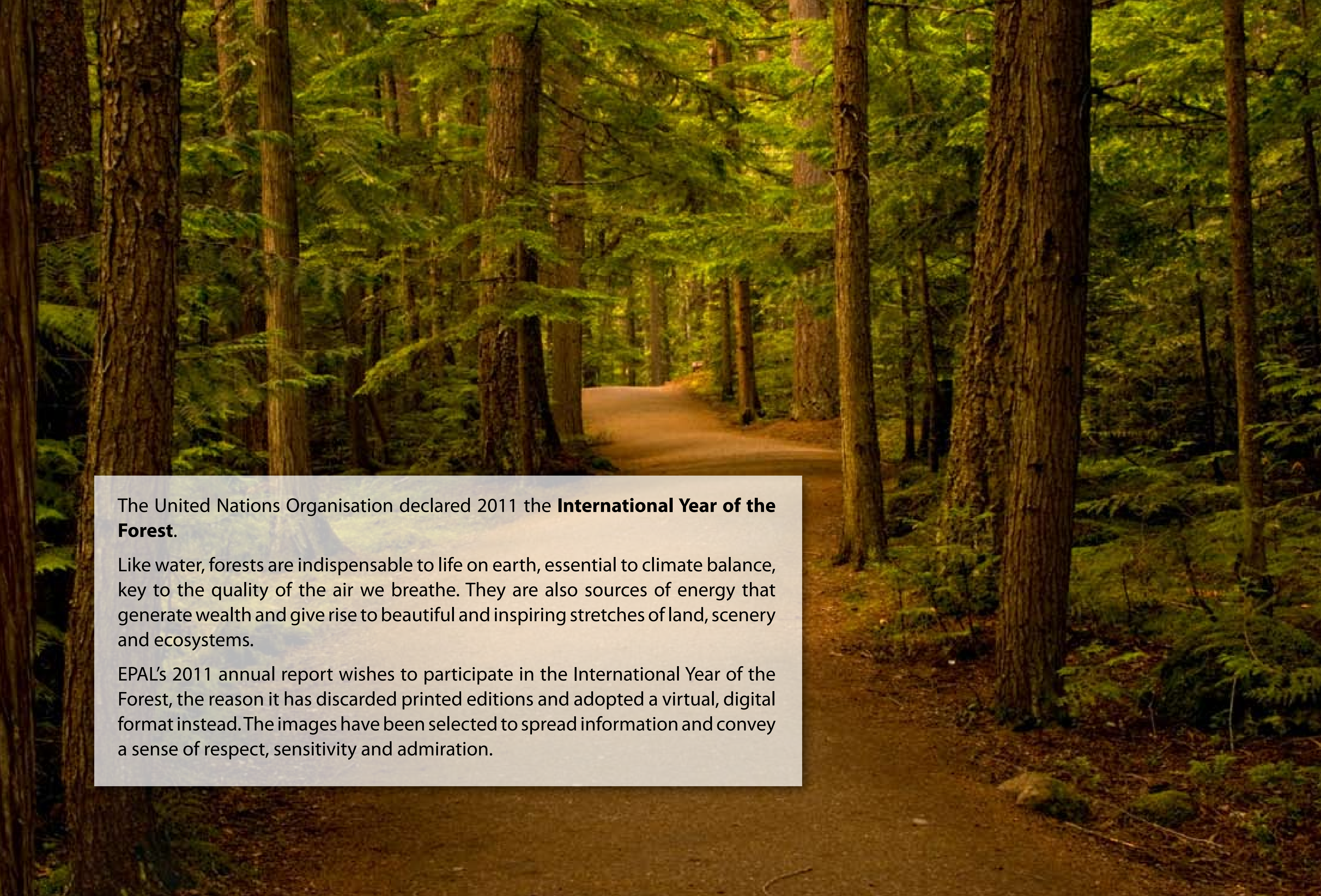
EPAL

Grupo Águas de Portugal

Annual Report and Accounts 2011

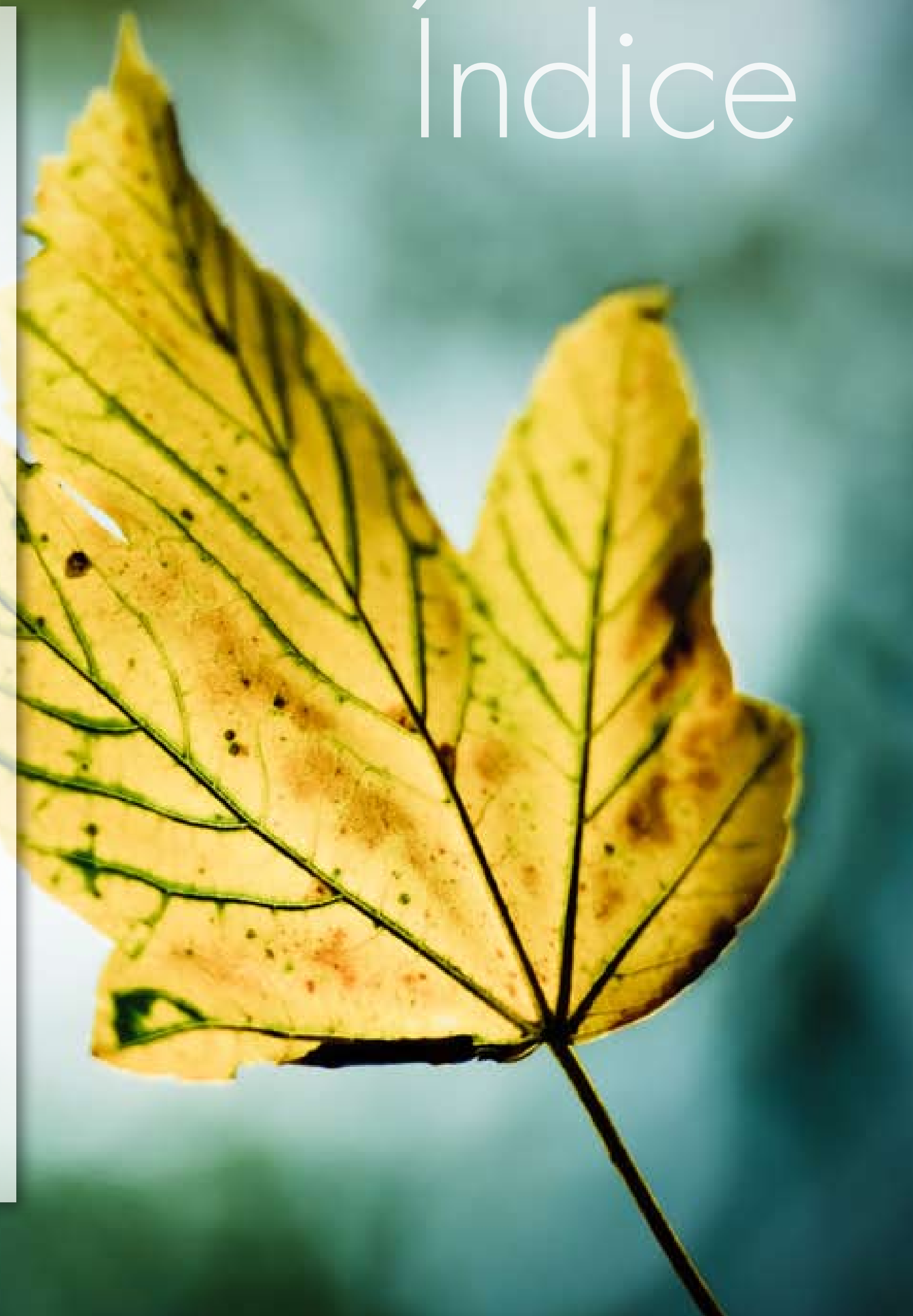


The United Nations Organisation declared 2011 the **International Year of the Forest**.

Like water, forests are indispensable to life on earth, essential to climate balance, key to the quality of the air we breathe. They are also sources of energy that generate wealth and give rise to beautiful and inspiring stretches of land, scenery and ecosystems.

EPAL's 2011 annual report wishes to participate in the International Year of the Forest, the reason it has discarded printed editions and adopted a virtual, digital format instead. The images have been selected to spread information and convey a sense of respect, sensitivity and admiration.

Índice



Índice

Chairman's Statement

I am presenting this annual report and accounts on my recent arrival at EPAL. I do it with the pleasure enjoyed by someone who has been handed over the baton of recognised success.

Excellent results were achieved in 2011 beyond the improvement in service quality and customer satisfaction indicators. This reflected the remarkable work the company employees devoted to offering a public service of the utmost importance for the quality of life of the served population.

Other important results were achieved, particularly in reducing costs and water losses in the distribution network, where the percentage of losses was pressed down to 10%, an indicator of the company's excellent performance also in this domain.

The stage is therefore set for us to address future challenges with the trust and serenity provided by the EPAL staff's superior skills, the excellence of our diverse suppliers and the strength of a centenarian organisation, now a flagship company in Group Águas de Portugal.

José Manuel Sardinha

Indicators

Operations	2010	2011
Volume of water sold (m^3)	213.799.910	**210.286.101**
Number of direct clients	349.413	**348.790**
Number of municipal clients	18	**17**
Number of multi-municipal clients	2	**3**
Directly and indirectly supplied municipalities	33	**34**
Number of consumers	2.825.444	**2.870.314 ***
Supplied area (km^2)	6.681	**7.090**
Income Statement		
Total operating revenue	151.724.796	**151.993.470**
Net profit	45.887.092	**42.555.550**
EBITDA	86.950.732	**86.509.312**
EBIT	63.416.648	**62.104.579**
Financial Position		
Share capital	150.000.000	**150.000.000**
Shareholder's equity	506.107.841	**524.414.751**
Liabilities	410.744.347	**377.748.109**
Total net assets	916.852.189	**902.162.860**
Capital expenditure	23.574.412	**11.957.901**
Return on equity (%)	9,07	**8,11**

* Number of inhabitants in the supplied area (demographic data based on population censuses), provisional data


EPAL

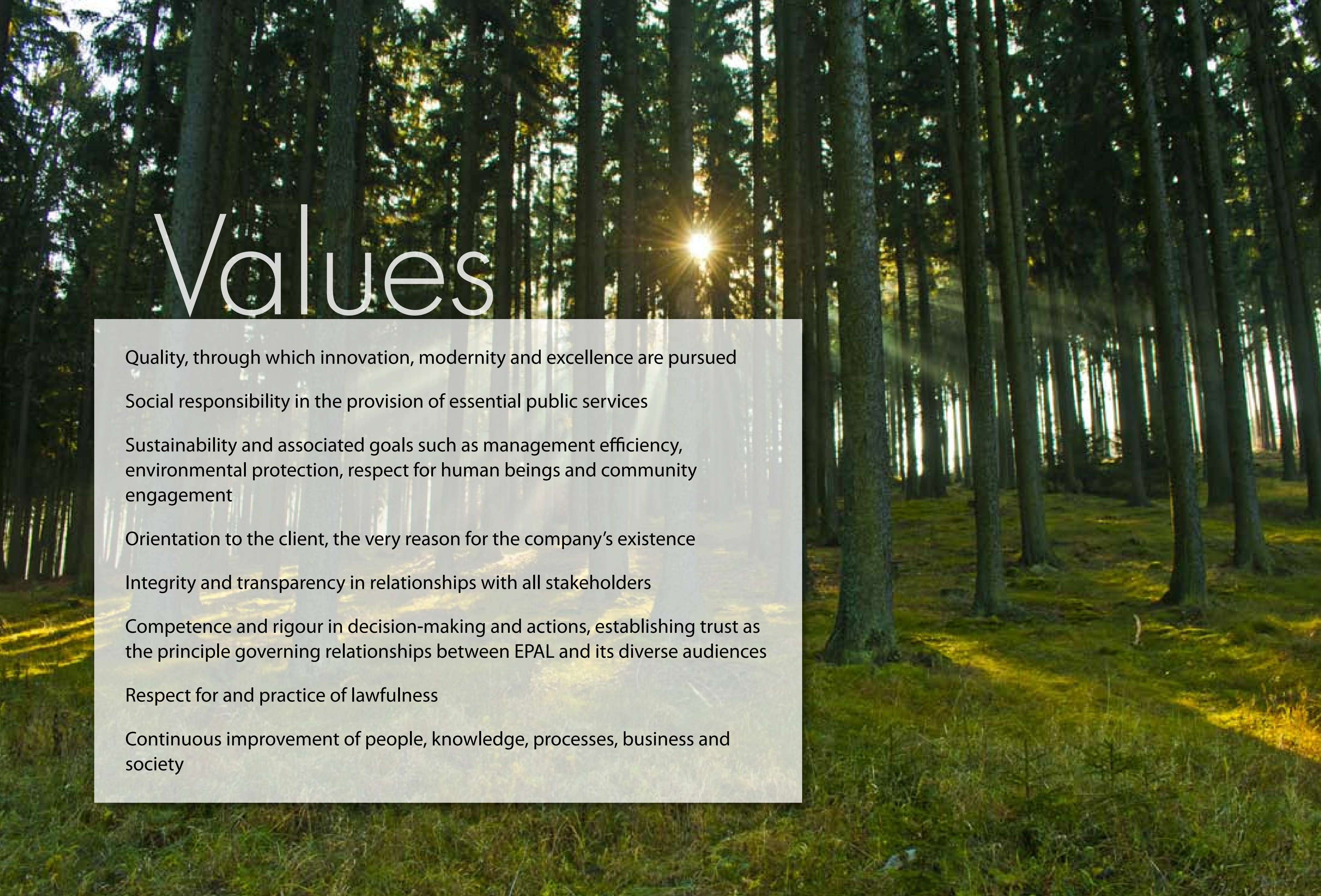
Mission

To provide water services and to manage the urban water cycle sustainably across its chain of activities and businesses

Vision

To be a model company in the Portuguese water sector

To follow international best practice



Values

Quality, through which innovation, modernity and excellence are pursued

Social responsibility in the provision of essential public services

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

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

Integrity and transparency in relationships with all stakeholders

Competence and rigour in decision-making and actions, establishing trust as the principle governing relationships between EPAL and its diverse audiences

Respect for and practice of lawfulness

Continuous improvement of people, knowledge, processes, business and society

EPAL's Goals For 2011

Indicator	Goal	Achievement
Cost savings plan applicable to SOEs Reduction in costs with supplies, services and staff compared with 2009	15,0%	18,9%
Operating costs/EBITDA	115%	104%
Non-invoiced water in the Lisbon distribution network (ERSAR indicator)	12,2%	10,0%
Trunk main failures – Service guarantee project (ER-SAR indicator)	30/100km.ano	33/100km.ano

Shareholder

Águas de Portugal, SGPS, S.A.

