

Priceless values

The selected theme for the illustration of the annual report 2010 considers Water, People and the City in their intrinsic dimension of priceless values.

Water as the purpose of the company, a driving force of its activities, a result from the work and care of hundreds of employees, a key element to the life and well-being of mankind, a universal and threatened good.

People, since they are life, recipients of the work developed and the product supplied by the company, thinking beings that have the responsibility of efficiently managing the world we live in.

The city, centre of human activity, connection hub of society in its several dimensions, mixed space of nature and buildings where one is born, grows, lives and dies.

To illustrate these values some images were selected, most of them were awarded and distinguished in the several photography marathons organised by EPAL between 2003 and 2009.

Photography marathons are initiatives of the company in which people are invited to portrait the city according to water related themes.

The interest, quality and beauty of the images testify extended sharing of the priceless values chosen for the illustration of this report and explain their publication.



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261,960



In recent years, EPAL has been marked by the careful management of its operational cost structure, by a new paradigm in determining its investment needs according to service levels, by a proactive attitude in the resolution of conflicts with stakeholders, a policy of knowledge management focused on the upgrade of human resources and the set-up of partnerships, and by a future vision for the company based on the integrated management of the urban water cycle.

This way, it was possible to overcome the crisis caused by the drastic reduction in consumption since 2005 – while maintaining adequate levels of return on capital employed, attractive working conditions and overall tariff increases below inflation - consistently achieving excellent earnings that culminated in 2010 with a truly exceptional net profit of 45.887 million euros.

This item will reflect accounting changes arising from IFRS and, mostly, from EBITDA growth to 86.951 million euros and the reversal of a proposal, created in previous periods, due to a conflict with the Municipality of Lisbon related to the payment of a subsoil occupancy rate.

The adoption of new practices and working tools had an impact on the implementation of the Integrated System of Corporate Responsibility, on the consolidation of the asset management strategy, on the development of hydraulic modelling and the water quality modelling in the distribution network of Lisbon, on the implementation of the Service Guarantee Project to improve supply reliability, and on the approval and public presentation of the Water Safety Plan (PSA).

The opening of EPAL's Central Laboratory is a landmark in financial 2010 and defines the commitment of the management team with service quality and guarantee of water quality, and it is also a modern vision for the company's future.

To that end, it is crucial to invest in human resources and improve their skills, through partnerships and training sessions on all levels that ensure strategic knowledge within the company.

During the year, the signs of economic and financial crisis increased in our country, which had a harsh impact on EPAL, requiring everyone to strengthen the dialogue based on mutual respect and solidarity.

At the end of the year, we were surprised by the death of our dear member of the board, Jorge Loureiro, who will be missed.



Activity

Activity	
Total volume of water sold	213,799,910 m ³
Number of direct clients	349,413
Number of municipal clients	18
Number of multi-municipal clients	2
Municipals directly and indirectly supplied	33
Number of consumers	2,825,444 *
Total area supplied	6,681 km2
Income statement	
Total revenues	151,724,796
Net profit	45,887,092
EBITDA	86,950,732
EBIT	63,416,648
Balance sheet	
Share capital	150,000,000
Shareholders' equity	506,107,841
Liabilities	410,744,347
Net total assets	916,852,189
Capital expenditure	
Return on equity	9.07%

^{*} Resident population in the area supplied (population data from the previous year)







Quality, whereby innovation, novelty and excellence are pursued

Social responsibility when providing basic public services

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

Client focus, the reason for the company's existence

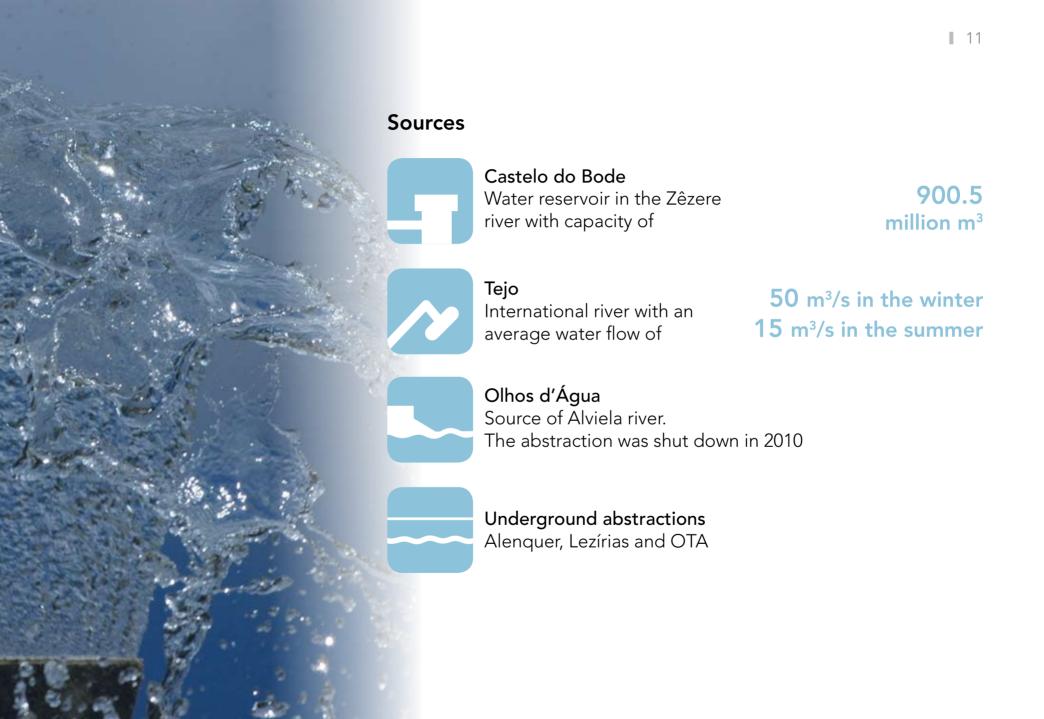
Integrity and Transparency in its behaviour and relationships with all stakeholders

Competence and strictness in decisionmaking and its overall actions by setting trust as a relationship principle between EPAL and its various audiences

Respect for and practice of lawfulness

Continuous improvement of people, knowledge, and practices of both the company and society





	Water abstracted (m³)	242,502,220	
SEASON SEASON SEASON	Abstracted volume by source		
The second state of the second	Castelo do Bode	162,443,362	
	Тејо	56,626,190	
THE TAX INCOME AND LOCATION AND ADDRESS OF THE PARTY OF T	Olhos d'Água	3,512	
	Underground	23,429,156	
	Water produced (m³)	242,194,160	
	Asseiceira water treatment station	162,436,232	1
	Vale da Pedra water treatment station	56,325,260	
THE RESERVE AND THE PARTY OF TH	Olhos d'Água	3,512	
	Underground	23,429,156	
	Water sold (m³)	213,799,910	
	Municipal/Multi-municipal clients	155,128,136	'
	Direct clients	58,671,774	
	Non-invoiced water (m³)	28,702,310	11.84%
	Non-invoiced water in the distribution network	13,974,193	11.80%
	Non-invoiced water in the production and transportation system	14,728,117	6.07%

The water cycle in the 2008/2010 period

					Cnange
m³	2008	2009	2010	201	0/2009
Water abstracted	241,110,432	242,955,512	242,502,220	-453,292	-0.2%
Water treated	241,027,376	242,820,859	242,194,160	-626,699	-0.3%
Water sold	211,256,465	217,085,364	213,799,910	-3,285,455	-1.5%
Non-invoiced water	29,496,355	25,870,148	28,702,310	2,832,163	10.9%

- Decline of 1.5% in the volume of invoiced water in 2010 compared to 2009
- Decrease of 9.2% in the volume of non-invoiced water in the Lisbon distribution network in 2010 compared to 2009
- Rise of 10.9% in the total volume of non-invoiced water in 2010 compared to 2009, resulting from the increase of non-invoiced water in the production and transportation system
- The volume of non-invoiced water is understood within the range of the economic level of losses. The economic level of losses is reached when the marginal cost of actively controlling leakages equals the marginal cost of water production
- The evolution in the volumes of non-invoiced water in the production and transportation system explains the start, in 2010, of the implementation of close to 35 transportation monitoring zones (ZMT in Portuguese), which will allow the active control of losses in the system. In 2010, 18 new water flow meters needed for the set-up of ZMTs were installed
- In the context of the company's Mission, several contacts and negotiations were maintained with the Municipality of Lisbon for the transference of the management and exploration of the waste water sewage system and draining of rainwater, in downstream, of the City of Lisbon, aiming to extend EPAL's activities to sanitation

2010 705

31

28 128

2010

1,429

10

13

83,395

Transportation Length of the trunk mains (km) Towers (number) Reservoirs (number) Delivery points (number) In 2010, there were 12 breakdowns in trunk mains in the transportation network Distribution Length of the network (km) Towers (number) Reservoirs (number) Service mains (number) Altimetric zones (number) 99% of the network is covered by monitoring and control zones (ZMC in Portuguese) 5 ZMCs were installed in 2010, adding up to 150 Breakdowns in trunk mains in the distribution network – 513, down 19.59% from a year earlier Bursts in service mains – 877, down 21.35% from 2009 The breakdowns in trunk mains/100km/year indicator in the distribution network exceeded the established goal, reaching 36 against 45 in 2009



Water quality

- The Integrated Programme of Water Quality Control comprises:
 - Legal control, defined by the government decree Decreto-Lei n.° 306/2007, of 27 August
 - Operational Control/Monitoring of water quality in sources and throughout EPAL's supply system
 - Control of the treatment processes installed in treatment stations
 - Legal control:
 - 1,248 sampling points at client taps
 - 99 sampling points installed at the points of 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/monitoring:
 - 163 fixed sampling points in the city of Lisbon's distribution network
 - 59 sampling points representing the transportation system
 - 48 sampling points installed in water sources
 - Process control:
 - 44 sampling points representing the control of the process carried out at the water treatment stations of Asseiceira and Vale da Pedra and the Alenquer decarbonation station
- Performed outcomes:
 - 7,347 water samples were collected under Legal and Operational Control/Monitoring
 - 22,425 samples were collected under Process Control

