



· Annual Report and Accounts ·

2009




The United Nations declared 2010 as the International Year of Biodiversity, with the theme of 'Biodiversity is life. Biodiversity is our life'.

Biodiversity is the variety of all living organisms from all origins and every natural environment. The protection of biodiversity assumes habitat preservation and necessary conditions for life for every species. Sensibility and importance of the necessity to preserve genetic variety, species and ecosystems will be a development paradigm which will enrich all environments.

Biodiversity preservation is a concern for the entire planet which requires action at a local level.

The aim of choosing Biodiversity as the theme for this report is to divulge and increase awareness of the richness, variety and value of life in one of the geographic areas on which EPAL depends to be able to offer a public service of water supply - the River Zêzere river basin.













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Activity

Total volume of water sold (m ³)	217 085 364
Number of direct clients	348 050
Number of municipal clients	20
Number of multi-municipal clients	1*
Number of consumers (data for 2008)	2 875 261
Total area supplied (Km ²)	6 564

* 12 municipalities are supplied

Income statement

Total revenues	151 218 279
EBITDA	73 250 653
EBIT	39 795 056
Net profit	27 117 236

OPENING PAGES: Source of river Zêzere at Cântaros - Serra da Estrela

CONTENTS Cabril river canyon - Granite cliffs

1.

Indicators 2009

Balance sheet

Share capital	150 000 000
Shareholders' equity	373 490 766
Liabilities	365 168 056
Net total assets	738 658 822
Capital expenditure	26 795 930
Return on equity	7,3%



PAL - Empresa Portuguesa das Águas Livres closed 2009 with net profit of 27.1 million euros, up 1.7% from the previous record, set in 2008. The soundness of the company's results was reflected in an EBITDA of 73.2 million euros while its overall financial health is evidenced by a range of indicators such as an equity to total assets ratio of 51% and return on capital employed of 6.7%.

Rising sales in surrounding counties, a broader market through Águas do Oeste, operating costs under control and lower interest costs drove favourable results in the year. The good operational performance of the company was reflected in the Non-invoiced water indicator, which was further reduced to 10.6%. In the city of Lisbon's distribution network, this indicator was pressed down to 13.5%, or a 43% decline in four years. The slight reversal of the favourable trend in the number of trunk main bursts set off the launch of the Service Guarantee project with quantified goals for the coming years.

EPAL's service quality is recognised by its clients as evidenced by the company's first place in the National Customer Satisfaction Survey's Water Supply sector. The company's abilities and pro-activity are based on new management processes and the adoption of best practice in asset management, management information systems and management by objectives. This rests in turn on a new organisational structure that followed from project EPAL Vision II, in accordance with the value chain and a new inter-departmental relationship model based on team spirit oriented towards change management.

The company's thrust is ultimately based on the quality and commitment of its human resources. Motivation and training are, therefore, two key aspects supporting the management of knowledge for excellence in operational performance.

For this very reason, the renewal and rejuvenation of the staff and the upgrade of their qualifications have been unremitting goals at all levels. Evidence of this is the creation of EPAL's Centre for New Opportunities, which was joined by 135 staff, of which 77 have had their qualifications certified.

In a fragmented sector, both in domestic and international terms, such as the water services sector, relationships and the sharing of knowledge and experiences between com-





panies is an unavoidable path in order to raise ability and performance levels as well as management quality. This is the reason EPAL has sought to join relationship structures and networks for the water industry.

In March 2009, EPAL hosted and organised the Water Security Management Assessment, Research & Technology (WSMART)'s annual workshop where the focus was on the presentation and analysis of situations of supply and sewage disposal requiring crisis management. Water management companies from Canada, the United States, France, the Netherlands, England, Israel, Portugal and Switzerland are represented at WSMART.

In September, the International Water Association (IWA) awarded EPAL the organisation of its World Water Congress in 2014 in Lisbon in recognition of the quality of its application, the outstanding development of the sector in our country and the prestige of the company.

In 2009, the government enacted several pieces of legislation which had great impact on the organisation and activity of the sector. Among these, two important ones were a law governing partnerships between central and local government and a government decree (Decreto-Lei nº 194/2009) on municipal systems. Both documents brought new ways of organising water services as well as new structures and regulatory processes.

It is against this backdrop that EPAL aims to give its contribution to the development of the Portuguese water industry both by supporting the development of AdP – Águas de Portugal's projects and by seeking, in its assigned geographical area, business solutions that will ensure profitability, service quality and environmental sustainability in the use ■





Cabril river canyon - Granite cliffs



Mission vision & values

3.





Mission

To provide water services and manage the urban water cycle in a sustainable way across its activities and businesses.

Vision

- To be a model company in the Portuguese water sector
- To guide its actions by international best practice

Values

Quality, whereby innovation, novelty and excellence are pursued

Social responsibility when providing basic public services

Sustainability and its attendant goals of management efficiency, environmental protection, respect for human beings and community involvement

Orientation to the client, the reason for the company's existence

Integrity and **Transparency** in its behaviour and relationships with all stakeholders

Competence and **Strictness** in decision-making and its overall actions by setting trust as the principle governing relationships between EPAL and its various audiences

Respect for and practice of lawfulness

Continuous improvement of people, knowledge, processes and company practice





Downstream water cascade - Poço do Inferno Vale Andinho



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he Water Cycle

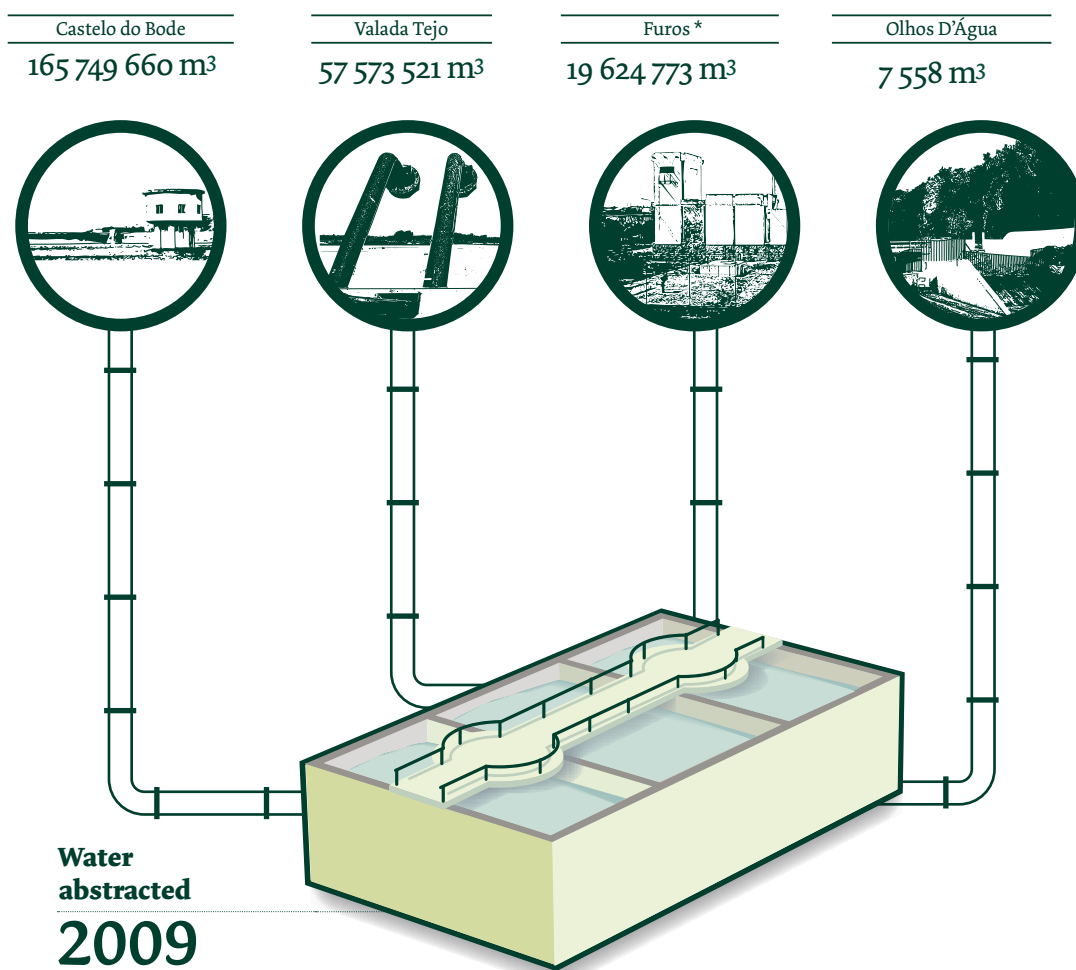


Abstraction

Volume of water abstracted and sources

243
million m³

The total volume abstracted originated in the following sources:



The volume abstracted increased by 0.77% from 2008.

* Underground abstractions used were: Alenquer, Lezírias e OTA.

From 2009, the Olhos d'Água source had a residual use in the supply system.

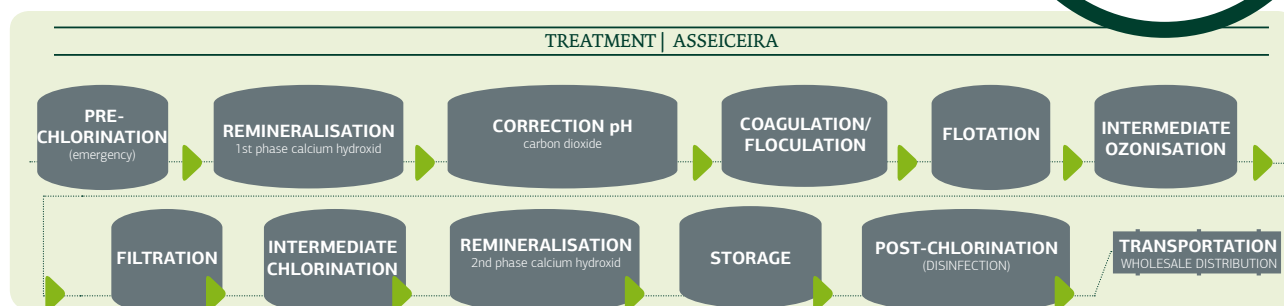
Treatment

Asseiceira water treatment station

Geographically located in the Tomar county, this station has a production capacity of 625,000 m³/day and treats the water abstracted at the Castelo do Bode water reservoir.

Water treated

165 732 500 m³

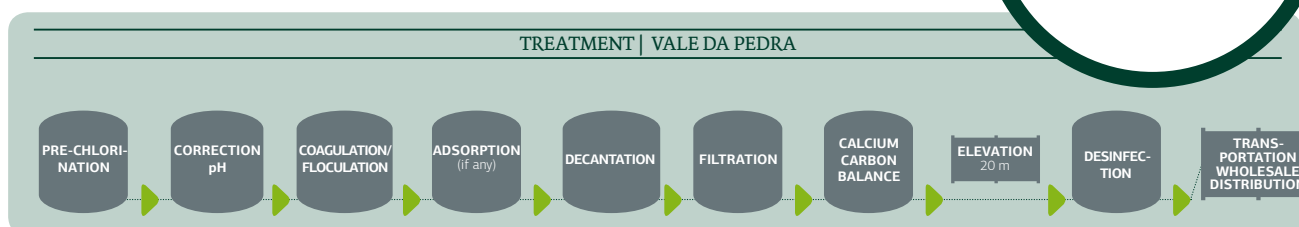


Vale da Pedra water treatment station

Located in the municipality of Cartaxo, this station has a production capacity of 240,000 m³/day and treats the water abstracted from the Tagus river at Valada.

Water treated

57 456 028 m³



Other treatment facilities

Close to 19, 6 million m³ of water from underground sources were also treated.

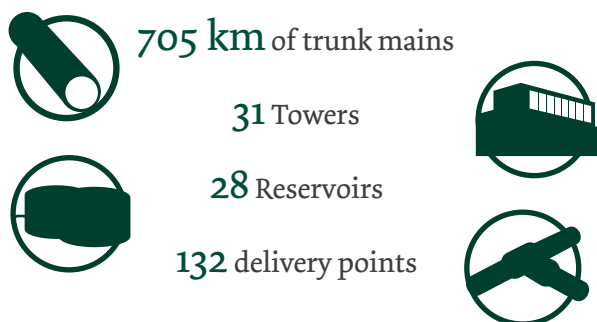
Water produced

The volume of water launched in the trunk mains and reservoirs, after treatment, was

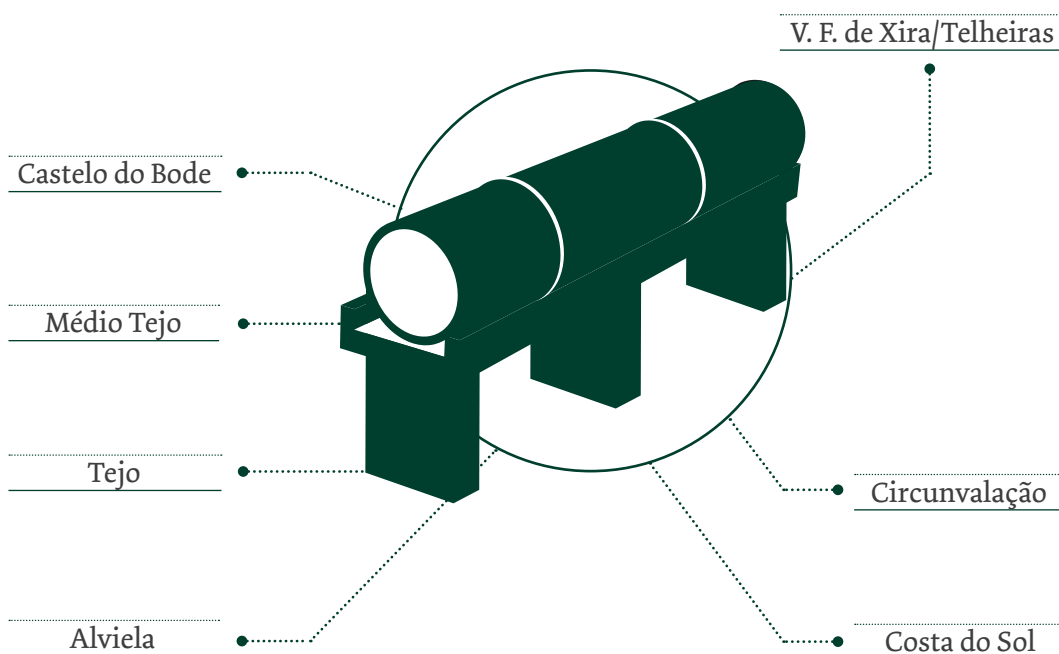
242,8
million m³

Transportation

EPAL's transportation network is composed of:

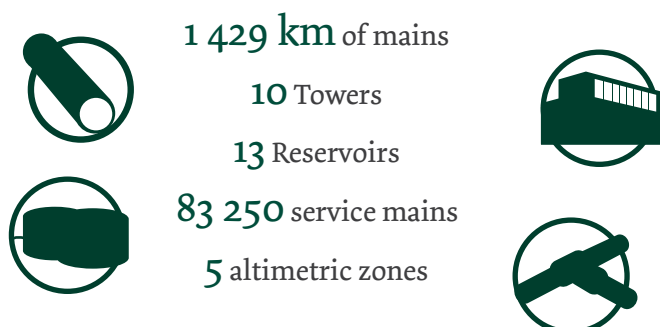


The company's main trunk mains are the following:



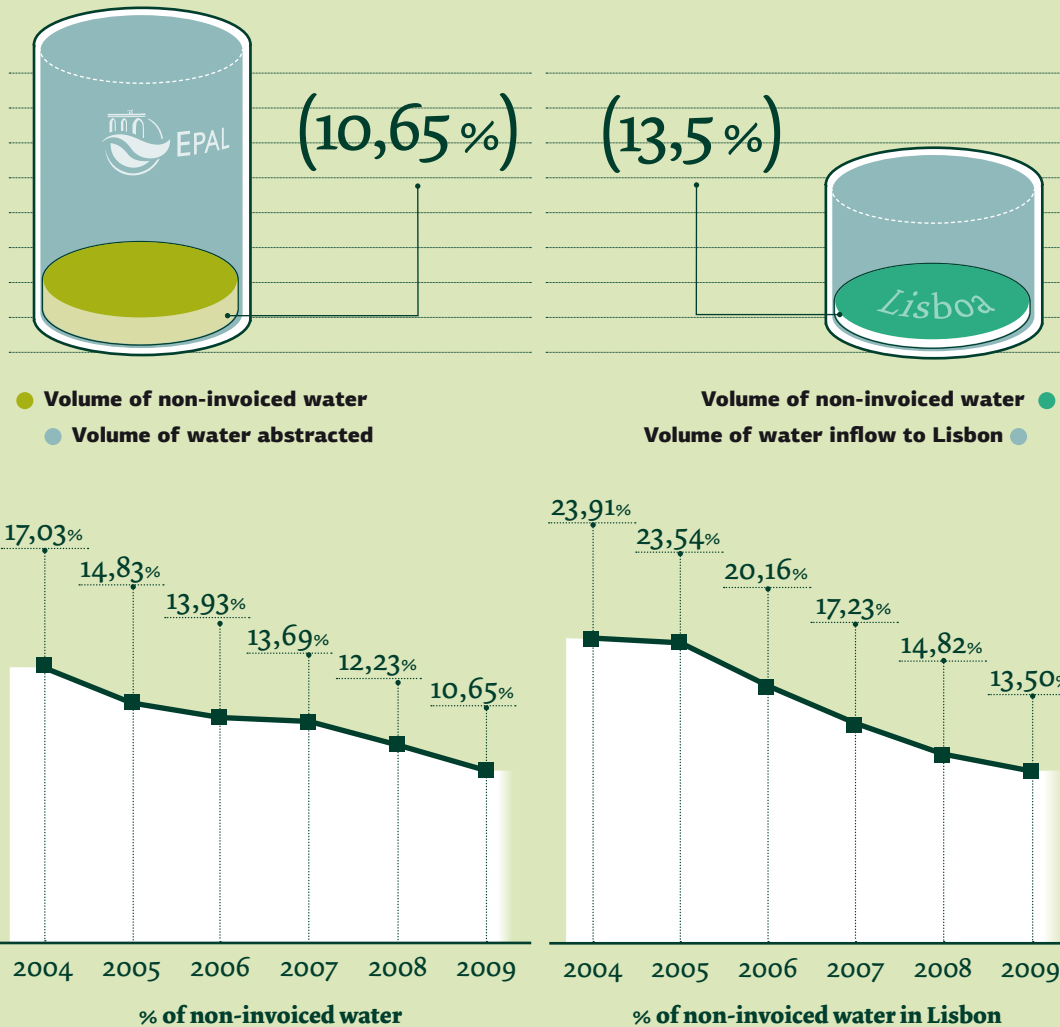
Distribution

EPAL's general distribution network consists of:



Non-invoiced water

The volume of non-invoiced water arises from the difference between the volume abstracted and the volume invoiced.



In comparison with a year earlier, non-invoiced water fell by 3.6 million m³.

The non-invoiced volume accounts for **10.65%** of water abstracted.

Non-invoiced water in the production and transportation system was **4.31%** of the volume abstracted after deduction of the volume delivered to Lisbon and the volume invoiced to municipal clients.

Non-invoiced water in the distribution system was **13.50%** of the volume that flowed into Lisbon.

The volume of non-invoiced water in 2009 was within the range of the economic level of losses.

The economic level of losses is reached when the cost of actively controlling leakages equals the marginal cost of water production.

Bursts / Monitoring / Control

Bursts	2009
Breakdowns in trunk mains in the transportation network	10
Breakdowns in mains in the distribution network (ERSAR)	638
Bursts in service mains	1.057

There were 638 breakdowns in the distribution network (ERSAR), which equated to

44.66 breakdowns for 100 km of trunk mains in the year.

The stagnation in the number of bursts in the period between 2006 and 2009 led to the creation of project Service Guarantee for the purpose of identifying and reviewing the causes of bursts as well as implementing the required actions for a consistent reduction of their number.

Goals set for the project:

- At the end of 2010: 38 bursts/100 km/year
- At the end of 2011: 30 bursts/100 km/year

In the period under review, there were 1,057 bursts in service mains, or 1.27% of the total number of service mains (83,250) and a decrease of 8.6% in comparison with a year earlier.

Monitoring activity	2009
Permanent ZMTs in the city of Lisbon	5
Permanent ZMCs in the city of Lisbon	145
Percentage of the network covered by ZMCs	97,0%

The monitoring and control zones (ZMC in Portuguese) insulate zones of the distribution network to reduce the time for detecting and reacting to the malfunctions of the network, improve the reliability of customer service and evaluate the volumes of non-invoiced water.

In 2009, 35 ZMCs were installed, which – in addition to the 110 ZMCs installed in previous years – allowed the coverage of 97% of the distribution network. The remaining 3% will be covered by the ZMCs to be installed in 2010.

The whole system is served by IMC - Integration, Monitoring and Control, a computer application developed by EPAL to record consumption patterns and pressure fluctuations in the installed ZMCs as well as identify abnormal supply situations in real time.

Energy consumption

Electric power is the main form of energy used by EPAL.

In 2009, total usage of electric power by the production system and support services amounted to

150,4
GWh

The system of abstraction, treatment and transportation accounted for the use of 114.7 GWh, or 0.54% up from 2008, while distribution absorbed 32.9 GWh, r 16.67% more than a year earlier. The energy used by support services amounted to 2.8 GWh.

