



EPAL annual report and accounts 2007





## Mission, Vision and Values

### **Mission**

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

### **Vision**

AEPAL's vision rests on two pillars:

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

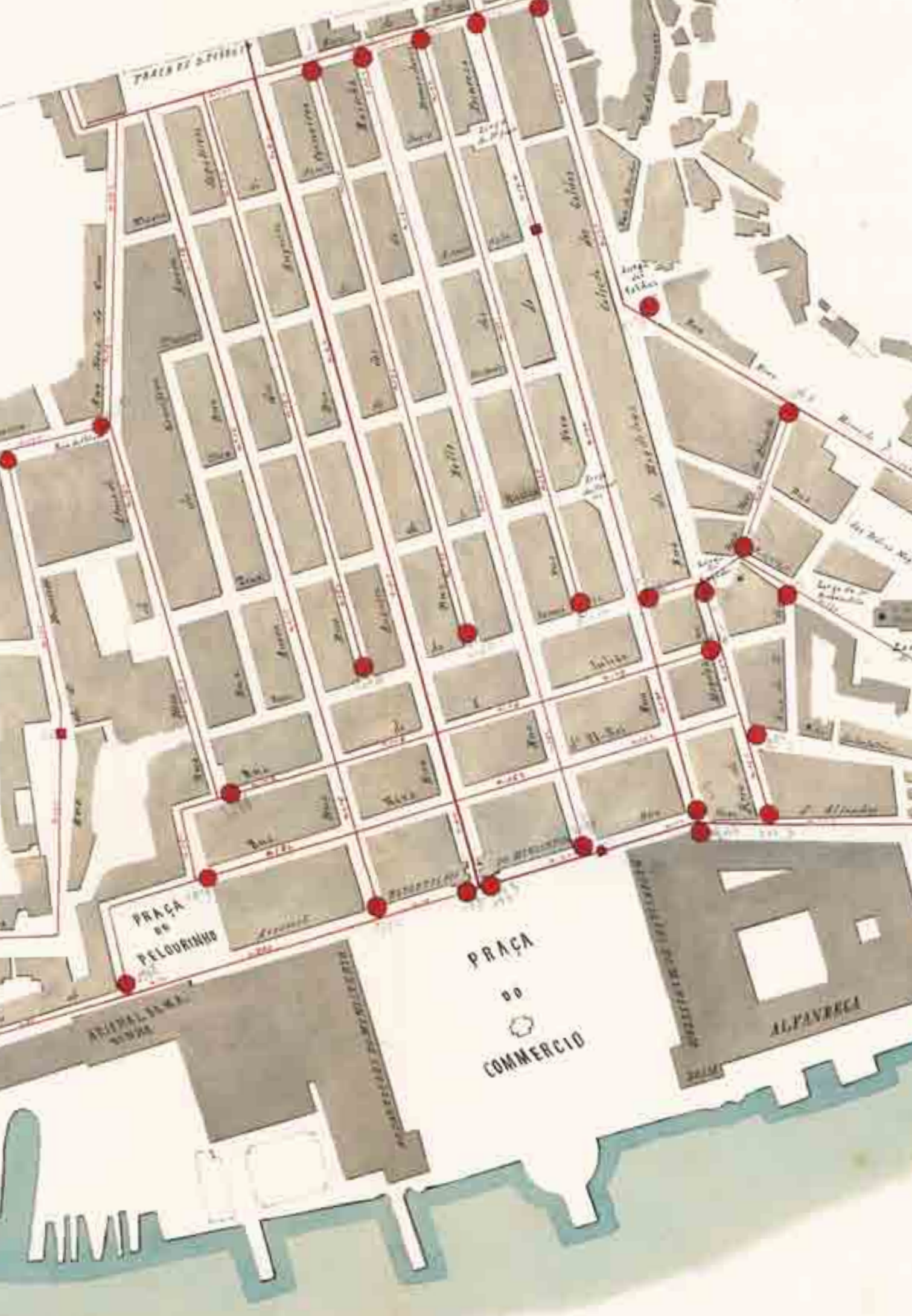
### **Values**

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

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

The logo for EPAL (Environmental Protection Agency of Latvia) features a stylized building with three arches on top, positioned above a blue and green wave-like shape that suggests water and land.

EPAL annual report and accounts **2007**

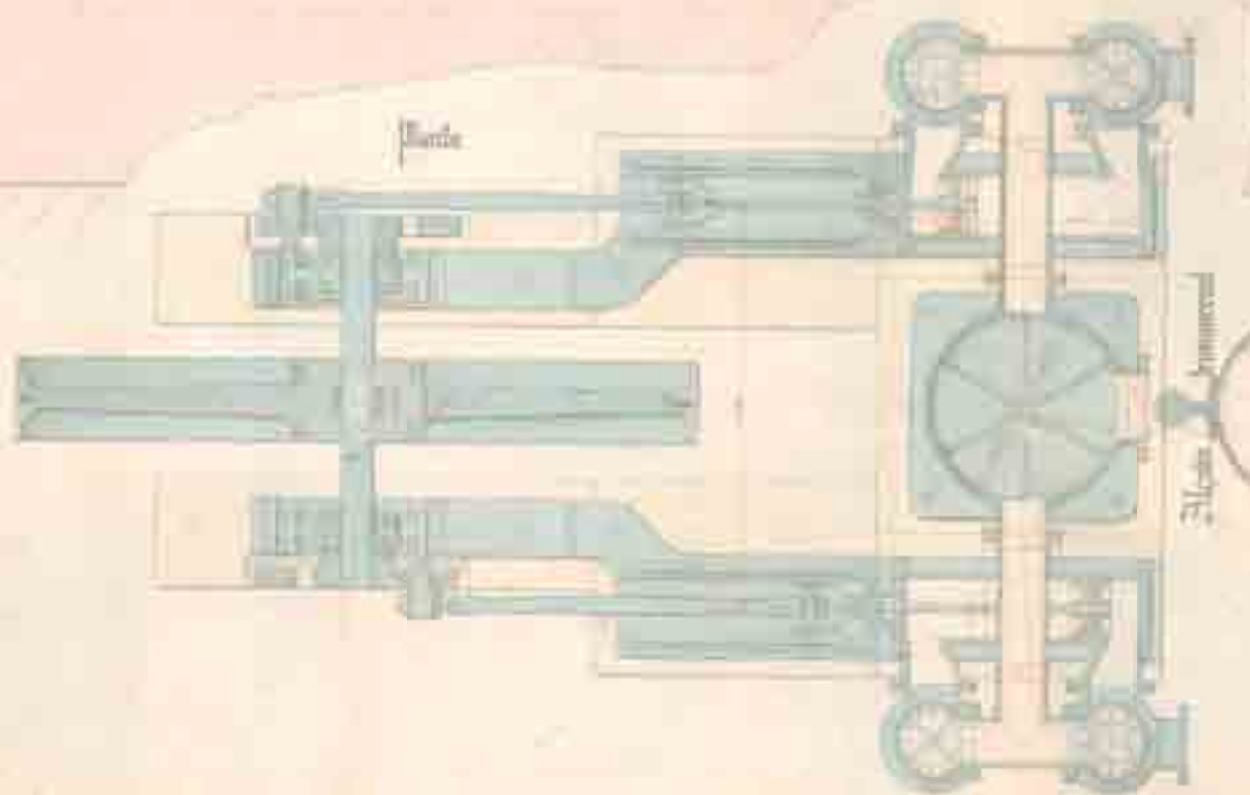
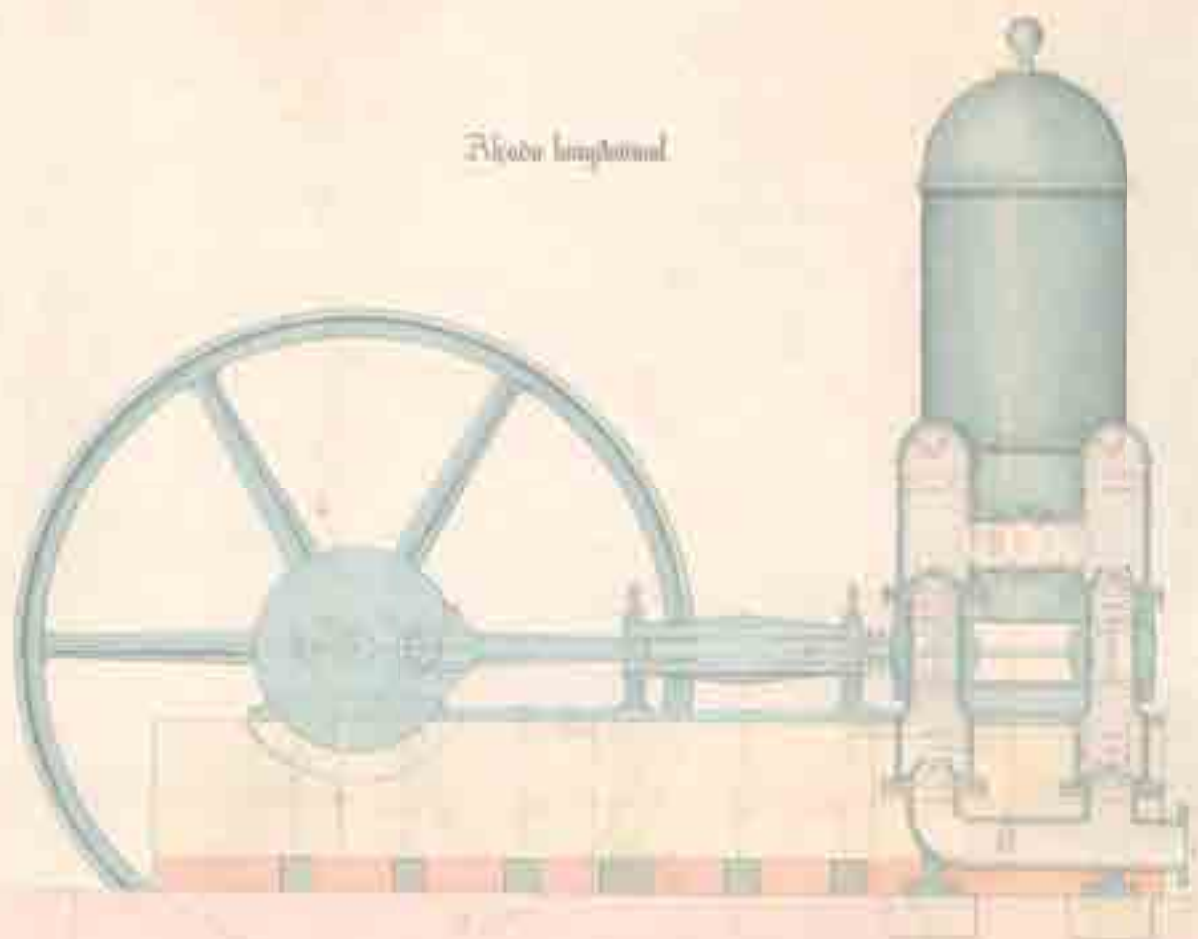








Alcova limptonal



# COMPANHIA DAS ÁGUAS DE LISBOA

ANIMAIS PARECEM TER SAÍDO DO ALBERGUE E DO REFEITÓRIO DO HOTEL

2023

# contents

## INTRODUCTION

Key performance indicators  
Chairman's statement

9  
11

## MANAGEMENT REPORT

Water quality  
Clients  
Production and distribution  
Capital expenditure  
People  
Systems and processes  
Other activities  
Sustainability  
Financial performance  
Risk management  
Outlook  
Proposed allocation of net profit  
Corporate governance  
Acknowledgements

17  
21  
27  
33  
37  
43  
47  
51  
55  
61  
65  
67  
69  
73

## FINANCIAL STATEMENTS AND NOTES

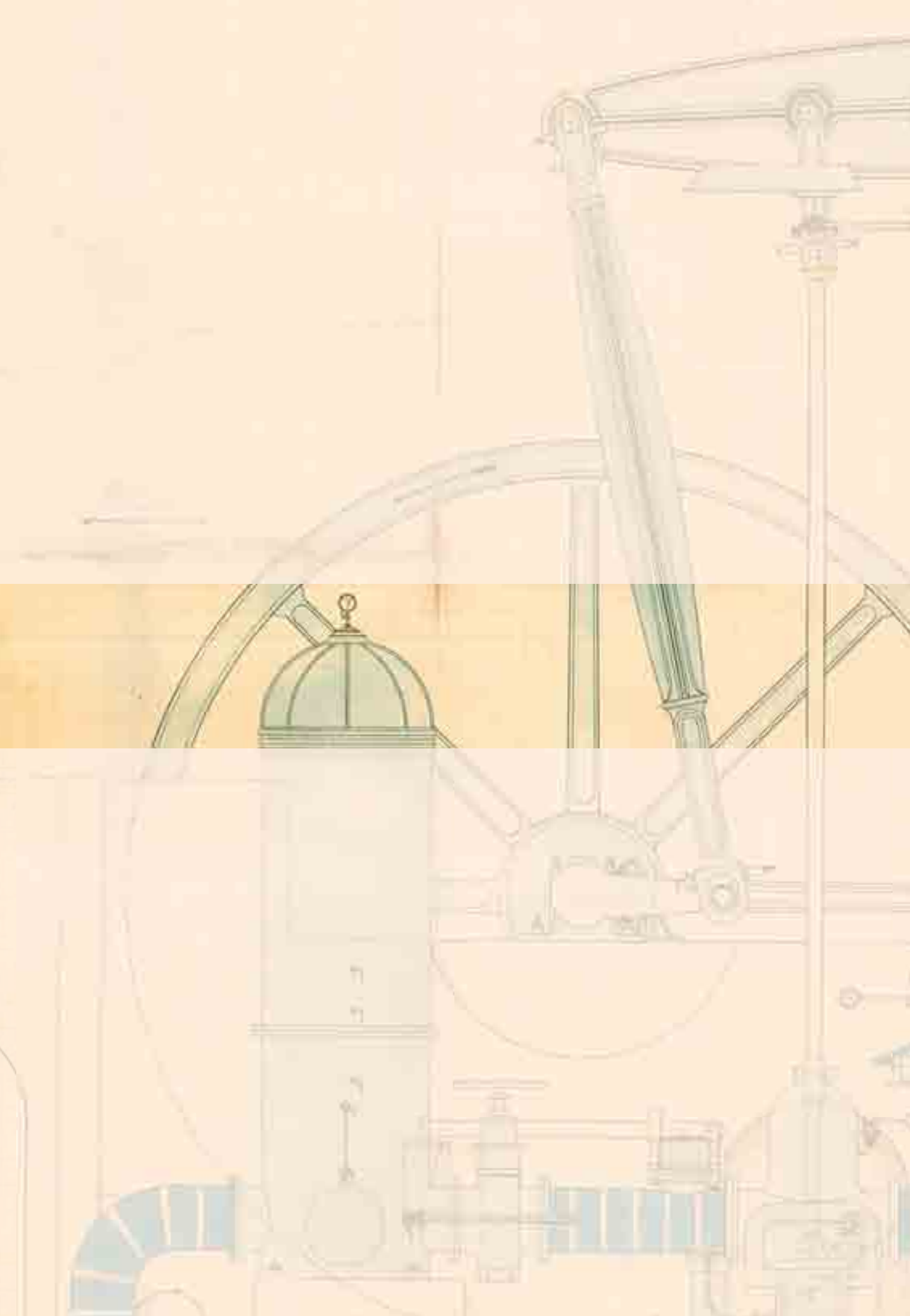
Financial statements  
Notes to the financial statements  
Information required by Portuguese accounting principles

75  
85  
111

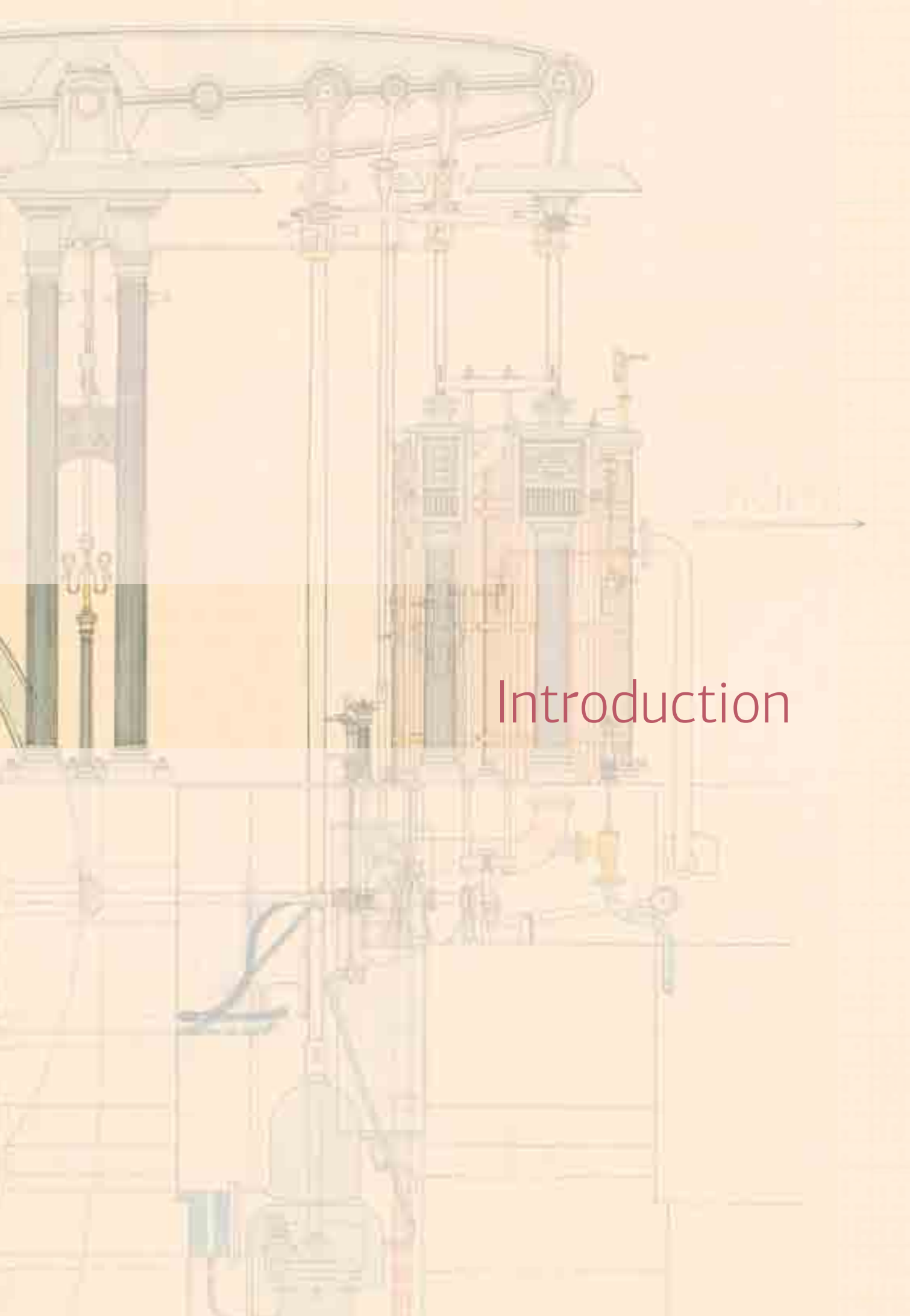
## OPINIONS AND CERTIFICATIONS

Supervisory report and opinion  
Legal certification of accounts  
Audit report

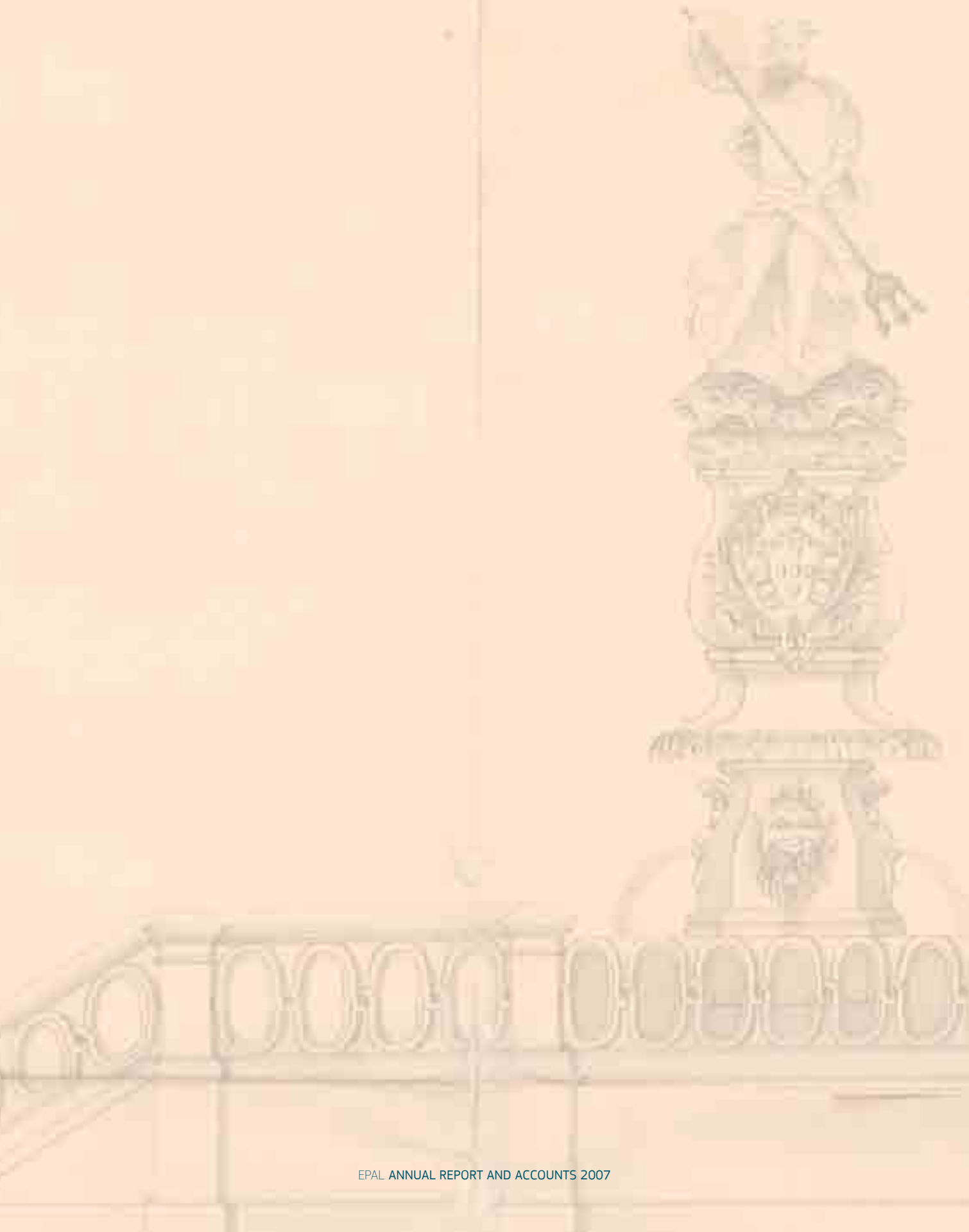
119  
122  
125







# Introduction



## Key performance indicators

### OPERATIONS

volumes/capacities in cubic metres (m<sup>3</sup>)

	2003	2004	2005	2006	2007
Volume of water sold	221,530,171	223,497,363	217,610,502	210,363,526	209,854,898
Number of direct clients	336,433	338,981	341,799	344,564	346,169
Number of consumers <sup>1</sup>	2,556,955	2,577,629	2,594,033	2,608,042	2,618,861
Average volume of water sold per consumer, m <sup>3</sup>	86.7	86.7	83.9	80.7	80.1
Number of counties supplied	26	26	26	26	26
Area supplied, km <sup>2</sup>	5,443	5,406	5,406	5,406	5,406
Renewed mains, km	84	66	88	70	28
Water loss to water abstracted, %	16.8%	17.0%	14.8%	13.9%	13.7%
Daily production capacity	1,017,000	1,047,000	1,047,000	1,047,000	1,110,000

<sup>1</sup> Resident population in the area supplied (preceding-year data)

### PROFIT AND LOSS ACCOUNT

amounts in thousand euros

	2003	2004	2005	2006	2007
Water revenues	131,146	136,464	134,034	134,424	137,377
Other revenues	4,994	5,598	5,639	4,482	4,606
Total revenues	136,197	142,266	139,673	138,906	141,983
Water revenues to total revenues, %	96.3%	96.1%	96.0%	96.8%	96.8%
EBITDA	61,825	69,002	65,684	57,875	71,113
Depreciation charges	27,221	26,961	27,189	27,899	30,427
EBIT	34,604	42,041	38,495	29,976	40,686
Profit before tax	29,529	36,665	33,295	23,265	31,785
Net profit	20,436	26,024	23,788	16,329	24,391
Cash flow	54,851	60,689	56,344	52,289	51,106

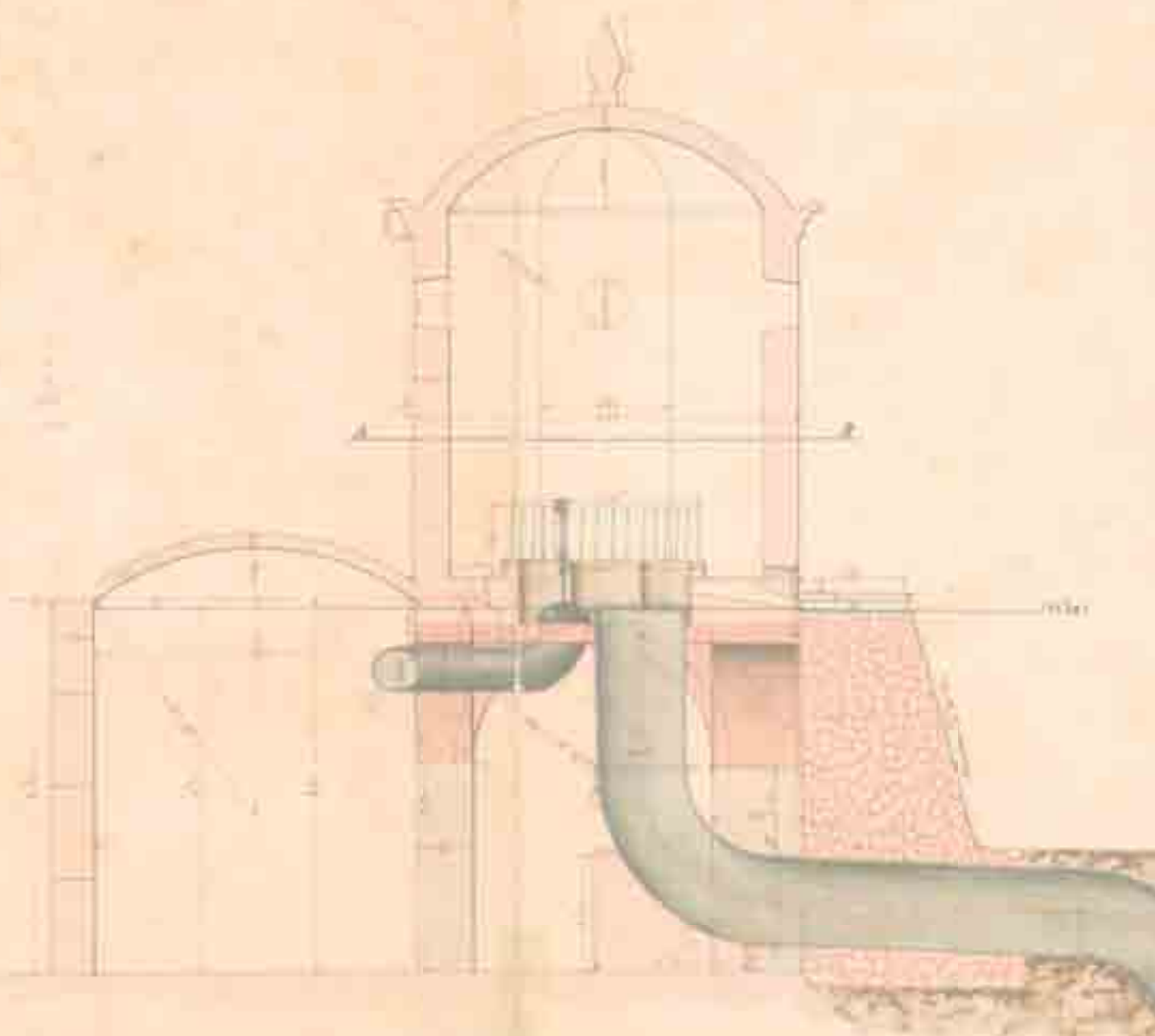
### BALANCE SHEET

amounts in thousand euros

	2003	2004	2005	2006	2007
Share capital	150,000	150,000	150,000	150,000	150,000
Shareholders' equity	334,548	343,093	345,906	343,780	356,461
Revaluation reserves	104,110	101,340	118,165	114,105	107,369
Liabilities	316,031	332,276	341,880	371,405	366,879
Net assets	650,580	675,369	687,786	715,185	723,339
Equity to net assets, %	51.4%	50.8%	50.3%	48.1%	49.3%
Long-term bank indebtedness	143,380	143,605	175,208	202,190	211,171
Capital expenditure <sup>1</sup>	39,950	59,520	57,372	57,194	32,532
Return on equity, %	6.1%	7.6%	6.9%	4.7%	6.8%
Return on assets, %	3.1%	3.9%	3.5%	2.3%	3.4%

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







## Chairman's statement

The 2007 financial year delivered better-than-expected financial results. This was mainly due to effectively implemented cost-cutting and capital expenditure policies. Recognition of received investment grants as income also played a relevant role for this favourable outcome. These factors ensured that authorised price rises came close to enabling a fair return on capital employed.

We consistently executed plans for legal control of water quality and performed 66,866 analyses where just 0.23% of observed parameters were non-compliant. If we add to this the internal plans for operational control and monitoring of water supplied, i.e. another 96,721 analyses with 0.05% non-compliant values, we will easily conclude that water supplied by the public supply system is the tightest controlled product for human consumption.

Equally noteworthy is the fact that the lowest level, in percentage terms, of water losses was attained in 2007, that is, 13.7% of water abstracted – 17.2% in Lisbon – which meant that leakages were curbed from 30.4 million m<sup>3</sup> in 2004 to 19.4 million m<sup>3</sup> in 2007.

Developing a customer service culture is one of the key goals of the company's strategy. With a view to attaining sector best practice, EPAL participated in 2007 in an international benchmarking survey sponsored by the International Water Association called Customer Services Process Benchmarking Study and covering customer relationship activities. In this survey, EPAL was classed as "one of the better performers of the benchmarked peer group". Our satisfaction with the outcome was compounded by the possibility of identifying opportunities for future improvement.

