777.083,08 |
| **Cash Flows from Investing Activities:** | | | | | |
| **Payments related to:** | | | | | |
| Tangible fixed assets | | (18.349.936,02) | | (14.641.342,46) | |
| Other assets | 9 | (13.500.000,00) | (31.849.936,02) | - | (14.641.342,46) |
| **Receipts from:** | | | | | |
| Tangible fixed assets | | 7.184,39 | | 13.581,14 | |
| Other assets | | - | | 46.000.000,00 | |
| Interest and similar income | | 3.377.128,58 | 3.384.312,97 | 3.733.583,73 | 49.747.164,87 |
| **Flows from investing activities [2]** | | | (28.465.623,05) | | 35.105.822,41 |
| Cash Flows from Financing Activities: | | | | | |
| **Payments related to:** | | | | | |
| Borrowings | | (16.329.284,02) | | (12.804.797,86) | |
| Interest and Similar Expenses | | (4.973.033,16) | | (5.895.100,64) | |
| Dividends | 15 | (34.044.439,75) | (55.346.756,93) | (24.000.000,00) | (42.699.898,50) |
| **Flows from financing activities [3]** | | | (55.346.756,93) | | (42.699.898,50) |
| **Change in Cash and cash equivalents [4]=[1]+[2]+[3]** | | | **(18.493.309,24)** | | **41.183.006,99** |
| **Cash and cash equivalents at the start of the period** | 4 | | 75.171.769,42 | | 33.988.762,43 |
| **Cash and cash equivalents at the end of the period** | 4 | | 56.678.460,18 | | 75.171.769,42 |

The notes are an integral part of the statements of cash flows for the financial year ended 31 December 2012.

**The CFO and Chartered Accountant**
Marcos Levi Santinho de Faria Miguel

**The Board of Directors**
José Manuel Leitão Sardinha
Maria do Rosário da Silva Cardoso Águas
Maria do Rosário Mayoral Robles Machado Simões Ventura

# Notes to the Financial Statements

## On 31 December 2012

(amounts in Euro)

## 1. Introductory Note

### 1.1 Introduction

EPAL - Empresa Portuguesa das Águas Livres, S.A. (hereinafter referred to as "EPAL" or "Company") is a limited company ultimately owned by the Portuguese State.

The Company's social object is the abstraction, treatment, transportation and distribution of water for human consumption and the undertaking of other related industrial, commercial or research activities or the rendering services, namely those concerning the water cycle.

### 1.2 Activities

EPAL is dedicated to the abstraction, transportation, treatment and distribution of water for human consumption, aiming to provide a quality service while respecting essential social and environmental concerns. This includes distribution to the city of Lisbon (household distribution), as well as bulk delivery to 34 municipalities in the Greater Lisbon area.

In addition, as an entity with the delegated management of distribution to the city of Lisbon and supply to the Greater Lisbon area, and pursuant to the provisions of Decree-Law no. 230/91 of 21 June, the Company presents the following features in its management model: (i) freedom to sign contracts for the supply of water to Municipalities; (ii) the application of prices agreed upon by the State, through the Directorate General for Economic Activities, and the Company; (iii) all consumers, public or private, must pay for the water they use, as well as for the services rendered to them.

With regard to the use of water resources for the abstraction of surface water intended for public supply from the Castelo do Bode reservoir, during the financial year 2009, the Company signed a concession agreement with the Ministry of the Environment, Regional Planning and Regional Development, in compliance with Law no. 58/2005, of 29 December, whose paragraph a) of article 61 states that the private use of water resources of public domain is subject to prior concession. In accordance with said agreement, the concession was granted in 2009 for a period of 75 years. Given that: (i) on the date the agreement was signed, existing assets were owned by the Company and were recorded in its financial statements; (ii) at the end of the concession, the Company shall be compensated for the value of the assets at their net book value; and (iii) a return has not been set not found, regarding the operation of the assets covered by the concession; the Company considers that IFRIC 12 – Service Concession Agreements - does not apply to this agreement.

The price system applicable to the sale of water by EPAL is established by Decree-Law no. 230/91, of 21 June, which holds that the agreement is to be signed between EPAL and the Government, represented by the Directorate General of Economic Activities.

## 1.3 Shareholders

On 31 December 2012, the Company was wholly owned by AdP – Águas de Portugal, SGPS, S.A.

## 1.4 Approval of financial statements

The appended financial statements are presented in Euro and were approved by the Board of Directors, during its meeting of 6 February 2013. However, they are still subject to the approval of the General Shareholders' Meeting, according to the Portuguese commercial legislation in force.

The Board of Directors believes that these financial statements truthfully and appropriately reflect the Company's operations and its financial position and performance, as well as its cash flows.

# 2. Accounting Framework for the Preparation of the Financial Statements

The attached financial statements have been prepared within the framework of the provisions in force in Portugal, pursuant to Decree-Law no. 158/2010, of 13 July (2010), and in accordance with the conceptual structure ("Framework for the Preparation and Presentation of Financial Statements"), International Accounting and Financial Reporting Standards ("IAS/IFRS") and interpreting standards ("SIC/IFRIC"), as adopted by the European Union, applicable from 1 January 2012.

The most relevant accounting policies used in the preparation of the present Financial statements are described below. These policies were consistently applied during the comparative periods, except whenever stated otherwise.

# 3. Main Accounting Policies

The main accounting policies adopted in the preparation of the attached financial statements are as follows:

## 3.1. Basis of presentation

EPAL's financial statements have been prepared in the assumption of continued operations, from the Company's books and accounting records, which are kept in accordance with International Financial Reporting Standards, as adopted by the European Union, effective for financial years begun 1 January 2012. It shall be considered that said standards include both the IFRS-International Financial Accounting Standards, as issued by the International Accounting Standard Board ("IASB"), and the International Accounting Standards ("IAS"), as issued by the International Accounting Standards Committee ("IASC"), as well as the respective interpretations - SIC and IFRIC, as issued by the International Financial Reporting Interpretation Committee ("IFRIC") and Standing Interpretation Committee ("SIC").

Henceforth, the set of said standards and interpretations shall be generally referred to as "IAS/IFRS" or "IFRS".

The Company will not be preparing consolidated financial statements, as, pursuant to Article 7(1) of Decree-Law no. 158/2009 of 13 July, it is exempt from doing so; this is because it did not exceed two of the three set limits during two consecutive financial years

## 3.1.1 New standards and changes in policies

For the financial year ended 31 December 2012, there were no voluntary changes in accounting policies in relation to those considered in the preparation of the financial information of the previous year presented in the comparative statements.

Up to the date of approval of these financial statements, the European Union endorsed the following amendment/revision, with mandatory enforcement in the Company's financial year begun 1 January 2012, and considered when preparing the appended notes:

| | |
|---|---|
| **Amendments to IFRS 7 – Enhancing disclosures about transfers of financial assets** | This amendment requires a greater number of disclosures regarding transfers of financial assets. |
| | Effective date (financial years begun on or after) 1 July 2011 |

The new standards and interpretations issued by IASB, which, until the date of approval of these financial statements, were endorsed by the European Union and whose enforcement is mandatory only in future financial years

| | |
|---|---|
| **IAS 1 Presentation of financial statements (Amendment)** | The amendment to IAS 1 changes the aggregation of items presented in the Statement of Comprehensive Income. Items that may be reclassified (or "recycled") to future profit or loss (for example, at the date of derecognition or settlement) shall be presented separately from items not likely to be reclassified to profit or loss (e.g., revaluation reserves set forth in IAS 16 and IAS 38). |
| **No impact on the Company** | This amendment does not alter the nature of the items that must be recognised in the Statement of Comprehensive Income, nor whether they should or not be likely to be reclassified to future profits or losses.<br>*Amendments to IAS 1 shall be applicable for financial years begun after 30 June 2012, and can be anticipated, provided such is appropriately disclosed. The application is retrospective.* |

| | |
|---|---|
| **IFRS 1 First-time adoption of international financial reporting standards - hyperinflationary economies (Amendment)** | When the date of transition to IFRS occurs on the date or after the date on which the functional currency ceases to be a currency of a hyperinflationary economy, the entity can measure all assets and liabilities held prior to the date of cessation and which were subject to the effects of a hyperinflationary economy, at their fair value on the date of transition to IFRS. This fair value can be used as the cost considered for those assets and liabilities on the date of the opening of the statement of financial position. |
| **No impact on the Company** | The amendment also removes the dates fixed in IFRS 1 relating to the derecognition of financial assets and liabilities and gains and losses on transactions on initial recognition. The new date considered shall be the date of transition to IFRS.<br>*The changes to IFRS 1 shall apply for financial years begun after 1 January 2013. Early application is permitted provided it is disclosed.* |

| | |
|---|---|
| **IFRS 7 (Amendment) Offsetting financial assets and financial liabilities** | This amendment requires that entities disclose information about rights of set-off and related agreements (e.g. collateral). These disclosures provide information that is useful in assessing the net effect that these agreements may have on the Statement of Financial Position of each entity.The new disclosures are mandatory for all financial instruments that can be offset, as provided by IAS 32. Financial Instruments: Presentation. The new disclosures also apply to financial instruments that are subject to master netting agreements or other similar agreements, regardless of whether they are offset in accordance with the provisions of IAS 32.<br><br>*Amendments to IFRS 1 shall apply for financial years begun on or after 1 January 2013. The amendment to IFRS 7 shall be applied retrospectively, in accordance with IAS 8. However, if the entity chooses to apply IAS 32 - Offsetting of financial assets and liabilities in advance, it must jointly implement the disclosures prescribed by IFRS 7.* |
| No impact on the Company | |

| | |
|---|---|
| IFRS 10. Consolidated financial statements | IASB issued IFRS 10 Consolidated Financial Statements, which replaces the consolidation requirements provided for by SIC 12 Consolidation - Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements.<br><br>IFRS establishes a new control concept that shall apply to all entities and special purpose vehicles. The changes introduced by IFRS 10 will require that management makes a significant judgement to determine which entities are controlled and are, therefore, included in the consolidated financial statements of the parent company.<br><br>*This standard applies to financial years begun on or after 1 January 2014, and can be anticipated, provided the entity simultaneously applies IFRS 11, IFRS 12, IAS 27 (revised in 2011) and IAS 28 (revised in 2011). The application is retrospective.* |
| No impact on the Company | |

| | |
|---|---|
| **IFRS 11 - Joint arrangements**<br><br>No impact on the Company | IFRS 11:<br><br>• supersedes IAS 31 Interests in Joint Ventures and SIC 13 Jointly controlled entities - non-monetary contributions by venturers.<br><br>• It changes the concept of joint control and removes the option to account for a jointly controlled entity through the proportional consolidation method, prescribing that an entity account for its interests in these entities through the equity method.<br><br>• It also defines the concept of joint operations (combining the existing concepts of controlled assets and jointly controlled operations) and redefines the concept of proportionate consolidation for these operations; thus, each entity shall record in its financial statement the absolute or relative interests it has in assets, liabilities, income and expenses.<br><br>*This standard applies to financial years begun on or after 1 January 2014, and can be anticipated, provided the entity simultaneously applies IFRS 10, IFRS 12, IAS 27 (revised in 2011) and IAS 28 (revised in 2011). The application is retrospective.* |

| | |
|---|---|
| **IFRS 12 - Disclosure of interests in other entities**<br><br>No impact on the Company | IFRS 12 Disclosure of interests in other entities establishes the minimum disclosures in respect to subsidiaries, joint ventures, associated companies and other non-consolidated entities.<br><br>This standard includes, therefore, all the disclosures that were mandatory under IAS 27 Consolidated and Separate Financial Statements relating to the consolidated accounts, as well as the disclosures included in IAS 31 Interests in Joint Ventures and IAS 28 Investments in Associates, besides new additional information.<br><br>*This standard applies to financial years begun on or after 1 January 2014, and can be anticipated, provided the entity simultaneously applies IFRS 10, IFRS 11, IAS 27 (revised in 2011) and IAS 28 (revised in 2011). The application is retrospective.* |

| | |
|---|---|
| **IFRS 13 - Fair value measurement** | IFRS 13 provides a single framework for measuring fair value in accordance with IFRS. IFRS 13 does not indicate when an entity should use fair value, but it provides guidance on how fair value should be measured whenever it is permitted or required.<br><br>Fair value is defined as the "price that would be receive d to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". |
| **No impact on the Company** | *This standard is applicable for financial years begun on or after 1 January 2013. Earlier application is permitted, provided it is properly disclosed. The application is prospective.* |

| | |
|---|---|
| **IAS 12 - Income taxes** | The amendment to IAS 12 clarifies that the determination of deferred taxes on investment properties measured at fair value under IAS 40, shall be calculated taking into account its recovery through its future sale. However, this presumption can be repealed if the entity has a business plan that demonstrates that the recovery of such tax shall be effected through the use of the investment properties.<br><br>Additionally, the amendment states that deferred taxes recognised for non-depreciable tangible fixed assets that are measured in accordance with the revaluation model shall be calculated on the assumption that their recovery will be effected through their sale. |
| **No impact on the Company** | *The amendments to IAS 12 shall be applicable for financial years begun on or after 1 January 2013, and can be anticipated, provided such is appropriately disclosed. The application is retrospective.* |

| | |
|---|---|
| **IAS 27 - Consolidated and Separate Financial Statements (Revised in 2011)** | With the introduction of IFRS 10 and IFRS 12, IAS 27 is limited to the prescription of the accounting treatment concerning subsidiaries, joint ventures and associates in separate accounts. |
| **No impact on the Company** | *The amendments to IAS 27 shall be applicable for financial years begun on or after 1 January 2014, and can be anticipated, provided the entity simultaneously applies IFRS 10, IFRS 11, IFRS 12 and IAS 28 (revised in 2011). The application is retrospective.* |

| | |
|---|---|
| IAS 28 Investments in associates and Jointly Controlled Entities (Revised in 2011) | With the amendments to IFRS 11 and IFRS 12, IAS 28 has been renamed and it now describes the application of the equity method also for jointly controlled entities, similarly to what already happened with associates. |
| No impact on the Company | The amendments to IAS 28 shall be applicable for financial years begun on or after 1 January 2014, and can be anticipated, provided the entity simultaneously applies IFRS 10, IFRS 11, IFRS 12 and IAS 28 (revised in 2011). The application is retrospective. |

| | |
|---|---|
| IAS 32 Financial instruments (Offsetting financial assets and financial liabilities) | The amendment clarifies the meaning of "currently enforceable legal right to set off" and the application of the IAS 32 criteria for the offsetting of settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous<br><br>Paragraph 42 (a) of IAS 32 requires that "a financial asset and a financial liability shall be offset and the net amount presented in the financial position when, and only when, an entity currently has a legally enforceable right to set off the recognised amounts". This amendment clarifies that the rights to set off, not only have to be currently legally enforceable in the ordinary course of the activity, but also have to be executable in the case of an event of default and in the event of bankruptcy or insolvency of any parties concerned in the contract, including the reporting entity. The amendment also clarifies that rights to set off shall not be contingent on future events. |
| No impact on the Company | The criterion defined in IAS 32 for the offsetting of financial instruments requires that the reporting entity intends either to settle on a net basis, or realise the asset and settle the liabilities simultaneously. The amendment clarifies that only gross settlement mechanisms that eliminate credit and liquidity risk, or reduce them to insignificance, in which the process of accounts receivable and payable is a single settlement process or cycle can be, in fact, equivalent to a net settlement, effectively fulfilling the net settlement criterion laid down in the standard.<br><br>*This standard is effective for financial years begun on or after 1 January 2014. The amendment to IFRS 7 shall be applied retrospectively, in accordance with IAS 8. Early application is permitted, provided the entity discloses this fact and complies with the disclosures provided by IFRS 7 Disclosures (Amendment) - Offsetting financial assets and financial liabilities.* |

| | |
|---|---|
| IAS 19 - Employee Benefits (Revised) | The elimination of the option to defer the recognition of actuarial gains and losses, known as "corridor method"; Actuarial Gains and Losses are recognised in the Statement of Comprehensive Income when they occur. Amounts recognised in profit or loss are limited: to current and past service cost (which includes gains and losses on curtailments occurred during the financial year), gains and losses on settlement and expenses (income) related to net interest. All other changes in the net value of the asset (liability) arising from the defined benefit plan shall be recognised in the Statement of Comprehensive Income without subsequent reclassification to profit or loss.<br><br>The objectives for disclosures relating to defined benefit plans are explicitly referred to in the revision of the standard, as well as new disclosures or revised disclosures. The new disclosures include quantitative information regarding sensitivity analyses on the liability of defined benefits to possible changes in each of the actuarial assumptions. |
| With impact on the Company (see below) | *Employment termination benefits must be recognised at the moment immediately before: (i) a commitment to their assignment cannot be revoked, and (ii) the provision for restructuring is constituted in accordance with IAS 37.*<br><br>*The distinction between short and long term benefits shall be based on the timeliness of the settlement of the benefit, regardless of the employee's entitlement to benefit having already been given.*<br><br>*A single rate now becomes applicable to liabilities and assets under the Plan. The difference between the actual return of the fund's assets and the single interest rate is recorded as actuarial gains and losses. This standard is effective for financial years begun on or after 1 January 2013.* |

With regard to the application of the standards described above (standards that were not adopted and whose enforcement is mandatory only in future financial years), no significant impacts are expected for EPAL's financial statements, with the exception of IAS 19 - Employee benefits.

The estimated net cost for fiscal 2013 comes to 340 million euros, compared to 106 million euros (Note 18), which is higher insofar as there are no longer amortisations of actuarial gains due to the "corridor method", and the expected rate of income is no longer used; instead, a single rate applied to net liabilities is used.