Sole shareholder

Share capital – **434.500.555 euros**

Shareholder structure	
Parpública - Participações Públicas, SGPS, S.A.	72,178
Parcaixa, SGPS, S.A.	19,000
Direção Geral do Tesouro (DGT)	8,822
TOTAL	100,00

Governing Bodies

According to a resolution by the sole shareholder, the following new governing bodies were elected on 24 February 2012:

General meeting board

Chair	AMEGA - Associação de Municípios para Estudos e Gestão da Água, Carlos Alberto Dias Teixeira
Vice-chair	Ana Cristina Rebelo Pereira
Secretary	Alexandra Varandas

- The general meeting board was elected for the three-year period 2012-2014
- The general meeting convened on 24 March and 11 June 2011
- The remuneration of the members of the general meeting board, which had been approved by the company’s remuneration committee in May 2006, remained unchanged

Board of directors

The board of directors is the company's executive body and is composed of three members:

Chief executive officer	José Manuel Leitão Sardinha
Executive director	Maria do Rosário da Silva Cardoso Águas
Executive director	Maria do Rosário Mayoral Robles Machado Simões Ventura

- Elected for the three-year period 2012-2014
- The board of directors whose term ended on 24 February 2012 met 36 times in 2011
- The fixed remuneration of the board members has been unchanged since 2004
- In 2011 no variable remuneration was paid

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

Chairman – José Manuel Leitão Sardinha

- SG - Company secretary
- PCG - Planning and control
- DSO - Organisational development
- GIC -Brand and corporate communications
- JUR - Legal
- AUD - Internal audit
- DOP - Operations

Executive director – Maria do Rosário da Silva Cardoso Águas

- DRH - Human resources
- DGA - Asset management
- DGO – Building site management
- DIR - Network infrastructure
- LAB - Water quality control

Executive director – Maria do Rosário Mayoral Robles Machado Simões Ventura

- DRC - Customer relations
- DAF - Finance
- DSI - Information systems
- LOG - Logistics
- MDA - Water museum
- Águas Livres magazine
- Historical archives

Sole auditor

Antonio Dias Nabais

Deputy statutory auditor : Severo Praxedes Soares

Statutory auditor

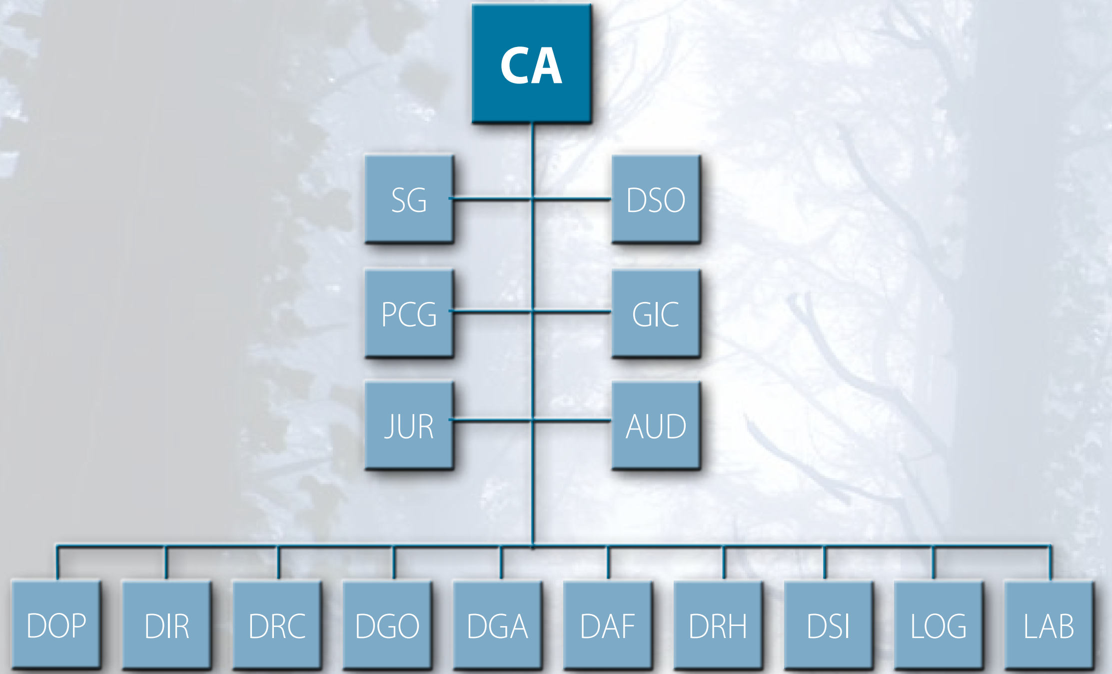
Deloitte & Associados, SROC, SA, OROC nº 43, CMVM nº 231

Revisor Oficial de Contas Suplente - Carlos Luis Oliveira de Melo Loureiro, inscrito na OROC com o nº 572

Remuneration committee

Chairman	Afonso José Marçal Grilo Lobato de Faria
Member	Paulo Jorge Pinto da Silva

Organisational structure



CA Board of directors
SG Company secretary
DSO Organisational development
PCG Planning and control
GIC Brand and corporate communications
JUR Legal
AUD Internal auditing
DOP Operations
DIR Network infrastructure
DRC Client relations
DGO Building site management
DGA Asset management
DAF Finance
DRH Human resources
DSI Information systems
LOG Logistics
LAB Water quality control

Measures for the prevention of conflicts of interest

- Plan for the management of corruption risks and related offences
- Information and adoption of the code of ethics and conduct
- Emphasis, in stakeholder relationships, on the following values:
  - Integrity and transparency
  - Competence and rigour
  - Respect for the law
  - Continuous improvement
- Autonomous and independent internal and external audit processes
- Secondment contracts banning the exercise of other roles
- Strict compliance with the public procurement code
- Diversified membership of panels set up to decide on the selection and hiring of staff and the purchase of goods and services
- Non-involvement in decisions affecting one's own interests

Compliance with the principles of good governance

The principles of good governance as defined in cabinet resolution nº49/2007 of 28 March were complied with, namely those relating to:

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

Risk management

Operating risks

Water quality	Mitigation
■ Risk of adverse consequences for public health of accidents or breakdowns in the supply process	■ Integrated programme of water quality control encompassing legal, operating and monitoring control as well as control of the factories' treatment processes ■ Water safety plan whereby risks to consumer health are reviewed in addition to risks of water shortage from abstraction to the tap, with an exhaustive review of all hazards and implemented control procedures
Failure or unavailability of assets	**Mitigation**
■ May jeopardise supply continuity	■ The telemanagement system monitors and operates assets in real time ■ Risks associated with the assets are identified and fed into maintenance and investment strategies
Physical security of premises	**Mitigation**
■ Risks of damage caused by random situations, accidents, namely of natural origin, and third-party actions	■ The existence of emergency plans and security schemes for the integrity of premises

Financial risks

Liquidity risk	Mitigation
■ The risk of not holding the funds required to honour commitments	■ To keep a comfortable level of liquidity ■ To secure a solid financial structure by adapting the sources of finance to operating and fixed assets ■ To ensure flexibility in the use of credit lines, in amounts that are adequate to the development of the business
Interest rate risk	**Mitigation**
■ Risk of exposure to volatile market rates and, on the other hand, the opportunity cost of fixed rates	■ To find a balance between fixed and floating rates; at the end of 2011 52.8% of the debt was on fixed and 47.2% on floating rate ■ To select the most competitive fixed rate by comparing fixed rates with floating rates plus the cost of hedging
Credit risk	**Mitigation**
■ Risk of financial losses arising from defaulting clients or counterparties	■ Regular review based on the type of claim, purpose and nature of transactions, namely by monitoring accounts receivable for an assessment of delinquency risk

Other risks

Climate change	Mitigation
■ Risk that the quality and quantity of water resources available might be affected	■ Project *Adapta Clima*, a multi-year research project with a Lisbon university to adapt the urban water cycle to climate-change scenarios ■ Project *PREPARED*, co-funded by the EU, whose main purpose is the set-up of a common platform at European level encompassing solutions for water management companies to adapt to climate change

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

Economic regulation	Mitigation
■ Uncertainty about EPAL's specific regulatory model	■ Cooperation and availability to review and discuss the regulatory model

Legal framework	Mitigation
■ Increased costs to the company arising from new legislation and regulation	■ Cooperation with the relevant authorities, giving opinions on new proposed legislation and regulation ■ Permanent search for improved efficiency

Capital expenditure

euros

2009	2010	2011
26.795.930	23.574.412	11.957.901

Capital expenditure in the three-year period **62.328.242**

The pronounced reduction in capital spending in 2011 should be seen against the measures in the Stability and Growth Plan (SGP) and the acting status of the previous board of directors, whose term ended in December 2010.

Broad classes of capital expenditure	2011
Guarantee of capacity	3.707.331
Expansion of the Castelo do Bode sub-system	2.560.762
Expansion of the distribution network	1.087.025
Other	59.544
Guarantee of reliability and security	6.356.255
Renewal of the distribution network	2.867.095
Renewal of the transportation network	1.427.593
Overhaul of pumping stations and reservoirs	850.048
Other	1.211.519
Guarantee of quality	435.039
New Central Laboratory	20.031
Other	415.008
Sustainability and innovation	192.128
Monitoring and control	38.738
Energy efficiency	153.391
Information and communication technologies	698.623
Aquamatrix	348.861
Infrastructure and telemanagement	237.209
Other	112.553
Other capital expenditure	568.524
Centralisation of departments to Olivais	77.365
Refurbishment of the Water Museum at Barbadinhos	61.287
Conversion of premises	5.873
Other	423.999
TOTAL	11.957.901

- The guarantee of capacity absorbed 31% of total capital expenditure and reliability and security 53%

Capital expenditure highlights

- Renewal of 14.2km in the distribution network (trunk and service mains) for an amount of 2.9 million euros
- Doubling of the Castelo de Bode trunk main in the stretch of the Azambuja building site for 2.4 million euros
- Repair of the final stretch of the Castelo do Bode trunk main for 1.2 million euros
- Extension of the distribution network by 5.4 km at a cost of 1.1 million euros
- Information and communication technologies for 0.7 million euros

Purchase of goods and services

▪ Adoption of public procurement standards

The company has adopted and complies with the applicable standards of public procurement

Grupo Águas de Portugal has a service-sharing unit, AdP Serviços Ambientais, S.A., whose role is to be the operating structure for centralising, optimising and rationalising the purchase of goods and services by group companies. In this context there is a specified set of goods and services whose purchase is handled by AdP Serviços Ambientais, which operates as the group's purchasing centre

▪ Procedures for the purchase of goods and services

The limits set by the public procurement code for the different kinds of purchasing procedures have been adopted and are consistently respected by the company

Relevant transactions with related entities

Euros

Águas de Portugal group companies	Sales and provision of services	Intra-group provision of services	Financial gains	Intra-group purchase of services
Águas de Portugal, SGPS	-	3.271	-	2.715.805
Águas de Portugal Serviços	3.102	-	-	1.094.208
Aquasis	-	-	-	99.130
Águas do Centro	808.857	-	-	-
Águas do Oeste	11.047.060	-	168.539	-
SANEST	-	1.050	-	-
SIMTEJO	144.006	-	-	-
Águas do Centro Alentejo	-	4.626	-	-
Águas do Algarve	-	96.181	-	-
Águas do Noroeste	477	447	-	-
Águas de Santo André	-	18.627	-	-
Águas da Região de Aveiro	-	168.215	-	-
EGF	-	-	-	2.974
Valorsul	10.113	-	-	-
Águas de Portugal Internacional	-	-	-	-
	12.013.615	292.417	168.539	3.912.118

Clube de Golfe das Amoreiras

Extension of a loan of 10,000 euros

Total amount of supplies and services in 2011, including contracting

	euros excluding VAT
Capital expenditure (includes contracting and the purchase of goods and services)	11.285.974
Supplies and services (includes contracting and the purchase of goods and services)	35.142.673
Purchases (of goods)	2.961.181

List of suppliers that account for more than 5% of supplies and services and contracting

	euros including VAT
ENDESA ENERGIA	11.695.898
Águas de Portugal, SGPS	3.283.076
CME - Construção e Manutenção Eletromecânica	2.693.868
Câmara Municipal de Lisboa	2.533.109
TOMÁS DE OLIVEIRA, empreiteiros	2.346.657
AdP - Águas de Portugal, Serviços Ambientais	1.355.022
MARP - Construções e Instalações Técnicas	1.264.661
GRAVINER	1.262.109
PRESTIBEL - Emp. de Segurança	1.028.396

Relevant legislation and internal regulations

Relevant legislation

- *Decreto Regulamentar* nº1-A/2011 of 3 January 2011

Regulates contributions to Social Security

- *Portaria* nº34/ 2011 of 13 January 2011

Sets the minimum content of the service regulation regarding the public supply of water, the treatment of wastewater and the management of urban waste

- *Portaria* nº57/2011 of 28 January 2011

Sets the classes and the corresponding amounts for construction licences and revokes Portaria nº21/2010 of 11 January 2010

- *Decreto-Lei* nº29-A/2011 of 1 March 2011

Sets out the measures required for execution of State Budget 2011

- ***Portaria*** nº97/2011 of 9 March 2011

Changes data for a number of underground water abstraction points used namely by EPAL

- *Lei* nº6/2011 of 10 March 2011

Changes for the third time Lei nº23/96 of 26 July 1996, which created mechanisms designed to protect users of essential public services

- *Portaria* nº174/2011 of 28 April 2011

Approves the articles of incorporation of water regulator ERSAR

- *Decreto-Lei* nº65-A/2011 of 17 May 2011

Establishes state-owned companies' obligation of to inform the Treasury of debtors' accounts that are older than 90 days

- *Decreto-Lei* nº71/2011 of 16 June 2011

Sets the legal framework for water meters

- Decreto-Lei nº83/2011 of 20 June 2011

Regulates testing of drinking water and revokes Anexo III to Decreto-Lei nº236/98 on the methods of testing surface water

- *Decreto-Lei* nº84/2011 of 20 June 2011

Simplifies the legal framework for licensing the search for and abstraction of underground water and changes the original piece of legislation (*Decreto-Lei* nº 133/2005 of 16 August 2005)

- *Lei* nº 49/2011 of 7 September 2011

Approves an extraordinary surcharge on income subject to personal income tax in 2011, to be withheld by the employer, thereby changing the personal income tax code (CIRS)

- *Portaria* nº 269/2011 of 19 September 2011

Standardises forecasts to be filed with the concession grantor

- *Lei* nº53/2011 of 14 October 2011

Changes the labour code for the second time

- Commission Regulation (EU) No. 1251/2011 of 30 November 2011

Changes the application thresholds for the award of contracts, thereby changing directives 2004/17/CE, 2004/18/CE and 2009/81/CE of the European Parliament and Council

- *Lei* nº61/2011 of 7 December 2011

Changes for the seventh time the law governing the organisation and process of the Audit Court, approved by Lei nº98/97 of 26 August 1997

- *Lei* nº 63/2011 of 14 December 2011

Approves the law governing voluntary arbitration

- *Lei* nº64-B/2011 of 30 December 2011

State Budget 2012

Internal regulations

- Update of *Ordem de Serviço* governing EPAL's organisational structure
- Approval of seven *Procedimentos de Gestão* related to the corporate responsibility integrated system and the water safety plan
- Approval of *Procedimento Administrativo* on AQUAmatrix' costing model
- Approval or update of sixteen *Procedimentos Operativos* related to the corporate responsibility integrated system, to the water factories and the quality management system for direct clients
- Approval or update of 21 *Instruções de Trabalho*
- Approval of the hygiene best practice code for the supply system
- Approval of the historical archive regulation
- Approval of the manuals for the corporate responsibility integrated system, crisis management, building networks and purchases
- Approval of the annual capital budgeting, activity, budget, maintenance and water quality control plans as well as the programme for environmental management

Agreements signed in 2011

- EPAL / ICNB – Instituto de Conservação da Natureza e da Biodiversidade / GEOTA – Grupo de Estudos de Ordenamentodo Território e Ambiente and the municipalities of Vila de Rei, Abrantes, Ferreira do Zêzere, Figueiró dos Vinhos, Sardoal, Sertã and Tomar

Agreement for the follow-up of project *Nascentes para a Vida* signed on 2 March 2011

- EPAL / EGEAC – Empresa de Gestão de Equipamentos e Animação Cultural

Patronage agreement *Lisboa na Rua* signed on 15 March 2011

- EPAL/Parish of S. Nicolau (Lisbon)

Cooperation agreement for the support of needy families – exemption of service fee, signed on 4 May 2011

- EPAL/SANEST – Saneamento da Costa do Estoril

Agreement on compensation for the use of land at Sassoeiros (Cascais municipality), signed on 6 May 2011

- EPAL/MNAA – Museu Nacional de Arte Antiga

Patronage agreement – Portuguese goldsmiths' collection, signed on 12 May 2011

- EPAL/The European Investment Bank

Agreement for the provision of services signed on 6 June 2011

- EPAL/IWA - International Water Association/CNAIA - Comissão Nacional da Associação Internacional da Água

Agreement for staging the International Water Association World Congress in 2014, signed on 21 June 2011

- EPAL / Manuel Pedro Fernandes Bispo

  Agreement for the set-up of an EPAL location in Palmela, signed on 30 June 2011

- EPAL / João Manuel Migueis Rosa

  Temporary assignment of space in the Water Museum – Theater workshop for children, signed on 6 July 2011

- EPAL / Faculdade de Ciências e Tecnologia da Universidade Nova de Lisboa

  Agreement on cooperation and development of research projects and initiatives to spread scientific knowledge relevant for the community, signed on 8 July 2011

- EPAL / KWR - Watercycle Research Institute

  Memorandum of Understanding, signed on 13 July 2011

- EPAL / Instituto Superior Técnico da Universidade Técnica de Lisboa

  Agreement on technical and scientific cooperation, signed on 29 July 2011

- EPAL / Jorge Manuel Félix Gandum

  Agreement on the temporary transfer of Recinto da Palmeira, signed on 25 August 2011

- EPAL / REFER - Rede Ferroviária Nacional

  Agreement on the removal of stalactite from Vale de Alcântara, signed on 2 November 2011

- EPAL / Ministério Administração Interna / EDP – Distribuição de Energia / EDP - Renováveis Portugal / REFER - Rede Ferroviária Nacional / PT Comunicações

  Agreement on project Campo Seguro, signed on 16 November 2011

- EPAL / CML / PORLISBOA

  Financing agreement – PORLISBOA – QREN Boavista, signed on 20 September 2011

Disclosure of information on the EPAL and state-owned companies' portals

The EPAL website was kept permanently updated.