In 2007, EPAL kept a consistent strategy for managing the Lisbon distribution network as 75 monitoring and control zones (ZMCs) were completed covering 56% of the network extension and 51% of the number of clients. This is the most outstanding example of implemented contiguous ZMCs in Portugal in a project scheduled for completion in 2009. In the same spirit, a new approach was taken to improve macro-measurement involving eighteen large-scale flow metres, five of which were installed in 2007. It is our belief that measuring and monitoring the whole water transportation and distribution network, analysing and managing flows and pressure, is a key procedure for managing, in an efficient and sustainable manner, available water resources.

Guaranteeing the safety and quality of water supplied to clients is the main driver for investment spending. In this respect, the production capacity of Asseiceira's treatment station was raised from 500,000 to 625,000 m<sup>3</sup> as flotation and intermediate ozonisation were introduced. At the same time, water supply to the Mafra municipality was boosted. In early 2008, the relevant authorities gave their go-ahead to the launch of an international public tender for the construction of EPAL's new central laboratory.

With the assistance of external consultants, EPAL prepared in 2007 the concept study of an **Integrated Asset Management Model**. The company's performance largely depends on optimised asset lifecycles, the reason this project is

a management priority for raising client service levels, the rate of return on capital employed and the technical and environmental sustainability of operations.

This work made it possible to determine not only the organisational and business process steps to be taken but also the needs in terms of information systems. This led the board of directors to launch an organisational transformation of the company, labelled **Visão EPAL** ("EPAL Vision"), with a view to strategically aligning the organisation with the new asset management processes as well as responding to business growth opportunities.

The effort to manage human resources has been consistently stepped up through sustained training policies at all levels, which have consolidated the company's track record as a place for personal and professional self-fulfilment. This effort took a new dimension when the company joined the Programa das Novas Oportunidades (Programme for New Opportunities) whose purpose is to raise workers' schooling levels.

Following a first-ever decrease in staff below 800, it was possible to hire in 2007 an additional 30 employees, which meant EPAL created 65 new jobs in the last three years.

Several bargaining sessions were held with trade unions for the renewal of the company's contract with its employees, the so-called Acordo de Empresa. The board promoted a climate of true dialogue and presented proposals trying to address everyone's expectations while safeguarding EPAL's profitability and future development. Talks did not come to a close in 2007 but progress so far lets us anticipate that may happen in 2008.

Managing a company that supplies drinking water is a multifaceted proposition. Sustainable exploration of a life-giving resource that is subject to environmental aggression and growing public scrutiny in respect of its use forces companies to take a number of variables into account in order to justify its management options in a regulated economic environment.

Aware of its leading position in the community, EPAL seeks to reflect these trends and concerns in its operations. Therefore, the company adopted public policies regarding biodiversity and climate change. As likely medium- and long-term impacts on its water-supplying mission become apparent, EPAL strives for strategies and partnerships to address these challenges.

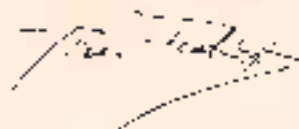


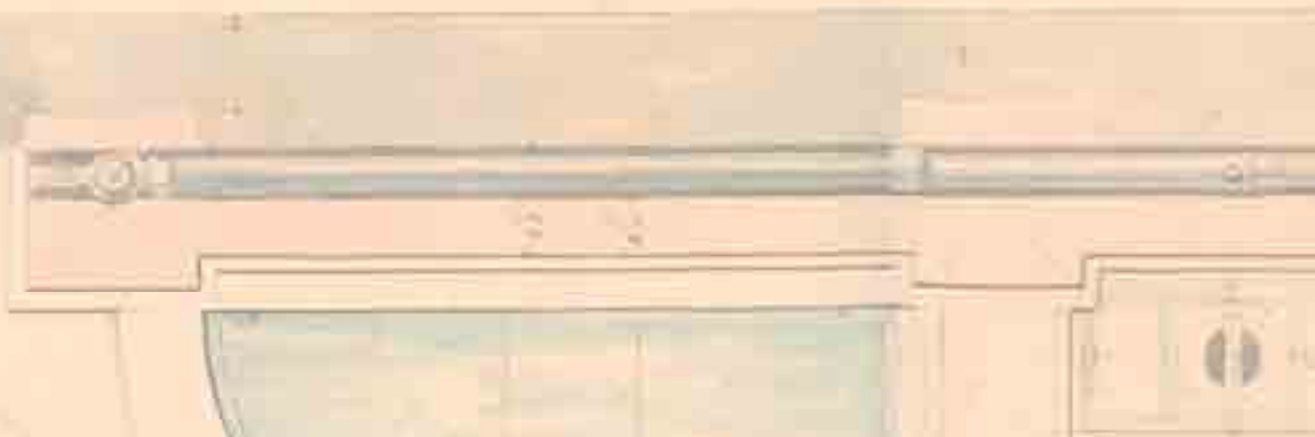
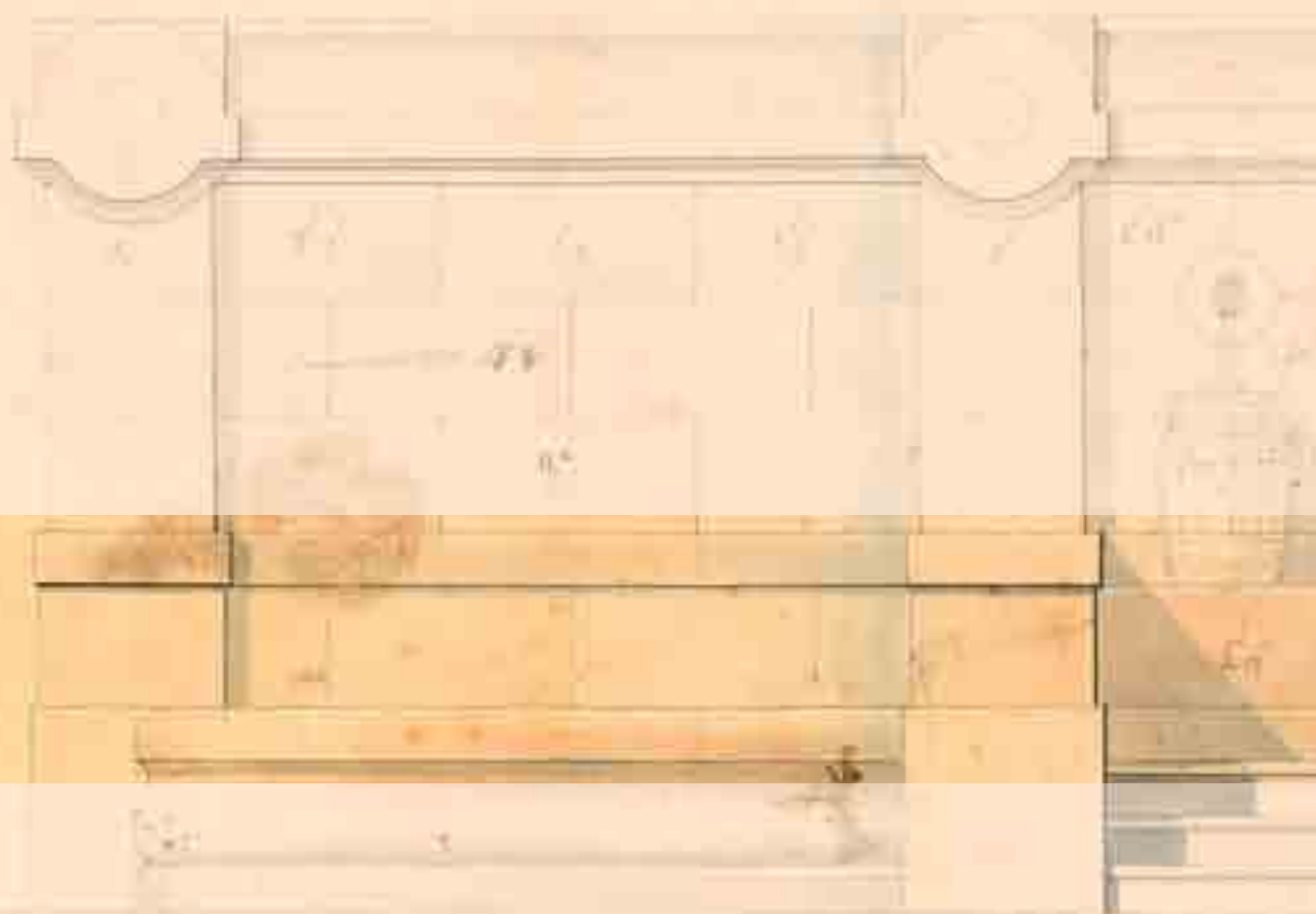
In this regard, a voluntary partnership agreement was signed with ICNB – Instituto de Conservação da Natureza e da Biodiversidade and GEOTA – Grupo de Estudos de Ordenamento do Território e Ambiente in order to develop a number of actions under a plan for conserving the area surrounding the Castelo de Bode dam lake, the primary origin of water in EPAL's supply system.

Carbon emission concerns were the main driver for an agreement signed with ADENE – Agência para a Energia and aimed at energy rationalisation and the use of clean and endogenous sources of primary energy.

At the close of a management cycle, EPAL presents itself as a modern, technically able, financially solid, environmentally sustainable and socially responsible operator.

**João Manuel Lopes Fidalgo**  
Chairman





An architectural drawing of a building facade, likely a classical or neoclassical style. The drawing shows a person standing on a balcony or walkway, providing a sense of scale. The facade features several windows with decorative elements, including a large arched window on the right and smaller windows on the left. The drawing is rendered in a light, sketchy style with some color washes. The text "Management report" is overlaid in the center of the image.

# Management report



Home and Family  
Society  
Incorporated  
1852.



## Water quality

EPAL's quality management system ensures that both processes and parameters are controlled throughout the stages of abstraction, treatment, transportation and distribution. Quality control takes place at the company's central laboratory and the laboratories at Asseiceira and Vale da Pedra.

### **Monitoring process**

The central laboratory, or LAB, has responsibility for designing, implementing and managing the company's water quality monitoring programme, or PMQA in the Portuguese terminology.

In 2007, the LAB executed the PMQA schedule of actions for sampling and analysis of water abstracted (on the surface or under the ground), transported and supplied to providers of water supply systems or distributed in the city of Lisbon. The goal for these actions was to gather data for supporting and guiding water quality management.

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

Whereas legal control – which is performed by IRAR, the water and wastewater regulator – refers to compliance with legal requirements applicable to EPAL as a provider of drinking water supply systems, operational or monitoring control aims to check the quality of drinking water throughout the supply system and identify, on a timely basis, occasional or systematic anomalies, if any, as a pre-requisite for effective preventive steps. Through daily sampling, the programme gives particular attention to monitoring of microbiological quality and residual chlorine.

### **Legal control**

This type of control included the following monitoring campaigns:

1. Quality control of the water distributed in the city of Lisbon through collection at consumer taps – 1 274 sampling points;
2. Quality control of the water supplied to providers of water supply systems through collection at points of delivery to municipalities/water providers or, whenever unfeasible, at

sampling points mirroring these deliveries – 93 sampling points;

3. Quality control of the water supplied to direct clients using the company's transportation system through collection at points of delivery to clients/institutions located in areas managed by other water providers – 7 sampling points;

### Operational or monitoring control

This type of control included the following monitoring campaigns:

1. Quality of the water distributed in the city of Lisbon by sampling at fixed points throughout the Lisbon distribution network, systematically covering important/critical high and low points such as entry points and reservoirs among others) – 85 sampling points;
2. Quality of the water throughout the transportation system by sampling at representative points (exit from the treatment stations, points for blending water from different origins, points of delivery to the Lisbon distribution network) – 34 sampling points;
3. Quality of the water at source by sampling at the different origins used by EPAL for the production of drinking water, for the purpose of tracking any abnormal outcomes across the abstraction, treatment, transportation and supply stages – 51 sampling points;

### Outcomes in 2007

Under the PMQA, 7,260 water samples were collected at 270 fixed sampling points deemed representative of the entire EPAL system (abstractions, treatment stations, trunk mains, points of delivery to other water providers and the Lisbon distribution network) and at 1,274 consumer taps in the city of Lisbon. As shown in Table 2 below, 179,137 outcomes of water quality substances/species were gathered in the process..

### Main features at the different sampling points

#### Water quality at source

At Rio Zêzere – Albufeira do Castelo do Bode, results in 2007 hinted at improved water quality in comparison with 2006.

The occurrence of faecal coliform levels which were higher

### Outcomes in EPAL's supply system - 2007

#### Number of outcomes (species)

Legal control	
Direct clients through transportation	1,138
Delivery to water providers	44,488
Lisbon distribution network (consumer taps)	21 240 21,240
Sub-total	66,866
Operational/monitoring control	
Underground abstractions	8,957
Surface abstractions	6,253
Treatment stations (process water)	340
Transportation system	49,114
Lisbon distribution network (Fixed points)	112 271 47,607
Sub-total	112,271
Grand total	179,137

than the maximum recommended value (MRV) was not of a systematic nature and was easily solved by treatment at the Asseiceira station.

At Rio Tejo – Valada Tejo, results obtained in 2007 were not higher than the maximum acceptable levels (MAV), which pointed to improved quality at this source compared with 2006, when levels higher than MAV were found for the temperature and colour parameters.

The occurrence of total and faecal coliform levels which were higher than the Class 2 MRV was not of a systematic nature and could be addressed by treatment at the Vale da Pedra station.

At Rio Alviela – Nascente dos Olhos de Água, water abstracted was mineralised. In 2007, no record of an analytical outcome which was higher than the Class A1 MAV was found.

Water abstracted from underground origins at Ota and Alenquer located in a limestone aquifer was quite mineralised, averagely hard or hard with a light chloride and sulphate content. Throughout 2007, a single analytical outcome of levels that were higher than MAV was found for Class A1.

Ground water from a Miocene aquifer beneath the wet plains bordering the Tagus was quite mineralised and averagely hard, with chlorides and sulphates. The temperature and barium



parameters of these underground origins exceeded the MAV for Class A1.

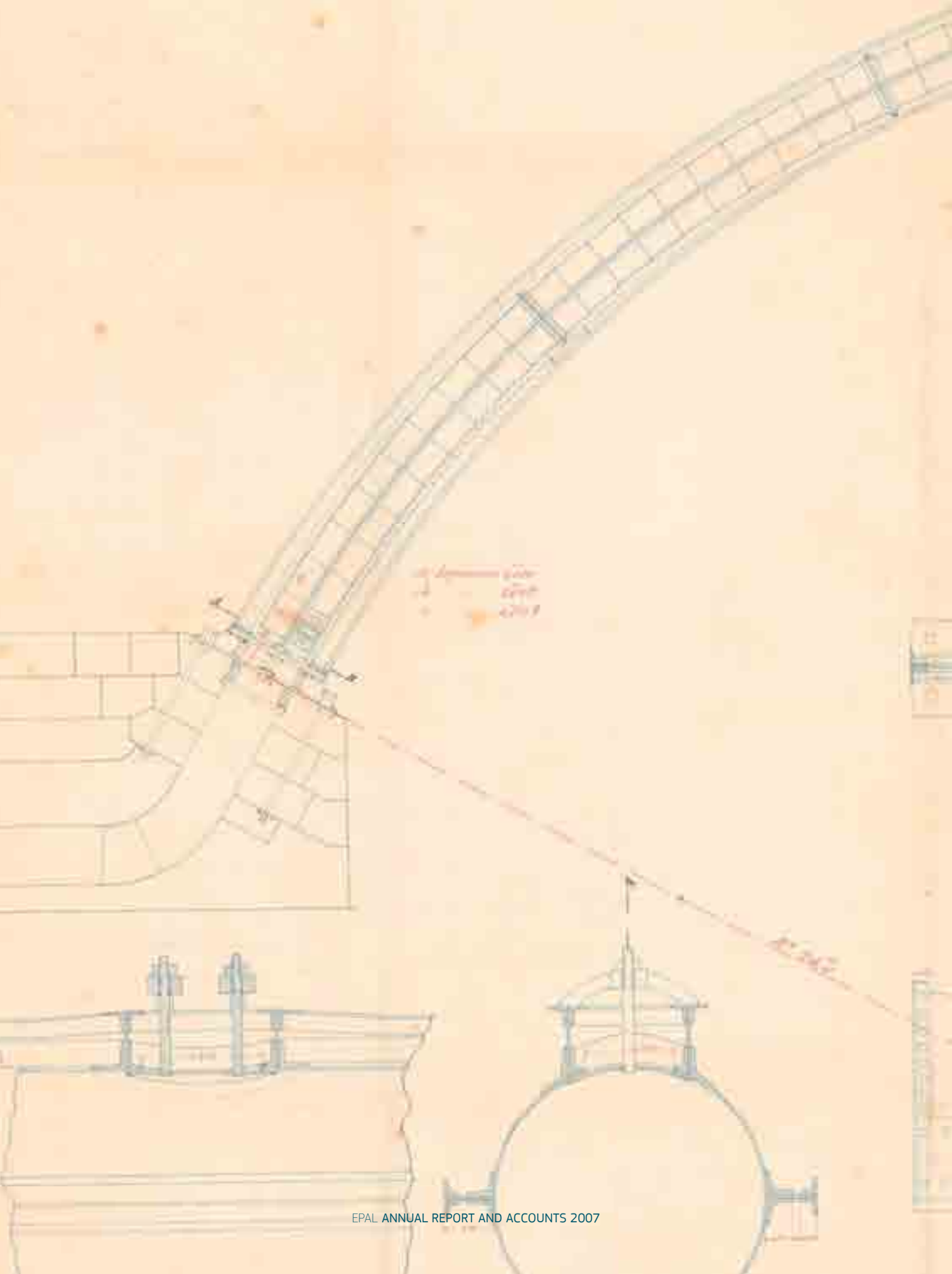
Ground water abstracted from the sediments at Poços de Valada was highly mineralised. The temperature and barium parameters exceeded the Class A1 MAV.

### **Drinking water quality**

In order to comply with legal requirements for water quality control in the Lisbon distribution network, 21,240 outcomes

were obtained, whereby samples were collected on a daily basis from taps used by private and public – hospitals, schools, health centres among other – customers.

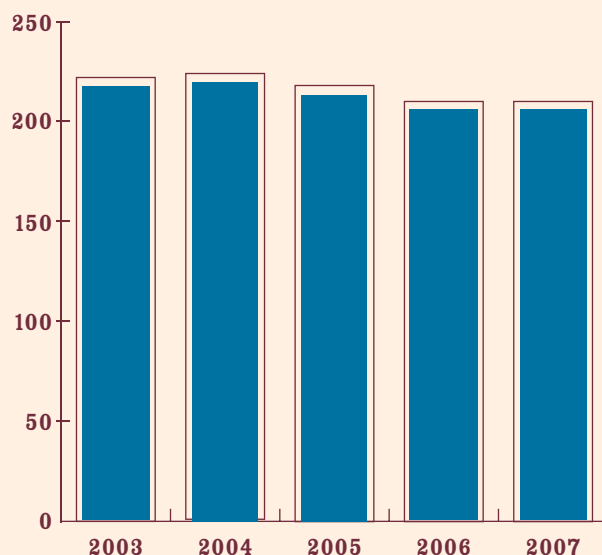
On the basis of the gathered data, it was possible to conclude that, except for some isolated cases, the quality of distributed water was in compliance with quality standards as defined by Portuguese law. Only 0.23% of the species outcomes showed non-compliant levels.



## Clients

Despite a declining trend in water sold in the last few years, sales stabilised in 2007.

Water sold in million m<sup>3</sup> - 2003-2007



### Direct clients and municipal and multi-municipal clients

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

In 2007, EPAL sold 209,854,898 m<sup>3</sup> of water – 71.3% to municipal and multi-municipal clients and 28.7% to direct clients.

During the year, EPAL supplied 26 municipalities, five of which through multi-municipal provider Águas do Oeste.

Water was supplied to the following municipalities: Alcanena, Amadora, Batalha, Cartaxo, Cascais, Constância, Entroncamento, Leiria, Lisboa, Loures, Odivelas, Mafra, Oeiras, Ourém, Porto de Mós, Sintra, Santarém, Tomar, Torres Novas, Vila Franca de Xira e Vila Nova da Barquinha, directly; Alenquer, Arruda dos Vinhos, Azambuja, Sobral de Monte Agraço e Torres Vedras, through Águas do Oeste.

### Water sold in 2007, by type of client

Type of client	Million m <sup>3</sup>	Share of total, %	Change compared to 2006, %
Municipal clients	133.3	63.5%	-0.6%
Multi-municipal clients	16.3	7.8%	6.4%
Total municipal and multi-municipal clients	149.6	71.3%	0.1%
Residential clients in Lisbon	28.9	13.8%	-0.8%
Other direct clients	31.3	14.9%	-1.6%
Total direct clients	60.2	28.7%	-1.2%
<b>All clients</b>	<b>209.9</b>	<b>100.0%</b>	<b>-0.2%</b>

In 2007, the number of direct holders of supply contracts rose 0.47% to 346,169 (from 344,564 in 2006).

#### Customer service

When EPAL supplies water to its clients, it is concerned not only with the quality of the product supplied but also with the quality of related services. Following client polls, EPAL concluded that uninterrupted supply and accurate and regular invoicing were among the features of its offer that were most highly valued by clients.

When clients consider EPAL's service levels are not up to their expectations, they contact the company. Another important reason for client contact is payment of the water bill at the company's counters. For these reasons, service provided by EPAL to its clients is the object of great care and monitoring, the goal being that the client should have a favourable experience every time they take contact with the company.

In 2007, EPAL participated in an international benchmarking survey conducted by the Water Services Association of Australia (WSAA), in cooperation with the International Water Association (IWA), which focused on the set of activities defining the level of customer service.

The survey included the analysis of customer service processes and looked separately at personal service, contact-centre service, back-office, metering, invoicing, collection, credit control and home service. All these individual items were the subject of separate comparative analyses.

EPAL came out well-positioned in all surveyed processes and was rated, overall, as one of the best companies in the group.

In service – particularly the one dispensed by the contact centre – as well as invoicing and home service, EPAL was considered to be the best in the group.

The survey also highlighted the strong customer service culture, the equally strong culture of supporting management actions by closely monitoring performance indicators, the clear organisational structure and allocation of responsibilities and the well-documented and well-understood processes.

Certification of the direct client area according to NP EN ISO 9001:2000 and the use of AQUAmatrix, the integrated client management system that was developed in house, were two important factors contributing to EPAL's excellent performance in the survey. AQUAmatrix makes all relevant client information available to service operators, thereby enhancing both client relationships and problem-solving capabilities.

#### Municipal and multi-municipal clients

With a view to improving EPAL's relationship with this client category, several personal contacts and work meetings were organised in 2007.

Forty-three meetings were held with the primary goal of jointly reviewing pending matters to find the best possible settlement. Another major concern was to increasingly adapt EPAL's services to the needs of its clients.



The most important decisions reached at the meetings were the following:

- Settlement of debts accumulated by SMAS Oeiras e Amadora since 1994;
- Agreement of terms for increased water supply to the municipality of Cartaxo;
- Development of studies to research the impact of the new airport;
- Proposal for increased water supply to the municipality of Santarém;
- New point of delivery to the municipality of Alcanena at Olhos de Água
- Joint site visits under the project for increased water supply to Mafra;
- Appraisal of a renewed Aqueduto Tejo jointly with OGMA and the municipalities of V. F. Xira and Loures/Odivelas;
- Joint appraisal of the supply subsystems assigned to the Ourém and Porto de Mós municipalities;
- Establishment of negotiations with the municipality of Sintra towards settling several pending issues;
- Joint analysis of the sums owed by the municipal water and waste services of Loures/Odivelas.

### Direct clients

In October, the model for operating the Head Office Store was changed and the queuing management system was extended to both reception rooms, with new office hours between 8:00am and 7:30pm every working day.

The Payments/Information room started to handle payments, metering and payment mode exclusively, whereas the General Service room began focusing on personal service primarily related to contracts, supply and information.

Waiting times for personal service improved significantly, with 83% of clients served in less than 15 minutes against 80% in 2006. At both the Head Office Store and the Loja do Cidadão, a multi-service store made available to citizens by the state, 201,507 clients were served, down 9% from 221,262 in 2006. Out of 212,672 telephone calls answered, 81% had a shorter waiting time than 30 seconds, an improvement compared with 78% in 2006.

Performance indicators	2005	2006	2007
Waiting times at stores (Head Office and Loja do Cidadão) (% of clients served in less than 15 minutes)	78%	80%	83%
Number of clients served at stores (Head Office and Loja do Cidadão)	234,093	221,262	217,057
Waiting times at the Contact Center (% of clients served in less than 30 seconds)	60%	78%	81%
Number of clients served by the Contact Center	207 465	213 248	212 672

The 8,121 faxes/letters sent by clients to EPAL were answered in 5 days on average and 90% of 6,547 Internet inquiries were answered in less than one hour.

### Satisfaction levels

#### Municipal and multi-municipal clients

In order to assess the degree of satisfaction, needs and expectations of this client category, a customer satisfaction survey was performed in 2007.

Generally, clients expressed their satisfaction with both the product supplied and the service provided by the company. Clients proved to be "satisfied" and even "very satisfied" with the quality of the product supplied, considered by most as the outstandingly important attribute of EPAL's offering and the most frequently cited as The Best of EPAL. The degree of satisfaction with the service provided by EPAL was 95%, with 90% awarding the "satisfied" and 5% the "very satisfied" ratings.

#### Direct clients

The most recent Client Satisfaction Index, dating from 2006, showed global satisfaction improving from 6.5 to 6.7, an indication that service quality criteria such as supply consistency, water pressure, supply interruption noticing and water quality – considered to be the most important ones – attracted favourable ratings, similarly to previous years.

Responding to client suggestions, EPAL developed several



Pavement covering for enhanced pedestrian comfort during works

initiatives in 2007 such as simplified service, supervision and quality control of technical service and broadened client communications.

With a view to informing about water quality, particularly its colour, smell and taste attributes – the last also considered as the most important one – and also meeting clients' requests, the "Água da EPAL – Perguntas frequentes" (EPAL's water – Most frequent questions) campaign was launched, whereby a flyer was enclosed with the water bill sent to 350,000 clients.

In summer, the Leituras registadas, contas acertadas! (Timely metering, timely settlement!) campaign was launched to encourage clients to update metering to enable invoicing of actual consumption. This action was first directed at commercial clients but is scheduled to focus on residential clients in 2008.

## Complaints

### Municipal and multi-municipal clients

In 2007 the municipal client department recorded and processed eight complaints, four of which were related to water invoicing and provided services and the other four to other reasons.

In a spirit of close cooperation and partnership between EPAL and its clients, the department also recorded and handled eight requests for information and two enquiries.

### Direct clients

In 2007, 15,300 complaints were filed, 7.4% down from 2006.

Interrupted supply still was the main subject of complaint and accounted for 53% of the total. However, 1,364 fewer files were opened compared with the year before.

Out of the total number of complaints that were processed by the back office or prompted a site visit, 88.7% were settled in 15 days. In 2006, this percentage was 82.7%.

Regarding files in writing, the company's ability to reply in 15 days was unchanged at 76.6%, although this type of files went up by 50% in 2007 in comparison with 2006.

Out of the total number of closed complaints, 73.3% were accepted and 26.7% were rejected.

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

### Credit control

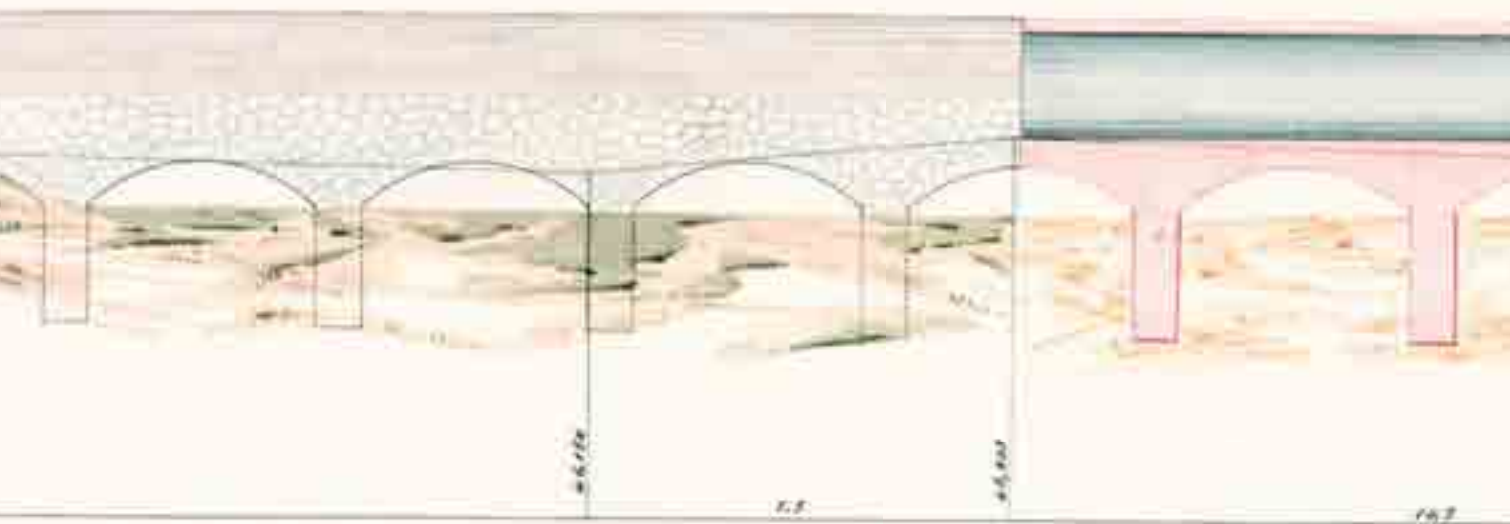
In 2007, 2,172,913 invoices were issued, or 18,909 in excess of the number in 2006. Simultaneously, the number of metering errors declined 0.3%. Following increased contact with clients, the number of site visits for metering confirmation declined.

Accounts receivable went up 14.5% in 2007 compared to 2006. Parque Expo's share of this increase was significant as its overdue balance rose by 667,000 euros, or 60.3%, in 2007.

In 2007, the nominal invoice collection time declined from 15 to 12 working days from May onwards, which could not, however, compensate for the rise in Parque Expo debt.

Regarding claims on the state sector, the largest debtors at 31 December were Estabelecimento Prisional de Lisboa with 343,296 euros and Hospital Júlio de Matos with 253,872 euros.

In 2007, a new type of account (Conta de Entidade Pagadora) consisting of an innovative way of invoicing large clients with several consumption sites was well received, mainly by banks and large service providers. The scheme is expected to be joined by state institutions and bodies in 2008, which will certainly generate both cost savings and improved information management for EPAL and its clients. Under this new service, EPAL sends to the client's preferred address the whole set of invoices for the several sites to which water is supplied.