As a result of the negotiations for the liberalised market, contracts were signed from mid-June with a new energy supplier for 30 EPAL facilities accounting for most of the use of electric power, namely three facilities supplied with high voltage and 27 in medium voltage.

The cost reduction made possible by these contracts was €580,000.

Intensive-use facilities

With a plan for managed use

- EE of Amadora
- EE of Castelo de Bode
- EE of Olivais
- EE of Telheiras
- EE of Valada Tejo
- EE of Vale da Pedra
- EE of Vila Franca de Xira

Without a plan for managed use *

- ETA of Asseiceira
- EE of Barbadinhos

* Considered to be of intensive use by government decree (*Decreto-Lei nº 71/2008 of 15 April*) pending completion of energy audits and the approval of the management plan

Performance of specific energy use in 2009

Except for abstraction at Castelo de Bode, facilities had specific consumption above the goals set in the management plans.

Results must be interpreted against the regulatory definition of the reductions planned in the management plans. Indeed, the goals set for water pumping according to the methods specified in the Intensive Energy Use Management System are generally not reachable where there is modern or well-maintained equipment which is connected to water networks where operating conditions are unchanged.

EPAL performs system-wide maintenance of its equipment, which is replaced whenever warranted.

The reduction in specific use at the EE of Castelo de Bode resulted from the high water level of the Albufeira reservoir and the renewal of engines and speed inverters.

All intensive-use facilities were subjected to periodic inspections and to preventive, systematic and conditioned maintenance. Electronic speed inverters were installed in Amadora and Telheiras.

HIGHLIGHTS

Management of the several phases of the water cycle where EPAL participates was guided by the fundamental principles of sustainability, quality of service provided to clients and consumers and profitability.

The main results of the actions taken were:

- The quality of treatment of the water abstracted;
- The reduction in non-invoiced water, which reached the lowest level ever;
- The 97% coverage of the distribution network by continuous-use monitoring and control instruments;
- Opening of the market – purchasing from new suppliers – cost savings:





Castelo do Bode reservoir - Abrantes - Senteiras



W^{5.}ater Quality



Water Quality

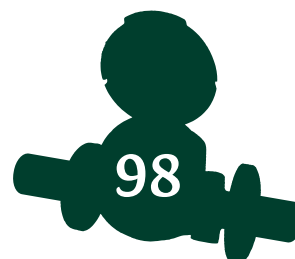
The control of water quality is ensured by compliance with PMQA, the programme for monitoring water quality. The PMQA consists of the Legal Control, laid down in a government decree (*Decreto-Lei No. 306/2007 of 27 August*), and the Operational and Monitoring Control.

Legal control



sampling points at client taps

Sampling points installed at the points for delivery to water providers



7 sampling points installed at the points of delivery to clients located in areas covered by other water providers.

Operational control



fixed sampling points in the city of Lisbon's distribution network

sampling points representing the transportation system



sampling points installed in water sources

Tests conducted

7 190 water samples collected

124 parameters and **228** substances researched

185 272 outcomes distributed as follows:

Legal control

Direct clients through transportation	891
Deliveries to water providers	34 164
Consumer taps in the city of Lisbon	17 892
Sub-total	52 947
Operational/monitoring control	
Underground abstractions	
Surface abstractions	
Water treatment stations (process water)	6 633
Transportation system	40 831
Distribution network (fixed points)	64 726
Sub-total	132 325
Total	185 272

Over **1,585** samples leading to **15,401** outcomes were collected following complaints, findings of failed parameters and the washing and disinfection of reservoirs and trunk mains

Development of water quality



Water at source

River Zêzere – Castelo do Bode reservoir

Without significant changes in recent years, the water quality from the reservoir is part of the Class A1, except in the temperature parameter, which is not relevant given the depth of the abstraction.

River Tagus – Valada Tejo

Water quality has remained stable, with occasional aggravations resulting from situations of strong rain and drought. For the parameters of temperature and sulfates, the water of the river is part of the class higher than A3 and total coliforms are part of Class A3. The remaining parameters tested are part of Classes A2 and A1.



Underground abstractions

Mineralised and averagely hard or hard water, whose parameters fulfill the amounts of Class A1, without remarkable developments in quality.

Water supplied

In Lisbon

Apart from a few one-off, non-recurrent cases, water quality at consumers' taps fulfilled the standards laid down in the Portuguese legislation and recorded non-compliant levels of 0.22% (40 non-conformities) of the outcomes for which substances were tested.

The number of outcomes carried out at fixed sampling points installed in the distribution network allowed the conclusion that, apart from a few non-recurrent points, the water met the quality standards defined in the Portuguese legislation, reaching 0.11% of total non-conformities of performed outcomes of substances (72 non-conformities).

To water providers

Of the outcomes made on samples collected at points of delivery to water providers, there were 0.08% non-compliant amounts (27 non-conformities).

Compared to 2008, there was a slight decrease in the quality of the water supplied by EPAL, evidenced by the increase in the number of non-conformities in the water samples taken to check legal and operational and monitoring control requirements.

Data disclosure

At www.epal.pt and on a monthly basis, statistical data is presented of the conformity analysis conducted on water collected from consumers' taps and of the analysis performed at the points of delivery to the water providers.

On a quarterly basis:

- Statistical data on the conformity of water from consumers' taps is published in the Portuguese press;
- Statistical data on the conformity of water collected from delivery points are sent to water providers;
- Statistical data on water samples taken from points representing water supply are sent to hemodialysis systems managers.

HIGHLIGHT

Monitoring water quality is a permanent concern of EPAL's management as it is a factor of the greatest relevance for sustainability and the company service quality.

In terms of water quality in 2009, there was a slight growth in the number of parameter non-conformities in legal, operational and monitoring tests carried out





Kermes oak *Quercus coccifera*



6.



Clients

EPAL has municipal, multi-municipal and direct clients.

Municipal clients

The municipal clients are the following:

ALCANENA		AMADORA		BATALHA		CARTAXO	
CASCAIS		CONSTÂNCIA		ENTRONCAMENTO		LEIRIA	
LOURES		MAFRA		ODIVELAS		OEIRAS	
OURÉM		PORTO DE MÓS		SANTARÉM		SINTRA	
TOMAR		TORRES NOVAS		V. FRANCA DE XIRA		V. NOVA DA BARQUINHA	

Multi-municipal client



Through Águas do Oeste, EPAL indirectly supplies 12 municipalities:

Alenquer	Bombarral	Peniche	Arruda dos Vinhos
Azambuja	Cadaval	Óbidos	Sobral de Mte Agraço
Torres Vedras	Lourinhã	Rio Maior	Caldas da Rainha

Direct clients

At the end of 2009, EPAL had **348,050** direct clients, up 0.44% from a year earlier, distributed as follows:

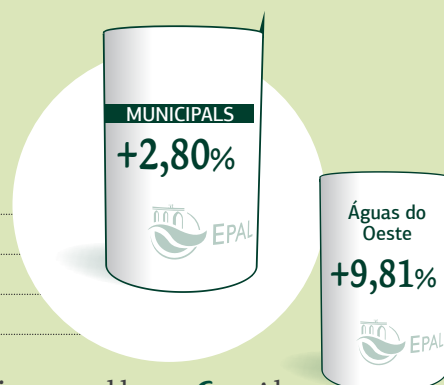
- Residential: **296,587**
- Trade and industry: **43,932**
- State, city of Lisbon and embassies **4,825**
- State-chartered private institutions **2,704**
- Military units **2**

Services provided

Total water sold

217 085 m³

Clients	2008	2009	Change
Municipal	132 793	136 517	2,80%
Multi-municipal	19 336	21 233	9,81%
Direct	59 127	59 335	0,35%
Total	211 256	217 085	2,76%



Contrary to the trend of recent years, the water sold in 2009 increased by **2.76%**. Although stable for direct clients, volumes sold to municipal clients and Águas do Oeste showed an upward trend..

Other services provided



Services were provided of laboratory analysis, repair, metrological verification and calibration of meters and services under the marketing of the AQUAmatrix to several external entities, which amounted to 1.75 million euros and accounted for 1.17% of total company sales.

Service levels

Service suspensions that impacted clients

		2008	2009	Variação
Time				
Total production and Transportation	h	571	381	-33%
Programmed	h	498	187	
Non-programmed	h	73	194	
Total distribution	h	5.234	4.994	-5%
Programmed	h	1.673	1.377	
Not programmed	h	3.561	3.617	

Services suspended with an impact		2008	2009	
Number of instances				
Total, Production and transportation	nº	39	22	-44%
Programmed	Nº	34	18	
Non-programmed	nº	5	4	
Total Distribution	nº	1373	1268	-8%
Programmed	nº	389	309	
Non-programmed	nº	984	959	
Service effectiveness				
Service interruptions > 4h – Municipal clients	nº	30	14	-53%
Service interruptions > 4h – Direct clients	nº	494	494	0%
Service interruptions > 12h – Municipal clients	nº	17	6	-65%
Interrupções serviço > 12h - Directos	nº	29	25	-14%

Comparing interrupted service in 2008 and 2009 shows a remarkable decline in duration and number of interruptions alike, which is clear evidence of improved service levels

Customer service

The number of clients served in 2009 was 511,441 distributed as follows



The number of clients served through the Internet should be highlighted; coupled with the number of clients that started to use the e-water bill, it shows a growing use of this means of communication. In 2009, 5.4% of the 4.186 million invoices issued were sent by the Internet.

Personal service in the last three years

	2007	2008	2009
Loja do Cidadão	58366	67102	63568
Head Office store	158691	178749	168383
Total	217057	245851	231951



Telephone service



	2007	2008	2009
Contact Center	212672	240279	252016

Service indicators improved in 2009, both in telephone and personal service.

Satisfaction levels

New methods were introduced in 2009 to assess customer satisfaction levels

- **The ECSI**, a national survey of customer satisfaction resulting from a partnership between the Portuguese Quality Association, the Portuguese Quality Institute and the Institute for Statistics and Information Management at UNL – Universidade Nova de Lisboa, aims to measure the quality of goods and services by using a satisfaction questionnaire covering companies from several industries (banking, insurance, communications, retailing, energy, transportation and, now, with APDA's partnership, also the water sector); this not only provides EPAL with an indicator for the satisfaction of its clients, it also compares EPAL with its own and other sectors;

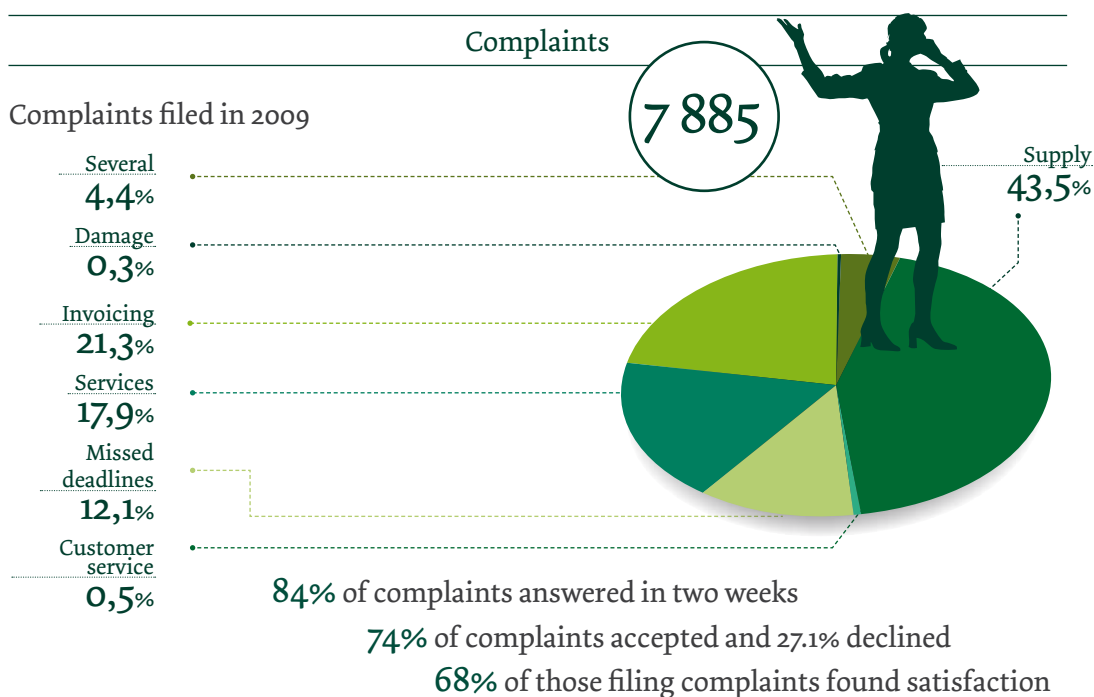
Latent variables	EPAL	Water sector
Image	7,51	7,23
Expectations	7,04	6,87
Perceived quality	7,40	7,19
Perceived value	6,29	5,80
Satisfaction	7,32	6,84
Complaints	6,48	5,98
Loyalty	6,92	6,48

Despite EPAL's clear leading position in the water sector, the results of the survey have identified areas for improvement in perceived value and complaints. In order to improve customer satisfaction levels, special attention should be given to image and perceived quality.

- **The Barometer for Water Quality** is a method applied by a market research company to a sample representing the population of the city of Lisbon; the purpose is to evaluate satisfaction with the product on offer, thereby providing insights into the percentage of clients who drink/do not drink EPAL water, their motives, degree of confidence in the quality of the water and their perception regarding the value they get for money

	Residential	Business
Confidence in EPAL's water	90%	92%
Drink EPAL's water	85%	77%
EPAL controls water quality	84%	87%
The price of EPAL's water is adequate	56%	56%

The evaluation of the water price adequacy reflects that the price is not told apart from the city of Lisbon's tariffs, which are charged in the invoices issued by EPAL. The remaining barometer indicators bear out the quality of water supplied.



DHIGHLIGHTS

The relationship between EPAL and its clients is dominated by the company's guiding management principle of service quality.

Water sold increased by 2.76% in comparison with a year earlier and service levels improved, mainly in respect of reliability of supply to the extent that both the number and duration of service interruptions declined significantly.

The data collected by the new methods of assessing customer satisfaction are, despite the favourable findings, an incentive for the development of actions to develop intimacy and raise operational efficiency.





Castelo do Bode reservoir - Abrantes - Bairrada



P^{8.}eople

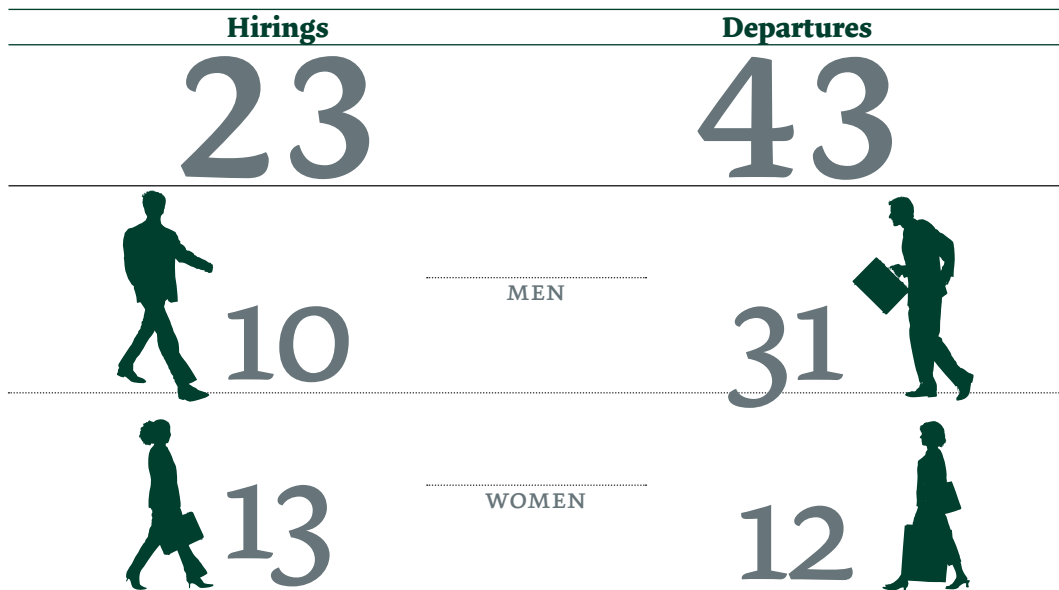


At 31 December 2009, EPAL had



The company's principles and practice in the field of human resources management are guided by the equality of treatment and opportunities between men and women, by the refusal of any discrimination whatsoever, by compliance with the commitments in the ethics code, by professional advancement and by the respect for personal and family life.

Staffing movements in the year



Reasons for departure

Reasons for departure	Men	Women
Retirement	5	
Resignation		1
Termination of contract		3
Decease		1
Early retirement	26	7
TOTAL	31	12

Age

The average age of EPAL workers at 31 December 2009 was 46.43 years, down 0.13% from 2008

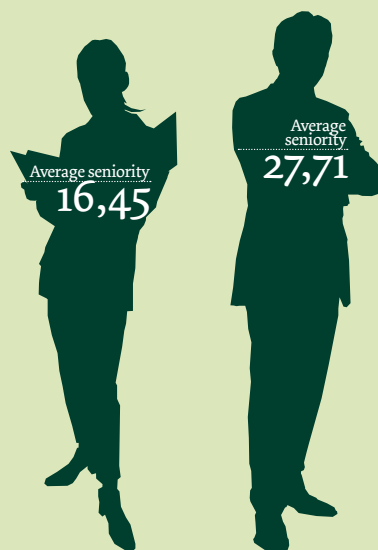


Age	Total
18-29	51
30-54	506
55-64	208
65 and over	3

Seniority

The average seniority of EPAL workers at 31 December 2009 was 20.36 years, down 0.82% from 2008.

Seniority	Total
0-10 years	202
11-20 years	132
21-30 years	238
31-40 and over	196




Absenteeism

The rate of absenteeism in 2009 was 4%, up 1% from 2008.

This increase followed primarily from legislative changes regarding parenthood leave and disease-related factors.

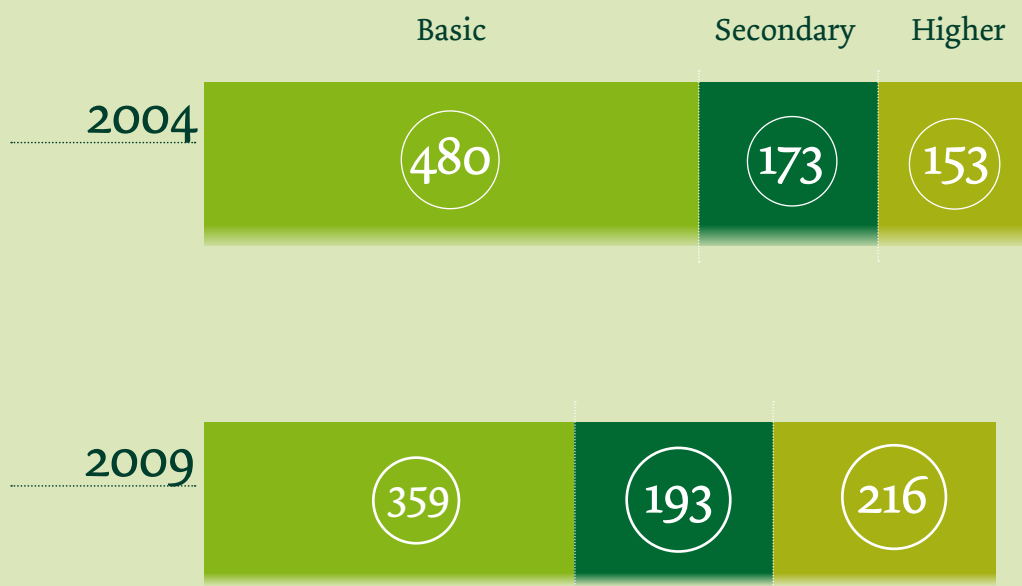
Disease, birth-giving, parenthood and occupational accidents accounted for most absent hours.

Distribution of staff by professional level			
	Professional level	Men	Women
	Senior managers	66	33
	Middle managers	90	75
	Forepersons	40	2
	Highly skilled workers	101	32
	Skilled workers	271	53
	Semi-skilled workers	3	2
	TOTAL	571	197

Relative to 2008, the number of middle managers grew and the number of staff in the immediately lower levels declined

Distribution of staff by educational level			
Educational level	Men	Women	Total
Basic	312	47	359
Secondary	144	193	193
Higher	115	101	216

Change in the educational level of workers



New Opportunities initiative

From early 2008 up to 31 December 2009, 135 workers joined the New Opportunities initiative and 77 certifications were awarded. Most relevantly in 2009, an agreement was signed with the Foundation for the Enhancement of Information Technologies whereby a dedicated training centre was set up in the Olivais premises.