Likewise, the company's duty to spread information on the state-owned companies' portals was fulfilled.

Existence of a control system in line with the company's dimension and complexity

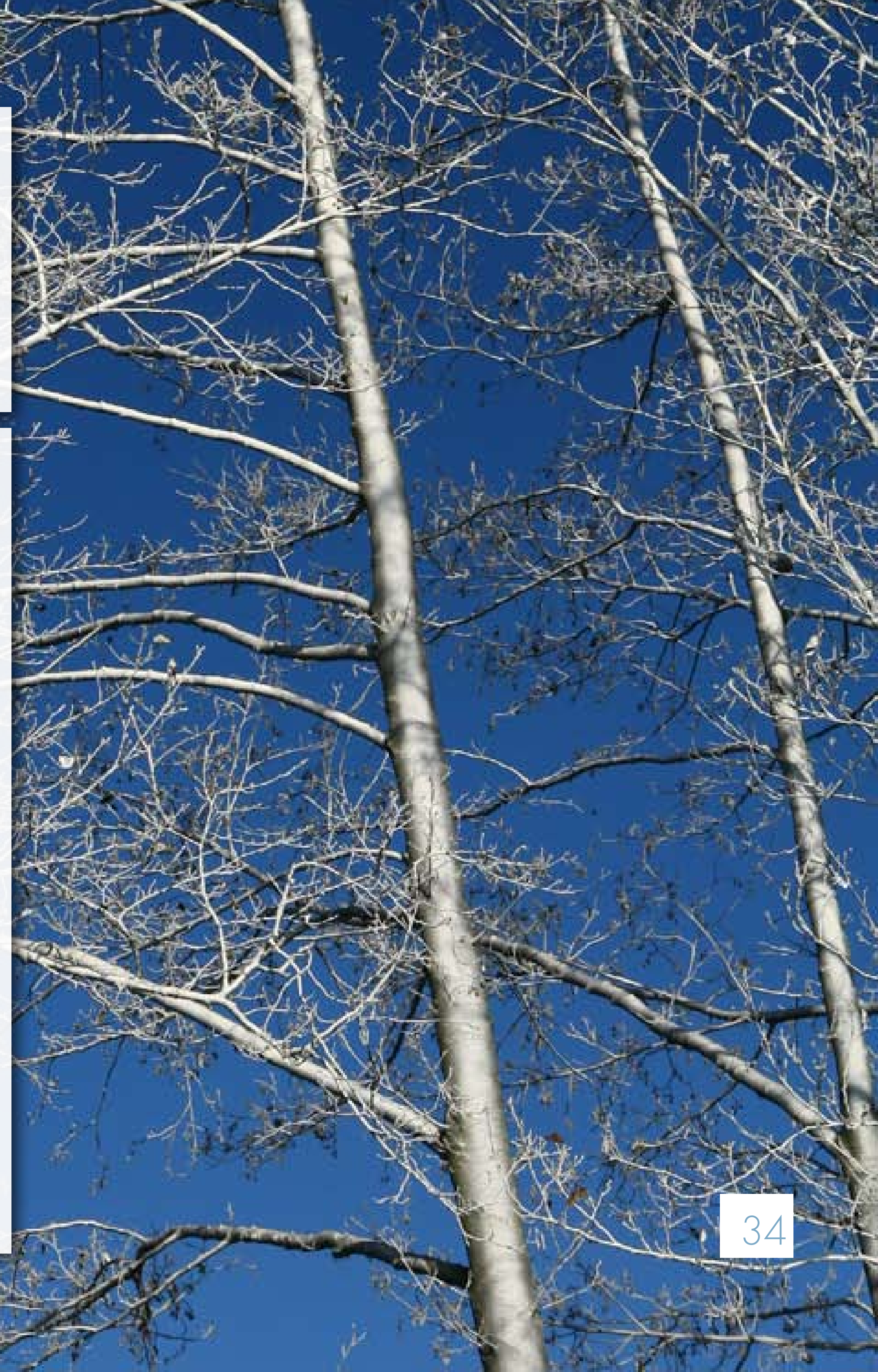
EPAL's performance is guided by forecasting management tools, which are systematically prepared, approved, followed-up and reviewed by the company's diverse bodies and management layers.

The following plans and programmes are highlighted:

- The annual capital expenditure plan
- The activity and budget plan
- The maintenance plan
- The water quality control plan
- The environmental management programme
- The general distribution network plan
- The master plan

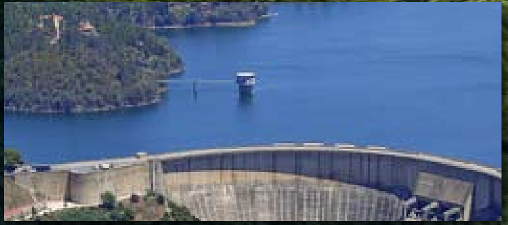
EPAL's management information system includes monthly reports that contain a statement and review of income for the month, indicators for the different areas, namely for human resources, operations and sales, progress and execution of investments and indicators for support functions.

Management and supervisory functions are well defined and have been entrusted to separate and mutually independent bodies – board of directors and sole auditor in addition to, for the supervisory function, external audits.

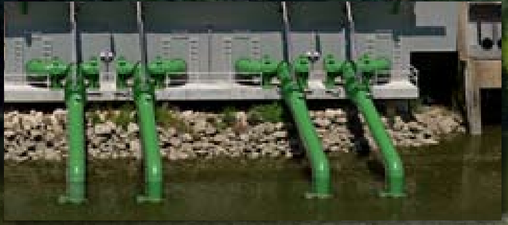


The Product

Sources



Castelo do Bode reservoir



River Tagus

Alenquer, Lezírias and OTA (underground)

Water abstracted, produced, sold and not invoiced

	2011
Abstracted water (m^3)	**234,505,083**
Castelo do Bode	156,334,720
Valada Tejo	55,963,950
Underground abstraction	22,206,413
Treated/produced water (m^3)	**234,213,353**
Castelo do Bode	156,328,200
Valada Tejo	55,678,740
Underground abstraction	22,206,413
Sold water (m^3)	**210,286,101**
Municipal clients	126,851,459
Multi-municipal clients	27,161,071
Direct clients (in Lisbon and outside Lisbon)	56,273,571
Non-invoiced water (m^3)	**24,218,982**
Water not invoiced in the distribution network	11,218,589
Water not invoiced in the transportation network	13,000,393
Non-invoiced water (%)	**10.33%**
Water not invoiced in the distribution network	10.02%
Water not invoiced in production and transportation	5.54%

Progress in the three-year period 2009 to 2011

	2009	2010	2011	Change 2011/2010	
Abstracted water (m^3)	242,955,512	242,502,220	234,505,083	-7,997,137	-3.3%
Treated/produced water (m^3)	242,820,859	242,194,160	234,213,353	-7,980,807	-3.3%
Sold water (m^3)	217,085,364	213,799,910	210,286,101	-3,513,809	-1.6%
Non-invoiced water (m^3)	25,870,148	28,702,310	24,218,982	-4,483,328	-15.6%
Non-invoiced water (%)	10.65%	11.84%	10.33%		

- The declining trend in the volume of water sold annually continued
- The percentage of non-invoiced water in 2011 places EPAL in a model position among similar European capital cities

Treatment

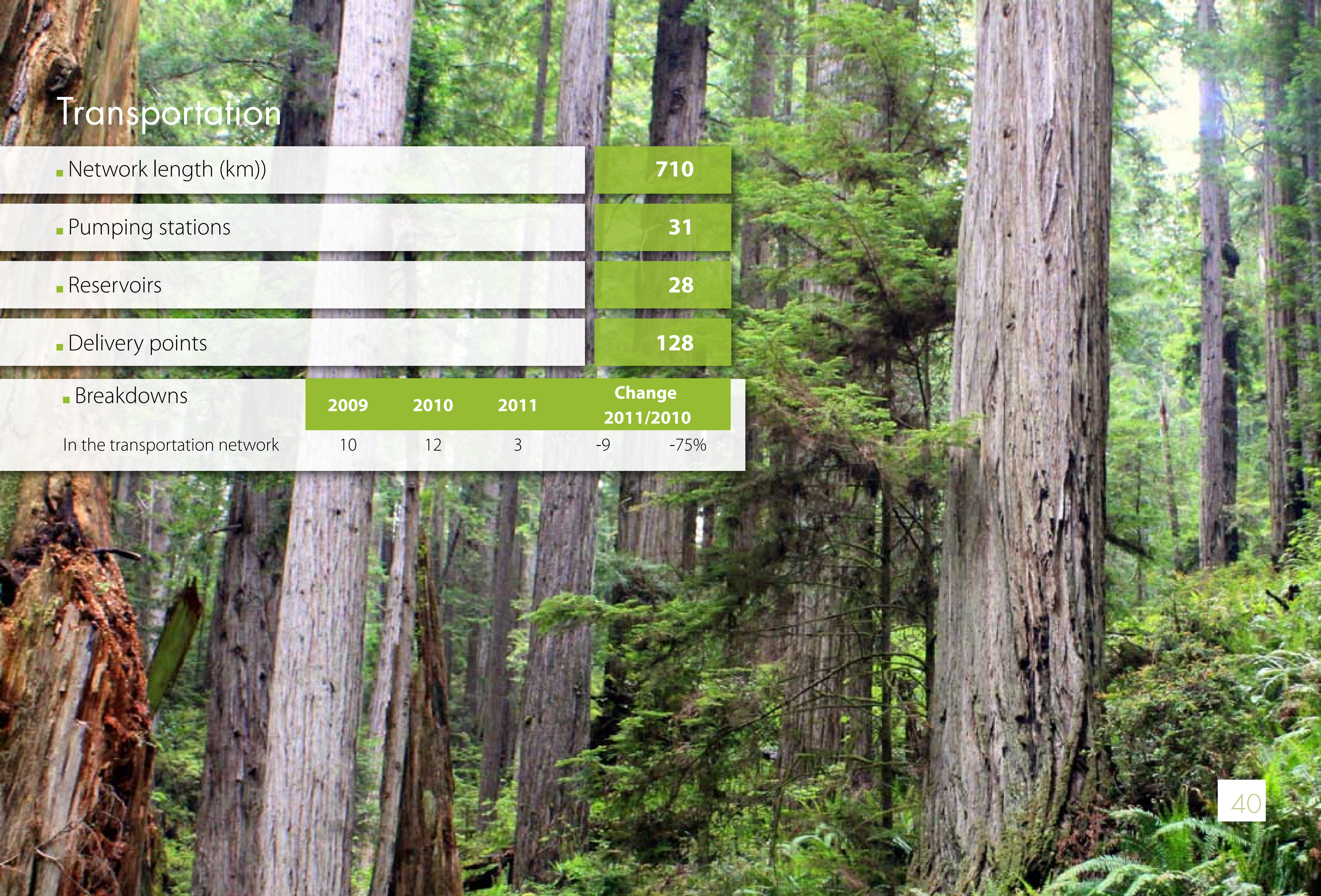
Water treatment plants

Asseiceira

Vale da Pedra

Chlorination points

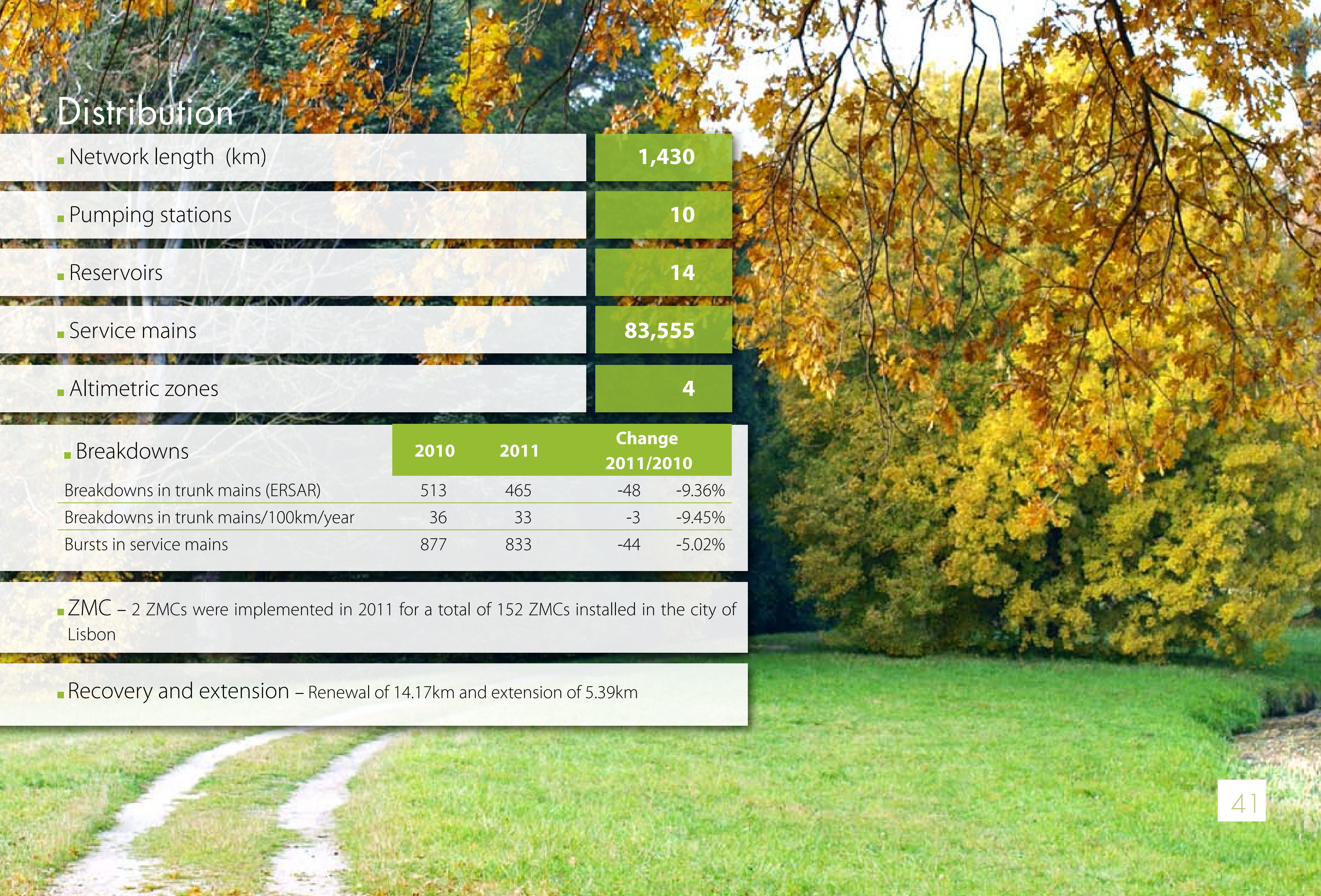
20 in production and transportation and **5** in distribution



Transportation

Network length (km))	**710**
Pumping stations	**31**
Reservoirs	**28**
Delivery points	**128**

Breakdowns	2009	2010	2011	Change 2011/2010	
In the transportation network	10	12	3	-9	-75%



Distribution

Network length (km)	1,430
Pumping stations	10
Reservoirs	14
Service mains	83,555
Altimetric zones	4

Breakdowns	2010	2011	Change 2011/2010	
Breakdowns in trunk mains (ERSAR)	513	465	-48	-9.36%
Breakdowns in trunk mains/100km/year	36	33	-3	-9.45%
Bursts in service mains	877	833	-44	-5.02%

- **ZMC** – 2 ZMCs were implemented in 2011 for a total of 152 ZMCs installed in the city of Lisbon

- **Recovery and extension** – Renewal of 14.17km and extension of 5.39km

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 in treatment stations.