## Production and distribution

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

### Production

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

- Castelo do Bode, which opened in 1987 and was expanded in 1996 and 2007, is currently the main sub-system with a daily production capacity of 625,000 m<sup>3</sup>;
- Tejo, which opened in 1940 and was expanded in 1963, has a daily production capacity of 220,000 m<sup>3</sup>;
- Alviela, in operation since 1880, has a daily production capacity of 55,000 m<sup>3</sup>.

The Tejo sub-system also consists of a set of underground sources with a daily abstraction capacity of 210,000 m<sup>3</sup>.

The operation of these three sub-systems rests on extensive infrastructure for the transportation of abstracted and treated water.

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

At the Asseiceira water treatment station, operation of a new process started in September 2007 using ozone with the simultaneous introduction of flocculation and flotation, which curbed the use of chlorine. Alongside this process change, treatment capacity rose from 500,000 m<sup>3</sup> per day to 625,000 m<sup>3</sup> per day.

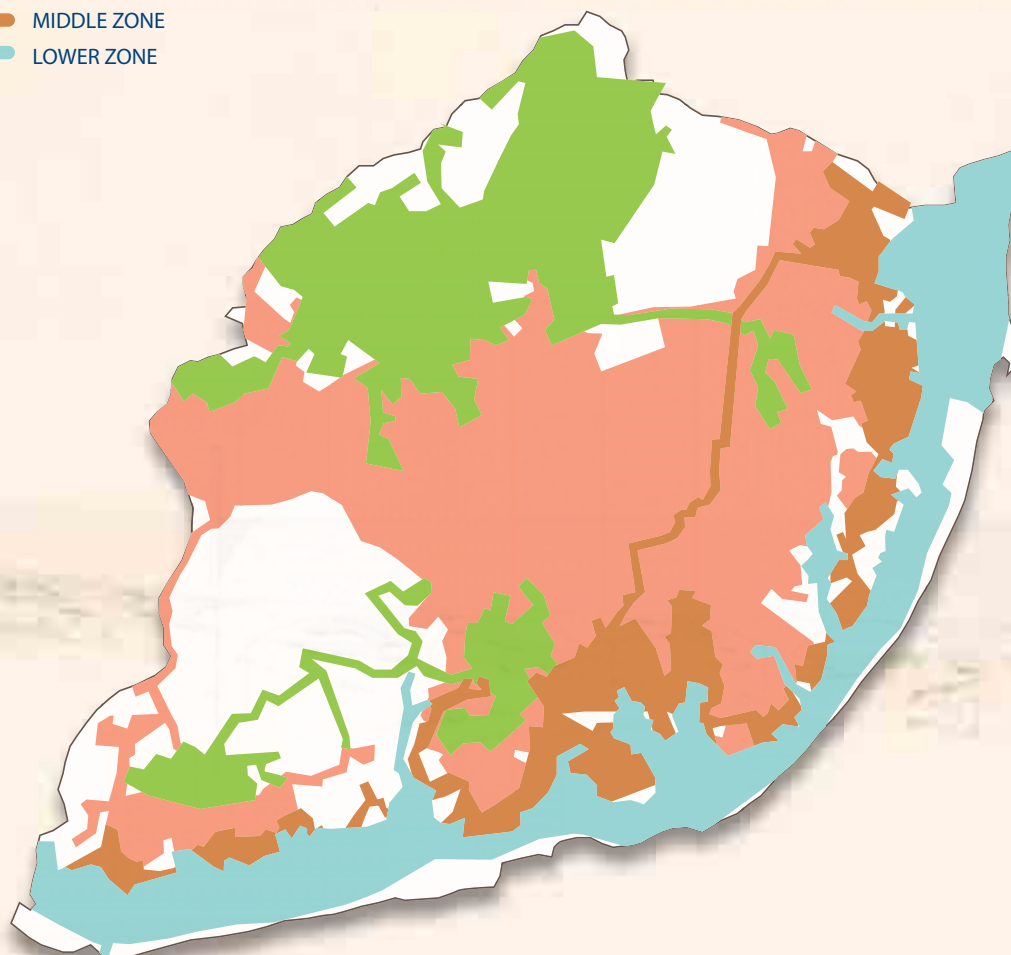
### Distribution

The overall distribution network is 1,427 km long and consists of 14 reservoirs, 9 towers and 77,500 service mains. This infrastructure allows water to be directly supplied in Lisbon to an area of 85 km<sup>2</sup> inhabited by 509,751 people, as estimated by the National Bureau of Statistics (INE) at 31 December 2006.





- UPPERMOST ZONE
- UPPER ZONE
- MIDDLE ZONE
- LOWER ZONE



The network is supplied by the Alviela and Tejo aqueducts and the Franca de Xira/Telheiras and Circunvalação trunk mains, whose daily capacities are 35,000 m<sup>3</sup>, 360,000 m<sup>3</sup>, 240,000 m<sup>3</sup> and 60,000 m<sup>3</sup>, respectively.

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

Besides supplying the city of Lisbon, EPAL also supplies, directly or indirectly, 25 municipalities west and north of the city.

### **Water loss**

In 2007, EPAL had a total of 774 leakages in its transportation and distribution network.

The amount of process losses, that is the difference between water abstracted and water produced, plus the change in treatment station reservoirs, accounted for 0.04% of abstracted water.

The difference between water produced and water supplied – total losses – improved in 2007.

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

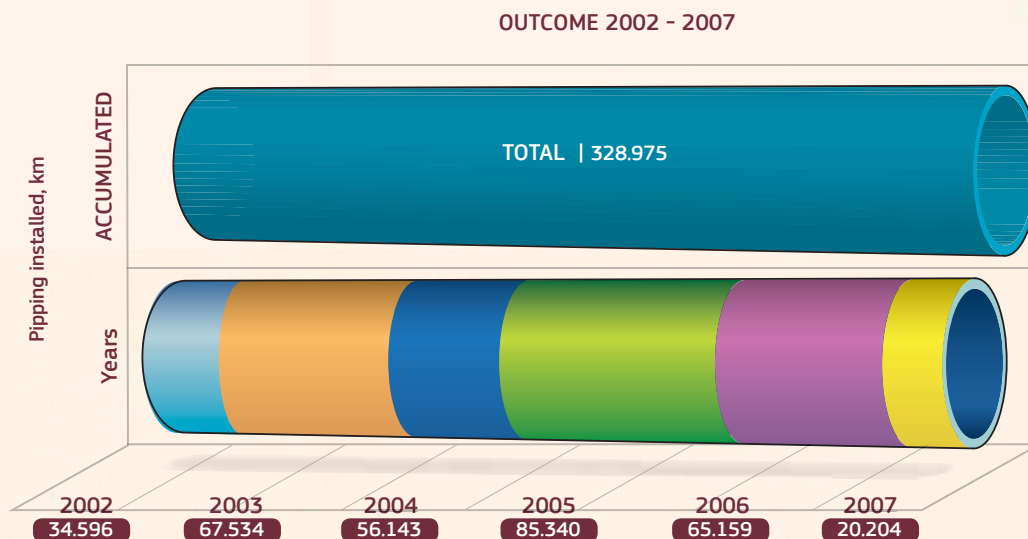
	2007	% of water abstracted	2006	% of water abstracted
<b>Water abstracted</b>	<b>243,192,708</b>	<b>100.00%</b>	<b>244,350,667</b>	<b>100.00%</b>
Castelo do Bode	163,762,580	67.34	160,603,912	65.72
Tejo	52,381,424	21.54	48,913,798	20.01
Alviela	5,638,242	2.32	5,225,801	2.13
Underground sources	21,312,491	8.76	29,414,171	12.04
- Process losses	97,971	0.04%	192,985	0.1%
<b>= Water produced</b>	<b>242,879,655</b>	<b>99.87%</b>	<b>244,063,092</b>	<b>99.88%</b>
- Transportation losses	13,513,566	5.56%	10,560,262	4.32%
- Distribution losses	19,408,684	7.98%	23,408,986	9.58%
<b>= Water supplied</b>	<b>209,957,405</b>	<b>86.33%</b>	<b>210,093,844</b>	<b>85.98%</b>

The amount of water lost under transportation until entry into Lisbon or delivery to municipal and multi-municipal water providers was 13.5 million cubic metres, or 5.6% of water produced. In Lisbon distribution, losses amounted to 19.4 million m<sup>3</sup>, or 17.2% of water flowing into the city. Total water losses amounted to 32.9 million m<sup>3</sup>, that is 13.7% of water abstracted, a slight

improvement in comparison with 2006.

Efforts made by the company since 2002 to extensively renew the distribution network by 2010 contributed to lowering the number of bursts and, consequently, water loss. The significant expenditure effort can be judged by the extension of the new piping:

### New piping installed in 2002-2007, metres



## Monitoring network leakages

### Distribution network

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

In 2007, ZMCs continued to be implemented at a fast pace in order to attain the ambitious goal of 75. This process has been complex and is the most important case of implementation

of continually monitored ZMCs in Portugal, a process involving several company departments working in partnership.

In 2007, 41 new ZMCs were implemented, implying the coverage of 109,000 clients and 405 km of network. Great efforts were made at Lisbon's lower and upper zones in order to respond to the priorities and concerns of the operation and maintenance departments regarding network performance and the need for rapid problem identification in these zones. The goal is to attain 110 ZMCs by the end of 2008, covering 73% of the total number of clients and 79% of the network extension, i.e. 257,000 clients and 983 km of the network. In order to attain this goal, an additional 35 ZMCs will have to be implemented, covering a further 83,000 clients and 300 km. Total coverage of the network is planned for 2009.

### Implemented ZMCs by the end of 2007

Supply zone	2006			2007		
	No of ZMCs	No of clients	Network (km)	No of ZMCs	No of clients	Network (km)
Lower area	4	8,616	50,0	16	32,028	171,7
Middle area	12	16,448	73,0	17	29,209	122,4
Upper area	9	16,555	76,2	27	77,411	260,0
Uppermost area, Charneca	4	10,080	26,0	10	21,890	77,0
Uppermost area, Monsanto	5	13,448	49,5	5	13,448	49,5
<b>TOTAL</b>	<b>34</b>	<b>65,147</b>	<b>274,7</b>	<b>75</b>	<b>173.986</b>	<b>680,6</b>
		<b>19%</b>	<b>23%</b>		<b>51%</b>	<b>56%</b>

### Implementation of ZMCs up to 2009

Supply zone	Planned for 2008			Planned for 2009		
	No of ZMCs	No of clients	Network (km)	No of ZMCs	No of clients	Network (km)
Lower zone	22	48.331	231,8	23	48.831	233,8
Middle zone	24	47.009	178,5	26	51.802	193,4
Upper zone	40	112.809	387,3	70	186.156	591,4
Uppermost zone, Charneca	18	35.394	132,4	19	39.894	146,4
Uppermost zone, Monsanto	6	13.628	53,5	6	13.628	53,5
<b>TOTAL</b>	<b>110</b>	<b>257.171</b>	<b>983,5</b>	<b>144</b>	<b>340.311</b>	<b>1.218,6</b>
		<b>76%</b>	<b>81%</b>		<b>100%</b>	<b>100%</b>



Macromasurement project for fighting water losses. Placement of flow meters.

### Transportation network

Several projects were implemented in 2007 towards improving macro-measurement. The goal was to improve monitoring and analysis of flows and pressure for better quantifying water losses in the system and thus identifying those spots in most urgent need of repair or renewal. In 2007, the first five – out of a planned eighteen – large-section flow meters were installed on the production and transportation network. The other thirteen will be installed in 2008. The programme for expanding the number of telemetric systems for analysis of water use by municipal clients and EPAL sites led to an additional 34 locations being monitored.

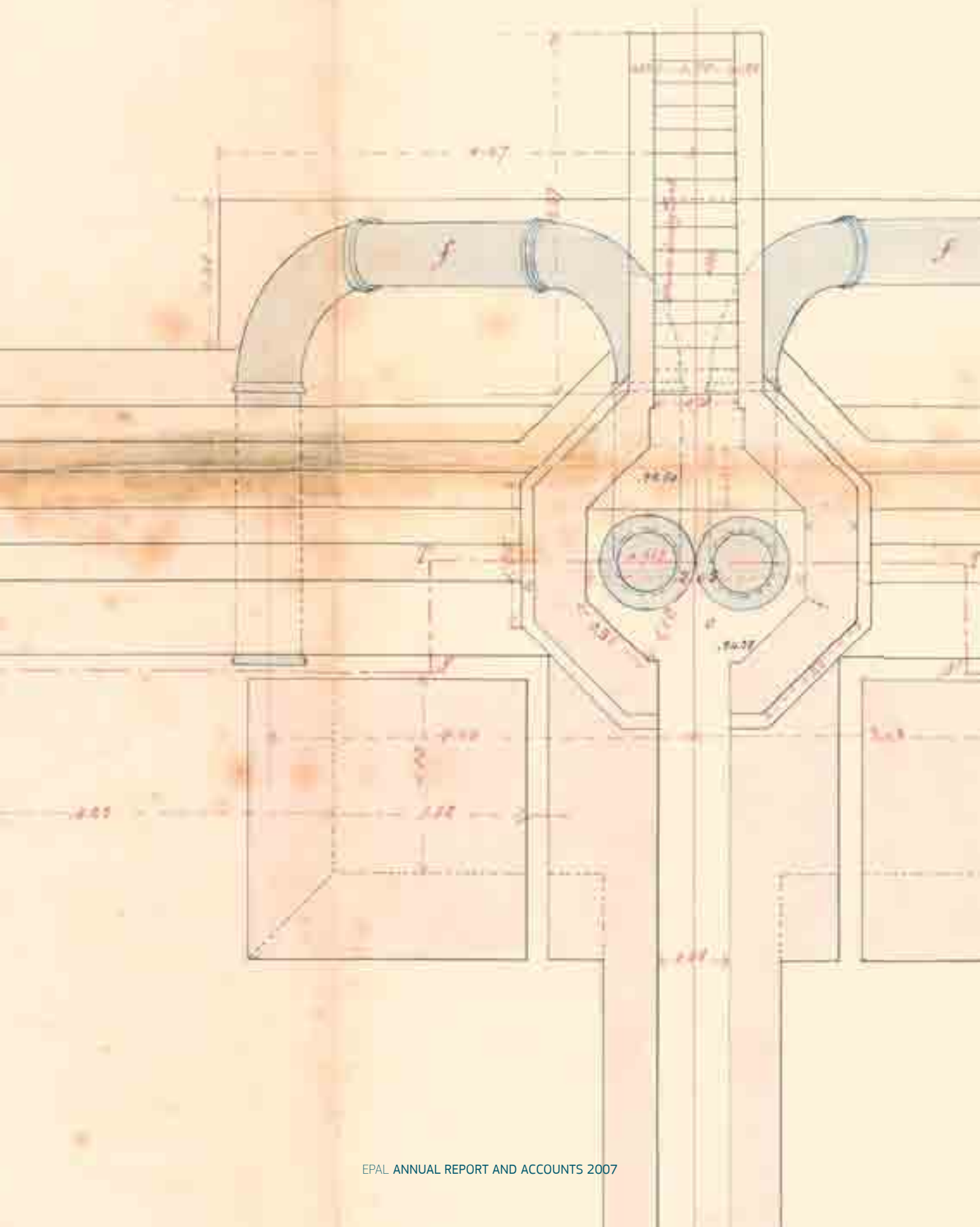
In conjunction with the macro-measurement project, several detection actions were undertaken in order to locate potential leakages with the help of SAHARA technology. SAHARA, which is marketed by the Water Research Centre (WRC), is currently the most reliable system for inspection of large-section mains and was used for the first time in Portugal in an EPAL project in

March 2007. Under this project, 27 inspections were executed with the system, covering 21 km of the production, transportation and distribution network, whereby 25 leakages were identified. According to estimates, 5,000 m<sup>3</sup> of water were saved per day. Following the success of this project, a second one was proposed for 2008.

### Energy costs

In 2007, a new five-year plan was launched for rationalising energy use at the seven largest-consuming EPAL facilities – Vila Franca de Xira, Olivais, Castelo de Bode, Amadora, Valada Tejo, Vale da Pedra and Telheiras.

During the year, 138 million Kwh of electricity were used, down about 2 million Kwh, or 1.2%, compared to 2006. The 1.1 million Kwh reduction achieved by the heavy-use facilities was primarily due to refurbishment under preventive maintenance actions on equipment used at the towers of Olivais, Telheiras, Valada Tejo and Vila Franca de Xira.





## Capital expenditure

Investment spending of 32.5 million euros in 2007 was significantly lower than in previous years.

This development stemmed from the implementation of a number of steps aimed at managing assets more efficiently. Among these, a major one was the development of tools for analysing and selecting investments by means of a multi-variable matrix designed to rank priorities for renewal of the distribution network.

The most important investments were dedicated to enhancing the company's water supply capabilities, particularly the increased supply to the Mafra municipality, the expansion of the Castelo do Bode sub-system and the renewal of the distribution network.

The increased supply of water to the Mafra municipality entailed the construction of four new piping sections, three intermediate reservoirs and two towers. The new system, which is planned to be operated on a gravity and lifting basis, will allow the inflow of 36,000 m<sup>3</sup> of water per day through a DN700 molten-iron main in an approximate total stretch of 18.7 km. Responsibility for executing the works was shared between EPAL and the Municipality of Mafra, with the latter being assigned the construction of the elements closest to the reservoir at Venda do Pinheiro, namely a piping stretch, a reservoir and a tower.

New investments were made at the Asseiceira water treatment station, for the purpose of changing the method for treating water by substituting intermediate ozone-based oxidation for chlorine-based pre-oxidation. Oxidation is now preceded by flotation, a new operation, and flocculation, which was already used. These two operations aim to reduce organic and inorganic matter in suspension in order to optimise the effects of ozone treatment. These investments at Asseiceira are related to the project of expanding production capacity at the Castelo do Bode sub-system from 500,000 to 625,000 cubic metres per day.

The water main at Ota, an infrastructure dating back to the late fifties and consisting of 3-metre long, 800-mm wide concrete pipes stretching for a section of 2,100 metres, was again taken into operation by means of an innovative technology called Subline. The main transports water from the sources at





Macromasurement project for fighting water losses. Placement of flow meters in the tower mains at Vale da Pedra.



Doubling of the Castelo Bode trunk main between Quinta da Marquesa and the tower plant at Vila Franca de Xira

Ota to the Alviela aqueduct to meet supply needs, namely for the Alenquer, Torres Vedras and Mafra municipalities.

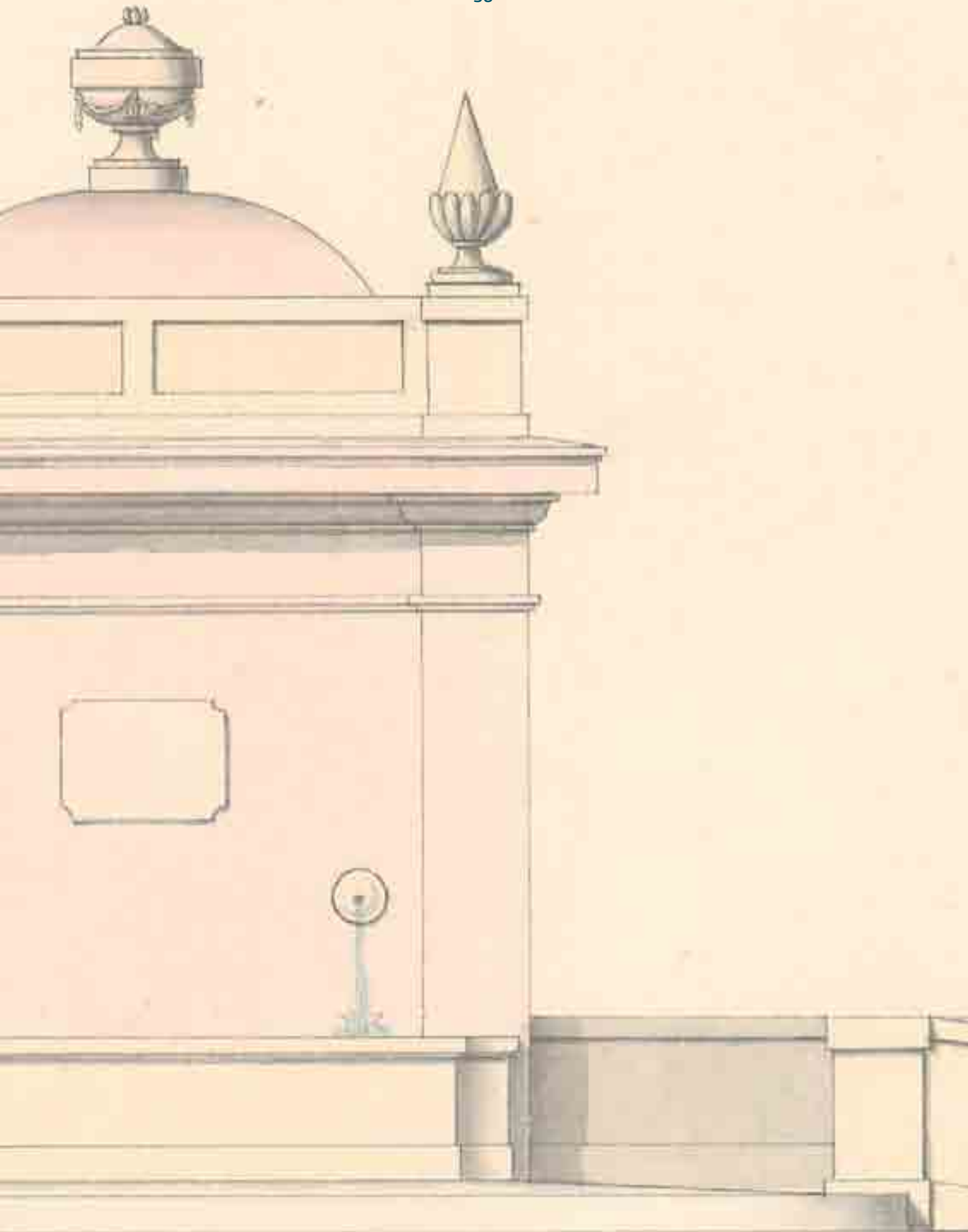
The goals for implementing new monitoring and control zones (ZMCs) on the distribution network were fully attained with the installation of 41 new ZMCs. Fifteen tenders were launched for renewal of the network, which had at the end of the year an additional renewed stretch of 19 km.

In 2007, the company also invested in the upgrade of information systems by renewing its server base to enable the standardisation of data processing equipment.

The most important expenditure items are listed in the table below:

## Capital expenditure in 2007

Items	thousand euros
For supply enhancement	27,113
Increased supply to Mafra	11,692
Expansion of the Castelo do Bode sub-system	8,639
Renewal of the distribution network	5,135
Expansion of the distribution network	559
Other	1,088
For the safety of existing infrastructure	2,072
Alviela aqueduct	1,920
Other	152
For technological innovation	1,384
Macro-measurement of water production and transportation	382
Revamped telecommunications technology	284
Evaluation of the distribution network efficiency	253
Update of Aquamatrix	100
Staggered metre replacement and integration into telemanagement	87
Other	278
For quality improvement	989
Increased chlorine storage capacity	292
Renewal of laboratory equipment	229
Project for construction of a new central laboratory	226
Other	242
For systems upgrade	765
Other	209
<b>TOTAL</b>	<b>32,532</b>



# People

## Payroll

At 31 December 2007 EPAL employed 795 staff, 198 of whom at its head office and the other 597 at other company premises.

## Entries and departures

In 2007, thirty people joined the company, of whom twenty-nine were hired on a fixed-term basis. In the same period, thirty-six employees left the company. Staff changes across the different areas compared to the previous year are shown in the following table:

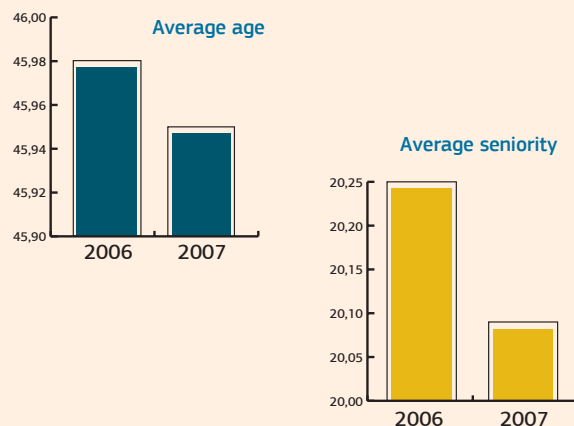
### Staff by organisational unit

Organisational unit	2006	2007
Production and Transportation	217	218
Distribution	308	300
Support	261	262
Other	15	15
EPAL	801	795

## Average age and seniority

The average age of EPAL staff declined further in 2007 and stood at 45.95 years at year end. Average seniority also declined, standing at 20.09 at the end of 2007.

### Average age and seniority of EPAL staff





### Absenteeism

Absenteeism in 2007 was 3.39%, the lowest in recent years, or 48,134 hours out of a potential 1,420,874 hours. Major reasons for absence were disease and workplace accidents.



### Training

#### Activities

At a cost of 335,663 euros, up 15% on the year before, 255 training actions – of which 19 in house – were offered to 588 employees at several hierarchical levels. Training details are provided in the following table:

Hierarchical level	Staff under training	Participants	Training hours
Senior managers	314	93	5,829
Middle managers	304	149	6,017.5
Foremen	34	28	737.5
Highly-skilled workers	153	108	2,999.5
Skilled workers	254	204	5,603.5
Half-skilled workers	7	6	108.5
Total	1,066	588	21,295.5

In parallel with routine professional training, a relevant effort was made in 2007 on providing academic training to EPAL managers. In this context, the company paid for six post-graduate programmes and two master's degrees to senior and middle managers and supported four master's dissertations.

Regarding role-specific training, the company provided advanced training in leakage detection to three employees in the United Kingdom. An important course dealing with medium- and high-tension networks was organised by EDP for 80 technical company staff.

#### Educational level

Secondary education is the most frequent educational level in the organisation, with 24% of the total. The last three years' rise in the number of employees with an academic degree – 155 in 2005, 163 in 2006 and 187 in 2007 – testifies to a clear trend towards a better educated staff.

Changes in educational levels in 2007, compared to 2006, are shown in the table below:

Educational level	2006	2007
Primary education – Lower level	113	94
Primary education – Intermediate level	193	182
Primary education – Upper level	145	145
Secondary education	187	186
Higher technical education	27	26
Higher universal education	136	162

## Workplace safety and hygiene

The main safety indicators receded in 2007 compared to 2006, when indices achieved the best levels for the last ten years..

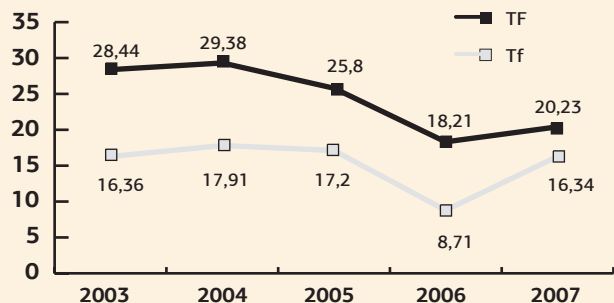
### Indicators

Indicators	2007
<b>TF</b> – Frequency rate for workplace accidents	20,23
<b>Tf</b> – Frequency rate for workplace accidents with sickness absence	16,34
<b>Tg</b> – Severity rate (relevant year)	0,71 714 <sup>1</sup>
<b>TG</b> – Severity rate (includes sequels of accidents occurred in previous years)	0,91 912 <sup>1</sup>

<sup>1</sup> Calculation according to the ILO (International Labour Organisation recommendation, whereby the following measures were used:  
 TG = Number of disability days (includes previous years' accidents) X 106: number of hours of risk exposure;  
 Tg = Number of disability days (relevant year) X 106: number of hours of risk exposure

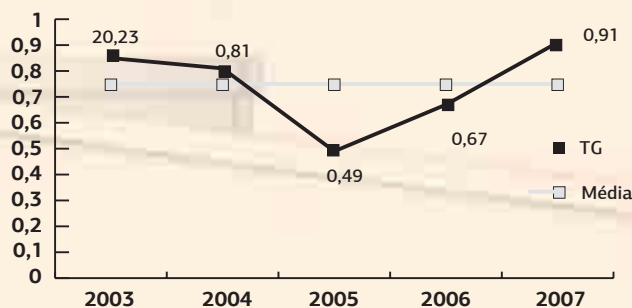
There were 26 workplace accidents leading to 918 days of sickness absence and 7 in itinere accidents leading to 138 days of sickness absence. Four accidents in previous years led to 254 days of sickness absence in 2007.

### Frequency rates over the last five years



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

### Severity rate over the last five years



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

## Occupational medicine

In 2007, 1,265 occupational medicine examinations were performed, 565 of which were periodic and 639 occasional.

The company makes dental-care rooms available at its head

office and Olivais premises, with 1,642 visits received.

At these premises, the regional health administration received 3,524 visits from company staff. In parallel, flu vaccination and voluntary blood donation campaigns were carried out with the participation of 380 employees.

The company's contingency plan for bird flu was rolled out in



Detecting leakages



Inspection of the Alviela aqueduct

the year, whereby key departments, roles and employees were identified, inventories of advisable supplies and equipment were listed, training and awareness campaigns were developed and contacts with the health authorities were maintained.

#### **Collective bargaining (*Acordo de Empresa*)**

Under the process for updating the current collective agreement (*Acordo de Empresa*, AE), several bargaining sessions were held with the unions in 2007 for the purpose of altering complementary retirement pensions by gradual transition from a defined benefit to a defined contribution plan. For employees contemplating the prospect of retiring shortly, the possibility was offered to choose between the two plan types.

During the negotiations, EPAL also sought to bring the AE's wording into line with the Labour Code's provisions where so mandated by the legislation.

Progress in negotiations so far is likely to lead to an agreement

being signed with all concerned unions in early 2008.

#### **Pension fund**

The EPAL Pension Fund's value at the end of 2007 was 48.4 million euros. In 2007, the company contributed 2.6 million euros to the fund.

Contributions impacted significantly the funding of obligations, with the funding ratio as calculated by the Portuguese Insurance Institute (ISP) achieving 115%.

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

Under this programme, a cooperation agreement was signed with Agência Nacional para a Qualificação (ANQ) and Instituto do Emprego e da Formação Profissional (IEFP), whereby EPAL undertook to foster, facilitate and promote the progression of its employees' educational levels to the upper primary

and secondary levels (9th and 12th years, respectively, in the Portuguese school system). A goal was set for 25% of the 420 employees not having attained these levels to do so by 2010.

***Igualdade de Oportunidades* programme to facilitate the access of disabled people to employment, working life and professional integration**

An agreement was also signed with IEFP whereby EPAL committed to including guidance and criteria in its human resources and hiring policies towards banning discrimination against disabled people in access to employment, promoting employment opportunities through traineeships for disabled people and identifying adequate jobs for this category.

In terms of accessibility, the company undertook to create areas for universal accessibility and adapt workplaces to the specificities of disabled people.