Number of workers that joined

135



4th grade	8
6th grade	69
9th	58
Total	135

Number of workers certified

77



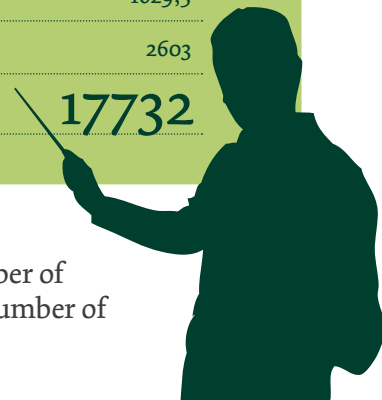
9th grade (formerly 4th)	3
9th grade (formerly 6th)	46
12th grade (formerly 9th)	28
Total	77

Training

The following table summarises the company's training effort in 2009:

Professional level	Number of trainees	Number of participants	Training hours
Senior managers	612	93	5545,5
Middle managers	840	142	7314
Forepersons	59	26	640
Highly skilled workers	249	83	1629,5
Skilled workers	341	158	2603
TOTAL	2101	502	17732

Compared with 2008, the above data shows growth of the number of participants by 43%, the number of trainees by 94% and the number of training hours by 9%.



Occupational safety and hygiene

In 2009, 11 workplace accidents with sickness absence occurred out of a total of 19 accidents, as shown in the tables below:



Frequency rate

Years	2007	2008	2009
TF	20,23	18,25	15,22
Tf	16,34	11,9	8,81

TF = Total number of accidents x 106 / number of hours of exposure to risk

Tf = Number of accidents with absolute temporary disability x 106 / number of hours of exposure to risk

Severity rate

Years	2007	2008	2009
TG	0,91	0,47	1,16
Tg	0,71	0,21	0,33
TG average	0,734	0,734	0,734

TG = Number of disability days including from workplace accidents in previous years x 10³ / number of hours of exposure to risk

Tg = Number of disability days from workplace accidents in the year only x 10³ / number of hours of exposure to risk

The TF indicator was the best in recent years and 17% down from the previous year

Occupational medicine



1148

medical examinations

1807

stomatology visits

2587

visits to ARS healthcare points in the company

204

nutrition visits

1452

physiotherapy treatments

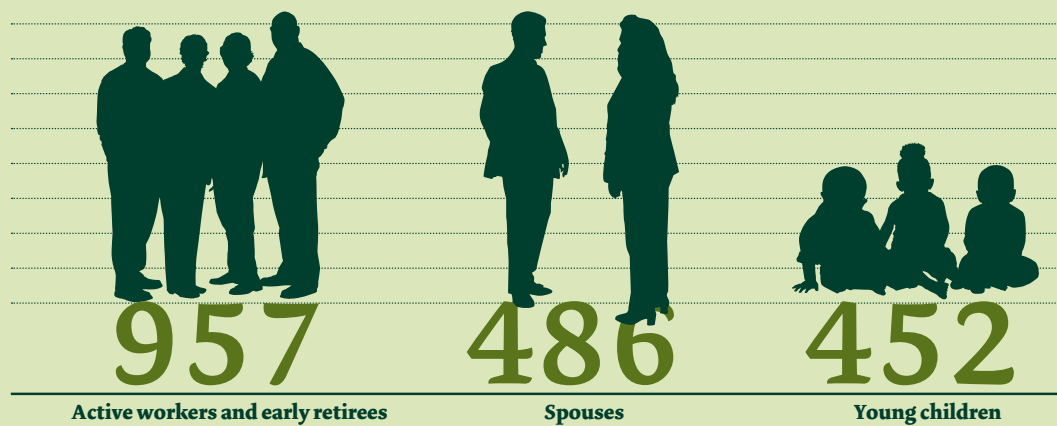
Under the contingency plan for the H1N1 flu, the following actions were taken with the whole company's commitment and involvement:

- Identification of priority workers
- Appointment and training of flu managers
- Organisation of campaigns for breathing labels
- Distribution of supplies for the cleaning and disinfection of premises and people
- Organisation of campaigns for voluntary vaccination

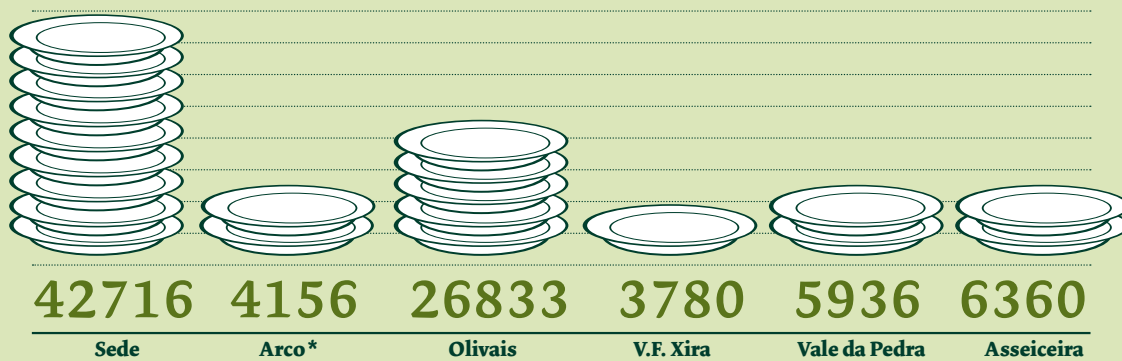


Social benefits

The health insurance bought by the company covers 1,895 people.



In 2009, 89,781 meals were served at EPAL's six canteens

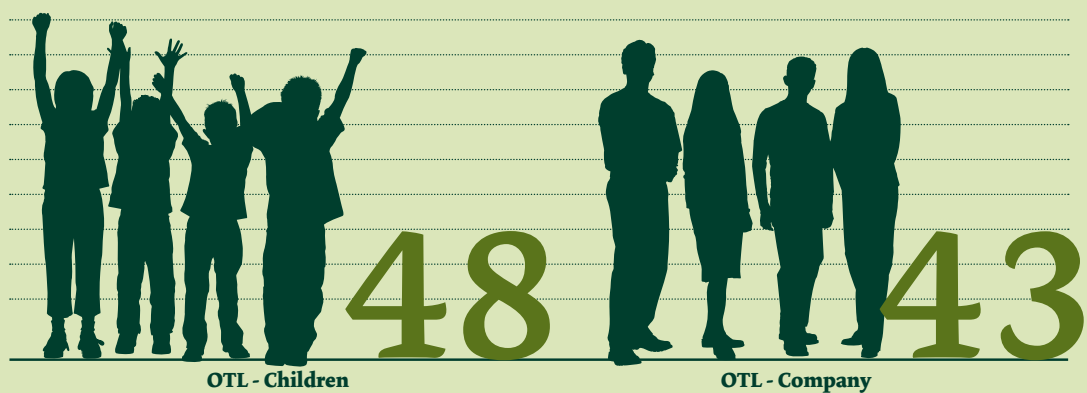


* Discontinued from 23 December 2009

1,866 Christmas baskets were distributed



In 2009, 91 children of employees were covered by the company's programme for the occupation of leisure time (OTL).



Highlight

In 2009, people management at EPAL translated into favourable results in the following fields:

- Payroll reduction
- Workforce rejuvenation
- Skills levels
- Internal mobility
- Training
- Healthcare





Ivy leaf



8.

Capital expenditure

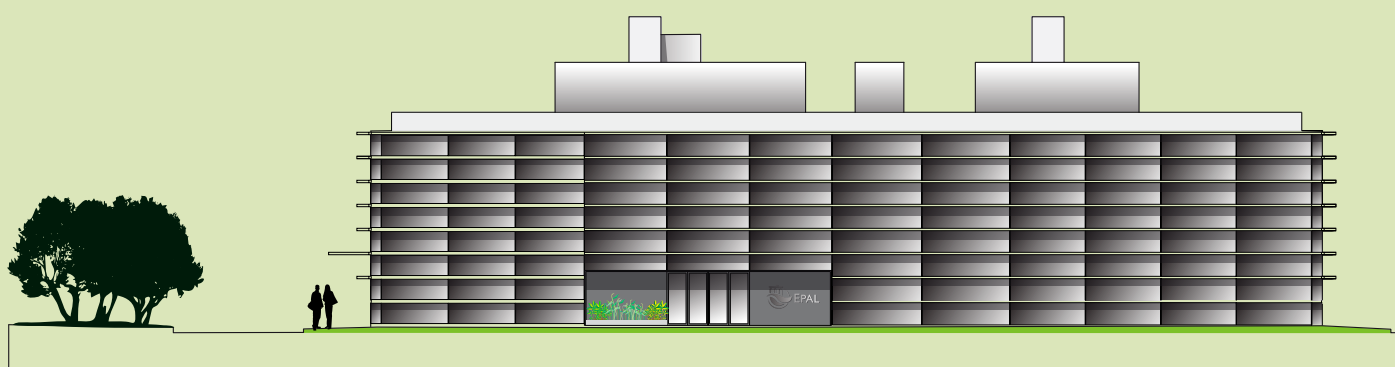
CAPITAL EXPENDITURE 2009

Item	Amount
	euros
For supply enhancement	4,130,645
Expansion of the Castelo do Bode sub-system	3,354,405
Expansion of the distribution network	770,244
Other	5,997
For reliability and safety	13,272,014
Renewal of the distribution network	8,963,925
Renewal of the transportation network	921,498
Repair of towers and reservoirs	2,601,774
Other	784,817
For quality improvement	7,424,206
New central laboratory	6,695,164
Other	729,042
For sustainability and innovation	766,272
Monitoring and control	601,330
Energy efficiency	164,943
Information and communications technology	651,020
Aquamatrix	320,386
Infrastructure and telemanagement	311,916
Other	18,718
Other capital expenditure	551,772
Departmental centralisation at Olivais	253,236
Other	298,536
TOTAL	26,795,930

In 2009, EPAL kept its capital spending strategy oriented towards enhancing supply reliability and safety as well as water quality. In all, the company's capital expenditure amounted to **26.8 million euros**, up 2% from 2008, and was predominantly channelled to the renewal of transportation and distribution mains, the repair of the Olivais tower and the building of new premises for the Central Laboratory.

For a company seeking to adequately manage its assets with thoroughly executed maintenance and inspection plans and programmes, EPAL's capital spending policy must be oriented towards supply sufficiency, reliability and safety of the system, water quality and technological innovation and upgrade. The knowledge of the nature and history of the company's assets as well as market trends and the use of instruments for long-run planning allow the prioritised and safe scheduling of expenditure towards safeguarding the company's core values and goals.

New laboratory



Façade (main entrance) of the Laboratory's new building

A new building for the company's central laboratory at Olivais was a goal that has taken many years to be achieved. Indeed, there are records of a preliminary project in the forties which was, however, not completed. It was not until 2009 that construction of the new building started.

With a covered area of 1,970 m², the premises have four floors: an underground floor for storage and parking, two floors for laboratorial and administrative areas and a fourth floor for technical purposes.

Capital spending on the new laboratory will be 12.9 million euros, of which 6.7 million euros in 2009

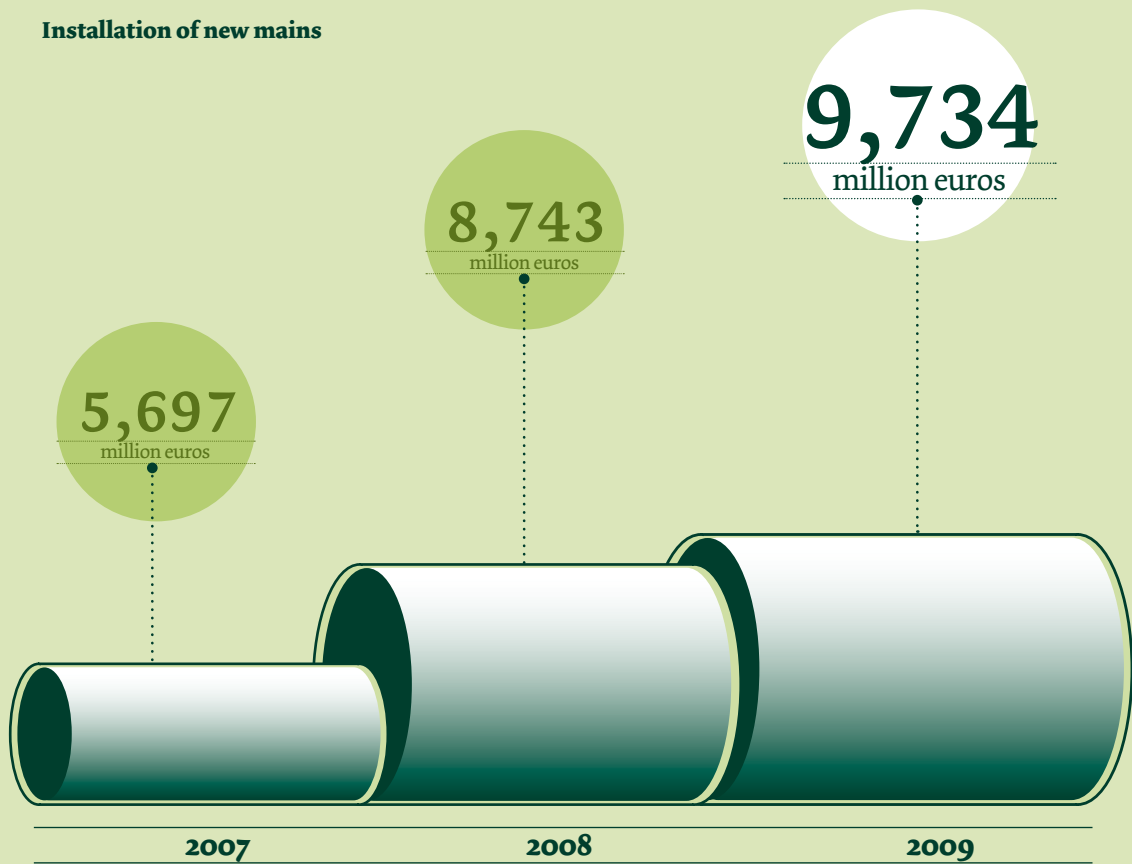
Network expansion and renewal

In 2009, EPAL spent close to 9.734 million euros in new mains for the distribution network in the city of Lisbon.

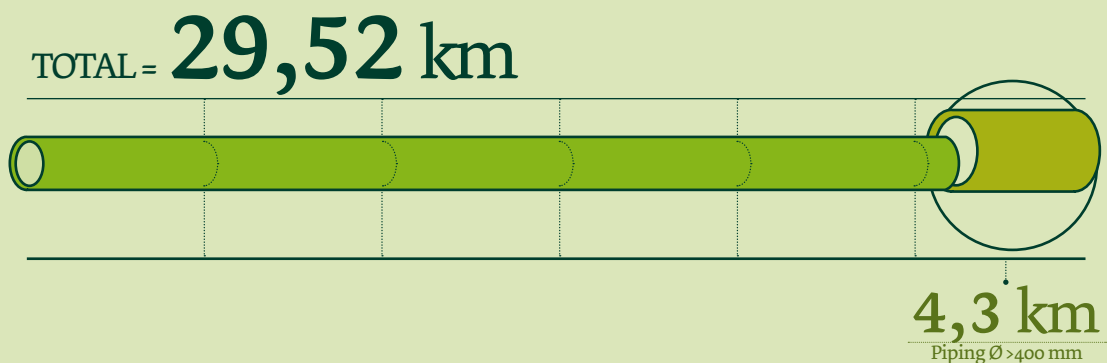
A total of 29.52 km of mains have been replaced, of which 4.3 km with a larger diameter than 400 mm. The network was expanded by 4.8 km.

The annual rate of renewal of the distribution network was 2.1% in 2009

Installation of new mains



Replacement of mains







Conifer forest by the river Zêzere glacier valley



M^{9.}anagement systems & processes



Water safety plan

Following the new methods sponsored by the World Health Organisation (WHO) and the International Water Association (IWA), EPAL has since 2007 taken a risk management approach towards the consumer in terms of the quantitative and qualitative supply of water. To this end, it has implemented a water safety plan in its supply system.

In 2009, audits were completed on the surface abstraction at Valada Tejo, the Vale da Pedra treatment station, the urban networks and the underground abstractions of Ota, Alenquer, Lezírias and Valada and their respective treatments. On completion of the audits, a final version of the company's water safety plan was prepared..

Asset management

A major challenge for EPAL is how to extract additional value from the assets that support its activities. Indeed, as a capital-intensive company, EPAL's financial sustainability significantly depends on maximising the performance of its assets. In addition, optimising the company's operating assets has a direct, favourable influence on quality and the service levels offered to clients.

EPAL considers the asset management function as a core area of its strategic development. In 2009, the following programmes, systems and instruments should be highlighted:

Global inspection programme

In recognition of the importance of knowing the condition of its assets, EPAL implemented in 2009 an inspection programme to rationalise and schedule inspection actions in its infrastructure and equipment and designed to support genuine and centralised knowledge.

On the basis of the collected information, it is possible to:

- Determine the physical condition's starting point – the asset reference situation
- Rank risk for several categories of infrastructure
- Develop maintenance strategies
- Support decision-making
- Select and prioritise investments
- Analyse and develop models for the downgrading of materials and infrastructure

In 2009, the following assets were inspected:

- Abstraction stations 2
- Chlorination points 2
- Towers 20
- Reservoirs 28
- Transformation points 3
- Mileage of transportation mains with a diameter larger than 1,500 mm 21
- Special works 11
- Galleries and tunnels 2
- Balance chimneys 1

Maintenance management system - Maximo

To implement new concepts and maintenance practices correctly, the MAXIMO – Asset management working group was set up. Assembling different preferences and experiences, the group was charged with developing work in two stages. In the first stage, it defined requirements, including maintenance data, and in the second stage, to be completed in 2010, it will develop the MAXIMO platform in order for a corporate maintenance portal to be set up, which will consolidate and cross all correlated information..

Method for selecting investments

A new method was devised and implemented to prioritise investments.

Four investment categories were established: current, new, renewal and strategic. An expert panel was set up with five groups, each one of them with the goal of presenting investment proposals for the following broad asset classes:

- Distribution network
- Transportation network
- Reservoirs
- Chlorination points, towers and transformation points
- Water flow meters

The main tools used were:

- In transportation and distribution networks – multi-criterion matrices, which had been developed a year earlier but were enriched with the information collected by the inspection programme.
- For the towers, chlorination and transformation points – the risk analysis tool, which was developed in 2009 and also uses the information collected in inspections

Client management



AQUAmatrix is an integrated system which has been devised and developed by EPAL for the management of marketing activities in the water, waste management and urban solid waste sectors.

With a high degree of flexibility, it provides solutions for planning and control of services provided to clients, geographical information, telemetrics and document management.

In the Portuguese utilities market, it developed significantly in 2009 with its market share growing from 11% in 2008 to 25.7% in 2009.

Service providers partnering for AQUAmatrix

1996



2002



2004



2007



2008



2009



Human resources management

In 2009, EPAL's performance appraisal system was reviewed, whereupon it was decided that a new model should be devised and implemented.

The new appraisal system focuses on defining and approving corporate goals, shared goals and goals for personal effectiveness/efficiency.

It also considers skills at three levels – cross-section, management and functional. The appraisal is based on the relationship between pre-defined proficiency levels and those resulting from the personal performance appraisal.

The appraisal process is developed in two stages – intermediate and final – and provides for the definition of professional development plans.

Management information system

In 2009, a new management information system – called MIS – was launched, which was modelled on an information structure based on metrics and management reports.

This new system aims to:

- Improve information quality;
- Be the primary source of management information, thereby becoming a centralised pool of updated operating and historic information;
- Maximise the efficiency of information collection and processing for internal use and external reporting;
- Make required information available to management in order to rationalise the decision-making process;
- Foster critical self-analysis of performance;
- Standardise concepts and create unique definitions for the indicators;
- Create missing indicators which may be relevant for management;
- Benchmark indicators;
- Formalise reporting processes and harmonise report structure and formats.

As it was aimed to be the primary source of the company's management information, thereby becoming a centralised pool of operating and financial information, the MIS was built up through a process that cut across the whole company and involved the definition of indicators and processes for recording information.

Crisis management

WSmart is an association of companies from several countries which studies solutions for identifying and mitigating risks as well as managing crises.

In late March, EPAL hosted an international workshop sponsored by WSmart where water safety was discussed. The event was attended by over 50 representatives of associations and companies from several countries.

In June 2009, EPAL commissioned WSmart to develop a project designed to set procedures and contingency plans for the management of crises likely to affect the company's water supply system.

The system's risks were surveyed and identified and training sessions were held in order to develop the skills and ability to deal with critical situations. Tests were run and a simulation was planned for March 2010 with the involvement of 80 managerial staff supported by a multi-disciplinary team of international experts.

Historical archives

The first stage of document processing at the company's archives, library and photo archive was completed and documents in a poor condition were restored in the process.

A project designed to preserve the company's intangible assets was implemented. This initiative aims to collect and keep statements with historical interest by former and present workers.

A project for finding and cataloguing objects for museum display was started, whereby 1,400 objects were found in several company premises.





Codes brook by Penedo Furado - Waterfront woods



I^{10.}novation and Development



In 2009, innovation meant a significant and diversified set of efforts, namely in technology, biodiversity and business administration. International relationships were developed with both peers and research institutes with a view to enhancing achievements in this field.

The following is worth noting:

Renewable energy

Photo-voltaic micro-generation systems brought into operation at 12 EPAL facilities achieved production of 55,662 kWh which was injected in the public grid and valued at 36,000 euros.

Wind monitoring activities were conducted at two EPAL sites whose outcome will support further feasibility studies for the set-up of wind turbines.

A decision was made to launch a tender in 2010 for the set-up of four mini hydro plants in branches from Adutor de Circunvalação and the intermediate section of Adutor de Castelo de Bode.