Sampling points

Legal control:

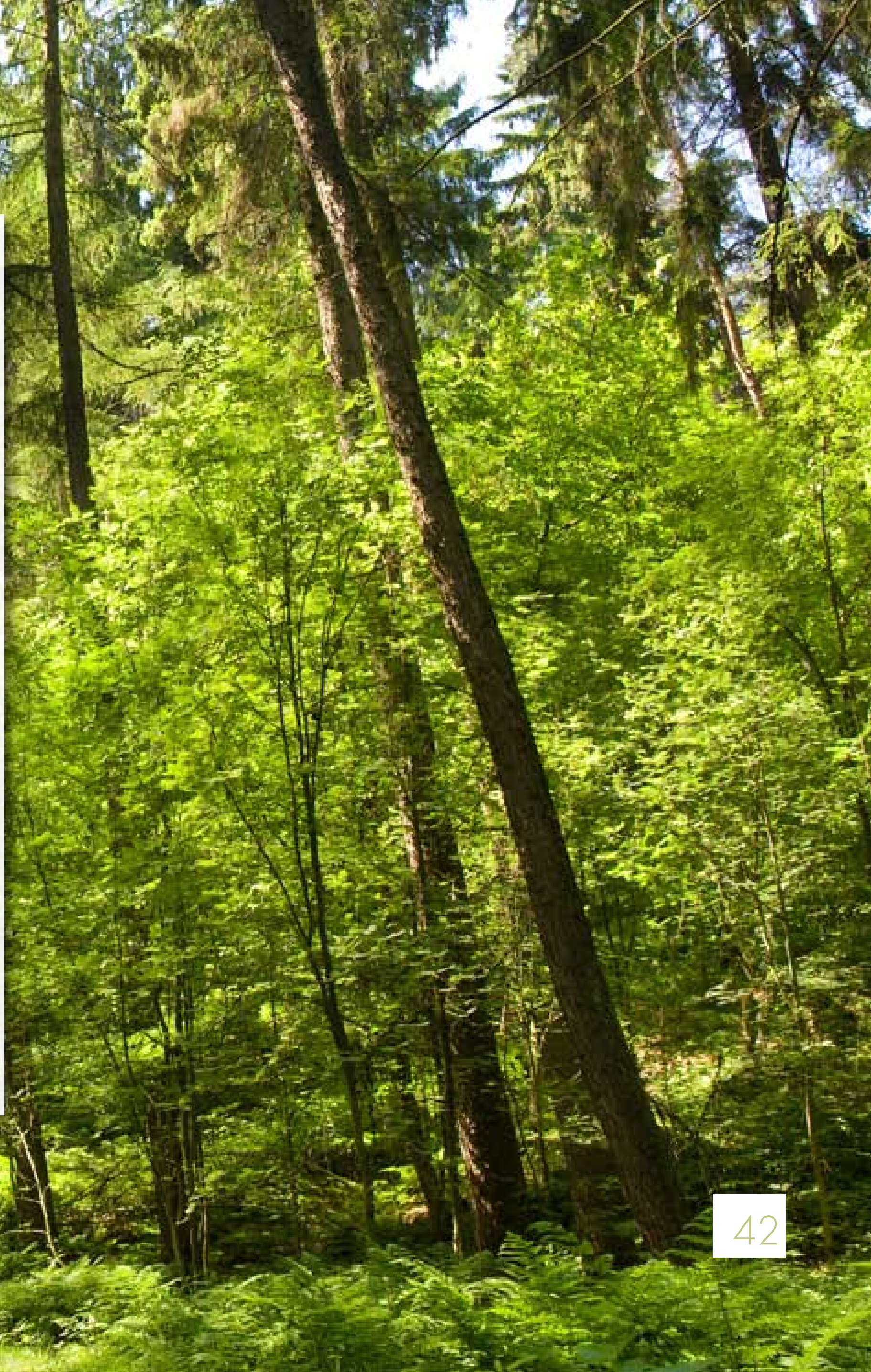
- 1,248 sampling points at client taps
- 95 sampling points installed at the points of delivery to water providers
- 7 sampling points installed at the points of delivery to clients located in areas covered by other water providers

Operational control:

- 180 fixed sampling points in the city of Lisbon's distribution network
- 57 sampling points representing the transportation system
- 48 sampling points installed in water sources

Process control:

- 71 sampling points installed at the water treatment stations of Asseiceira and Vale da Pedra, and the Alenquer decarbonation station



Collected samples and outcomes

- 7,466 water samples collected under legal and operational control/monitoring
- 26,297 samples were collected under process control
- 149 parameters were researched and 264 substances were isolated under the water quality control
- 436,960 outcomes of individual substances
- Over 1,289 samples leading to 14,742 outcomes were collected following complaints, non-fulfilment of alert and parametric amounts and washing and disinfection operations of reservoirs and trunk mains.

Evolution of water quality

At source

River Zêzere – Castelo do Bode reservoir

- Class 1 for water quality in this reservoir
- Classe A2 for the parameters of fecal coliforms, total coliforms, fecal streptococci, emulsified or dissolved hydrocarbons and salmonella

River Tagus - Valada Tejo

- Water quality has remained stable, with occasional aggravations resulting from situations of rainfall or drought
- Class higher than A3 for the temperature parameter
- Class A3 for the parameter of total coliforms and salmonella
- Classe A2 for the Azoto kjeldahl, fecal coliforms, fecal streptococci, emulsified or dissolved hydrocarbons
- Class A1 for the remaining controlled parameters

Underground abstractions

- Mineralised and averagely hard or hard water, whose parameters fulfil the amounts of Class A1
- Underground abstractions performed at Lezírias and Valada recorded values exceeding the maximum permissible value defined for Class A1 in the barium and temperature parameters. However, these parameters are not considered in the DL. No. 306/2007 of 27 August on the quality of drinking water

Water supplied

In Lisbon

- Apart from a few one-off, non-recurrent cases, water quality at consumer's taps fulfilled the standards laid down in the Portuguese legislation and recorded non-compliant levels of 0.18% (30 non-conformities) of the outcomes for which substances were tested
- The number of outcomes carried out at fixed sampling points in the distribution network found that, apart from a few non-recurrent points, the water met the quality standards defined in the Portuguese legislation, reaching 0.09% of total non-conformities of performed tests of substances (47 non-conformities)

To water providers

- Of the tests conducted on samples collected at points of delivery to water providers, there were 0.02% non-compliant amounts (6 non-conformities)

Compared to 2010, there was an improvement in the quality of water supplied by EPAL, evidenced by the decrease in the number of non-conformities in the samples taken to verify legal requirements, operational control and monitoring.

Data disclosure

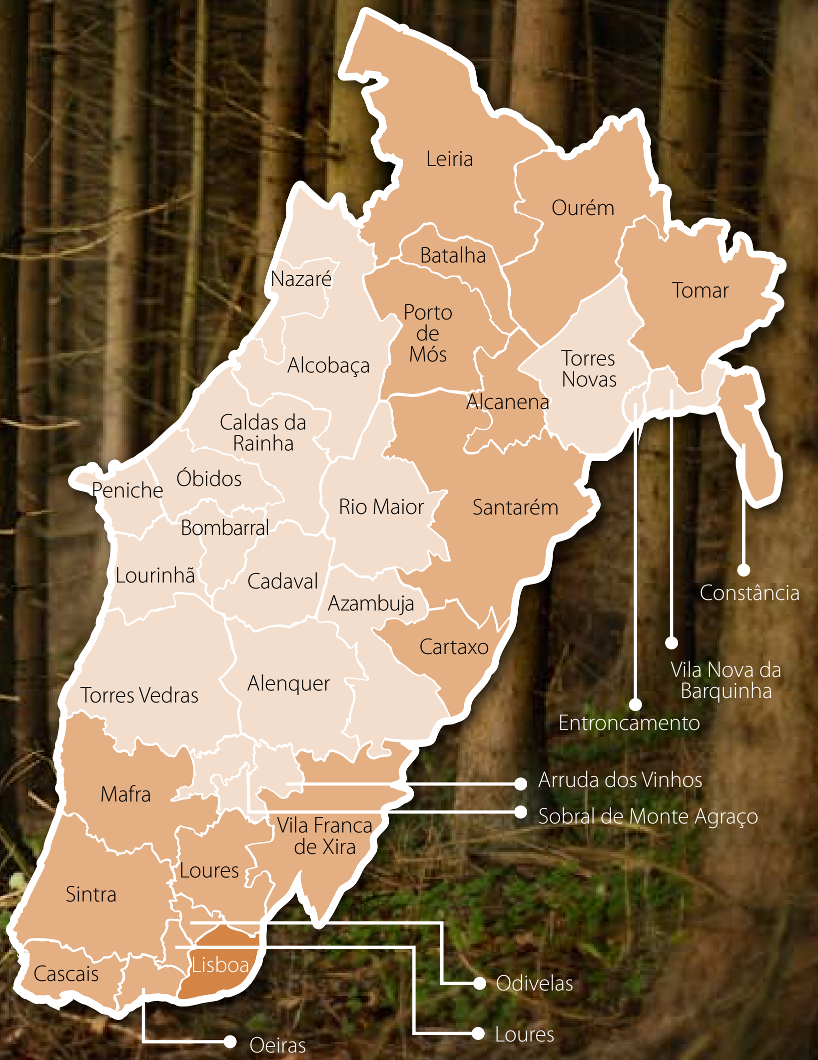
- **On a monthly basis**
  - At www.epal.pt statistical information is presented of the conformity analysis conducted on water collected from consumer taps, the Lisbon distribution network and points of delivery to water providers.
- **On a quarterly basis**
  - Statistical data on the conformity of water from consumer taps is published in the Portuguese press
  - Statistical data on the conformity of water collected from delivery points is sent to water providers
  - Statistical data on water samples taken from points representing water supply is sent to haemodialysis system managers

Clients

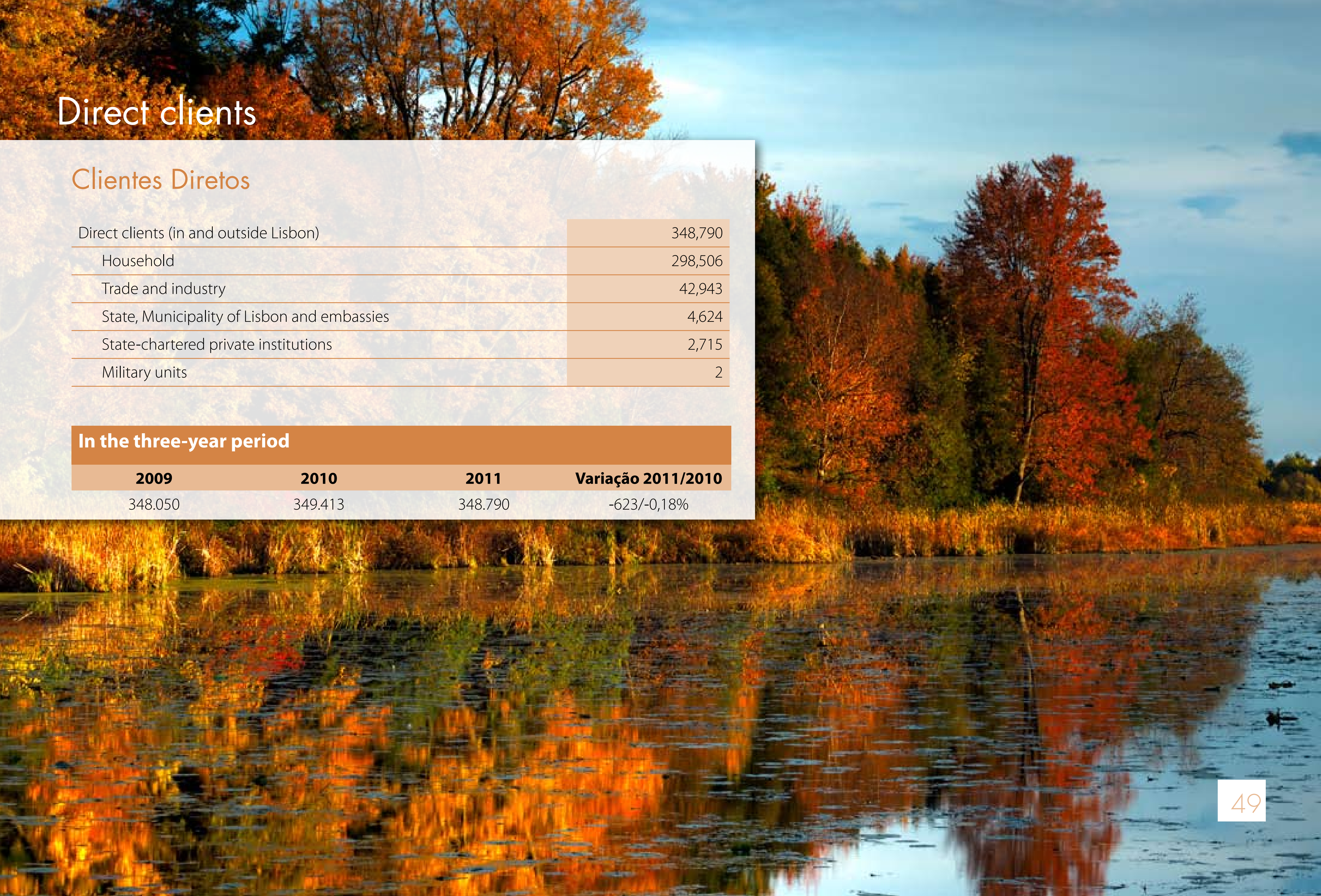
Area and population served

Total area supplied (km²)	7,090
Lisbon	85
Municipalities	7 005

Total number of users	2,870,314
Lisbon	547 631
Municipalities	2 322 683



- Direct clients
- Municipal clients
- Multi-municipal clients



Direct clients

Clientes Diretos

Direct clients (in and outside Lisbon)	348,790
Household	298,506
Trade and industry	42,943
State, Municipality of Lisbon and embassies	4,624
State-chartered private institutions	2,715
Military units	2

In the three-year period

2009	2010	2011	Variação 2011/2010
348.050	349.413	348.790	-623/-0,18%

Municipal clients

The following **17** municipalities are directly supplied by EPAL:

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

In 2011 the company discontinued the direct supply of the Municipality of Torres Novas, which became part of Águas do Ribatejo's multi-municipal system.