**Social action**

At EPAL's six canteens – which were subject to 178 inspections – 92,324 meals were served in 2007, with employees paying 0.14 euros for each meal.

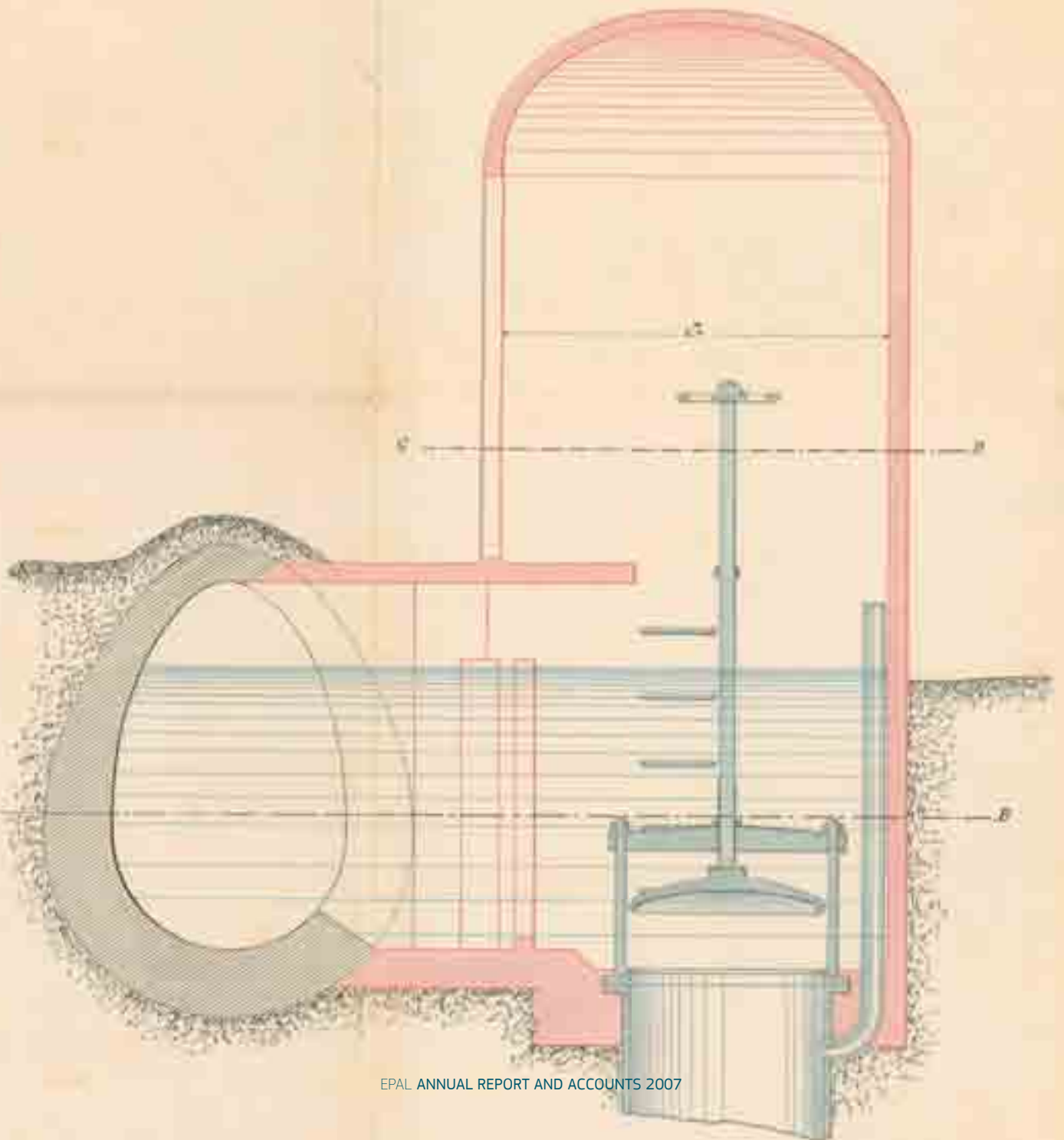
At the end of the year, the health insurance scheme sponsored by the company for employees, early retirees and their closest relatives covered a total of 2,003 people.

The traditional OTL Infantil e Juvenil programme was staged once again with the participation of 39 employees' children aged between 6 and 17. For young people between 18 and 25 the OTL Empresa programme was organised with the participation of 47 youths. The programme consisted of 3-week traineeships at several company departments during the school holiday period.

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

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

The company donated a subsidy of 74,000 euros to fund the activities of the Casa de Pessoal (Employees' Home) and a subsidy of 60,000 euros to fund AREPAL, the company's retiree association.





## Business process and systems

### Integrated asset management model (MIGA)

EPAL has undertaken to address the strategic challenge of enhancing value creation by effective management of the assets supporting its activities. As the company operates in a capital-intensive industry, its financial viability hinges quite significantly on the optimised performance of its assets. Reaching this goal necessarily requires acquisition, operation and maintenance costs to be minimised throughout the assets' economic life, while ensuring and improving client service levels.

Accordingly, EPAL prepared, in cooperation with external consultants, a conceptual framework for an integrated asset management model, or MIGA in the Portuguese terminology.

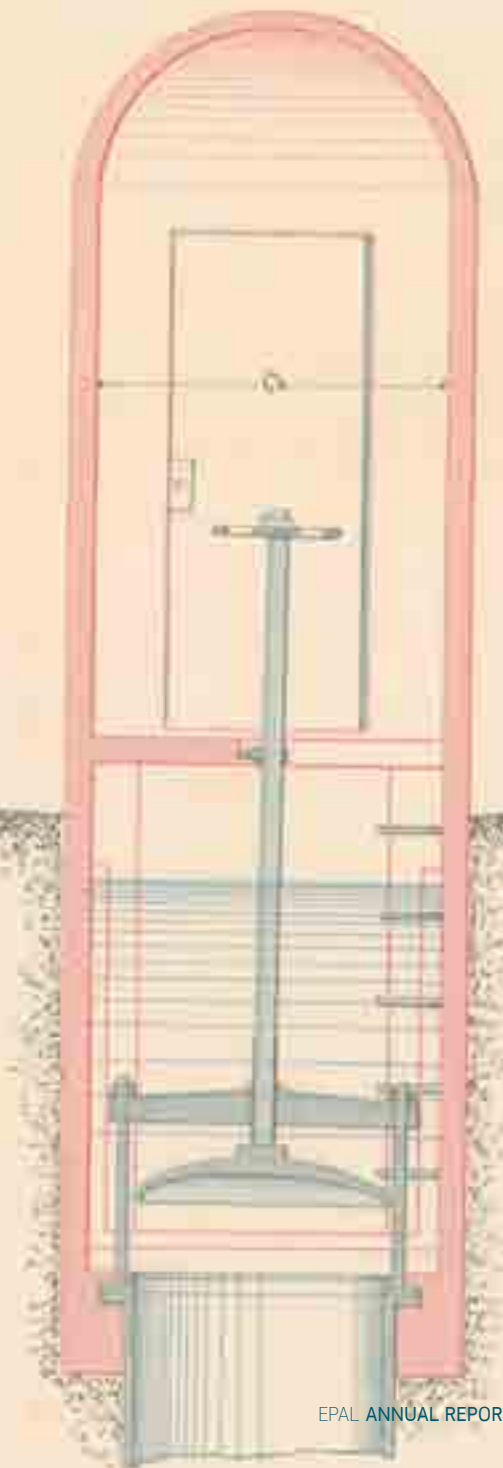
The model focused on organisational set-up, business process, information requirements, basic structure and information systems, five areas that play a key role in the new management paradigm.

In terms of organisation, the model suggested the need to create an asset management function in parallel with the existing investment, maintenance and operation functions. Required actions include identification of investments needed, formulation of maintenance policies and monitoring of asset performance.

In business process, a Process Manual was prepared identifying and describing the main processes and sub-processes required for integrated asset management.

As for information requirements, key performance indicators were identified for both effectiveness and efficiency purposes. Whereas the former focused on ensuring the desired quality, quantity and reliability of e.g. water supply, the latter focused on attaining the desired levels with less resources or attaining higher levels with the same resources. The goal is for these KPIs to monitor performance and feed the information gathered into decision-making models.

The preparation of a dictionary of assets, correspondence rules and attributes resulted from the analysis of basic structural aspects. This document identified and described EPAL's broad



asset classes, establishing their respective boundaries. For each asset class, goods units – i.e. autonomously maintained or operated components – were listed and defined, again establishing relevant boundaries, and their attributes were identified and assigned to their host information systems. In addition, rules were laid down for the information deemed relevant about a given asset item and for its correspondence with technical (e.g. network section), investment (e.g. construction site) and financial (e.g. network stretch of a given material, a given diameter and a given year) components. Rules for incorporating assets or any part thereof (a goods unit) into the company's balance sheet were also defined.

Finally, the analysis of information systems identified those supporting the information required for integrated asset management – Telegestão, Máximo, Aquamatrix, IMC, Ginteraqua, PAI and SAP – as well as existing and future links between these systems.

The ongoing implementation of MIGA is an important step towards EPAL continually providing outstanding service to its stakeholders, namely clients – by supplying water with adequate quality, quantity and reliability at fair rates – and shareholder – through an optimal return on investment.

### **Centralised buying processes**

In 2007 the project for centralising the purchase of goods and services in the logistics department (LOG) was implemented. The goals for this project are the following:

- to lower total costs;
- to rationalise and make the buying process more transparent;
- to renew and broaden supplier relationships.

Files managed by LOG covered nine different buying categories for an estimated total of 5,696 thousand euros' worth of contracts awarded. In four buying categories, the level of integration compared to the total value of acquisitions was in excess of 80%.

Supply sources were diversified by the inclusion of new suppliers in the ranking by amount purchased, whereby the supplier database was renewed with a consequent rise in competitiveness. The outcome of these steps was a significant reduction in costs.

Other initiatives included better planning of requirements, new procedures and the evaluation of suppliers.

### **Information systems**

In 2007 the systems department deployed its efforts on four separate fronts: (1) stabilisation of the technical infrastructure, (2) migration and technical update of business-critical applications, (3) integration of existing applications and (4) development of a company portal to support top management.

#### **Stabilisation of the technical infrastructure**

In order to address the challenge of streamlining its server base – consisting of fifty units – as well as rationalising investments in operating systems and databases supporting applications, the company renewed its technical platform. This overhaul raised returns on application development, boosted user satisfaction levels and reduced costs arising from service breakdowns.

#### **Migration and technical update of applications**

Following rising demands for additional functionalities, new processes and functions had to be integrated into business-critical applications. This integration was achieved by migrating applications to more recent and adequate versions and by developing new functionalities in house. The following actions stand out as particularly important:

- Migration of AQUAmatrix® - the application suite supporting sales management of water, waste water and urban solid waste services – to ORACLE Application Server 10g and Forms & Reports 10g, a more recent platform, which led to significantly improved performance of the tool, with the possibility of exporting data to Microsoft Excel;
- Refinement of iMC – Integration, Monitoring and Control on whose application platform new functionalities were developed for integrated viewing of the ZMCs – the monitoring and control zones – inclusion of the ZMTs, or transportation measurement zones, and incorporation of telemetry-based data for large and small clients;
- Unification of data models supporting the geographical information system and covering information related to both the Production & Transportation and Distribution divisions;

- New developments to adapt LIMS – Laboratory Information Management System, the application supporting the company's laboratory activities, to the legislation in force; these improvements also led to automation of data filing with IRAR, the water and waste regulator;
- Technical update of the supervisory unit at the Asseiceira station towards the standardisation of telemanagement applications, which led to the possibility of transferring information between different supervisory units and accessing operational data from virtually anywhere;
- Acquisition and implementation of an application for supporting the management of EPAL's historical and bibliographical archives; the purpose is to make the company's heritage available to the public and researchers and historians in particular.

#### **Integration of existing applications**

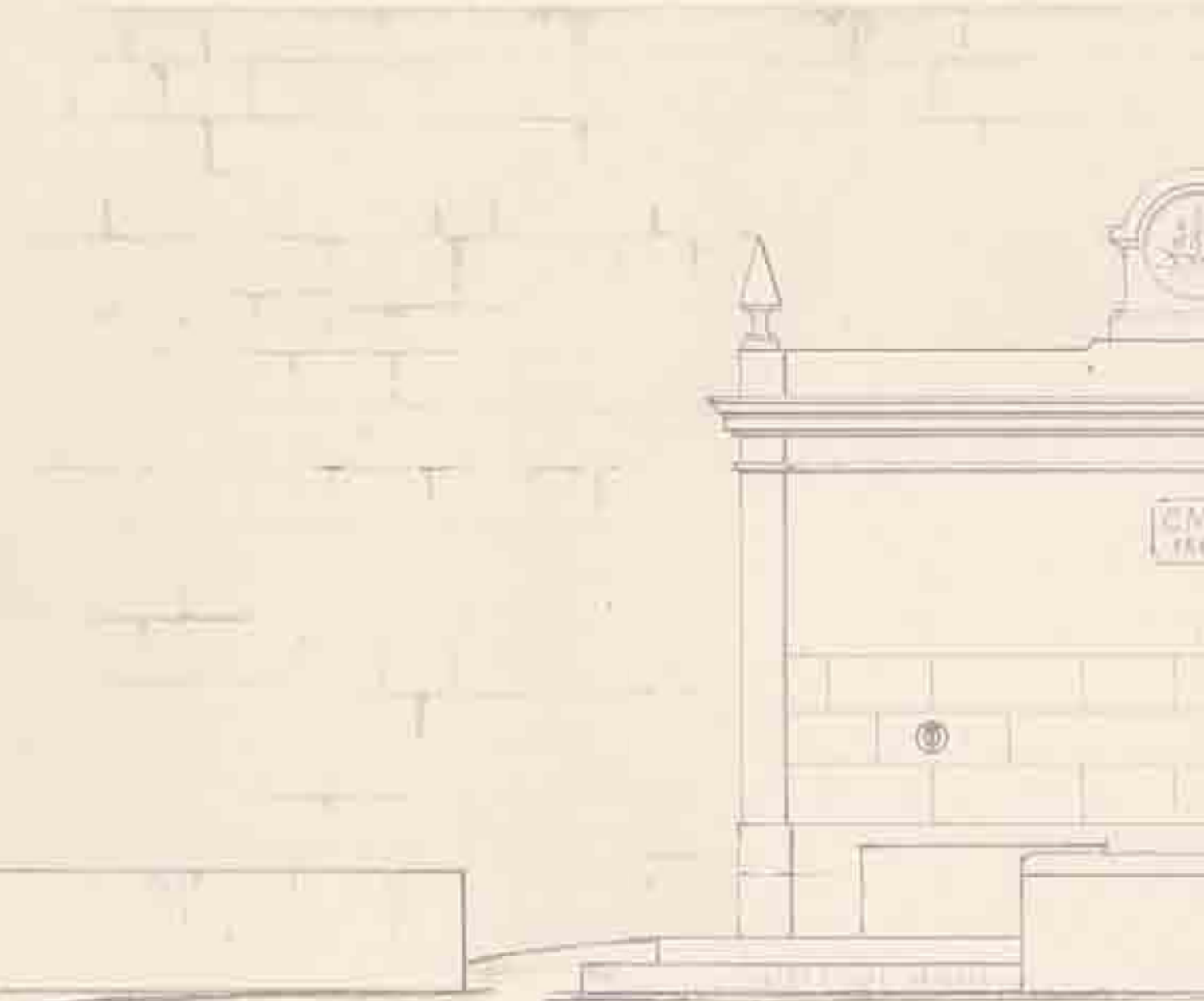
Considering the company's concern with harmonising information from the different applications in order to achieve reliable decision-making, mechanisms designed to orchestrate critical applications such as iMC, the geographical information system, the telemanagement system and AQUAmatrix® were implemented.

In order to address the integration needs as identified by the integrated asset management model, an integration concept was completed for the following applications: the geographical information system, Maximo, the system for asset maintenance and management, LIMS - Sistema de Gestão dos Laboratórios, SAP in finance and accounting, PAI for capital expenditure planning and AQUAmatrix®.

#### **Business Intelligence**

Following orchestration of the above mentioned applications, the company stepped up efforts to build management tools allowing top and middle managers access – in a fast, integrated and consistent way – to information relevant to its role, taking a Business Intelligence approach.

As a result of the development of this concept, and as a first step, AQUAmatrix®'s Business Intelligence tool was implemented, allowing the tactical and strategic analysis of the main aspects of sales management and the preparation by users of ad hoc reports directly from the database in progress so as to base every analysis on a single data source.



## Other Activities

### **AQUAmatrix®'s marketing and role in the organisation**

AQUAmatrix®, the application suite for supporting sales management of water, wastewater and urban solid waste services, used by EPAL and made available under an ASP – Application Service Provider scheme, is a tool that operators in the sector can access for their sales management and client relationships. Therefore, EPAL felt the need to raise service levels and position the product strategically on the market.

Accordingly, EPAL positioned AQUAmatrix® as an information management product requiring rigorous planning prior to launch in the utility sector. As a result, a new business plan was developed containing research about the size and potential for segmentation of the target market, strategic scenarios, cost-revenue analysis and organisational requirements. This work was conducted using the AQUAmatrix® know-how acquired by EPAL and its clients.

Based on these findings, the company brought together its skills in sales consultancy, business process, corrective and preventive maintenance application development, helpdesk and technical customer support, with an orientation towards the technical and functional issues of this new product.



The Environment Secretary visiting EPAL's stand at ENEG 2007, an event assembling water management companies





EPAL was the first company to hold a seminar in Algeria as studies were performed for the renewal of distribution networks.



EPAL's team was deployed in three Algerian cities.

### Project Algeria

In consortium with COBA – Consultores de Engenharia e Ambiente, EPAL has since 2005 conducted a survey for evaluating and renewing the systems to supply drinking water to the Algerian cities of Bejaia, Tizou-Ouzou and Chlef. Work to be performed in each of the three cities was assigned to different missions and EPAL was specifically entrusted with the support to technical and sales management of the following areas:

- Audit of the sales management system and proposed reorganisation;

- Determination of the stock of clients, meters and water mains;
- Evaluation of the network's technical management;
- Feasibility study of a telemanagement system;
- Training in leakage detection.

In 2007 training sessions in leakage detection and three campaigns (one in each city) were organised to evaluate the efficiency of local networks and detect possible leakages, whereby sales management reports were presented. The project is scheduled for completion in March 2008 with the presentation of technical management evaluation reports as



Meter laboratory

well as studies regarding the implementation of a system for remote control and telemanagement.

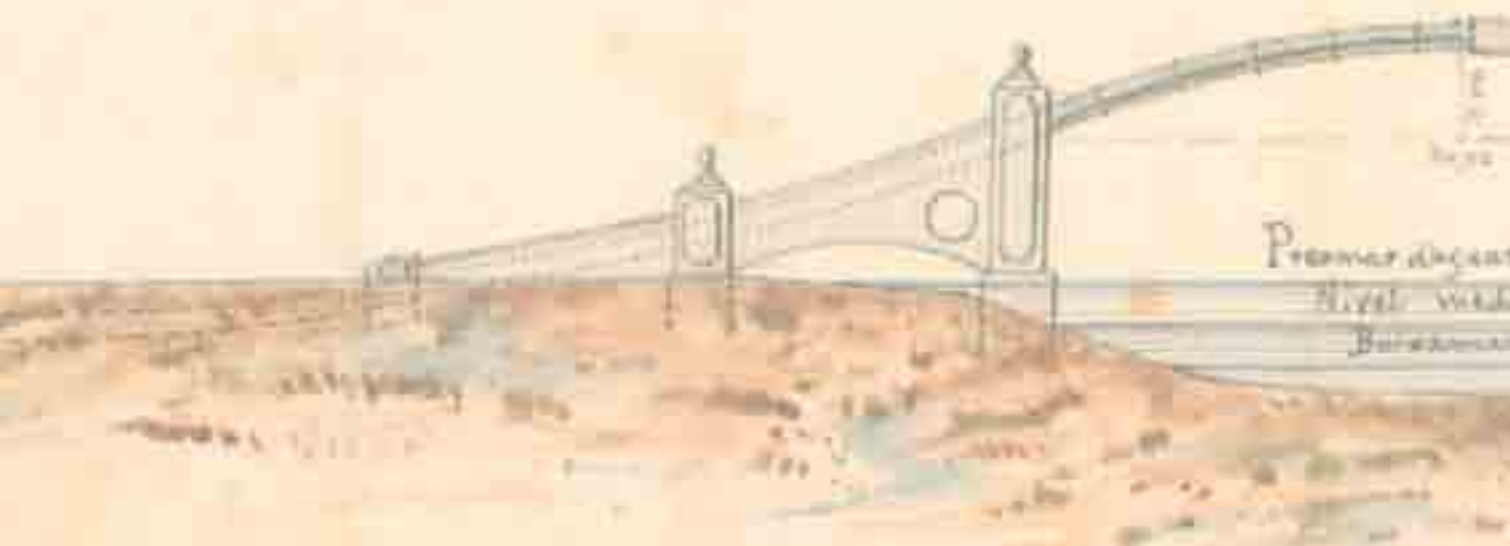
### Laboratory services

Services were provided by EPAL's Central Laboratory (LAB) to outside entities whereby 1,631 samples were received for the performance of 16,387 tests on water quality, accounting for around 7.7% of LAB's activity.

Services provided to third parties by the metering laboratory involved the repair of 1,198 meters. In addition, 5,397 meters and 11 flow meters were fine tuned or checked.



EPAL's Central Laboratory



## Sustainability

EPAL published in 2007 its second sustainability report which, similarly to the year before, was prepared in accordance with the Global Reporting Initiative (GRI)'s guidelines.

The company's sustainability actions rest on twelve internationally accepted principles:

- Prevention
- Precaution
- "Polluter pays" principle
- Cooperation
- Ecological integrity
- Continuous improvement
- Intra- and inter-generational equity
- Integration
- Democracy
- Subsidiarity
- Community involvement and transparency
- Accountability

From a sustainability viewpoint, special attention was devoted in 2007 to the integrated management of the urban water cycle, the increase in production capacity at the Asseiceira treatment station, the technical upgrade of the Vale da Pedra treatment station, the new central laboratory, the increase in water transportation capacity, the renewal of the Lisbon distribution network, the development of monitoring and control zones (ZMCs), the integrated asset management model, the sustainability of the company's pension fund and the development of the quality management system.

On the economic front, major contributions consisted of efficiency gains in water production, increased return on invested capital and steps taken to safeguard the company's ability to honour its pension obligations.

On the environmental front, actions included the minimisation of impacts, the monitoring, control and reduction of water losses, the implementation of energy efficiency programmes and the control of waste production and treatment. All water loss initiatives were executed, with four goals surpassed. The ambitious goals for energy efficiency were attained for five heavy-using facilities and total energy use in 2007 was one



A house team participated in the "Troféu EPAL 2007" regatta.



Members of the Portuguese paralympic swimming team, sponsored by EPAL, on their way to Beijing

million Kwh lower than in 2006. In waste control, all goals were attained, with three of them being surpassed.

On the social front, agreements were signed with educational institutions, training initiatives were intensified, architectural and cultural landmarks such as the Lisbon Aqueduct's monumental arches, its night lighting and several photo and document archives were restored. Just as importantly, the benefits of using water rationally were widely advertised.

The Water Museum celebrated its 20th anniversary welcoming 56,952 visitors and sponsoring several initiatives including 15 – 11 individual and 4 collective – exhibitions and 66 cultural tours. For the tenth consecutive year, the Serviço Pedagógico Águas Livres event was held and covered 200,000 pupils from primary and secondary schools from northern to southern Portugal.

EPAL's stakeholder engagement was particularly apparent

in the cooperation agreements signed with several entities. In addition to its support to the paralympic swimming team aiming to participate in Beijing's Paralympic Games, the company helped to set up the Fórum de Entidades Representativas da População e Actividades de Lisboa, a discussion forum bringing together representatives from the Municipality of Lisbon and its parishes, several public entities and trade associations as well as environmental and consumer action groups.

EPAL signed a memorandum of understanding with ICNB – Instituto de Conservação da Natureza e Biodiversidade, a wildlife and biodiversity government agency, and GEOTA – Grupo de Estudos de Ordenamento do Território e Ambiente, an environmental protection association, for the establishment of a partnership for promoting biodiversity. Under the memorandum, EPAL undertook to develop a conservation plan for the region





The Water Museum celebrates the International Museum Day

surrounding the Castelo do Bode dam reservoir.

An agreement was signed with ADENE – Agência para a Energia, a government energy agency, whereby EPAL committed to promoting audits of energy use and air quality in its head office building and to developing projects for the generation of hydro, wind and solar power.

The company supported the establishment of the Museum of Neo-Realism in Vila Franca de Xira with a donation of 50,000 euros, signalling the municipality's historical role in water supply and their hosting of an important part of the company's infrastructure. In this context, water was also invoked as a means of neo-realism's artistic expression.

Another significant achievement was the agreement signed with IGESPAR – Instituto de Gestão do Património Arquitectónico e Arqueológico, a government agency charged with preserving



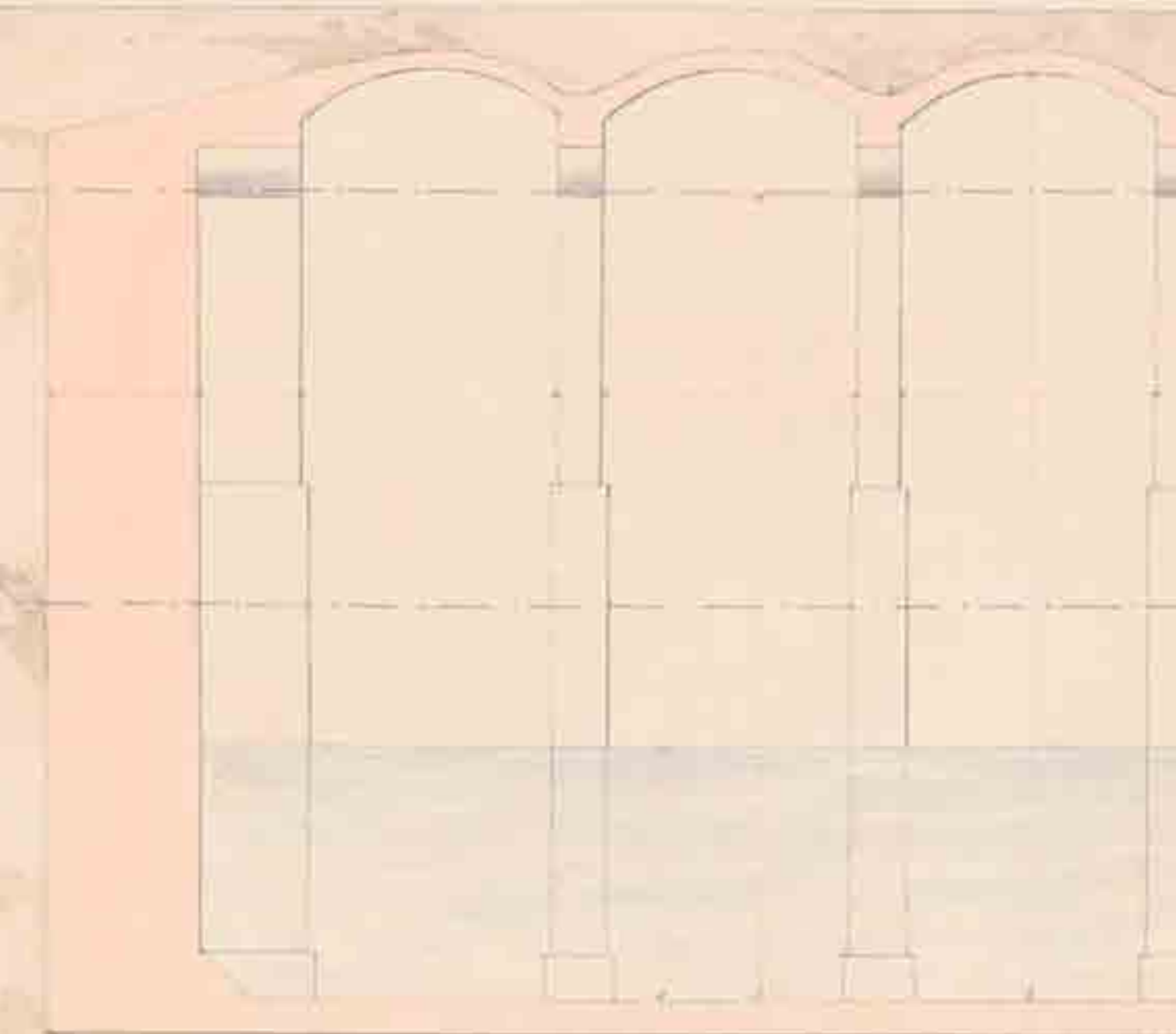
The Water Museum's Pedagogical Section – Behind children for ten years now

the country's architectural and archaeological heritage, whereby the parties committed to cooperating actively in restoring the historical monuments and buildings under EPAL's responsibility.

Another sustainability-relevant milestone was the inception of EPAL's Código de Ética (code of conduct). This document's preparatory work provided the opportunity to redefine EPAL's mission, formalise its vision and identify its core values.

The obligations of each stakeholder group were invariably defined according to the group's relationship with the company and their discharge was made to rest on everyone's personal responsibility. Awareness initiatives and constructive dialogue were deemed to be crucial instruments for enhancing and complying with EPAL's code of conduct.





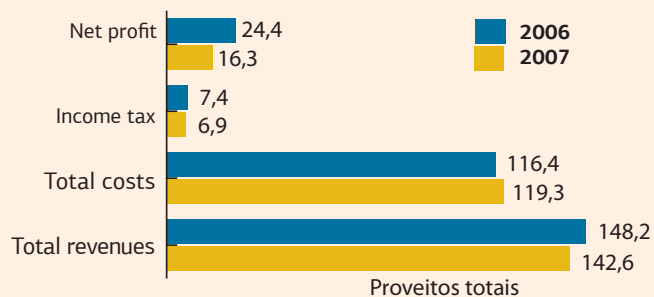
## Financial performance

EPAL's financial performance in 2007 was very good.

This outcome was influenced by (i) the control of operating costs, which were 4.6% lower than in 2006 and (ii) stable water sales, which were in line with 2006.

Total revenues advanced 3.8% to 148.2 million euros which, coupled with 2.5% lower total costs at 116.4 million euros, resulted in net profit of 24.4 million euros, or 49.4% ahead of 2006.

### Turnover

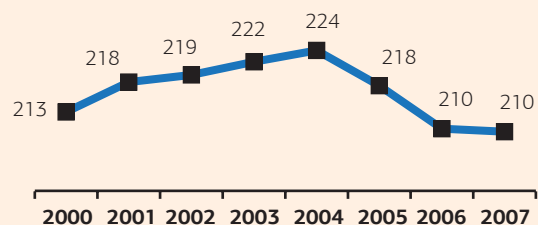


The company's turnover in 2007 was 140.0 million euros, up 1.9% from 2006.