Biodiversity

In order to promote and protect biodiversity in geographical areas under its direct influence, EPAL launched project Springs for life, which is designed to work out a plan for the conservation of water streams and wetlands in the draining basin surrounding the Castelo do Bode reservoir.

This project is a joint development with ICNB – Instituto de Conservação da Natureza e Biodiversidade, GEOTA – Grupo de Estudos do Ordenamento do Território e Ambiente and APENA – Associação Portuguesa de Engenharia Natural whose aim is to undertake studies, identification and conservation in order to improve conditions in water streams flowing to the reservoir as well as preserve their biodiversity.

Action taken in 2009 centred on identification of the adjoining basin and water streams. Work was also completed for the collection and update of the following maps:

- Vegetation units
- Hydrological features of soils
- Erosion risk
- Water streams
- Waterfront vegetation
- Geological structure
- Water points

- Sources of pollution
- Risk of forest fires
- Seismic intensity
- Flooding risk

This project cost in 2009 close to 72 thousand euros.

Research and development

Project TECHNEAU – Technology-enabled universal access to safe water

This project, in which 30 institutions with R&D activities in drinking water and 16 providers of drinking water participate, was presented to the EU's Sixth Framework Programme.

Project activities cover eight working areas and EPAL contributed in 2009 to the validation of methods developed by areas WA3 – Monitoring and control Technologies for high quality in distributed water, WA5 – Operation and maintenance and WA7 – Validation and demonstration.

COST ACTION 637 – METEAU – Metals and Related Substances in Drinking Water

This is an action sponsored by the International Water Association (IWA) in which EPAL has worked actively for the last few years. In 2009, a study was conducted on the emission of metals to drinking water in final-use points in the city of Lisbon, whereby



chromium, copper, nickel and lead parameters were analysed.

To keep the network of specialists who have worked in COST ACTION 637, IWA approved EPAL's proposal for the set-up of expert group Metals and Related Substances in Drinking Water.

The director of EPAL's Central Laboratory was appointed vice-chairperson of COST ACTION 637's management committee.

Project SAFEWATER – Development and Validation of Integrated Processes for the Treatment of Drinking Water in Portugal and Norway

EPAL is developing this EU-funded project in partnership with IBET – Instituto de Biologia Experimental e Tecnológica, NTNU – Norwegian University for Science and Technology, SMAS de Almada and Águas do Algarve; project completion is expected by 2011.

SAFEWATER's goals are to validate analytical and microbiological methods as well as disinfection processes in nanofiltration treatment units, to implement a pilot station and to draw up working procedures.

IWA project Bonn Network

The purpose of this project is to develop a software tool to support companies aiming to develop and implement water safety plans. EPAL has reviewed this tool and has participated in several conferences and in the workshop Application of Research into Practice, held in the Hague on 16-18 February 2009.



Castelo do Bode reservoir - Abrantes - Cabeça Ruiva





Birch forest by river Zêzere glacier valley



Financial Performance

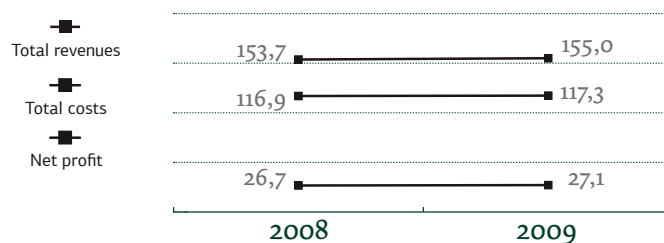
11.



Net profit in 2009

27,1
million euros,

In 2009, EPAL raised net profit by 1.7% relative to 2008, to 27.1 million euros. Revenues rose 0.8% and total costs increased 0.3% compared to a year earlier.



Turnover

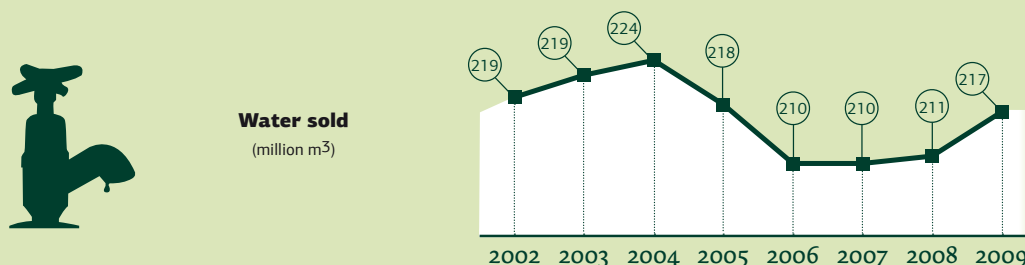
Turnover in 2009

149
million euros,

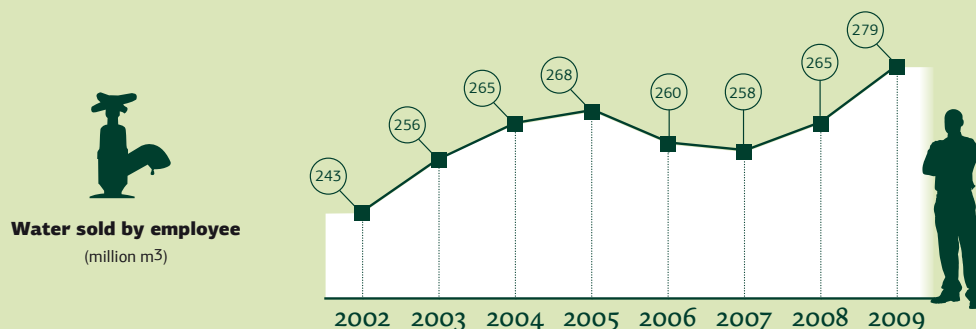
Turnover grew 3.9% to 149 million euros. Water sales including the service fee increased 3.8% whereas services provided, namely water-opening services, meter readings and supply applications, rose by 7.1%.

	2006	2007	2008	2009	Change 09/08	
					Amount	%
Sales	134.424	137.377	140.942	146.302	5.360	3,8
Services provided	2.936	2.592	2.584	2.767	183	7,1
Turnover	137.360	139.969	143.526	149.069	5.543	3,9

The volume of water sold declined from 2004 to 2006 and stabilised thereafter. In 2009, this trend was reversed as 217 million m³ were sold. However, it is not possible to say in which direction this indicator will move in the future. Regardless, EPAL will continue to be firmly committed to encouraging its clients to use water sensibly.



The path of water sold by EPAL has been followed by an upgrade of its human resources as shown by the productivity indicator Water sold by employee, which has evidenced a clear upward trend in the last few years.



Operating profit

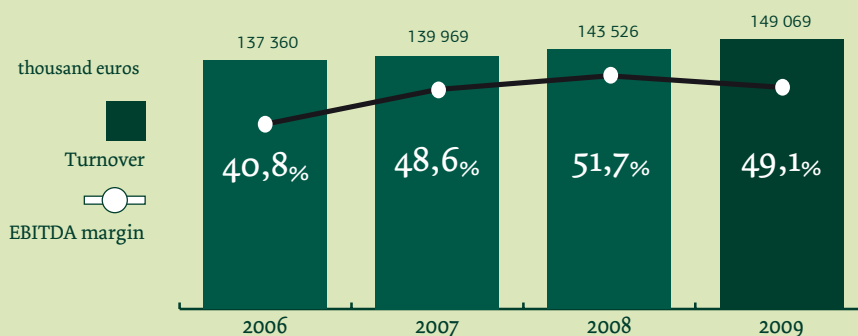
In 2009, EBITDA was 73.2 million euros. The 1.3% decline relative to 2008 was influenced by the change in the retirement plan regime in 2008, which affected staff costs but was a non-recurrent item impacting operating profit in that year.

	thousand euros								
	2006		2007		2008		2009		Var.% 09/08
Turnover	137.360	100%	139.969	100%	143.526	100%	149.069	100%	3,9
Other operating revenues	1.546		2.015		2.757		2.150		(22,0)
Cost of goods sold	(2.809)	2,0%	(2.684)	1,9%	(2.694)	1,9%	(2.754)	1,8%	2,2
Supplies and services purchased	(37.621)	27,4%	(36.771)	26,3%	(39.779)	27,7%	(37.790)	25,4%	(5,0)
Staff costs	(41.703)	30,4%	(33.365)	23,8%	(28.304)	19,7%	(36.229)	24,3%	28,0
Other operating costs	(714)	0,5%	(1.090)	0,8%	(1.273)	0,9%	(1.195)	0,8%	(6,1)
EBITDA	56.059	40,8%	68.073	48,6%	74.233	51,7%	73.251	49,1%	(1,3)
Amortisation	(969)	0,7%	(1.135)	0,8%	(2.042)	1,4%	(2.275)	1,5%	11,4
Depreciation and adjustments	(28.317)	20,6%	(31.918)	22,8%	(32.468)	22,6%	(31.181)	20,9%	(4,0)
EBIT	26.773	19,5%	35.019	25,0%	39.724	27,7%	39.795	26,7%	0,2

Operating profit (EBIT) increased by 0.2% to 39.8 million euros.

EBITDA margin

Despite a decline relative to 2008, the EBITDA margin stayed at a good level.



Cost structure

Overall, cost items have been relatively stable for the last few years. The exception is staff costs, a fact that is explained by the change in the pension fund, which had the largest impact in 2008, when the fund was restructured. Adjusting for this effect and the impact of contributions to early retirement, the change in staff costs was approximately -2%.

The table below shows the development and composition of cost items:

Costs	2006	2007	2008	2009	thousand euros	
					Change 09/08	
					Amount	%
Operating costs	112.134	106.965	106.560	111.424	4.864	4,6
Financial costs and losses	6.711	8.902	9.291	5.559	(3.732)	(40,2)
Extraordinary costs and losses	471	505	1.028	365	(663)	(64,5)
TOTAL	119.316	116.372	116.879	117.348	470	0,4

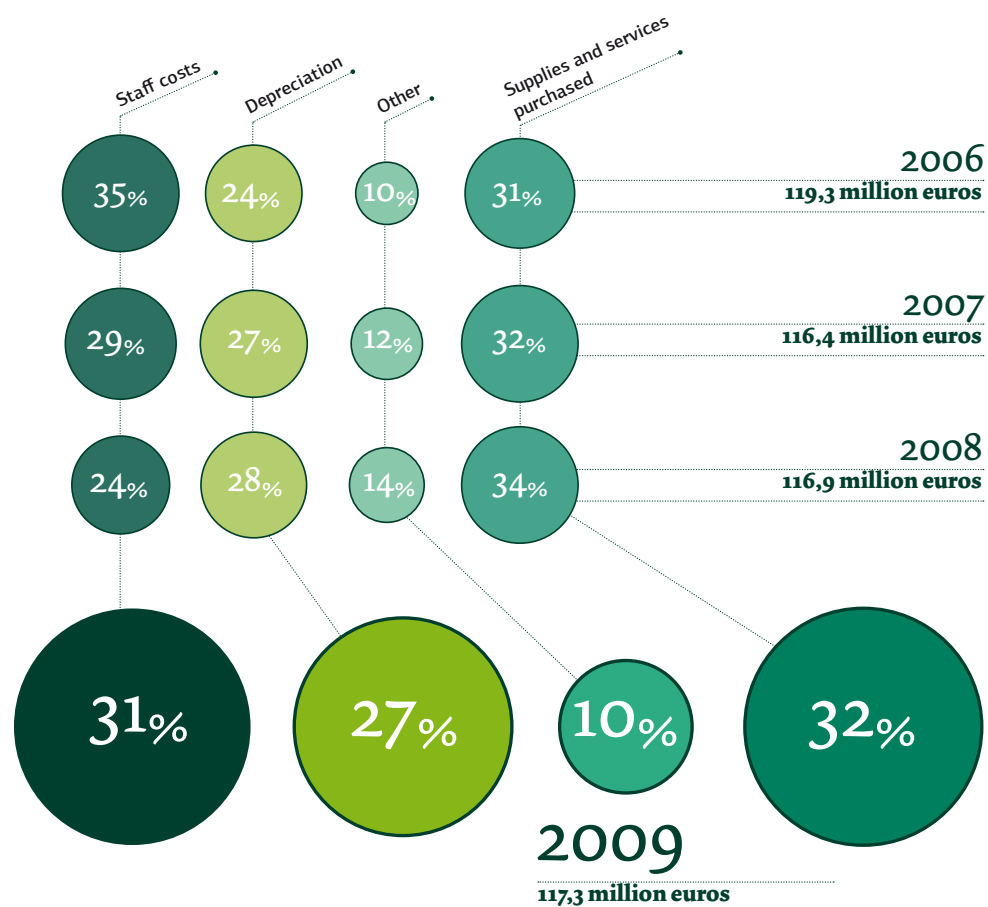
Costs	2006	2007	2008	2009	thousand euros	
					Change 09/08	
					Amount	%
Cost of goods sold	2.809	2.684	2.694	2.754	60	2,2
Supplies and services purchased	37.621	36.771	39.779	37.790	(1.989)	(5,0)
Taxes	692	1.009	1.213	1.137	(76)	(6,3)
Staff costs	41.703	33.365	28.304	36.229	7.925	28,0
Other operating costs	23	81	60	58	(2)	(3,3)
Depreciation and adjustments	28.317	31.918	32.468	31.181	(1.287)	(4,0)
Amortisation	969	1.135	2.042	2.275	233	11,4
Operating costs	112.134	106.965	106.560	111.424	4.864	4,6
% of turnover	82%	76%	74%	75%		

Depreciation of 31.2 million euros were slightly lower than a year earlier.

In 2009, supplies and services purchased declined by 2 million euros, or 5%, compared with 2008, to 37.8 million euros.

Maintenance of the company's infrastructure, which weighs heavily in this cost class, fell by 0.8 million euros. This followed from the renewal of the infrastructure base, namely the network, which implied a lower incidence of maintenance actions.

The cost of energy, a key input to the water supply process, accounted for 23.7% of supplies and services purchased and contributed a 7.5% reduction relative to 2008. This was primarily a result of the renegotiation of electricity supply contracts and the fall in the use of energy that followed from improved production and maintenance activities.



Specialist work provided by third parties and other overhead were cut down. Instances of this were fuel costs, entertainment accounts, fees and advertising.

The items that rose the most were related to invoicing and collection as the issuance of invoices, which had been on a bi-monthly basis up to May 2008, became monthly following a change in the law.

Finally, the change in Other resulted largely from the steep fall in interest and one-off costs.

Net profit

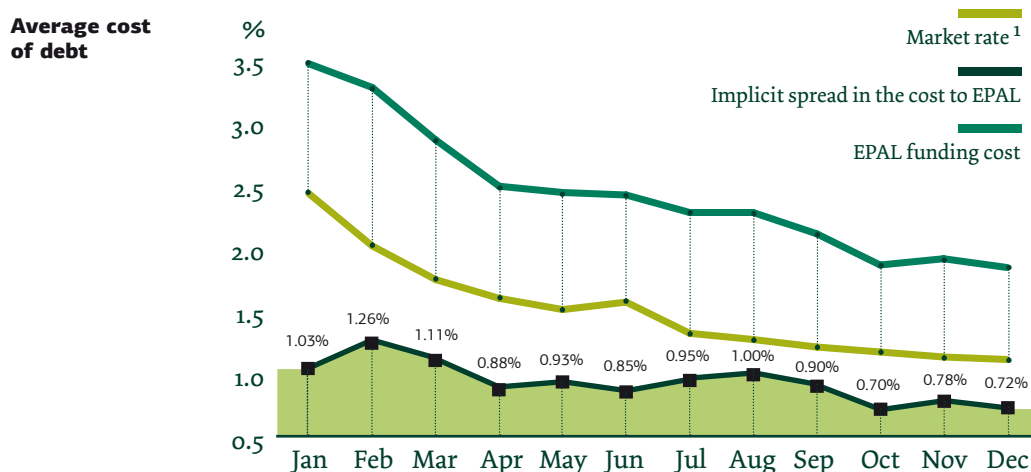
Net profit for the year increased 1.7% relative to 2008, to 27.1 million euros.

	2006		2007		2008		2009		Var % 09/08
							thousand euros		
EBIT	26.773	19,5%	35.019	25,0%	39.724	27,7%	39.795	26,7%	0,2
Net financial income	(6.477)	4,7%	(8.483)	6,1%	(8.142)	5,7%	(4.266)	2,9%	(47,6)
Extraordinary results	2.969	2,2%	5.248	3,7%	5.257	3,7%	2.215	1,5%	(57,9)
Profit before tax	23.265	16,9%	31.784	22,7%	36.839	25,7%	37.744	25,3%	2,5
Income tax	(6.937)	5,1%	(7.393)	5,3%	(10.164)	7,1%	(10.627)	7,1%	4,6
Net profit	16.328	11,9%	24.391	17,4%	26.675	18,6%	27.117	18,2%	1,7
Earnings per share, euros	0,54		0,81		0,89		0,90		

Net financial expense was reduced from 8.1 million euros to 4.3 million euros.

The interest cost of long-term bank debt to the European Investment Bank (EIB) fell 41.4% year on year, to 5.4 million euros. This development resulted almost fully from the steep fall in interest rates, although 38.3% of the company's bank indebtedness was on a fixed-rate basis.

In 2009, EPAL performed well in funding terms as it succeeded in cutting interest costs by around 40%.

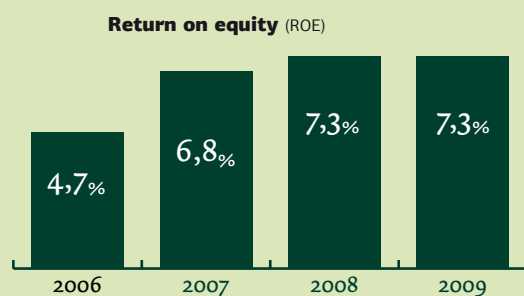


¹ The market rate is calculated on the basis of a (fixed and floating) rate structure that is identical to EPAL's; 3-month Euribor is used as the benchmark for the floating rate and the interest rate swap with similar maturity to EPAL's is used for the fixed rate; the market rate is an interbank base rate that does not include any spread.

EPAL's average cost of debt, considering its fixed- and floating-rate components, was competitive vis-à-vis the average interbank rate; the trend was positive throughout the year and by the end of 2009 it implied a spread of 72 basis points.

Considering the rates contracted by EPAL, the spread is expected to tighten further next year as both Euribor and term rates tend to rise.

Financial income from interest earned on deposits and short-term financial investments rose 15.3% relative to 2008, to 956 thousand euros.



Extraordinary results fell 57.9% to 2.2 million euros. This change resulted from the absence in 2009 of significant exceptional transactions, contrary to what the case was in 2008, when capital gains were achieved on the disposal of fixed assets related to the Alto de Carenque / Mercês trunk main and revenues were obtained from the reversal of provisions mainly relating to litigation connected with the Clube de Golfe das Amoreiras.

On the back of the achieved results, the return on equity remained stable at 7.3%.

Financial position

EPAL kept its investment strategy in 2009 oriented to the quality of supply and the efficient use of water as a resource. Total capital expenditure amounted to 26.8 million euros, most of which was channelled to expansion of the Castelo do Bode system, renewal of trunk mains and piping in the Lisbon network, repair of the Olivais tower and construction of the new central laboratory facilities.

Liquidity management

Cash flow from operating activities could fund capital spending, service bank debt and provide a return to the shareholder. In 2009, the company expanded bank borrowings by 20 million euros to support current and future capital expenditure required for its operations

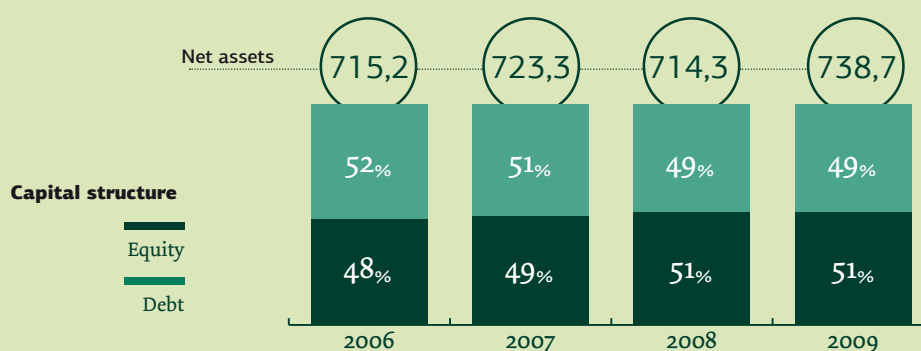
	(million euros)	
Cash flow summary	2008	2009
Cash flow from operating activities	66,5	75,7
Cash flow from investing activities	(25,5)	(31,7)
Payments for financing activities		
Dividend payments and bank debt service	(32,5)	(32,5)
Receipts from financing activities		
Drawings in the year	-	20,0
Change in cash and cash equivalents	8,5	31,6

EPAL's robust operating cash flow was evidenced by EBITDA of 73.2 million euros as self-funding remained a major source of cash.