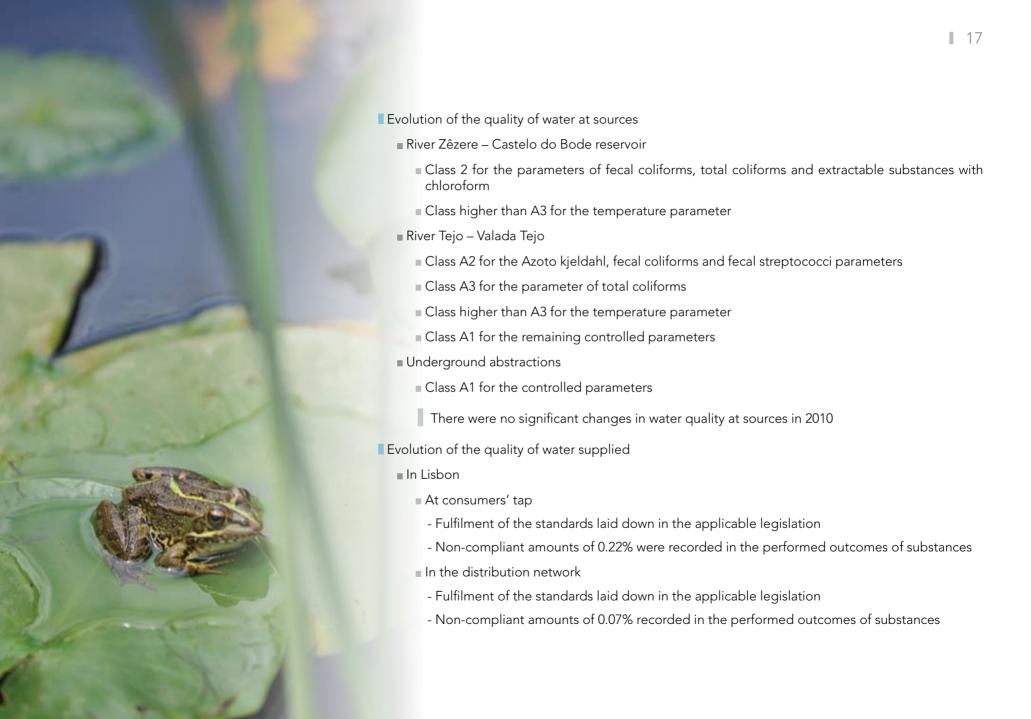


- 136 parameters were researched and 236 substances were isolated under Legal, Operational and Process Control
- 481,034 outcomes were distributed as follows:

Number of outcomes (substances)	Legal control
Direct clients through transportation	857
Deliveries to water providers	27,299
Consumer taps in the City of Lisbon	16,866
Sub-total	45,022
Operational control/monitoring	
Underground abstractions	13,455
Surface abstractions	8,024
Transportation system (since the exit from treatment stations)	69,852
Distribution network (fixed points)	46,806
Sub-total	138,137
Process control	
Asseiceira water treatment station	95,773
Vale da Pedra water treatment station	199,221
Decarbonation station of Alenquer	2,881
Sub-total	297,875
Total	481,034

Note: Data obtained at the time of preparation of this report

■ Over 1,351 samples leading to 11,376 outcomes were collected following complaints, non-fulfilment of alert and parametric amounts and washing and disinfection operations of reservoirs and trunk mains









Municipal

Alcanena, Amadora, Batalha, Cartaxo, Cascais, Constância, Leiria, Loures, Mafra, Odivelas, Oeiras, Ourém, Porto de Mós, Santarém, Sintra, Tomar, Torres Novas, Vila Franca de Xira (18 municipalities)

Decrease from 20 to 18 clients directly supplied



Multi-municipal

Águas do Oeste – Alenquer, Arruda dos Vinhos, Azambuja, Bombarral, Cadaval, Caldas da Rainha, Lourinhã, Nazaré, Óbidos, Peniche, Rio Maior, Sobral de Monte Agraço, Torres Vedras (13)

The municipality of Nazaré started to be indirectly supplied by EPAL

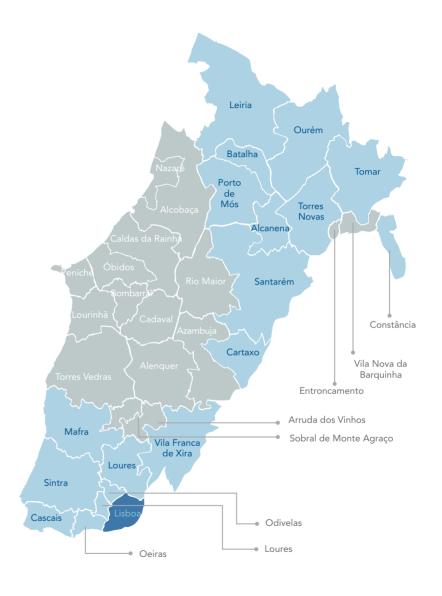
Águas do Centro – Entroncamento, Vila Nova da Barquinha (2)

New multi-municipal client that started integrating two municipalities previously supplied directly by EPAL



Direct

Direct clients (in and out of Lisbon)	349,413
Residential	298,464
Trade and industry	43,479
State, Municipality of Lisbon and embassies	4,732
State-chartered private institutions	2,736
Military units	2





Services provided

 Water sold (m³)
 213,799,910

 Municipal clients
 132,655,296

 Multi-municipal clients
 22,472,840

 Direct clients
 58,671,774

- Compared to the previous year, volume invoiced decreased by 1.51%, which accounts for close to 3.3 million cubic metres
- The reduction of 2.83% in volume sold to municipal clients was mainly due to the fall of consumption in the municipalities of Sintra, Oeiras and Amadora
- In direct clients, the variance of -1.12% was mainly due to the reduction of consumption in residential clients and trade and industry, having other segments stood at a stable situation
- The fall in consumption does not have a correspondence in the total number of clients, which grew once more, especially in the residential segment
- From 15 February, services provided in the signing of water supply contract and availability and set-up of individual meters are no longer invoiced
- Overall, 728 telemetric systems were installed in large clients
- The electronic invoice was promoted, reaching 34,500 clients at the end of the year
- According to the article 62 of the government decree *Decreto-Lei* n°194/2009, a proposal of service regulation was prepared Rules of Service Providing to Clients, which, once approved, will replace the current regulation of 1944



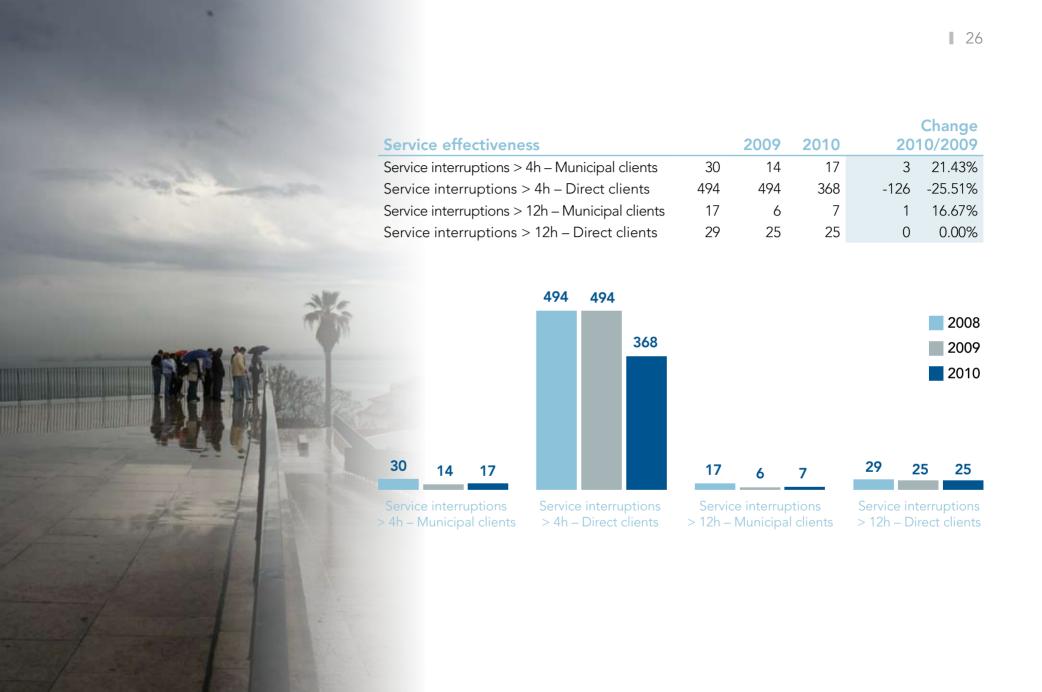
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	Customer care				
	Clients served by the contact center				251,840
	In 2010, 0,1% less than in 2009				
		Unit	2009	2010	Change
	Contact Center – Customer service levels	%	90.1	92.3	2.4%
	Contact Center – Calls answered in less than 30 seconds	%	73.3	79.3	8.2%
	Contact Center – Average waiting time in Contact Center	sec	33	27	-18.4%
The second of th	Clients served personally			4	214,947
A STATE OF THE STA	Less 7% than in 2009				
		Unit	2009	2010	Change
	Customer service personally – Clients served in less than 15 minutes	%	76.3	88.0	15.3%
	Clients served < 15 min – Head office	%	77.5	89,3	15.2%
	Clients served < 15 min – Loja do Cidadão	%	76.1	86,3	13.4%
	Average waiting time in store at the head office	min	9.8	6.4	-34.6%
40000	Average waiting time in Loja do Cidadão	min	9.8	7.1	-27.5%
	Clients served by post				10,678
NOT THE RESIDENCE OF THE PARTY	Less 14% than in 2009				
	Clients served via Internet				14,717
	Less 2% than in 2009				

Service reliability

Bursts and breakdowns	2008	2009	2010	Change 2010/2009
Breakdowns in trunk mains in the transportation network	13	10	12	2 20.00%
Breakdowns in mains in the distribution network (ERSAR in Portuguese)	637	638	513	-125 -19.59%
Breakdowns in trunk mains/100 km/year in the distribution network	45	45	36	-9 -20.00%
Bursts in service mains	1,234	1,115	877	-238 -21.35%

To face the stabilisation and persistence of the number of bursts in the distribution network in the last years, the Service Guarantee project was created with the purpose of identifying and reviewing the causes of bursts as well as implementing the required actions for a consistent reduction of their number, thereby monitoring the effect of implemented actions

Services suspended with impact on clients	2008	2009	2010	20	Change 10/2009
Per time	5,805	5,384	4,213	-1,172	-21.76%
Total production and transportation	571	381	199	-183	-47.90%
Programmed	498	187	172	-16	-8.29%
Non-programmed	73	194	27	-167	-86.08%
Total distribution	5,234	5,003	4,014	-989	-19.77%
Programmed	1,673	1,375	894	-481	-34.98%
Non-programmed	3,561	3,628	3,120	-508	-14.00%
Per amount	1,412	1,290	1,042	-248	-19.22%
Total production and transportation	39	22	21	-1	-4.55%
Programmed	34	18	18	0	0.00%
Non-programmed	5	4	3	-1	-25.00%
Total distribution	1,373	1,268	1,021	-247	-19.48%
Programmed	389	309	193	-116	-37.57%
Non-programmed	984	959	828	-131	-13.66%
The hours of suspension with impact on a The number of suspensions decreased b		down by 21	.8%		