The new standards and interpretations issued by the IASB, which, until the date of endorsing these financial statements, were not approved by the European Union, whose enforcement is mandatory only in future financial years:

| | |
|---|---|
| IFRS 1 (Amendment).<br><br>First-time adoption of international financial reporting standards - IFRS 9 and IAS 20 Accounting for government subsidies and disclosure of government assistance | The amendment establishes an exception to the retrospective application of IFRS 9 Financial Instruments and IAS 20 Accounting for government subsidies and disclosure of government assistance.<br><br>This amendment requires that entities that apply IFRS 1 prospectively apply the requirements of IAS 20 concerning government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 retrospectively for government loans if the required information has been obtained on the date of initial recognition of these loans. |
| No impact on the Company | This adoption provides early adopters relief from the retrospective application of the measurement of government loans with an interest rate lower than the interest rate of the market. As a result of the non-retrospective application of IFRS 9 (or IAS 39) and IAS 20, first time adopters need not recognise the corresponding benefit of a lower rate than the market rate for a government loan given as a subsidy.<br><br>Amendments to IFRS 1 shall apply for financial years begun on or after 1 January 2013. Early application is permitted, provided it is disclosed. |

<table>
<tr>
<td>IFRS 9 - Financial Instruments (introduces new requirements for classifying and measuring financial assets and liabilities)</td>
<td rowspan="2">The first phase of IFRS 9 Financial Instruments addresses the classification and measurement of financial assets and liabilities. The IASB continues to work and discuss issues related to impairment and hedge accounting, in order to review and completely replace IAS 39. IFRS 9 applies to all financial instruments that fall within the scope of IAS 39. The main changes are the following:<br><br>Financial Assets:<br><br>All financial assets are measured at fair value on their initial recognition.<br><br>Debt instruments may be subsequently measured at amortised cost if:<br>• the fair value option is not exercised;<br>• the purpose of holding the asset, according to the business model, is to receive the cash flows contracted; and<br>• under the terms of the contract, the financial assets will generate, on given dates, cash flows that materialise only in the reimbursement of principal and interest on outstanding principal.<br><br>The remaining debt instruments are subsequently measured at fair value.<br><br>All equity investments are measured at fair value through the Statement of Comprehensive Income or through profit and loss. Each of the equity instruments shall be measured at fair value through (i) the Statement of Comprehensive Income or (ii) Profits and Losses (equity financial instruments shall be measured at fair value with the corresponding changes always recognised through profit and loss).<br><br>Financial Liabilities:<br><br>Differences in fair value of financial liabilities at fair value through profit or loss resulting from changes in the Entity's credit risk shall be presented in the Statement of Comprehensive Income. All other changes shall be recorded in profit or loss, unless the presentation of the differences in fair value resulting from financial liabilities credit risk is likely to create or increase a significant imbalance in the income statement for the period.<br><br>All other rules regarding the classification and measuring of financial liabilities existing in IAS 39 remain unchanged in IFRS 9, including the rules of the separation of embedded derivatives and the criterion to be recognised at fair value through profit and loss.<br><br>This standard is effective for financial years begun on or after 1 January 2015. Early application is permitted, provided it is properly disclosed. The application of the provisions relating to financial liabilities can also be anticipated provided the provisions relating to financial assets are applied simultaneously.</td>
</tr>
<tr>
<td>No impact on the Company</td>
</tr>
</table>

• Annual enhancements relative to the 2009-2011 cycle, issued by the IASB

| | |
|---|---|
| **IFRS 1 (Amendment) - First-time adoption of international financial reporting standards** | Clarifies that an entity that has stopped applying IFRS can choose between: (i) going back to applying IFRS 1, despite already having done it in a previous period, or (ii) applying it retrospectively, in accordance with IAS 8, as if it had never stopped applying IFRS. If an entity goes back to applying IFRS 1 and applies IAS 8, it must disclose the reasons why it stopped applying IFRS and subsequently resumed its application.<br><br>It clarifies that, when adopting IFRS, an entity that has capitalised financing costs in accordance with the previous standards can keep that capitalised amount without any adjustments in the Statement of Financial Position at the date of transition. |
| No impact on the Company | |

| | |
|---|---|
| **IAS 1 (Amendment) Presentation of financial statements** | It clarifies the difference between voluntary additional comparative information and the minimum required com parative information. Generally, the minimum required comparative period is the previous period.<br><br>An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements.<br><br>Additionally, the opening statement of financial position (known as 'the third balance sheet') must be presented in the following circumstances: i) when an entity retrospectively changes its accounting policies or makes retrospective restatements of items in its financial statements; or ii) when it reclassifies items in its financial statements and those changes have a material effect on its statement of financial position. The opening statement would be at the beginning of the preceding period. However, unlike the voluntary comparative information, the related notes are not required to include the third statement of financial position. |
| No impact on the Company | |

| | |
|---|---|
| **IAS 16 - Tangible fixed assets a** | Clarifies that parts and servicing equipment that meet the definition of tangible fixed assets shall be classified as such and not as inventories. |
| No impact on the Company | |

| | |
|---|---|
| **IAS 32 - Financial Instruments** | It clarifies that the income tax resulting from distributions to shareholders must be accounted in accordance with IAS 12 Income Taxes. |
| No impact on the Company | |

| | |
|---|---|
| IAS 34 - Interim Financial Reporting | Clarifies the requirements of IAS 34 regarding segment information for total assets and liabilities for each reportable segment, in order to improve consistency with IFRS 8 Segment Reporting.<br><br>According to this amendment, total assets and liabilities for each reportable segment need only be disclosed when they are regularly provided to key managers of management. |
| No impact on the Company | *Improvements to IFRS are applicable for financial years begun on or after 1 January 2013, and may be applied earlier if properly disclosed. The application is retrospective.* |

| | |
|---|---|
| Application Guide for IFRS 10, IFRS 11 and IFRS 12 | It clarifies a few transitional provisions of IFRS 10, IFRS 11 and IFRS 12. |
| No impact on the Company | *This application guide will be applicable for financial years begun on or after 1 January 2013 and can be anticipated if the entity applies IFRS 10, IFRS 11 and IFRS 12 in advance.* |

The preparation of financial statements, in accordance with the IAS/IFRS, requires the use of estimates, assumptions and judgement when applying policies to be adopted, which affect the reported amounts of assets and liabilities, as well as the reported amounts for gains and expenses during the reporting period.

Although these estimates are based on managing experience and on their best expectations relative to current and future events and actions, current and future results may ultimately differ from such estimates. The areas involving a higher degree of judgement or complexity, or areas in which the assumptions and estimates are significant to the consolidated financial statements are disclosed under Note 3.18.

## 3.2 Tangible fixed assets

Tangible fixed assets acquired by 31 December 2008, are recorded at their acquisition cost or considered cost, which covers the effects of reassessments performed under the provisions legally set forth, namely Decree-Law no. 31/98, of 11 February, and the effects of the free reappraisal of tangible fixed assets of similar use and nature, based on assessments performed by an independent specialised entity with reference to 1 January 2009 - data of the transition to IFRS. Fixed assets acquired after 1 January 2009, are recorded at the acquisition cost which include the purchase cost, any costs directly ascribable to activities required for placing the assets in the location and condition needed for operating as required, net of amortisations and any accumulated impairment losses.

Depreciations are calculated after the moment when the goods are considered to be in operating conditions, in accordance with the straight-line method, compliant with the estimated service life for each group of goods.

The depreciation rates correspond to the following estimated service lives:

| Asset class | Years |
|---|---|
| Land | - |
| Buildings and other constructions | 10 - 75 |
| Production equipment | 3 - 55 |
| Transportation equipment | 4 - 16 |
| Tools and utensils | 4 - 10 |
| Administrative equipment | 4 - 10 |
| Containers | 7 |
| Other tangible assets | 8 - 15 |

The service lives and depreciation method for the various assets are reviewed annually. The effect of any change to these estimates is recognised prospectively in the income statement.

Expenditures for maintenance and repairs (subsequent expenditure) that are unlikely to generate additional future economic benefits are recognised as expenses in the period in which they are borne.

The gain (or loss) from the sale or disposal of a tangible fixed asset is determined as the difference between the fair value of the amount received or receivable in the transaction and the net amount of accumulated depreciations, as the carrying amount of the asset, and is recognised under income for the period in which the sale or write-off occurs.

## 3.3 Investment properties

Investment properties comprise real-estate held in order to obtain rents or for capital valorisation and not for use in the production or supply of goods or services, for administrative purposes or for sale while carrying out normal business.

Investment properties acquired by 31 December 2008, are recorded at considered cost, which covers the effects of reassessments performed under the provisions legally set forth, namely Decree-Law no. 31/98, of 11 February, and the effects of free reappraisals of investment properties of similar use and nature, based on appraisals performed by an independent specialised entity with reference to 1 January 2009 - the date of the transition to IFRS, and they are systematically depreciated over the course of their estimated service life. Investment properties acquired after 1 January 2009 are recorded at acquisition cost.

Costs incurred with investment properties in use, namely maintenance, repairs, insurance and property taxes are recognised as an expense during the period to which they pertain.

Maintenance or improvements to investment properties which are expected to generate future additional economic benefits on top of those initially estimated are capitalised under the heading "Investment properties."

For the purposes of analysing the recovery value of investment properties and for disclosure purposes, the Company holds external assessments prepared by independent specialised entities at the end of every financial year when it is deemed that there was a change in market conditions, or exceptional events that could cause significant changes in the fair value of investment properties, as determined in immediately preceding assessments. On the reporting date, whenever the value of investment properties, net of accumulated depreciations, is higher than their fair value on the reporting date, the company shall record the corresponding loss of impairment.

## 3.4 Leases

Leases are classified as financial whenever their terms substantially transfer all the risks and benefits associated with asset ownership to the lessee. All other leases are classified as operational. The classification of leases is based on the spirit and not on the form of the contract.

Assets acquired under financial lease contracts, as well as the corresponding liabilities, are recorded at the inception of the lease at the lowest between the fair value of assets and present value of minimum lease payments. Payments of financial leases are apportioned between finance charges and reduction of liability in order to obtain a constant interest rate on the outstanding balance of responsibility.

Payments for operational leases are recognised as expense on a straight line basis over the lease term. The incentives received are recorded as a liability, and the aggregate amount of such incentives is recognised as a reduction in expense with the lease, also on a linear basis.

## 3.5 Intangible assets

Intangible assets are recorded at cost, net of amortisations and accumulated impairment losses.

Costs involving research activities are recorded as expenses during the period when they are incurred.

Amortisations of intangible assets are recognised on a straight-line basis; during the estimated service life of the intangible assets.

The service lives and amortisation method used on the various intangible assets are reviewed annually. The effect of any change to these estimates is recognised prospectively in the income statement.

Intangible assets (regardless of how they are acquired or generated) with an indefinite service life are not amortised, and they are subject to impairment tests annually, or more often whenever there is an indication that an intangible asset may be in impairment.

## 3.6 Impairment of tangible fixed assets

At each reporting date, the carrying amounts of the Company's tangible fixed assets are reviewed to determine whether there is any indicator that they may be impaired. If there is an indicator, the recoverable amount of the related assets (or cash-generating unit) is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of the asset (or of the cash-generating unit) consists of: (i) the fair value minus costs for sale or, (ii) the value of use, whichever is higher. In determining the value in use, the estimated future cash flows are discounted by using a discount rate that reflects market expectations for the time value of money and the risks specific to the asset (or cash-generating unit), for which estimates of future cash flows have not been adjusted.

Where the carrying amount of the asset (or cash-generating unit) exceeds its recoverable amount, an impairment loss is considered. The impairment loss is immediately recorded in the income statement under "Impairment of depreciable and amortisable assets", unless such loss offsets a revaluation surplus stated in equity. In this latter case, such a loss will be treated as a decrease of the said revaluation, until this surplus is fully consumed, and the surplus (if any) is stated as an expense for the financial year.

The reversal of impairment losses recognised in prior financial years is recorded when there is evidence that the previously recognised impairment losses no longer exist or have decreased. The reversal of impairment losses is recorded in the income statement under "Reversals of impairment losses." The reversal of impairment losses is carried out until the amount that would be recognised (net of depreciation or amortisation), if the previous impairment loss had not been recorded.

## 3.7 Financial holdings in subsidiaries, jointly controlled and associate companies

Financial investments representing capital shares in subsidiaries and associate companies are recorded at their acquisition cost, minus estimated impairment losses.

As concerns financial investments in subsidiaries (actual control over 50%), whenever liabilities shouldered by the company exceed the acquisition cost, along with the impairment loss stated for financial investment, a provision is also stated for the amount of the liabilities exceeding the recognised impairment loss.

## 3.8 Inventories

Inventories intended for EPAL's production process basically include (i) reagents, such as liquid chlorine, aluminium sulphate, carbon dioxide and other products used in water treatment; and (ii) hydraulic material for construction work.

Such inventories are valued at either the acquisition cost (which includes all expenses until they are put in storage) or their net realisable value, whichever is lower. The net realisable value represents the estimated sales price during the course of the Company's normal business operations, minus all estimated expenses required for completing the inventories and for bringing about their sale. In situations where the cost value is higher than the net realisable value, an adjustment (impairment loss) is recorded as the respective difference. The financial year's changes in impairment losses of inventories are recorded under the results heading "Cost of sold goods and consumed materials."

The costing method adopted for valuing goods when leaving storage is the average weighted cost.

## 3.9 Financial assets and liabilities

Financial assets and liabilities are recognised under the statement of financial position when the Company becomes part of the corresponding contractual provisions.

Financial assets and liabilities with the following characteristics are measured "at cost or amortised cost":

- Spot assets or with a defined maturity;

- With an associated fixed or determinable return; and

- Are not a derivative financial instrument, nor do they incorporate a derivative instrument.

The amortised cost is determined using the actual interest method. The actual interest is calculated using the rate that discounts estimated future payments or receipts through the expected life of the financial instrument in the net amount of the asset or liability (actual interest rate).

This category includes, therefore, the following financial assets and liabilities:

**a) Bonds and other financial investments**

Financial investments in bonds and other applications are valued at their fair value, minus adjustments intended for meeting estimated losses in their realisation.

### b) Financial investments in entities which are not subsidiary, jointly controlled or associated companies

Financial investments held by the Company and which do not qualify as holdings in subsidiaries are measured at cost minus accumulated impairment losses, insofar as they concern entities whose equity instruments are not publicly traded (shares not listed on a stock exchange) and whose fair value cannot be reliably determined.

### c) Customers and other debts receivable

The balances of customers and other debts receivable are stated at cost or amortised cost minus any impairment losses. Usually, the amortised cost of these assets does not differ from their nominal value.

### d) Bank deposits and cash

The amounts included under the headings "Bank deposits and cash" and "Other financial assets - current" include the figures for cash, bank deposits and term deposits and other treasury applications.

### e) Suppliers and other debts payable

The balances of suppliers and other debts payable are carried at cost or amortised cost. Usually, the amortised cost of these financial liabilities does not differ from their nominal value.

### f) Borrowings

Borrowings are recorded under liabilities at amortised cost.

Any expenses incurred with obtaining such funding, as well as charges with interest and similar expenses, are recognised using the actual interest method under results for the financial year over the life of such funding.

Usually, the amortised cost of these financial liabilities does not differ from their nominal value

## Impairment of financial assets

The financial assets included in the category "at cost or amortised cost" are subject to impairment testing at each reporting date. These financial assets are impaired when there is objective evidence that, as a result of one or more events occurring after their initial recognition, their estimated future cash flows are negatively affected.

For financial assets measured at amortised cost, the impairment loss to be recognised corresponds to the difference between the carrying amount of the asset and the present value at the reporting date of the new estimated future cash flows discounted at their original actual interest rate.

For financial assets measured at cost, the impairment loss to be recognised corresponds to the difference between the carrying amount of the asset and the best estimate of the asset fair value at the reporting date.

Impairment losses are recognised in the income statement under "Impairment losses" in the period in which they are determined.

Subsequently, if the amount of the impairment loss decreases and this decrease can be related objectively to an event that took place after the recognition of loss, it should be reversed by results. This reversal must be done up to the amount that would be recognised (amortised cost) if the loss had not been initially recorded. The reversal of impairment losses is recorded in the income statement under "Reversals from impairment losses." The reversal of impairment losses recorded in investments in equity instruments (measured at cost) is not allowed.

## Derecognition of financial assets and liabilities

The Company derecognises financial assets only when the contractual rights to their cash flows expire by collection, or when the control over such financial assets and all significant risks and benefits associated with their ownership are transferred to another entity.

The Company derecognises financial liabilities only when the corresponding obligation is settled, cancelled or expired.

# 3.10 Accrual basis

The Company records its income and expenses in accordance with the principle of the accrual basis, whereby income and expenses are recognised as they are generated, regardless of the time of their receipt or payment. The differences between the amounts received and paid and the corresponding income and expenses incurred are recorded as assets or liabilities.

# 3.11 Investment subsidies

Investment subsidies are recognised when there is reasonable assurance that the subsidy will be received and that EPAL will meet its obligations inherent to its being received.

Investment subsidies regarding to the acquisition of tangible fixed assets are disclosed as non-current liabilities and are credited in the income statement based on the straight-line method for the expected remaining period of the life of the corresponding assets.

The remaining subsidies are deferred and recognised in the income statement in the same period of expenses that such subsidies seek to compensate.

# 3.12 Post-employment benefits

The company has in place a social benefit system for its workers, inherent to which is the payment of supplements to pensions (due to retirement or disability), while shouldering the responsibilities stemming from early retirement.

The benefit system with Company pensions comprises two pension plans: one with a definite contribution and another with definite benefits.

## Definite contribution plans

A definite contribution plan is a pension plan under which the Company's sole monetary obligation is to provide fixed contributions to a separate entity (a Fund).

Company's contributions to definite contribution post-employment benefit plans are recognised as an expense for the period to which they pertain; that is, when employees affected by the plan provide services that entitle them to the Company contribution and are calculated on the basis of a percentage applied to the salary of every asset included under the plan.

## Definite benefit plan

A definite benefit plan is a pension plan that defines the amount of the benefit that will supplement the pension that an employee will receive upon retiring, namely depending on one or several factors, such as age, years of service and wage.