Multi-municipal clients

In 2011 EPAL supplied the following multi-municipal clients:

- **Águas do Oeste** whose system comprises 14 municipalities, all indirectly supplied by EPAL

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

- **Águas do Centro** which supplies the following municipalities with water provided by EPAL

ENTRONCAMENTO	VILA NOVA DA BARQUINHA

- **Águas do Ribatejo** which started to supply in 2011

TORRES NOVAS

Services provided

Water sold (m^3)

Direct clients (in and outside Lisbon)	56,273,571
Municipal clients	126,851,459
Multi-municipal clients	27,161,071
Total	210,286,101

In the three-year period m^3

	2009	2010	2011	Change 2011/2010	
Direct clients (in and outside Lisbon)	59,334,931	58,671,774	56,273,571	-2,398,202	-4.1%
Municipal clients	136,517,662	132,655,296	126,851,459	-5,803,838	-4.4%
Multi-municipal clients	21,232,771	22,472,840	27,161,071	4,688,231	20.9%
Total	217,085,364	213,799,910	210,286,101	-3,513,809	-1.6%

- Water sold in 2011 fell 3.5 million m^3, or 1.6%, compared with the previous year
- The volume of water sold in the last three years shows a trend towards consistently lower consumption levels

Credit control

- Collections in 2011 – 199 million euros
- Average collection period (ex Municipality of Lisbon) – 34 days
- Overdue claims – 19% improvement on the previous year; collections from municipal and multi-municipal clients rose 50% compared with the previous year
- In 2011 the number of notices of impending supply interruption fell 37%
- The number of supply interruptions also fell, 16% on 2010

Telemetry systems at large clients

- At the end of 2011 there were 535 iWater and 246 Ms-Log telemetry systems installed, which let the consumption by 781 large clients to be read automatically

E-bill, direct debit and tariff

- The e-bill campaign in 2011 led to over 6,000 new subscriptions of this service, taking the percentage of clients on this service to 12% of the total; out of the 2,530,000 bills sent out in the year, 10.6% were e-bills
- The share of the direct debit payment method continued to grow and accounts now for 49% of invoices paid
- In 2011 the tariff was not updated

Client service

Contact centre

Clients served	260,747, mais 4% do que em 2010
Average waiting time	29 s
Service level	93 %
Percentage of calls answered in less than 30 seconds	76 %

Personal service

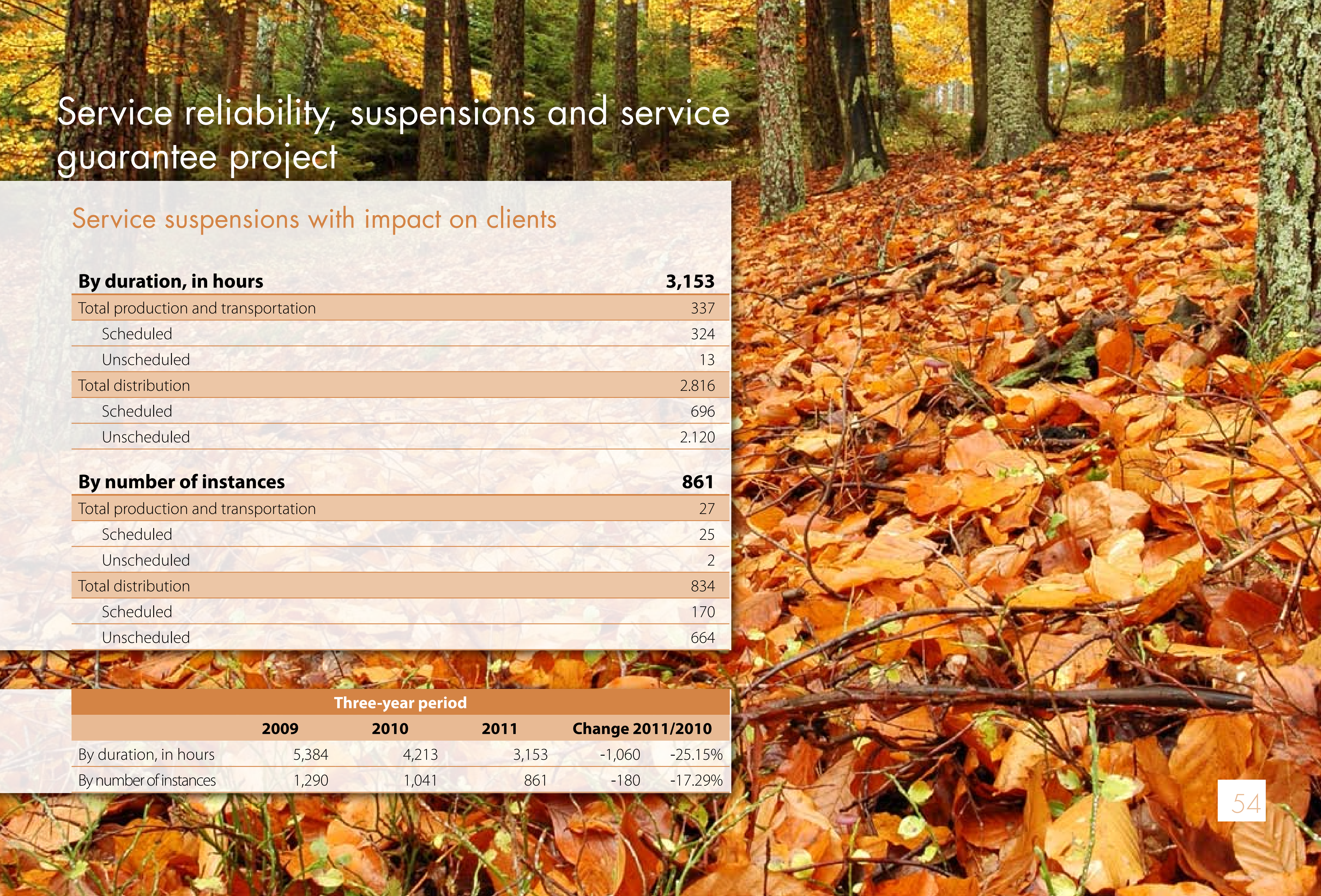
Clients served	190,323, menos 13% face ao ano anterior
Waiting time up to 15 minutes (head office store)	90% dos clientes
Average waiting time (head office store)	5 m

Postal service

Clients served	12,570, acréscimo de 18% em comparação com 2010

Internet service

Clients served	18,134, aumento de 23% em relação ao ano anterior



Service reliability, suspensions and service guarantee project

Service suspensions with impact on clients

By duration, in hours	**3,153**
Total production and transportation	337
Scheduled	324
Unscheduled	13
Total distribution	2.816
Scheduled	696
Unscheduled	2.120

By number of instances	**861**
Total production and transportation	27
Scheduled	25
Unscheduled	2
Total distribution	834
Scheduled	170
Unscheduled	664

Three-year period					
	2009	**2010**	**2011**	**Change 2011/2010**	
By duration, in hours	5,384	4,213	3,153	-1,060	-25.15%
By number of instances	1,290	1,041	861	-180	-17.29%

Service guarantee project

- The project's goal is to identify and review the causes of the bursts as well implement the actions required to consistently reduce their number
- In 2011 the company reported its best performance ever in terms of not-invoiced water in the distribution network – 10%
- This favourable performance was followed by the fall in the number of breakdowns to 33/100km. year.

Service effectiveness

	2009	2010	2011	Change 2011/2010	
Service interruptions > 4 hours Municipal clients	14	17	26	9	52.94%
Service interruptions > 4 hours Direct clients	494	368	287	-81	-22.01%
Service interruptions > 12 hours Municipal clients	6	7	12	5	71.43%
Service interruptions > 12 hours Direct clients	25	25	11	-14	-56.00%
Number of delivery points affected (> 4 hours)	34	43	45	2	4.65%

Complaints

In 2011 the company received 8,011 complaints, up 15.4% increase on 2010. This rise was primarily due to:

- The change in invoice issuance frequency from to bimonthly
- Implementation of new invoice form

Complaints by category/subject:	
Supply	39.5 %
Invoicing	25.3 %
Services	17,8 %
Miscellaneous	9,7 %
Breach of deadlines	6,8 %
Client service	0,8 %
Damage	0,1 %

- 24% of the complaints were settled at the front office
- Out of the complaints reviewed at the back office, 90% were settled in less than 15 days and 70% were accepted
- Written complaints accounted for 15% of the total
- 99,9% of written complaints were answered within 22 working days
- 64% of clients expressed their satisfaction over the settlement of filed complaints

Satisfaction levels

EPAL participated in ECSI, a domestic customer satisfaction survey that assesses the quality of goods and services in several sectors

Scores range from 1 to 10 and are interpreted in the following way:

≤ 4 negative assessment
4 - 6 neutral assessment
≥ 6 positive assessment
≥ 8 very positive assessment

The scores obtained by the company are presented below:

	EPAL			Water sector			"Change 2010 EPAL vs Water sector"
Underlying variables	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**	
Image	7.79	7.84	7.51	7.78	7.30	7.23	0.01
Expectations	7.65	7.70	7.04	7.35	7.07	6.87	0.30
Perceived quality	7.98	7.94	7.40	7.73	7.27	7.19	0.25
Perceived value	6.90	7.09	6.29	6.49	6.10	5.80	0.41
Satisfaction	7.74	7.71	7.32	7.42	7.04	6.84	0.32
Complaints	7.03	7.13	6.48	6.86	6.46	5.98	0.17
Loyalty	7.29	7.38	6.92	6.88	6.54	6.48	0.41

- The satisfaction level rose from 7.71 to 7.74
- The perceived quality score rose to 7.98
- All seven variables had a positive assessment
- EPAL outperformed the sector average across all variables

Other services

The following services were provided in 2011:

Laboratory tests	
Number	**173**
Invoiced amount	**76,281 euros**
Reparação de Contadores	
Number	**232**
Invoiced amount	**36,619 euros**
Monitorização de Redes	
Number	**37**
Invoiced amount	**71,544 euros**

AQUAmatrix

- Development
  - The helpdesk model was overhauled, and the following actions were taken:
    - Implementation of a new Contact Center with longer service time from 8h00 to 20h00
    - A Service Desk functionality was added to bring more tranasparency to requests for help
- New clients
  - Marinha Grande
- Total number of clients
  - 24, covering 43 municipalities
- Market share
  - Estimated 29% of the water sector

People

Guiding management principles

- Equal treatment and opportunities for men and women
- Rejection of any kind of discrimination
- Professional promotion and advancement
- Respect for personal and family life
- Fulfilment of the commitments under the code of ethics
- Adherence to the law and the company's internal regulations

Number of workers

Men	541	73%
Women	198	27%
Total	739	100%

Three-year period					
	2009	2010	2011	Change 2011/2010	
Total	768	746	739	-7	-0.9%

Employee turnover

Hirings	25
Departures	32
Retirement	26
Early retirement	0
Other reasons	6

Age

Average employee age – **46,3** years

Age groups	
Age < 25	5
Age 25-34	130
Age 35-44	162
Age 45-54	227
Age > 55	215

Three-year period				
2009	**2010**	**2011**	**Change 2011/2010**	
46,4	46,4	46,3	-0,1	-0.2%

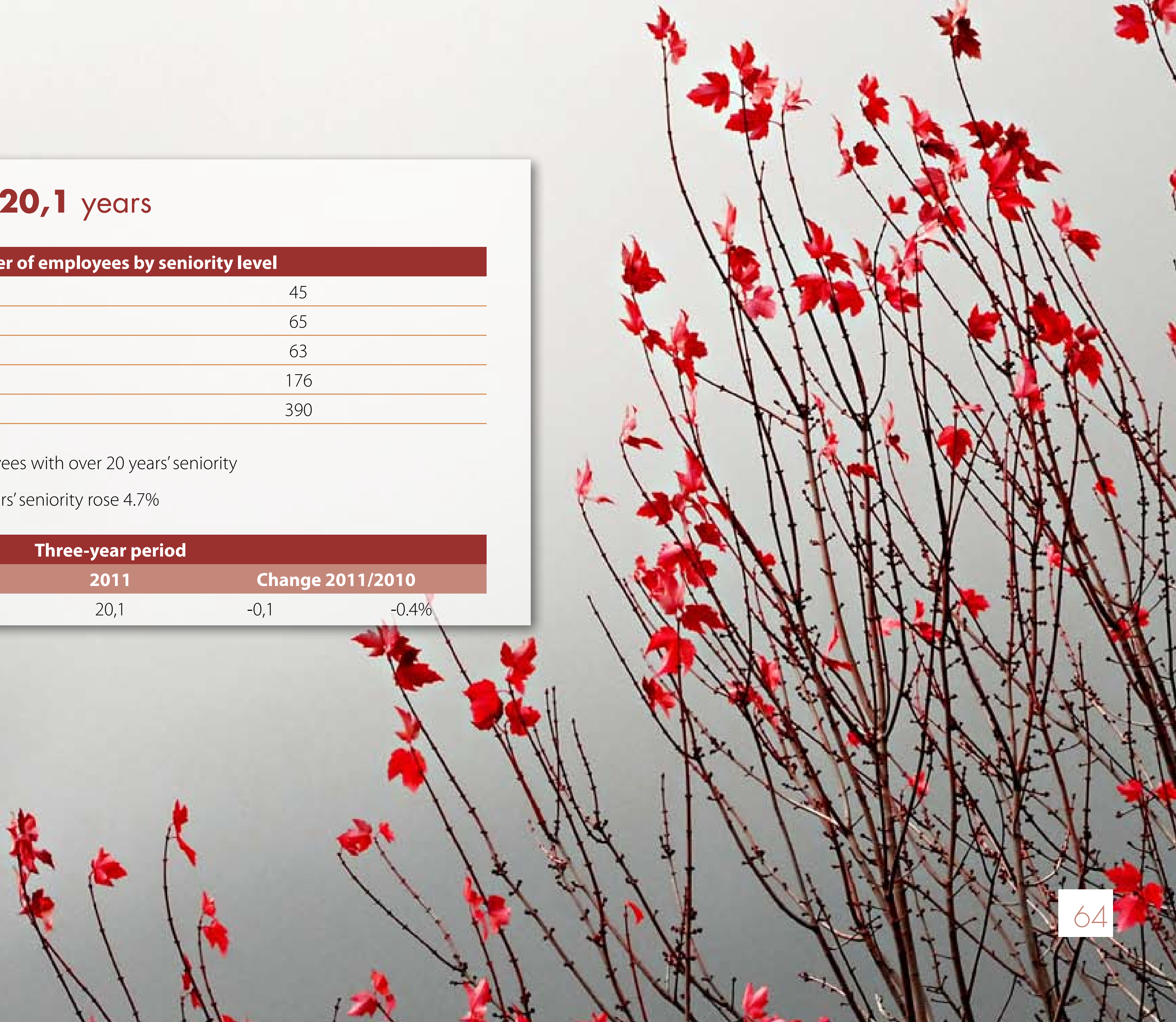
Seniority

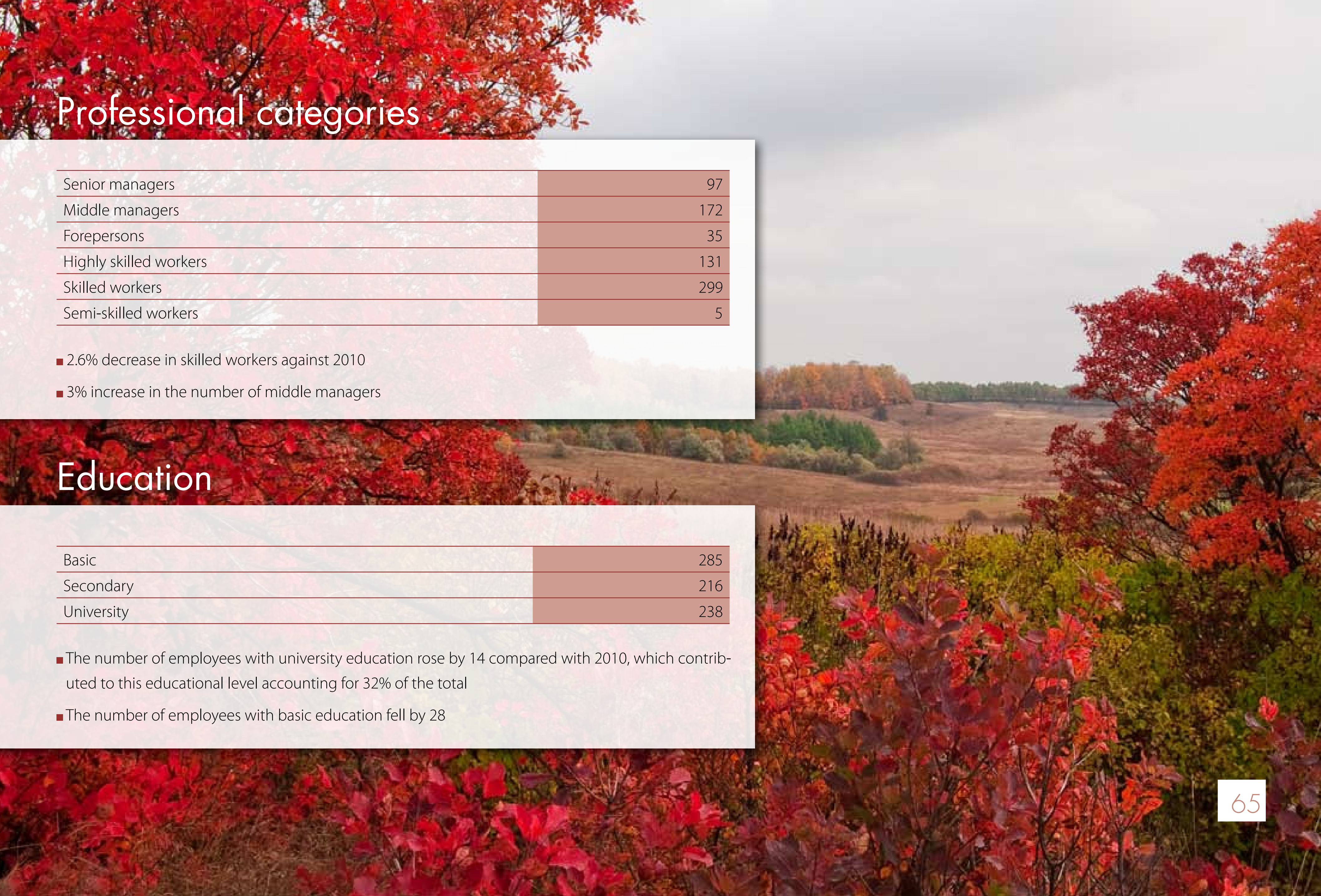
Average seniority – **20,1** years

Number of employees by seniority level	
Seniority < 2 years	45
Seniority 2 – 5 years	65
Seniority 6 – 10 years	63
Seniority 11 – 20 years	176
Seniority > 20 years	390