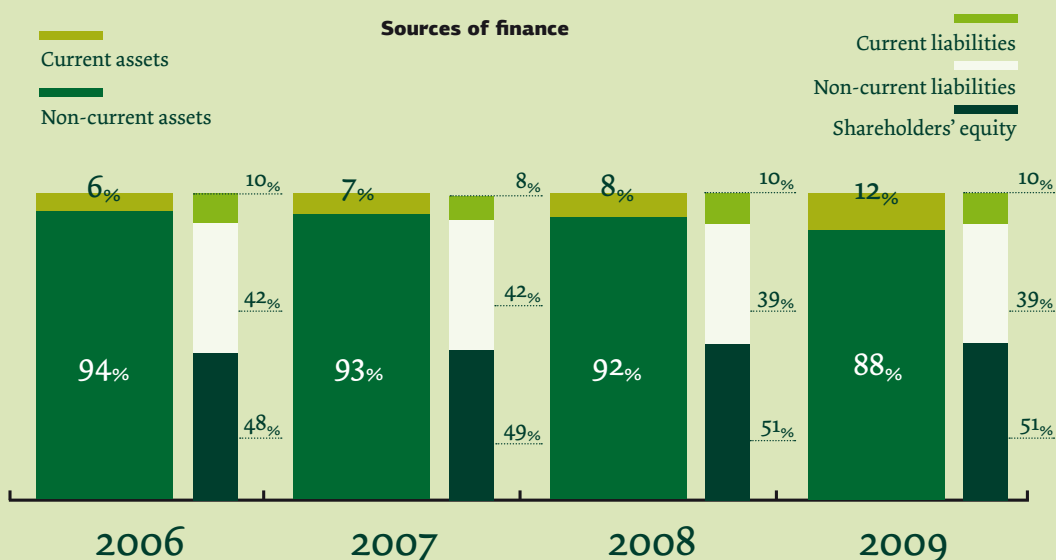
Following a range of initiatives, the average payment period in 2009 was cut to 45 days. This included the average payment time for capital goods which is, as a rule, longer than the payment time for current activities. Relative to 2008, the average payment time was 20.6% shorter, meaning a reduction of over 11 days.

Capital structure and funding sources

EPAL has a balanced financial structure, with an adequate maturity matching of investments and funding.



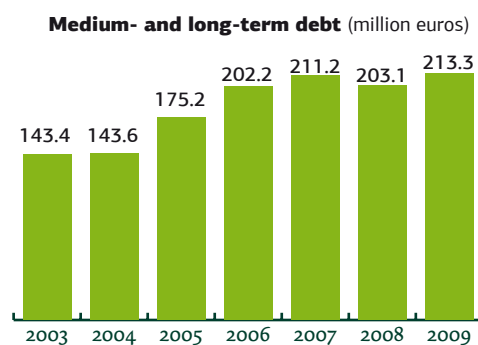
Optimisation of financial resources – either internally generated or externally sourced – continues to be one of EPAL's priorities. Therefore, a balance between several sources of finance has been well established for the latest financial years.



Balance sheet

Non-current assets decreased by 5.3 million euros as net fixed assets and long-term debtors declined. Non-current liabilities increased by 9.7 million euros as provisions and long-term bank indebtedness rose.

Balance sheet	2006	2007	2008	2009	(thousand euros)	
					Change 09/08	
					Amount	%
ASSETS						
Non-current assets	669.155	669.098	658.647	653.333	-5.314	(0,8)
Current assets	46.030	54.241	55.677	85.326	29.649	53,3
TOTAL	715.185	723.339	714.324	738.659	24.335	3.4
SHAREHOLDERS' EQUITY AND LIABILITIES						
Shareholders' equity	343.780	356.461	365.046	373.491	8.445	2,3
Non-current liabilities	303.168	306.686	280.084	289.811	9.727	3,5
Current liabilities	68.237	60.192	69.194	75.357	6.163	8,9
TOTAL	715.185	723.339	714.324	738.659	24.335	3.4



EPAL's capital spending in the last few years has been funded by borrowing from the EIB.

At the end of 2009, medium-and long-term debt stood at 213.3 million euros.

At 31 December 2009, shareholders' equity was 373.5 million euros, up 2.3% from a year earlier. This amount is, however, influenced by net profit for the year of 27.1 million euros, which will not be paid out until 2010.

Current assets increased by 53.3%, or about 29.6 million euros, as liquidity rose. The investment of surplus cash generated additional income to the company.

Financial indicators

EPAL's solid financial position at the end of 2009 is evidenced by the financial indicators below:

Financial indicators	2006	2007	2008	2009	Chang. 09/08
Equity to total assets	48%	49%	51%	51%	(1,1)
Current assets to current liabilities	0,67	0,90	0,80	1,13	40,7
Equity to total liabilities	0,93	0,97	1,05	1,02	(2,1)
Working capital, thousand euros	(22.207)	(5.951)	(13.517)	9.969	173,7

Working capital defined as current assets minus current liabilities

	Rating
Short-term	A-1 +
Long-term	A+

The company retained in 2009 the credit risk ratings assigned by Companhia Portuguesa de Rating for both short- and long term transactions, which reflect a strong ability to meet short- and long-term financial commitments.

Pension fund

In 2008, EPAL changed its retirement plan regime and adopted two mutually exclusive pension plans – a defined benefit plan and a defined contribution plan. The latter, which was implemented in financial 2008, currently covers most active employees.

In line with the retirement plan change, the pension fund was also changed and split into two sub-funds – one allocated to the defined benefit plan and the other to the defined contribution plan.

At 31 December 2009, the defined-benefit sub-fund had a value of 35.0 million euros while the defined-contribution sub-plan's value was 13.6 million euros.

In 2009, the company contributed close to 1.6 million euros to the pension fund. From 2005 to 2009, total contributions amounted to 14.4 million euros.

The company's contributions had an important role in funding obligations, which is evidenced by the funding level calculated according to ISP's Fundo Mínimo. Whereas up to 2004 the funding level was lower than 100%, at the end of 2009 it was close to 121%.

Associates

EPAL's equity holdings are the following:

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

Clube de Golfe das Amoreiras, S.A.

EPAL is the sole shareholder of Clube de Golfe das Amoreiras, S.A., whose object is to promote, build and operate an establishment for golf training and teaching in EPAL's precinct at Amoreiras in response to the Municipality of Lisbon's urge to upgrade and enliven the space occupied by the reservoir. The company has a share capital of 350,000 euros.

In 1993, both companies entered into an agreement with Supergolf Amoreiras - Academia de Golfe, S.A., whereby Clube de Golfe das Amoreiras, S.A. promised to assign the operation of the commercial precinct for golf training and teaching.

Difficulties in obtaining planning consent from the municipality gave rise to conflict between the parties that was settled by two arbitral awards. The latest award ordered the payment of damages to Supergolf Amoreiras - Academia de Golfe, S.A. including a sum already disbursed and a second sum yet to be disbursed and still pending, which is estimated and recorded in the financial statements for 2009.



Change in accounting principles

A new accounting system, called SNC, was created by a government decree (Decreto-Lei nº 158/2009 of 13 July) as POC was revoked. The SNC, whose application is mandatory for the financial years starting on or after 1 January 2010, requires the presentation of comparative information for the previous year. The new system also provides that companies may, under certain circumstances which are met by EPAL, alternatively adopt International Financial Reporting Standards (IFRS).

Therefore, EPAL will apply the new rules to financial 2010 and restate its financial statements for 2009 (from 1 January 2009) in accordance with the version that will be in force on 31 December 2010.

EPAL is evaluating the possible impact of the new rules in terms of results and equity as well as on capital management and dividend policies.

The qualitative impact that can be foreseen at this stage by adopting the new rules relate primarily to tangible fixed assets, namely their split into components as well as the review of their economic lives.

The estimated financial impact will be recorded as a transition reserve under Equity and will, or not, depending on its magnitude, significantly affect the ratios and the funding and dividend policies of the company.



River Zêzere flowing into river Tagus at Constância





Portuguese broom



Risk^{12.} Management



In performing its mission and developing its activities, EPAL is exposed to a number of risks that may significantly affect its assets – people, equipment, service quality, information and premises – as well as jeopardize the attainment of its objectives.

Risk management, as a pillar of corporate governance, has been built in all management processes and is a permanent matter of concern to all EPAL managers and workers.

Risk	Mitigation
Financial risks	
Liquidity	<ul style="list-style-type: none"> • The company's policy aims to manage liquidity risk by keeping a comfortable level of cash and cash equivalent balances while ensuring a solid financial structure where funding is the best suited for each class of assets. • In the short run, EPAL's policy is to ensure a flexible use of credit lines, in amounts deemed adequate to support the normal course of business. To this end, the company has entered into a 12.5 million euro commercial paper programme and sourced a short-term credit line of 6.5 million euros. • To fund capital spending, a long-term loan agreement was signed in 2002 with the EIB for an amount of 185 million euros, from which 50 million euros are yet to be drawn.
Interest rate	<ul style="list-style-type: none"> • EPAL's interest rate risk arises from borrowing long term at floating rates. The adopted financial policy rests on (i) selecting the most competitive interest rate regime after fixed rates have been compared with floating rates plus hedging instruments and (ii) balancing fixed-rate debt with floating-rate debt. At the end of 2009, indebtedness to the EIB was 38.3% at fixed rate and 61.7% at floating rate.
Credit	<ul style="list-style-type: none"> • Credit risk arises from the contingency of financial losses as clients or other counter-parties default. Generally, policies in force at EPAL can mitigate this risk since it is periodically appraised by the company considering the category of credit, its purpose and the nature of operations. Accounts receivable are regularly controlled on the basis of an appraisal of default risk.
Operations risks	
Water quality	<ul style="list-style-type: none"> • EPAL monitors water quality across its system. In addition to the legal control, it also performs operational and monitoring control. • A water safety plan has been developed that appraises across the whole supply system, from the water basin where the company's abstractions are located down to the consumer's tap; the plan also analyses impending danger as well as the control measures that have been implemented; this work followed the methods sponsored by the World Health Organisation (WHO) and the International Water Association (IWA).
Asset failure or unavailability	<ul style="list-style-type: none"> • Risk mitigation occurs by monitoring and operating assets in real time with the use of telemanagement. EPAL has developed a number of asset management initiatives to investigate asset-linked risks and thus provide input to maintenance and investment strategies, thereby minimizing the impact, if any, of asset failure or unavailability.

Operations risks

Physical safety of premises

- EPAL has developed safety schemes to safeguard the integrity of its supply system premises; in addition, it has in place a number of emergency plans.

Energy cost pressure

- The risk of a rise in energy prices is mitigated by streamlining the operation of the system, maximizing energy production from renewable sources and rationalizing energy purchases in a liberalised market.

Climate change

- EPAL is studying the impact of climate change as well as solutions to it and has, to this end, joined an European consortium called PREPARED – Enabling changes.

Regulatory risks

Value creation

- Regulatory risk impending on the company may seriously impair its ability to create value. Uncertainty about regulation method, regulatory asset base and rate of return transfers to the shareholder the risk of return on capital invested. This risk can be minimised by a regulatory framework set up by a transparent and participated process which will lay down the rules to be applied and create mechanisms suited to enhancing efficiency.



Regulatory risks

Increased costs

- Regulation currently being developed may result in increased costs for the company that may be difficult to pass on to clients through higher tariffs, considering the possible social consequences.
- Ever higher demands regarding water quality and service levels, coupled with a keener environmental awareness, tend to put pressure on external costs. Mitigation is achieved by raising efficiency

Environmental risks

From business activities

- By government decree (Decreto-Lei nº147/2008), EPAL is bound to implement environmental prevention measures and, in case of environmental damage, to take repair action. EPAL's third-party environmental liability is covered by an insurance policy bought by AdP for 6 million euros. The policy covers personal and property damage, clean-up, litigation and mitigation costs.



Cabril river canyon - Granite cliffs





Castelo do Bode reservoir – Abrantes – Bairrada



O^{13.}utlook



Managing a water supply company is fraught with new and multi-faceted challenges such as the protection of water quality at source, the sustainability and efficiency of water use, the consequences of climate change, the interface between water and energy, the ageing of the population, the safety and reliability of infrastructure, the expectations of stakeholders.

These circumstances make new demands on companies, staff and management processes.

In recent years, EPAL has developed an asset management strategy which is based on information processing, risk analysis, infrastructure criticality and investment ranking.

The water safety plan, which will be implemented in 2010, has been developed by a team cutting across the whole company and reflects a systemic approach to consumer risk throughout the whole water production and distribution chain. Risk management and the build-up of a readiness to manage infrastructure safety problems will be the focus of a number of initiatives, including the simulation of emergency situations for the definition of action procedures.

The new challenges of urban water cycle management require an ability to manage and develop new solutions based on a holistic approach to problems, which makes it indispensable to join development networks. Therefore, EPAL seeks to establish relationships for sharing of experiences and innovation processes with peers, research institutes and innovation centres.

In line with this strategy, the company has joined as an associated partner a European network of research laboratories – VEWRI – that includes Norway's SINTEF/NTNU – The Foundation for Scientific and Industrial Research/Norwegian University of Science and Technology, The Netherlands' KWR – Watercycle Research Institute, Germany's IWW – Zentrum Wasser, Spain's CETaqua – Centro Tecnológico del Agua and Portugal's LNEC – Laboratório Nacional de Engenharia Civil.

The company's strategic planning calls for the inclusion of the adverse impact of climate change on water resources on its agenda. Therefore, EPAL joined Project PREPARED, which is co-funded by the European Union's Seventh Framework Programme and whose main goal is to set up a common European platform of solutions for adjustment of water providers and wastewater processors to climate change.. Simultaneously, it will develop with the University of Lisbon's research group for climate change a research project spanning several years on the adaptation of the urban water cycle to climate change scenarios.

EPAL will in 2010 retain the strategic goal of strengthening its role as a manager of the urban water cycle. Although the government did not approve new legislation in 2009, this goal will be pursued in 2010. In parallel, negotiations will proceed with a few municipalities such as Loures and Odivelas for the purpose of extending the company's activities within the urban water cycle.

In this way, we aim to drive a project for developing the water industry in Portugal.





Cabril river canyon - Granite cliffs



P

14.

Proposed appropriation of net profit



Pursuant to article 21 of the articles of association of EPAL – Empresa Portuguesa das Águas Livres, SA., the board of directors proposes that net profit for financial 2009 in the amount of **€ 27,117,235.99** be distributed as follows:

€ 381 450,00 to employees as profit-sharing;

€ 24 024 062,39 to shareholders as dividend;

€ 2 711 723,60 to retained earnings.





Florestas Pinhal Pinheiro-bravo e matagais matos - Alto da Portela



15.

C

orporate
governance





Empresa Portuguesa das Águas Livres,
Limited liability company wholly-owned by Águas de Portugal, SGPS

Governing bodies

General meeting

EPAL's general meeting board, which was re-elected in 2008 for the 2008-2010 period, has the following composition:

Chairperson:	AMEGA – Associação de Municípios para Estudos e Gestão da Água, represented by Carlos Alberto Dias Teixeira
Vice-chairperson:	Cristina Rebelo Pereira
Secretary:	Alexandra Varandas

The general meeting convened on 30 March 2009.

The remuneration of the members of the general meeting board, which was approved by the remuneration committee in May 2006, remained unchanged in 2009 and was 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 executive body and is composed of the following five members, who have been elected for the 2008-2010 period:



Chairman	Executive director	Executive director	Executive director	Executive director
JOÃO MANUEL LOPES FIDALGO	JORGE LUÍS FERRÃO DE MASCARENHAS LOUREIRO	JOSÉ ALFREDO MANITA VAZ	ANTÓNIO BENTO FRANCO	RUI MANUEL DE CARVALHO GODINHO

Pursuant to the provisions of the Estatuto do Gestor Público, a management contract was signed in 2009 between the environment secretary (Ministro do Ambiente, do Ordenamento do Território e do Desenvolvimento Regional), AdP – Águas de Portugal, SGPS, S.A. and each executive director, whose object was to set quantitative goals and other terms for the exercise of managerial office. This contract redefined annual remuneration which now is composed of a fixed component, unchanged since 2004, and a variable component that resulted in the payment of 4.1 monthly fixed compensation to executive directors. The chairman did not receive any variable remuneration on account of his role in EPAL.

In 2009, the board of directors met 43 times.

Role	Name	Remun.	Mobil.	Autom.	Combust.	Meals	Health insurance	Life insurance
Chairman	João Manuel Lopes Fidalgo	118 230	3 208	12 703	2 402	1 692		2 895
Executive director	Jorge Luís Ferrão de Mascarenhas Loureiro	110 250	829	7 107	1 552	1 583		
Executive director	José Alfredo Manita Vaz	110 250	1 289	7 839	1 719	1 583		
Executive director	António Bento Franco	110 250	1 304	7 510	1 918	1 583	918	2 699
Executive director	Rui Manuel de Carvalho Godinho	110 250	1 062	8 027	2 233	1 583		
Total		559 230	7 692	43 186	9 824	8 024	918	5 594

Sole auditor

The company is supervised by sole auditor António Dias Nabais, chartered accountant, and Severo Praxedes Soares, his deputy, who have been elected for period 2008-2010.

A remuneration of 17,912 euros was paid in 2009 to the sole auditor.

Advisory board for sustainable development

The board, which was re-elected by the general meeting of 31 March 2008, has the following composition:

Chairperson: Maria Helena Veríssimo Colaço Alegre

Member: Maria Paula Batista Antunes

Member: Manuel Duarte Pinheiro

The advisory board met with the board of directors on 21 May.

Remuneration committee

The committee was elected by the general meeting in 2008 and has the following compositions:

Chairman: Pedro Eduardo Passos da Cunha Serra

Member: Maria de Fátima Ferreira Pica Ferreira Borges

The corporate governance model ensures effective segregation of the executive and supervisory roles.

EPAL's annual accounts are audited by an independent firm – Deloitte & Associados, SROC, SA – according to principles that are applicable to companies whose securities are traded on a regulated market.

Organisational structure

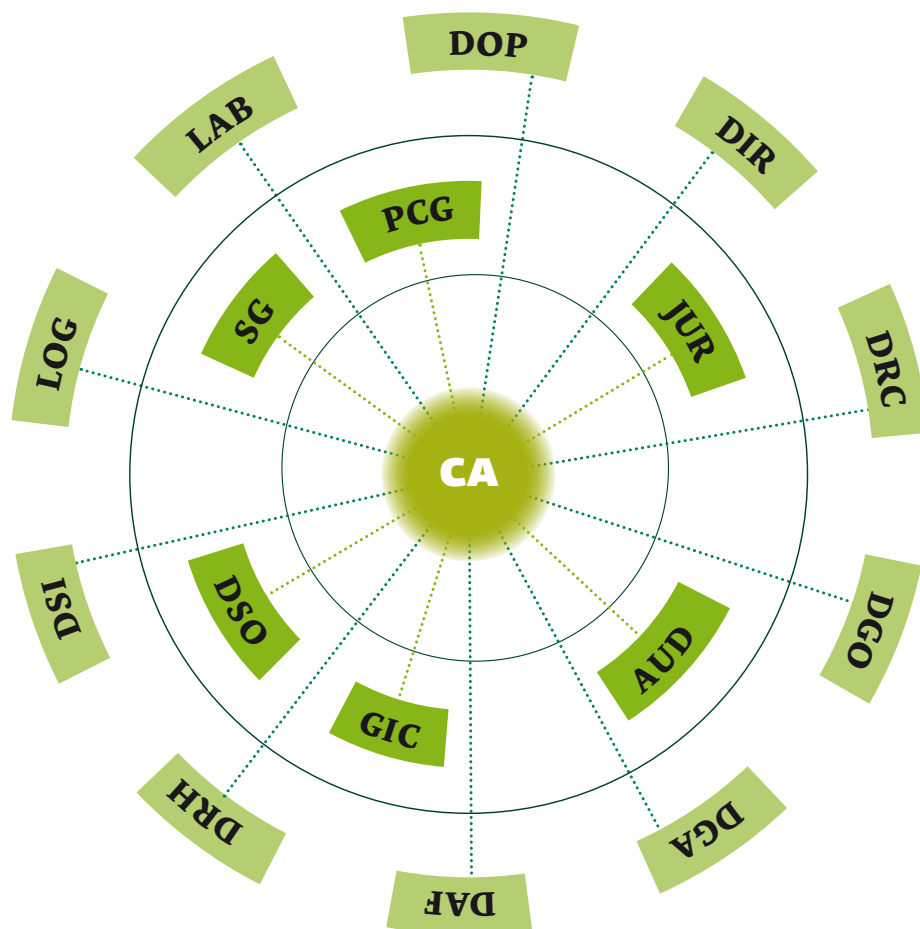
In 2009, the project Visão EPAL II was launched to set up a new organisational structure designed to meet internal challenges such as:

- Increased value creation
- Growth ambition – expansion of the distribution network na entry into waste treatment and
- Provision of top services

as well as context challenges, namely following from:

- Legal and regulatory requirements
- Consumer expectations
- Falling demand and
- PEAASAR II (Plano Estratégico de Abastecimento de Água e Saneamento de Águas Residuais)

The organisational structure that resulted from project Visão EPAL II became effective on 1 May 2009 and is illustrated by the following organisation chart:



CA – Board of directors | **SG** – Company secretary | **PCG** – Planning and Control | **JUR** Legal department | **DSO** – Organisational development | **GIC** – Branding and Communications | **AUD** – Internal audit | **DPO** – Operations department | **DIR** – Network infrastructure department | **DRC** – Client relations department | **DGO** – Works management department | **DGA** – Asset management department | **DAF** – Finance department | **DRH** – Human resources department | **DSI** – Information systems department | **LOG** – Logistics department | **LAB** – Central Laboratory department

Legislation

Legislation relevant for EPAL's activities was published in Diário da República, namely:

Government decree Decreto-Lei 90/2009 of 9 April

Governs partnerships between central and local government for the operation and management of municipal systems for water supply, urban wastewater treatment and solid waste management.