The Company has a definite benefit plan for retirement supplements. The Company's responsibilities regarding this plan are calculated annually by independent actuaries, using the projected unit credit method. The present value of responsibilities is determined by discounting future payments of benefits, using the interest rate of high-quality bonds denominated in the same currency as that of the benefits to be paid and whose maturity terms approach those of the shouldered responsibility.

Actuarial gains and losses are recognised according to the "corridor" method.

The cost of past services is recognised under results based on a straight-line method during the period until the corresponding benefits are acquired. They are immediately recognised insofar as the benefits have already been fully acquired.

The responsibility associated with guaranteed benefits, as recognised under the statement of financial position, represents the present value of the corresponding bond, adjusted to actuarial gains and losses and according to the cost of unrecognised past services and minus the fair value of the plan's assets.

The benefits given to early retirements are calculated annually by independent actuaries using the projected unit credit method. The present value of responsibilities is determined by discounting future payments of benefits, using the interest rate of high-quality bonds denominated in the same currency as that of the benefits to be paid and whose maturity terms approach those of the shouldered responsibility.

## 3.13 Provisions

Provisions are recorded when the Company has a current obligation (legal or constructive) resulting from a past event; for settling of such an obligation, shed resources are likely to occur, and the amount of the obligation could be reasonably estimated.

The amount of provisions recorded is the best estimate, at the reporting date, of the resources required to settle the obligation. Such estimate, revised on every reporting date, is determined considering the risks and uncertainties associated with each obligation.

Present obligations resulting from onerous contracts are recognised and measured as provisions. An onerous contract exists when the Company is a constituent part of the provisions of a contract or agreement, whose compliance entails unavoidable costs, which exceed the economic benefits derived from the same.

Contingent liabilities are not recognised in financial statements, and they are disclosed whenever the possibility of there being shed resources encompassing economic benefits is not remote.

Contingent assets are not recognised in financial statements, and they are disclosed whenever the existence of a future economic inflow of resources is likely.

## 3.14 Revenue

Revenue is measured by the fair value of the amount received or receivable. The stated revenue is deducted from the amount of discounts, discounts and other rebates and does not include VAT or other paid taxes related to the sale.

The revenue from the sale of assets (water) is recognised when all the following conditions are met:

• Significant risks and advantages associated with ownership of the assets were transferred to the buyer;

• The Company does not maintain any control over the assets sold;

• The amount of revenue can be measured in a reliable manner;

• It is probable that future economic benefits associated with the transaction will flow to the Company;

• The costs incurred or to be incurred in the transaction can be measured in a reliable manner.

Revenue from the rendering of services is stated based on the percentage of completion of the transaction/service, provided all the following conditions are met:

• The amount of revenue can be measured in a reliable manner;

• Future economic benefits associated with the transaction are likely to flow to the Company;

• The costs incurred or to be incurred in the transaction can be measured in a reliable manner;

• The stage of completion of the transaction/service can be measured in a reliable manner;

The sale of water and service quota is supported by contracts signed with customers, where the price is perfectly defined via a duly approved set of rates.

Throughout the year, incomes from the sale of water are recognised as they are invoiced, based on consumptions obtained via reading meters or, in periods where the meter is not read for a given consumer, via consumption estimates. At the end of the year, according to the principle of specific provision, an account receivable is recognised as the estimated amount of consumptions to be read and invoiced.

At the end of each financial year, the amount recorded as water sales corresponds to actual consumptions for the year obtained on the basis of meter readings and, in cases where such is not feasible, through reliable estimates of such consumptions.

Interest revenue is recognised using the actual interest method, provided it is probable that economic benefits will flow to the Company and its amount can be reliably measured.

## 3.15 Financial expenditure with loans

Financial expenditure with loans obtained pertaining to the acquisition, construction or production of fixed assets whose construction or production period exceeds one year, they are capitalised, becoming a constituent part of the asset's cost. The capitalisation of such financial expenditure begins with the start of incurred expenses with assets, which are extended as long as there are ongoing activities needed for preparing the asset for its intended use or for its sale. Such capitalisation ceases when substantially all activities needed for preparing the asset for its intended use or for its sale are concluded.

In addition, capitalisation is suspended during extended periods when the development the aforementioned activities is stopped. Any income generated by loans obtained in advance and related to a specific investment are deducted from the eligible financial expenditure for capitalisation.

However, on 31 December 2012 and 2011, the Company believed that the effect of financial expenditure incurred from the acquisition and/or construction of its fixed assets is not significant; thus, it did not proceed with its capitalisation, but recorded the same as expenses for the financial year when incurred.

## 3.16 Income taxes

Income taxes for the financial year recorded in the income statement correspond to the sum of current taxes and deferred taxes. Current taxes and deferred taxes are recorded under results, except when deferred taxes are related to items directly recorded under equity, in which case they are recorded under equity.

The tax currently payable is computed based on the company's taxable profit. The taxable profit differs from the accounting result since it excludes several expenses and income that will only be deductible or taxable in other financial years, as well as expenses and income that will never be taxable or deductible.

The deferred taxes refer to the temporary differences between the amounts of assets and liabilities for accountancy purposes and the respective amounts for taxation purposes. The deferred tax assets and liabilities are measured using the tax rates expected to be in force at the date of reversal of temporary differences, based on tax rates (and tax laws) that are formally issued on the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for deductible temporary differences for which there is reasonable expectation of future taxable income so as to use such deferred tax assets or taxable temporary differences that revert to the same period of reversal of deductible temporary differences. On each reporting date, deferred tax assets are reviewed and adjusted according to expectations about their future use.

## 3.17 Transactions and balances in foreign currency

Transactions in foreign currencies (currencies other than the functional currency of the Company) are recorded at the exchange rates on the transaction dates. At each reporting date, the carrying amounts of monetary items stated in foreign currency are restated at the exchange rates of that date.

Exchange rate differences obtained on the date the transactions in foreign currency are received or paid and those resulting from the aforementioned updates are recorded in the income statement for the period when they are generated

## 3.18 Financial risk management policies

### Financial risk factors

EPAL's activities are exposed to a variety financial of risk factors: credit risk, liquidity and risk of cash flows associated with the interest rate.

### Analysis of credit risk

Credit risk is basically related to the risk of a counterparty not fulfilling its contractual obligations, resulting in a financial loss for the company. EPAL is subject to credit risk in its operating, investment and treasury activities.

Operations-related credit risk is basically associated with credits for services provided to customers (water services). Theoretically, this risk is low, given the characteristics of the service provided. However, given the country's particular economic and financial situation in the last 2 years, with direct consequences for local authorities, the amount of balances fallen due has increased (Note 13).

Adjustments of impairment for accounts receivable are calculated, considering: i) the customer's risk profile, depending on whether this is an institutional, corporate or residential customer; ii) the average collection term, which is different from one business to the next; and iii) the customer's financial condition.

The following table shows EPAL's maximum exposure to credit risk (not including customers' balances and of other debtors, as disclosed under Note 13) on 31 December 2012, excluding any collateral held or other credit improvements, as defined on the basis of its carrying amount reported on that date.

| Banking Financial Assets | 2012 |
|---|---|
| Demand Deposits (Note 4) | 2.639.460,49 |
| Term Deposits (Note 9) | 67.500.000,00 |
| Other Financial Assets (Note 9) | 110.230,68 |
| | **70.249.691,17** |

| Rating | 2012 |
|---|---|
| A3 (Moodys) | 17.474,87 |
| Baa3 (Moodys) | 472.565,40 |
| Ba1 (Moodys) | 32.257.823,70 |
| Ba3 (Moodys) | 22.961.945,70 |
| B1 (Moodys) | 6.039.881,50 |
| B2 (Moodys) | 8.500.000,00 |
| | **70.249.691,17** |

Rating (Moodys) - Note: ratings obtained from the sites of the financial institutions in January 2013

## Liquidity risk

Liquidity risk management involves maintaining availabilities at a reasonable level, the feasibility of consolidating floating debt via a suitable amount of loan facilities and the ability to settle market positions. The Company seeks to ensure flexibility of floating debt, by keeping credit lines available. The Company manages liquidity risk by contracting and maintaining credit lines and funding conditions and firmly committing to financial institutions that allow for immediate access to funds with flexibility.

EPAL examines its investment commitments, rescheduling and mapping them according to their importance, economic/financial and environmental impacts, thereby minimising any risks stemming from commitments taken with various organisations.

## Risk of cash flows and fair value related to interest rate

The company's interest rate risk basically results from contracting long-term loans. In this scope, loans obtained with interest calculated at variable rates expose the Company to the risk of cash flows, whereas loans obtained with fixed-rate interest expose the Company to the risk of fair value associated with interest rate. The Company policy involves maintaining a balance between the relative weight of loans with interest under a fixed-rate system and variable-rate loans.

## Analysis of interest rate sensitivity

The sensitivity analysis below was prepared in accordance with the Company's exposure to interest rates on obtained loans. If the variability of the interest rate applicable to the said loans during the 2012 and 2011 financial years has been 1% above and/or below the rate on such loans, the impact on the Company's net result on 31 December 2012 and 2011, would be as follows:

| | 2012 | 2011 |
|---|---|---|
| Interest borne with bank funding (Note 27) | 4.683.453,57 | 5.846.560,98 |
| | | |
| Impact on the net result: | | |
| If variable interest rates had been 1% above the actual | (852.845,86) | (1.182.742,30) |
| If variable interest rates had been 1% below the actual | 1.110.426,88 | 1.182.742,30 |

## 3.19 Critical accounting judgements and key sources of estimation uncertainty

In the preparation of the attached financial statements, judgements and estimates have been made and various assumptions have been used that affect the reported amounts of assets and liabilities, as well as the reported amounts of income and expenses for the period.

The estimates and underlying assumptions were determined with reference to the reporting date, based on the best information available at the date of approval of the financial statements on the events and transactions in progress, as well as in the experience of past and/or current events. However, situations may occur in subsequent periods which, not being foreseeable on the date of approval of the financial statements, were not considered in these estimates. Changes to estimates that occur after the date of the financial statements will be prospectively corrected. For this reason, and given the associated degree of uncertainty, the actual results of the transactions in question may differ from the corresponding estimates.

The key value judgements and estimates in preparing the attached financial statements were as follows:

a) Useful lives of tangible fixed assets;

b) Reviews of tangible fixed asset impairment;

c) Record of impairment losses regarding financial assets and provisions to meet liabilities toward third parties;

d) Actuarial assumptions used in determining the liabilities associated with post-employment and pre-retirement benefits; and

e) Asset recoverability by deferred taxes and tax credits.

## 3.20 Subsequent events

The events after the date of the statement of financial position which provide additional information regarding conditions that existed on the date of the statement of financial position ("adjusting events" or events after the date of the statement of financial position that give rise to adjustments) are shown in the financial statements. The events after the date of the statement of financial position which provide information regarding the conditions occurring after the date of the statement of financial position ("non-adjusting events" or events after the date of the statement of financial position not giving rise to adjustments) are disclosed in the financial statements, if considered to be material.

# 4. Cash Flows

For the purposes of the statement of cash flows as well as cash and cash equivalents, these include cash amounts, bank deposits, other short-term, high-liquidity investments, promptly convertible to a known amount of money and are subject to an insignificant risk of loss of value, and bank overdrafts. Bank overdrafts are shown on the balance sheet, under current liabilities, under the heading "Debts to credit institutions - short term", which are also considered when preparing the consolidated statement of cash flows. On 31 December 2012 and 2011, there were no bank overdrafts.

Cash and cash equivalents on 31 December 2012 and 2011 are shown in detail as follows:

| | 2012 | 2011 |
|---|---|---|
| Cash | 38.999,69 | 51.865,29 |
| Demand deposits | 2.639.460,49 | 2.619.904,13 |
| | **2.678.460,18** | **2.671.769,42** |
| Term deposits | 67.500.000,00 | 72.500.000,00 |
| | **70.178.460,18** | **75.171.769,42** |
| Investment flows | (13.500.000,00) | - |
| **Cash and cash equivalents** | **56.678.460,18** | **75.171.769,42** |

The AdP Group adopted a concept that can be extended to every organisation in the Group, including EPAL, which sets forth that the financial applications that are characterised as being immediately convertible to cash and with an insignificant risk of loss of value must be considered to be cash and cash equivalents, provided their maturity does not exceed 6 months.

For cash flows purposes, on 31 December 2012, the heading "Term deposits" includes 13,500,00.00 euros that do not meet the classification criteria such as cash and cash equivalents as set forth by the AdP group and which are mentioned above.

# 5. Changes in Accounting Policies and Error Corrections

During the financial years ended 31 December 2012 and 2011, there were no changes to accounting policies or significant changes in estimates, nor any material errors identified and corrected.

# 6. Tangible Fixed Assets

During the financialyears ended 31 December 2012 and 2011, the operation occurring in the carried amount of tangible fixed assets, as well as in the respective accumulated depreciation and impairment losses, was as follows:

## 2012

| | Land and natural resources | Buildings and other constructions | Production equipment | Transportation equipment | Administrative equipment | Other tangible fixed assets | Ongoing tangible fixed assets | Advances | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Opening balance | 116.375.848,39 | 194.145.019,59 | 1.012.078.170,50 | 1.401.593,91 | 20.325.104,16 | 22.524.050,78 | 10.197.455,64 | - | 1.377.047.242,97 |
| Acquisitions | - | 1.900,00 | 1.875.546,45 | - | 119.218,82 | 50.267,82 | 11.025.050,27 | - | 13.071.983,36 |
| Disposals | - | - | (77.595,48) | - | - | - | - | - | (77.595,48) |
| Transfers | 83.214,02 | 489.371,07 | 14.567.544,69 | - | 292.340,93 | 19.976,70 | (15.452.447,41) | - | - |
| Write-offs | - | - | (269.084,59) | - | - | - | - | - | (269.084,59) |
| **Closing balance** | **116.459.062,41** | **194.636.290,66** | **1.028.174.581,57** | **1.401.593,91** | **20.736.663,91** | **22.594.295,30** | **5.770.058,50** | **-** | **1.389.772.546,26** |
| **Accumulated depreciation and impairment losses** | | | | | | | | | |
| Opening balance | - | 87.787.044,99 | 476.134.061,79 | 1.273.202,99 | 18.030.642,90 | 20.269.640,36 | - | - | 603.494.593,03 |
| Depreciations for the period (Note 26) | - | 4.359.690,00 | 19.243.534,94 | 37.441,37 | 586.034,82 | 474.858,91 | - | - | 24.701.560,04 |
| Disposals | - | - | (77.595,93) | - | - | - | - | - | (77.595,93) |
| Impairment losses | - | - | 1.541.296,23 | - | - | - | - | - | 1.541.296,23 |
| Write-offs | - | - | (268.793,57) | - | - | - | - | - | (268.793,57) |
| **Closing balance** | **-** | **92.146.734,99** | **496.572.503,46** | **1.310.644,36** | **18.616.677,72** | **20.744.499,27** | **-** | **-** | **629.391.059,80** |
| **Net assets** | **116.459.062,41** | **102.489.555,67** | **531.602.078,11** | **90.949,55** | **2.119.986,19** | **1.849.796,03** | **5.770.058,50** | **-** | **760.381.486,46** |

## 2011

| | Land and natural resources | Buildings and other constructions | Production equipment | Transportation equipment | Administrative equipment | Other tangible fixed assets | Ongoing tangible fixed assets | Advances | Total |
|---|---|---|---|---|---|---|---|---|---|
| Opening balance | 113.652.517,60 | 192.270.738,70 | 1.000.912.322,90 | 1.461.033,94 | 19.604.554,17 | 21.724.265,83 | 15.725.843,08 | 693.926,60 | 1.366.045.202,82 |
| Acquisitions | - | - | 611.004,61 | 95.510,00 | 124.533,46 | 52.989,45 | 10.228.271,13 | 173.665,40 | 11.285.974,05 |
| Disposals | - | - | (27.538,05) | (154.950,03) | - | - | - | - | (182.488,08) |
| Transfers | 2.723.335,58 | 1.874.280,89 | 10.680.234,63 | - | 599.552,73 | 746.846,74 | (15.756.658,57) | (867.592,00) | - |
| Write-offs | - | - | (97.846,94) | - | (3.536,20) | (51,24) | - | - | (101.434,38) |
| Other operations | (4,79) | - | (6,65) | - | - | - | - | - | (11,44) |
| **Closing balance** | **116.375.848,39** | **194.145.019,59** | **1.012.078.170,50** | **1.401.593,91** | **20.325.104,16** | **22.524.050,78** | **10.197.455,64** | **-** | **1.377.047.242,97** |
| Opening balance | - | 83.399.210,33 | 457.428.254,58 | 1.404.497,71 | 17.511.846,24 | 19.698.838,77 | - | - | 579.442.647,63 |
| Depreciations for he period (Note 26) | - | 4.431.464,94 | 18.805.277,81 | 23.655,31 | 519.991,07 | 529.564,34 | - | - | 24.309.953,47 |
| Disposals | - | - | (27.179,80) | (154.950,03) | - | - | - | - | (182.129,83) |
| Write-offs | - | - | (97.846,92) | - | (3.536,20) | (51,24) | - | - | (101.434,36) |
| Other operations | - | (43.630,28) | 25.556,12 | - | 2.341,79 | 41.288,49 | - | - | 25.556,12 |
| Closing balance | - | 87.787.044,99 | 476.134.061,79 | 1.273.202,99 | 18.030.642,90 | 20.269.640,36 | - | - | 603.494.593,03 |
| **Net assets** | **116.375.848,39** | **106.357.974,60** | **535.944.108,71** | **128.390,92** | **2.294.461,26** | **2.254.410,42** | **10.197.455,64** | **-** | **773.552.649,94** |

The heading "Production equipment" basically includes the distribution network, ducts, reservoirs, water and electricity facilities, hydraulic works and meters. On 31 December 2012, the heading "Production equipment" also included fixed assets held by third parties, namely, water meters installed in the distribution network.