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

	2005	2006	2007	Change 07/06	
				Amount	%
Sales	134,034	134,424	137,377	2,953	2.27
Services provided	3,351	2,936	2,592	(344)	(11.7)
<b>Turnover</b>	<b>137,385</b>	<b>137,360</b>	<b>139,969</b>	<b>2,609</b>	<b>1.9</b>

### Water sold (million m<sup>3</sup>)



Water sales including service fee income rose 2.2% compared to 2006. In volume, the company sold 210 million m<sup>3</sup> of water in 2007..

Income from services provided fell 11.7% short of the 2006 level, which was primarily due to lower home repair activity, fewer supply files handled, a declining number of new supply contracts and fewer meter installations.

### Operating costs

Operating costs went down to 106.9 million euros or 4.6% compared to 2006. The reduction resulted from strict control and rationalisation policies focused on the cost of third-party supplies and services (-2.3%) and the cost of goods sold (-4.4%). The favourable outcome also benefited from lower staff costs following a 7.7 million euro charge in 2006 relating to the transition to a new post-employment plan.

million euros. Of this, 2.5 million euros related to higher asset depreciation and 1.1 million euros resulted from increased adjustments to debtor accounts.

Higher depreciation charges followed from the completion and start of operation of major investments for the safer supply of water such as (i) the expansion of Asseiceira, in the Castelo do Bode sub-system, and the introduction of ozonisation at this treatment station as well as the doubled stretch between Quinta da Marquesa and the tower plant at Vila Franca de Xira and (ii) the renewal of Lisbon's water distribution network.

The increase of 1.1 million euros in debtor adjustments was due to new criteria that were implemented after careful review of the risks arising from receivables.

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

Costs	2005	2006	2007	CHANGE 07/06	
				Amount	%
Cost of sales	3 103	2 809	2 684	(125)	(4,4)
Goods and services purchased	34 715	37 621	36 771	(850)	(2,3)
Taxes	875	692	1 009	317	45,8
Staff costs	32 395	41 703	33 365	(8 338)	(20,0)
Other operating costs	23	23	81	58	252,2
Depreciation and adjustments	27 591	28 317	31 918	3 601	12,7
Provisions	5 598	969	1 135	166	17,1
<b>Operating costs</b>	<b>104 300</b>	<b>112 134</b>	<b>106 963</b>	<b>(5 171)</b>	<b>(4,6)</b>

The lower cost of third-party supplies and services reflected the early results of several cost control actions, particularly in maintenance and repair, where costs fell 11.9%, and specialist jobs (-4.6%). Energy costs, a key item in the water supply process weighing 24.5% in total third-party supplies and services, also developed favourably compared to 2006. Despite an average energy rate increase in excess of 6%, energy costs incurred by the company edged up by only 1.6% compared to 2006. Crucial efforts for this outcome were the steps taken to reduce water loss – leading to lower flows for the same volume of water sold – and the improved management of energy use periods.

Staff costs were 20%, or 8.3 million euros, lower, which was basically explained by the above mentioned charge in 2006. Adjusting for this effect, staff costs were 2% higher.

Depreciation and adjustments had the largest increase – 3.6

Provisions made in the year amounted to 1.1 million euros and were earmarked for contingencies and ongoing litigation. The increased level of provisions resulted from rigorous risk evaluation and its purpose was to meet present or probable, but not unforeseen, obligations. EPAL deems the level of accumulated provisions to be adequate and sufficient

### Net profit

Net profit for the year was 24.4 million euros, up 49.4% on 2006.

Operating profit was 35.0 million euros, or 8.3 million euros ahead of 2006, on the back of 2.2% higher operating revenues of 142.0 million euros and 4.6% lower operating costs of 107.0 million euros.

Results	2005	2006	2007	CHANGE 07/06	
				Amount	%
Operating profit	35 373	26 773	35 019	8 246	30,8
Financial profit	(4 979)	(6 477)	(8 483)	(2 006)	(31,0)
Extraordinary profit	2 901	2 969	5 248	2 279	76,8
Profit before tax	33 295	23 265	31 784	8 519	36,6
Income tax	9 507	6 936	7 393	457	6,6
Net profit	23 788	16 329	24 391	8 062	49,4

Net financial income declined 31.0% to -8.5 million euros,

largely due to higher funding costs. Interest charges arising from medium- and long-term borrowings from the European Investment Bank (EIB) amounted to 8.4 million euros, up 32.3% from 2006. This increase stemmed from the rise in indebtedness over the year – when an additional 15 million euros were drawn down – and the rise in money market rates, despite 42.1% of bank indebtedness being at fixed rate.

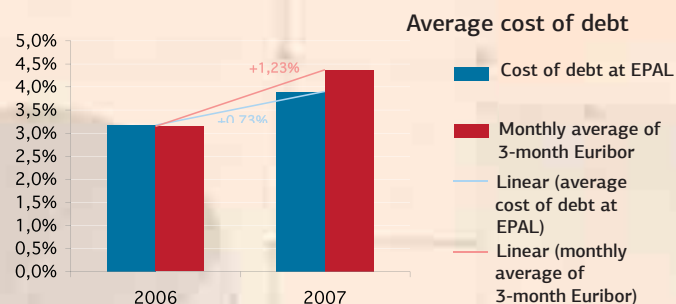
EPAL's policy for managing interest rate risk stipulates that (i) loans be taken up at fixed or floating rates depending on their relative competitiveness to the company and (ii) indebtedness be balanced between fixed and floating rates.

This policy delivered favourable results and mitigated the effect of rising rates on the company's interest charges. Whereas the market's average monthly interbank rate for the maturities contracted by EPAL was around 4.372%, or 123 basis points above the average in 2006, the average cost of EPAL's debt was 3.901%, only 73 basis points above 2006. This slower rise in interest costs was influenced by the fact that interest rates on 42.1% of the company's bank indebtedness were fixed at the right time. The weighted-average fixed rate was 3.484%, which was significantly lower than the market's 4.372%.

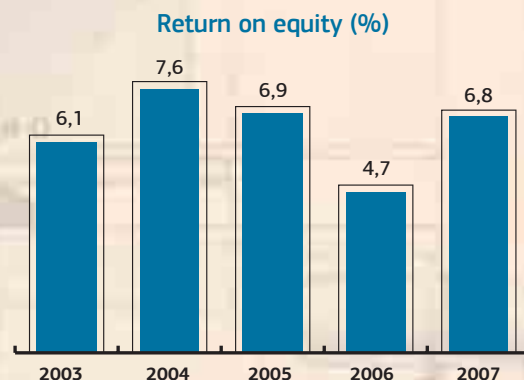
In parallel with rising interest costs, interest income also rose 62.8% compared to 2006 to 345 thousand euros, on the back of higher returns on the company's deposits and short-term treasury investments.

Extraordinary profit rose 76.8% to 5.2 million euros, which was partly explained by the 2.3 million euro increase in extraordinary income resulting from cancelled provisions, generally as a result of the effective settlement of estimated losses, and the annual recognition of investment grants received in earlier years.

On the back of the net profit achieved in 2007, return on equity



rose to 6.8%, a significant level compared to 2006.



### Financial position

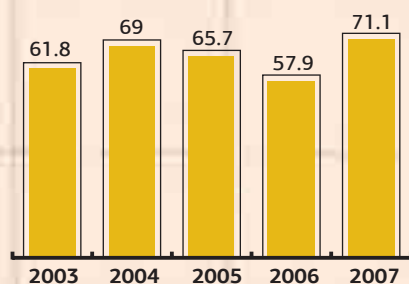
In 2007 EPAL kept its investment strategy oriented towards supply quality and the efficient use of water, a precious resource. All in all, the company spent 32.5 million euros on investment, 80% of which was channelled to (i) securing supply, including the new main to the municipality of Mafra, the renewal of the Lisbon distribution network, the doubling of the Castelo do Bode trunk main between Quinta da Marquesa/Vila Franca de Xira and Alcanhões/Várzea das Chaminés and the 125,000 m<sup>3</sup>

expansion of the Asseiceira treatment station with introduction of the ozonisation method, and (ii) ensuring safe infrastructures, including the renewal of Ota's water main.

Investing activities accounted for a net cash outflow of 59.4 million euros. On the other hand, cash flowed in from the company's operating activities (81.1 million euros) and the drawing of 15 million euros from the EIB.

<b>Condensed cash flow statement</b>		<b>2007</b>
Cash flow from operating activities		81,1
Cash flow from investing activities		(59,4)
Payments under financing activities		
Dividends and service of bank debt		(25,2)
Receipts under financing activities		
Loan utilisations in the year		15,0
<b>Change in cash and cash equivalents</b>		<b>11,5</b>

**EBITDA (million euros)**



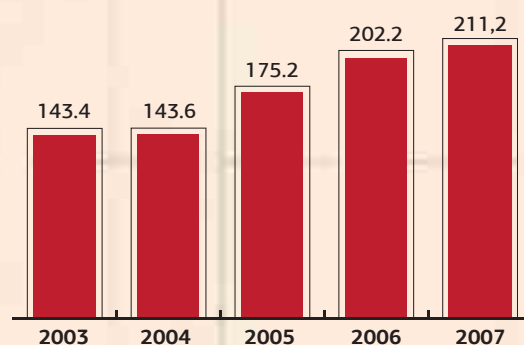
The company's operating cash flow staged a solid performance with EBITDA for the year amounting to 71.1 million euros, the highest in the last decade, which testified to the importance of

operating cash flow as a source of funds.

Whereas non-current assets, at 669.1 million euros, were in line with the 2006 level, non-current liabilities rose 3.5 million euros, or 1.2%, owing to (i) the net increase of 9.0 million euros in medium- and long-term indebtedness contracted with the EIB, (ii) the reduction in deferred tax liabilities and (iii) lower received, unrecognised investment grants.

Os investimentos realizados pela EPAL nos últimos anos têm sido financiados pela contratação de empréstimos junto do BEI, num máximo de 50% do custo dos investimentos, estando em curso o Contrato de Financiamento EPAL III que teve início em Janeiro de 2002, ao abrigo do qual a EPAL já efectuou desembolsos de 115,0 milhões de euros, tendo ainda disponível um saldo de 70,0 milhões de euros.

**Medium- and long-term debt (million euros)**



At the end of 2007, EPAL's medium- and long-term indebtedness amounted to 211.2 million euros. Over the last five years, net

<b>Balance sheet</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>CHANGE 07/06</b>	
	<b>(restated)</b>			<b>Amount</b>	<b>%</b>
<b>TOTAL ASSETS</b>					
Non-current assets	639 961	669 155	669 098	-57	(0,0)
Current assets	47 825	46 030	54 241	8 211	17,8
<b>TOTAL</b>	<b>687 786</b>	<b>715 185</b>	<b>723 339</b>	<b>8 154</b>	<b>1,1</b>
<b>EQUITY AND LIABILITIES</b>					
Shareholder's equity	345 906	343 780	356 461	12 681	3,7
Non-current liabilities	272 192	303 168	306 686	3 518	1,2
Current liabilities	69 688	68 237	60 192	(8 045)	(11,8)
<b>TOTAL</b>	<b>687 786</b>	<b>715 185</b>	<b>723 339</b>	<b>8 154</b>	<b>1,1</b>

Note: Amounts shown here for 2005 are not directly comparable with those shown in the Annual Report and Account of 2005, which is signalled by the "restated" mention

medium- and long-term indebtedness rose 67.8 million euros, i.e. 27.5% of capital expenditure of 246.6 million euros in the period, again testifying to the importance of operating cash flow in the funding process.

At year end, shareholder's equity amounted to 356.4 million euros, up 3.7% from the end of 2006. The amount at 31 December 2007 was, however, influenced by net profit for 2007 of 24.4 million euros<sup>(10<sup>3</sup> EUR)</sup>. The distribution of which, wholly or partly, will not occur until 2008 – and retained earnings for 2006, which accounted for 28% of net profit for the year.

Current assets increased 8.2 million euros, or 17.8%, as treasury balances rose despite the company's liquidity management sought to optimise returns by investing short-term cash surpluses.

In 2007, EPAL consolidated its financial position, as shown by the indicators on the table below. Significant improvements were achieved in working capital (+60%), liquidity (including stocks) (+40.8%), solvency (+5%), the cover of fixed assets by equity and long-term debt (+3%), a ratio that reached the level of 1.02 – suggesting a balanced financial structure.

Financial Indicators	2005	2006	2007	VAR. 07/06 %
Liquidity ratio	0,59	0,57	0,80	40,8
Solvency ratio	1,01	0,93	0,97	5,0
Cover of fixed assets by long-term capital	0,99	0,99	1,02	3,0
Working capital, thousand euros	(26 142)	(26 484)	(10 526)	60,3

Credit ratings assigned to EPAL by Companhia Portuguesa de Rating were unchanged in 2007, reflecting the company's strong ability to meet its short-, medium- and long-term commitments.

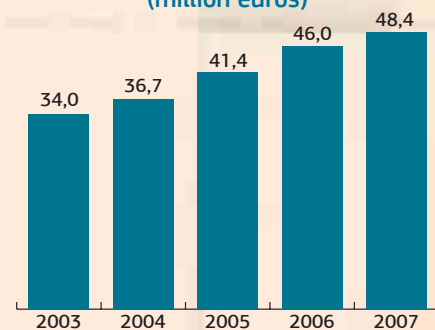
Rating	Notação
Rating, short-term obligations	A-1 +
Rating, long-term obligations	A+

#### Pension fund

The value of EPAL's pension fund reached 48.4 million euros at the end of 2007, or 5.31% ahead of 2006.

The fund's growth resulted, on the one hand, from its 3.88% annual returns and, on the other hand, from the company's contributory efforts for an amount of 2.6 million euros. Between 2002 and 2007, the company contributed a total of 15.8 million euros.

Value of EPAL's pension fund (million euros)



Contributions by the company had a major impact on the cover of obligations as defined by the Portuguese Insurance Institute (ISP). Whereas ISP's cover ratio was 100% in 2005, in 2006 and 2007 it was 107% and 115%, respectively.

#### Associates

EPAL has equity holdings in the following two companies:

Clube de Golfe das Amoreiras	100,0%	350.000 Eur
Ambelis, SA	0,68%	1.370 Eur

In 2007, the AdP group of companies – which includes EPAL – sold its entire equity stake in Prolagos, a Brazilian company. The disposal entailed the sale by EPAL of its 7.5% stake in the company.

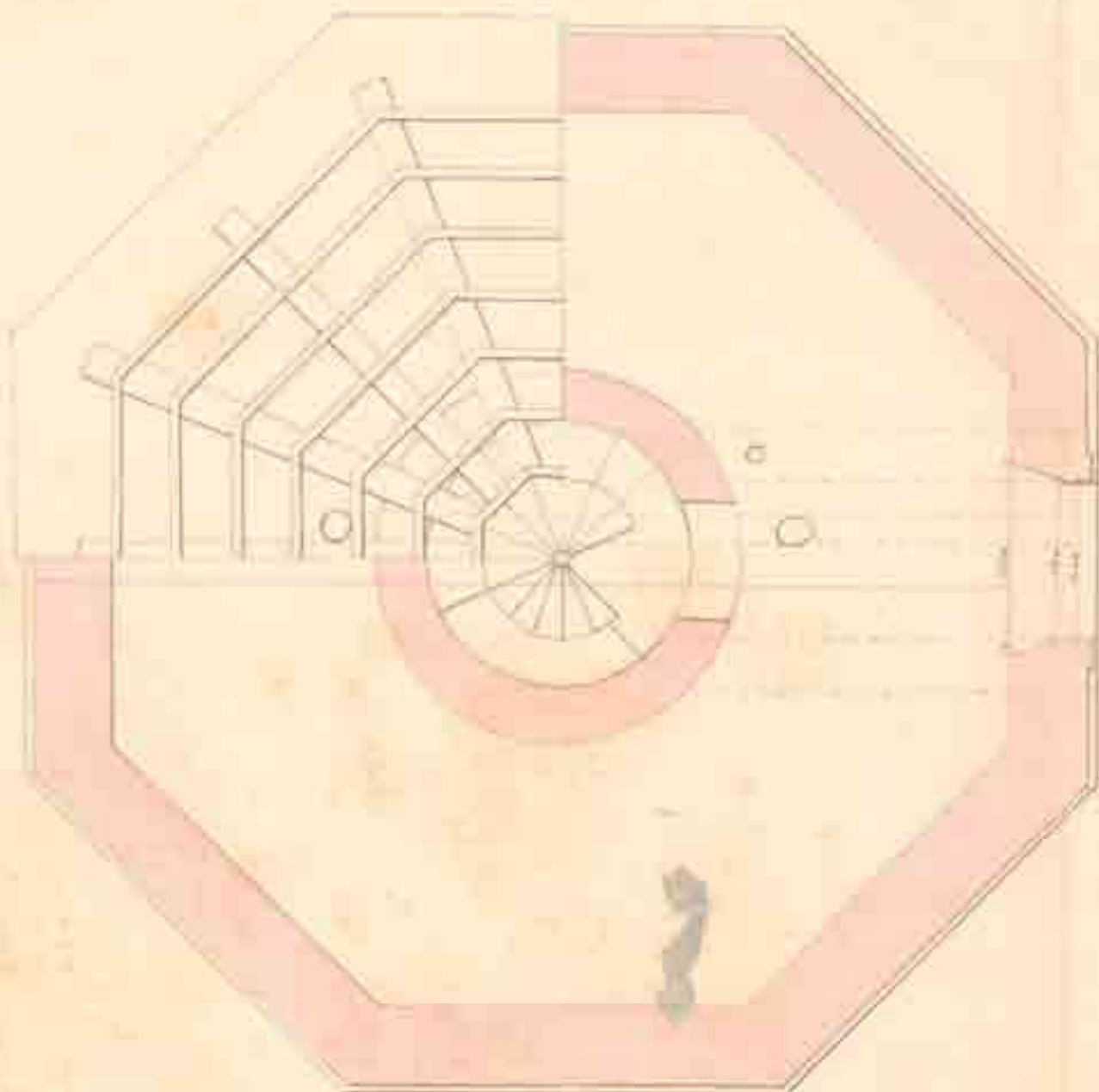
During the year, EPAL also sold its equity interest in Shore.

#### Clube de Golfe das Amoreiras, SA

EPAL is the sole shareholder of this company with a share capital of 350,000 euros that was set up to develop, build and operate an establishment designed for golf training and learning at EPAL's Amoreiras facilities, following the Municipality of Lisbon's request for use of the plot of land covering the reservoir. Both companies signed an agreement with Supergolf Amoreiras - Academia de Golfe, SA, whereby Clube de Golfe das Amoreiras, SA undertook to assign to Supergolf Amoreiras - Academia de Golfe, SA the operation of the golf training and learning activities.

Based on earlier arbitration, Supergolf Amoreiras - Academia de Golfe, SA terminated the agreement. In order to assign responsibilities arising from the agreement's termination, new arbitration was requested by Supergolf Amoreiras - Academia de Golfe, SA, whose outcome is currently undecided.





# Risk management

## Financial risk

EPAL's operations are exposed to two types of financial risk: liquidity and interest rate risk.

## Liquidity risk

In order to manage liquidity risk, EPAL has adopted the policy of keeping treasury balances at a comfortable level and, simultaneously, ensuring that cash outflows possibly arising from its operating or investing activities are covered by short-, medium- and long-term borrowing facilities.

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

In order to fund its capital expenditure programme, EPAL reached an agreement with EIB on 16 January 2002, whereby the bank extended to EPAL a long-term loan facility for 185 million euros, or 50% of the planned investment spending of 370 million euros. At the end of 2007, 115 million euros had been utilised, with 70 million euros yet to be drawn.

## Interest rate risk

EPAL's interest rate risk arises from its long-term, floating-rate loan facilities. The company's financial policy rests on (i) the selection of the most favourable interest rate regime by comparing fixed rates with hedged floating rates and (ii) a balance between fixed rate and floating-rate debt instruments. At the end of 2007, 42.1% of EPAL's indebtedness to EIB was at fixed rate and 57.9% at floating rate.

## Other risks

In addition to these risks, EPAL is also exposed to other types of risk, possibly of a larger magnitude and whose management is assuredly more difficult. Instances of these are regulatory risk and others arising from the company's operating activities.



Repair of Ø 1,000 concrete main – placement of ring

### **Operational risk**

Operational risk has been increasing lately, basically due to higher uncertainty in consumption trends. Indeed, sales have stagnated and there has been a declining trend in sold volumes since 2004 that has reversed a historical growth trend. Right now, the end of this trend is difficult to anticipate.

Delays in client supply systems coming into operation are another exogenous factor involving operational risk that might have an unfavourable impact on the company's financial performance.

Growing demands on water quality and service levels, coupled with higher environmental awareness, are also factors adding to the challenges faced by EPAL, thereby increasing risk.

Risk management policies aim to minimise potential losses but they cannot rule them out entirely. Therefore, there are always risks associated with changing internal processes.

### **.Regulatory risk**

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

In a highly regulated environment, legislative or regulatory changes may cause the company not to be compliant with the



Renewal of the Lisbon distribution network

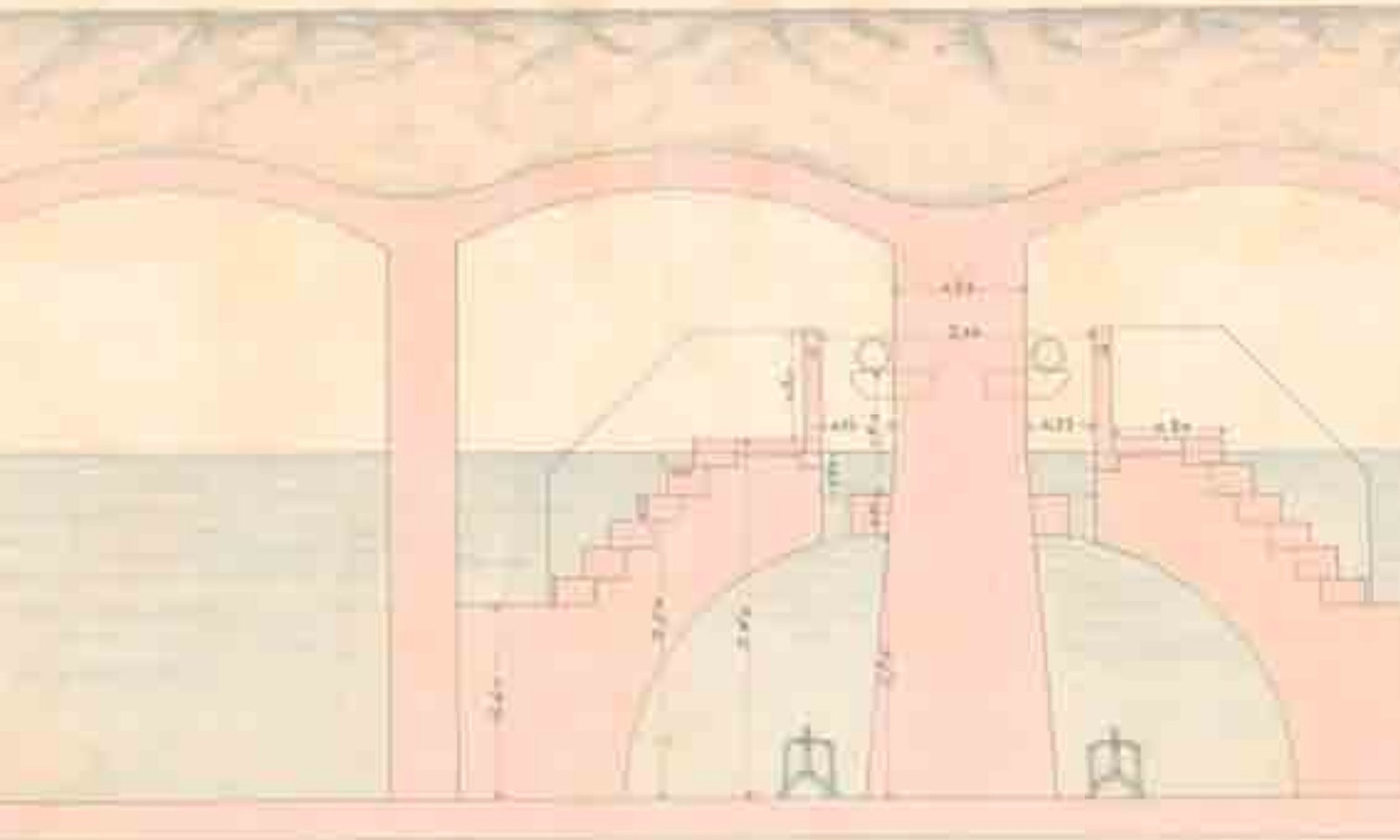
legislation in force at all times, particularly in such periods when the business is not aligned with the new rules.

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

This risk can be minimised with the set-up of a transparent and shared regulatory framework that will define applicable

rules and create efficiency-enhancing mechanisms.

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



## Outlook

A number of projects and initiatives scheduled for completion or swift progress in the coming year have particular importance.

First of all, the renewal of the collective bargaining agreement (Acordo de Empresa) is expected to be completed in 2008. The goal of the negotiations is to ensure a future with minimised risks for EPAL workers and to create the right conditions for the company's own sustainability.

The transformational process the company is engaged in is also scheduled for completion in 2008. Its main features will be the implementation of the asset management function and the alignment of the organisational set-up with the water cycle value chain.

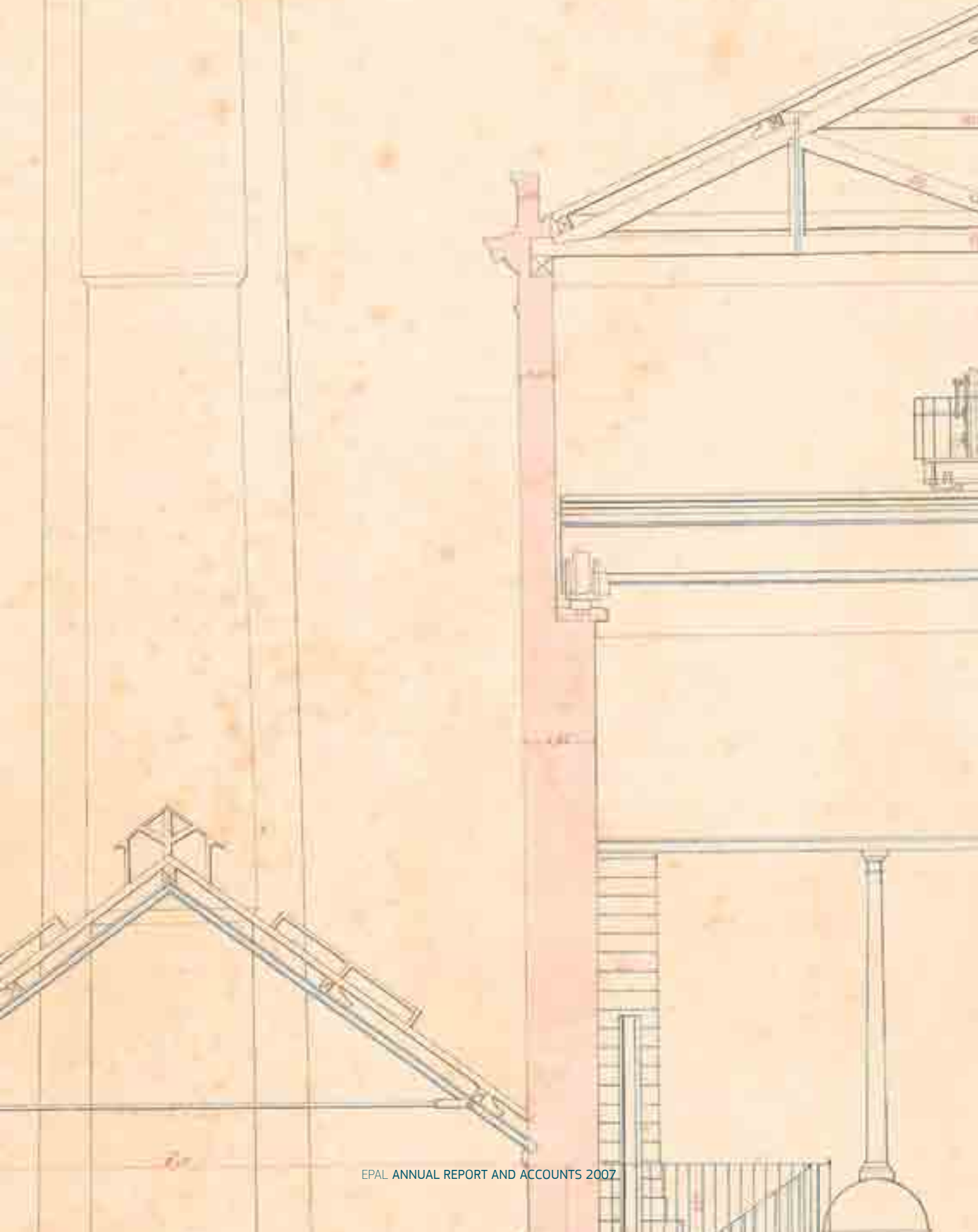
Upgrade of the company's human resources will be pursued by defining required skills, raising educational levels with quantified goals for the next three years and developing the organisational culture in alignment with EPAL's strategic objectives. In this regard, personal development plans will focus on leadership capabilities and change management.

The emphasis on rationalised resources and a new company culture underlie the project for centralising activities at the Olivais site. In 2008, as the tender will be launched for construction of the new central laboratory, other projects are scheduled to be developed for location of other activities at Olivais.

The pursuit of continued improvement in client service levels identified as key goals the drafting of a commitment letter guaranteeing expected service levels and the set-up of a portal displaying information on suspended supply and water quality.

As EPAL approaches its 140th anniversary, it focuses increasingly on the rational use of its human, technical and financial resources. This is the basis on which the company aims to build its prowess as a leading company in managing the urban water cycle. These efforts will be relentlessly pursued as value is created for the shareholder and clients alike and the company asserts its credentials in the water management sector.