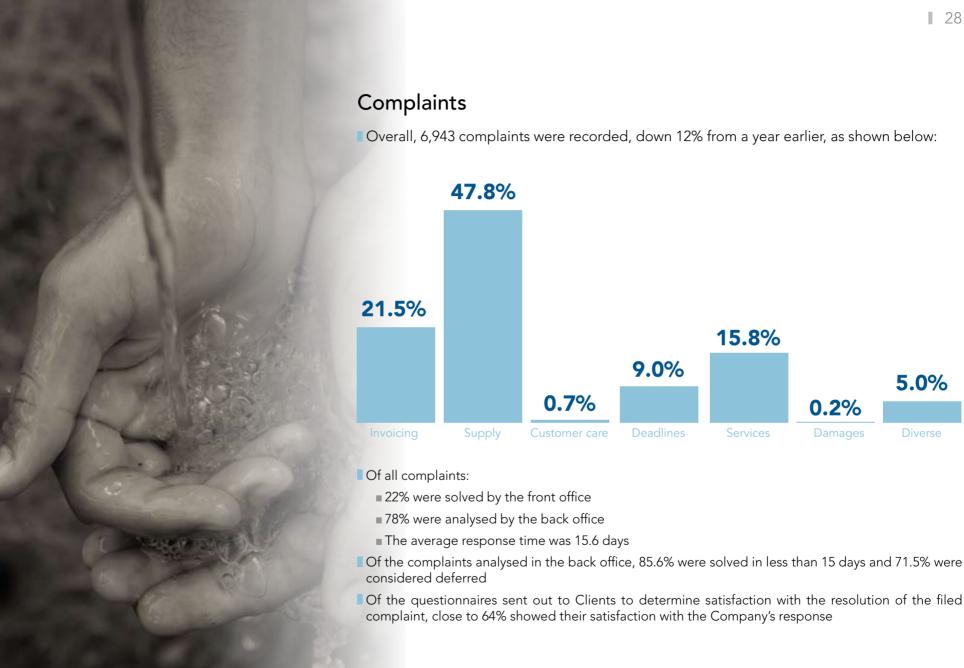


Satisfaction levels

	<u>EPAL</u>		Water sector		
Underlying variables	2009	2008	2009	2008	
Image	7.84	7.51	7.30	7.23	
Expectations	7.70	7.04	7.07	6.87	
Perceived quality	7.94	7.40	7.27	7.19	
Perceived value	7.09	6.29	6.10	5.80	
Satisfaction	7.71	7.32	7.04	6.84	
Complaints	7.13	6.48	6.46	5.98	
Loyalty	7.38	6.92	6.54	6.48	

Scale ranging from 1 to 10:

- 4 negative assessment
- 4 6 neutral assessment
- 6 positive assessment
- 8 very positive assessment
- Once more, EPAL participated in the **National Study of Customer Satisfaction** (ECSI in Portuguese), having improved its score in all variables when compared to a year earlier
- The performance achieved in all 7 variables is higher than the average of the sector







550 196 Man Women

Reduction of 22 employees when compared with the previous year



Age

- Average age at 31 December 2010 46.39
 - Recovered, with residual advantage, during the year.
- Age groups

age - <25	5
age - 25-34	133
age - 35-44	148
age - 45-54	255
age - >55	205

■ Levels 45-54 and >55 decreased by 6.25% and 2.84%, respectively, when compared with the previous year.

Seniority

- Average seniority at 31 December 2010 20.18
 - Recovered, with residual advantage, during the year

seniority - <2	43
seniority - 2-5	65
seniority - 6-10	55
seniority - 11-20	175
seniority - >20	408

■ The group of employees with over 20 years of seniority fell 6%.



Absenteeism

Absenteeism rate 4.29% Hours of absenteeism 58,032

- The highest rate of recent years
- Causes
 - Disease and work accidents account for 3.12%
 - The rejuvenation of the company increased absenteeism due to maternity and paternity leaves and family care

Professional level

Senior managers	100
Middle managers	167
Forepersons	36
Highly skilled workers	131
Skilled workers	307
Semi-skilled workers	5

- 58% of employees are framed in the levels highly skilled workers, forepersons and middle and senior managers
- Reduction of 5.25% in skilled workers when compared with 2009

Educational level

Educational level	Men	Women	Total	%
Basic	276	37	313	41.96
Secondary	157	52	209	28.02
Higher	117	107	224	30.03

- Employees with higher education account for 30% of the company's human resources
- 8 employees completed a higher degree in 2010
- 19 employees achieved secondary school certificates under the New Opportunities initiative.
- 6 workers achieved the basic school certificate under the New Opportunities initiative
- Since the launch of the project, 102 workers were certified

Training

Number of training hours	15,113
Number of trainees	1,164
Number of participants	648

- Participants in training sessions account for 86.9% of workers
- The number of training hours decreased by 16.6%

r of workplace accidents – total		
r of workplace accidents – with absence		
o times the number of accidents in 2009		
ncy rate 2008	2009	2010
18.25	15.22	32.08
11.9	8.81	26.32
/ rate 2008	2009	2010
y rate 2008 0.47	2009 1.16	2010
r	18.25 11.9 mber of accidents X 10 ⁶ / number of hours of exposure to risk	2008 2009 18.25 15.22 11.9 8.81



IF	Grade	IG
< 20	Very good	< 0.5
29 to 40	Good	0.5 to 1
40 to 60	Medium	1 to 2
60 to 100	Bad	> 2

■ In spite of the decrease in 2010, the company's rates of frequency and severity are classified as good and medium, respectively, in accordance to the World Health Organisation.

Occupational health

Number of medical examinations	1,052
Number of stomatology visits	1,509
Number of physiotherapy treatments	1,285
Number of information/health campaigns	24



Social benefits

■ Canteens

■ 89,926 meals were served in the company's 5 canteens

■ Offer of Christmas baskets

- 1,865 baskets were distributed
 - **786** to active workers
 - **762** to retired workers and early retirees
 - 17 to trainees
 - 22 to retainer-based service providers
 - **61** to workers of contact center and information system providers
 - **217** to workers of providers of general services of cleaning, security and maintenance of green spaces

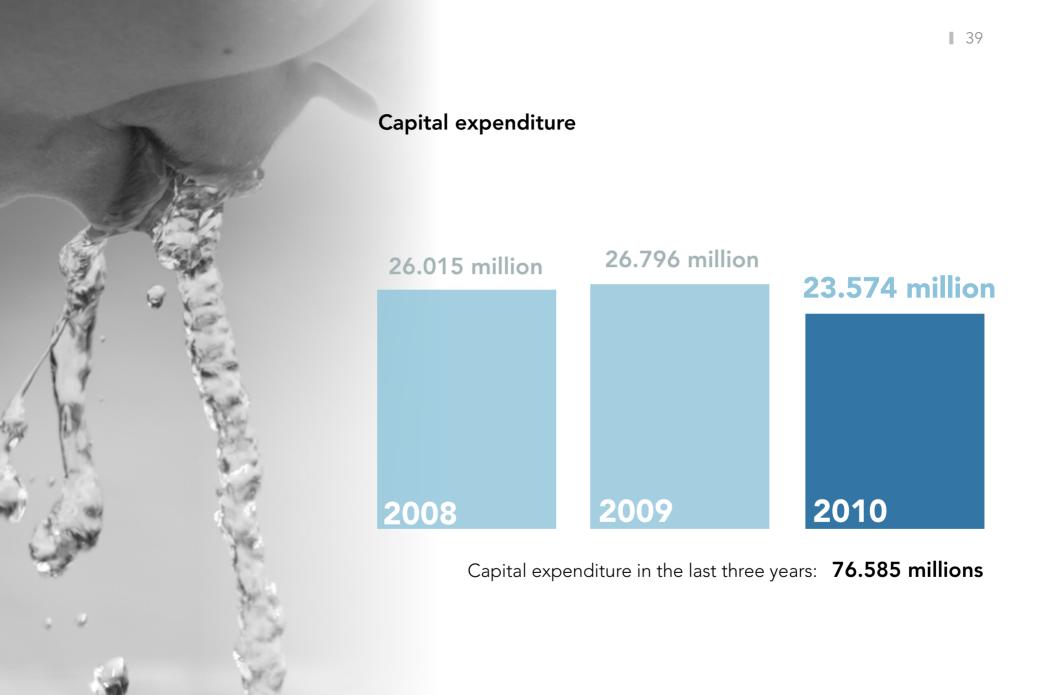
■ Health insurance

- It covers 1,838 people
 - **749** active workers
 - 167 early retirees
 - **466** spouses
 - 456 young children

Programmes for the occupation of leisure time (OTL) for the children of employees

OTL - Children	51
TL - Company	35

Capital expenditure, innovation and development



2008	2009	2010
44.040.444		2010
11,369,614	4,130,645	3,269,759
9,277,563	3,354,405	2,420,369
1,333,172	770,244	832,712
758,878	5,997	16,67
9,788,244	13,271,561	8,872,843
7,409,964	8,963,925	4,067,750
1,188,842	921,046	139,903
597,358	2,601,774	4,084,949
592,080	784,817	580,24
1,296,679	7,424,206	8,785,45
266,335	6,695,164	7,973,25
1,030,344	729,042	812,19
2,115,726	766,272	535,90
1,876,312	601,330	471,94
239,414	164,943	63,95
1,317,172	651,020	830,46
379,239	320,386	290,89
597,081	311,916	410,19
340,853	18,718	129,38
327,085	552,225	1,279,98
0	253,236	61,06
85,468	104,840	425,37
90,000	59,049	410,26
151,617	135,099	383,28
26,214,520	26,795,930	23,574,412
	1,333,172 758,878 9,788,244 7,409,964 1,188,842 597,358 592,080 1,296,679 266,335 1,030,344 2,115,726 1,876,312 239,414 1,317,172 379,239 597,081 340,853 327,085 0 85,468 90,000 151,617 26,214,520	1,333,172 770,244 758,878 5,997 9,788,244 13,271,561 7,409,964 8,963,925 1,188,842 921,046 597,358 2,601,774 592,080 784,817 1,296,679 7,424,206 266,335 6,695,164 1,030,344 729,042 2,115,726 766,272 1,876,312 601,330 239,414 164,943 1,317,172 651,020 379,239 320,386 597,081 311,916 340,853 18,718 327,085 552,225 0 253,236 85,468 104,840 90,000 59,049 151,617 135,099

In the three-year period, the Guarantee of Reliability and Safety absorbed 41.7% of capital expenditure, Guarantee of Capacity used 24.5%, and Guarantee of Quality took 22.9%





Innovation and development

Telemanagement

Increase in the number of automatisms under operation with incidence on energy optimisation (number of groups under operation as function of the tariff), quality (immediate stop of facilities as function of quality variables) and control devices (positioning of valves as a function of control variables)

iMC

Reformulation of the application that supports the analytical methodology of the data ZMCs (monitoring and control zones) and the telemetry of large and small counters, with an increase in strength, time for data updates, new functionalities and increase of users of the system

AQUAmatrix

General developments were made to applications, namely:

- LTF: Control processes of meter readings for Clients without reading for some months
- Certification of the entire application suite, complying with the ministerial regulation *Portaria* 363/10
- Current account, allowing the creation of clusters of loose documents to generate a reference for payment (ATM or debit account)
- Inclusion of credit notes in the last warnings and warnings of water shutdown
- Ability of managing service bookings by geographic area (parish/council)
- Guarantee deposits (process that manages the lack of customer payment, leading to requests to reinforce bails)
- Ability of uniting documents for injunctions
- Billing of regular services, enabling the automation of billing services for a period of time