Acquisitions occurring during fiscal 2012 on tangible fixed assets came to around 13 million euros and basically concern projects involving detouring on course of the Circunvalação Trunk Main close to the new hospital in Vila Franca de Xira, replacing the 3 ducts on the Reguengo Bridge, intervention work on the duct of Avenida Carolina Michaelis de Vasconcelos and replacing the duct's metal sections between Valada Tejo and the Vale da Pedra Water Treatment Plant.

With regard to reducing the heading "Ongoing tangible fixed assets" during fiscal 2012, in the amount of around 15,452,000 euros, basically corresponds to the completion of projects involving expansion of the Castelo de Bode Trunk Main, replacement of ducts and service mains, as well as land expropriation. The amounts pertaining to these projects came to around 3,725,000 euros, 1,962,000 euros and 4,002,000 euros, respectively.

On 31 December 2012, the heading "Ongoing tangible fixed assets" basically concerns refurbishing projects on large ducts, electricity substation of Olivais, refurbishing of tunnels and siphons of the Alviela Aqueduct and improvement work on the Vale da Pedra facilities.

Acquisitions occurring during the financial year ending on 31 December 2011, on tangible fixed assets came to around 11,3 million euros and basically concerned refurbishing projects involving large ducts, recovery work on the final section of Castelo de Bode and expansion of the Castelo de Bode Trunk Main (special work in Azambuja).

With regard to reducing the heading "Ongoing tangible fixed assets" in fiscal 2011, in the amount of around 15.8 million euros, basically corresponds to the completion, during the financial year, of the projects involving overhauling of the Olivais Pumping Station, refurbishing the Vila Franca de Xira reservoir, doubling the section of the Castelo de Bode trunk main located close to Várzea das Chaminés, as well as the completion of part of the project for recovery of the final section of the Castelo de Bode trunk main. The amounts pertaining to these projects come to around 5.2 million euros, 1.3 million euros, 1.1 million euros and 1.3 million euros, respectively.

On 31 December 2011, the heading "Ongoing tangible fixed assets" essentially concerns projects that involve expanding the Castelo de Bode trunk main (the Azambuja special works), several land ownership proceedings, piping replacement and the refurbishing of large distribution mains.

On 31 December 2012 and 2011, the value of EPAL's tangible fixed assets is fully insured. However, the insurance taken out sets compensation limits of 250 million euros for accidents and natural catastrophes and 25 million euros for acts of terrorism.

The tangible fixed assets are depreciated according to the straight-line method, in twelfths, during the estimated service lives given under Note 3.2.

Depreciations for fiscal 2012, in the amount of 24,701,559,58 euros (24,309,953.47 euros 2011), were recorded under the heading "Depreciation and amortisation expenses" (Note 26).

# 7. Investment Properties

During the financial years ended 31 December 2012 and 2011, the operation occurring in the carried amount of investment properties, as well as in the respective accumulated depreciation and impairment losses, was as follows:

**2012**

| | Being developed | Total |
|---|---|---|
| Opening balance - gross amount | 2.451.045,23 | 2.451.045,23 |
| Regularisations | 86.767,82 | 86.767,82 |
| **Closing balance - gross amount** | **2.537.813,05** | **2.537.813,05** |
| Opening balance - accumulated depreciations and impairment losses | (1.304.775,40) | (1.304.775,40) |
| Regularisations | (86.764,78) | (86.764,78) |
| Depreciations for the period (Note 26) | (94.779,09) | (94.779,09) |
| Closing balance - accumulated depreciations and impairment losses | (1.486.319,27) | (1.486.319,27) |
| **Closing balance - net carried amount** | **1.051.493,78** | **1.051.493,78** |

**2011**

| | Being developed | Total |
|---|---|---|
| Opening balance - gross amount | 2.451.045,23 | 2.451.045,23 |
| **Closing balance - gross amount** | **2.451.045,23** | **2.451.045,23** |
| Opening balance - accumulated depreciations and impairment losses | (1.209.996,43) | (1.209.996,43) |
| Depreciations for the period (Note 26) | (94.778,97) | (94.778,97) |
| Transfers | - | - |
| Closing balance - accumulated depreciations and impairment losses | (1.304.775,40) | (1.304.775,40) |
| **Closing balance - net carried amount** | **1.146.269,83** | **1.146.269,83** |

Investment properties concern real-estate located on Company's premises that are not assigned to the Company's operating activity.

During the financial years ended 31 December 2012 and 2011, the following expenses regarding investment properties were recognised under results:

| | 2012 | 2011 |
|---|---|---|
| | **Depreciations for the period (Note 26)** | **Depreciations for the period (Note 26)** |
| Being developed | (94.779,09) | (94.778,97) |
| | (94.779,09) | (94.778,97) |

Investment properties are depreciated according to the straight-line method, in twelfths, during the following estimated service lives described under Note 3.2.

## 8. Investments in Subsidiaries

On 31 December 2012 and 2011, the heading "Investments in subsidiaries", minus accumulated impairment losses, showed the following make-up:

| | 2012 | 2011 |
|---|---|---|
| Shares in subsidiary companies | 250.000,00 | 250.000,00 |
| Losses by accumulated impairments | (250.000,00) | (250.000,00) |
| | - | - |

On 31 December 2012 and 2011, the Company showed the following investments in subsidiaries:

| | Head-Office | % capital held | Assets | Equity | Net Result | Shares in companies belonging to the group (a) | Accumulated impairment losses | Net value on 31 december 2012 | Net value on 31 december 2011 | Financial year at issue |
|---|---|---|---|---|---|---|---|---|---|---|
| Amoreiras Golf Club | Lisbon | 100% | 1.388.076,75 | (5.276,53) | (34.274,68) | 250.000,00 | (250.000,00) | - | - | **2012** |
| Amoreiras Golf Club | Lisbon | 100% | 1.412.916,47 | 28.998,15 | (108.901,97) | 250.000,00 | (250.000,00) | - | - | **2011** |

a) Corresponds to ancillary contributions

The company is the sole shareholder of Clube de Golfe das Amoreiras, S.A., which aims to develop, build and operate a venue to be used as a golf practice and training facility at the EPAL facilities, in Amoreiras, in response to the challenge put forth by Lisbon City Council, to enhance and streamline the space taken up by the reservoir. Its share capital is 350,000 euros.

In 1993, both companies signed a forward agreement with Supergolfe Amoreiras-Academia de Golfe, S.A., whereby Clube de Golfe das Amoreiras, S.A. promised to transfer operating rights over the shopping venue, for use as a golf practice and training facility.

Following a prior arbitration ruling, and on the initiative of Supergolfe Amoreiras-Academia de Golfe, S.A., Arbitration Court was set up in 2006, to establish any responsibilities. In 2008, the said Arbitration Court issued a unanimous judgement, which has since become final, which set forth the required compensation and which comprised a net amount (already settled) and an amount to be settled (currently pending), which is estimated and recorded in the Company's financial statements on 31 December 2012. The estimated amount for settling such obligation was revised during fiscal 2012, and reduced by 850,000 euros (Note 19).

## 9. Other Financial Assets

On 31 December 2012 and 2011, the heading "Other financial assets", minus accumulated impairment losses, showed the following make-up:

| | 2012 | 2011 |
|---|---|---|
| Non-Current: | | |
| Shares in associated companies | 1.500,00 | 1.500,00 |
| Bonds and other financial investments | 108.730,68 | 108.730,68 |
| | 110.230,68 | 110.230,68 |
| Current: | | |
| Term deposits | 67.500.000,00 | 72.500.000,00 |
| | 67.610.230,68 | 72.610.230,68 |

## Associated companies

At the end of fiscal 2012 and 2011, the amount recorded under the heading "Shares in associated companies", which comes to 1,500 euros, corresponded to a stake in the capital of Fundec.

## Bonds and other financial investments

With regard to the amount recorded under the heading "Bonds and other financial investments", which came to 108,731 euros, in both financial years this corresponded to court-mandated uncleared amounts (108,082 euros) and treasury bonds (649 euros).

## Term deposits

On 31 December 2012, the heading "Term deposits" in the amount of 67,500,000.00 euros entirely comprises term deposits and bonds issued by private entities (72,500,00.00 euros in 2011) (Note 4). Of this amount, 54,000,000 euros comprises deposits qualifying as cash equivalents, with 13,500,000 euros as investment flows, for statement of cash flows purposes (Note 4).

# 10. Income Taxes

Pursuant to the legislation in force, fiscal statements are subject to review and correction by the tax authorities for a period of four years (five years for Social Security), except in situations in which there have been tax losses, when tax losses or tax benefits have been granted, or when they are undergoing inspections, claims or challenges, in which cases, depending on the circumstances, deadlines may be extended or suspended. Thus, the tax statements of the Company for fiscal 2009 to 2012 may still be subject to review.

The Company's Board of Directors considers that the corrections resulting from revisions/inspections by the tax authorities to the tax statements shall not have a significant impact on the financial statements on 31 December 2012.

With effects from 2010, the Company became taxed through the special taxation system for corporate groups ("RETGS"), as the aggregate tax result is calculated under the organisation AdP SGPS. However, the income tax estimate for each organisation is recorded in their financial statements, based on their tax results, representing an account payable or receivable from AdP SGPS (Note 16).

Income tax expenses on 31 December 2012 and 2011 are shown in detail as follows:

| | Notes | 2012 | 2011 |
|---|---|---|---|
| Current tax and adjustments: | | | |
| Current tax for the period | 16 | 19.877.462,73 | 18.067.566,01 |
| Adjustments to current taxes from previous financial years | 16 | 627.767,44 | 627.767,44 |
| Estimate excess/insufficiency for the previous financial year. | | (387.758,18) | (14.035,38) |
| Tax credit (Note 20) | | (1.610.534,00) | - |
| | | 18.506.937,99 | 18.681.298,07 |
| Deferred taxes: | | | |
| Deferred taxes pertaining to the origin/reversion from temporary differences | | (2.354.505,65) | (1.389.591,42) |
| Changes in the tax rate | | 9.388,85 | 82.481,80 |
| | | (2.345.116,80) | (1.307.109,62) |
| Income tax expenses | | 16.161.821,19 | 17.374.188,45 |

Adjustments to current taxes for previous periods, in the amount of 627,767.44 euros in 2012, correspond to the tax effect, calculated from a 29% tax rate, associated with annual recognition of 1/5 of the positive changes in property stemming from the transitional system applicable to a first-time adoption of the IAS/IFRS, and such a system is provided for under art. 5(1), (5) and (6) of DL 159/2009, of 13 July.

The tax reconciliation for the financial years ended 31 December 2012 and 2011, is as follows:

| | 2012 | 2011 |
|---|---|---|
| Profit before tax | 60.014.068,65 | 59.929.738,14 |
| | | |
| Permanent differences: | | |
| Depreciations not accepted | 4.876,83 | |
| Fines | 8.165,26 | |
| Other | (10.520,58) | (5.141,05) |
| | 2.521,51 | (5.141,05) |
| Temporary differences: | | |
| Effect of changes in service lives on the date of transition to IFRS | 2.051.674,47 | 2.051.674,46 |
| Effect of cancelling depreciations by the straight-line method | 117.300,89 | 117.300,90 |
| Effect of derecognition of the right of unlimited use | (4.260,06) | (4.260,00) |
| Depreciations not accepted | 3.713.188,86 | 3.775.171,16 |
| Adjustments in inventories | 449.827,34 | 536.493,17 |
| Difference between accounting and tax-related base and of fixed assets | 1.305.937,43 | 1.320.844,50 |
| Provisions (Note 8 and 19) | (850.000,00) | (100.000,00) |
| Liabilities for retirement benefits | (2.272.867,79) | (3.249.828,29) |
| Impairment of assets (Note 6) | 1.541.296,23 | - |
| Other | (871.964,07) | (375.340,89) |
| | 5.180.133,30 | 4.072.055,01 |
| **Taxable profit** | 65.196.723,46 | 63.996.652,10 |
| | | |
| Tax | 16.299.180,87 | 15.966.034,12 |
| Municipal tax (Derrama) | 977.950,85 | 958.055,80 |
| Additional state tax (Derrama estadual) | 3.014.836,17 | 1.546.759,66 |
| Autonomous taxation | 213.262,28 | 224.483,87 |
| Adjustments to previous financial years | (387.758,18) | (14.035,38) |
| Tax credit (Note 20) | (1.610.534,00) | - |
| **Total current tax and adjustments** | 18.506.937,99 | 18.681.298,07 |
| Effect of deferred taxes for the year | (2.345.116,80) | (1.307.109,62) |
| Total expenditures for the year | 16.161.821,19 | 17.374.188,45 |
| | | |
| **Real tax rate for the year** | 27% | 29% |

The tax rate provided in the State Budget for 2012 was applied to measure the closing balances of deferred taxes, which corresponds to a corporate income tax rate of 25%, plus the Municipal tax [Derrama] of 1.5% on the taxable income and the Additional State tax [Derrama Estadual] of 3 and 5%. Except for temporary differences whose reversal time is known and shall occur in the year ending on 31 December 2013, conditions for which the rate of the Additional State tax that was considered corresponded to an average of 4.7%, resulting in an aggregate tax rate 31.2%.

The changes in deferred tax assets and liabilities for the financial years ended 31 December 2012 and 2011 were as follows:

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Differences arising from impairment losses: | | | | |
| In debts receivable | 1.496.549,28 | 1.546.911,20 | - | - |
| In inventories | 85.367,18 | 91.891,35 | - | - |
| Liabilities for retirement benefits | 2.064.232,15 | 2.723.363,81 | - | - |
| Provisions | 188.500,00 | 435.000,00 | - | - |
| Reimbursement of taxed revenues in previous years (subsidies) | 449.473,33 | 449.473,33 | - | - |
| Effect of the debt discount of AdO and Municipality of Sintra | 681.490,14 | 752.183,09 | - | - |
| Losses by Impairment of tangible fixed assets | 480.884,42 | - | - | - |
| | | | | |
| Differences between the accounting basis and the tax basis of tangible fixed assets and investment properties: | | | | |
| Legal revaluations | - | - | 7.170.176,77 | 7.575.628,61 |
| Free reappraisals at the date of transition to IFRS - Depreciable Assets | - | - | 19.718.829,58 | 20.871.004,07 |
| Free reappraisals at the date of transition to IFRS - Land | - | - | 13.048.927,43 | 13.714.850,00 |
| Reinvested capital gains | - | - | 49.305,96 | 50.817,77 |
| Effect of changes in service lives in 2009 | - | - | 1.235.108,03 | 1.871.127,11 |
| Effect of cancelling depreciations by the straight-line method in 2009 | - | - | 70.615,14 | 106.978,43 |
| | 5.446.496,50 | 5.998.822,78 | 41.292.962,91 | 44.190.405,99 |

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Deferred tax assets** | **Deferred tax liabilities** | **Deferred tax assets** | **Deferred tax liabilities** |
| **Opening balance** | 5.998.822,78 | 44.190.405,99 | 6.948.800,06 | 46.198.852,89 |
| **Effect upon results:** | | | | |
| Differences arising from impairment losses: | | | | |
| Debts Receivable | (50.361,92) | - | 91.873,86 | - |
| In inventories | (6.524,17) | - | (2.660,17) | - |
| Liabilities for retirement benefits | (659.131,66) | - | (942.450,21) | - |
| Provisions | (246.500,00) | - | (29.000,00) | - |
| Effect of the debt discount of AdO and Municipality of Sintra | (70.922,95) | - | (76.560,76) | - |
| AdutorVFX | 480.884,42 | | | |
| Differences between the accounting basis and the tax basis of tangible fixed assets and investment properties: | | | | |
| Legal revaluations | - | (406.771,84) | - | (383.044,91) |
| Free reappraisals at the date of transition to IFRS - Depreciable Assets | - | (1.155.944,49) | - | (1.093.385,36) |
| Free reappraisals at the date of transition to IFRS - Land | - | (668.277,57) | - | (241.541,28) |
| Reinvested capital gains | - | (1.516,69) | - | (1.414,28) |
| Effect of changes in service lives in 2009 | - | (638.070,76) | - | (594.985,59) |
| Effect of cancelling depreciations by the straight-line method in 2009 | - | (36.480,58) | - | (34.017,28) |
| Effect of change in the tax rate | 230,00 | 9.618,85 | 8.820,00 | 91.301,80 |
| | (552.326,28) | (2.897.443,08) | (949.977,28) | (2.257.086,90) |
| **Effect in retained earnings:** | | | | |
| Effect of change in the tax rate | - | - | - | 248.640,00 |
| | - | - | - | 248,640.00 |
| **Closing balance** | 5.446.496,50 | 41.292.962,91 | 5.998.822,78 | 44.190.405,99 |

# 11. Other Non-Current Assets

On 31 December 2012 and 2011, the heading "Other non-current assets" had the following composition:

| | 2012 | 2011 |
|---|---|---|
| Other debtors | 7.701.114,93 | 7.998.500,94 |
| Assets with defined benefit plans (Note 18) | 2.521.036,68 | 2.729.036,68 |
| | 10.222.151,61 | 10.727.537,62 |

The heading "Other receivables" comprises debts receivable with payment plans that involve periods of more than one year.

On 31 December 31 2012 and 2011, the balance of this heading, in the amount of 7,701,114.93 euros (net updated debt in the amount of 2,320,780.36 euros) and 7,998,500.94 euros (net updated debt in the amount of 2,524,489.12 euros), respectively, corresponding to the medium and long term debts of "Other debtors" and basically include the debts arising from the disposal of the supply subsystems of Alenquer / Torres Vedras and Arruda dos Vinhos / Sobral de Monte Agraço, with an annual repayment plan for a period of 27 years.