- 4.4% fall in the number of employees with over 20 years' seniority
- Employees with less than two years' seniority rose 4.7%

Three-year period				
2009	**2010**	**2011**	**Change 2011/2010**	
20,4	20,2	20,1	-0,1	-0.4%





Professional categories

Senior managers	97
Middle managers	172
Forepersons	35
Highly skilled workers	131
Skilled workers	299
Semi-skilled workers	5

- 2.6% decrease in skilled workers against 2010
- 3% increase in the number of middle managers

Education

Basic	285
Secondary	216
University	238

- The number of employees with university education rose by 14 compared with 2010, which contributed to this educational level accounting for 32% of the total
- The number of employees with basic education fell by 28

Training

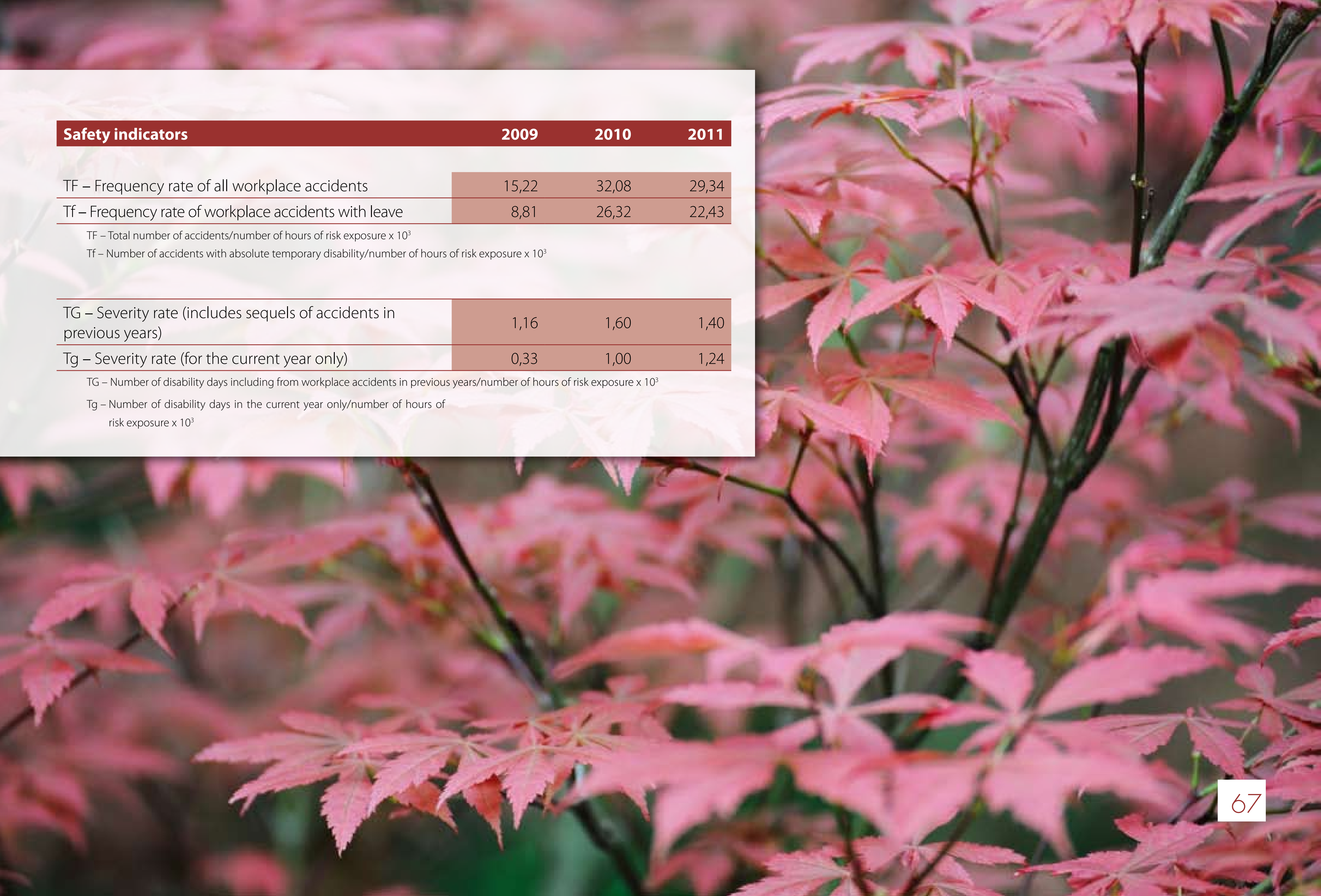
Three-year period					
	2009	2010	2011	Change 2011/2010	
Number of training hours	18,128	15,113	14,724	-389	-2.6%
Number of trainees	1,465	1,164	787	-377	-32.4%
Number of participants	468	648	419	-229	-35.3%

- 56.7% of the employees participated in training sessions
- Training actions had a more specific nature, which explains the lower number of participants

Hygiene and safety

Three-year period					
	2009	2010	2011	Chnage 2011/2010	
Total number of workplace accidents	19	39	34	-5	-12.8%
Number of workplace accidents with leave	11	32	21	-11	-34.4%

- 13% fall in the total number of accidents in 2011 compared with 2010
- 34% drop in the number of accidents with medical leave



Safety indicators	2009	2010	2011
TF – Frequency rate of all workplace accidents	15,22	32,08	29,34
Tf – Frequency rate of workplace accidents with leave	8,81	26,32	22,43

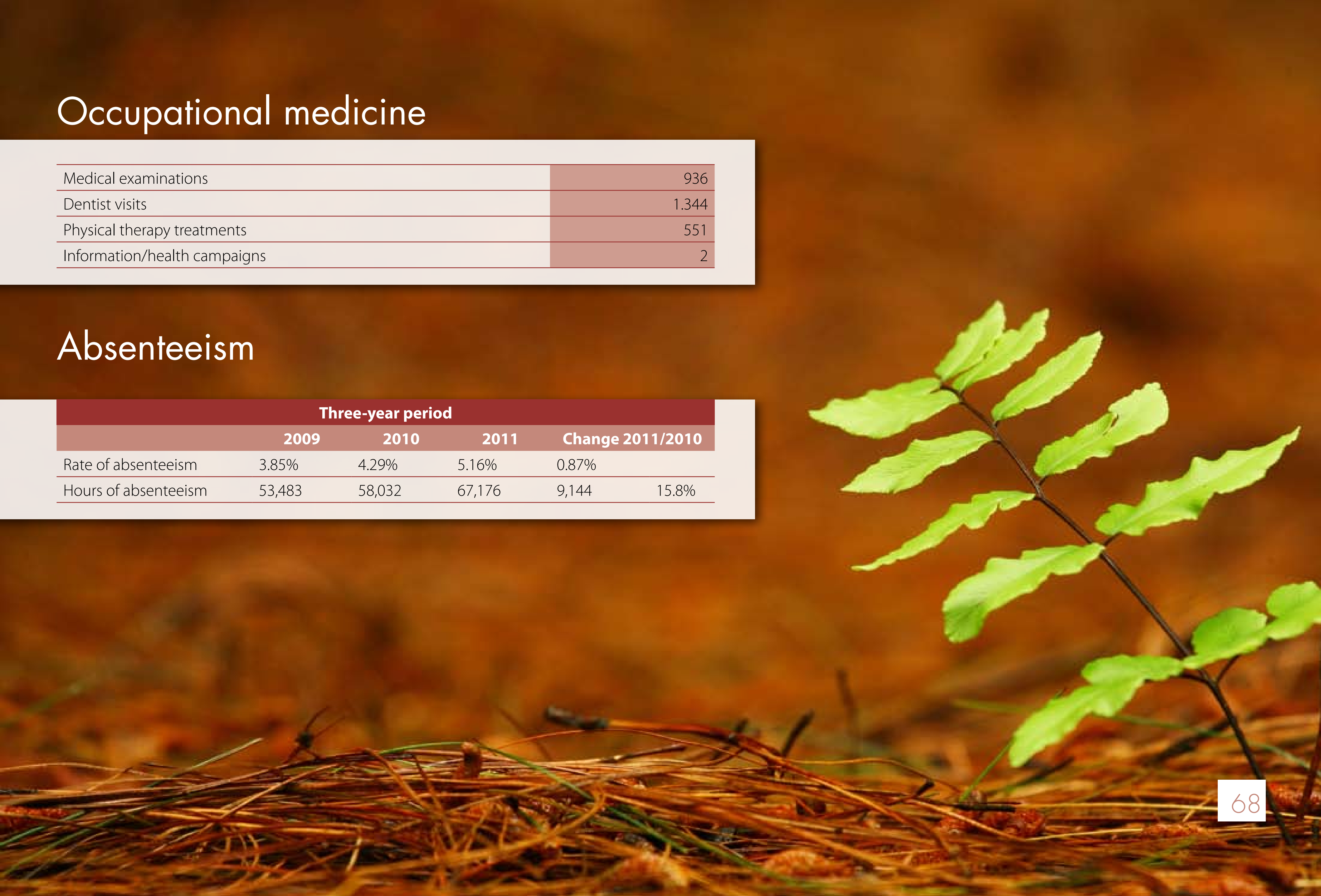
TF – Total number of accidents/number of hours of risk exposure x 10^3

Tf – Number of accidents with absolute temporary disability/number of hours of risk exposure x 10^3

TG – Severity rate (includes sequels of accidents in previous years)	1,16	1,60	1,40
Tg – Severity rate (for the current year only)	0,33	1,00	1,24

TG – Number of disability days including from workplace accidents in previous years/number of hours of risk exposure x 10^3

Tg – Number of disability days in the current year only/number of hours of risk exposure x 10^3



Occupational medicine

Medical examinations	936
Dentist visits	1.344
Physical therapy treatments	551
Information/health campaigns	2

Absenteeism

	Three-year period				
	2009	2010	2011	Change 2011/2010	
Rate of absenteeism	3.85%	4.29%	5.16%	0.87%	
Hours of absenteeism	53,483	58,032	67,176	9,144	15.8%

Fixed and variable remuneration

- In 2011 no salary increases were negotiated with the unions, there were no promotions, bonuses or any other type of gratuities.

Social benefits

Number of meals served	**89,367**
Christmas baskets offered	**1 841**
To active employees	**757**
To retired and pre-retired employees	**798**
To trainees	**6**
To retainer-based service providers	**20**
To AREPAL workers	**24**
To external contact centre and information systems providers	**37**
To external cleaning, security and gardening service providers	**199**
Number of people covered by health insurance	**1,788**
Active workers	**742**
Early retirees	**129**
Spouses	**451**
Children	**466**
Leisure programmes for employees' children	**1,788**
OTL Children – attended by 50 children	**742**
OTL Company – attended by 48 youngsters	**129**

Management, innovation and development systems

Telemanagement

- System for online operation and control of over 170 premises assigned to the production, transportation and distribution of water
- In 2011 processes were optimized and new functionality and automation was implemented to control key parameters throughout the water supply system
- The interaction of functionality and automation was enhanced to optimize and reduce energy use when operating the supply system

iMC

- The *iMC – Integration, monitoring and control* is an application developed in house, whose purpose is to receive and interrelate data transmitted by the equipment installed on ZMCs to monitor the distribution network
- The development work carried out in 2011 turned the iMC into the application aggregating all telemetry data, which used to be scattered at several suppliers of technology and applications

Aquamatrix

- AQUAmatrix® is a technical tool that integrates the company's operating and marketing activities; AQUAmatrix© was devised and developed by EPAL and consists of SIGC, a sales management information system, mobile reading systems, supply services and processes, digital-counter functionality and a business intelligence integrated tool. This tool also integrates interface functionalities with other information systems, namely ERP, document management, GIS, telemetry and asset management

SIRE

- This corporate responsibility integrated system covers water abstraction, treatment, transportation, distribution and marketing activities as well as other complementary and supporting activities within national borders
- This system aims to certify EPAL with respect to ISO9001:2008, ISO14001:2004, OHSAS 18001:2007 and SA8000
- The system also covers the accreditation of laboratories for the control of water quality and meters
- Certification ISO14001:2004 was renewed in 2011, the case was strengthened for extending certification ISO9001:2008 to the whole company and the project for implementing OSHAS 18001:2007 in the company's water factories was initiated
- All laboratories for the control of water quality and meters kept their accreditation

Asset management

- 74 company sites started to be surveyed for the purpose of ranking refurbishment needs
- The strategy for renewing the Alviela aqueduct was evaluated
- The inspection activity was certified according to ISO9001:2008
- A test of seismic vulnerability was completed in two reservoirs (Telheiras and Vila Franca de Xira)
- Monitoring
  - 37 projects for review of ZMCs covering 353km of network were completed, which lowered actual losses by close to 1.358 million cubic metres/year
- Meter maintenance
  - 23 413 meters were repaired in 2011
- Equipment maintenance
  - The plan for preventive maintenance was executed and action was taken on the major pieces of equipment, namely electro-pumping aggregates, chlorination and transformation points
- Based on MIGA, the company's asset management integrated model, the functional design of application MAXIMO was developed in accordance with the diverse needs of user units and the data model was defined as the tool's application was developed

Water safety plan

- Annual stakeholder meeting
- Improved risk classification and evaluation, new matrices for asset evaluation after review of the plan

Crisis management

- Completion and approval of a crisis management manual
- Development of security schemes to preserve the integrity of premises and the supply system
- Development of procedures and contingency plans to address emergency situations likely to jeopardise the company's supply system or water delivery
- Tighter security in the company's critical premises and infrastructure

Management information system

- Structured information system with financial and operating metrics and reporting to management
  - Reports follow up budgeted expenses, income and capital expenditure, broader operating performance indicators for the company as a whole and each area individually, and include a probing analysis of results
  - On a monthly basis and in addition to the report for the board of directors and a generic report on the company's activities, each area prepares its own report with indicators of its activities

Document management system

- Technical and functional design of a new document management application that will follow the lifecycle of all EPAL's incoming, internally generated and outgoing documents

Management of heritage assets

- Completion of the second stage of AHEPAL, the company's historical archive, with the launch of an online research portal and the management of enquiries about scientific pieces, publications or technical research
- Restoration of books, maps and drawings, photographs, paintings, tiles and CAL's building models
- Publication of *O projeto de Louis-Charles Mary para Distribuição de Água na Cidade de Lisboa* and *Eduardo Nery: Os Desafios do Olhar – Arte Pública na EPAL*
- Patronage agreement between *Museu Nacional de Arte Antiga* and EPAL
- Restoration of several sculptures in limestone

Renewal and improvement technologies

- Hydraulic Pipe Bursting – a technique increasingly applied by EPAL for piping with a diameter of DN < 400 mmde diâmetro DN < 400 mm

Water quality

- Technological and scientific cooperation with KWR Watercycle Research Institute on water quality and asset management
- Development and implementation of tests with water-facing materials
- Development of a mathematical simulation model of the morphology and propagation of sediments, and of water quality in river Zêzere, between Silvares and the EPAL abstraction at the Castelo do Bode reservoir
- Continued implementation in the city of Lisbon of multi-parametric probes with solid-state technology