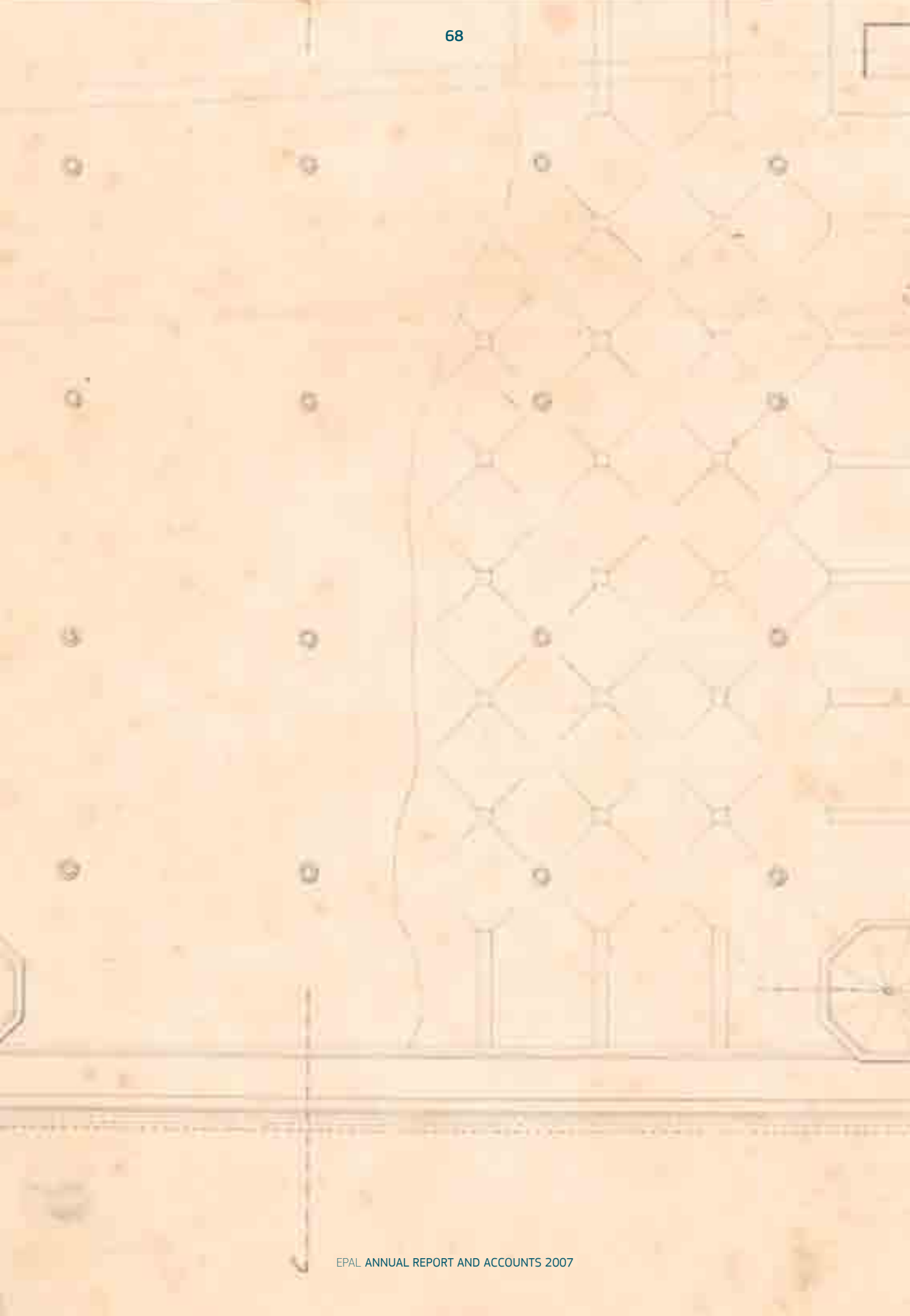




## Proposed allocation of net profit

In accordance with Art 21 of the articles of association of EPAL – Empresa Portuguesa das Águas Livres, S.A., the board of directors proposes that net profit for financial 2007, amounting to 24,391,337.72 euros (twenty-four million three hundred and ninety one thousand three hundred and thirty-seven euros and seventy-two cents), should be distributed as follows:

- 2,439,133.77 euros (two million four hundred and thirty nine thousand one hundred and thirty three euros and seventy seven cents) as legal reserves;
- 17,073,936.40 euros (seventeen million seventy-three thousand nine hundred and thirty six euros and forty cents) as shareholder's dividends;
- 1,015,735 euros (one million fifteen thousand seven hundred and thirty-five euros) as employees' profit-sharing and
- 3,862,532.55 euros (three million eight hundred sixty-two thousand, five hundred and thirty-two euros and fifty-five cents) as retained earnings.



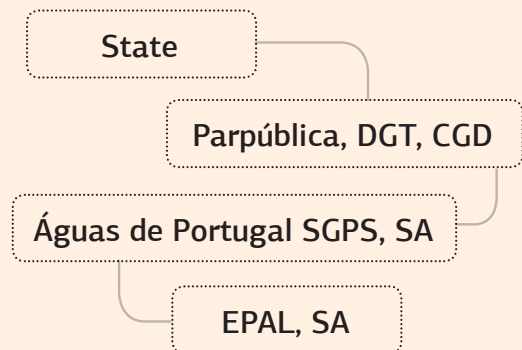
## Corporate governance

### Shareholder control

EPAL is a limited liability company whose shares are solely owned by Águas de Portugal, SGPS, SA, the holding company of the Águas de Portugal group of companies, to which EPAL belongs.

Águas de Portugal was set up in 1993 and is directly and indirectly owned by the Portuguese state. Its operating companies offer services to over seven million residents in Portugal in the areas of water supply, waste water management and solid waste treatment.

### Shareholder control at EPAL



### General shareholder meeting

EPAL's shareholder meeting committee is chaired by AMEGA – Associação de Municípios para Estudos e Gestão da Água, represented by Carlos Alberto Dias Teixeira, its vice-chairperson is Cristina Rebelo Pereira and its secretary is Alexandra Varandas, both part of Águas de Portugal staff.

In 2007, the general shareholder meeting convened on 22 March to approve the 2006 management report and accounts presented by the company's board. It also convened on 14 December to discuss a resolution on the management contracts pursuant to Art 18 of the Estatuto do Gestor Público (the



**Board of Directors**

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

charter governing top managers of state-owned companies), as approved by government decree of 27 March 2007 (Decreto-Lei nº 71/2007).

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

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

### **Board of directors**

The board of directors is the company's highest executive body and consists of a chairman and four executive directors, who have all been elected for the period from 2005 to 2007.

In 2007, the board of directors convened for 43 times to discuss management objectives and policies, activity and capital budgeting plans and to ensure the company's day-to-day management.

As set out in the company's articles of association, the general shareholder meeting shall decide the governing bodies' remuneration. The company has since 1992 had a remuneration committee which has been elected by the general shareholder meeting. The directors' remuneration does not include a variable component.

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

Role	Name	Remun.		Company car	Fuel	Meal allowance	Pension plan*	Health insurance	Life
Chairman	João Manuel Lopes Fidalgo	118,230	920.46	11,989.54	2,788.66	1,397.55	6,333.75	-	2,649.11
Exec dir	Jorge Luís Ferrão de Mascarenhas Loureiro	110,250	495.47	7,402.36	1,766.54	1,512.50	6,896.98	-	-
Exec dir	José Alfredo Manita Vaz	110,250	945.11	6,734.54	2,144.95	1,512.50	6,896.98	806.65	3,193.61
Exec dir	António Bento Franco	110,250	1,159.80	6,699.38	1,918.91	1,512.50	6,896.98	796.51	2,989.84
Exec dir	Rui Manuel de Carvalho Godinho	110,250	853.93	8,080.08	1,995.57	1,512.50	6,896.98	-	-
Total Geral		559,230	3,548.56	40,905.9	10,614.63	7,447.55	33,921.67	16,013.16	8,832.56

\* Sums paid between January and May, when payments were discontinued

#### Supervisory body

Supervision of the company is the responsibility of sole auditor António Dias Nabais, chartered accountant, and Manuel Luís Graça, his deputy. The sole auditor's remuneration in 2007 was 17,912 euros.

#### Environmental Impact Board (*Conselho de Impacte Ambiental*)

In order to review sustainability issues, the company has a consultative body chaired by Helena Veríssimo Colaço Alegre, of which Maria Paula Batista Antunes and Manuel Duarte Pinheiro also are members.

In 2007, the board convened to review sustainability issues

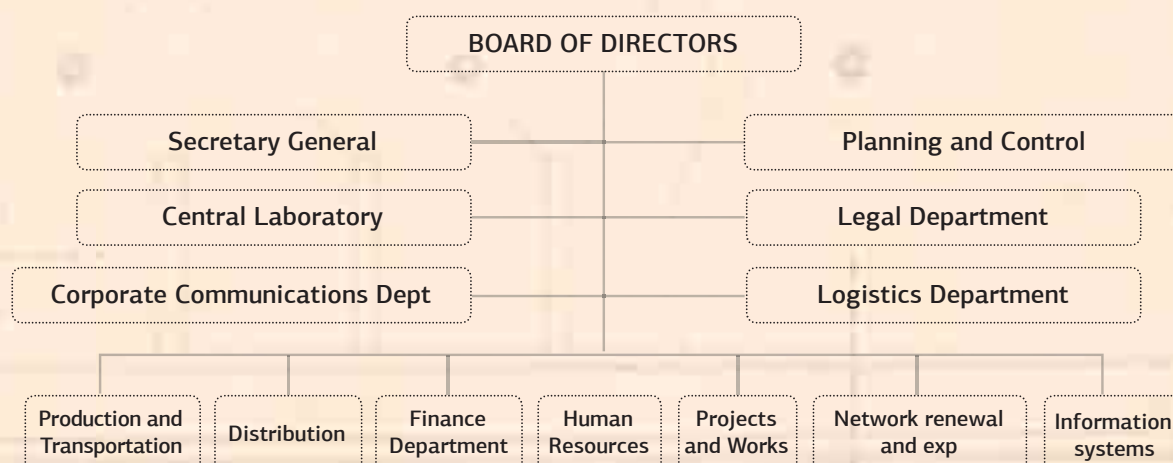
and issue its favourable opinion on the company's 2006 sustainability report.

The board's annual remuneration amounted to 4,427.6 euros for each member.

In the 2008 annual general meeting a proposal will be tabled to change the name of this body so as to make it more adequate to its current role. The proposed name will be Conselho Consultivo para o Desenvolvimento Sustentável (Consultative Board for Sustainable Development).

#### Organisational set-up

The company's organisational set-up is illustrated by the following chart:



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



### Standards and regulations

EPAL's operations are conducted in full compliance with the law. The company's activities are governed by a government decree of 21 June 1991 (Decreto-Lei nº 230/91) which converted EPAL into a limited liability company under indirect state ownership and approved the company's articles of association. EPAL is also governed by special rules arising from its object of producing and distributing drinking water.

There are four types of internal standards and regulations:

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

These are standards issued by the board of directors which are binding upon the whole company and concern matters defining and governing the structure and workings of the organisation such as executive directors' responsibilities, organisational set-up and powers of attorney. In 2007, the sixth issue of the company's organisational regulation (OS-CA-002) was released.

- **Procedimentos administrativos (Administrative procedures)**

These are standards concerning roles and processes of a primarily administrative nature. In 2007, thirteen administrative

procedures of the environment management system and two procedures of the quality management system for direct clients were reviewed. New issues were released of the procedures concerning foreign travel, company cars, acquisition of goods, the general emergency plan and rules for the preparation of new standards. In addition, the procedure for fuel and road-toll control was approved.

- **Procedimentos operativos (Operational procedures)**

These are documents concerning roles and processes regarding the abstraction, production, treatment, transportation, distribution and measurement of water as well as maintenance activities. In 2007 new releases of fourteen operational procedures of the environment management system were circulated.

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

These are documents describing in detail one or more specific tasks of a process. In 2007, 27 work instructions were reviewed.

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

At the meeting of the board of directors of 21 December the company's code of conduct (Código de Ética) was approved.

## Acknowledgements

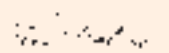
The board of directors should like to extend its thanks to all those who contributed to EPAL's good results in 2007, in particular:

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

To all we should like to extend our sincere thanks.

Lisbon, 12 February 2008

The Board of Directors



João Manuel Lopes Fidalgo  
Chairman



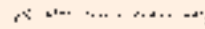
Jorge Luís Ferrão de Mascarenhas Loureiro



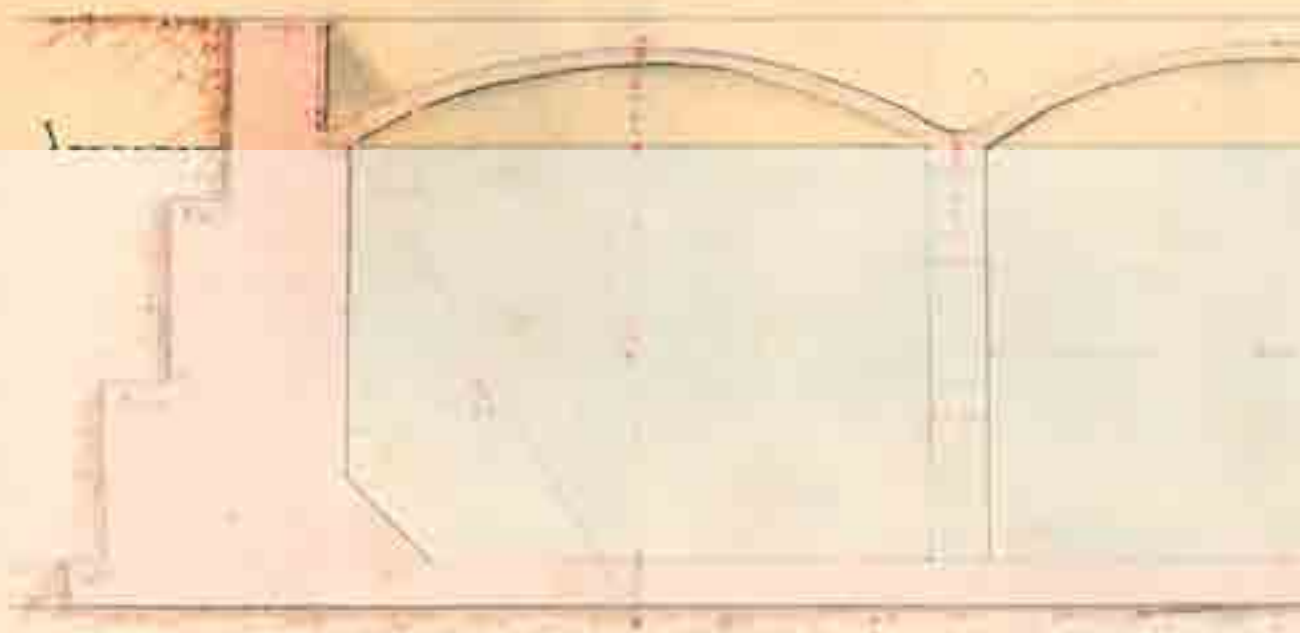
José Alfredo Manita Vaz



António Bento Franco

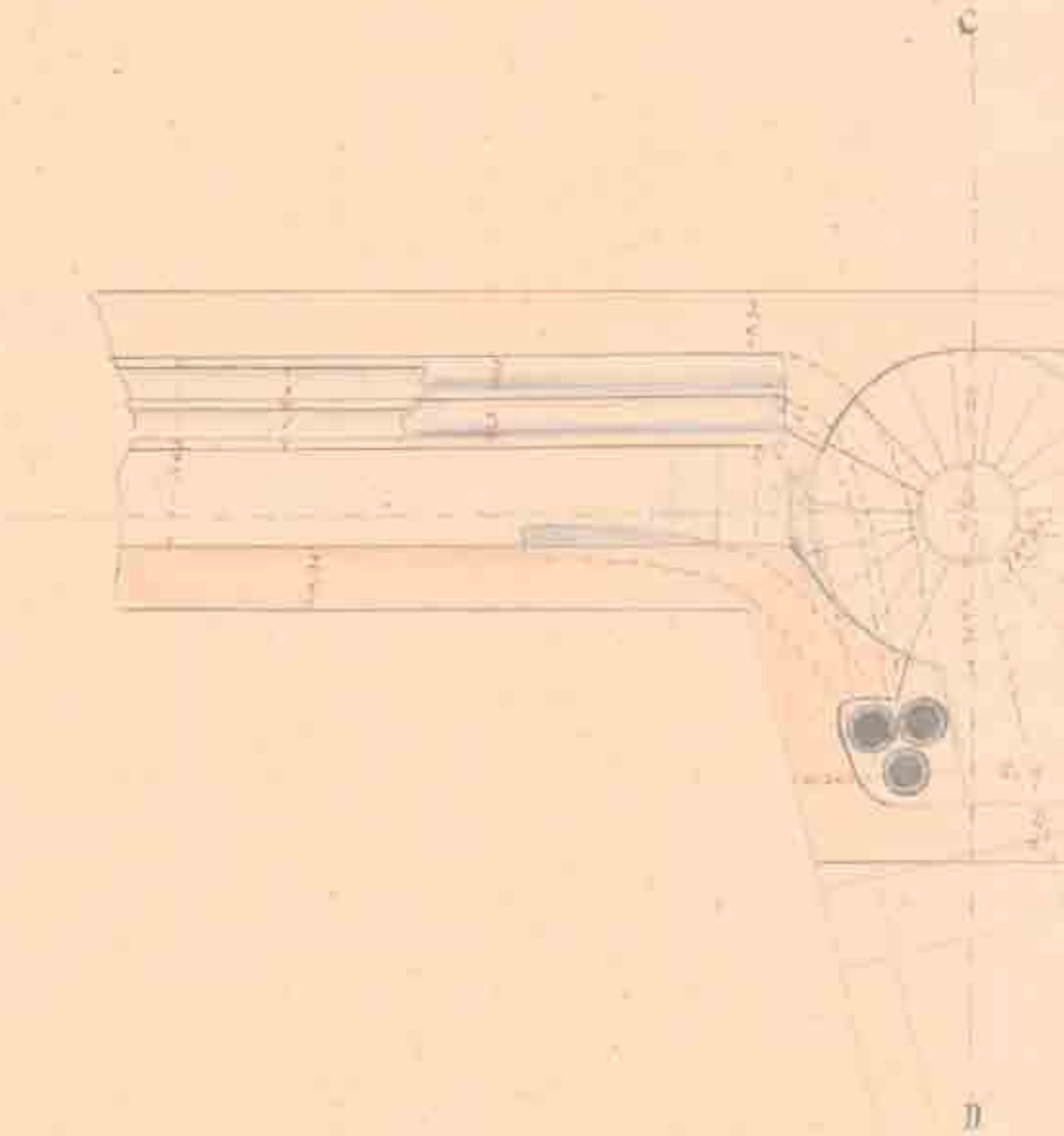


Rui Manuel de Carvalho Godinho





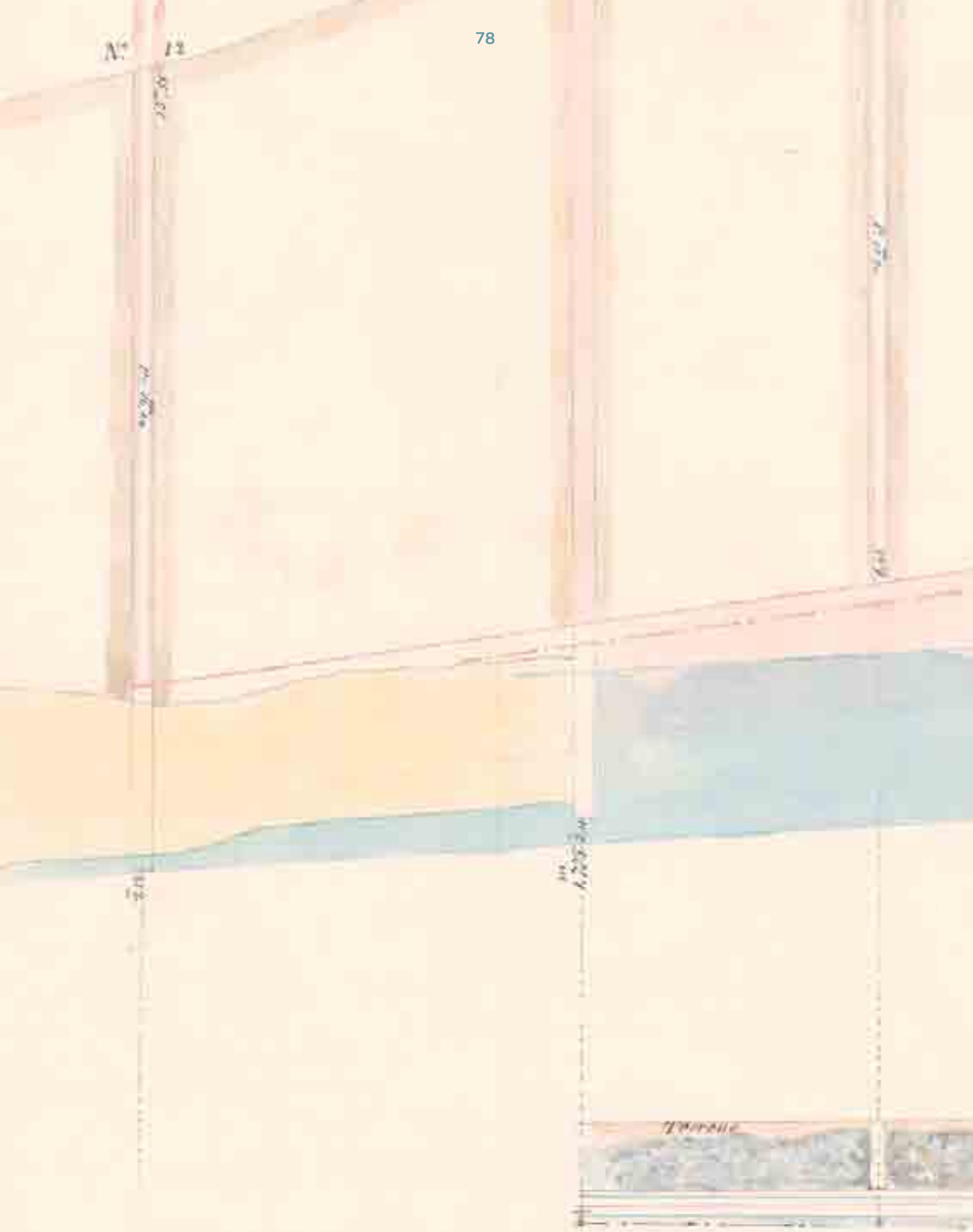
# Financial statements and notes



# main contents

80	Balance sheet
81	Income statement by nature
82	Income statement by function
83	Statement of changes in equity
84	Cash flow statement
85	Notes to the financial statements
111	Accounting documents required by <i>Plano Oficial de Contabilidade</i> (POC)
113	Balance sheet
114	Income statement by nature
115	Notes to the financial statements





# Contents of the Notes

85	1 – EPAL's business activities
86	2 – Accounting principles and policies
	<i>a) Bases of presentation; b) Intangible fixed assets; c) Tangible fixed assets; d) Asset impairment; e) Financial assets; f) Accounts receivable; g) Inventories; h) Liquidity; i) Share capital; j) Employment benefits; k) Provisions; l) Investment subsidies; m) Suppliers and other accounts payable; n) Deferred tax; o) Recognition of revenue and other income and expense; p) Dividends payable; q) Revaluation reserves</i>
90	3 – Policies for managing financial risk
90	4 – Estimates and judgements
91	5 – Intangible fixed assets
91	6 – Tangible fixed assets
93	7 – Financial investments
95	8 – Deferred tax
96	9 – Clients and other accounts receivable – Medium- and long-term
96	10 – Inventories
96	11 – Clients
97	12 – State and state-owned entities, assets
97	13 – Other debtors
98	14 – Liquidity
98	15 – Share capital
98	16 – Reserves and other adjustments
100	17 – Provisions
100	18 – Pensions
102	19 – Bank loans – Medium- and long-term
102	20 – Investment grants
102	21 – Suppliers and other accounts payable
103	22 – State and state-owned entities, liabilities
103	23 – Other creditors
103	24 – Goods sold and services provided
104	25 – Cost of sales
104	26 – Current costs
104	27 – Staff costs
105	28 – Depreciation charges
105	29 – Provisions
105	30 – Other operating costs
106	31 – Additional revenues
106	32 – Other operating revenues and gains
106	33 – Financial costs
106	34 – Financial income
107	35 – Extraordinary results
107	36 – Taxes
108	37 – Contingent liabilities and guarantees provided
108	38 – Note to the income statement by function

## Balance sheet

	Notes	2007	2006
<b>ASSETS</b>			
Non-current assets			
Intangible fixed assets		22 228	21 300
Tangible fixed assets		647 583 610	656 749 968
Financial investments		360 102	369 148
Deferred tax		9 829 939	11 303 607
Clients and other accounts receivable	9	11 302 155	710 979
		669 098 033	669 155 001
Current assets			
Inventory		1 223 114	1 190 293
Clients		31 890 479	32 537 286
Public sector		287 544	5 601 240
Other debtors		5 841 052	3 170 141
Cash and cash equivalents	14	14 999 197	3 530 987
		54 241 385	46 029 947
Total assets		723 339 419	715 184 949
<b>EQUITY</b>			
Share capital	15	150 000 000	150 000 000
Reserves and other adjustments	16	156 761 432	161 864 948
Retained earnings		25 307 826	15 586 586
Net profit for the year		24 391 338	16 328 528
Total shareholder's equity		356 460 596	343 780 062
<b>LIABILITIES</b>			
Non-current liabilities			
Provisions	17	19 289 146	18 996 877
Pension obligations	18	25 392 038	25 775 964
Bank loans	19	211 171 405	202 189 795
Deferred tax	8	8 864 243	9 657 055
Investment grants	20	41 969 277	46 548 558
		306 686 108	303 168 249
Current liabilities			
Bank loans	19	6 018 390	6 018 390
Suppliers and other accounts payable	21	33 696 381	43 311 049
Public sector	22	1 419 108	1 205 398
Other creditors	23	19 058 836	17 701 800
		60 192 715	68 236 637
Total liabilities		366 878 823	371 404 886
Total liabilities and equity		723 339 419	715 184 949

All amounts are stated in euros

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2007

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

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

## Income statement (by nature)

	Notes	2007	2006
Sales and provision of services	24	139.968.824	137.359.980
Cost of sales	25	(2.684.150)	(2.808.741)
Gross margin		137.284.674	134.551.239
Goods and services purchased	26	(36.771.381)	(37.620.821)
Staff costs	27	(33.365.297)	(41.702.518)
Depreciation charges and adjustments	28	(31.918.373)	(28.317.730)
Provisions	29	(1.134.613)	(968.885)
Other operating costs	30	(1.090.107)	(715.239)
Own work		43.254	74.592
Additional revenues	31	1.868.600	1.390.356
Other operating revenues and gains	32	102.550	81.633
Operating profit		35.019.307	26.772.628
Financial costs	33	(8.901.740)	(6.710.712)
Financial revenues	34	419.098	233.810
Profit before extraordinary items		26.536.664	20.295.725
Net extraordinary items	35	5.247.869	2.969.337
Profit before tax		31.784.533	23.265.062
Income tax	36	(7.393.195)	(6.936.534)
Net profit for the year		24.391.338	16.328.528
Earnings per share (basic and diluted)	15	0,81	0,54

All amounts are stated in euros

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2007

**The financial manager and accountant**

Daniela Marina Alves Fernandes Valle Santos

**The board of directors**

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

## Income statement (by function)

	Notes	2007	2006
Sales and provision of services	24	139 968 824	137 359 980
Cost of sales and services provided		(36 397 404)	(35 201 821)
Gross profit		103 571 420	102 158 160
Other operating revenues		3 425 015	2 518 624
Distribution costs		(31 321 136)	(31 334 385)
Administrative costs		(29 807 750)	(38 631 587)
Other operating costs and losses		(5 357 032)	(4 800 479)
Operating profit		40 510 516	29 910 333
Income from equity holdings			
Losses from associates			(15 025)
Net income from equity holdings			(15 025)
Income from other investments			
Losses from other investments		(335 342)	(182 143)
Net income from other investments		(335 342)	(182 143)
Net funding costs			
Financial losses		(8 527 602)	(6 497 850)
Net funding cost		(8 527 602)	(6 497 850)
Current profit		31 647 572	23 215 315
Tax on current profit	38	(7 256 234)	(6 886 787)
Net profit for the year		24 391 338	16 328 528
Earnings per share	15	0,81	0,54

All amounts are stated in euros

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2007.

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

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

## Statement of changes in equity

Item	share capital	adjust equity holdings.	Revaluation reserves.	legal Reserves	Other reserves	Retained earnings	Net profit	Total
1 January 2006	150 000 000	(4 064)	118 164 897	23 213 483	22 171 377	8 572 938	23 787 526	345 906 158
Allocation of 2005 net profit	-	-	-	2 378 753	-	21 408 774	(23 787 526)	-
Dividend distribution – staff	-	-	-	-	-	(976 407)	-	(976 407)
Dividend distribution – shareholder	-	-	-	-	-	(17 840 645)	-	(17 840 645)
Revaluation reserves realised in financial 2006	-	-	(4 968 456)	-	-	4 968 456	-	-
Deferred tax on revalued reserves realised in financial 2006	-	-	546 530	-	-	(546 530)	-	-
Effect of the change in the tax rate on the balance of deferred tax from unrealised revaluations	-	-	362 428	-	-	-	-	362 428
Net profit of financial 2006	-	-	-	-	-	-	16 328 528	16 328 528
31 December 2006	150 000 000	(4 064)	114 105 399	25 592 236	22 171 377	15 586 585	16 328 528	343 780 062
Allocation of 2006 net profit	-	-	-	1 632 853	-	14 695 675	(16 328 528)	-
Dividend distribution - staff	-	-	-	-	-	(941 221)	-	(941 221)
Dividend distribution - shareholder	-	-	-	-	-	(10 769 583)	-	(10 769 583)
Revaluation reserves realised in financial 2007 (Note 16)	-	-	(7 527 889)	-	-	7 527 889	-	-
Deferred tax on revalued reserves realised in financial 2007 (Nota 16)	-	-	791 520	-	-	(791 520)	-	-
Net profit of financial 2007	-	-	-	-	-	-	24 391 338	24 391 338
31 December 2007	150 000 000	(4 064)	107 369 030	27 225 089	22 171 377	25 307 826	24 391 338	356 460 596

All amounts are stated in euros

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2007.