The reimbursement plan at nominal values of the above debt due to the discount effect is as follows:

| | 2012 | 2011 |
|---|---|---|
| 2013 | - | 501.094,43 |
| 2014 | 501.094,43 | 501.094,43 |
| 2015 | 501.094,43 | 501.094,43 |
| > 2015 | 9.019.706,77 | 9.019.706,77 |
| | 10.021.895,63 | 10.522.990,06 |
| Effect of debt discount | (2.320.780,70) | (2.524.489,12) |
| | 7.701.114,93 | 7.998.500,94 |

# 12. Inventories

On 31 December 2012 and 2011, the inventories of the Company were detailed as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Gross amount** | **Losses by accumulated impairments** | **Net amount** | **Gross amount** | **Losses by accumulated impairments** | **Net amount** |
| Goods | 233.419,60 | (233.419,60) | - | 255.916,73 | (255.916,73) | - |
| Raw materials and consumables | 1.220.717,84 | (60.950,00) | 1.159.767,84 | 1.207.991,23 | (60.950,00) | 1.147.041,23 |
| | 1.454.137,44 | (294.369,60) | 1.159.767,84 | 1.463.907,96 | (316.866,73) | 1.147.041,23 |

## Cost of goods sold, and change in production inventories

The cost of goods sold recognised in the financial years ended 31 December 2012 and 2011 is detailed as follows:

| | 2012 | | |
|---|---|---|---|
| | Goods | Raw materials and consumables | Total |
| Opening balance | 255.916,73 | 1.207.991,23 | 1.463.907,96 |
| Procurement | - | 2.887.956,89 | 2.887.956,89 |
| Regularisations | (22.497,13) | 953,34 | (21.543,79) |
| Closing balance | (233.419,60) | (1.220.717,84) | (1.454.137,44) |
| Cost of goods sold | - | 2.876.183,62 | 2.876.183,62 |

| | 2011 | | |
|---|---|---|---|
| | Goods | Raw materials and consumables | Total |
| Opening balance | 265.089,72 | 1.187.434,91 | 1.452.524,63 |
| Procurement | - | 2.961.181,23 | 2.961.181,23 |
| Regularisations | (9.172,99) | 9.070,94 | (102,05) |
| Closing balance | (255.916,73) | (1.207.991,23) | (1.463.907,96) |
| Cost of goods sold: | - | 2.949.695,85 | 2.949.695,85 |

## Impairment losses

The evolution of accumulated impairment losses from inventories for the financial years ended 31 December 2012 and 2011 is detailed as follows:

| | 2012 | | |
|---|---|---|---|
| | Opening balance | Utilisation | Closing balance |
| Goods | 255.916,73 | (22.497,13) | 233.419,60 |
| Raw materials and consumables | 60.950,00 | - | 60.950,00 |
| | 316.866,73 | (22.497,13) | 294.369,60 |

| | 2011 | | |
|---|---|---|---|
| | Opening balance | Utilisation | Closing balance |
| Goods | 265.089,72 | (9.172,99) | 255.916,73 |
| Raw materials and consumables | 60.950,00 | - | 60.950,00 |
| | 326.039,72 | (9.172,99) | 316.866,73 |

# 13. Customers and Other Accounts Receivable

On 31 December 2012 and 2011, the Company's "Customers" and "Other Accounts Receivable" headings were broken down as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Accumulated impairment | Net amount | Gross amount | Accumulated impairment | Net amount |
| Current: | | | | | | |
| Customers | 23.500.438,72 | (4.787.108,79) | 18.713.329,93 | 22.952.292,22 | (4.311.389,09) | 18.640.903,13 |
| | 23.500.438,72 | (4.787.108,79) | 18.713.329,93 | 22.952.292,22 | (4.311.389,09) | 18.640.903,13 |
| Other accounts receivable | | | | | | |
| Staff | 37.498,38 | - | 37.498,38 | 24.449,59 | - | 24.449,59 |
| Clube de Golfe das Amoreiras, SA | 1.393.245,78 | (1.393.245,78) | - | 1.383.245,78 | (1.383.245,78) | - |
| Debtors, income accrual | 12.730.438,31 | - | 12.730.438,31 | 12.120.206,80 | - | 12.120.206,80 |
| Other debtors | 2.982.444,08 | (420.717,57) | 2.561.726,51 | 2.890.163,52 | (409.729,24) | 2.480.434,28 |
| | 17.143.626,55 | (1.813.963,35) | 15.329.663,20 | 16.418.065,69 | (1.792.975,02) | 14.625.090,67 |
| | 40.644.065,27 | (6.601.072,14) | 34.042.993,13 | 39.370.357,91 | (6.104.364,11) | 33.265.993,80 |

During the financial year ended 31 December 2012, the amount of 496,708.03 euros (431,001.05 euros in 2011) was recognised as impairment losses / reversals of impairment losses in debts receivable.

On 31 December 2012 and 2011, the heading "Debtors, income accrual" in the amount of 12,730,438.31 euros and 12,120,206.80 euros, respectively, essentially comprises the additional income related to water not yet billed in the amount of 11,392,708 euros and 11,245,469 euros, respectively.

The schedule of receivables from customers and other debtors, including from third and related parties (Note 28) on 31 December 2012 is as follows:

| | Not yet mature | >60 days | 60 - 90 days | 90 -180 days | >180 days | Total |
|---|---|---|---|---|---|---|
| Customers | 12.162.071,21 | 1.142.379,03 | 593.283,79 | 1.511.379,96 | 8.091.324,73 | 23.500.438,72 |
| **Other debtors** | 930.422,09 | 661.315,58 | 49.122,27 | 859.720,27 | 481.863,87 | 2.982.444,08 |

# 14. Deferred Assets

On 31 December 2012 and 2011, the current assets heading "Deferrals" had the following composition:

| | 2012 | 2011 |
|---|---|---|
| Deferred expenses on insurances | 857.820,69 | 948.040,75 |
| Deferred expenses with maintenance and technical assistance | 3.669,36 | 49.090,69 |
| Other deferred costs | 20.818,93 | 45.412,89 |
| | 882.308,98 | 1.042.544,33 |

## 15. Equity Instruments

### Share capital

On 31 December 2012 and 2011 the social capital of the Company, fully subscribed and paid-up, was composed of 30.000.000 shares with the nominal value of five euros each.

### Legal reserve

The commercial legislation establishes that at least 5% of the year's net income (the articles of association of EPAL raise this limit to 10%) must be allocated to reinforcing the legal reserve until they represent at least 20% of the share capital. This reserve is not distributable except in the case of liquidation of the Company, but it can be used to cover losses after all the other reserves have been used up, or to increase share capital.

On 31 December 2012 and 2011 the legal reserve amounted to 30,000,000.00 euros.

### Other reserves

During the financial years ended 31 December 2012 and 2011, the Other reserves amounted to 22,171,377.45 euros, entirely corresponding to free reserves and had no movements in both financial years.

### Distributions

Dividends for the financial year ended 31 December 2011 attributable to shareholders/partners amounted to 34,044,439.75 euros, according to the resolution from the General Meeting held on 30 Mach 2012. The respective payment was made in April 2012.

As regards dividends for the financial year ended 31 December 2012, the Board of Directors proposes the payment of an amount of 35,081,797.97 euros. These dividends are subject to approval by shareholders in the General Meeting, not having been included as liabilities in the attached financial statements.

According to the legislation in force in Portugal, the increases resulting from applying the fair value through components of equity, including through the application of net profit for the year, are only relevant to be distributed to shareholders when the elements or rights that gave rise to them are sold, exercised, terminated, liquidated or if they are used, in the case of tangible fixed assets and intangible assets.

On 31 December 2012, the Company includes in the heading "Retained earnings" the increases from the application of the criterion of the fair value to tangible fixed assets and to investment properties, and to reappraisals made in previous years, under the following legislation:

- Decree-Law n. 430/78, according to the provisions of Decree-Law n. 24/82 of 30 January

- Decree-Law n. 219/82 of 2 June

- Decree Law no. 399-G/84 of 28 December

- Decree Law no. 118-B/86, of 27 May

• Decree Law no. 111/88, of 2 April

• Decree-Law n. 49/91 of 30 January

• Decree Law no. 264/92 of 24 November

• Decree-Law n. ° 31/98 of 11 February

In accordance with current legislation and accounting practices in Portugal, the property increases arising from these reappraisals cannot be distributed to shareholders and may only, in certain circumstances, be used for future increases in the Company's capital or in other situations specified in the legislation.

The amount of the legal reappraisal reserves (gross) on 31 December 2012 and 2011 amounts to approximately 256.5 million euros and are included in the balance of the heading "Retained Earnings".

The breakdown of the historical cost with the acquisition of tangible fixed assets and investment properties on 31 December 2012 and 2011 and the corresponding increase by the aforementioned reappraisals (legal and free), net of accumulated depreciations, is the following:

| | | | 2012 | | | | |
|---|---|---|---|---|---|---|---|
| | **Land** | **Deferred income tax** | **Sub Total** | **Depreciable assets** | **Deferred income tax** | **Sub Total** | **Total** |
| Net historic costs | 16.769.063 | - | 16.769.063 | 433.867.899 | - | 433.867.899 | 450.636.962 |
| Net legal revaluations | 32.992.766 | - | 32.992.766 | 61.564.369 | (7.170.177) | 54.394.192 | 87.386.958 |
| Net free reappraisals | 63.799.778 | (13.048.927) | 50.750.851 | 67.714.668 | (19.718.830) | 47.995.838 | 98.746.689 |
| **Net deemed cost** | 113.561.607 | (13.048.927) | 100.512.680 | 563.146.935 | (26.889.006) | 536.257.928 | 636.770.608 |

| | | | 2011 | | | | |
|---|---|---|---|---|---|---|---|
| | **Land** | **Deferred income tax** | **Sub Total** | **Depreciable assets** | **Deferred income tax** | **Sub Total** | **Total** |
| Net historic costs | 16.769.063 | - | 16.769.063 | 448.175.037 | - | 448.175.037 | 464.944.100 |
| Net legal reappraisals | 32.992.766 | - | 32.992.766 | 64.829.212 | (7.575.629) | 57.253.584 | 90.246.350 |
| Net free reappraisals | 63.799.778 | (13.714.850) | 50.084.928 | 71.422.980 | (20.871.004) | 50.551.975 | 100.636.903 |
| **Net deemed cost** | 113.561.607 | (13.714.850) | 99.846.757 | 584.427.229 | (28.446.633) | 555.980.596 | 655.827.353 |

# 16. Financial Liabilities

Suppliers and other accounts payable

On 31 December 2012 and 2011 the headings "Suppliers" and "Other accounts payable" were as follows:

| | **2012** | **2011** |
|---|---|---|
| **Trade Payables:** | | |
| Trade Payables, current account | 11.395.921,57 | 12.137.560,49 |
| Trade Payables - Invoices pending approval | 33.379,70 | 22.005,80 |
| Investment suppliers | 1.355.564,63 | 2.878.366,74 |
| | 12.784.865,90 | 15.037.933,03 |
| **Other accounts payable:** | | |
| Other creditors | | |
| CML - Sanitation Fee (Ordinance no. 399/85) | 12.538.072,43 | 12.042.614,66 |
| CML - Aditional Fee (Ordinance no. 309/84) | 1.189.639,02 | 1.123.646,63 |
| Various creditors | 305.646,56 | 95.660,76 |
| Creditors, expense accruals: | | |
| Insurances payable | 241.530,73 | 150.942,26 |
| Other accrued expenses | 1.741.392,19 | 1.356.224,06 |
| Shareholders - other operations (Note 28) | 5.465.173,79 | 8.681.576,41 |
| Staff: | | |
| Vacations and holiday pay | 1.508.064,30 | 1.431.751,83 |
| Other debts to staff | 124.323,04 | 100.699,91 |
| Advances from customers | 1.119.248,11 | 346.135,40 |
| Deferred liabilities | 1.867,77 | 1.867,77 |
| | 24.234.957,94 | 25.331.119,69 |
| | 37.019.823,84 | 40.369.052,72 |

Effective from the year 2011, the Company began to be taxed under the Special Taxation Regimen for Corporate Groups; the estimated income tax of each entity is recorded in its financial statements based on their tax results, representing an account payable to the entity AdP SGPS. Thus, the amount of 5,465,173.79 euros recorded under "Shareholders - other operations" on 31 December 2012, is related to:

(i) the amount of income taxes payable in 2012, in the amount of 19,877,462.73 euros (Note 10);

(ii) plus the adjustments to current taxes of former periods, resulting from corrections to the recognition of investment subsidies in the amount of 627,767.44 euros (Note 10);

(iii) minus the advance tax payments and tax withholdings, in the amount of 14,116,425.33 euros and 559,097.54 euros, respectively;

(iv) and minus the excess estimated tax in the amount of 388,204.89 euros, regarding 2010 and 2011 in the amounts of 181,553.29 and 206,651.60 euros, respectively.

The heading "Other accrued expenses" related mainly to the increased expenditures on electricity in the amount of 1,087,406 euros (825,723 euros in 2011).

## Borrowings

On 31 December 2012 and 2011, borrowings were broken down as follows:

| | Entity Financing entity | 2012 Limit | 2012 Amount used Corrent | 2012 Amount used Non corrent | 2011 Limit | 2011 Amount used Corrent | 2011 Amount used Non corrent | Maturity date | Type of depreciation |
|---|---|---|---|---|---|---|---|---|---|
| Financial institutions | | | | | | | | | |
| Bank loans | | | | | | | | | |
| For investiment - Loans "EPAL II and III" | BEI | 223.609.545,93 | 17.782.222,87 | 205.216.386,67 | 240.221.116,49 | 16.971.464,50 | 222.356.429,06 | Entre 2017 e 2030 | Semestral |
| Interest payable | | | 610.936,43 | | | 893.222,89 | | | |
| | | 223.609.545,93 | 18.393.159,30 | 205.216.386,67 | 240.221.116,49 | 17.864.687,39 | 222.356.429,06 | | |

The loans were contracted in euros and by the end of the financial year ended 31 December 2012, the bore interest according to the following schedule and rate regimes:

• 52.9% of the debt at fixed rate, with interest calculated on a half-yearly basis, and

• 47.1% of the debt at variable rate, with interest calculated on a quarterly basis.

According to the contract signed between the Company and the EIB, the principal will become payable if there are significant changes in the shareholding structure of the Company, namely, if the current shareholder ceases to have control over the Company.

The loans are also associated to bank guarantees which are intended to cover the debt service (Note 29).

The portion classified as non-current on 31 December 2012 and 2011, has the following reimbursement plan:

| | 2012 Capital | 2012 Interest | 2011 Capital | 2011 Interest |
|---|---|---|---|---|
| 2013 | - | - | 18,360,353.40 | 5,266,549.05 |
| 2014 | 17.848.193,71 | 3.260.800,37 | 18.360.353,40 | 4.808.401,84 |
| 2015 | 17.916.143,14 | 2.996.424,10 | 18.360.353,40 | 4.350.254,63 |
| 2016 | 17.986.130,47 | 2.730.693,06 | 18.360.353,40 | 3.895.523,71 |
| 2017 | 18.058.216,84 | 2.461.496,72 | 18.360.353,40 | 2.461.496,72 |
| 2018 and following years | 133.407.702,49 | 13.361.719,92 | 130.554.662,06 | 18.314.011,00 |
| | 205.216.386,65 | 24.811.134,17 | 222.356.429,06 | 39.096.236,95 |