Quality of water

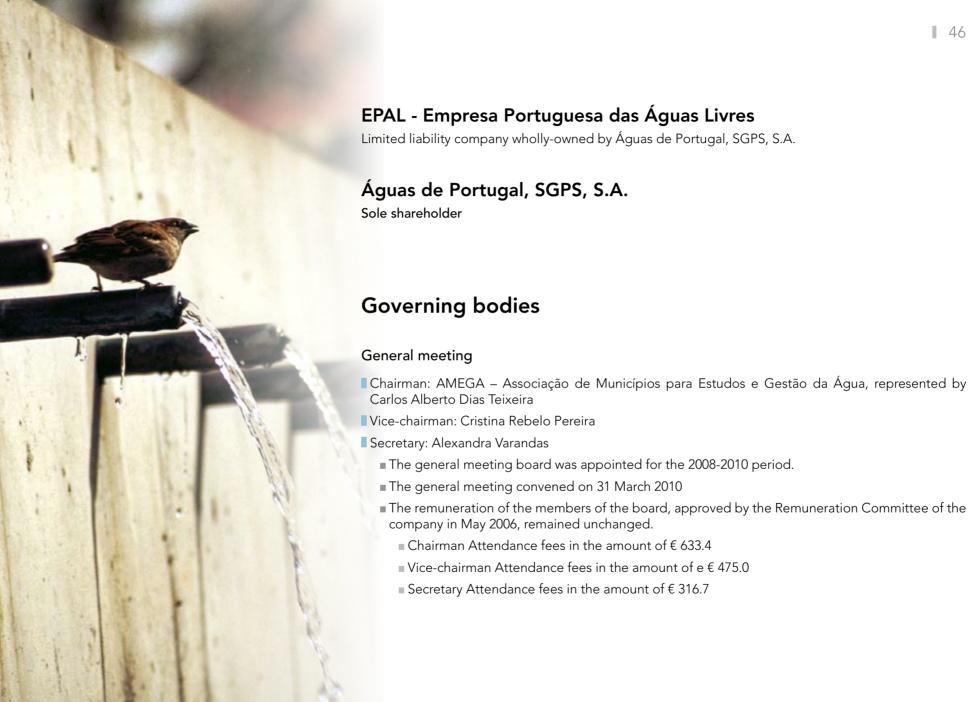
- Mathematical simulation of the morphological evolution, of the evolution of sediment spread and the quality of water of river Zêzere between Silvares and EPAL's abstraction at the dam of Castelo de Bode
- Development of a simulation model of the quality of the water in Lisbon
- Implementation of multi-parametric probes of solid-state technology in Lisbon
- Development and implementation of 12 laboratory test methods
- Development and implementation of an automatic system for the analysis of 6 parameters of water quality
- Study of methodologies of collection and conservation of samples for analysis of organic compounds in water for human consumption

Participation in international R&D projects

- TECHNEAU project "Technology enabled universal access to safe water":
 - Case Study 2: Monitoring and management strategy to understand and reduce the risk of release of pathogens from network biofilms
 - "Resuspention potential method (rpm) diagnose of sediment formation in Lisbon distribution NETWORK"
- Cost Benefit Analysis (CBA) of Flushing project Lisbon Case Study COST ACTION 637 METEAU "Metals and Related Substances in Drinking Water", which resulted in the issue, by EPAL and LNEC, of the final report of the project named "Studies for the characterisation of biofilm in EPAL's water distribution network and related risks"
- **SAFEWATER project** "Development and Validation of Integrated Treatment Processes of Consumption Water in Portugal and Norway"









Board of directors

- Executive body of the company, composed of five members
 - Chairman João Manuel Lopes Fidalgo
 - Executive directors

Jorge Luis Ferrão de Mascarenhas Loureiro (deceased on December 2010)

José Alfredo Manita Vaz

António Bento Franco

Rui Manuel de Carvalho Godinho

- Jorge Luís Ferrão de Mascarenhas Loureiro served 4 terms in several boards of directors, completing 11 years of service to the company
- Appointed for the 2008-2010 period
- Convened 40 times in 2010
- The fixed remuneration of the members of the board of directors remained unchanged since 2004
- The members did not receive any variable remuneration in 2010
- The members of the board of directors are responsible for the following roles:

		■ Representation of the Company
		■ Coordination of roles
		■SG – Company secretary
		■ DSO – Organisational development
	Chairman	■ PCG – Planning and control
	João Manuel Lopes Fidalgo	■ GIC – Branding and communications
		■ AUD – Internal audit
	262 AVI M	■ DGA – Asset management department
	THE ATTEMPT OF THE STATE OF THE	■ LAB – Central Laboratory department
		■ Historical archive
		■ DRH – Human resources department
	Executive director	JUR – Legal department
	Jorge Luís Ferrão de Mascarenha:	s ■ MDA – Water Museum
	Loureiro	■ "Águas Livres" newspaper
		■ Representative bodies of employees
		■ DRC – Client relations department
	Executive director José Alfredo Manita Vaz	■ DAF – Finance department
	Jose Alliedo Mallica Vaz	■ DSI – Information systems department
	Executive director	■ DOP – Operations department
图形 化排入物 中語 (集)接 了图	António Bento Franco	■ DIR – Network infrastructure department
	Executive director	■ DGO – Works management department
	Rui Manuel de Carvalho Godinho	■ LOG – Logistics department

Board of directors

João Fidalgo	Jorge Loureiro	Manita Vaz	Bento Franco	Rui Godinho
118,230 ₁	110,250	110,250	110,250	110,250
3,800	3,150	3,150	3 ,150	3,150
114,430 ₁	107,100	107,100	107,100	107,100
N	N	Ν	N	N
N	N	Ν	N	1
N	N	Ν	N	١
NA	NA	NA	NA	N/
6,204 ₁	1,076	1,382	1,358	1,07
N	N	N	N	N
1,596 ₁	1,571	1,571	1,571	1,57
N	N	N	N	<u> </u>
	118,230, 3,800 114,430, N N NA 6,204, N	3,800 3,150 114,430, 107,100 N N N N N N N N N N N N N N N N N N	118,230, 110,250 110,250 3,800 3,150 3,150 114,430, 107,100 107,100 N N N N N N N N N N N N N N N N N N	118,230 ₁ 110,250 110,250 110,250 3,800 3,150 3,150 3,150 114,430 ₁ 107,100 107,100 107,100 N N N N N N N N N N N N N N N N N N

3. Costs with social benefits					
3.1. Agreed scheme	14,966 ₁	8,214	15,318	5,634	15,
3.2. Agreed scheme					
3.2.1. Social Security (S/N)	Υ	N	Y	N	
3.2.2. Other (in detail)		CGA		CGA	
3.3. Health insurance	0	0	710	861	
3.4. Life insurance	2,894 ₁	0	2,912	2,699	
3.5. Other (in detail)	N	N	N	N	
4. Professional car					
4.5. Amount of the leasing of the professional car	1,059 _{1 and 2}	596 ₂	633 ₂	610 ₂	
4.6. Number of agreed payments	36	36	36	36	
4.7. Year of the leasing of the professional car	2009	2008	2008	2008	Ž
4.8. Amount of the fuel with the professional car	3,092 ₁	2,326	1,965	1,810	2
4.9. Taxation, in the personal income tax, of the professional car (S/N)	Y	Y	Y	Y	
5. Additional information					
5.1. Option for the origin remuneration (S/N)	N	N	N	N	
5.2. Remuneration roles outside the Group	N	N	N	N	
5.3. Other (in detail)	N	N	N	N	

⁽a) - It corresponds to the gross annual remuneration earned as a result of the remuneration set out in the articles or the place of origin, if this option has been allowed.

Amount invoiced to EPAL by AdP, SGPS
Amount arising from subsidies paid due to the death occurred on 29 December 2010
Y - Yes; N - No; NA - not applicable;

Sole auditor Appointed for the 2008-2010 period A remuneration of 17,912 euros was paid in 2010 to the sole auditor Advisory board for sustainable development Chairperson: Maria Helena Veríssimo Colaço Alegre Member: Maria Paula Batista Antunes Member: Manuel Duarte Pinheiro Appointed for the 2008-2010 period. The advisory board for sustainable development met with the board of directors in June, July and November The remuneration of the members of the advisory board for sustainable development, approved by the company's remuneration committee in May 2006, remained unchanged at 4,427.6 euros/year per member Remuneration committee Chairman: Pedro Eduardo Passos da Cunha Serra Member: Maria de Fátima Ferreira Pica Ferreira Borges Appointed for the 2008-2010 period

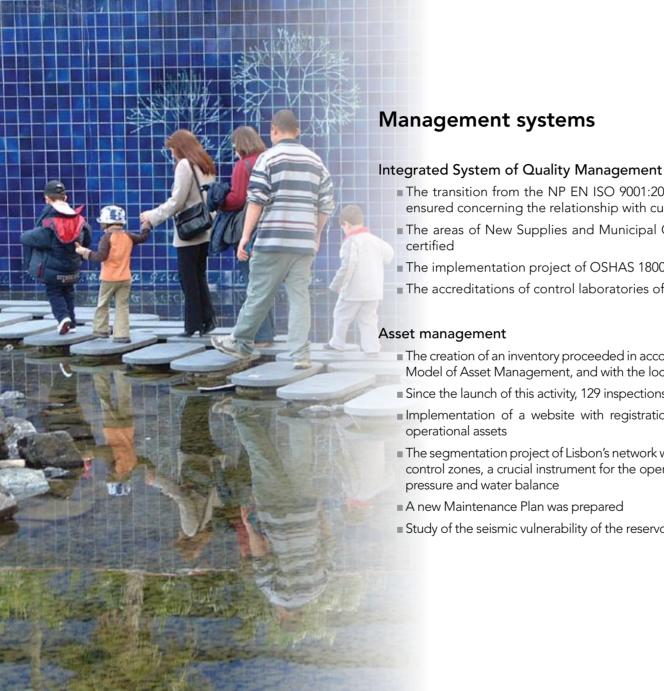


Management goals

EPAL'S GOALS		Goals				
2008-2010				Achieved	Achieved	Achieved
Indicator	2008	2009	2010	2008	2009	2010
ROCE (%)	5.8%	5.9%	6.0%	7.4%	6.7%	7.9%
EBITDA margin (%)	44.0%	45.0%	46.0%	53.4%	49.2%	50.6%
Rate of losses in the Lower zone	16.9%	16.4%	15.9%	14.8%	13.5%	11.8%
Quality of water supplied - Lower zone (%)	99.60%	99.60%	99.60%	99.86%	99.66%	99.56%
Average payment to suppliers (days)	46	46	38	56	45	36
Operating costs/EBITDA	169%	164%	159%	139%	152%	133%
Fulfilment of the corporate guidance	100.0%	100.0%	100.0%	120%	120%	100%
Fulfilment of the reporting deadlines	100.0%	100.0%	100.0%	82%	108%	68%