### The financial manager and accountant

Daniela Marina Alves Fernandes Valle Santos

### The board of directors

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



## Cash flow statement

	Notas	2007	2006
<b>Operating activities</b>			
Receipts from clients		174 011 002	169 573 568
Payments to suppliers		(40 850 723)	(44 900 044)
Payments to staff		(34 712 342)	(35 163 499)
Cash flow generated by operations		98 447 937	89 510 026
Payments/receipts in respect of income tax		(7 266 099)	(11 361 617)
Other receipts/payments in respect of operating activities		(9 861 064)	(14 921 813)
Cash flow generated before extraordinary items		(17 127 163)	(26 283 430)
Receipts related to extraordinary items		159 384	43 807
Payments related to extraordinary items		(420 177)	(466 342)
		(260 793)	(422 535)
Cash inflow from operating activities (1)		81 059 981	62 804 061
<b>Investing activities</b>			
Receipts in respect of:			
Tangible fixed assets		467 224	27 213
Interest and related income		401 803	233 717
		869 027	260 930
Payments in respect of:			
Financial investments		(345 853)	(192 143)
Tangible fixed assets		(59 893 385)	(68 971 952)
Intangible fixed assets		(1 391)	
		(60 240 630)	(69 164 095)
Cash outflow from investing activities (2)		(59 371 603)	(68 903 165)
<b>Financing activities</b>			
Receipts in respect of:			
Loans	19	15 000 000	33 000 000
		15 000 000	33 000 000
Receipts in respect of:			
Empréstimos obtidos	19	(6 018 390)	(5 396 700)
Interest and related income		(8 432 195)	(6 264 341)
Dividends		(10 769 583)	(17 840 645)
		(25 220 168)	(29 501 685)
Cash outflow from financing activities (3)		(10 220 168)	3 498 315
Change in cash and cash equivalents (4)=(1)+(2)+(3)		11 468 210	(2 600 789)
Changes in cash and cash equivalents	14	3 530 987	6 131 776
Cash and cash equivalents at the end of the period	14	14 999 197	3 530 987
Variações de caixa e seus equivalentes		11 468 210	(2 600 789)

All amounts are stated in euros

The notes appended to the financial statements are an integral part of this statement.

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

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

# Notes to the financial statements at 31 December 2007

## 1. EPAL's business operations

### 1.1 Introduction

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

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

### 1.2 Business operation

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

EPAL's water pricing regime is regulated by a government decree of 21 June 1991 (Decreto-Lei nº 230/91) that provides for an agreement to be reached between EPAL and the Portuguese state as represented by the Ministry of Economy's Direcção Geral da Empresa.

### 1.3 Approval of the financial statements

The reported financial statements have been approved in a meeting of the board of directors on 12 February 2008. The board's opinion is that they reflect in a reliable way EPAL's operations, financial position, performance and cash flows..

## 2. Accounting policies and valuation criteria

### a) Basis of presentation

EPAL's financial statements for 2007 consisting of the balance sheet, income statement – by nature and by function – cash flow statement, statement of changes in equity and respective notes, have been prepared on a going concern assumption, on the basis of the company's books and accounting records, kept in accordance with accounting principles that are generally accepted in Portugal except for a waiver on Accounting Guideline nº 19 following the company's adoption in previous years of the "corridor" method as set out in IAS 19 for recording the obligations arising from its post-employment benefit plan (Note 2j).

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

The cash flow statement for the year ended 31 December 2007 was prepared by determining the nature of flows, a departure from previous years. Accordingly, and for comparable purposes, the cash flow statement for the year ended 31 December 2006 was restated according to the new method.

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

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

Unless otherwise indicated, all amounts are stated in euros.

### b) Intangible fixed assets

The total amount entered to the "Intangible fixed assets" account includes (i) an item of 21,300 euros that is related to a right over a share of third-party land which is crossed by EPAL mains; because it is an unlimited-use right, it is not depreciated; and (ii) an item of 928 euros regarding a patent under straight-line depreciation for three years.

### c) Tangible fixed assets

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

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

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

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

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

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

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

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

#### d) Impairment of fixed assets

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

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

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

#### e) Financial assets

##### Group companies and associates

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

##### Other investments

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

#### **f) Accounts receivable**

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

#### **g) Inventories**

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

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

Inventories sold are valued at weighted-average cost

#### **h) Liquidity**

Liquidity includes cash and cash equivalents, bank deposits, other highly liquid, short-term investments initially maturing in one year (three months, in the case of the cash flow statement) and overdraft facilities. Overdraft facilities are presented on the balance sheet under current liabilities, "Debts to credit institutions – Short term", and are also considered in the preparation of the cash flow statement.

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

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

Common stock is classed under shareholders' equity.

#### **j) Employee benefits – Pensions**

A defined benefit plan is a pension plan that defines the benefit amount in respect of the complement to the pension the employee will receive at retirement, usually depending on one or more factors such as age, length of service and remuneration.

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

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

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

#### **k) Provisions**

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

When there are a large number of similar obligations, the probability for an outflow of internal resources to occur is determined in

combination. The provision is recognised even though the probability of outflow of internal resources in respect of a particular item in the class may be reduced.

Provisions are not recognised for future operating losses.

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

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

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

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

#### **m) Suppliers and other accounts payable**

Suppliers and other accounts payable are carried at nominal value to the extent they are payable in the short term.

#### **n) Deferred tax**

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

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

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

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

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

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

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

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

##### **Water sales and service fee**

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

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



**Interest expense**

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

**Other income and expense**

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

**p) Dividend payable**

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

**q) Revaluation reserves**

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

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

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

**Liquidity risk**

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

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

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

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

**4. Estimates and judgements**

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

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

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

### Provisions

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

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

### Impairment of assets

At the date of presentation of EPAL's financial statements for the year ended on 31 December 2007, the existence of any situation of impairment of reported assets is not considered as probable.

## 5. Intangible fixed assets

Intangible fixed assets of 22,288 euros refer predominantly to a right over part of third-party land crossed by EPAL mains, valued at 21,300 euros. Because it is an unlimited-use right, it is not depreciated.

	2007	2006
Intellectual property and other rights	22.228	21.300
	22.228	21.300

Intangible fixed assets and their accumulated depreciation at the end of 2007 were as follows:

Item	2006	Additions	Transfers	Write-offs and disposals	2007
Gross assets					
Intellectual property and other rights	21 300	1 391	-	-	22 692
	21 300	1 391	-	-	22 692
Accumulated depreciation					
Intellectual property and other rights	-	464	-	-	464
	-	464	-	-	464

## 6. Tangible fixed assets

Tangible fixed assets net of depreciation have the following composition:

	2007	2006
Land and natural resources	49.869.219	49.247.566
Buildings	43.684.298	27.337.027
Production equipment	516.187.645	500.763.655
Transportation equipment	3.515	5.911
Tools	1.042.121	1.348.860
Office equipment	1.594.142	1.303.798
Containers	748	1.095
Other tangible fixed assets	2.019.150	2.489.221
Fixed assets in progress	32.027.635	74.252.834
Advances on tangible fixed assets	1.155.135	
	647.583.610	656.749.968

At the end of 2007, the "Production equipment" account included assets in third parties' possession, namely water meters in the distribution network for an amount of 10,573,336 euros.

Tangible fixed assets and their accumulated depreciation at the end of 2007 were as follows:

Rubricas	2006	Aumentos	Transfer.	Diminuições	2007
<b>Imobilizado bruto</b>					
Land and natural resources	49.247.566	-	932.266	(310.612)	49.869.219
Buildings	98.059.427	-	20.411.685	(1.576.048)	116.895.064
Production equipment	874.914.831	386.266	52.005.946	(19.715.236)	907.591.807
Transportation equipment	1.655.748	-	-	-	1.655.748
Tools	10.084.654	283.637	-	(91.444)	10.276.847
Office equipment	15.860.099	233.232	618.500	(34.335)	16.677.495
Containers	8.134	-	-	-	8.134
Other tangible fixed assets	10.361.334	38.111	149.781	(6.745)	10.542.481
Fixed assets in progress	74.252.834	31.892.978	(74.118.178)	-	32.027.635
Advances on tangible fixed assets	-	1.155.135	-	-	1.155.135
	1.134.444.628	33.989.358	-	(21.734.420)	1.146.699.566
<b>Accumulated depreciation</b>					
Buildings	70.722.400	3.755.663	-	(1.267.297)	73.210.766
Production equipment	374.151.176	24.883.121	-	(7.630.135)	391.404.162
Transportation equipment	1.649.837	2.396	-	-	1.652.233
Tools	8.735.794	565.517	-	(66.584)	9.234.726
Office equipment	14.556.301	561.387	-	(34.335)	15.083.353
Containers	7.040	346	-	-	7.386
Other tangible fixed assets	7.872.113	657.963	-	(6.745)	8.523.331
	477.694.661	30.426.392	-	(9.005.097)	499.115.956
		(Nota 28)			

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

Additions to tangible fixed assets in financial 2007 amounted to approximately 34 million euros and relate mainly to expansion of the Castelo do Bode sub-system and the increased supply to the Municipality of Mafra.

The reduction in "Assets in progress" by approximately 74.1 million euros is primarily the result of the completion in 2007 of part of the works related to expansion of the Castelo do Bode sub-system.

At 31 December 2007, "Assets in progress" refers mainly to works for increased water supply to the Municipality of Mafra.

Reductions in tangible fixed assets in financial 2007 by approximately 12.7 million euros (net of accumulated depreciation of approximately 9 million euros) refer primarily to the disposal of fixed assets from the supply sub-systems of Alenquer/Torres Vedras and Arruda dos Vinhos/Sobral de Monte Agraço (Nota 9).

### Revaluations

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

- Decreto-Lei n.º 430/78, as amended by Decreto-Lei n.º 24/82 of 30 January 1982
- Decreto-Lei n.º 219/82 of 2 June 1982
- Decreto-Lei n.º 399-G/84 of 28 December 1984
- Decreto-Lei n.º 118-B/86 of 27 May 1986
- Decreto-Lei n.º 111/88 of 2 April 1988
- Decreto-Lei n.º 49/91 of 25 January 1991
- Decreto-Lei n.º 264/92 of 24 November 1992
- Decreto-Lei n.º 31/98 of 11 February 1998

Historic acquisition costs for tangible fixed assets and related revaluations at 31 December 2007 net of accumulated depreciation are detailed below:

	Historical cost a)	Revaluations a) b) (Note 16)	Amounts after revaluation a)
Tangible fixed assets			
Land and natural resources	12 355 399	33 042 006	45 397 405
Buildings	6 857 342	4 373 575	11 230 917
Production equipment	99 430 160	78 766 273	178 196 433
	118 642 901	116 181 854	234 824 755

a) Net of depreciation b) Include successive revaluations

### 7. Financial investments

At 31 December 2007 and 2006 financial investments were the following:

	2007	2006
Equity holdings in group companies	250.000	250.000
Equity holdings in other investee companies	1.370	5.013.150
Securities and other financial investments	108.732	109.172
Adjustments to financial investments		(5.003.174)
	360.102	369.148

### Group companies

Equity holdings in group companies that were accounted for according to the equity method, as well as related equity and results, were the following at 31 December 2007:

Company	Head office	Share %	Equity	Net profit	B/S amount	Adjustments	Net amount
a)							
Clube de Golfe das Amoreiras	Lisboa	100%	238 171	(26 854)	250 000	-	250 000

a) relates to supplementary capital

At 31 December 2007, this subsidiary had negative equity of 38,313 euros excluding supplementary capital. Under applicable accounting rules, EPAL discontinued the equity method when accumulated losses exceeded the financial investment recorded on the balance sheet.

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

Following earlier arbitration, Supergolf Amoreiras - Academia de Golfe, SA terminated the agreement. In order to ascertain responsibilities arising from the agreement's termination, new arbitration was requested by Supergolf Amoreiras - Academia de Golfe, SA, whose outcome is currently undecided.

### Investee companies

Changes in financial investments and related adjustments were as follows:

Company	Head office	Share %	Equity	Net profit	B/S amount	Adjustments	Net amount
Ambelis	Lisboa	0,7%			1 370	-	1 370
					1 370	-	1 370

### Securities and other short-term balances

At 31 December 2007 and 2006 the company held the following securities:

	2007	2006
Amounts at the order of a court of law		89 415
Portuguese government bonds		18 428
Other securities issued by the Portuguese state	-	1 328
	108 732	109 172

### Changes in the financial year

Changes in financial investments and related adjustments were as follows::

	2006	Reforços	Reduções	2007
Equity holdings in group companies	250 000	-	-	250 000
Equity holdings in other investee companies	5 013 150	335 342	(5 347 122)	1 370
Securities and other financial investments	109 172	511	(951)	108 732
Adjustments to financial investments (Nota 33)	(5 003 174)	(335 342)	5 338 516	-
	369 148	511	(9 557)	360 102

The increase in "Equity holdings in other investee companies" was related to EPAL's subscription to and payment for new shares in Prolagos, an investment that was entirely adjusted in the year.

The reduction in "Equity holdings in group companies" resulted primarily from the disposal in 2007 of the equity holdings in Prolagos and Shore which, at the time of disposal, amounted to 5,307,016 euros and 31,500 euros, respectively (Note 35) and were entirely adjusted.

### 8. Deferred tax

For the measurement of the final balances of deferred tax, the rate contained in the state budget for 2008 was used. This is a state income tax of 25% to which a local tax at the rate of 1.5% on taxable profit is added, resulting in an aggregate tax rate of 26.5%. Changes in deferred tax in 2007 were the following:

Rubrica	2006	Additions	Reversals	2007
Provisions above tax limits	40 688 258	7 777 921	(12 921 978)	35 544 201
Reversal of taxed income	1 966 861	-	(416 953)	1 549 908
Tax base	42 655 119	7 777 921	(13 338 931)	37 094 109
Tax rate:				
State income tax (25%)	10 663 780	1 944 480	(3 334 733)	9 273 527
Local income tax (1,5%)	639 827	116 669	(200 084)	556 412
Deferred tax assets	11 303 607	2 061 149	(3 534 817)	9 829 939
Revaluation of fixed assets	36 242 807	-	(2 986 868)	33 255 939
Amount net of reinvested capital gains	198 912	-	(4 877)	194 035
Tax base	36 441 719	-	(2 991 745)	33 449 974
Tax rate:				
State income tax (25%)	9 110 430	-	(747 936)	8 362 493
Local income tax (1,5%)	546 626	-	(44 876)	501 750
Deferred tax liabilities	9 657 055	-	(792 812)	8 864 243



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

The balances of this account at 31 December 2007 and 2006, 11,302,155 and 710,979 euros, respectively, relate to medium- and long-term debts under "Other debtors". The increase over the year is related to the disposal of fixed assets in 2007 (Note 6). This account receivable has a schedule for annual repayments for 27 years, with the instalments subject to annual update.

### 10. Inventories

At the end of 2007 and 2006, the balances of this account were 1,223,114 and 1,190,293 euros, respectively, and consisted exclusively of intermediate and consumption raw materials

### 11. Accounts receivable

This account's composition was the following at 31 December 2007 and 2006::

	2007	2006
Clients, current account	20 635 621	22 449 544
Clients, doubtful debtors	4 774 764	2 741 795
Adjustments for doubtful debtors	(3 477 453)	(2 076 701)
Subtotal, clientes	21 932 932	23 114 637
Accrued income on account of water to be invoiced	7 889 743	7 373 361
Accrued income on account of service fee to be invoiced	1 972 240	1 941 492
Accrued income on account of services provided, to be invoiced	95 564	107 796
	31 890 479	32 537 286

### Changes in the year

Changes in the balances for doubtful debtors and related adjustments in 2007 were the following:

	2006	Additions	Reductions	2007
Doubtful debtors	2 741 795	2 162 356	(129 387)	4 774 764
Adjustments to doubtful debtors (Notes 28 e 32)	(2 076 701)	(1 481 220)	80 468	(3 477 453)
	665 093	681 137	(48 919)	1 297 311

Increases in the balances of and adjustments to Doubtful debtors follow from the evaluation of collection risk to client receivables. Decreases result primarily from the recovery of previously provided claims.

The balance of Doubtful debtors amounts to 4,774,764 euros and is composed of 3,477,453 euros where collection risk is borne by the company and entirely provided for 1,297,311 euros relating to treatment fee and supplement where the risk is borne by third parties.

## 12. Claims on public-sector entities

At 31 December 2007 and 2006, claims receivable from the state and other public-sector entities had the following composition:

	2007	2006
State income tax		
Estimate	(6 712 340)	-
Advances	6 915 096	-
Withheld at source	83 043	-
Subtotal, state income tax	285 800	-
VAT receivable	1 744	5 601 240
	287 544	5 601 240

## 13. Other debtors

At 31 December 2007 and 2006 "Other debtors" had the following composition:

	2007	2006
Group companies	1 343 246	1 333 246
Staff	31 521	60 148
Other debtors	3 918 306	1 059 636
Adjustments to other doubtful debtors	(623 124)	(634 907)
Subtotal	4 669 949	1 818 122
Other accrued income	74 083	35 070
Deferred cost for prepaid insurance premiums	593 247	901 093
Other deferred costs	503 772	415 855
	5 841 052	3 170 141

### Associates

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

### Changes in "Adjustments to other doubtful debtors"

Changes in the year were as follows:

	2007	2006
Opening balance	634 907	614 395
Additions (Note 28)	10 298	31 383
Reversals (Note 32)	(22 082)	(10 871)
Ending balance	623 124	634 907

#### 14. Cash and cash equivalents

At 31 December 2007 and 2006 \*Cash and cash equivalents had the following composition:

	2007	2006
Cash on hand	36 037	26 050
Bank deposits	3 963 160	3 504 937
Subtotal	3 999 197	3 530 987
Other treasury investments	11 000 000	-
	14 999 197	3 530 987

#### 15. Share capital

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

##### Shareholders

At 31 December 2007, the company was entirely owned by AdP – Águas de Portugal, SGPS, S.A

##### Earnings per share

	2007	2006
Net profit for the year	24 391 338	16 328 528
Average number of shares	30 000 000	30 000 000
(Basic and diluted) earnings per share	0,81	0,54

#### 16. Reserves and other adjustments

At 31 December 2007, reserves and other adjustments were as follows:

	2007	2006
Adjustments to equity holdings in associates	(4 064)	(4 064)
Revaluation reserves	107 369 030	114 105 399
Legal reserves	27 225 089	25 592 236
Free reserves	22 171 377	22 171 377
	156 761 432	161 864 948

Note: Compare with the statement of changes in equity.

The change in "Revaluation reserves" in 2007 was as follows:

	2006	Transfers	Other	2007
Revaluation reserves				
Revaluation reserves booked	256 514 383	-	-	256 514 383
Revaluation reserves realised	(132 804 640)	(7 527 889)	-	(140 332 529)
(Note 6)	123 709 743	(7 527 889)	-	116 181 854
Resulting deferred tax				
Deferred tax booked	(21 042 483)	-	-	(21 042 483)
Deferred tax realised	11 438 139	791 520	-	12 229 659
(Note 8)	(9 604 344)	791 520	-	(8 812 824)
Net amount of revaluation reserves	114 105 399	(6 736 369)	-	107 369 030

**Transfers:** Amounts in the "Transfers" column relate to the transfer to "Retained earnings" of the portion of revaluation reserves realised through amortisation, disposal or write-off of the related fixed assets and deferred taxes in 2007.

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

**Allocation of net profit:** Pursuant to a resolution by the shareholder meeting of 22 March 2007, the company allocated net profit of 16,328,528 euros for the year ended 31 December 2006 as follows:

Transfer:

To legal reserves	1 632 853
To retained earnings	2 984 871
	<hr/>
	4 617 724

Distribution

Of dividends	10 769 583
Of share of net profit to the staff	941 221
	<hr/>
	11 710 804
	<hr/>
	16 328 528

## 17. Provisions

At 31 December 2007 and 2006 the composition of provisions was the following:

	2007	2006
Ongoing litigation	8 430 553	7 377 774
Workplace accidents	255 346	230 357
Other risks and charges	10 603 246	11 388 746
	19 289 146	18 996 877

Changes in "Provisions" in 2007 are detailed as follows:

	2006	Increases (Nota 29)	Decreases (Nota 35)	2007
Ongoing litigation	7 377 774	1 124 613	(71 834)	8 430 553
Workplace accidents	230 357	24 989	-	255 346
Other risks and charges	11 388 746	10 000	(795 500)	10 603 246
	18 996 877	1 159 602	(867 334)	19 289 146

The company conducted a careful and thorough review of the situation regarding commitments, present, probable or contingent obligations, lawsuits, unsettled tax cases and complaints or contentious issues. On the basis of this review and after a careful risk analysis, the company considered that the 19,289,146 euros in "Provisions" at 31 December 2007 was an adequate amount to provide against the identified risks.

The "Additions" column total of 1,159,602 euros includes 1,134,613 euros recorded as income from provisions (Note 29) and 24,989 euros recorded as staff costs.

## 18. Pension obligations

EPAL has an employee benefit plan entailing a commitment to pay a complement to the retirement pension (for long service or disability) granted by the Social Security. In addition, the company bears the obligations arising from early retirement.

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

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

At 31 December 2007 and 2006 the obligations for past service linked to the employee benefit plan were the following:

Change in obligations	2007	2006
Obligations at the start of the period	95 464 704	95 475 448
Current-service cost	2 298 000	2 262 000
Interest cost	4 395 000	4 394 000
Actuarial (gains)/losses	(8 321 670)	(909 708)
Benefits paid	(5 438 212)	(5 757 036)
Obligations at the end of the period	88 397 822	95 464 704

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

	2007	2006
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80
Annual discount rate	5,25%	4,75%
Annual rate of return	5,25%	4,75%
Salary growth rate	2,50%	2,50%
Salary growth rate, Social Security	2,50%	2,50%
Taxa de crescimento das prestações de pré-reforma	2,50%	2,50%

The fund's assets grew as follows:

Pension fund	2007	2006
Value at the start of the period	45 960 297	41 383 875
Effective return	1 714 685	2 576 422
EPAL contribution	2 593 857	3 726 602
Benefits paid	(1 813 857)	(1 726 602)
Value at the end of the period	48 454 982	45 960 297

As a complement to the fund's assets, the company recognised at 31 December 2007 a provision of 25.4 million euros for pension obligations

The overall situation is summed up in the following table:

	2007	2006
Obligations at the end of the period	88 397 822	95 464 704
Asset value at the end of the period	48 454 982	45 960 297
Provision for pensions		25 775 964
Deferred actuarial losses		23 728 443
Prior service cost		2 650 036
Losses within the 10% corridor	8 839 782	9 546 470
Losses in excess of the 10% corridor	3 459 984	11 531 937

Lower deferred actuarial losses in 2007 followed primarily from a higher discount rate.

The overall cost of post-employment benefits amounted in 2007 to 5,834,286 euros, as follows:

	2007	2006
Current service cost	2 298 000	2 262 000
Interest cost	4 395 000	4 393 000
Expected return on the assets	(2 199 000)	(1 978 000)
Recognition of prior service cost	399 000	9 236 000
Recognition of deferred actuarial losses	941 286	1 136 000
Period cost (Note 27)	5 834 286	15 049 000



Deferred actuarial losses exceeding the higher of (i) the 10% limit of the value of the funds allocated to covering the company's obligations and (ii) 10% of the value of obligations for past service are recognised for the period between the active population's average age and retirement age.

Following the proposed change to the present pension plan and the company's continued goal of raising the obligations' funded ratio, the board decided to contribute a robust 2.6 million euros to the fund in 2007.

## 19. Bank loans

Bank loans at 31 December 2007 and 2006 are detailed as follows:

	2007				2006			Total ML prazo 2006
	Maturing in one year	Maturing in 1 to 5 years	Maturing after 5 years	Total medium- and long-term	Maturing in one year	Maturing in 1 to 5 years	Maturing after 5 years	
Banco Europeu de Investimento (BEI)	6 018 390	43 335 556	167 835 849	211 171 405	6 018 390	38 251 752	163 938 043	202 189 795

In 2007, the company utilised, occasionally and for very short periods, commercial-paper funding for a total amount of 27,900,000 euros. These utilisations were entirely repaid in 2007. In the cash flow statement for 2007, these movements of funds were offset against each other..

## 20. Investment grants

At 31 December 2007 and 2006 liabilities relating to investment grants are detailed as follows:

	2007	2006
Investment grants	82 884 731	87 798 859
Recognised income	(40 915 455)	(41 250 301)
	41 969 277	46 548 558

The change of 4,579,281 euros in the year (Note 35) relates to the annual portion of the grants recognised in the income statement, to the same extent of annual depreciation charges and adjustments (Note 35).

## 21. Suppliers and other accounts payable

At 31 December 2007 and 2006, the balances of "Suppliers and other accounts payable" had the following composition:

	2007	2006
Suppliers, current account	24 867 155	21 117 867
Suppliers, invoices received under processing	24 301	217 664
Suppliers of fixed assets	7 279 530	20 452 879
Accrued costs	1 525 394	1 522 639
	33 696 381	43 311 049

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

At 31 December 2007 and 2006 debts to the state and other public-sector entities were as follows:

	2007	2006
State company income tax (IRC)		
Estimate	-	9 138 175
Advances	-	(8 674 124)
Withheld at source	-	(59 130)
Subtotal IRC	-	404 921
Value-added tax	586 276	-
Personal income tax (IRS)	304 047	289 542
Social Security	517 230	498 985
Stamp duty	11 555	11 950
	1 419 108	1 205 398

## 23. Other creditors

At 31 December 2007 and 2006 balances of "Other creditors" were as follows:

	2007	2006
Municipality of Lisbon		
Treatment rate (Portaria 399/85)	12 472 643	11 354 736
Additional rate (Portaria 309/84)	1 400 710	1 227 892
Holidays and holiday allowance	3 682 061	3 751 693
Interest payable	1 214 738	1 090 453
Insurance premiums payable	130 864	125 605
Staff	4 092	4 092
Other creditors	153 728	147 329
	19 058 836	17 701 800

## 24. Sales and provision of services

In 2007 and 2006 sales and provision of services were detailed as follows:

Financial year ended 31 December 2007	Mercado Nacional
Water sales and service fee	
Services provided	137 376 839
Prestação de Serviços	2 591 985
	139 968 824
Financial year ended 31 December 2006	
Water sales and service fee	134 424 191
Services provided	2 935 789
	137 359 980

## 25. Cost of sales

In 2007 and 2006 the cost of sales was broken down as follows:

	2007	2006
Opening inventories	1 190 293	1 248 442
Purchases	2 715 784	2 741 069
Adjustments to inventories (Note 35)	1 186	9 523
Closing inventories	1 223 114	1 190 293
	2 684 150	2 808 741

## 26. Goods and services purchased

In 2007 and 2006 Goods and services purchased were detailed as follows:

	2007	2006
Electricity	8 994 745	8 855 666
Maintenance and repair	7 566 213	8 587 755
Specialist jobs	6 356 580	6 659 741
Communications	1 397 289	1 349 259
Rents	1 282 974	1 218 429
Insurance premiums	1 276 035	1 162 401
Sub-contracts	1 046 447	1 083 742
Fuel	520 760	520 233
Other	8 330 339	8 183 595
	36 771 381	37 620 821

## 27. Staff costs

In 2007 and 2006 staff costs were detailed as follows:

	2007	2006
Remuneration	20 895 664	20 300 548
Post-employment plan (Note 18)	5 834 286	15 049 000
Other	6 635 348	6 352 970
	33 365 297	41 702 518

### Remuneration of governing bodies

Remunerations earned by the governing bodies in 2007 were the following:

Board of directors	716,523
Chartered accountant	<u>17,912</u>
	<u>734,435</u>

### Average number of employees

The average number of employees at the company's service at 31 December 2007 and 2006 was as follows:

	2007	2006
Governing bodies		4
Permanent employees and others	815	813
	819	817

### 28. Depreciation and adjustments in the year

Depreciation and period adjustments in 2007 and 2006 are detailed as follows:

	2007	2006
Depreciation of tangible fixed assets (Note 6)	30 426 392	27 899 007
Depreciation of intangible fixed assets (Note 5)	464	-
Adjustments to client receivables (Note 11)	1 481 220	387 341
Adjustments to other receivables (Note 13)	10 298	31 383
	31 918 373	28 317 730

### 29. Provisions for the year

Provisions in 2007 and 2006 are detailed as follows:

	2007	2006
From litigation	1 124 613	768 385
From other risks and charges	10 000	200 500
(Note 17)	1 134 613	968 885

### 30. Other operating costs

"Other operating costs" in 2007 and 2006 are detailed as follows:

	2007	2006
Taxes and levies	1 008 739	692 213
Other operating costs	81 368	23 026
	1 090 107	715 239

### 31. Additional revenues

Additional revenues in 2007 e 2006 are detailed as follows:

	2007	2006
Aquamatrix service	840 387	273 317
Treatment fees	319 623	316 356
Laboratory analyses	146 746	155 985
Tender specifications	141 050	77 800
Rents for space let	99 070	88 146
Legal help with expropriations	67 514	87 823
Royalties	64 867	86 345
Social services	12 204	11 869
Meter repair	3 337	54 797
Other	173 802	237 919
	1 868 600	1 390 356

### 32. Other operating revenues and gains

Other operating revenues and gains in 2007 and 2006 are detailed as follows:

	2007	2006
Reversal of adjustments to client receivables (Note 11)	80 468	70 763
Reversal of adjustments to other receivables (Nota 13)	22 082	10 870
	102 550	81 633

### 33. Financial costs

Financial costs in 2007 e 2006 are detailed as follows:

	2007	2006
Interest paid	8 429 160	6 383 340
Adjustments to financial adjustments (Note 7)	335 342	182 143
Losses on associates	-	15 025
Unfavourable exchange differences	361	303
Other financial costs and losses	136 878	129 902
	8 901 740	6 710 712

### 34. Financial income

Financial income in 2007 and 2006 is broken down as follows:

	2007	2006
Interest received	394 557	216 044
Favourable exchange differences	497	356
Discounts for cash payment obtained	113	177
Reversals and other financial income and gains	23 930	17 232
	419 098	233 810

### 35. Extraordinary results

The statement of extraordinary results for 2007 and 2006 is as follows:

	2007	2006
Donations	97 500	34 688
Losses on inventories (Nota 25)	1 351	1 688
Losses on fixed assets	38 359	3 377
Fines and penalties	5 911	44 841
Corrections to previous financial years' accounts	1 385	5
Other extraordinary costs and losses	360 682	386 808
<b>Total costs and losses</b>	<b>505 187</b>	<b>471 406</b>
Gains on inventories (Note 25)	2 537	11 211
Gains on fixed assets	37 762	27 213
Reductions in provisions (a)	898 834	656 001
Corrections to previous financial years' accounts	-	340
Investment grants (Note 20)	4 579 281	2 652 763
Other extraordinary income and gains	234 643	93 214
<b>Total income and gains</b>	<b>5 753 056</b>	<b>3 440 743</b>
<b>Extraordinary results</b>	<b>5 247 869</b>	<b>2 969 337</b>

a) The reduction in provisions by 898,834 euros relates to reduced generic provisions by 867,334 euros (Note 17) and the cancellation of a provision of 31,500 euros made for the equity holding in Shore (Note 7).

### 36. Taxes

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

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

Income tax (IRC) recorded as period cost for the years ended 31 December 2007 and 2006 is corrected by the accounting of deferred taxes in accordance with Accounting Guideline nº 28 (Note 8).