# 17. Investment Subsidies

On 31 December 2012 and 2011, the heading "Investment subsidies" was as follows:

| Subsidy | Amount total | Amount received | Adjustment to the rate of recognition of subsidies | Revenue of the period | Accumulated revenue | Revenue to be recognised in 2012 | Revenue to be recognised in 2011 |
|---|---|---|---|---|---|---|---|
| Subsidies related to assets: | | | | | | | |
| COMPART.TORRES/MAFRA | 1.215.795,31 | 1.215.795,31 | - | - | 1.215.795,31 | - | - |
| FEDER C.BODE | 11.326.074,49 | 11.326.074,49 | - | - | 11.326.074,49 | - | - |
| FEDER TORRES/MAFRA | 3.698.332,02 | 3.698.332,02 | - | - | 3.698.332,02 | - | - |
| COMPART. MAFRA 2ª FASE | 216.801,06 | 216.801,06 | 2.898,44 | 4.927,30 | 123.182,76 | 93.618,30 | 95.647,03 |
| FEDER TOMAR/T.NOVAS | 5.684.191,67 | 5.684.191,67 | 152.800,89 | 106.960,57 | 3.438.019,48 | 2.246.172,19 | 2.200.331,75 |
| COMPART. OURÉM | 550.553,17 | 550.553,17 | 14.799,76 | 10.359,86 | 332.995,74 | 217.557,43 | 213.117,52 |
| COMPART. T.NOVAS | 435.314,68 | 435.314,68 | 11.702,00 | 8.191,43 | 263.295,08 | 172.019,60 | 168.509,05 |
| COMPART. TOMAR | 497.804,04 | 497.804,04 | 13.381,80 | 9.367,29 | 301.090,90 | 196.713,14 | 192.698,65 |
| FEDER OURÉM/ENTRON-CAMENTO | 3.027.720,39 | 3.027.720,39 | 81.390,31 | 56.973,24 | 1.831.282,23 | 1.196.438,16 | 1.172.021,18 |
| COMPART. ENTRONCAMENTO | 4.958,60 | 4.958,60 | 133,29 | 93,33 | 2.999,15 | 1.959,45 | 1.919,47 |
| COMPART. V.N.BARQUINHA | 72.725,64 | 72.725,64 | 1.804,62 | 1.443,70 | 39.520,99 | 33.204,65 | 32.843,71 |
| FUNDO COESÃO ETA ASSEICEIRA | 4.060.876,56 | 4.060.876,56 | - | - | 4.060.876,56 | - | - |
| FEDER V.N.BARQUINHA/ CONSTÂNCIA | 11.125.239,06 | 11.125.239,06 | 276.060,55 | 220.848,38 | 6.045.725,70 | 5.079.513,36 | 5.024.301,10 |
| FUNDO COESÃO REDE DISTRIBUIÇÃO | 7.635.576,47 | 7.635.576,47 | 636.298,01 | 63.629,79 | 6.299.350,34 | 1.336.226,13 | 763.557,95 |
| FUNDO COESÃO V.F.XIRA/ AEROPORTO | 912.876,57 | 912.876,57 | - | - | 912.876,57 | - | - |
| FUNDO COESÃO ADUTOR C.BODE 1ªFASE | 9.405.370,39 | 9.405.370,39 | - | 188.107,42 | 3.385.933,68 | 6.019.436,71 | 6.207.544,13 |
| COMPART RESERV PATRIARCAL | 74.819,68 | 74.819,68 | 6.714,58 | 383,66 | 61.006,92 | 13.812,76 | 7.481,79 |
| FUNDO COESÃO ADUTOR C.BODE 2ªFASE | 22.472.816,68 | 22.472.816,68 | - | 449.456,38 | 7.640.757,12 | 14.832.059,56 | 15.281.515,94 |
| SANTA MARGARIDA | 274.338,84 | 274.338,84 | - | 5.486,77 | 93.275,10 | 181.063,74 | 186.550,51 |
| MINDE/MIRA D'AIRE/BATALHA/LEIRIA | 4.472.788,99 | 4.472.788,99 | 48.723,22 | 107.190,99 | 1.900.204,66 | 2.572.584,33 | 2.631.052,06 |
| COMPARTICIPAÇÃO CONSTÂNCIA | 87.104,31 | 87.104,31 | 2.161,39 | 1.729,10 | 47.334,43 | 39.769,88 | 39.337,63 |
| COMPARTICIPAÇÃO ALCANENA | 139.940,94 | 139.940,94 | 1.524,39 | 3.353,74 | 59.451,84 | 80.489,10 | 82.318,51 |
| COMPARTICIPAÇÃO PORTO DE MÓS | 139.940,94 | 139.940,94 | 1.524,39 | 3.353,74 | 59.451,84 | 80.489,10 | 82.318,51 |
| COMPARTICIPAÇÃO BATALHA | 66.118,09 | 66.118,09 | 720,20 | 1.584,57 | 28.089,02 | 38.029,07 | 38.893,54 |
| COMPARTICIPAÇÃO LEIRIA | 66.118,09 | 66.118,09 | 720,20 | 1.584,57 | 28.089,02 | 38.029,07 | 38.893,54 |
| PROJECTO SIURE | 113.057,53 | 113.057,53 | - | - | 113.057,53 | - | - |
| PROJECTO SPRINT | 21.604,38 | 21.604,38 | - | - | - | 21.604,38 | 21.604,38 |
| EDP CORPORATE | 86.032,00 | 86.032,00 | 5.825,10 | 6.876,15 | 12.701,23 | 73.330,77 | 74.381,79 |
| MINISTÉRIO DA SAUDE | 662.902,54 | 662.902,54 | - | 631,98 | 631,98 | 662.270,56 | - |
| | 88.547.793,13 | 88.547.793,13 | 1.259.183,13 | 1.252.533,96 | 53.321.401,69 | 35.226.391,44 | 34.556.839,74 |

During the financial years ended 31 December 2012 and 2011, the amounts recorded as earnings for the year were as follows:

| | 2012 | 2011 |
|---|---|---|
| Investment subsidies | 1.252.533,96 | 1.882.458,72 |
| | 1.252.533,96 | 1.882.458,72 |

The decrease in investment subsidies arises from the changes in the pace of recognition of investment subsidies compared to previous years, following the favourable opinion obtained in 2012 to the binding request submitted by the Company to the tax authorities.

The corrections of 2010 and 2011 in the amount of 1,259,183.13 euros, although immaterial, were recorded under retained earnings as the Company understands that it affected the results of previous years.

# 18. Post-Employment Benefit Obligations

EPAL has a system of social benefits for its workers, embodied in two pension plans, a defined benefits plan and other one of defined contribution, with the inherent commitment of an additional payment of a retirement pension (for advanced age and disability) by the Social Security. Additionally, it further supports the responsibilities arising from early retirement situations.

The liabilities under the Pension Plan are funded through the EPAL Pension Fund, established in November 1990, while early retirements are directly supported by the Company.

During the financial year ended 31 December 2008 the Company reviewed the Company Agreement with its employees and unions, in particular with regard to the pension plan. This reformulation mainly involved moving part of the active employees of the Company into a defined contribution scheme, replacing the previous defined benefit plan. The Cut of the previous Plan and the entry into force of the new Plan, for those who joined it, was formalised on 22 March 2008.

## Post-employment benefits - defined contribution plan

The Company is committed to make monthly cash contributions towards a pension fund with defined contributions. The only obligation of the Company is to make these contributions, while all employees covered by this system also have the possibility of making their own voluntary contributions.

The contributions that were made in 2012 and 2011, under the Defined Contributions Plan were as follows:

| | 2012 | 2011 |
|---|---|---|
| Company Contributions | 493.894,60 | 502.742,10 |
| Employees' contributions | 23.041,90 | 26.389,80 |
| | 516.936,50 | 529.131,90 |

The total expense recognised with such contributions for the financial year ended 31 December 2012 amounted to 493,894.60 euros (502,742.10 euros in 2011) (Note 23).

## Post-employment benefits - defined benefits plan and early retirement

The latest actuarial valuation of the plan assets and of the present value of the defined benefits obligation and of the early retirements was made with reference to 31 December 2012 by an independent third party.The present value of the defined benefits obligation and of the early retirement as well as the costs of the related current and past services were measured by the projected unit credit method.

The main assumptions adopted in the actuarial valuation on 31 December 2012 and 2011, were as follows:

| | 2012 | 2011 |
|---|---|---|
| Discount rate | 3,75% | 4,75% |
| Expected return on the assets of the plan | 3,75% | 4,5% |
| Mortality table | TV 88/90 | TV 88/90 |
| Disability Table | EVK 80 | EVK 80 |
| Salary growth rate | 0,0% | 2,5% |
| Salary growth rate in the social security (a) | 0,0% | 2,5% |
| Growth rate of early retirement benefits (a) | 0,0% | 2,5% |

(a) Assumption of 0.0% growth in 2012 for 2013 and 2014. After 2015 the assumption that was considered was 1.25%.

During the financial years ended 31 December 2012 and 2011, the following amounts were recognised under the heading "Staff expenses":

| | 2012 | 2011 |
|---|---|---|
| Current service costs | 196.000,00 | 233.000,00 |
| Interest costs | 1.924.000,00 | 2.030.000,00 |
| Expected return on the assets of the plan | (1.541.000,00) | (1.584.000,00) |
| Recognition of actuarial gains / losses | (473.000,00) | (175.000,00) |
| Present value of early retirements for the year | - | 584.000,00 |
| Total expenses (Note 23) | 106.000,00 | 1.088.000,00 |

The deferred actuarial losses /gains that exceed the limit of 10% of the value of the funds allocated to the coverage of liabilities of the Company, or 10% of the value of past service liabilities, whichever is higher, are recognised for the period from the middle age of the active population and the retirement age, starting from the following year in which such a situation occurs.

As of 31 December 2012 and 2011, the net liabilities for past services associated with the defined benefit plan and with early retirement were as follows:

| | 2012 | 2011 |
|---|---|---|
| Present value of defined benefits obligations - with fund | 35.365.000,00 | 33.801.150,00 |
| Fair value of fund assets | 37.480.000,00 | 35.360.261,00 |
| | (2.115.000,00) | (1.559.111,00) |
| Unrecognised actuarial losses | (406.036,68) | (1.169.925,58) |
| **Assets with defined benefit plans (Note 11)** | **(2.521.036,68)** | **(2.729.036,58)** |
| | | |
| Present value of defined benefits obligations - without fund | 6.039.000,00 | 9.142.012,00 |
| Unrecognised actuarial gains | 3.600.078,57 | 2.977.934,37 |
| **Liabilities with defined benefit plans** | **9.639.078,57** | **12.119.946,37** |

The overall responsibilities of the Company are covered by the assets of the Pension Fund and by a specific provision under liabilities, which amounted to 9,639,078.57 euros in the financial year ended 31 December 2012 (12,119,946.37 euros in 2011).

The movements in the present value of the obligation for the financialyears ended 31 December 2012 and 2011 are described as follows:

| | 2012 | 2011 |
|---|---|---|
| **Opening balance - defined benefit obligation** | **42.943.161,75** | **47.786.569,00** |
| Cost of current services | 196.000,00 | 233.000,00 |
| **Interest costs** | **1.924.000,00** | **2.030.000,00** |
| Actuarial (gains)/losses | 1.079.838,25 | (2.476.806,28) |
| Benefits paid | (4.739.000,00) | (5.213.600,97) |
| Present value of early retirements for the year | - | 584.000,00 |
| **Closing balance - defined benefit obligation** | **41.404.000,00** | **42.943.161,75** |

The movements in the fair value of the plan assets were as follows:

| | 2012 | 2011 |
|---|---|---|
| **Opening balance - fair value of fund assets** | **35.360.261,00** | **36.267.749,00** |
| Expected return on plan assets | 1.541.000,00 | 1.584.415,36 |
| Actuarial gains / (losses) | 3.891.000,00 | (1.616.130,68) |
| Contributions to the fund | - | 1.312.642,68 |
| Benefits paid | (3.312.261,00) | (2.188.415,36) |
| **Closing balance - fair value of fund assets** | **37.480.000,00** | **35.360.261,00** |

The main categories of the fund assets are detailed as follows:

| | Fair value | |
|---|---|---|
| | **2012** | **2011** |
| Equity instruments | 14.077.567,00 | 11.528.243,50 |
| Debt instruments | 22.379.765,00 | 22.243.485,47 |
| Other | 1.022.668,00 | 1.588.532,47 |
| | 37.480.000,00 | 35.360.261,44 |

## 19. Provisions

On 31 December 2012 and 2011 the evolution of "Provisions" is detailed as follows:

| 2012 | Opening balance | Increases | Reversals | Utilisation | Closing balance |
|---|---|---|---|---|---|
| Ongoing litigation | 145.769,56 | 79.546,88 | (27.915,76) | (8.302,39) | 189.098,29 |
| Work accidents | 154.577,68 | - | (7.171,40) | - | 147.406,28 |
| Other Provisions | 1.571.999,78 | - | (850.000,00) | - | 721.999,78 |
| | 1.872.347,02 | 79.546,88 | (885.087,16) | (8.302,39) | 1.058.504,35 |

| 2011 | Opening balance | Increases | Reversals | Utilisation | Closing balance |
|---|---|---|---|---|---|
| Ongoing litigation | 213.958,83 | 60.771,64 | (114.613,11) | (14.347,80) | 145.769,56 |
| Work accidents | 149.986,30 | 4.591,38 | - | - | 154.577,68 |
| Other Provisions | 1.671.999,78 | - | (100.000,00) | - | 1.571.999,78 |
| | 2.035.944,91 | 65.363,02 | (214.613,11) | (14.347,80) | 1.872.347,02 |

On 31 December 2012, the reversal in the heading "Other provisions" has to do with the reduction in the provision for the Supergolfe case (Note 8).

## 20. State and Other Public Entities

On 31 December 2012 and 2011 the heading "State and other public entities" was made up as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Personal Income Tax | - | 243.826,25 | - | 266.000,07 |
| VAT | - | 246.212,70 | - | 285.438,95 |
| Contributions to Social Security | - | 483.097,87 | - | 491.073,88 |
| Water Resources Tax | - | 3.303.103,64 | - | 3.375.887,41 |
| Corporate Income Tax (a) | 1.610.534,00 | - | - | - |
| | 1.610.534,00 | 4.276.240,46 | - | 4.418.400,31 |

(a) On 31 December 2012, the amount under Corporate Income Tax concerns the SIFIDE tax benefit for the years 2007 to 2011. The company decided to record this amount considering that it is virtually certain that it will be received, since the respective applications to the Innovation Agency (in Portuguese, ADI) have already been submitted.

With effect from 2010, the Company began to be taxed under the special regime for the taxation of groups of companies, so the estimated corporate income tax, net of advanced tax payments and withholding taxes, now represents an account payable to the entity AdP SGPS (Note 16).

## 21. Revenue

The company's revenue recognised as of 31 December 2012 and 2011 is detailed as follows:

| | **2012** | **2011** |
|---|---|---|
| Water sales and service share | 142.971.269,29 | 145.650.069,25 |
| Rendering of services | 1.233.998,58 | 1.388.076,01 |
| | 144.205.267,87 | 147.038.145,26 |

## 22. External Supplies and Services

In the financial years ended 31 December 2012 and 2011 the heading "External supplies and services" is detailed as follows:

| | **2012** | **2011** |
|---|---|---|
| Electricity | 12.080.411,93 | 11.171.426,86 |
| Specialised work | 5.808.733,10 | 6.052.224,44 |
| Other external supplies and services | 5.242.953,44 | 5.675.459,72 |
| Maintenance and repairs | 4.640.787,95 | 4.978.179,81 |
| Communications | 1.405.498,90 | 1.515.604,54 |
| Leases and rents | 1.337.659,99 | 1.362.449,00 |
| Insurance | 956.903,18 | 1.011.814,14 |
| Surveillance and security | 857.563,66 | 868.075,71 |
| Subcontracts | 732.313,02 | 970.025,33 |
| Fuel | 638.289,30 | 657.555,98 |
| Cleaning, hygiene and comfort | 598.060,60 | 630.360,30 |
| Advertising and propaganda | 228.049,58 | 249.496,68 |
| | 34.527.224,65 | 35.142.672,51 |

## 23. Staff Expenses

In the financial years ended 31 December 2012 and 2011 the heading "Staff expenses" is detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Remuneration of governing bodies | 239.226,01 | 389.767,69 |
| Staff remuneration | 16.195.461,89 | 17.620.757,93 |
| Post-employment benefits | | |
| Defined contribution (Note 18) | 493.894,60 | 502.742,10 |
| Defined benefit and early retirement (Note 18) | 106.000,00 | 1.088.000,00 |
| Compensations | 105.887,88 | 88.367,00 |
| Charges on remunerations | 3.823.391,89 | 4.129.052,40 |
| Work accident and occupational disease insurances | 93.424,67 | 84.854,22 |
| Expenditures with social actions | 1.614.463,26 | 1.524.009,31 |
| Training | 204.737,30 | 235.234,00 |
| Other | 33.726,12 | 87.901,67 |
| | 22.910.213,62 | 25.750.686,32 |

The average number of employees working for the Company on 31 December 2012 and 2011 amounted to 738 and 747 people, respectively.

The reduction of staff salaries in 2012 stems mainly from the nonexistence of the Christmas bonus, when compared to 2011, as well as from the fact that there were no situations leading to the registration of provisions to meet early retirement commitments.

## 24. Other Income and Gains

In the financial years ended 31 December 2012 and 2011 the breakdown of the heading "Other income and gains" is as follows:

| | 2012 | 2011 |
|---|---|---|
| Supplementary income | 2.581.482,63 | 2.815.076,08 |
| Income and gains in non-financial investments | 76.571,55 | 83.141,61 |
| Gains in inventories | 4.361,13 | 9.536,54 |
| Favourable exchange rate differences | 84,71 | 291,27 |
| Other | 1.627.297,13 | 164.820,63 |
| | 4.289.797,15 | 3.072.866,13 |

The heading "Additional income", which on 31 December 2012 and 2011 amounted to 2,581,482.63 euros and 2,815,076.08 euros, respectively, essentially comprises: (i) technical assistance to third parties relating to the computer system AQUAmatrix, in the amount of 1,656,774 euros (1,722,527 euros in 2011), and (ii) sanitation tax in the amount of 322,924 euros (328,329 euros in 2011).

On 31 December 2012, the heading "Other income and gains" is related to a reimbursement from the Ministry of Health to offset the costs of detouring the circunvalação trunk main next to the new hospital in Vila Franca de Xira, for which an impairment loss for fixed assets in the amount of 1,541,296 euros had been recognised.

## 25. Other Expenses and Losses

The breakdown of the heading "Other expenses and losses" in the years ended 31 December 2012 and 2011 is the following:

| | **2012** | **2011** |
|---|---|---|
| Taxes and other levies | 1.241.070,14 | 938.073,22 |
| Damages due to bursts | 388.613,11 | 104.626,61 |
| Donations | 48.800,00 | 56.410,79 |
| Contributions | 73.018,93 | 27.942,17 |
| Other | 90.833,54 | 260.412,21 |
| | 1.842.335,72 | 1.387.465,00 |

## 26. Depreciations

The breakdown of the heading "Depreciation and amortisation expenses" in the years ended 31 December 2012 and 2011 is the following:

| | **2012** | **2011** |
|---|---|---|
| Tangible fixed assets (Note 6). | 24.701.560,04 | 24.309.953,47 |
| Investment properties (Note 7) | 94.779,09 | 94.778,98 |
| | 24.796.339,13 | 24.404.732,45 |

## 27. Interest and Similar Income and Expenses

Interest and similar income and expenses in the years ended 31 December 2012 and 2011 are detailed as follows:

| | **2012** | | **2011** | |
|---|---|---|---|---|
| Interest Obtained | | | | |
| Deposits in credit institutions | 2.796.033,06 | | 3.219.422,12 | |
| Other | 2.652,61 | 2.798.685,67 | 471,99 | 3.219.894,11 |
| Other similar income | | 665.162,14 | | 456.663,75 |
| | | 3.463.847,81 | | 3.676.557,86 |

The financing losses and expenses in the years ended 31 December 2012 and 2011 is detailed as follows:

| | **2012** | **2011** |
|---|---|---|
| Interest paid: | | |
| Bank financing | 4.683.453,57 | 5.846.560,98 |
| Other financing | 352.791,97 | 4.837,93 |
| | 5.036.245,54 | 5.851.398,91 |

## 28. Related parties

The Company is 100% owned by the entity AdP SGPS, and its financial statements are consolidated in the same entity.