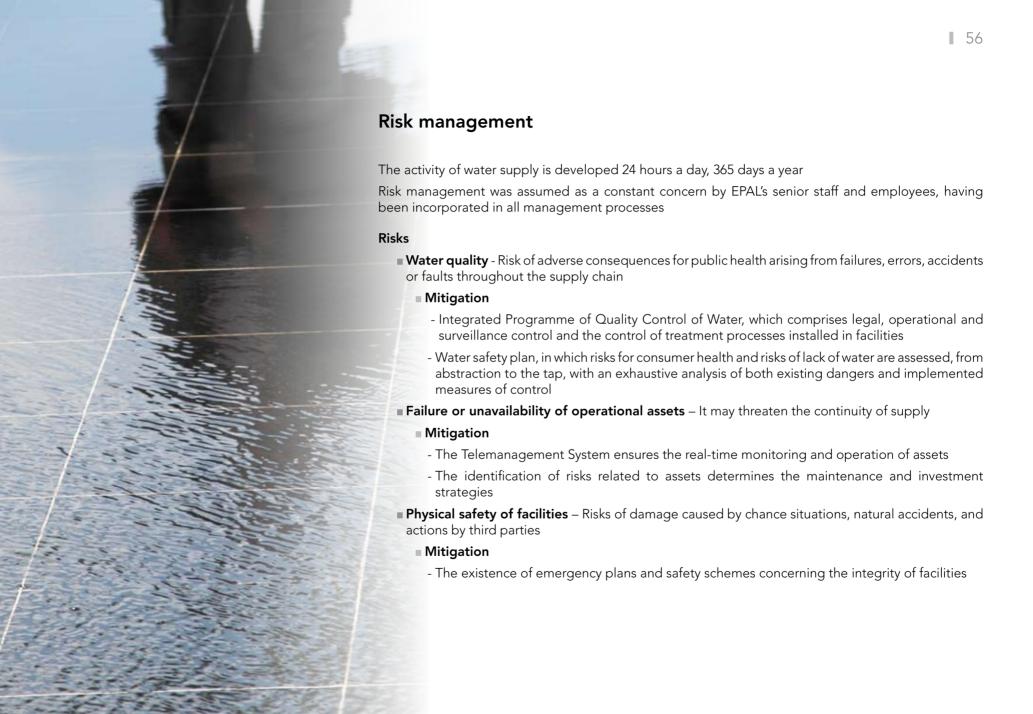
Note: The financial indicators, in 2010, are based on IFRS financial statements

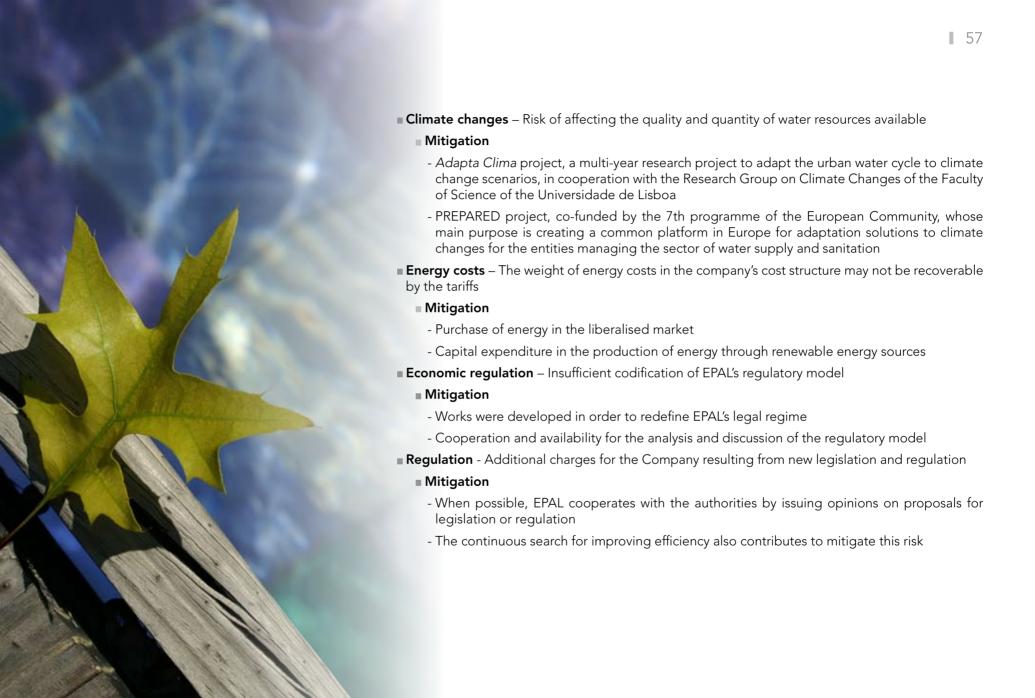




- The transition from the NP EN ISO 9001:2000 standard to the NP EN ISO 9001:2008 version was ensured concerning the relationship with customers
- The areas of New Supplies and Municipal Clients, as well as the Asset Inspection function, were
- The implementation project of OSHAS 18001/2007 was started
- The accreditations of control laboratories of water quality and meters were maintained
- The creation of an inventory proceeded in accordance with the structure set out in the MIGA Integrated Model of Asset Management, and with the locations defined in the project of Máximo
- Since the launch of this activity, 129 inspections were performed, leading to 261 inspections overall.
- Implementation of a website with registration information and information on the performance of
- The segmentation project of Lisbon's network was completed, which was fully covered by monitoring and control zones, a crucial instrument for the operational management of the network in terms of volumes,
- Study of the seismic vulnerability of the reservoirs of Telheiras and Vila Franca de Xira









■ Liquidity risk

■ Mitigation

- Maintaining a comfortable level of liquidity
- Ensuring a solid financial structure by adapting funding sources to operational and investment
- Guaranteeing flexibility in the use of credit lines, in amounts adequate to the normal development of the activity
- Contracting, in 2002, of long-term funding of 185 million euros, which corresponds to 50% of an ongoing capital expenditure programme, in the amount of 370 million euros, whose contract ended in late 2010, having EPAL used all the amount available

■ Interest rate risk

Mitigation

- Obtaining long-term bank loans at a variable interest rate
- Contracting the most competitive interest rate on the fixing date, following the comparison of the fixed rate with the variable rate plus a hedging contract
- Balance between fixed-rate debt and variable-rate debt. In late 2010: fixed rate: 52.3% vs. variable rate: 47.7%

■ Credit risk

■ Mitigation

Possibility of financial losses, arising from the default of customers or counterparties.

Regular assessment, considering the type of credit, the purpose and nature of operations, namely through the control of accounts receivable, based on the economic assessment of the risk of uncollectible accounts



Social responsibility and sustainable development

The performance of the company regarding social responsibility and sustainable development is described in the sustainability report 2010

Prevention mechanisms of conflicts of interest

- systematic assessment of legal compliance
- assessment of the criteria for recruiting and choosing people
- promotion and practice of the company's values

The resolution of conflicts of interest, when necessary, takes place in an open environment, with transparency, dialogue and fair and balanced negotiation

Fulfilment of good corporate governance principles

The principles of good corporate governance set out for state-owned companies in the cabinet resolution Resolução do Conselho de Ministros n.º 49/2007, of 28 March, were adopted and fulfilled, namely:

- the fulfilment of the company's mission
- the fulfilment of management goals
- respect for principles of public service and satisfaction of collectivity
- the policies of quality and environment, the fight against corruption and sponsorships continued
- the activity plans and budgets were prepared and executed
- the relationships with customers, suppliers and other stakeholders were fair
- the aggregation of executive and supervisory roles of the company was ensured
- relevant information was disclosed in the websites of the company and the state-owned corporate sector



Purchase of goods and services

- Adhesion to the National System of Public Purchasing
- Fulfilment of the Public Purchasing Standards

Contracts and acquisition of goods and services in 2010

Contracts	€8,896,635
Purchase of goods	€ 7,641,811
Purchase of services	€ 36,094,670

Number of processes per adopted procedure

Direct award	67	€4,197,205
Public tenders	6	€8,186,999
Consultation with competition	34	€1,559,154
Consultation without competition	27	€954,130

List of suppliers that accounted for more than 5% of supplies and external services and invoiced over 1 million euros:

- Tomás de Oliveira Empreiteiros, SA
- MARPE Construções e Instalações Técnicas, SA
- Consórcio: GRAVINER Construções, SA / REDECOR Revestimentos de Protecção e Decoração, SA
- ENDESA ENERGIA, SA
- IBERDROLA, SA
- CME, SA
- ÁGUAS DE PORTUGAL SGPS, SA

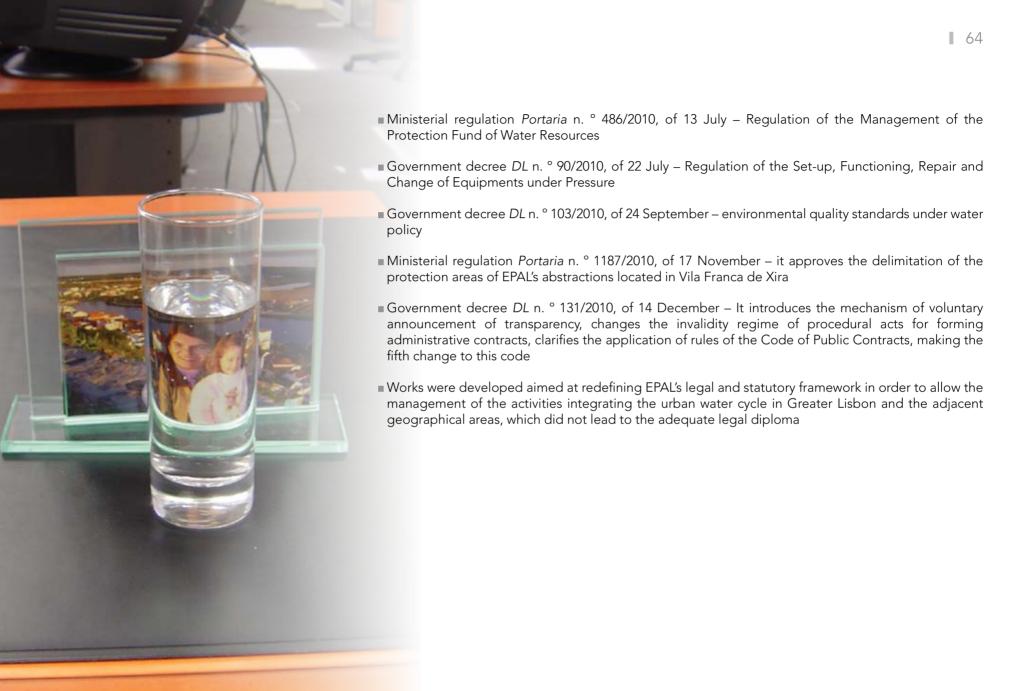
Contracts of services provided in an amount equal or higher than 125 thousand euros

Name	Amount of the contract	Supplier	Type of procedure
Corporate agreement for the acquisition and licencing of software and training and consultancy services in Oracle platforms	€ 1,671,036.07	Oracle	Direct award for signing a framework agreement
Contract to purchase alignment services of EPAL's purchasing model with the best practices, ensuring higher levels of efficiency and service quality and fostering a higher cost competitiveness	€ 165,200.00	A. T. Kearney	Direct award without competition
Acquisition of development services of the application suite named AQUAmatrix – under a Time & Materials regime	€ 200,000.00	Altran Portugal	Direct award without competition
Provision of communications services of voice, mobile-mobile, mobile-landline, landline-landline and data transmission via sms, mms, gprs and/or umts	€ 289,437.12	Vodafone	Public tender
Acquisition of services related to the agreement and termination of contracts of water supply to EPAL's clients	€ 700,794.00	Ensul/Meci	Public tender
Maintenance of the SCADA System in the Command Centres	€ 129,824.00	Tecnilab	Contracting consultation without competition
Contract of service provision of contact centers	€ 175,000.00	Randstad II	Direct award without competition
Renewal of licences and maintenance of the G/Interaqua system	€ 276,000.00	Aquasis	Contracting consultation without competition
Purchase of services from the System of Electronic Document Management (SGED in Portuguese)	€ 129,708.00	Link Consulting	Direct award without competition
Purchase contract of consultancy services to promote and validate sustainability practices in the conception of studies, execution projects, assessment of proposals and monitoring and control of contracts, by ensuring that the best solutions are subject to environmental, energy and sustainability certifications under the Sistema LiderA regarding the implementation in EPAL's Campus	€ 128,700.00	Instituto Superior Técnico	Direct award