Government decree Decreto-Lei n.º 194/2009 of 20 August

Governs municipal services of water supply, urban wastewater treatment and solid waste management.

Government decree Decreto-Lei n.º 277/2009 of 2 October

Set up ERSAR – Entidade Reguladora das Águas e Resíduos as the successor of IRAR to regulate services of water supply, urban wastewater treatment and solid waste management and supervise and coordinate the quality of drinking water.

On 11 March 2009, EPAL was authorised by the Comissão Nacional de Protecção de Dados to collect and process commercial data about current, future and former clients including invoicing management, collection, market research, statistical studies, marketing campaigns and compliance with legal requirements, all in accordance with the law of data protection Lei n.º 67/98 of 26 October.

On 17 July 2009, EPAL formalised, by means of a concession agreement signed with the Portuguese state through ARH Tejo, the status of its abstractions of water from the Castelo do Bode reservoir and Valada Tejo. The private use of public water resources for public supply require a prior concession as set out in article 61, a) of Lei n.º 58/2005 of 29 December. According to the law, the signed agreement has a maximum term of 75 years.

In December 2009, EPAL approved a plan for managing corruption risks and related violations. This plan identifies the main areas that are potentially exposed to corruption, the risks that may arise and the controls introduced by the company for their mitigation. The plan also aims to strengthen both group and employee culture regarding ethical behaviour and good practice in commercial relations with clients, suppliers and other parties.

New releases of Board circulars 2 and 3 regarding the organisational structure that resulted from project Visão EPAL II and the reallocation of roles between board members were published in the year.

New administrative procedures were also published regarding workplace accidents, public procurement and foreign travel.

The board of directors issued ten communications about several subjects such as quality and environmental policy, goals of the environmental management system, launch of the project Service Guarantee and revision of the Acordo de Empresa, among others.





Castelo do Bode reservoir - Vila de Rei - Bridge by Pombeira



Final Remarks

16.



After fulfilling the duty of presenting the most relevant features of the company's life and the results achieved in 2009 and considering the challenges and goals – Service Quality, Sustainability and Return, it is important to highlight EPAL's dimensions of interaction and interdependency with the community where it operates, since the results achieved are the expression of those dimensions.

To company's clients and water consumers, we want to reaffirm the commitment to high quality service, the responsibility arising from our presence in their life and the satisfaction of their needs and our recognition for their trust.

To the suppliers and service providers, we want to highlight the importance of responding to the challenges posed by EPAL, which makes them deserve our acknowledgment.

To the company's bankers and insurers we want to send a message of acknowledgment for the way they have responded to the efforts that were made to maintain stability and the consistency of EPAL's economic and financial position.

To the government and the public entities we want to thank the proficiency in the relations that were developed.

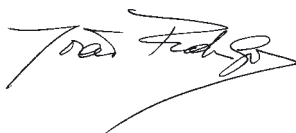
To the shareholder we want to highlight EPAL's effort to obtain adequate return on capital employed and contribute to the consolidation of the Águas de Portugal group, as a response to the close and committed monitoring of EPAL's business affairs.

To the regulators, DGAE - Direção Geral das Actividades Económicas and ERSAR – Entidade Reguladora de Serviços de Águas e de Resíduos, we want to reaffirm our will to collaborate in a careful and ready manner, with a view to the continuous improvement of the company and its services.

To EPAL's employees we want to thank the commitment, the dedication and the skills that were used to achieve the company's mission and goals and the pride in the team we compose.

26 February 2010

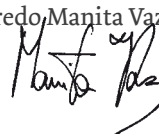
João Manuel Lopes Fidalgo *Chairman*



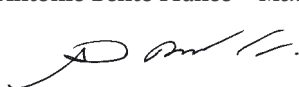
Jorge Luís Ferrão de Mascarenhas Loureiro *Member*



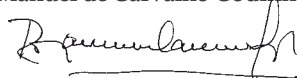
José Alfredo Manita Vaz *Member*



António Bento Franco *Member*



Rui Manuel de Carvalho Godinho *Member*





Accounts



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OPENING PAGE Bayou of Castelo de Bode close to the dam - Abrantes- Rio Zêzere

Balance sheet

	Notes	2009	2008
ASSETS			
Non-current assets			
Intangible fixed assets	5	21,300	21,764
Tangible fixed assets	6	633,424,250	637,515,131
Financial investments	7	360,231	361,602
Deferred tax	8	6,305,877	6,177,905
Clients and other accounts receivable	9	13,221,476	14,570,718
		653,333,134	658,647,120
Current assets			
Inventory	10	1,245,137	1,256,047
Clients	11	22,981,152	25,219,195
Public sector	12	1,744	1,474
Other debtors	13	6,020,476	5,679,495
Cash and cash equivalents	14	55,077,179	23,520,498
		85,325,688	55,676,709
Total assets		738,658,822	714,323,829
EQUITY			
Share capital	15	150,000,000	150,000,000
Reserves and other adjustments	16	149,814,327	153,330,251
Retained earnings		46,559,203	35,040,674
Net profit for the year		27,117,236	26,675,351
Total shareholder's equity		373,490,766	365,046,276
LIABILITIES			
Non-current liabilities			
Provisions	17	14,923,661	13,099,960
Pension obligations	18	15,602,126	15,642,752
Bank loans	19	213,344,536	203,070,470
Deferred tax	8	7,714,774	8,172,756
Investment grants	20	38,225,867	40,097,572
		289,810,964	280,083,510
Current liabilities			
Bank loans	19	9,725,934	8,100,934
Suppliers and other accounts payable	21	37,926,211	36,957,610
Public sector	22	9,888,127	2,548,281
Other creditors	23	17,816,820	21,587,218
		75,357,092	69,194,043
Total liabilities		365,168,056	349,277,553
Total liabilities and equity		738,658,822	714,323,829

All amounts are stated in euros.

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2009.

Income statement (by nature)

	Notes	2009	2008
Sales and provision of services		149,068,299	143,526,457
Cost of sales		(2,753,673)	(2,694,207)
Goods and services purchased		(37,790,123)	(39,779,117)
Staff costs		(36,229,537)	(28,304,158)
Depreciation charges and adjustments		(31,181,005)	(32,468,090)
Provisions		(2,274,592)	(2,041,624)
Other operating costs		(1,194,292)	(1,272,381)
Own work		18,101	5,825
Additional revenues		1,705,051	1,800,993
Other operating revenues and gains		426,827	949,935
Operating profits		39,795,056	39,723,633
Financial costs	33	(5,558,695)	(9,291,407)
Financial revenues	34	1,292,513	1,149,869
		35,528,874	31,582,095
Net extraordinary items	35	2,215,419	5,256,939
Profit before tax		37,744,293	36,839,034
Income tax	36	(10,627,057)	(10,163,683)
Net profit for the year		27,117,236	26,675,351
Earnings per share (basic and diluted)	15	0.90	0.89

All amounts are stated in euros.

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2009.

Income statement (by function)

	Notes	2009	2008
Sales and provision of services	24	149,068,299	143,526,457
Cost of sales and services provided	38	(43,410,857)	(41,583,014)
Gross profit		105,657,442	101,943,443
Other operating revenues		4,083,214	8,153,564
Distribution costs	38	(31,655,729)	(30,322,844)
Administrative costs	38	(28,590,764)	(27,386,931)
Other operating costs and losses		(6,225,402)	(5,963,277)
Operating profit		43,268,761	46,423,955
Income from other investments			
Losses from other investments		(5,529,005)	(9,275,316)
Net income from other investments	38	(5,529,005)	(9,275,316)
Current profit		37,739,756	37,148,639
Tax on current profit	38	(10,622,520)	(10,473,288)
Net profit for the year		27,117,236	26,675,351
Earnings per share	15	0.90	0.89

All amounts are stated in euros.

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2009.

Statement of changes in equity

Item	Share capital	Adjust equity holdings	Revaluation reserves	Legal reserves	Other reserves	Retained earnings	Net profit	Total
1 January 2008	150,000,000	(4,064)	107,369,030	27,225,089	22,171,377	25,307,826	24,391,338	356,460,596
Allocation of 2007 net profit	-	-	-	2,439,134	-	21,952,204	(24,391,338)	-
Dividend distribution - staff	-	-	-	-	-	(1,015,735)	-	(1,015,735)
Dividend distribution - shareholder	-	-	-	-	-	(17,073,936)	-	(17,073,936)
Revaluation reserves realised in financial 2008	-	-	(6,560,510)	-	-	6,560,510	-	-
Deferred tax on revalued reserves realised in financial 2008	-	-	690,195	-	-	(690,195)	-	-
Net profit of financial 2008	-	-	-	-	-	-	26,675,351	26,675,351
31 December 2008	150,000,000	(4,064)	101,498,715	29,664,223	22,171,377	35,040,674	26,675,351	365,046,276
Allocation of 2008 net profit	-	-	-	335,777	-	26,339,574	(26,675,351)	-
Dividend distribution - shareholder (Note 16)	-	-	-	-	-	(18,672,746)	-	(18,672,746)
Revaluation reserves realised in financial 2009 (Note 16)	-	-	(4,308,390)	-	-	4,308,390	-	-
Deferred tax on revalued reserves realised in financial 2008 (Note 16)	-	-	456,689	-	-	(456,689)	-	-
Net profit of financial 2009	-	-	-	-	-	-	27,117,236	27,117,236
31 December 2009	150,000,000	(4,064)	97,647,014	30,000,000	22,171,377	46,559,203	27,117,236	373,490,766

All amounts are stated in euros.

The notes appended to the financial statements are an integral part of the statement of changes in equity.

Cash flow statement

	Notes	2009	2008
Operating activities			
Receipts from clients		189,193,830	187,275,603
Payments to suppliers		(44,289,649)	(50,393,102)
Payments to staff		(36,277,002)	(38,946,882)
Cash flow generated by operations		108,627,179	97,935,620
Payments/receipts in respect of income tax		(7,322,560)	(5,782,316)
Other receipts/payments in respect of operating activities		(25,022,942)	(20,062,969)
Cash flow generated before extraordinary items		(32,345,502)	(25,845,285)
Receipts related to extraordinary items		185,747	409,631
Payments related to extraordinary items		(293,500)	(5,998,913)
		(107,753)	(5,589,283)
Cash inflow from operating activities (1)		76,173,924	66,501,052
Investing activities			
Receipts in respect of:			
Financial investments		1,371	-
Tangible fixed assets		1,397,632	1,544,718
Interest and related income		1,228,493	1,128,626
		2,627,496	2,673,345
Payments in respect of:			
Financial investments		-	(1,500)
Loans		(10,000)	(10,000)
Tangible fixed assets		(34,748,317)	(28,129,727)
		(34,758,317)	(28,141,227)
Cash outflow from investing activities (2)		(32,130,821)	(25,467,882)
Financing activities			
Receipts in respect of:			
Loans		20,000,000	-
		20,000,000	-
Payments in respect of:			
Loans		(8,100,934)	(6,018,390)
Interest and related income		(5,712,742)	(9,419,543)
Dividends		(18,672,746)	(17,073,936)
		(32,486,422)	(32,511,869)
Cash outflow from financing activities (3)		(12,486,422)	(32,511,869)
Change in cash and cash equivalents (4)=(1)+(2)+(3)		31,556,681	8,521,301
Cash and cash equivalents at the start of the period		23,520,498	14,999,197
Cash and cash equivalents at the end of the period		55,077,179	23,520,498
Changes in cash and cash equivalents		31,556,681	8,521,301

All amounts are stated in euros.

The notes appended to the financial statements are an integral part of the cash flow statement ended at 31 December 2009.





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1. EPAL's business operations

1.1 Introduction

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

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

1.2 Business operation

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

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 das Actividades Económicas.

During 2009, the Company signed with the Ministry of Environment, Planning and Regional Development a concession agreement on the use of water resources for abstraction of surface water for public supply in the dam of Castelo do Bode and in Valada Tejo in order to comply with the government decree of December 29 (Lei nº 58/2005).

According to the agreement, the concession beginning in 2009 was awarded for a period of 75 years, and the assets that are included in the concession contract already existed at the date of the agreement and were recorded on the balance of the Company. This agreement does not define the framework of remuneration regarding the exploitation of the assets covered by the concession.

1.3 Approval of the financial statements

The reported financial statements have been approved in a meeting of the board of directors on 11 March 2010. The board's opinion is that they reflect in a reliable way EPAL's operations, financial position, performance and cash flows.

2. Accounting principles and valuation criteria

a) Basis of presentation

EPAL's financial statements for 2009 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).

Under Article 3 of a government decree (Decreto-Lei nº 238/91), the Company is not required to prepare consolidated financial statements, given that its parent company (ADP - Águas de Portugal, SGPS, SA), with headquarters at Rua Visconde de Seabra, No. 3, Lisbon, indirectly owns all the shares of the Company and presents consolidated accounts which are included in the Company's financial statements and of its subsidiary.

The Company's balance sheet at 31 December 2009 and 31 December 2008 and the income statement by nature for the financial year ended on that date are presented in a format that is different from the one provided in the official accounting plan (Plano Oficial de Contabilidade or POC), with the notes presented in sequential order for the balance sheet and the income statement. Despite this difference, the accounts and notes contain, together with the statement of changes in equity, the information required by the POC; likewise, the total asset and equity amounts at 31 December 2009 and 31 December 2008 and the net result for the year ended on that date are equal to those resulting from the presentation of the balance sheet and the income statement by nature according to the format required by the POC. These are also attached in the section "Documents required by the POC".

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

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

Unless otherwise indicated, all amounts are stated in euros.

Resulting from the adoption of the new Accounting Standards System ("SNC" in Portuguese) whose entry into force, as stated in the government decree (Decreto-Lei n.º 158) of 13 July 2009, occurred on 1 January 2010, our Company is in the process of quantification of impacts resulting from the transition of previously adopted accounting principles to the new accounting standards. Nevertheless, effects with some significance may occur during the transition process.

b) Intangible fixed assets

At 31 December 2009, the total amount entered to the "Intangible fixed assets" account includes 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 tight, it is not depreciated.

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) 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

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 Company's benefit system comprises two pension plans, a defined contribution plan and a defined benefit plan.

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

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

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

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

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

k) Provisions

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

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) 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 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, are not recorded.

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

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

The annual entries in deferred tax assets or liabilities are made against the same accounts where the transactions or events that originated them have been recorded.

The revaluation reserve amount in shareholders' equity is carried net of the related deferred tax liability (**Note 16**).

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

n) Recognition of revenue and other income and expense

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

Water sales and service fee

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

During the year, revenue arising from the sale of water is recognised on the basis of metered consumption or, when consumption has not been metered, estimated consumption. At the end of the year, according to the matching principle, accrued income is recognised for the consumption estimated but not metered or invoiced.

At the end of each financial year, the amount recorded as water sales relates to actual consumption in the year as measured by the quantities metered and, in the cases this is not feasible, reliable consumption estimates (**Note 11**).

Interest expense

Interest payable on obtained loans is recognised as a cost for the year in which interest payments fall due, even when the purpose of the loans is to fund the acquisition of fixed assets (**Note 33**).

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.

o) Dividend payable

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

p) Revaluation reserves

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

3. Policies for managing financial risk

Financial risk factors

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

Liquidity risk

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

Cash flow risk and fair value risk linked to interest rates

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

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

4. Estimates and judgements

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

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

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

Provisions

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

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

Impairment of assets

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

5. Intangible fixed assets

Intangible fixed assets of 21,300 euros refer to a right over part of third-party land crossed by EPAL mains. Because it is an unlimited-use right, it is not depreciated. Intangible fixed assets also includes the amount of 1,392 euros that refers to a patent, which is totally depreciated.

	2009	2008
Intellectual property and other rights	21,300	21,764
	21,300	21,764

Intangible fixed assets and their accumulated depreciation at the end of 2009 were as follows:

Item	2008I	Additions	Transfers	Write-offs and disposals	2009
Gross assets					
Intellectual property and other rights	22,692	-	-	-	22,692
	22,692	-	-	-	22,692
Accumulated depreciation					
Intellectual property and other rights	928	464	-	-	1,392
	928	464	-	-	1,392
		(note 28)			

6. Tangible fixed assets

Tangible fixed assets net of depreciation have the following composition:

	2009	2008
Land and natural resources	49,844,518	49,761,829
Buildings	38,558,917	41,514,131
Production equipment	519,254,282	523,744,602
Transportation equipment	12,385	1,119
Tools	518,611	789,768
Office equipment	1,920,965	2,089,438
Containers	1,578	403
Other tangible fixed assets	1,519,399	1,508,994
Fixed assets in progress	21,793,595	17,969,734
Advances on tangible fixed assets	-	135,113
	633,424,250	637,515,131

At the end of 2009, the “Production equipment” account included assets in third parties’ possession, namely water meters in the distribution network for an amount of 1,017,371 euros.

Tangible fixed assets and their accumulated depreciation at the end of 2009 were as follows:

Item	2008	Additions	Transfers	Write-offs and disposals	2009
Tangible fixed assets					
Land and natural resources	49,761,829	-	82,689	-	49,844,518
Buildings	118,420,910	-	718,786	-	119,139,696
Production equipment	937,921,270	854,044	20,038,059	(190,268)	958,623,105
Transportation equipment	1,655,748	14,743	-	(223,931)	1,446,560
Tools	10,355,361	37,018	-	(428,572)	9,963,807
Office equipment	18,115,501	96,081	589,790	(89,418)	18,711,954
Containers	8,134	-	1,527	(198)	9,463
Other tangible fixed assets	10,590,869	47,354	534,347	(29,799)	11,142,771
Fixed assets in progress	17,969,734	25,653,946	(21,830,085)	-	21,793,595
Advances on tangible fixed assets	135,113	-	(135,113)	-	-
	1,164,934,469	26,703,186	-	(962,186)	1,190,675,469
Accumulated depreciation					
Buildings	76,906,779	3,674,000	-	-	80,580,779
Production equipment	414,176,668	25,376,533	-	(184,378)	439,368,823
Transportation equipment	1,654,629	3,477	-	(223,931)	1,434,175
Tools	9,565,593	308,175	-	(428,572)	9,445,196
Office equipment	16,026,063	854,344	-	(89,418)	16,790,989
Containers	7,731	352	-	(198)	7,885
Other tangible fixed assets	9,081,875	571,296	-	(29,799)	9,623,372
	527,419,338	30,788,177	-	(956,296)	557,251,219

(Note 28)

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

Additions to tangible fixed assets in financial 2009 amounted to approximately 26.7 million euros and relate mainly to expansion of the Castelo do Bode sub-system, revamp of trunk mains of the Lisbon distribution network, the rehabilitation of the Olivais tower and the construction of the new facilities of the Central Laboratory.

The reduction in “Assets in progress” by approximately 21.9 million euros is mainly the result of the completion in 2009 of part of the works related to the expansion of the Castelo do Bode sub-system, the revamp of the Lisbon distribution network, the macro-measurement project for the Production Business, works for the revamp of the Aqueduto Tejo, implementation of ZMCs in the Lisbon network and streamlining of energy consumption.

At 31 December 2009, “Assets in progress” refers mainly to works in the treatment station of Asseiceira, the capacity reinforcement of the trunk main of Castelo de Bode, the renewal of the main trunks in the region of Lisbon, the revamp of the Estação Elevatória dos Olivais and tunnels of the Aqueduto Alviela, the construction of the new facilities of the Central Laboratory, the reshuffle of the Water Museum and several land ownership processes.

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 2009 net of accumulated depreciation are detailed below:

	Historical costs a)	Revaluations a) b) (Note 16)	Revaluated amounts a))
Tangible fixed assets			
Land and natural resources	12,297,248	32,992,766	45,290,014
Buildings	4,889,190	3,224,304	8,113,494
Production equipment	89,842,421	69,095,883	158,938,304
	107,028,859	105,312,953	212,341,812

7. Financial investments

At 31 December 2009 and 2008 financial investments were the following:

	2009	2008
Equity holdings in group companies	250,000	250,000
Equity holdings in other investee companies	1,500	2,870
Securities and other financial investments	108,731	108,732
	360,231	361,602

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 2009:

Company	Head office	Share %	Equity	Net profit	B/S amount	Adjustments	Net amount
Clube de Golfe das Amoreiras	Lisboa	100%	188,571	(45,938)	a) 250,000	-	250,000
a) corresponds to accessory provisions							

At 31 December 2008, this subsidiary had negative equity of 61.429 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., whose purpose is 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. Its share capital amounts to 350,000 euros.

Both companies agreed in 1993 with Supergolf Amoreiras-Academia de Golfe, SA, that Clube de Golfe das Amoreiras, S.A. would assign the operation of the facilities to Supergolf Amoreiras-Academia de Golfe, SA for golf training and teaching.

Following earlier arbitration and by request of Supergolf Amoreiras - Academia de Golfe, SA, an arbitration court was constituted in 2006 to ascertain responsibilities. In 2008, this arbitration court awarded a decision that set the compensation, comprising an amount which was already paid and a currently undecided unpaid balance, which is estimated and recorded in the financial statements at 31 December 2009.