### Associated companies

| Private Companies | Head-Office | % shareholding held | Equity Own | Net Result | Balance sheet amount | Adjustments | Net value |
|---|---|---|---|---|---|---|---|
| Fundec | Lisboa | | | | 1.500,00 | - | 1.500,00 |

### Movements

| | Opening balance | Reinforcements | Reductions | Closing balance |
|---|---|---|---|---|
| Shares in companies belonging to the group | 250.000,00 | - | - | 250.000,00 |
| Shares in other associated companies | 1.500,00 | - | - | 1.500,00 |
| Impairment losses | (250.000,00) | - | - | (250.000,00) |
| | 1.500,00 | - | - | 1.500,00 |

### Transactions with related parties on 31 December 2012:

| | Sales and or Rendering of Services | Rendering of Services Intragroup | Financial Gains | Services acquired within the Group |
|---|---|---|---|---|
| AdP SGPS | - | 497,00 | - | 2.560.150,96 |
| AdP Serviços | 2.872,84 | 64,80 | - | 1.202.456,64 |
| Aquasis | - | - | - | 129.358,00 |
| Águas do Centro | 694.949,89 | - | - | - |
| Águas do Oeste | 10.482.055,17 | - | 434.358,84 | - |
| Sanest | - | | - | - |
| Simtejo | 124.125,96 | - | - | - |
| Águas do Centro Alentejo | - | | - | - |
| Águas Algarve | 90,00 | 99.701,20 | - | - |
| Águas do Noroeste | - | 602,08 | - | - |
| Águas S. André | - | 18.709,26 | - | - |
| Águas da Região de Aveiro | - | 189.766,57 | - | - |
| Águas Públicas do Alentejo | - | 900,00 | - | |
| Valorsul | 8.725,15 | - | - | - |
| Algar | 127,03 | - | - | - |
| | 11.312.946,04 | 310.240,91 | 434.358,84 | 3.891.965,60 |

## Transactions with related parties on 31 December 2011:

| | Sales and or Rendering of Services | Rendering of Services Intragroup | Financial Gains | Services acquired within the Group |
|---|---|---|---|---|
| AdP SGPS | - | 3.271,22 | - | 2.715.805,13 |
| AdP Serviços | 3.102,02 | - | - | 1.094.208,13 |
| Aquasis | - | - | - | 99.130,00 |
| Águas do Centro | 808.857,04 | - | - | - |
| Águas do Oeste | 11.047.059,99 | - | 168.539,20 | - |
| Sanest | - | 1.050,00 | - | - |
| Simtejo | 144.006,19 | - | - | - |
| Águas do Centro Alentejo | - | 4.626,01 | - | - |
| Águas Algarve | - | 96.181,00 | - | - |
| Águas do Noroeste | 476,50 | 446,99 | - | - |
| Águas S. André | - | 18.626,82 | - | - |
| Águas da Região de Aveiro | - | 168.214,59 | - | - |
| E.G.F. | - | - | - | 2.974,36 |
| Valorsul | 10.113,23 | - | - | - |
| AdP Internacional | - | - | - | - |
| | 12.013.614,97 | 292.416,63 | 168.539,20 | 3.912.117,62 |

## Balances with related parties on 31 December 2012:

| | Customers | Trade Payables | Other Debtors | Accrued Income | Accrued expenses | Other accounts payable (Note 16) |
|---|---|---|---|---|---|---|
| AdP SGPS | - | 22.012,34 | 106,50 | - | 9.545,12 | 5.465.173,79 |
| AdP Serviços | 773,74 | - | - | - | 126.112,02 | - |
| Aquasis | - | 20.423,70 | - | - | 119.733,00 | - |
| Águas do Centro | 45.579,34 | - | - | - | - | - |
| Águas do Oeste | 3.248.611,45 | - | 10.522.990,06 | 3.097.218,58 | - | - |
| Simtejo | 11.450,06 | - | - | - | - | - |
| Águas Algarve | 110,70 | - | 152.208,14 | - | - | - |
| Águas do Noroeste | - | - | - | - | - | - |
| Águas S. André | - | - | 3.838,92 | - | - | - |
| Águas da Região de Aveiro | - | - | 46.424,34 | - | - | - |
| Valorsul | - | - | - | 883,83 | - | - |
| Algar | 156,25 | - | - | - | - | - |
| | 3.306.681,54 | 42.436,04 | 10.725.567,96 | 3.098.102,41 | 255.390,14 | 5.465.173,79 |

## Balances with related parties on 31 December 2011:

| | Customers | Trade Payables | Other Debtors | Accrued Income | Accrued expenses | Other accounts payable (Note 16) |
|---|---|---|---|---|---|---|
| AdP SGPS | - | 485.137,20 | 1.018,51 | - | 36.292,69 | 8.681.576,41 |
| AdP Serviços | 677,35 | 57.777,49 | - | - | 3.173,13 | - |
| Aquasis | - | 18.615,61 | - | - | - | - |
| Águas do Centro | 124.196,41 | - | - | - | - | - |
| Águas do Oeste | 1.835.113,15 | - | 11.024.084,83 | 2.761.429,33 | - | - |
| Simtejo | 10.758,68 | - | - | - | - | - |
| Águas Algarve | - | - | 88.726,98 | - | - | - |
| Águas do Noroeste | 549,80 | - | - | - | - | - |
| Águas S. André | - | - | 1.917,41 | - | - | - |
| Águas da Região de Aveiro | - | - | 34.796,34 | - | - | - |
| Valorsul | 492,36 | - | - | - | - | - |
| Algar | 169.563,17 | - | - | - | - | - |
| | 2.141.350,92 | 561.530,30 | 11.150.544,07 | 2.761.429,33 | 39.465,82 | 8.681.576,41 |

# 29. Contingent Liabilities and Guarantees Provided

## Contingent liabilities

The Company made a careful assessment of its risks and contingencies following which it established provisions which, in face of the risks identified, and the probability of materialised liabilities are considered as appropriately recognised. From the assessment made, and besides provisions that were recorded, there were no other responsibilities that should be disclosed as contingent liabilities.

## Guarantees

On 31 December 2012 and 2011, the Company had taken up the following responsibilities for guarantees provided:

| | 2012 | 2011 |
|---|---|---|
| European Investment Bank (Note 16) | 97.115.244 | 25.651.718 |
| Courts | 5.207.511 | 5.433.496 |
| Other | 288.788 | 274.604 |
| | 102.611.544 | 31.359.818 |

# 30. Disclosures Required by Law

Following are the amounts of remunerations and benefits and other benefits granted by the Company to the members of the governing bodies.

It should also be mentioned that, with effect from 1 April 2012, the remunerations of managers were established in accordance with the Public Manager Statute, approved by Decree-Law no. 71/2007 of 27 March, in the wording of Decree-Law no. 8/2012 of 18 January, rectified by the Statement of Rectification no. 2/2012, of 25 January and by the provisions of RCM no. 16/2012, of 14 February and RCM no. 36/2012 of 26 March, notwithstanding the changes and adjustments that may be resolved by the shareholders or by the Remuneration Committee, within the scope of their competences and in strict compliance with the legislation in force.

## 1. Board of the General Assembly

| | Year 2012 (1 January to 24 February) | | |
|---|---|---|---|
| **General Meeting Board Term I** | **Chairman** | **Vice-Chairman** | **Secretary** |
| | AMEGA, represented by Carlos A. Teixeira | Ana Cristina Rebelo Pereira | Alexandra Varandas |
| Fixed annual remuneration (*) | - | 475,00 | - |

(*) Attendance Notes (corresponds to the gross annual salary earned as a result of the defined compensation statute)

| | Year 2012 (1 January to 24 February) | | |
|---|---|---|---|
| **General Meeting Board Term II** | **Chairman** | **Vice-Chairman** | **Secretary** |
| | AMEGA, represented by Carlos A. Teixeira | Ana Cristina Rebelo Pereira | Alexandra Varandas |
| Fixed annual remuneration (*) | - | 475,00 | - |

(*) Attendance Notes (corresponds to the gross annual salary earned as a result of the defined compensation statute)

## 2. Supervisory Body (ies)

| **Sole Auditor** | **2012** | **2011** |
|---|---|---|
| | António Dias Nabais | António Dias Nabais |
| Annual actual remuneration | 17.911,88 | 17.911,88 |

## 3. Statutory Auditor

| **External Auditor** | **2012** | **2011** |
|---|---|---|
| | Deloitte & Associados, SROC, SA | Deloitte & Associados, SROC, SA |
| Statutory Audits | 32.825,00 | 30.020,00 |
| Other Services for ensuring Reliability | 11.900,00 | 2.000,00 |
| Tax Consultancy | 12.500,00 | - |
| Annual actual remuneration | 57.225,00 | 32.020,00 |

## 4. Management Board

| Remunerations | Executive Chairman | Executive Director | Executive Director | Executive Director |
|---|---|---|---|---|
| | João Manuel Lopes Fidalgo | António Bento Franco | José Alfredo Manita Vaz | Rui Manuel de Carvalho Godinho |
| Term | I | I | I | I |
| Adapted to EGP (Yes/No) | 12.922,50 | No | No | No |
| Total Remuneration (1.+2.+3.+4.) | | 12.555,28 | 12.555,28 | 12.555,28 |
| OPRLO | | Não | Não | Não |
| Entity of Origin (identify) | - | - | - | - |
| Paying entity (Origin/Destination) | - | - | - | - |
| 1.1.Annual Remuneration | | 16.808,68 | 16.808,68 | 16.808,68 |
| 1.2.Representation Expenses (Annual) | - | - | - | - |
| 1.3.Attendance note (Annual Value) | - | - | - | - |
| 1.4.Reduction arising from Law 12-A/2010 | | 719,70 | 719,70 | 719,70 |
| 1.5.Reduction arising from Law 64-B/2011 | | 1.367,25 | 1.367,25 | 1.367,25 |
| 1.6.Suspension of payment of holiday and Christmas bonuses | | 2.416,44 | 2.416,44 | 2.416,44 |
| 1.7.Reductions from previous years | - | - | - | - |
| *1.Annual actual remuneration | | | | |
| (1.1+1.2.+1.3-1.4-1.5-1.6-1.7)" | 12.800,71 | 12.305,29 | 12.305,29 | 12.305,29 |
| 2.Variable remuneration | - | - | - | - |
| 3. Exemption from Work Schedule (in Portuguese IHT) | - | - | - | - |
| 4. Other (identify) | 121,79 | 249,99 | 249,99 | 249,99 |
| Travelling allowances | - | - | - | - |
| Meal allowances | 121,79 | 249,99 | 249,99 | 249,99 |
| Costs with social benefits | | | | |
| Social Protection Regimen | Social Security | ADSE | Social Security | Social Security |
| Amount of the Social Protection Regimen | 1.960,37 | 707,46 | 2.092,74 | 2.092,74 |
| Health Insurances | - | 166,37 | - | - |
| Life insurances | 187,53 | 349,74 | - | - |
| Personal Accidents Insurance | - | - | - | - |
| Other (mention) | n,a, | n,a, | n,a, | n,a, |
| Accumulation of Management Responsibilities (Y/N) | Yes | No | No | No |
| Entity (identify) | AdP, SGPS. SA | - | - | - |
| Annual Remuneration | (a) | - | - | - |

(a) The responsibilities of Chairman of the Board of Administration were carried out in accumulation with the position of Executive Director of AdP - Águas de Portugal, SGPS, SA until 2 February 2012. The compensation set for the position, plus the respective social charges, perks and benefits, was billed directly by the shareholder to the Company. Between February 2 and 24, 2012 the salaries were processed directly by the Company.

| Parque Automóvel | Executive Chairman | Executive Director | Executive Director | Executive Director |
|---|---|---|---|---|
| | João Manuel Lopes Fidalgo | António Bento Franco | José Alfredo Manita Vaz | Rui Manuel de Carvalho Godinho |
| **Term** | **I** | **I** | **I** | **I** |
| Type of Use | Operating Lease | Operating Lease | Operating Lease | Operating Lease |
| Reference value of the new vehicle | (a) | 44.098,37 | 42.337,14 | 41.028,07 |
| Beginning Year | (a) | 2008 | 2008 | 2008 |
| Ending Year | (a) | 2013 | 2013 | 2013 |
| No. instalments | (a) | 2 | 2 | 2 |
| Residual Amount | (a) | 25.741,20 | 23.142,40 | 21.956,00 |
| Yearly lease / instalment value of the company car | 5.373,92 | 1.218,02 | 1.214,36 | 1.300,54 |
| Fuel and toll costs with the vehicle | 811,28 | 692,74 | 539,82 | 1.083.18 |
| Annual ceiling for Fuel and tolls | n,a, | n,a, | n,a, | n,a, |
| Other (Repairs/Car Insurance) | 60,60 | 290,89 | 274,07 | 234,97 |
| Limit defined under Art. 33 of the EGP (Yes/No) | n,a, | n,a, | n,a, | n,a, |

(a) The duties of Chairman of the Board of Administration were carried out in accumulation with the position of Executive Director of AdP - Águas de Portugal, SGPS, SA until 2 February 2012. The compensation established for the position, plus the respective social charges, perks and benefits, was billed directly by the shareholder to the Company. The ownership of the vehicle is assigned to AdP SGPS, SA.

| Other benefits and compensations | Executive Chairman | Executive Director | Executive Director | Executive Director |
|---|---|---|---|---|
| | João Manuel Lopes Fidalgo | António Bento Franco | José Alfredo Manita Vaz | Rui Manuel de Carvalho Godinho |
| **Term** | **Member** | **I** | **I** | **I** |
| Annual ceiling for mobile communications | 350,00 | 350,00 | 350,00 | 350,00 |
| Annual expenses with mobile communications | 312,45 | 118,97 | 169,73 | 93,16 |
| Other (mobile data) | - | 0,87 | 2,50 | 184,10 |
| Limit defined under Art. 32 of the EGP (Yes/No) | n,a, | n,a, | n,a, | n,a, |

| Travelling expenses | Executive Chairman | Executive Director | Executive Director | Executive Director |
|---|---|---|---|---|
| | João Manuel Lopes Fidalgo | António Bento Franco | José Alfredo Manita Vaz | Rui Manuel de Carvalho Godinho |
| **Term** | **I** | **I** | **I** | **I** |
| Total annual costs with travelling | - | 428.99 | - | - |
| Total annual costs with accommodation | - | 202.34 | - | - |
| Expense allowances | - | 250.17 | - | - |

| Remunerations | Executive Chairman | Executive Director | Executive Director |
|---|---|---|---|
| | José Manuel Leitão Sardinha | Maria do Rosário da Silva Cardoso Águas | Maria do Rosário Mayoral Robles Machado Simões Ventura |
| **Term** | II | II | II |
| Adapted to EGP (Yes/No) | Yes | Yes | Yes |
| Total Remuneration (1.+2.+3.+4.) | 65.996,45 | 56.743,01 | 56.743,01 |
| OPRLO | No | No | No |
| Entity of Origin (identify) | - | - | - |
| Paying entity (Origin/Destination) | - | - | - |
| 1.1.Annual Remuneration | 68.931,99 | 54.348,01 | 54.348,01 |
| 1.2.Representation Expenses (Annual) | 21.364,93 | 21.739,21 | 21.739,21 |
| 1.3. Attendance note (Annual Value) | - | - | - |
| 1.4. Reduction arising from Law 12-A/2GIG | 3.980,78 | 3.260,30 | 3.260,30 |
| 1.5.Reduction arising from Law 64-B/2 GII | 7.563,41 | 6.089,00 | 6.089,00 |
| 1.6.Suspension of payment of holiday and Christmas subsidies | 13.786,40 | 10.887,34 | 10.887,34 |
| 1.7.Reductions from previous years | - | - | - |
| ***1.Annual actual remuneration** | | | |
| **(1.1 + .2.+ 1.3-1.4-1.5-1.6-1.7)"** | **64.966,33** | **55.850,58** | **55.850,58** |
| **2.Variable remuneration** | **-** | **-** | **-** |
| **3. Exemption from Work Schedule (in Portuguese IHT)** | **-** | **-** | **-** |
| **4. Other (identify)** | **1.030,12** | **892,43** | **892,43** |
| Travelling allowance | | | |
| Meal allowances | 1.030,12 | 892,43 | 892,43 |
| **Costs with social benefits** | | | |
| Social Protection Regimen | Social Security | Social Security | Social Security |
| Amount of the Social Protection Regimen | 11.551,56 | 10.682,05 | 10.682,05 |
| Health Insurances | 1.259,33 | 1.233,21 | - |
| Life insurances | 1.887,94 | - | - |
| Personal Accidents Insurance | - | - | - |
| Other (mention) | n,a, | n,a, | n,a, |
| **Accumulation of Management Responsibilities (Y/N)** | **No** | **No** | **No** |
| Entity (identify) | - | - | - |
| **Annual remuneration** | - | - | - |

| Vehicle fleet | Executive Chairman | Executive Director | Executive Director |
|---|---|---|---|
| | José Manuel Leitão Sardinha | Maria do Rosário da Silva Cardoso Águas | Maria do Rosário Mayoral Robles Machado Simões Ventura |
| **Term** | II | II | II |
| Type of Use | Operating Lease | Operating Lease | Operating Lease |
| Reference value of the new vehicle | 42.337,14 | 41.028,07 | 44.098,37 |
| Beginning Year | 2008 | 2008 | 2008 |
| Ending Year | 2013 | 2013 | 2013 |
| No. instalments | 7 | 10 | 10 |
| Residual Amount | 23.142,40 | 21.956,00 | 25.741,20 |
| Yearly lease / instalment value of the company car | 4.250,27 | 6.502,70 | 6.090,10 |
| Fuel and toll costs with the vehicle | 854,77 | 3.116,81 | 2.873,75 |
| Annual ceiling for Fuel and tolls | 5.722,75 | 4.578,20 | 4.578,20 |
| Other (Repairs/ Car Insurance) | 414,06 | 1.428,82 | 381,39 |
| Limit defined under Art. 33 of the EGP (Yes/No) | Yes | Yes | Yes |

| Other benefits and compensations | Executive Chairman | Executive Director | Executive Director |
|---|---|---|---|
| | José Manuel Leitão Sardinha | Maria do Rosário da Silva Cardoso Águas | Maria do Rosário Mayoral Robles Machado Simões Ventura |
| **Term** | II | II | II |
| Annual ceiling for mobile communications | 800,00 | 800,00 | 800,00 |
| Annual expenses with mobile communications | 70,71 | 184,42 | 50,35 |
| Other (mobile data) | - | 936,01 | 317,98 |
| Limit defined under Art. 32 of the EGP (Yes/No) | Yes | Yes | Yes |

| Travelling expenses | Executive Chairman | Executive Director | Executive Director |
|---|---|---|---|
| | José Manuel Leitão Sardinha | Maria do Rosário da Silva Cardoso Águas | Maria do Rosário Mayoral Robles Machado Simões Ventura |
| **Term** | II | II | II |
| Total annual costs with travelling | 4.435,73 | 351,01 | - |
| Total annual costs with accommodation | 1.398,61 | 348,50 | - |
| Expense allowances | 667,12 | 250,17 | - |

## 31. Earnings per Share

The earnings per share for the years ended 31 December 2012 and 2011 was calculated as follows:

| | 2012 | 2011 |
|---|---|---|
| Profit: | | |
| Net profit for the period | 43.852.247,46 | 42.555.549,69 |
| Number of shares | | |
| Weighted average number of shares in circulation | 30.000.000 | 30.000.000 |
| Basic earnings per share | 1,46 | 1,42 |

**The Board of Directors**
José Manuel Leitão Sardinha
Maria do Rosário da Silva Cardoso Águas
Maria do Rosário Mayoral Robles Machado Simões Ventura

**The CFO and Chartered Accountant**
Marcos Levi Santinho de Faria Miguel

# Report and Opinion of the Sole Auditor

In compliance with the provisions laid down in art. 452 of the Commercial Companies Code (in Portuguese, CSC) and in the **Articles of Association of EPAL - Empresa Portuguesa das Aguas Livres, SA**, the undersigned hereby submits its annual activity Report and issues its Opinion on the Management Report and Accounts, Proposed Appropriation of Net Profit and Legal Certification of Accounts, concerning the financial year of 2012.