Relevant legislation

- Ministerial regulation *Portaria* n. ° 21/2010, of 11 January values of classes of qualifications contained in building permits
- Ministerial regulation *Portaria* n. ° 160/2010, of 15 March criteria for the calculation of rates concerning the activity of structure, economic and quality service regulation, due by the concession holders of public water supply to ERSAR, I. P.
- Ministerial regulation *Portaria* n.° 175/2010, of 23 March criteria for the calculation of rates concerning the allocation of regulation of water quality for human consumption
- Government decree *DL* n. ° 26/2010, of 30 March (it changes DL n. ° 555/99, of 16 December) it sets out the legal regime of urban development and building, and changes the government decree DL n. ° 107/2009, of 15 May
- Cabinet resolution *Resolução do Conselho de Ministros* n. ° 24/2010, of 1 April National Strategy of Adaptation to Climate Change
- Law Lei n. ° 3/2010, of 27 April It sets out the obligation of the Portuguese state to pay interest on late payments for the delay in meeting any financial obligation, changing, therefore, articles 299 and 326 of the Public Contract Code
- Law Lei n. ° 3-B/2010, of 28 April State Budget for 2010
- Government decree DL n. ° 72-A/2010, of 18 June execution standards of the state Budget for 2010
- Ministerial regulation *Portaria* n. ° 363/2010, of 23 June it regulates the previous certification of invoicing software programmes of the Code of Taxation on Corporate Income





Operating procedures 4 operating procedures of the Asset Management Process ■ 26 operating procedures of the Operation Process of the Supply System ■8 operating procedures of the Sales Management Process Service communications Alignment project of EPAL's Procurement Model ■ EPAL's sponsorship policy ■ Management Information System – MIS ■ Project of Water Cycle Management under climate change scenarios ■ EPAL's Water Safety Plan ■ SGA – Policy of Quality and Environment ■ SGA – Listing of interlocutors, auditors and waste managers ■ SGQ of DRC – Objectives and targets for 2010 Approval of the 2011-2013 PAI ■ Change of the work order of power delegation ■ Use policy of computer and communication equipment ■ Working group for the reshuffle of the Water Museum Code of Ethics and Conduct Available on the intranet and at the Company's website ■ It was distributed to all employees



Agreements signed in 2010

- Instituto de Biologia Experimental e Tecnológica (IBET) / Pharmacy Faculty of the Universidade de Lisboa cooperation
- Centre of Studies of Peoples and Cultures of Portuguese Expression (CEPCEP in Portuguese) of the Catholic University of Portugal patronage agreement for book edition
- Laboratório Nacional de Engenharia Civil (LNEC) Cooperation in the LDMICROBIOTA project
- Faculty of Science and Technology of the *Universidade do Algarve* cooperation agreement under the programme of the ERASMUS MUNDUS master's degree
- National Museum of Ancient Art (MNAA in Portuguese)/Institute of Museums and Conservation (IMC in Portuguese) Addendum to the patronage agreement for the development of the project of treatment, museum storage and promotion of the Monstrance of Belém
- ECOPILHAS Sociedade Gestora de Resíduos de Pilhas e Acumuladores Cooperation for the set-up of selective collection points
- Fundação para a Ciência e Tecnologia Contract for a PhD fellowship in a company
- AREPAL Association for Social Support to EPAL's retired employees Cooperation
- Municipality of Lisbon/SIMTEJO/Lisboa e-nova Cooperation to study the implementation of a network of reused water
- Municipality of Lisbon/SIMTEJO/Lisboa e-nova Partnership for washing streets with recycled water
- Municipality of Lisbon Partnership for the use of the precinct of Arco
- Municipality of Vila Franca de Xira/Ministry of Health Agreement for the construction of the new hospital in Vila Franca de Xira



million euros

	2009		
	Portuguese GAAP	2009 IFRS	2010 IFRS
Total revenues	155.0	154.6	164.1
Total costs*	127.9	121.9	118.2
Net profit	27.1	32.7	45.9

^{*} Includes corporate tax

Net profit: 45.9 million euros

Total revenues: 164.1 million euros

Total costs: 118.2 million euros

Turnover

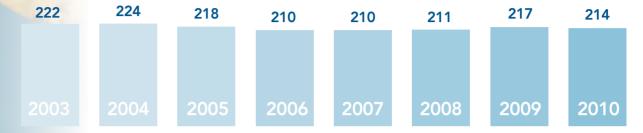
thousand euros

	2008	2009			Chang	ge 10/09	
	Portuguese GAAP	Portuguese GAAP	2009 IFRS	2010 IFRS	Amount	%	
Sales	140,942	146,302	146,302	145,448	(854)	(0.6)	
Services provided	2,584	2,767	2,767	2,007	(760)	(27.5)	
Turnover	143,526	149,069	149,069	147,455	(1,614)	(1.1)	

Reduction of the amount of water sales

Reduction of the amount of related services that were provided, especially the set-up of water meters





- Reduction of the amount of water sales
- Reduction of the amount of related services that were provided, especially the set-up of water meters

Volume of water sold/employee (million m³)



- The evolution of EPAL's volume of activity is mainly due to the rationalisation and upgrade of the skills of its human resources
- The productivity indicator of water sold per employee rose in recent years



thousand euros

	200 Portug GAA	juese	200 Portug GAA	uese	200 IFR		201 IFR	-	Change % 10/09
Turnover	143,526	100%	149,069	100%	149,069	100%	147,455	100%	(1.1)
Other operating revenues	6,423		4,312		3,907		4,270		9.3
Cost of goods sold	(2,694)	1.9%	(2,754)	1.8%	(2,736)	1.8%	(2,810)	1.9%	2.7
Supplies and services purchased	(39,779)	27.7%	(37,790)	25.4%	(37,790)	25.4%	(39,231)	26.6%	3.8
Staff costs	(28,304)	19.7%	(36,229)	24.3%	(36,611)	24.6%	(31,652)	21.5%	(13.5)
Imparity losses	(775)	0.5%	(391)	0.3%	(70)	0.0%	(296)	0.2%	322.9
Provisions (increases/decreases)	577	0.4%	(1,857)	1.2%	(1,857)	1.2%	10,943	7.4%	
Other operating costs	(2,301)	1.6%	(1,560)	1.0%	(1,683)	1.1%	(1,728)	1.2%	2.7
EBITDA	76,674	53.4%	72,800	48.8%	72,229	48.5%	86,951	59.0%	20.4
Amortisation and depreciation	(31,693)	22.1%	(30,790)	20.7%	(23,458)	15.7%	(23,534)	16.0%	0.3
EBIT	44,981	31.3%	42,010	28.2%	48,771	32.7%	63,417	43.0%	30.0

Note: Given the IFRS, items previously considered extraordinary were reclassified in all reporting periods to maintain comparability, thereby affecting EBIT

- EBIT grew 30% to 63.4 million euros
- EBITDA went up by 20.4%, reaching 86.9 million euros