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
Fundec	Lisboa	100%	188,571	(45,938)	a) 250,000	-	250,000
					1.500	-	1.500

Securities and other short-term balances

At 31 December 2009 and 2008 the Company held the following securities:

	2009	2008
Amounts at the order of a court of law	108,082	108,072
OT's	649	660
	108,731	108,732

Changes in the financial year

Changes in financial investments and related adjustments were as follows:

	2008	Reinforcements	Reduction	2009
Equity holdings in group companies	250,000	-	-	250,000
Equity holdings in other investee companies	2,870	-	(1,370)	1,500
Securities and other financial investments	108,732	-	(1)	108,731
	361,602	-	(1,371)	360,231

Transaction with group companies

	Sales or service provision	Service provisions within the group	Financial income	Acquisition of services within the group
AdP SGPS	-	-	-	2,777,692
AdP Serviços	2,645	150,716	-	1,116,348
Aquasis	-	-	-	105,900
Águas do Cávado	-	1,071	-	-
Águas do Ave	-	316	-	-
Águas do Douro e Paiva	-	300	-	-
Águas Oeste	7,264,126	-	334,947	-
Sanest	-	3,152	-	-
Simtejo	513,533	-	-	86,901
Águas do Norte Alentejano	-	28,398	-	-
Águas do Centro Alentejo	-	19,919	-	-
Águas Algarve	-	95,453	-	-
Águas S. André	-	18,212	-	-
Valorsul	23,389	-	-	-
AdP Internacional	-	77,629	-	-

Balance with group companies

	Clients	Suppliers	Advance	Debtors	Income increase	Cost increase
AdP SGPS	-	209,204	-	-	-	13,838
AdP Serviços	361	2,436,900	1,082,983	-	-	61,094
Aquasis	-	15,190	-	-	-	105,900
Águas do Cávado	483	-	-	-	-	-
Águas Oeste	575,423	-	-	12,026,274	1,227,657	-
Simtejo	64,613	-	-	-	-	-
Águas do Norte Alentejano	3,462	-	-	-	-	-
Águas do Centro Alentejo	2,700	-	-	-	-	-
Águas Algarve	-	-	-	56,912	-	-
Águas S. André	-	-	-	1,821	-	-
Valorsul	2,993	-	-	-	-	-

8. Deferred tax

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

Changes in deferred tax in 2008 were the following:

Item	2008	Additions	Reversals	2009
Provisions and adjustments above tax limits	21,762,942	4,324,492	(3,841,579)	22,245,855
Reversal of taxed income	1,549,908	-	-	1,549,908
Tax base	23,312,850	4,324,492	(3,841,579)	23,795,763
Tax rate:				
State income tax (25%)	5,828,212	1,081,123	(960,395)	5,948,940
Local income tax (1.5%)	349,693	64,867	(57,624)	356,936
Deferred tax assets	6,177,905	1,145,990	(1,018,018)	6,305,877
Revaluation of fixed assets	30,651,431	-	(1,723,356)	28,928,075
Amount net of reinvested capital gains	189,158	-	(4,877)	184,281
Tax base	30,840,589	-	(1,728,233)	29,112,356
Tax rate:				
State income tax (25%)	7,710,147	-	(432,058)	7,278,089
Local income tax (1.5%)	462,609	-	(25,924)	436,685
Deferred tax liabilities	8,172,756	-	(457,982)	7,714,774

At 31 December 2009, the effect of deferred tax on the financial statements amounted to 585,954 euros (**Note 36**) as a result of the changes in the “Deferred tax”.

9. Clients and other accounts receivable – non-current

The balances of this account at 31 December 2009 and 2008, 13,221,476 and 14,570,718 euros, respectively, relate to medium and long-term debts under “Other debtors” and include mainly the disposal of the fixed assets from the supply sub-systems of Alenquer / Torres Vedras and Arruda dos Vinhos / Sobral de Monte Agraço, which has a schedule for annual repayments for 27 years, and the debt from the disposal of fixed assets from the Alto de Carenque / Mercês trunk main.

From the amount receivable by 31 December 2009, 11,525,180 euros will be paid by 2033 and 1,696,296 euros will be paid by 2012, with the instalments subject to annual update based on the Consumer Price Index.

The repayment plan is as follows:

Year	Amount
2011	1.349.242
2012	1.349.242
2013	501.094
> 2013	10.021.898

	13.221.476

10. Inventories

In 2009, the changes in “Inventories” were the following:

Item	2008	Additions	Transfers	Regularisations	Reductions	2009
Inventories						
Raw materials, intermediate and ready to use	1,295,524	2,766,633	-	(2,397)	(2,753,673)	1,306,087
Goods	306,380	-	-	-	(20,681)	285,699
(Note 25)	1,601,904	2,766,633	-	(2,397)	(2,774,354)	1,591,786
					(Nota 25)	
Adjustments to inventories						
Consumption raw materials	(60,950)	-	-	-	-	(60,950)
Intermediate materials	(284,907)	(792)	-	-	-	(285,699)
	(345,857)	(792)	-	-	-	(346,649)
(Note 28)						
	1,256,047	2,765,841	-	(2,397)	(2,774,354)	1,245,137

11. Accounts receivable

This account’s composition was the following at 31 December 2009 and 2008:

	2009	2008
Clients, current account	13,167,768	15,928,703
Clients, doubtful account	4,314,899	3,922,324
Adjustments for doubtful creditors	(3,256,590)	(2,960,345)
Subtotal, clients	14,226,077	16,890,682
Accrued income on account of water to be invoiced	7,583,638	7,175,877
Accrued income on account of service fee to be invoiced	1,107,491	1,069,922
Accrued income on account of services provided, to be invoiced	63,946	82,714
	22,981,152	25,219,195

Changes in the year

Changes in the balances for doubtful debtors and related adjustments in 2009 were the following:

	2008	Additions	Reductions	2009
Doubtful debtors	3,922,324	469,122	(76,547)	4,314,899
Adjustments to doubtful debtors (Notes 28 and 32)	(2,960,345)	(350,589)	54,344	(3,256,590)
	961,979	118,533	(22,203)	1,058,309

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 4,314,899 euros and is composed of 3,256,590 euros where collection risk is borne by the Company and is entirely provided for 1,058,309 euros relating to the treatment fee and supplement where the risk is borne by third parties

12. Claims on public-sector entities

At 31 December 2009 and 2008, claims receivable from the state and other public-sector entities had the following composition:

	2009	2008
VAT receivable	1,744	1,474
	1,744	1,474

13. Other debtors

At 31 December 2009 and 2008 “Other debtors” had the following composition:

	2009	2008
Group companies	1,363,246	1,353,246
Advance payment to suppliers	1,082,983	1,082,983
Staff	26,877	32,325
Other debtors	2,450,149	2,510,160
Adjustments to other doubtful debtors	(397,130)	(623,124)
Subtotal	4,526,125	4,355,590
Other accrued income	756,231	379,437
Deferred cost for prepaid insurance premiums	652,340	840,034
Other deferred costs	85,780	104,434
	6,020,476	5,679,495

Group companies and 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:

	2009	2008
Opening balance	623,124	623,124
Additions (Note 28)	40,983	-
Reversals (Note 32)	(266,977)	-
Ending balance	397,130	623,124

14. Cash and cash equivalents

At 31 December 2009 and 2008 “Cash and cash equivalents” had the following composition:

	2009	2008
Cash on hand	33,954	37,562
Bank deposits	5,043,225	4,782,936
Subtotal	5,077,179	4,820,498
Other treasury investments	50,000,000	18,700,000
	55,077,179	23,520,498

“Other cash” corresponds to time deposits, which bear interest at normal market rates.

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 2009, the Company was entirely owned by AdP – Águas de Portugal, SGPS, S.A.

Earnings per share

	2009	2008
Net profit for the year	27,117,236	26,675,351
Average number of shares	30,000,000	30,000,000
(Basic and diluted) earnings per share	0.90	0.89

16. Reserves and other adjustments

At 31 December 2009, reserves and other adjustments were as follows:

	2009	2008
Adjustments to equity holdings in associates	(4,064)	(4,064)
Revaluation reserves	97,647,013	101,498,715
Legal reserves	30,000,000	29,664,223
Free reserves	22,171,378	22,171,377
	149,814,327	153,330,251

Note: Compare with the statement of changes in equity.

The change in “Revaluation reserves” in 2009 was as follows:

	2008	Transfers	Other	2009
Revaluation reserves				
Revaluation reserves booked	256,514,383	-	-	256,514,383
Revaluation reserves realised	(146,893,039)	(4,308,391)	-	(151,201,430)
(Note 6)	109,621,344	(4,308,391)	-	105,312,953
Resulting deferred tax				
Deferred tax booked	(21,042,483)	-	-	(21,042,483)
Deferred tax realised	12,919,854	456,689	-	13,376,543
(Note 8)	(8,122,629)	456,689	-	(7,665,940)
Net amount of revaluation reserves	101,498,715	(3,851,702)	-	97,647,013

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 financial 2009.

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 30 March 2009, the Company allocated net profit of 26,675,351 euros for the year ended 31 December 2008 as follows:

Transfer:

To legal reserves	335.777
To retained earnings	<u>7.666.828</u>
	8.002.605

Distribution:

Dividends	<u>18.672.746</u>
	<u>18.672.746</u>
	26.675.351

17. Provisions

At 31 December 2009 and 2008 the composition of provisions was the following:

	2009	2008
Ongoing litigation	10,946,843	9,322,593
Workplace accidents	141,572	174,956
Other risks and charges	3,835,246	3,602,411
	14,923,661	13,099,960

Changes in “Provisions” in 2009 are detailed as follows:

	2008	Increases	Decreases	2009
Ongoing litigation	9,322,593	1,764,592	(140,342)	10,946,843
Workplace accidents	174,956	-	(33,384)	141,572
Other risks and charges	3,602,411	510,000	(277,165)	3,835,246
	13,099,960	2,274,592	(450,891)	14,923,661
		(Nota 29)		

The Company conducted a careful and thorough review of the situation regarding commitments, present, probable or contingent obligations, lawsuits, unsettled tax cases and complaints or contentious issues. On the basis of this review and after a careful risk analysis, the Company considered that the 14,923,661 euros in “Provisions” at 31 December 2009 was an adequate amount to provide against the identified risks.

The reductions in “Provisions” are mainly due to annulment in the amount of 417,507 euros (Note 35) and the use of 33,384 euros.

18. Pension obligations

EPAL has in force a system of social benefits for its employees with two plans, a defined benefits plan and a defined contributions plan, both involving the payment of complements to retirement pensions (for long service or disability) granted by the Social Security while additionally sustaining the obligations arising from early retirement (Note 2j).

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

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

At 31 December 2009 and 2008 the obligations arising from the defined benefit plan and early retirements were the following:

Change in obligations	2009	2008
Obligations at the start of the period	50,622,436	88,397,822
Current-service cost	293,000	715,000
Interest cost	2,516,000	3,037,000
Cut in the fund's assets	-	(37,914,000)
Present Value of Pre-retirements not provided for	4,011,000	2,192,000
Actuarial (gains) / losses	(3,030,000)	(200,000)
Benefits paid	(5,513,058)	(5,605,386)
Obligations at the end of the period	48,899,378	50,622,436

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

	2009	2008
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80
Annual discount rate	5.25%	5.25%
Annual rate of return	5.25%	5.25%
Salary growth rate	2.50%	2.50%
Salary growth rate, Social Security	2.50%	2.50%
Growth rate of pre-retirement conclusions	2.50%	2.50%

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

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

Pension fund	2009	2008
Obligations at the start of the period	33,151,444	48,454,982
Return	2,231,861	(3,100,538)
Cut in the fund's assets	-	(13,203,000)
EPAL's contribution	1,610,735	2,902,789
Benefits paid	(1,951,167)	(1,902,789)
Obligations at the end of the period	35,042,872	33,151,444

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

As a complement to the fund's assets, the Company recognised at 31 December 2009 a provision of 15.6 million euros for pension obligations

The overall situation is summed up in the following table:

	2009	2008
Obligations at the end of the period	48,899,378	50,622,436
Asset value at the end of the period	35,042,872	33,151,444
Provision for pensions	15,602,126	15,642,752
Deferred actuarial losses	(1,745,620)	1,828,240
Prior service cost	-	-
Losses within the 10% corridor	(1,745,620)	1,828,240
Losses in excess of the 10% corridor	-	-

The total cost of post-employment benefits was the following

	2009	2008
Current service cost	293,000	715,000
Interest cost	2,516,000	3,037,000
Expected return on the assets	(1,688,000)	(1,942,000)
Cut in the fund's assets	-	(7,301,000)
Recognition of new early retirements	4,011,000	2,192,000
Recognition of prior service cost	-	89,000
Recognition of deferred actuarial losses	-	66,000
Period cost	5,132,000	(3,144,000)

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

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

Following the proposed change to the present pension plan and the Company's continued goal of raising the obligations' funded ratio, the board decided to contribute a robust 1.6 million euros to the fund in 2009.

In financial 2009, EPAL recorded in "Staff costs" the amount of 506,062 euros as the cost of the new contribution plan.

19. Bank loans

Bank loans at 31 December 2009 and 2008 are detailed as follows:

	2009				2008			
	Maturing in one year	Maturing in 1 to 5 years	Maturing after 5 years	Total	Maturing in one year	Maturing in 1 to 5 years	Maturing after 5 years	Total
European Investment Bank	one year	1 to 5 years	after 5 years		one year	1 to 5 years	after 5 years	
Total - bank loans		213,344,536				203,070,470		

According to the contract signed between the Company and the EIB, any sum owed to this bank shall become due if any significant changes occur in the shareholder structure of the Company, namely if the current shareholder leaves the control of the Company.

20. Investment grants

At 31 December 2009 and 2008 liabilities related to investment grants are detailed as follows:

	2009	2008
Investment grants	66,471,846	66,471,846
Recognised income	(28,245,979)	(26,374,274)
	38,225,867	40,097,572

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

21. Suppliers and other accounts payable

At 31 December 2009 and 2008, this item had the following composition:

	2009	2008
Suppliers, current account	27,085,281	24,481,482
Suppliers, invoices received under processing	58,561	35,439
Suppliers of fixed assets	6,415,042	9,137,637
Accrued costs	4,367,327	3,303,052
	37,926,211	36,957,610

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

At 31 December 2009 and 2008 debts to the state and other public-sector entities were as follows:

	2009	2008
State company income tax (IRC)		
Estimate (Nota 36)	11,213,011	7,203,136
Advances	(5,679,894)	(5,587,824)
Withheld at source	(202,578)	(170,687)
Subtotal IRC	5,330,539	1,444,625
Value-added tax	261,699	256,712
Personal income tax (IRS)	300,382	302,828
Social Security	530,891	533,266
Stamp duty	11,915	10,850
Water resources rate	3,452,701	-
	9,888,127	2,548,281

The change in this item is primarily due to amount related to the Tax on Water Resources that is payable to Instituto da Água, I.P., in accordance with the government decree (Decreto-Lei 97/2008) of 11 June 2008. In financial 2008 this debt was recorded as debt payable to other creditors (**Note 23**).

23. Other creditors

At 31 December 2009 and 2008 balances of “Other creditors” were as follows:

	2009	2008
Municipality of Lisbon		
Treatment rate (Portaria 399/85)	10,881,748	12,700,182
Additional rate (Portaria 309/84)	1,344,689	1,601,662
Holidays and holiday allowances	3,910,626	3,885,439
Water resources rate - a)	-	1,651,066
Interest payable	928,612	1,083,822
Insurance premiums payable	102,870	186,773
Staff	115	4,206
Other creditors	648,160	474,068
	17,816,820	21,587,218

a) There was a change since in financial 2009 the Tax on Water Resources was recorded in the “State and other public-sector entities” item (Note 22).

24. Sales and provision of services

In 2009 and 2008 sales and provision of services were detailed as follows:

	National market
Financial year ended 31 December 2009	
Water sales and service fee	146,301,699
Services provided	2,766,600
	149,068,299
Financial year ended 31 December 2008	
Water sales and service fee	140,942,021
Services provided	2,584,436
	143,526,457

25. Cost of sales

In 2009 and 2008 the cost of sales was broken down as follows:

	2009	2008
Opening inventories	1,601,904	1,223,114
Purchases	2,766,633	2,765,922
Transfers	(20,682)	306,380
Adjustments to inventories (Note 35)	(2,396)	696
Closing inventories (Note 10)	1,591,786	1,601,904
	2,753,673	2,694,208

26. Goods and services purchased

In 2009 and 2008 goods and services purchased were detailed as follows:

	2009	2008
Electricity	8,948,134	9,676,871
Maintenance and repair	7,130,066	7,644,718
Specialist jobs	6,388,647	7,232,993
Communications	2,077,614	1,777,552
Insurance premiums	1,272,711	1,288,840
Rents	1,188,907	1,113,165
Sub-contracts	1,188,098	1,235,139
Security	1,062,927	1,010,316
Advertising	655,784	643,071
Cleaning	491,238	613,242
Fuel	472,524	706,732
Other	6,913,473	6,836,478
	37,790,123	39,779,117

27. Staff costs

In 2008 and 2007 staff costs were detailed as follows:

	2009	2008
Remuneration	23,183,284	23,841,900
Other	13,046,253	4,462,258
	36,229,537	28,304,158

Remuneration of governing bodies

Remunerations earned by the governing bodies in 2009 were the following

Board of directors	668.090
Chartered accountant	17.948
	686.038

Average number of employees

The average number of employees at the Company's service at 31 December 2009 and 2008 was as follows:

	2009	2008
Governing bodies	4	4
Permanent employees and others	778	797
	782	801

28. Depreciation and adjustments in the year

Depreciation and period adjustments in 2009 and 2008 are detailed as follows:

	2009	2008
Depreciation of tangible fixed assets (Note 6)	30,788,177	31,692,799
Depreciation of intangible fixed assets (Note 5)	464	464
Adjustments to clients receivables (Note 11)	350,589	428,970
Adjustments to inventories (Note 10)	792	345,857
Adjustments to other receivables (Note 13)	40,983	-
	31,181,005	32,468,090

29. Provisions for the year

Provisions in 2009 and 2008 are detailed as follows:

	2009	2008
From litigation	1,764,592	1,542,459
From tax	-	417,165
From other risks and charges	510,000	82,000
	2,274,592	2,041,624
	(Nota 17)	

30. Other operating costs

“Other operating costs” in 2009 and 2008 are detailed as follows:

	2009	2008
Taxes and levies	1,136,689	1,212,735
Other operating costs	57,603	59,646
	1,194,292	1,272,381

31. Additional revenues

Additional revenues in 2009 and 2008 are detailed as follows:

	2009	2008
Aquamatrix service	769,563	626,470
Treatment fees	357,292	334,206
Laboratory analyses	109,533	147,595
Tender specifications	107,241	89,985
Rents for space lent	94,853	114,954
Legal help with expropriations	51,054	18,732
Royalties	12,097	12,096
Social services	166	46,300
Meter repair	-	69,580
Other	203,252	341,075
	1,705,051	1,800,993

32. Other operating revenues and gains

Other operating revenues and gains in 2009 and 2008 are detailed as follows:

	2009	2008
Reversal of adjustments to client receivables (Note 11)	54,344	946,078
Exploration support	105,506	3,857
Reversal of adjustments to other receivables (Note 13)	266,977	-
	426,827	949,935

33. Financial costs

Financial costs in 2009 and 2008 are detailed as follows:

	2009	2008
Interest paid	5,372,634	9,163,320
Unfavourable exchange differences	1,164	2,780
Other financial costs and losses	184,897	125,307
	5,558,695	9,291,407

34. Financial income

Financial income in 2009 and 2008 is broken down as follows:

	2009	2008
Interest received	955,851	828,853
Favourable exchange differences	763	6,635
Discounts for cash payment obtained	952	360
Reversals and other financial income and gains	334,947	314,021
	1,292,513	1,149,869

35. Extraordinary results

The statement of extraordinary results for 2009 and 2008 is as follows:

	2009	2008
Donations	88,682	131,251
Losses on fixed assets	4,260	83,168
Losses on inventories (Note 25)	3,784	1,022
Fines and penalties	2,158	500
Corrections to previous financial year's accounts	-	267
Other extraordinary costs and losses (a)	266,178	811,422
Total costs and losses	365,062	1,027,630
Gains on inventories (Note 25)	1,388	1,718
Gains on fixed assets	36,080	1,216,174
Reductions in provisions (Note 17)	417,507	2,619,419
Corrections to previous financial year's accounts	-	233,950
Investment grants (Note 20)	1,871,705	1,871,705
Other extraordinary costs and losses (a)	253,801	341,603
Total income and gains	2,580,481	6,284,569
Extraordinary results	2,215,419	5,256,939

a) The "Other extraordinary costs and losses" in the amount of 266,178 euros relate primarily to (i) the insufficient tax estimate of 63,517 euros; and (ii) the 201,183 euros paid in financial 2009 for leakage compensations.

36. Taxes

At 31 December 2009 and 2008, 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 2007 have been audited, returns for the years from 2008 and 2009 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 2009.

Income tax (IRC) recorded as period cost for the years ended 31 December 2009 and 2008 is corrected by the accounting of deferred taxes in accordance with Accounting Guideline n° 28 (**Note 8**).