# A – Report

1. In compliance with the provisions of art. 420 off the CSC regarding the competences and duties of the sole Auditor, we believe that all the requirements for carrying out its supervising functions were performed in all key areas, including the verification of compliance by the company of the current legal guidelines for Public Entrepreneurial Sector [SEE], in particular regarding the remuneration reductions provided for in Law no. 64-B/2011 of 10 December. Thus, the following procedures were adopted:

   - Periodic review of the company's activity, in compliance with the law and the social contract, as well as the regular checking of documents and accounting records and related support elements.

   - Regular monitoring of the funds available in cash and banks, as well as of the property values and amounts allocated to the operation of the company.

   - Verification of the established internal control, as well as of the efficacy on the management of financial risks: credit risk, liquidity risk, and cash flows risk associated to the fixed and variable interest rate, related to contracting long-term loans,

   - Analysis and disclosure of the company's financial position during the year, in order to inform the management board and the supervisory bodies about the evolution of the operational activity and results, which in the view of the sole auditor best typified the management model analysed in each quarter.

2. It should be stressed that the operating performance in 2012 was disclosed in quarterly reports sent to the supervisory bodies, which were based on the examination of the financial statements, on the execution of the operating budget and of the investment plans, as well as on the analysis of management indicators prepared by the planning and control department (PCG). The information submitted in the reports also included the examination and evolution of the water balance components of the company, maintenance of water infrastructures that have an impact on supply of customers, as well as of the evolution of expenses on human resources. That periodic information also included the control of current accounts of third parties regarding the sale of water and the purchase of current consumption materials, and of goods and services for products and work in progress. Apart from the above under item 1-, the responsibilities of the sole auditor had the following main goals:

   - Confirmation of ownership of the goods and values that make up the assets of EPAL and it was found that the tangible fixed assets acquired until the end of 2008 are recorded at their acquisition cost or at the deemed cost, which includes revaluations under the law. The assets acquired since 2009 are valued in the balance sheet at their acquisition cost minus the accumulated depreciation and any accumulated impairment losses. Investment properties, which are almost irrelevant in the company's non-current assets (1.4%), are being depreciated according to their estimated service life according to the straight-line method and on a twelfth basis. The assets acquired in 2009 and in the subsequent years are recorded at acquisition cost. It should be stressed that the spending on depreciations and amortisation totalled 24,796,339 euros this year, being recognised as expenses for the year by the straight-line method, based on the rates estimated for the service life of the assets, which, just as the depreciation method, may be subject to annual review with a view of the effect of such changes influencing the results of subsequent years.

   - Verification of the appropriateness and consistency of the accounting policies and of the valuation criteria of assets, used in preparing the financial statements, which are appropriately disclosed in the Notes to the accounts in a position to adequately express the company's financial position and the results of its operations in 2012.

- Monitoring the financial execution of the annual budgets, highlighting the amounts forecasted the respective deviations, and changes against the previous year. We consider the operational budget recorded an overall satisfactory index of implementation, despite the fact that there was a drop in the Company's turnover of 2% (2.3 million euros) over the previous year, and an unfavourable deviation of 1.1% (1.6 million euros). The EBIT operating profit reflects a positive change of 11.7%, despite the 1.1% drop recorded, against the previous year. It is also worth stressing, for its positive contribution, the performance of the financial result for the year, given the fact that its negative value of 1.57 million euros in 2012, was the result of consistent breaks in recent years.

- In implementing the investment program it should be emphasised that the financial achievement index rose 9.3% over the previous year, with a value of turnover in the amount of 13 million euros in 1012 and a total investment of 45.6 million euros in the last three years. It should be noted that 47% of the invoice value has been applied for the purpose of ensuring reliability and safety of the equipment allocated to the water network of the company, with the amount of approximately 22.6% of the realisable value having been invested in capacity assurance.

- When analysing the water balance of the company in its abstraction, treatment and billing areas, it was found that the corresponding annual volumes have evolved in a progressive negative way in the last three years. The reduction in turnover in 2012 reaches about 5 million m3, which had greater expression in sales to municipal customers, where the drop reached about 3.6 million m3 over the previous year.

3. In all basic indicators the financial position of EPAL in 2012 depicts a very solid and balanced structure, with a sharp increase this year. This situation is characterised by the liquidity, solvency, debt capacity and autonomy ratios, whose indexes ensure good performance of the company and satisfactory levels of profitability in the coming years. This situation is also ensured by the recurring EBITDA, which average value in the last three years exceeds 80 million euros. In 2012 the amount reached 87.9 million euros, an increase of 1.4 million euros regarding the previous year. In turn, the EBITDA margin, which highlights the weight of cashflow in turnover, has also been growing in the past few years, with special meaning in 2012, when it reached an increase of 3.6% over the previous year.

   Also in this area it is worth stressing the strengthening of Working Capital and of Equity in the last three years. Working capital reached 46.1 million euros in 2011, and in the next year the amount of 47.1 million euros. Shareholders' equity increased by about 27 million euros in this three-year period. The sound financial condition of FPAL has been clearly maintained by its high levels of self-financing generated by the operations, which ensure not only that current management costs will be covered, as yet, largely pays off the loans that were obtained to finance annual investment programs.

- The supervisory body considers that it should stress the importance of the strategy that has been adopted by the company to ensure the good quality of the service provided, concurrently with the maintenance of a sustainable financial profile combined with a fair and adequate return on the capital employed. Such measures, while targeting the improvement of operational efficiency based on the implementation of a quality management system, created the conditions that underpin the current management model, whose impact on the economy of the company has been reflected unequivocally in a rising trend for its operating profitability coupled with a consistent reinforcement of results in successive years.

- It is also worth underlining the good performance of the company regarding the coverage of its responsibilities towards staff pension funds, given the fact that the funding of the Pension Fund with Defined Benefit has reached a level of coverage of about 106 %, compared to the figure at the end of the year, of 37.4 million euros. The volume of responsibilities for past services amounted to 35.4 thousand euros, with a coverage of 135% according to the assumptions of the Minimum Fund of the ISP.

   As regards the Defined Contributions Plan, the value mentioned by the company amounted to 15.7 million euros by the end of 2012, having EPAL contributed with 493,855 euros towards this Fund, an almost identical amount as that of the previous year,

4. Through a detailed analysis to all the items that were used for calculating the estimated Corporate Income Tax for 2012, based on a result before taxes of 60.014 million euros, we were able to conclude that the taxable income in the amount of 65.2 million euros and tax payable of 20.51 million euros, with the inclusion of autonomous taxation and municipal tax [Derrama], were calculated with great

rigour, which fact leads us to consider that the estimated tax that was recorded in the income statement is quite adjusted. Thus, it is acceptable that any eventual tax adjustments, based on the examination of the accounts, shall not significantly distort the tax that was recorded in the income statement. It is noted that this statement includes current taxes and deferred taxes, making an exception in the latter to the items directly related to equity, in which case the deferred tax is transcribed directly in this heading of the balance sheet.

5. After analysing the customer balances and other accounts receivable, we were able to conclude that the debit of customers, net of accumulated impairment losses, increased by only about 2.4% (548,000 euros) over the previous year, while customer debts were strongly influenced by impairment losses, as, indeed, had already happened in the previous year. In the balance of "other accounts receivable", it is worth highlighting the debit of "debtors, income accrual" where the anticipated income related to water consumed and not invoiced at the end of the year is quite relevant, coming to a total of 11.4 million euros. It should be noted that in the overall balance of "customers and other receivables", in a total of 26.43 million euros, the amount not yet mature by the end of 2012 was about 13 million euros and the amount owed for over 6 months was of 3.57 million euros.

6. In order to assess the compliance of the provisions under Law n. 64-B/2011, in what concerns remuneration reductions in force for the SEE, the sole auditor, as part of its audit work, carried out the inspection of staff expenses during the year, namely of the values of all the items both in monthly and quarterly periods plus the corresponding changes yoy. It was concluded that in almost all items there were significant decreases in 2012, over the previous year, with greater incidence in the remuneration of the governing bodies (-38.6%), staff (-7.8%), costs with wages (-7.4%) and other low value expenses not specified (-55.5%). In the total expenses with staff the drop reached 11%, with only the heading insurances/ATDP showing an increase by 10% and social welfare expenses 5.9%. However, the weight of these items in the total wage costs with employees is quite reduced; 7.5% in 2012 and 6.2% in the previous year.

   In view of the above, the sole auditor concludes that the remuneration conditions practiced by the company have declined, similarly to what was found in the review of the accounts. This situation leads to the conclusion that there was no breach of the rules of the law on this matter.

7. It is our opinion that the Management Report is formally in accordance with the financial statements and that the proposed appropriation of results meets the requirements set by the CSC, in particular as regards the application of profits.

## B- Opinion

The sole Auditor agrees with the Legal Certification of Accounts issued by Deloitte & Associados, SROC SA, and is also of the opinion that the following are able to earn the approval of the General Assembly:

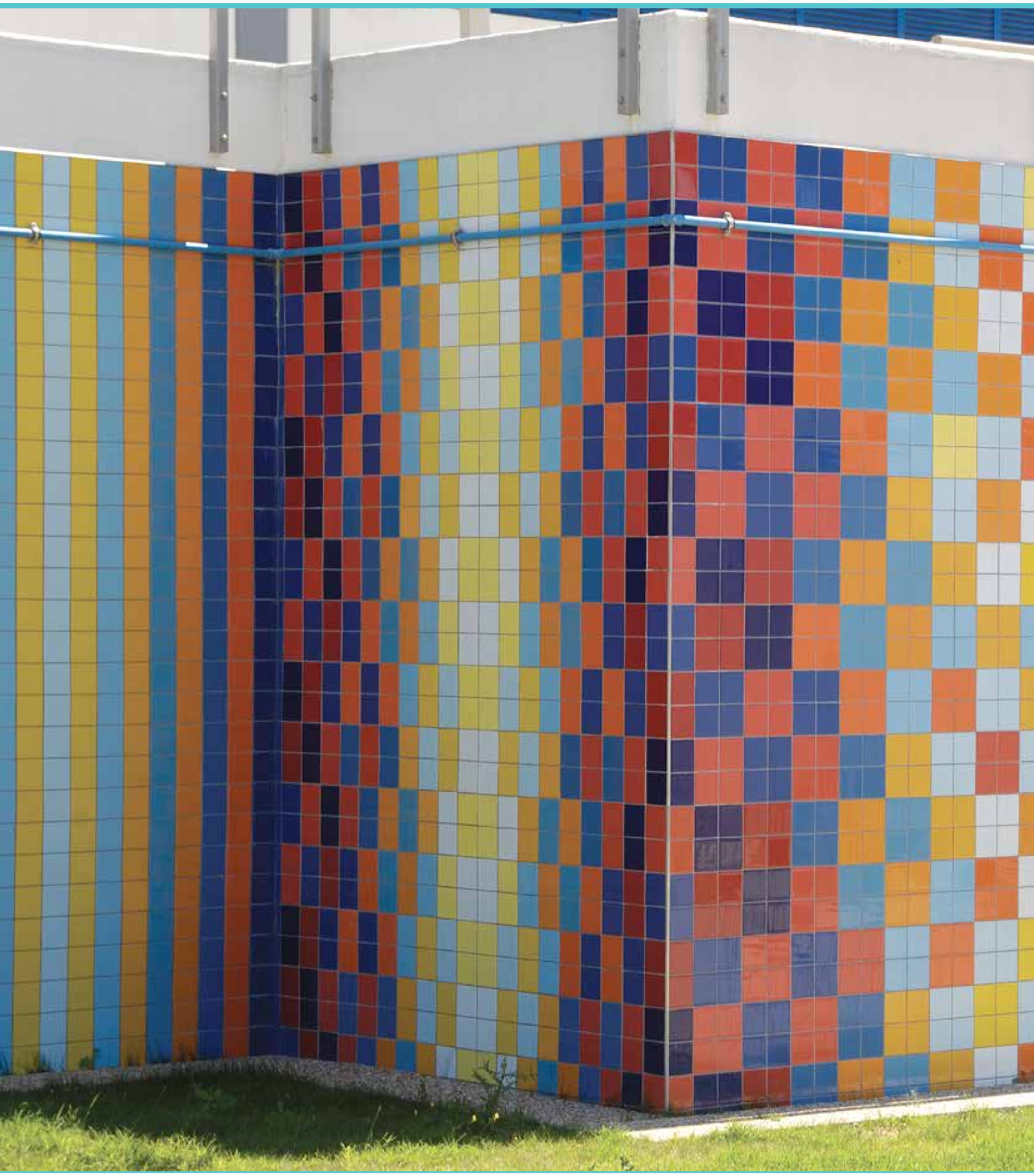
- the Annual Report and Accounts for the financial year 2012
- the Proposal for the Appropriation of Net Profit

as proposed by the Board of Directors.

Lisbon, 18 March 2013

The Sole Auditor,

(António Dias Nabais)



# Legal Certification of the Accounts

Deloitte & Associados, SROC S.A.
Registration at the Statutory Auditors Society under No. 43
Registration at the CMVM [Portuguese Securities Market Commission] under No. 231
Edifício Atrium Saldanha
Praça Duque de Saldanha 1-6th Floor
1050-094 Lisbon

## Introduction

1. We have audited the attached financial statements of EPAL - Empresa Portuguesa das Águas Livres, S.A. ("Company"), which comprise the Statement of Financial Position on 31 December 2012 showing a total of 885,085,923 euros and equity in the amount of 512,961,176 euros, including a net result of 43,852,247 euros; the Separate Income Statements, the Comprehensive Income, the Changes in Equity and to Cash Flows (for the year ended on that date and the corresponding Notes,

## Responsibilities

2. It is the responsibility of the Board of Directors to prepare the financial statements which give a true and fair view of the Company's financial position, its comprehensive income and the results of its operations, the changes in equity and cash flows, as well as the adoption of adequate accounting policies and criteria and the maintenance of an appropriate system of internal control. Our responsibility consists in expressing an independent and professional opinion, based on our analysis of the above-mentioned financial statements.

## Scope

3. The examination we carried out was conducted according to the Auditing Technical Standards and to the Guidelines issued by the Portuguese Society of Statutory Auditors, which require that such examination be planned and executed with the purpose of obtaining an acceptable level of certainty regarding whether the financial statements are exempt from materially relevant distortions. Thus, the analysis included the verification, on a sample basis, of the support of the amounts and disclosures included in the financial statements and the assessment of estimates, based on judgments and criteria defined by the Board of Directors, used in their preparation. This analysis also included the appraisal on whether the adopted accountancy policies and their disclosure are suitable, considering the circumstances, the verification of the applicability of the continuity principle and the appraisal on whether the presentation of the financial statements is, in global terms, appropriate. Our analysis also included verifying the compliance of the financial information included in the Management Report with the financial statements. We consider that the examination that was thus conducted by us provides an acceptable basis for expressing our opinion.

## Opinion

4. In our opinion, the financial statements referred to in paragraph 1 above, truthfully and appropriately present, in all material respects, the financial position of EPAL - Empresa Portuguesa das Águas Livres, S.A. on 31 December 2012, as well as the results and comprehensive income of its operations, the changes in equity and cash flows, for the year ended on that date, in accordance with International Financial Reporting Standards as adopted by the European Union.

## Reporting on other legal requirements

5. In addition, we state that the information included in the Management Report complies with the financial statements for the financial year.

Lisbon, 7 February 2013

Deloitte & Associados, SROC SA.

Represented by João Luis Falua Costa da Silva

EPAL

Grupo Águas de Portugal