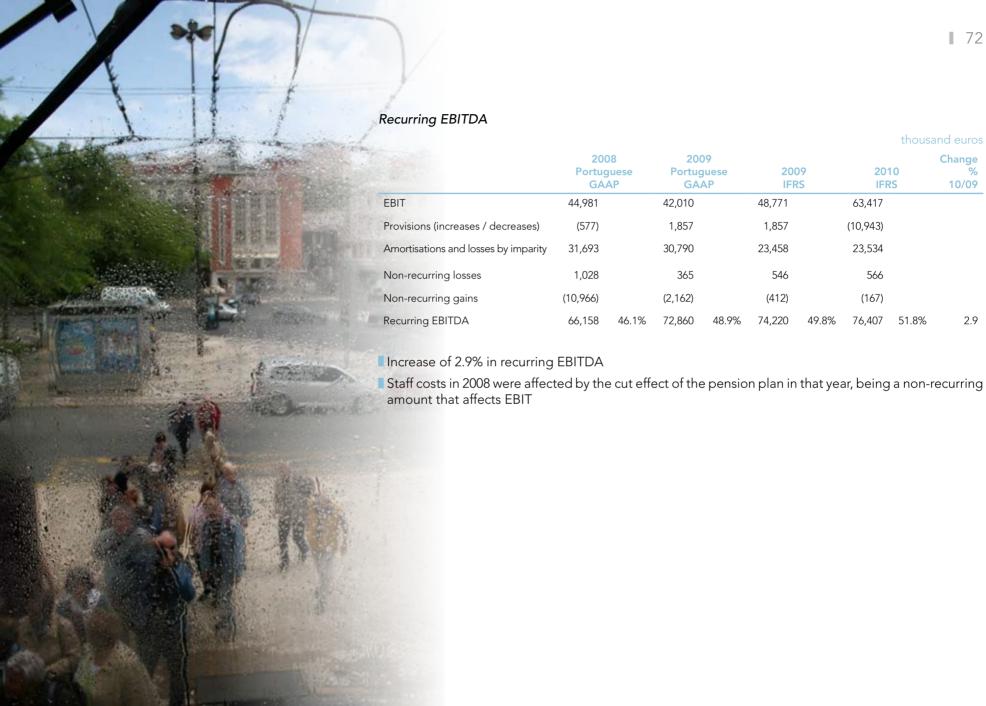
thousand euros

51.8%

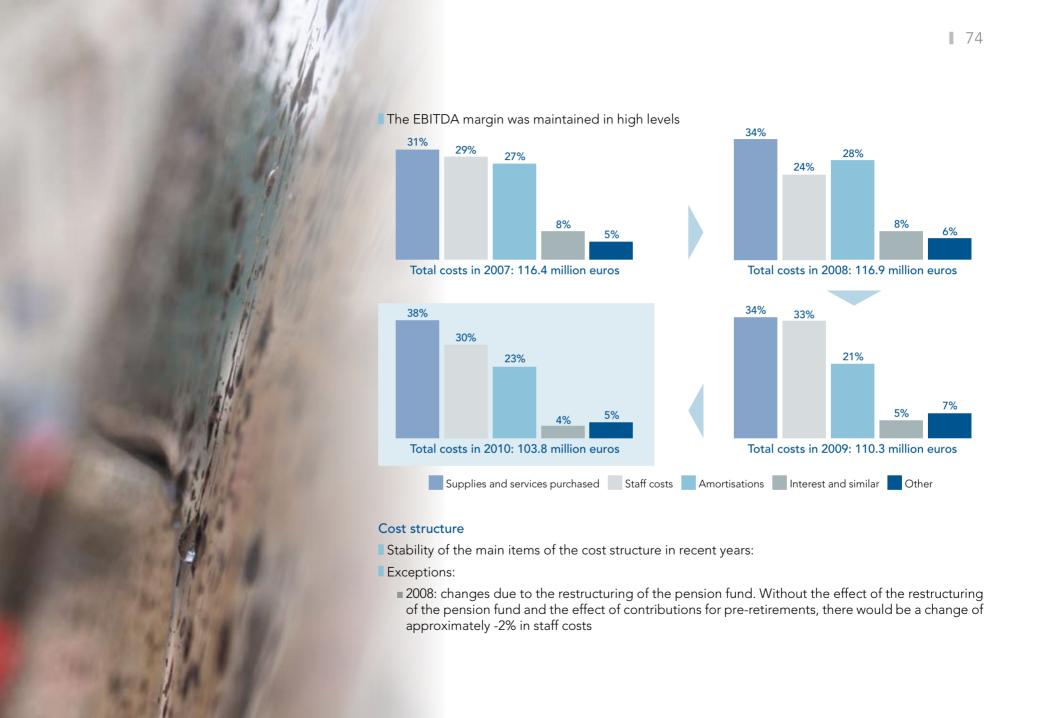
Change

10/09

2.9







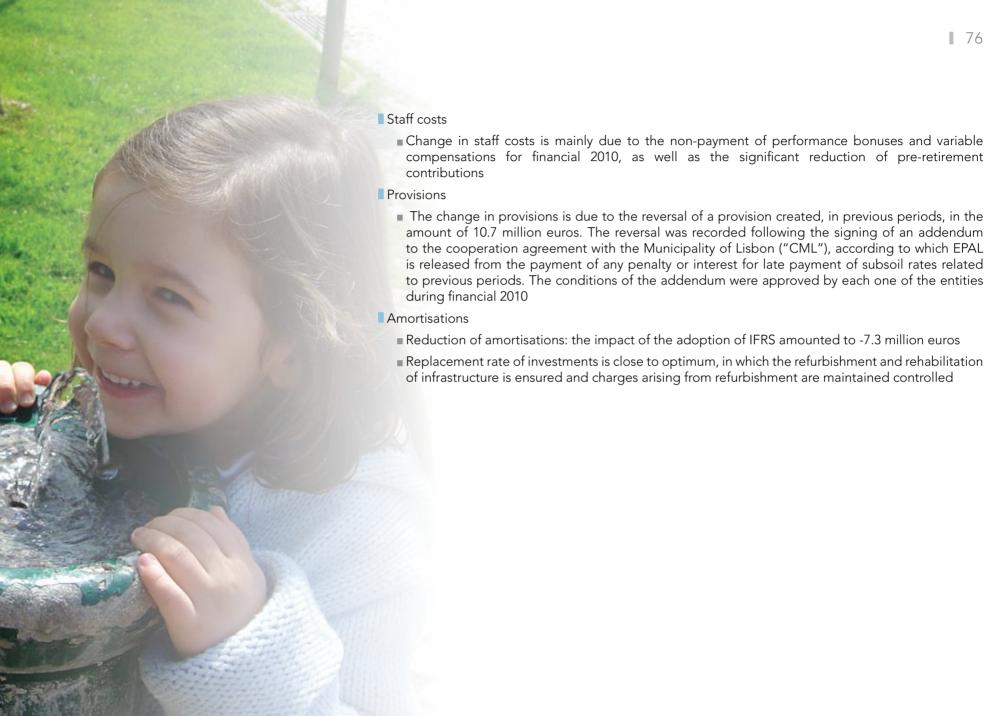


thousand euros

	2008	2009			Change ^c	% 10/09
	Portuguese	Portuguese	2009	2010		
and the second second	GAAP	GAAP	IFRS	IFRS	Amount	%
Cost of goods sold	2,694	2,754	2,736	2,810	74	2.7
Supplies and services purchased	39,779	37,790	37,790	39,231	1,441	3.8
Taxes and rates	1,213	1,137	1,137	1,162	25	2.2
Staff costs	28,304	36,229	36,611	31,652	(4,959)	(13.5)
Provisions	(577)	1,857	1,857	(10,943)	(12,800)	(689.3)
Amortisations and losses by imparity	32,468	31,181	23,528	23,830	302	1.3
Other operating costs	1,088	423	546	566	20	3.7
Operating costs	104,969	111,371	104,205	88,308	(15,897)	(15.3)
% of turnover	73%	75%	70%	60%		

Supplies and services purchased

- In 2010, supplies and services purchased amounted to 39.2 million euros, up 3.8% when compared with the previous year. However, it was slightly lower than in 2008
- The cost of energy, a key input to the water supply process, accounted for 25% of supplies and services purchased and contributed to the rise in costs, up 9.3% against 2009
- Maintenance of infrastructure had considerable weight (17%) in this type of costs, up 5.4% in comparison with 2009
- There was a reduction of the sub-item of studies and external consultancy of approximately 300 thousand euros, as well as in other non-core supplies and services purchased in the amount of 700 thousand euros



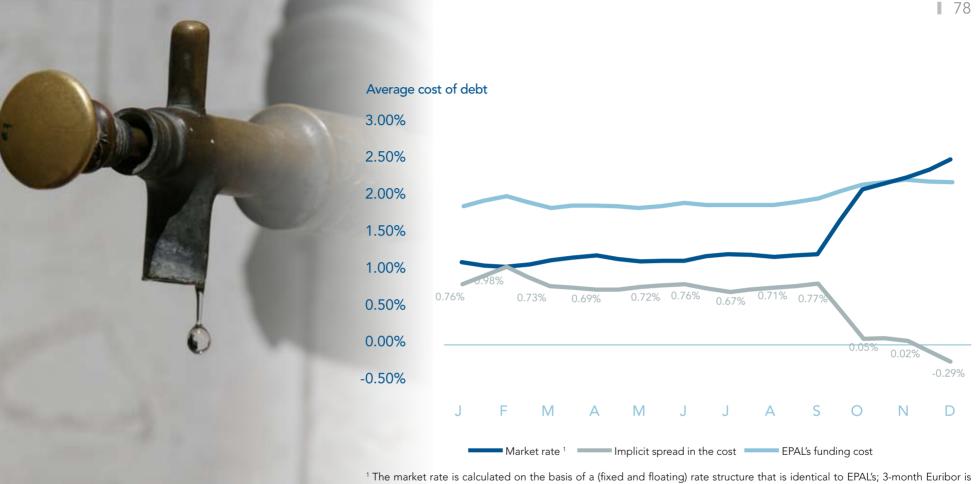


Net profit of financial 2010: 45.9 million euros (+40.2%)

thousand euros

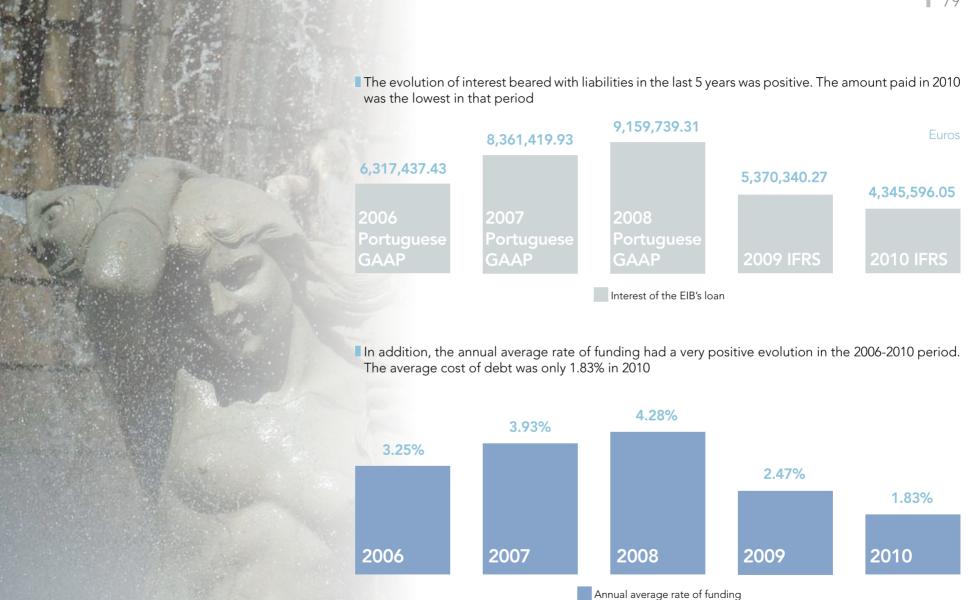
	200 Portug GA	juese	200 Portug GA	guese	200 IFF		201 IFF		Change % 10/09
EBIT	44,981	31.3%	42,010	28.2%	48,771	32.7%	63,417	43.0%	30.0
Financial income	(8,142)	5.7%	(4,266)	2.9%	(3,754)	2.5%	(2,888)	2.0%	(23.1)
EBT	36,839	25.7%	37,744	25.3%	45,017	30.2%	60,529	41.0%	34.5
Tax	(10,164)	7.1%	(10,627)	7.1%	(12,281)	8.2%	(14,642)	9.9%	19.2
Net profit	26,675	18.6%	27,117	18.2%	32,736	22.0%	45,887	31.1%	40.2
Earnings per share (euros)	0,89		0,90		1,09		1,53		

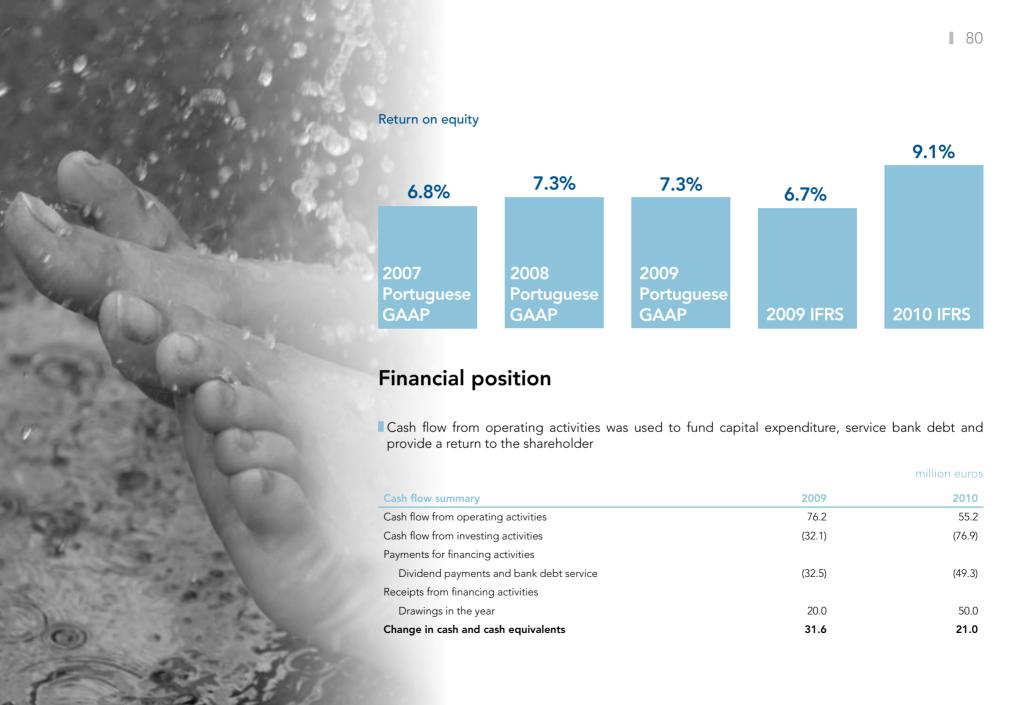
- Financial income rose from -3.8 million euros to -2.9 million euros
 - Financial income from interest earned on deposits and short-term financial investments amounted to 1.2 million euros, or more 28% relative to 2009
 - Financial expense with medium- and long-term debt to the European Investment Bank amounted to 4.3 million euros, down 19% from 2009
 - This evolution is mainly due to the positive evolution of interest rates, although 52.3% of bank loans have a fixed interest rate
 - In 2010, the Company disbursed debt in the amount of 50 million euros, having reimbursed 20.9 million euros
 - There was a good performance in funding conditions, thereby reducing financial costs in close to 20%