At 31 December 2007 and 2006 the nominal tax rate is reconciled with the effective tax rate as follows:

	2007	2006
Profit before tax	31 784 533	23 265 062
Expected tax at the nominal rate of 26,5%	8 422 901	6 397 892
Effect of permanent differences	(1 161 283)	(10 179)
Separate taxation	131 577	124 259
Effect of change in the aggregate tax rate	-	424 562
<b>Tax charge</b>	<b>7 393 195</b>	<b>6 936 534</b>
Current tax	6 712 340	9 138 175
Deferred tax (Note 8)	680 856	(2 201 641)
<b>Effective tax rate</b>	<b>23,26%</b>	<b>29,82%</b>

### 37. Contingent liabilities and guarantees provided

#### Contingent liabilities

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

#### Guarantees

At 31 December 2007 and 2006 the company had obligations arising from guarantees issued as follows:

	2007	2006
European Investment Bank	12 613 707	18 489 220
Municipalities	18 873 923	15 086 260
Courts of law	5 433 496	5 433 496
Other	476 512	478 459
	37 397 638	39 487 436

### 38. Note to the income statement by function

At 31 December 2007, the main items of the income statement by function were as follows:

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

The item "Cost of sales and provision of services" included 40,591,166 euros relating to operating costs for the Production business area less 4,193,672 euros in income from the annual transfer of investment grants for assets allocated to the Production area.

The allocation of 4,579,281 euros in annual income from investment grants to the various items in the income statement by function in 2007 is as follows:

	2007	2006
Cost of sales and services provided	4 193 762	2 267 243
Distribution costs	381 779	381 779
Other operational costs and losses	3 741	3 741
	4 579 281	2 652 763

#### b) Distribution costs

This item reflects primarily operating costs in the Distribution business area which amounted in 2007 to 31,557,000 euros.

#### c) Administrative costs

At 31 December 2007, this item included mainly operating costs from all supporting areas in the company.

#### d) Net borrowing cost

This item includes interest on bank loans for an amount of 8,414,051 euros and costs of 113,551 euros incurred with bank guarantees for EIB loans.



**e) Tax on operating profit**

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

	<b>2007</b>	<b>2006</b>
Total tax for the period	7 393 195	6 936 534
Excess tax estimate (a)	-	(49 747)
Tax estimate shortfall (a)	45 300	-
Tax refunds (a)	(182 262)	-
	<b>7 256 234</b>	<b>6 886 787</b>

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



## Accounting documents required by the Official Accounting Plan

ASSETS	Financial years			
	2007		2006	
	Gross assets	Acc depreciation and adjustments	Net assets	Net assets
FIXED ASSETS				
Intangible fixed assets				
Intellectual property rights	22 692	464	22 228	21 300
<b>Total</b>	<b>22 692</b>	<b>464</b>	<b>22 228</b>	<b>21 300</b>
Tangible fixed assets				
Land and natural resources	49 869 219	-	49 869 219	49 247 566
Buildings	116 895 064	73 210 766	43 684 298	27 337 027
Production equipment	907 591 806	391 404 162	516 187 645	500 763 655
Transportation equipment	1 655 748	1 652 233	3 515	5 911
Tools	10 276 847	9 234 726	1 042 121	1 348 860
Office equipment	16 677 495	15 083 353	1 594 142	1 303 798
Containers	8 134	7 386	748	1 095
Other tangible fixed assets	10 542 481	8 523 331	2 019 150	2 489 221
Fixed assets in progress	32 027 635	-	32 027 635	74 252 834
Advances on tangible fixed assets	1 155 135	-	1 155 135	-
<b>Total</b>	<b>1 146 699 566</b>	<b>499 115 956</b>	<b>647 583 610</b>	<b>656 749 968</b>
Financial investments				
Equity holdings in associates	251 370	-	251 370	259 976
Securities and other financial investments	108 732	-	108 732	109 172
<b>Total</b>	<b>360 102</b>	<b>-</b>	<b>360 102</b>	<b>369 148</b>
MEDIUM- AND LONG-TERM DEBTORS				
Other debtors	11 302 155	-	11 302 155	710 979
<b>Total</b>	<b>11 302 155</b>	<b>-</b>	<b>11 302 155</b>	<b>710 979</b>
CURRENT ASSETS				
Inventories				
Raw materials, intermediate and ready to use	1 223 114	-	1 223 114	1 190 293
<b>Total</b>	<b>1 223 114</b>	<b>-</b>	<b>1 223 114</b>	<b>1 190 293</b>
Short-term debtors				
Clients, current account	20 635 621	-	20 635 621	22 449 544
Clients, doubtful debtors	4 774 764	3 477 453	1 297 311	665 093
Associates	1 343 246	-	1 343 246	1 333 246
Public sector	287 544	-	287 544	5 601 240
Other debtors	3 949 828	623 124	3 326 704	484 877
<b>Total</b>	<b>30 991 002</b>	<b>4 100 577</b>	<b>26 890 425</b>	<b>30 534 000</b>
Marketable securities				
Other treasury investments	11 000 000	-	11 000 000	-
<b>Total</b>	<b>11 000 000</b>	<b>-</b>	<b>11 000 000</b>	<b>-</b>
BANK DEPOSITS AND CASH ON HAND				
Bank deposits	3 963 160	-	3 963 160	3 504 937
Cash on hand	36 037	-	36 037	26 050
<b>Total</b>	<b>3 999 197</b>	<b>-</b>	<b>3 999 197</b>	<b>3 530 987</b>
ACCRUALS AND DEFERRALS				
Accrued income	10 031 630	-	10 031 630	9 457 719
Deferred costs	1 097 019	-	1 097 019	1 316 949
Deferred tax assets	9 829 939	-	9 829 939	11 303 607
<b>Total</b>	<b>20 958 588</b>	<b>-</b>	<b>20 958 588</b>	<b>22 078 274</b>
Total accumulated depreciation and adjustments		503 216 997		
<b>Total assets</b>	<b>1 226 556 415</b>		<b>723 339 419</b>	<b>715 184 949</b>

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2007

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

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

## Balance sheet at 31 December 2007 and 2006

SHAREHOLDER'S EQUITY AND LIABILITIES	Financial years	
	2007	2006
<b>EQUITY</b>		
Share capital	150 000 000	150 000 000
Adjustments to equity holdings in subsidiaries and associates	(4 064)	(4 064)
Revaluation reserves	107 369 030	114 105 399
Reserves:		
Legal reserves	27 225 088	25 592 236
Other reserves	22 171 377	22 171 377
Retained earnings	25 307 826	15 586 586
Sub-Total	332 069 258	327 451 534
Net profit for the year	24 391 338	16 328 528
Total shareholder's equity	356 460 596	343 780 062
<b>LIABILITIES</b>		
Provisions for risks and charges		
Other provisions for risks and charges	19 289 146	18 996 877
Total	19 289 146	18 996 877
Medium- and long-term debt		
Bank debt	211 171 405	202 189 795
Total	211 171 405	202 189 795
Short-term debt		
Bank debt	6 018 390	6 018 390
Suppliers, current account	24 867 155	21 117 867
Suppliers - Invoices received under processing	24 301	217 664
Suppliers of fixed assets, current account	7 279 530	20 452 879
Public sector	1 419 108	1 205 398
Other creditors	14 029 393	12 726 431
Total	53 637 878	61 738 628
<b>ACCRUALS AND DEFERRALS</b>		
Cost accruals	31 945 095	32 272 235
Deferred income	41 971 057	46 550 296
Deferred tax liabilities	8 864 243	9 657 055
Total	82 780 395	88 479 587
Total assets	366 878 823	371 404 886
Total shareholder's equity and liabilities	723 339 419	715 184 949

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2007

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

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

## Income statement by nature for the years ended on 31 December 2007 and 2006

COSTS AND LOSSES	Exercícios			
	2007			2006
Cost of goods sold				
Materials	2 684 150	2 684 150	2 808 741	2 808 741
Goods and services purchased		36 771 381		37 620 821
Staff costs				
Remuneration	20 895 664		20 300 548	
Social charges				
Pensions	2 593 857		3 726 602	
Other	9 875 776	33 365 297	17 675 367	41 702 518
Depreciation charges (tangible and intangible fixed assets)	30 426 855		27 899 007	
Adjustments	1 491 518		418 724	
Provisions	1 134 613	33 052 986	968 885	29 286 615
Taxes	1 008 739		692 213	
Other operating costs and losses	81 368	1 090 107	23 026	715 239
	A.....	106 963 921		112 133 933
Interest and similar costs	8 901 740	8 901 740	6 710 712	6 710 712
	C.....	115 865 661		118 844 646
Extraordinary costs and losses		505 187		471 406
	E.....	116 370 849		119 316 052
Company income tax		7 393 195		6 936 534
	G.....	123 764 044		126 252 586
Net profit for the year		24 391 338		16 328 528
		148 155 382		142 581 114
INCOME AND GAINS				
Sales				
Products	137 376 839		134 424 191	
Services provided	2 591 985	139 968 824	2 935 789	137 359 980
Own jobs	43 254		74 592	
Supplementary income	1 868 600		1 390 356	
Subsidies to operations	-		-	
Reversal of depreciation and adjustments	102 550	2 014 404	81 633	1 546 581
	B.....	141 983 228		138 906 561
Interest and similar income	419 098	419 098	233 810	233 810
	D.....	142 402 326		139 140 371
Extraordinary income and gains		5 753 056		3 440 743
	F.....	148 155 382		142 581 114
SUMMARY				
Operating profit	(B) - (A) =	35 019 307		26 772 628
Net financial items	(D - B) - (C - A) =	(8 482 643)		(6 476 902)
Profit before extraordinary items	(D) - (C) =	26 536 664		20 295 725
Profit before tax	(F) - (E) =	31 784 533		23 265 062
Net profit for the year	(F) - (G) =	24 391 338		16 328 528

The notes appended to the financial statements are an integral part of the income statement by nature at 31 December 2007

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

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

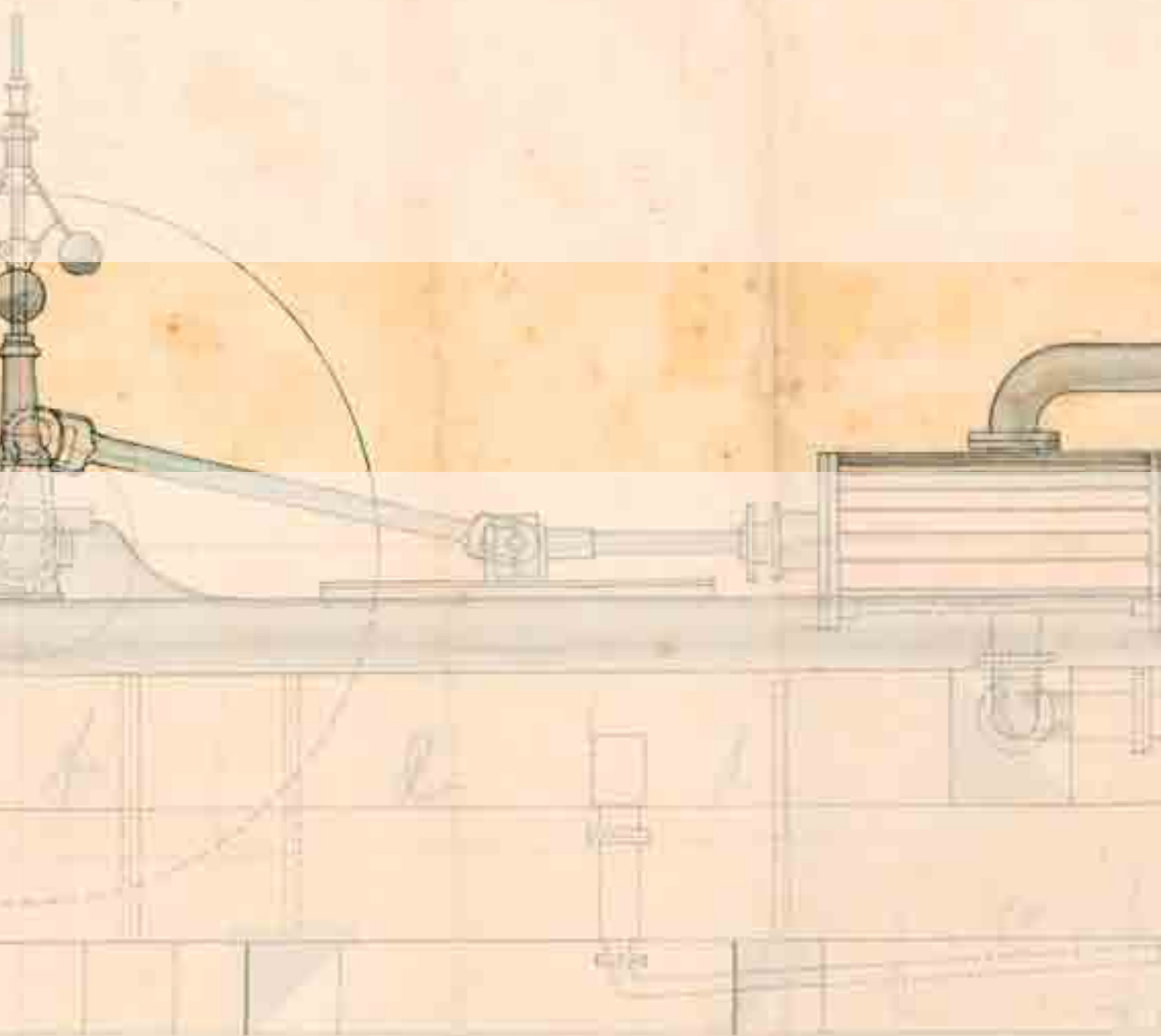
## Appended notes

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

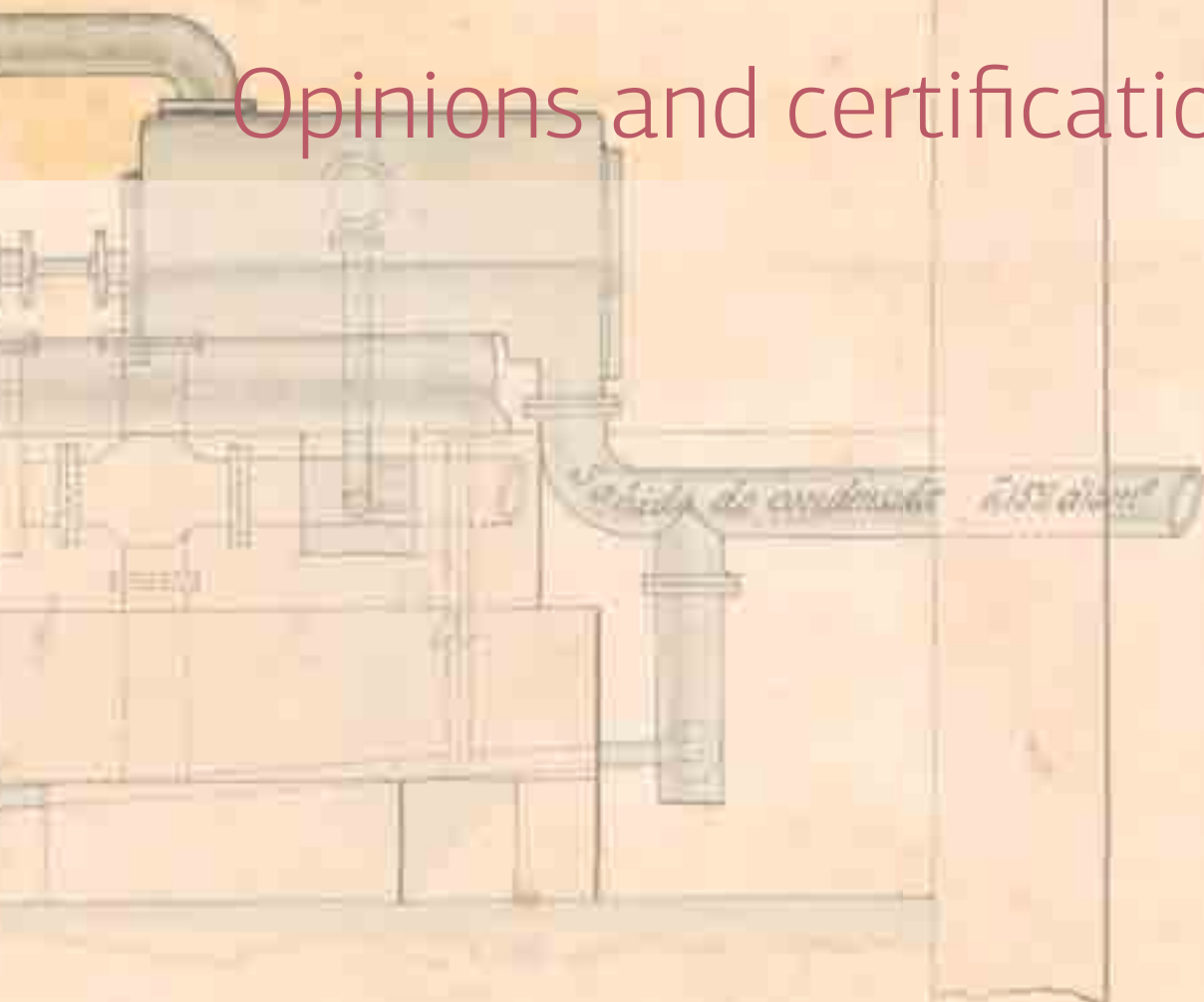
Note POC	Description	Presented notes
1.		2
2.	POC rules waived in the period	n.a
3.	Comparability	2
4.	Bases of presentation and main valuation criteria	n.a
5.	Share prices	n.a
6.	Tax benefits relevant for the period	36
7.	Income tax	27
8.	Average number of employees	n.a
9.	Note to the accounts for establishment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

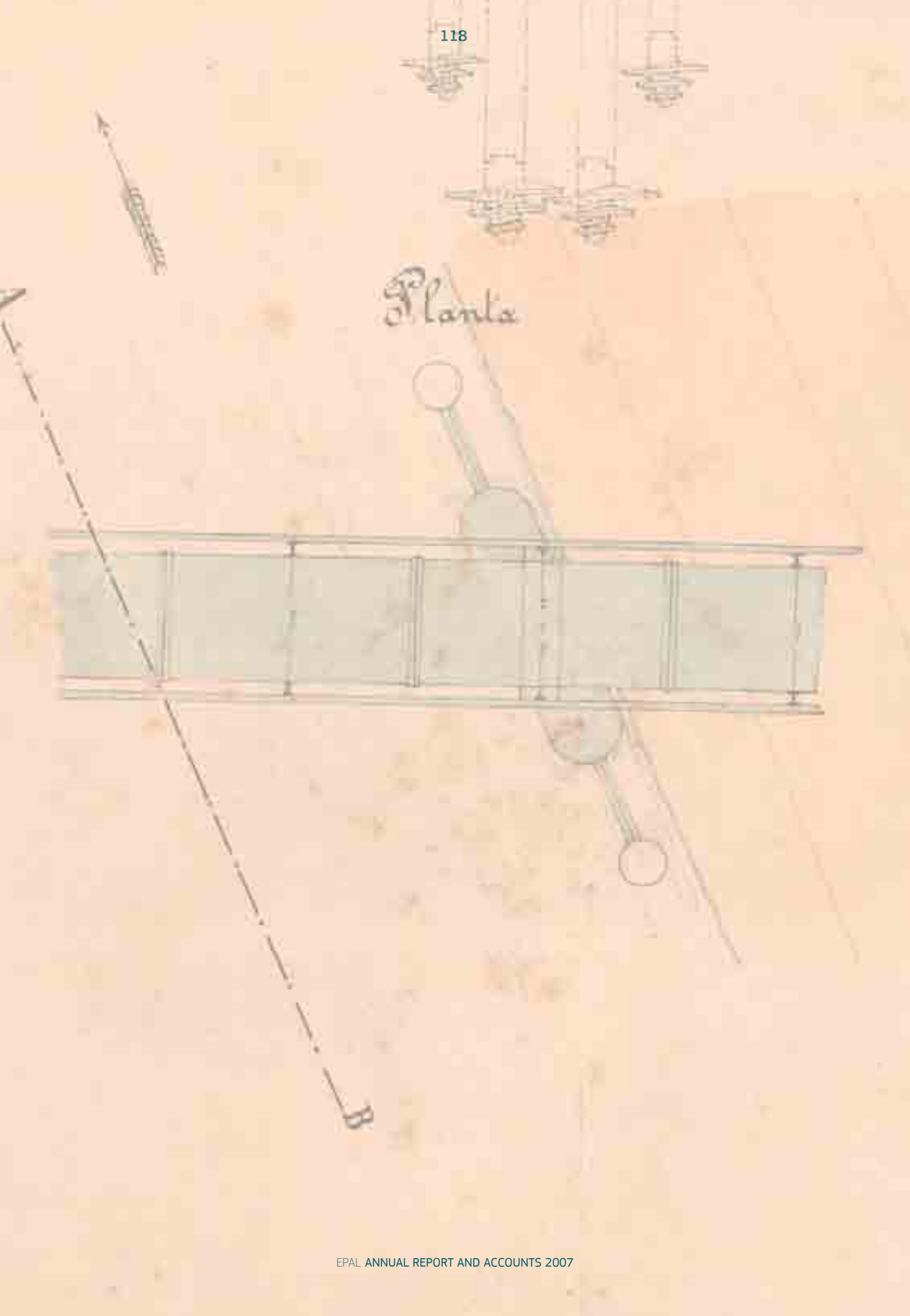
n.a. – non-applicable





# Opinions and certifications





## Report and Opinion of the Sole Auditor

Pursuant to the law and the company's articles of association, EPAL's sole auditor has prepared his annual report including the analysis of the board of directors' annual report and accounts 2007 as well as the allocation of net profit for the year as proposed by the board.

### **A. REPORT**

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

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

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

1. Evaluation of the management of specific areas of the company, particularly sales and purchases, human resources, operating and financial costs, capital expenditure and loans.
2. Verification that the company holds title to the goods and amounts allocated to its operations. In this regard, it was concluded that tangible fixed assets are recorded on the balance sheet at acquisition cost or their re-valued amount and depreciation charges of 30.43 million euros for the year were calculated on the basis of the respective assets' estimated economic life, applying the highest accepted tax rates.

3. Verification of the adequacy and consistency of accounting policies and asset valuation criteria adopted for the preparation of financial statements, which are disclosed in the notes to the financial statements, so as to reliably express the company's financial position and the result of its operations in the financial year.
4. Confirmation that the financial statements are formally presented in accordance with legal rules in force and are supported by adequate documents and records
5. Control of execution of operating and capital budgets. Execution levels are very satisfactory, not only because of the favourable variances achieved but also because of the magnitude of the year-on-year changes. In this regard, emphasis should be given to the favourable variances in revenues – 2.84 million euros compared to budget and 5.6 million euros year on year. Variances in costs were also favourable – 612 thousand euros or 6% below budget and 3 million euros below the year before.  
The capital budgeting plan was executed at 69%, with a nominal value of close to 33 million euros and the volume of commitments amounted to 77% of the plan. These indicators evidence a satisfactory financial performance in terms of capital expenditure, in line with earlier years.
6. Water losses in the year were analysed at all stages of the cycle, from abstraction to use by the end client, whereby it was concluded that the overall loss rate, 13.67% of water abstracted, was one of the lowest ever, which was in keeping with the board's goals in this respect. Accordingly, and with a view to creating the right conditions to continually curb water losses, the company executed significant investments in the renewal and expansion of the Lisbon network, which reached 5.4 million euros in 2007, with a volume of commitments of 6.2 million euros at year end.
7. The company's obligations with the pension plan fell significantly by 7.067 million euros in 2007 compared to the year before, which was influenced by the rising value of the fund's assets by 2.5 million euros as a result of EPAL's contributions of close to 2.6 million euros in the year. At the end of the year, the plan was funded up to a level in line with the rules of ISP's (the Portuguese Insurance Institute) so-called minimum fund, based on the following cover parameters: (i) value of the assets of the fund 54.8%; (ii) provision made 28.7%; (iii) deferred actuarial losses 16.5%. We emphasise that EPAL's financial support contributed decisively to ISP's requirements having already attained 115%.
8. The negative trend in financial performance of previous years was reversed with a significant improvement in critical indicators – working capital (+60%), liquidity ratio (+40.8%) and solvency (+5%); the equity to total assets and long-term capital to fixed assets ratios were 1.16 and 1.02, respectively, reflecting a sufficiently solid and balanced financial structure and ensuring operation of the company under normal conditions.  
Following the 3.9% increase in revenues and the 2.5% reduction in costs, returns on equity, assets and sales rose substantially, which led to a significant improvement in net profit, 49.4% up on the year before. Operating costs were curbed by 5.2 million euros or 4.6% after a cost-cutting campaign that focused on purchases of goods and services (-2.3%), cost of sales (-4.4%) and staff (-20%).  
In purchases of goods and services, savings in the following items were particularly relevant: maintenance and repair (-11.9%), specialist jobs (-4.6%) and energy whose increase could be contained to 1.6% in spite of a 6% rise in energy rates to the company. Control of energy use is very important for the company, considering that energy costs weigh around 8.4% in total operating costs.
9. Operational cash flow of 60 million euros was a relevant means of funding the company's activities, not only its current costs but also a significant part of its capital expenditure programme; in this regard, the rise in net debt has in the last five years been equal to around 1/3 of capital spending.
10. Equity rose 3.7% to 356.46 million euros in 2007. The increase stemmed primarily from retained earnings and new revaluation reserves of 9.7 million euros. Net profit of 16.33 million euros for 2006 had an impact on equity of 4.6 million euros, the amount transferred to reserves. Net profit of 24.39 million euros for 2007 was fully included in equity at 31 December 2007 pending the 2008 AGM's decision on its allocation.

11. Capital expenditure was 69% of the annual allowance of 47.06 million euros, in parallel with 77% in commitments. The execution level was satisfactory overall, particularly considering the company's efforts to optimise capital employed by managing assets efficiently. This purpose was announced in 2006 and includes ranking spending priorities on the basis of deeper knowledge of the company's assets following increased integration of asset base data..
12. As a final note, we should like to emphasise the strategy aiming to raise service quality while ensuring a sustainable financial profile and an adequate and fair return on capital invested by the shareholder. This approach is based on increased operational efficiency through implementation of a quality management system and involves a centralised purchasing function to control the cost of acquiring goods and services by harmonising purchasing policies with internal clients and suppliers. Because we view these steps as significantly beneficial to the company, we took the initiative of giving them due reference in this report.
13. We are of the opinion that the proposed allocation of net profit contained in the management report is compliant with the law and the articles of association and, in particular, what is stipulated in the Companies Code.

## B. OPINION

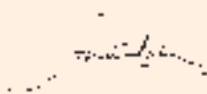
In view of the foregoing, it is the sole auditor's opinion that the following should deserve the AGM's approval:

- . the annual report and accounts of 2007;
- . the proposed allocation of net profit,

. as presented by the board of directors.

Lisbon, 19 February 2008.

O Fiscal Único,



(António Dias Nabais)

## CERTIFICATION OF ACCOUNTS

### Introduction

1. We have examined the financial statements presented by EPAL - Empresa Portuguesa das Águas Livres, S.A. consisting of the **balance sheet** at 31 December 2007 evidencing net assets of **732,339,419** euros and equity of **356,460,596** euros including net profit for the year of **24,391,338** euros; the statements of **changes in equity** and **cash flows** for the financial year ended on the mentioned date, and the appended **Notes** to the financial statements.

### Responsibilities

2. It is the board of directors' responsibility to prepare such financial statements that shall truly and appropriately evidence the company's financial position, the result of its operations and cash flows as well as adopt adequate accounting policies and principles and keep an appropriate internal control system.
3. Our responsibility is to express a professional and independent opinion, based on the examination of the mentioned financial statements.

### Scope

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

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

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

6. A remark is in order that the balance sheet and the income statement by nature for 2006 and 2007 are presented in a format that is different from the one required by the Official Accounting Plan (POC); this is, indeed, stated in Note 2.a) to the financial statements, where the notes are sequentially presented – the income statement after the balance sheet; however, all information required by the POC, particularly regarding total assets, equity and net profit, is – jointly with the statement of changes in equity – reported in both years for the same amounts as those contained in the balance sheet and income statement by nature according to the format required by the POC, also presented in a separate section;

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

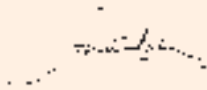


**OPINION**

8. In our opinion, the mentioned financial statements truly and appropriately reflect, in all materially relevant aspects, in compliance with the accounting principles generally accepted in Portugal, EPAL - Empresa Portuguesa das Águas Livres, S.A.'s financial position at 31 December 2007, the result of its operations and the cash flows in the financial year ended on that date.

Lisboa, 19 de Fevereiro de 2008.

O Revisor Oficial de Contas,



(António Dias Nabais)



## AUDIT REPORT



Deloitte & Associados, SROC S.A.  
 inscrita no ICRIS nº 23  
 Registro no OJVE nº 231

Endereço Social: Lisboa  
 Av. da Índia nº 16, 1.º  
 1050-014 Lisboa  
 Portugal

## AUDIT REPORT

### Introduction

1. We have examined the attached financial statements of EPAL – Empresa Portuguesa de Águas Livres, S.A. (the “company”), which include the balance sheet at 31 December 2007 evidencing a total of 723,339,419 euros and equity of 356,460,596 euros including net profit of 24,391,338 euros, the income statements by nature and function, the statement of changes in equity and the cash flow statement for the year ended in the said date as well as the relevant notes.

### Responsibilities

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

### Scope

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

### Opinion

4. Our opinion is that the financial statements referred to in paragraph 1 above present in a true and appropriate way all materially relevant aspects, the financial position of EPAL – Empresa Portuguesa de Águas Livres, S.A. at 31 December 2007 as well as the result of its operations and its cash flows in the financial year ended in the said date, in accordance with the accounting principles generally accepted in Portugal (Note 2.a).

Lisbon, 12 February 2008

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

Este relatório de auditoria foi elaborado em conformidade com as normas de auditoria aplicáveis em Portugal. O auditor não emite opinião sobre a validade jurídica dos documentos apresentados, nem sobre a conformidade dos mesmos com a legislação em vigor. O auditor não emite opinião sobre a fiabilidade das informações contidas nos documentos apresentados, nem sobre a conformidade dos mesmos com a legislação em vigor. O auditor não emite opinião sobre a conformidade dos mesmos com a legislação em vigor. O auditor não emite opinião sobre a conformidade dos mesmos com a legislação em vigor.

Deloitte & Associados, SROC S.A. inscrita no ICRIS nº 23  
 Endereço Social: Lisboa  
 Av. da Índia nº 16, 1.º  
 1050-014 Lisboa  
 Portugal

MEMBRO AF  
 Deloitte Tax & Finance

© Deloitte & Associados, SROC S.A. 2008. Todos os direitos reservados. Este relatório não deve ser considerado como uma recomendação de investimento.

EPAL ANNUAL REPORT AND ACCOUNTS 2007  
published by EPAL - Empresa Portuguesa das Águas Livres, S.A.  
design GIC - Gabinete de Imagem e Comunicação da EPAL

 English text - SINÓPTICA - Comunicação empresarial, Lda  
SINÓPTICA