Renewable energy

- **Photovoltaic energy**

Under programme *Renováveis na Hora* (instant renewable energy), operation proceeded of photovoltaic micro-generation systems installed in 12 company sites as well as the systems of photovoltaic generation for the company's own use that were installed in the Central Laboratory building and the parking lot at the Asseiceira water treatment plant. All in all EPAL has the capacity to generate annually close to 146,000 kWh of power from renewable sources

- **Wind power**

After the studies of wind conditions in the A-dos-Bispos and Alto do Carenque sites, a study of the technical and economic viability of installing two wind power plants is under way

Participation in domestic and international projects

- Project *AdaptaClima*, whose purpose is to adapt the urban water cycle to climate-change scenarios and provide the company with a medium- and long-term strategy that will lower the vulnerability of its activities; the project has been developed with the climate-change research unit of the University of Lisbon's Natural Science faculty and Aveiro University's centre for environmental and maritime studies
- Project E*U PREPARED Enabling Changes*, co-funded by the European Union's Seventh Framework Programme, whose main purpose is to create a common platform at European level whereby water supply and management companies can adapt to climate change
- Project *Nascentes para a Vida* was initiated by EPAL and completed in June 2011 with the support of the *ICNB – Instituto de Conservação da Natureza e Biodiversidade*, the Portuguese government body for the preservation of nature and biodiversity, *GEOTA – Grupo de Estudos de Ordenamento do Território e Ambiente*, a land planning agency, for the purpose of safeguarding and boosting biodiversity in brooks and wetlands in the Castelo do Bode reservoir catchment area
- Project Seychelles, an advisory assignment with the EIB – European Investment Bank, which consisted of the preparation of an investment programme for the archipelago's water supply company, including measures to reduce non-invoiced water, manage water demand, raise energy efficiency and adapt to climate change
- Project SAFEWATER, designed to validate integrated processes for the treatment of drinking water in Portugal and Norway and currently under way at EPAL in partnership with *IBET – Instituto de Biologia Experimental e Tecnológica*, the Norwegian University for Science and Technology (NTNU), the Almada water department and Águas do Algarve

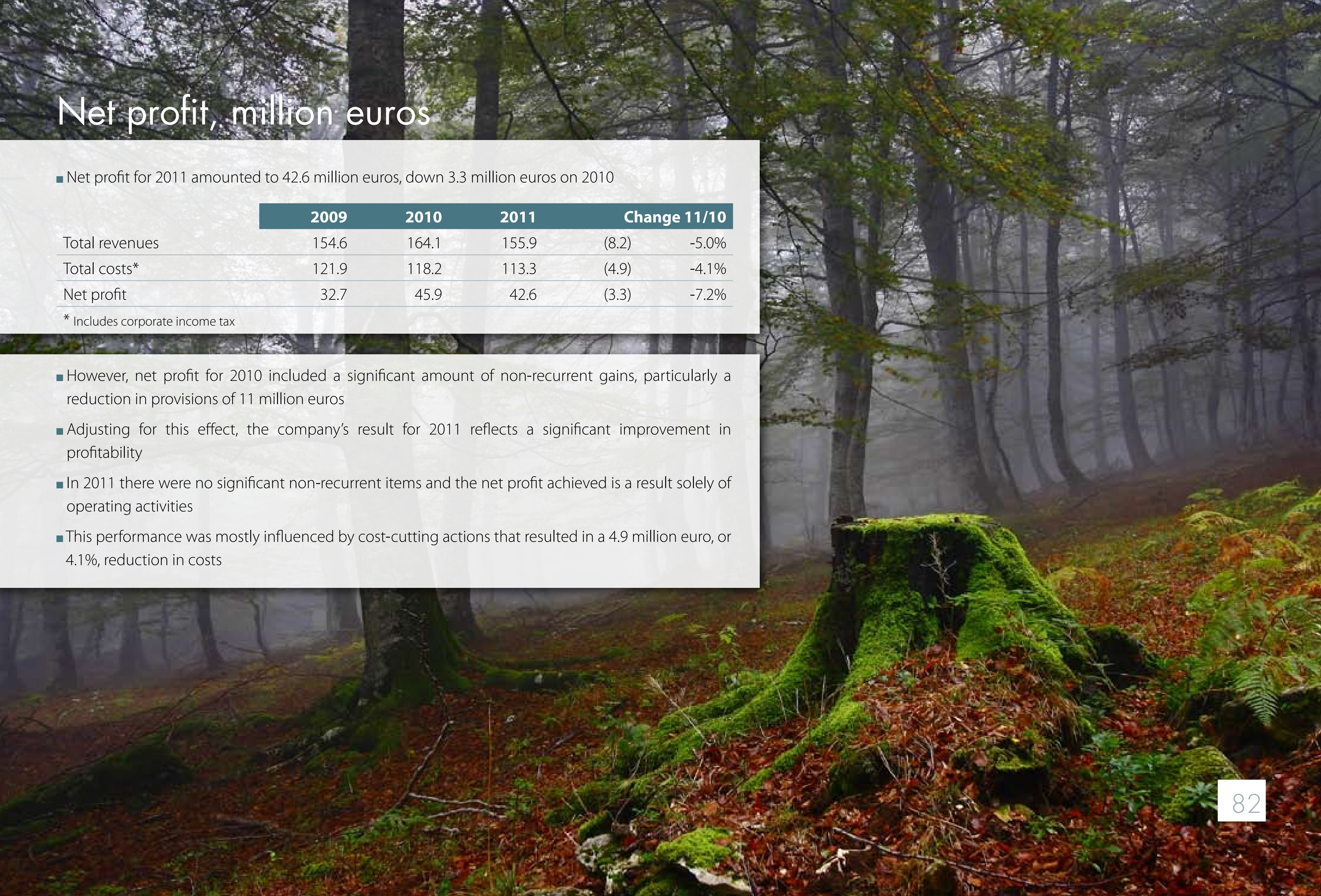
- Project FUNGI WATCH – Benefits and hurdles associated with the presence of fungi in drinking water sources, with the involvement of IBET, Lisbon's Pharmacy faculty and EPAL
- Project *SMARTCOMM – Smart Monitoring & Proactive Control for Contamination Mitigation Management*, with several international partners
- Project *LDmicrobiota – O microbiota dos sedimentos dos sistemas de distribuição e a qualidade da água para consumo humano*, together with *LNEC – Laboratório Nacional de Engenharia Civil* and supported by the Foundation for Science and Technology
- Project *ChloriDec – Tecnologia para monitorização em tempo real das taxas de decaimento do cloro em sistemas de abastecimento de águ*a, together with LNEC and IST – Instituto Superior Técnico
- Benchmarking by EBC – European Benchmarking Cooperation, sponsored by VEWIN, the Dutch water company association

Financial performance

Main indicators, million euros

- The company had a healthy financial performance in 2011 and kept a solid financial position and capital structure

	2009	2010	2011	Change 11/10	
Turnover	149.1	147.5	147.0	(0.5)	-0.3%
Volume of water sold (million m3)	217.1	213.8	210.0	(3.8)	-1.8%
Net profit	32.7	45.9	42.6	(3.3)	-7.2%
Return on sales (Net profit/Turnover), %	21.9%	31.1%	29.0%	-	-
Total costs	121.9	118.2	113.3	(4.9)	-4.1%
Supplies & services and staff costs	74.4	70.9	60.9	(10.0)	-14.1%
Recurring EBITDA	74.2	76.4	86.5	10.1	13.2%
Average cost of debt	n.d.	1.92%	2.35%	-	-
Implicit margin in borrowings	n.d.	0.55%	-0.12%	-	-
Return on equity (Net profit/Equity), %	6.7%	9.1%	8.1%	-	-
Total assets	888.0	916.9	902.2	(14.7)	-1.6%
Shareholder's equity	488.0	506.1	524.4	18.3	3.6%
Liabilities	400.0	410.8	377.8	(33.0)	-8.0%
Working capital	-5.1	36.7	46.1	9.4	25.6%
Medium- and long-term debt	213.3	239.3	222.4	(16.9)	-7.1%
Cash flow	31.6	25.0	-4.8	(29.8)	-119.2%



Net profit, million euros

- Net profit for 2011 amounted to 42.6 million euros, down 3.3 million euros on 2010

	2009	2010	2011	Change 11/10	
Total revenues	154.6	164.1	155.9	(8.2)	-5.0%
Total costs*	121.9	118.2	113.3	(4.9)	-4.1%
Net profit	32.7	45.9	42.6	(3.3)	-7.2%

* Includes corporate income tax

- However, net profit for 2010 included a significant amount of non-recurrent gains, particularly a reduction in provisions of 11 million euros
- Adjusting for this effect, the company's result for 2011 reflects a significant improvement in profitability
- In 2011 there were no significant non-recurrent items and the net profit achieved is a result solely of operating activities
- This performance was mostly influenced by cost-cutting actions that resulted in a 4.9 million euro, or 4.1%, reduction in costs

Total income, million euros

- Total income amounted to 155.9 million euros (-5.0%)

	2009	2010	2011	Change 11/10	
Turnover	149.1	147.5	147.0	(0.5)	-0.3%
Investment grants	1.9	1.9	1.9	-	-
Provisions (net reduction)	-	10.9	0.2	(10.7)	-98.2%
Other operating income and gains	2.0	2.4	3.1	0.7	29.3%
Interest and similar income	1.6	1.5	3.7	2.2	146.7%
Total income	154.6	164.1	155.9	(8.2)	-5.0%

- The lower total income compared with 2010 was primarily influenced by the flat turnover and the fall in non-recurrent income (reduction in provisions)
- Interest and similar income rose 2.2 million euros

Turnover, million euros

- Turnover amounted to 147.0 million euros (-0.3%)

	2009	2010	2011	Change 11/10	
Goods sold	146.3	145.4	145.7	0.3	0.2%
Services provided	2.8	2.0	1.4	(0.6)	-30.0%
Turnover	149.1	147.5	147.0	(0.5)	-0.3%

- The volume of goods sold posted a slight increase on the back of invoiced contractual minimums as demand decreased significantly and the water tariff was not updated in 2011

Goods sold, million m^3

- The volume of goods sold posted a slight increase on the back of invoiced contractual minimums as demand decreased significantly and the water tariff was not updated in 2011

Volume of water sold, million m^3

- Water sold in 2011 fell 3.5 million m3
- The volume sold in 2011 (210 million m3) was one of the lowest since 2004
- Sales to direct clients contracted 2.0 million euros to 73.5 million euros
- Sales to municipal and multi-municipal clients rose 2.2 million to 72.1 million euros
- The rise in sales to multi-municipal clients was due to invoiced contractual minimums and did not reflect rising customer demand

Total costs, million euros

- Total costs amounted to 113.3 million euros

	2009	2010	2011	Change 11/10	
Cost of goods sold	2.7	2.8	2.9	0.1	3.6%
Supplies and services	37.8	39.2	35.1	(4.1)	-10.5%
Staff costs	36.6	31.7	25.8	(5.9)	-18.6%
Depreciation and impairment losses	23.5	23.8	24.8	1.0	4.2%
Provisions	1.9	-	-	-	-
Taxes and other levies	1.1	1.2	0.9	(0.3)	-25%
Other operating costs	0.5	0.6	0.4	(0.2)	-33.3%
Interest and similar costs	5.4	4.3	5.9	1.6	37.2%
Income tax for the year	12.3	14.6	17.4	2.8	19.2%
Total costs	**121.9**	**118.2**	**113.3**	**(4.9)**	**-4.1%**
As % of turnover	82%	80%	77%		

- A significant cost-cutting effort was made in the year, particularly in supplies and services (-10.5%) and staff costs (-18.6%)
- The plan for reduction of operating costs in state-owned enterprises set as a goal a 15% reduction between 2009 and 2011 of the combined amount of the two cost items in the previous point, which was achieved
- The weight of total costs in the company's turnover fell significantly, from 80% to 77%

Supplies and services

- Significant reduction in supplies and services to 35.1 million euros (-4.1 million euros)
- Specialist services and asset maintenance and repair contributed most to the reduction in supplies and services purchased in 2011, with changes of -17.9% and -26.0%, respectively
- Costs incurred with energy, an essential input to the water supply process, weighed significantly (24.9%) in total supplies and services and rose 14.2%, or an additional 1.4 million euros
- Energy costs have been hit by significant price rises since 2010, which have more than offset the company's efforts to raise efficiency and rationalize the use of energy
- EPAL has pursued energy efficiency by installing more efficient equipment (for instance, speed changers in pumping aggregates), by using alternative power sources such as photovoltaic systems and by buying energy in the liberalised market – EPAL was one of the first companies to launch a tender for the purchase of energy in the liberalised market

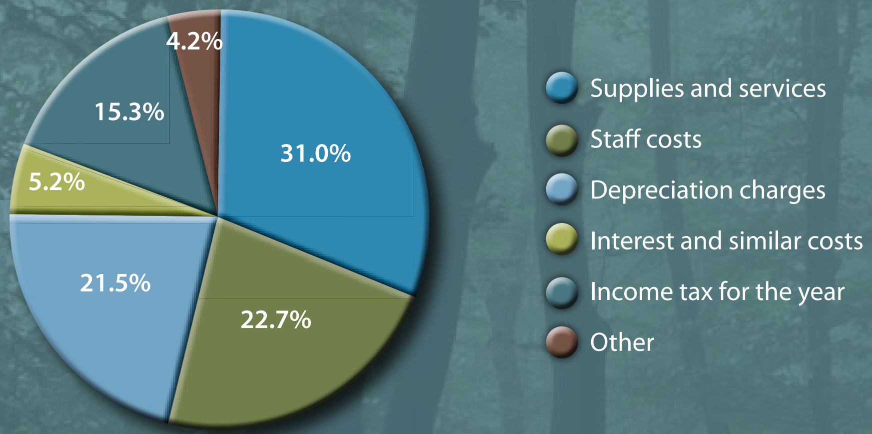
Staff costs

- Significant decrease in staff costs to 25.8 million euros (-5.9 million euros)
- This reduction followed primarily from salary and holiday pay cuts (4.2 million euros) as provided for in state budgets 2011 and 2012

Cost structure

- The most significant cost items were supplies and services, staff costs and depreciation charges, with a combined share of 75.3% in the company's total costs in 2011, against 79.9% in 2010 and 80.3% in 2009

Total costs 2011: 113.3 million euros



Operating margins, million euros

- EBITDA rose sharply (+13.6%) to 86.3 million as the cost of supplies and services, and staff, fell
- Slight decrease (2.1%) in operating profit to 62.1 million euros, which was due to the comparison with a year (2010) when reduced provisions generated non-recurrent income of 10.9 million euros

	2009	2010	2011	Change 11/10	
Turnover	149.1	147.5	147.0	(0.5)	-0.3%
Other operating income	3.9	4.3	5.0	0.7	16.3%
Cost of sales	(2.7)	(2.8)	(3.0)	(0.2)	7.1%
Supplies and services	(37.8)	(39.2)	(35.1)	4.1	-10.5%
Staff costs	(36.6)	(31.7)	(25.8)	5.9	-18.6%
Impairment losses	(0.1)	(0.3)	(0.4)	(0.1)	33.3%
Other operating costs	(1.7)	(1.7)	(1.4)	0.3	-17.6%
Operating cash flow (EBITDA)	74.1	76.0	86.3	10.3	13.6%
Depreciation and amortisation	(23.5)	(23.5)	(24.4)	(0.9)	3.8%
Provisions (increase/decrease)	(1.9)	10.9	0.2	(10.7)	-98.2%
Operating profit (EBIT)	48.8	63.4	62.1	(1.3)	-2.1%