At 31 December 2009 and 2008 the nominal tax rate is reconciled with the effective tax rate as follows:

	2009	2008
Profit before tax	37,744,293	36,839,034
Expected rate at the nominal rate of 26.5%	10,002,238	9,762,344
Effect of permanent differences	370,181	101,789
Separate taxation	249,796	299,550
IRC of previous years	4,842	-
Tax charge	10,627,057	10,163,683
Current tax (Note 22)	11,213,011	7,203,136
Deferred tax (Note 8)	(585,954)	2,960,547
Total	10,627,057	10,163,683
Effective tax rate	28.16%	27.59%

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 2009 and 2008 the Company had obligations arising from guarantees issued as follows:

	2009	2008
Municipalities	29,615,686	22,511,467
European Investment Bank	7,488,110	7,921,611
Courts of law	5,433,496	5,433,496
Other	189,691	19,817
	42,726,983	35,886,391

38. Note to the income statement by function

At 31 December 2009, the main items of the income statement by function were as follows:

	2009	2008
Cost of sales and services provided	1,245,309	1,486,185
Distribution costs	622,655	381,779
Other operational costs and losses	3,741	3,741
	1,871,705	1,871,705

a) Cost of sales and provision of services

The “Cost of sales and provision of services” item included 44,656,166 euros relating to operating costs for the Production business area less 1,245,309 euros in income from the annual transfer of investment grants for assets allocated to the Production area.

The allocation of 1,871,705 euros in annual income from investment grants to the various items in the income statement by function in 2009 is as follows:

b) Distribution costs

This item reflects primarily operating costs in the Distribution business area which amounted in 2009 to 31,655,729 euros.

c) Administrative costs

At 31 December 2009, 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 5,370,340 euros and costs of 158,665 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:

	2009	2008
Total tax for the period	10,627,057	10,163,683
Tax estimate shortfall (a)	63,517	309,605
Tax refunds (a)	(68,054)	-
	10,622,520	10,473,288

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



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Accounting Plan

Balance sheet at 31 December 2009 and 2008

		Financial years		
		2009	2008	
	Gross assets	Acc depreciation and adjustments	Net assets	Net assets
FIXED ASSETS				
Intangible fixed assets				
Intellectual property and other rights	22,692	1,392	21,300	21,764
Total	22,692	1,392	21,300	21,764
Tangible fixed assets				
Land and natural resources	49,844,518	-	49,844,518	49,761,829
Buildings	119,139,696	80,580,779	38,558,917	41,514,131
Production equipment	958,623,105	439,368,823	519,254,282	523,744,602
Transportation equipment	1,446,560	1,434,175	12,385	1,119
Tools	9,963,807	9,445,196	518,611	789,768
Office equipment	18,711,954	16,790,989	1,920,965	2,089,438
Containers	9,463	7,885	1,578	403
Other tangible fixed assets	11,142,771	9,623,372	1,519,399	1,508,994
Fixed assets in progress	21,793,595	-	21,793,595	17,969,734
Advances on tangible fixed asset	-	-	-	135,113
Total	1,190,675,469	557,251,219	633,424,250	637,515,131
Financial investments				
Equity holdings in associates	251,500	-	251,500	252,870
Securities and other financial investments	108,731	-	108,731	108,732
Total	360,231	-	360,231	361,602
MEDIUM AND LONG-TERM DEBTORS				
Other debtors	13,221,476	-	13,221,476	14,570,718
Total	13,221,476	-	13,221,476	14,570,718
CURRENT ASSETS				
Inventories				
Raw materials, intermediate and ready to use	1,306,087	60,950	1,245,137	1,234,574
Goods	285,699	285,699	-	21,473
Total	1,591,786	346,649	1,245,137	1,256,047
Short-term debtors				
Clients, current account	13,167,768	-	13,167,768	15,928,703
Clients, doubtful debtors	4,314,899	3,256,590	1,058,309	961,979
Associates	1,363,246	-	1,363,246	1,353,246
Advance payment to suppliers	1,082,983	-	1,082,983	1,082,983
Public sector	1,744	-	1,744	1,474
Other debtors	2,477,027	397,130	2,079,897	1,919,362
Total	22,407,667	3,653,720	18,753,947	21,247,747
Marketable securities				
Other treasury investments	50,000,000	-	50,000,000	18,700,000
Total	50,000,000	-	50,000,000	18,700,000
BANK DEPOSITS AND CASH ON HAND				
Bank deposits	5,043,225	-	5,043,225	4,782,936
Cash on hand	33,954	-	33,954	37,562
Total	5,077,179	-	5,077,179	4,820,498
ACCRUALS AND DEFERRALS				
Accrued income	9,511,305	-	9,511,305	8,707,949
Deferred costs	738,120	-	738,120	944,468
Deferred tax assets	6,305,877	-	6,305,877	6,177,905
Total	16,555,302	-	16,555,302	15,830,322
Total accumulated depreciation and adjustments		561,252,980		
Total assets	1,299,911,802		738,658,822	714,323,829

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2009

The financial manager and accountant
Daniela Marina Alves Fernandes Valle Santos

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

SHAREHOLDER'S EQUITY AND LIABILITIES	Financial years	
	2009	2008
EQUITY		
Share capital	150,000,000	150,000,000
Adjustments to equity holdings in subsidiaries and associates	(4,064)	(4,064)
Revaluation reserves	97,647,014	101,498,715
Reserves:		
Legal reserves	30,000,000	29,664,223
Other reserves	22,171,377	22,171,377
Retained earnings	46,559,203	35,040,674
Sub-Total	346,373,530	338,370,925
Net profit for the year	27,117,236	26,675,351
Total shareholder's equity	373,490,766	365,046,276
LIABILITIES		
Provisions for risks and charges		
Other provisions for risks and charges	14,923,661	13,099,960
Total	14,923,661	13,099,960
Medium and long-term debt		
Bank debt	213,344,536	203,070,470
Total	213,344,536	203,070,470
Short-term debt		
Bank debt	9,725,934	8,100,934
Suppliers, current account	27,085,281	24,481,482
Suppliers - invoices received under processing	58,561	35,439
Suppliers of fixed assets, current account	6,415,042	9,137,637
Public sector	9,888,127	2,548,281
Other creditors	12,871,868	16,428,368
Total	66,044,813	60,732,141
ACCRUALS AND DEFERRALS		
Cost accruals	24,911,560	24,101,838
Deferred income	38,228,712	40,100,388
Deferred tax liabilities	7,714,774	8,172,756
Total	70,855,046	72,374,982
Total liabilities	365,168,056	349,277,553
Total shareholder's equity and liabilities	738,658,822	714,323,829

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2009

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Income statement by nature for the years ended on 31 December 2009 and 2008

		Financial years		
COSTS AND LOSSES		2009	2008	
Cost of goods sold				
Materials		2,753,673	2,753,673	2,694,207
Goods and services purchases			37,790,123	39,779,117
Staff costs				
Remuneration		23,183,284		23,841,899
Social charges:				
Pensions		984,602		10,952,873
Other		12,061,651	36,229,537	(6,490,614)
Depreciation charges (tangible and intangible fixed assets)		30,788,641		31,693,263
Adjustments		392,364		774,827
Provisions		2,274,592	33,455,597	2,041,624
Taxes		1,136,689		1,212,735
Other operating costs and losses		57,603	1,194,292	59,646
	A		111,423,222	106,559,577
Interest and similar costs		5,558,695	5,558,695	9,291,407
	C		116,981,917	115,850,984
Extraordinary costs and losses			365,062	1,027,630
	E		117,346,979	116,878,614
Company income tax			10,627,057	10,163,683
	G		127,974,036	127,042,297
Net profit for the year			27,117,236	26,675,351
			155,091,272	153,717,648
INCOME AND GAINS				
Sales:				
Products		146,301,699		140,942,021
Services provided		2,766,600	149,068,299	2,584,436
Own jobs		18,101		5,825
Supplementary income		1,705,051		1,800,993
Subsidies to operations		105,506		3,857
Reversal of depreciation and adjustments		321,321	2,149,979	946,078
	B		151,218,278	146,283,210
Interest and similar income		1,292,513	1,292,513	1,149,869
	D		152,510,791	147,433,079
Extraordinary income and gains			2,580,481	6,284,569
	F		155,091,272	153,717,648
SUMMARY				
Operating profit :	(B) - (A) =		39,795,056	39,723,633
Net financial items:	(D - B) - (C - A) =		(4,266,182)	(8,141,538)
Profit before extraordinary items:	(D) (C) =		35,528,874	31,582,095
Profit before tax:	(F) - (E) =		37,744,293	36,839,034
Net profit for the year:	(F) - (G) =		27,117,236	26,675,351

The notes appended to the financial statements are an integral part of the balance sheet at 31 December 2009

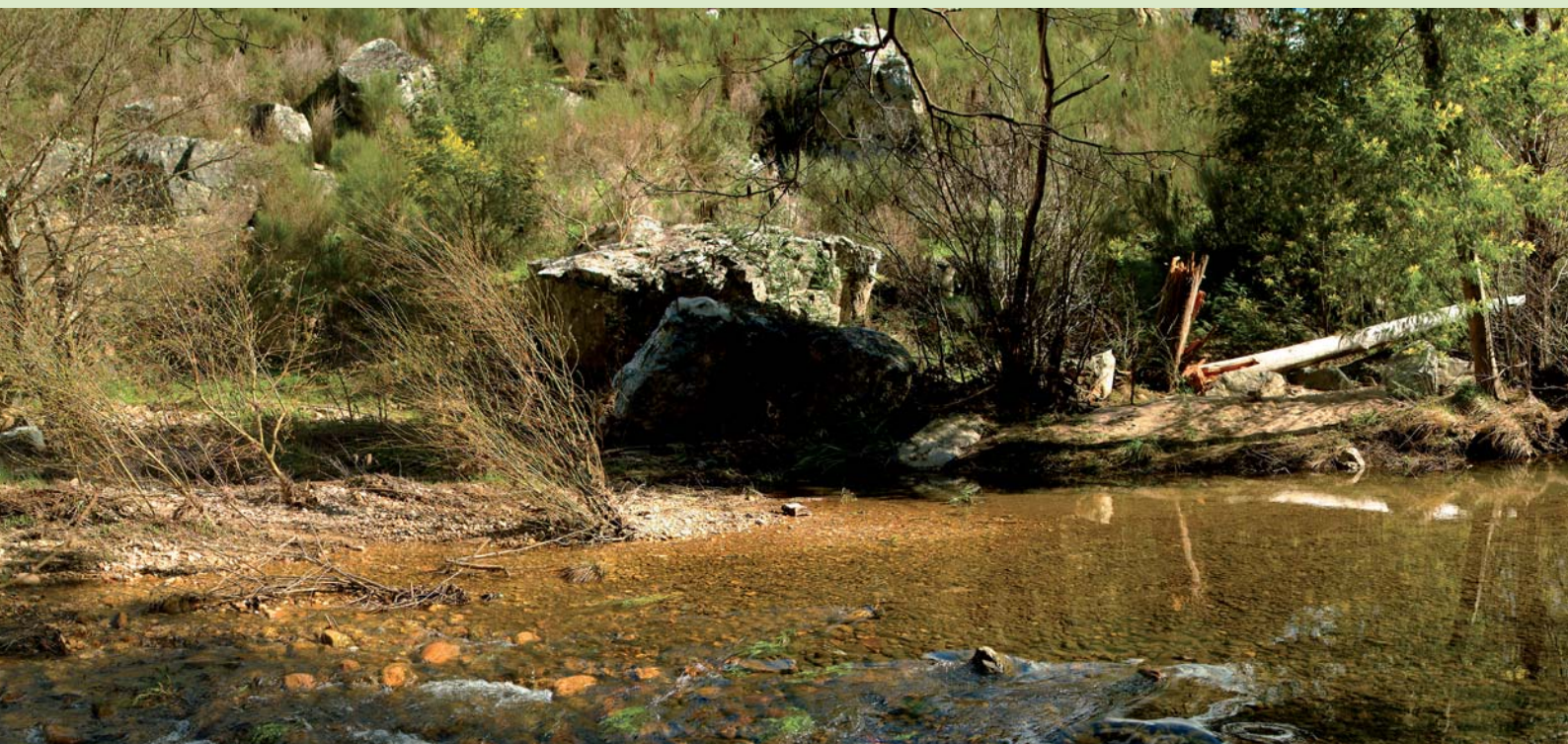
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Appended notes

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

POC note	Description	Presented notes
1.	POC rules waived in the period	2
2.	Comparability	n.a
3.	Basis of presentation and main valuation criteria	2
4.	Share prices	n.a
5.	Tax benefits relevant for the period	n.a
6.	Income tax	36
7.	Average number of employees	27
8.	Note to the accounts for establishment costs and research and development	n.a
9.	Explanation for depreciating establishment transmission value beyond five years	n.a
10.	Changes in fixed assets and related depreciation and adjustments	5,6,7 e 28
11.	Funding of fixed assets booked for the period	n.a
12.	Revaluation of tangible fixed assets (legislation)	6
13.	Table detailing revaluations	6
14.	Fixed assets in third parties' possession	6
15.	Goods used under financial leases	n.a
16.	Equity holdings in group companies and associates	7
17.	Shares and parts of the Marketable securities account exceeding 5% of current assets	n.a
18.	Breakdown of account 4154 - Funds	n.a
19.	Materially relevant differences between market prices and valuation of current assets	n.a
20.	Valuation of current-asset items below market prices	n.a
21.	Adjustments	11 e 13
22.	Inventory in third parties' possession	n.a
23.	Doubtful debts	11 e 13



POC note	Description	Presented notes
24.	Loans extended to governing body members	n.a
25.	Debts to and claims on company sta	13 e 24
26.	Debts materialised by balance sheet items but not reported on the balance sheet	n.a
27.	Dated and undated bonds issued by the company	n.a
28.	Overdue amounts on the Public sector account	n.a
29.	Debts to third parties maturing at five years	19
30.	Debts to third parties backed by collateral	n.a
31.	Commitments not reported on the balance sheet	18
32.	Guarantees tendered	37
33.	Difference between debts payable and related amounts	n.a
34.	Provisions	17
35.	Equity increases and reductions	n.a
36.	Composition of the share capital	15
37.	Identification of legal persons owning more than 20% of the share capital	7
38.	Shares and parts subscribed in the period	n.a
39.	Change in revaluation reserves in the period	16
40.	Changes in Shareholders' equity	Statement of changes in equity
41.	Statement of cost of goods sold	25
42.	Statement of change in production	n.a
43.	Remuneration of governing bodies	27
44.	Breakdown of sales and services provided	24
45.	Statement of net financial income	33 e 34
46.	Statement of net extraordinary income	35
47.	Disclosures required by law	n.a
48.	Other relevant disclosures	12,13,14,19, 22 e 23

n.a. - non-applicable



Codes brook by Penedo Furado - Waterfront woods





Riverside corner, affluent of river Zêzere



O 18.pinions and certifications

Report and opinion of the Sole Auditor

Pursuant to article 452 of the Companies Code 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 2009 as well as the allocation of net profit for the year as proposed by the board of directors.

1. REPORT

In the fulfilment of his duties, the sole auditor followed the Company's key operations using as tools for his analysis the 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, particularly financial and operational indicators, capital expenditure and the control of budgetary execution.

During financial 2009, the sole auditor drafted reports on the activity, including:

- Evaluation of the management of specific areas of the company, particularly costs and income from exploration, capital expenditure, depreciation, provisions and financial return and costs.
- Verification that the company holds title to the goods and amounts included in the company's economic assets. In this regard, it was concluded that non-current assets are recorded on the balance sheet at acquisition cost or their re-valued amount and depreciation charges of 30.789 million euros for the year were calculated on the basis of the respective assets' estimated economic life, applying the highest accepted tax rates.
- Verification of the adequacy and consistency of accounting policies and asset valuation criteria adopted for the preparation of financial statements, which are disclosed in the notes to the financial statements, so as to reliably express the company's financial position and the result of its operations in the financial year.
- Control of the execution of operating and capital budgets. Execution levels are very satisfactory, not only because of the favourable variances achieved but also because of the magnitude of the year-on-year changes. In this regard, emphasis should be given to the favourable variances in revenues – 3.3 million euros, or 2% compared to budget, and 4.9 million euros, or 3.4%, year on year. Variances in operating costs were also favourable – 3%, although growth year on year reached 4.9 million euros, or close to 5%.
- This increase arises from the adjustments made in the clearance of staff costs related to the pension fund, whose comparability indices changed from 2008 to 2009.
- Capital expenditure in 2009 had a financial realisation index of 65% reflected by a turnover amount of 26.796 million euros, along with a volume of commitments of 32.4 million euros. Given the amounts of realisation in this financial year, capital expenditure reached the average levels of previous years, in accordance with the management goals in this area.

- 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, 10.65% of water abstracted, was one of the lowest ever. The consistent decrease in water losses has been achieved significant investments in the renewal and expansion of the Lisbon network. In this financial year, there was a reinforcement of the production capacity, namely with the expansion of the Castelo de Bode's sub-system and in the guarantee of water quality, based on 6.7 million euros of capital expenditure on the New Central Laboratory.
- Responsibilities with Pensions decreased close to 1.72 million euros in 2009, due to the reformulation of the Company's collective bargaining in 2008. With this measure, the value of the assets of the pension fund was increased in close to 2 million euros and simultaneously the volume of responsibilities with pre-retirements increased close to 1.82 million euros. At the end of the year, the fund's assets reached close to 35.042 million euros. EPAL contributed 1.62 million euros in this financial year.
- In order to obtain an adjusted coverage of its responsibilities, which reached 48.899 million euros in 31 December 2009, the company reinforced the specific provision in the balance sheet, which was set at 15.602 million euros.
- EPAL's financial structure maintained in 2008 the balance already shown in previous years. There was a significant reinforcement of its liquidity positions. The company has a very solid financial position allowing the solvency of future commitments in good operational conditions.
- EBITDA reached 73.3 million euros, an amount that corresponds to the average amounts of the previous financial years. Equity, which was increased in financial 2009 in close to 8.5 million euros, rose to 373.491 million euros due to the change of 12 million euros in retained earnings and the net profit of the financial year compared with a year earlier.
- Operating costs had a positive impact on results: the savings of with goods and services purchased reached 2 million euros and the loan interests reached close to 3.7 million euros. Operating results in this financial year was negatively influenced by the increase in staff costs, up 28% from a year earlier, due to the adjustments to the pension fund.
- As a final note, we should like to emphasise the strategy that aims to raise service quality while ensuring a sustainable financial profile coupled with an adequate and fair return on capital employed.

- This approach is based on increased operational efficiency through implementation of a quality management system and creates the conditions that support the current management model. These measures have impacted favourably the company's economics, which have shown significant growth in recent years.
- We confirm that the management report is in accordance with the financial statements and that its preparation followed the legal requirements on this matter. 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.

2. OPINION

The reported financial statements have been approved in a meeting of the board of directors on 11 March 2010. The board's opinion is that they reflect in a reliable way. 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 2009;
- the proposed allocation of net profit,

as presented by the board of directors.

Lisbon, 18 March 2010.

The Sole Auditor

(António Dias Nabais)

Certification of Accounts

Introduction

1. We have examined the financial statements presented by **EPAL - Empresa Portuguesa das Águas Livres, S.A.** consisting of the balance sheet at 31 December 2009 evidencing net assets of 738,658,822 euros and equity of 373,490,766 euros including net profit for the year of 27,117,236 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 Portuguese Institute of Chartered Accountants, which require the examination to be planned and executed with a view to obtaining an acceptable confidence level about the financial statements being free of materially relevant distortions. To this end, the examination included:
 - checking, on a sampling basis, the support for the amounts and disclosures contained in the financial statements and assessing the estimates used in their preparation that have resulted from the judgements and criteria defined by the board of directors;
 - judging whether the adopted accounting policies and their disclosure are adequate, considering the circumstances;
 - checking the applicability of the principle of continuity; and
 - evaluating the overall adequacy of the financial statements presentation.
5. Our examination included checking the conformity of financial information in the management report with the presented financial statements.
6. A remark is in order that the balance sheet and the income statement by nature are presented in a format that is different from the one required by the Official Accounting Plan (POC in Portuguese); this is, indeed, stated in Note 2.a) to the financial statements. However, we checked that the set of financial statements includes all the information required by the Official Accounting Plan evidencing similar amounts in total assets, equity and net profit to those that would arise from the presentation of the accounts according to the format required by this standard, applicable at 31 December 2009, whose support documents are also contained 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, EPAL - Empresa Portuguesa das Águas Livres, S.A.'s financial position at 31 December 2009, the result of its operations and the cash flows in the financial year ended on that date, in compliance with the accounting principles generally accepted in Portugal.**

Lisbon, 16 March 2010.

The Chartered Accountant,

(António Dias Nabais)



AUDIT REPORT

Introduction

1. We have examined the attached financial statements of EPAL – Empresa Portuguesa das Águas Livres, S.A. (the “company”), which include the balance sheet at 31 December 2009 evidencing a total of 738.658.822 euros and equity of 373.490.766 euros including net profit of 27.117.236 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 das Águas Livres, S.A. at 31 December 2009 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, 16 March 2010

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

World Congress



of the IWA in 2014

EPAL, in association with the Portuguese Committee of the International Water Association and with the support of the Portuguese government, the Municipality of Lisbon and the Tourism of Lisbon, submitted a bid to host the World Congress of the International Water Association in 2014. In the general meeting of the International Water Association that took place on 5 September, EPAL's bid was chosen over the bids of Brussels, Istanbul, Dublin and Geneva.

Lisbon will be the host of the 9th World Congress of the International Water Association, whose theme will be "Finding Solutions to Secure the Future." ■



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