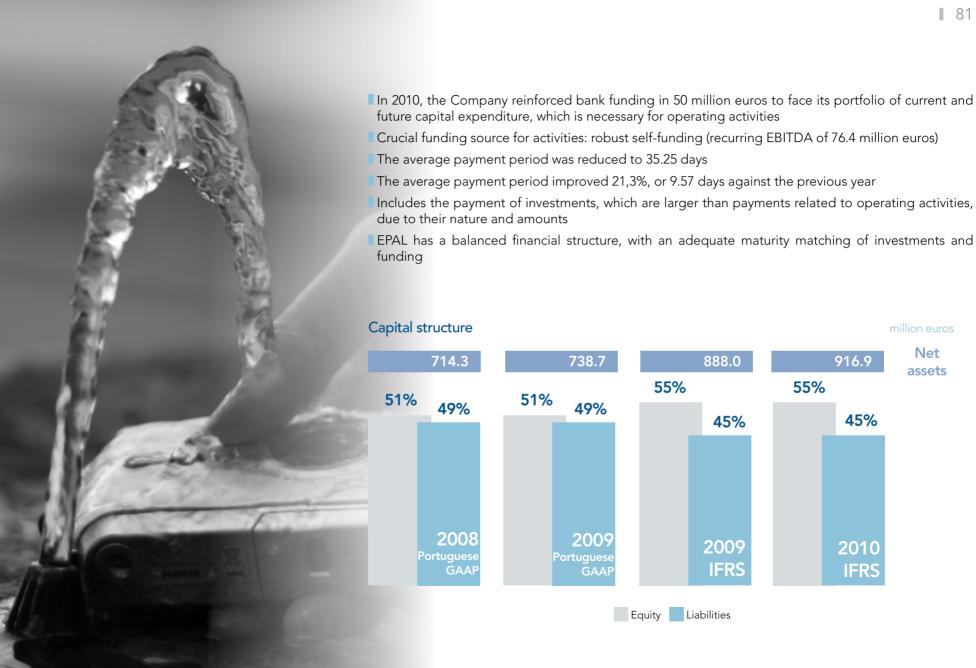


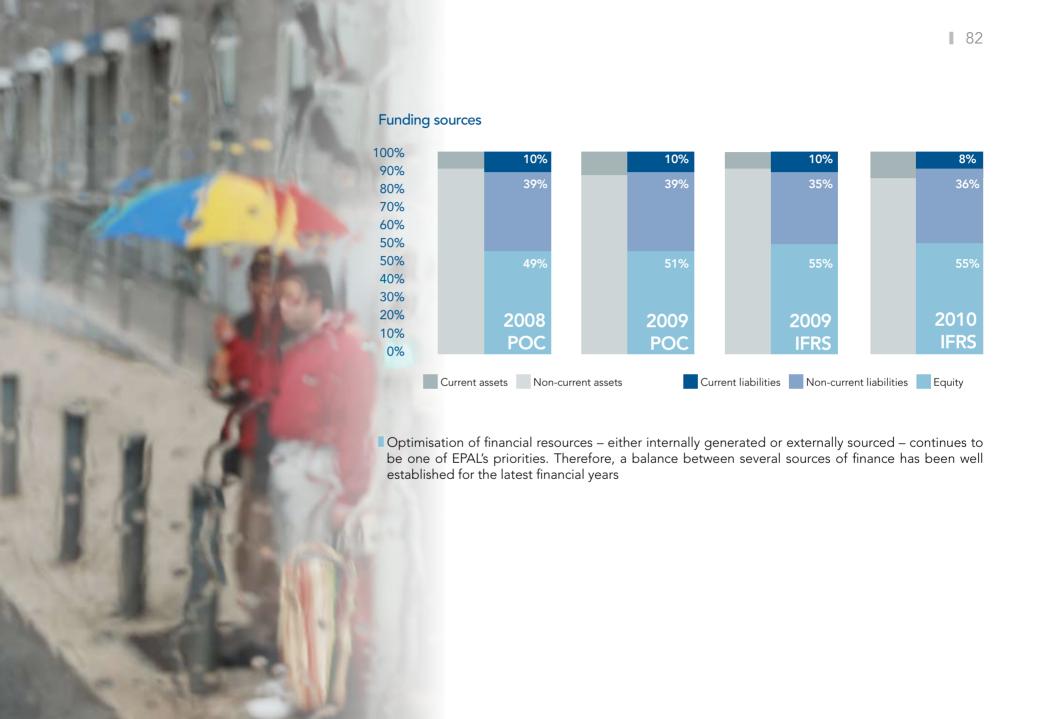
used as the benchmark for the floating rate and the interest rate swap with similar maturity to EPAL's is used for the fixed rate. The market rate is an interbank base rate that does not include any spread.

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 2010 it implied a negative spread of 29 basis points









Balance sheet

thousand euros

				_	Change 10/09	
Balance sheet	2008 Portuguese GAAP	2009 Portuguese GAAP	2009 IFRS	2010 IFRS	Amount	%
ASSETS						
Non-current assets	658,647	653,333	804,391	803,986	-405	(0.1)
Current assets	55,677	85,326	83,562	112,866	29,304	35.1
TOTAL	714,324	738,659	887,953	916,852	24,335	3.4
SHAREHOLDERS' EQUITY AND LIABILITIES						
Shareholders' equity	365,046	373,491	488,027	506,108	18,080	3.7
Non-current liabilities	280,084	289,811	311,239	334,607	23,368	7.5
Current liabilities	69,194	75,357	88,687	76,138	-12,550	(14.2
TOTAL	714,324	738,659	887,953	916,852	28,899	3.3

- Impact of approximately 151 million euros on non-current assets due to the adoption of IFRS
- Conversion to IFRS with an impact of 115 million euros on liquidity
- At 31 December 2010, shareholders' equity was 506.1 million euros, up 3.6% from a year earlier. The amount at 31 December 2010 is influenced by net profit for the year of 45.9 million euros
- Current assets increased by 35.1%, or about 29.3 million euros, as liquidity rose. The investment of surplus cash generated additional income to the company





	2008	2009			Change
	Portuguese	Portuguese	2009	2010	10/09
Financial indicators	GAAP	GAAP	IFRS	IFRS	%
Equity to total assets	51%	51%	55%	55%	0.4
Current assets to current liabilities	0,80	1,13	0,94	1,48	57.3
Equity to total liabilities	1,05	1,02	1,22	1,23	1.0
Working capital, thousand euros	(13,517)	9,969	(5,125)	36,728	-

Working capital defined as current assets minus current liabilities

Pension fund

- There were two pension funds, mutually exclusive, for employees:
 - Defined benefit plan
 - Defined contribution plan
- The pension fund was split into two sub-funds:
 - One allocated to the defined benefit plan, which had a value of 36.3 million euros
 - One allocated to the defined-contribution plan, which amounted to 14.7 million euros
- Between 2005 and 2010, EPAL contributed 16.5 million euros to the pension fund
- At 31 December 2010, the funding level amounted to close to 123%, according to ISP's Fundo Mínimo



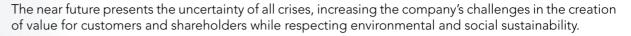
EPAL's equity holdings are the following:

Clube de Golfe das Amoreiras	100.0%	350,000 euros
Fundec		1,500 euros

Clube de Golfe das Amoreiras, SA

- Its object is to promote, build and operate an establishment for golf training and teaching in EPAL's precinct at Amoreiras
- The company has a share capital of 350,000 euros
- Processes in arbitral courts conditioned the object of Clube de Golfe das Amoreiras, which did not have activity in recent years





To meet the new management challenges of water supply systems, EPAL will consolidate a new paradigm in the definition of its strategic goals based on the Efficiency, Adaptation and Governance of the urban water cycle.

The impact of climate change, the guarantee of water quality and the protection of human health, the risk and criticality analysis of infrastructure, safety in water supply, and the challenge of energy efficiency are underpinning both the capital expenditure plan for the forthcoming years and the development of activities and partnerships for innovation.

The refurbishment of the Valada tower and the technological reshuffle of the Vale da Pedra water treatment station, the renewal of the Tejo aqueduct and the Alviela aqueduct, and the departmental centralization at the precinct of Olivais are the most significant projects and an investment in the company's future and its upgrade.

In the same manner, the development of national and international partnerships in research, innovation or benchmarking projects is the necessary and crucial step to improve the company's capacity of technical and operational management, to analyse and reflect on its practices, to produce new knowledge and make it endogenous, and to adopt new attitudes.

The structural challenge of the sector of water supply services in Portugal is its governance as a function of efficiency when using resources and streamlining utility for its clients. EPAL will not give up fighting for the integrated management of urban water cycle in the Lisbon region, aiming to raise the awareness of both the relevant government department and the shareholder.

The company will continue to be oriented to objectives of development and consolidation by improving service quality, efficiency of operations and working conditions and by creating jobs. It will be the best way for the company to respond to the crisis the country is suffering.



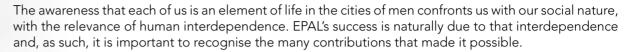


Pursuant to article 21 of the articles of association of EPAL – Empresa Portuguesa das Águas Livres, S.A., the board of directors proposes that net profit for financial 2010, in the amount of € 45,887,091.77, be distributed as follows:

€ 24,000,000.00 to shareholders as dividend

€ 21,887,091.77 to retained earnings





We want to thank the interest showed by the members of the relevant government department when monitoring the company's main activities.

We want to thank the closeness and assiduity with which the Shareholder has followed the company's business.

We want to thank the accessibility and good relationship of the entities and services of the Public Administration in contacts maintained.

We want to thank the good advice and guidance provided by regulators.

We want to thank the trust and role performed by banks and insurers in the stability and soundness of the company's economic and financial situation.

We want to thank the quality and diligence of the response of suppliers and service providers to EPAL's needs.

We want to thank the good advice and guidance provided to the company by governing bodies.

We want to thank the dedication and commitment made by the company's employees in the fulfilment of their duties.

We want to thank the clients' expectations, contacts and trust.

To all our esteem and acknowledgment.

João Manuel Lopes Fidalgo

António Bento Franco

José Alfredo Manita Vaz

Rui Manuel de Carvalho Godinho