Recurring EBITDA

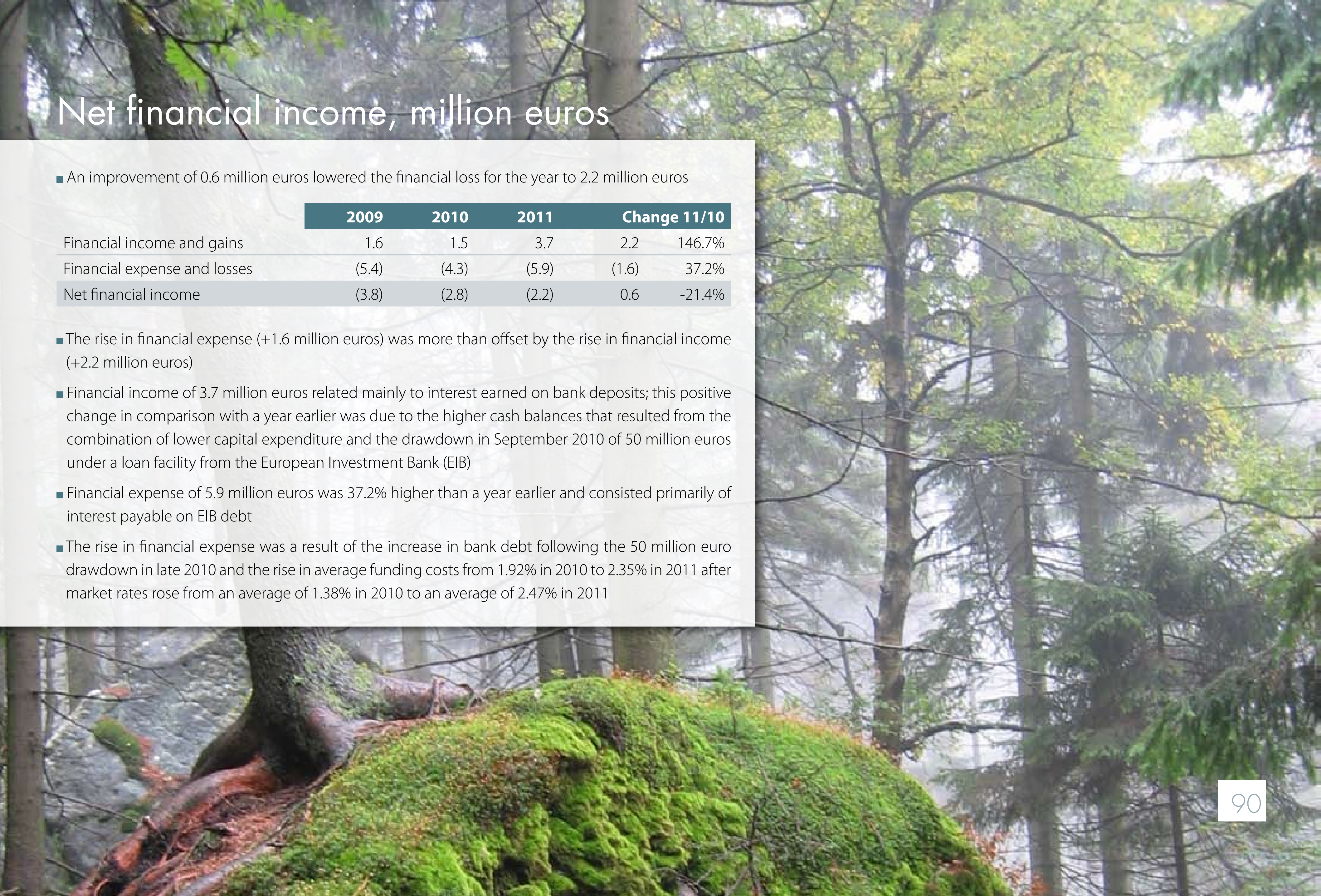
- Recurring EBITDA rose 13.2% (+10.1 million euros)

	2009	2010	2011	Change 11/10	
Operating profit (EBIT)	**48.8**	**63.4**	**62.1**	**(1.3)**	**-2.1%**
Provisions (increase/decrease)	1.9	(10.9)	(0.2)	10.7	-98.2%
Depreciation charges and impairment losses	23.5	23.5	24.4	0.9	3.8%
Non-recurrent losses	0.5	0.6	0.4	(0.2)	-33.3%
Non-recurrent gains	(0.4)	(0.2)	(0.3)	(0.1)	50%
Recurring EBITDA	**74.2**	**76.4**	**86.5**	**10.1**	**13.2%**

- As turnover contracted 0.5 million euros, the improvement in EBITDA was only possible by cutting costs, particularly of supplies and services, and staff
- The favourable performance in 2011 is also visible in the EBITDA margin (EBITDA to turnover), which rose from 51.7% to 59.0%

	2009	2010	2011	Change 11/10	
Recurring EBITDA	74.2	76.4	86.5	10.1	13.2%
Turnover	149.1	147.5	147.0	(0.5)	-0.3%
EBITDA margin	**50%**	**52%**	**59%**	**7**	**13.5%**

EBITDA margin = Recurring EBITDA/Turnover



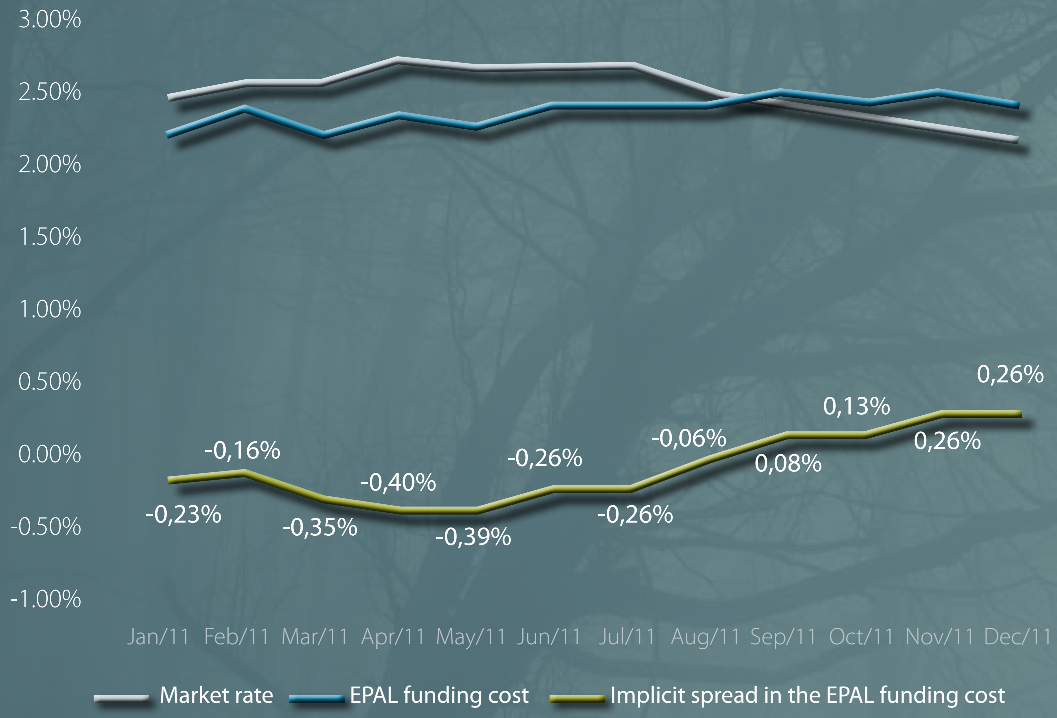
Net financial income, million euros

- An improvement of 0.6 million euros lowered the financial loss for the year to 2.2 million euros

	2009	2010	2011	Change 11/10	
Financial income and gains	1.6	1.5	3.7	2.2	146.7%
Financial expense and losses	(5.4)	(4.3)	(5.9)	(1.6)	37.2%
Net financial income	(3.8)	(2.8)	(2.2)	0.6	-21.4%

- The rise in financial expense (+1.6 million euros) was more than offset by the rise in financial income (+2.2 million euros)
- Financial income of 3.7 million euros related mainly to interest earned on bank deposits; this positive change in comparison with a year earlier was due to the higher cash balances that resulted from the combination of lower capital expenditure and the drawdown in September 2010 of 50 million euros under a loan facility from the European Investment Bank (EIB)
- Financial expense of 5.9 million euros was 37.2% higher than a year earlier and consisted primarily of interest payable on EIB debt
- The rise in financial expense was a result of the increase in bank debt following the 50 million euro drawdown in late 2010 and the rise in average funding costs from 1.92% in 2010 to 2.35% in 2011 after market rates rose from an average of 1.38% in 2010 to an average of 2.47% in 2011

Average cost of debt



(1) The market rate is calculated on the basis of a fixed/floating interest rate mix that is identical to EPAL's, using 3-month Euribor as the base for floating rates and interest rate swap rates (with similar maturities to those of EPAL's debt) as the base for fixed rates. It is an interbank rate that does not include a risk spreadd.

- Despite the rise in financial expense, EPAL's average funding cost was competitive in comparison with the average market rate; this is borne out by the implicit spread achieved in 2011, 26 basis points for the year

Financial position, million euros

- At the end of 2011 EPAL's total assets amounted to 902.2 million euros, shareholder's equity to 524.4 million euros and total liabilities to 377.8 million euros

	2009	2010	2011	Change 11/10	
Non-current assets	804.4	804.0	791.6	(12.4)	-1.5%
Current assets	83.6	112.9	110.6	(2.3)	-2.0%
Total assets	**888.0**	**916.9**	**902.2**	**(14.7)**	**-1.6%**
Shareholder's equity	488.0	506.1	524.4	18.3	3.6%
Non-current liabilities	311.3	334.6	313.3	(21.3)	-6.4%
Current liabilities	88.7	76.2	64.5	(11.7)	-15.4%
Shareholder's equity and liabilities	**888.0**	**916.9**	**902.2**	**(14.7)**	**-1.6%**

- Like in previous years, EPAL ended the year with a solid financial position, with an equity to assets ratio of 58% and working capital of 46 million euros

	2009	2010	2011
Solidity	55%	55%	58%
Liquidity	0.94	1.48	1.71
Solvency	1.22	1.23	1.39
Working capital	(5)	37	46

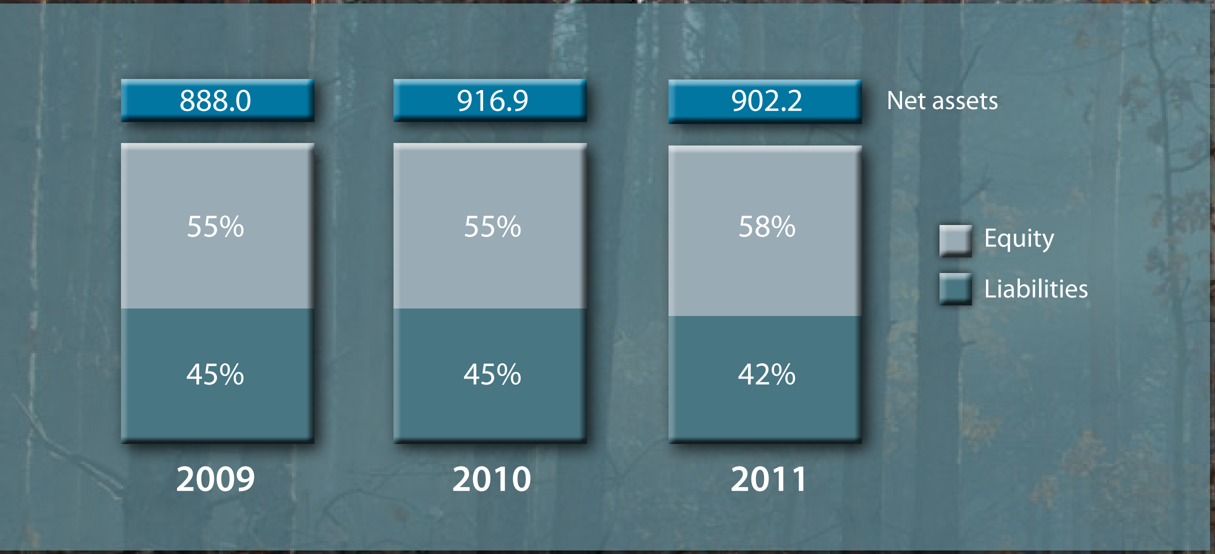
Solidity = equity to assets ratio

Liquidity = current assets to current liabilities

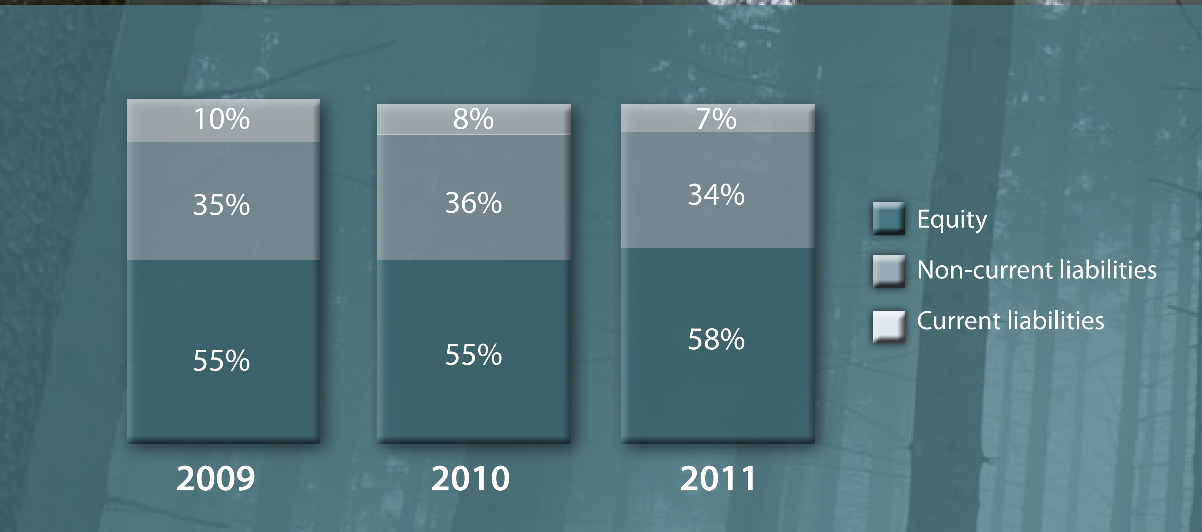
Solvency = equity to total liabilities

Working capital = current assets minus current liabilities

- On top of its favourable financial performance, EPAL continues to have a strong financial position with a balanced capital structure and a strong ability to meet its short-, medium-, and long-term obligations



- One of EPAL's priorities is to optimize its financial resources while seeking to match the maturities of its assets and liabilities. At the end of 2011 there was a healthy relationship between non-current assets (87% of total assets) and permanent capital, defined as equity plus non-current liabilities, which accounted for 93% of equity plus total liabilities

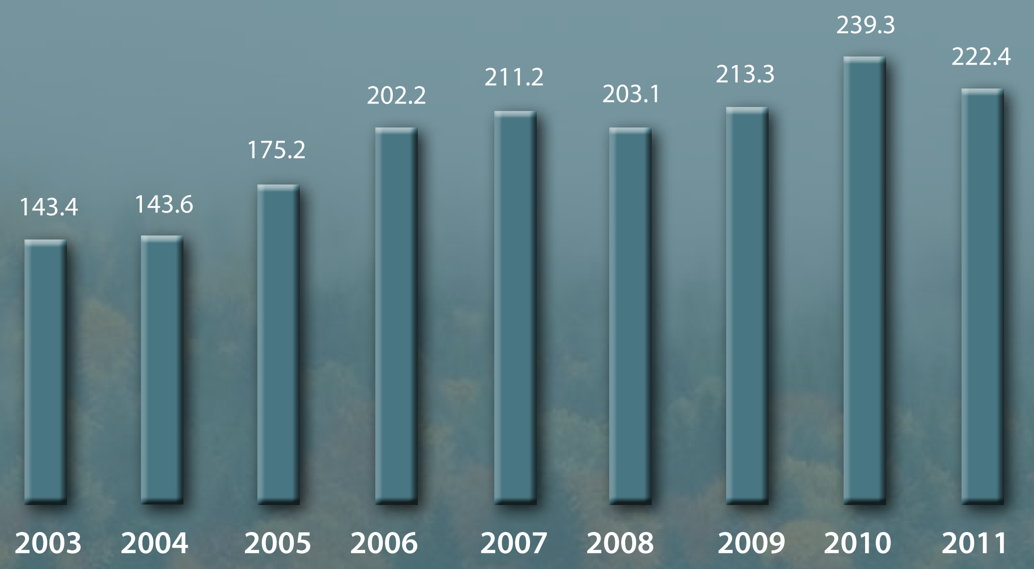

10%
35%
55%
8%
36%
55%
7%
34%
58%
2009
2010
2011
Equity
Non-current liabilities
Current liabilities


91%
9%
88%
12%
87%
12%
2009
2010
2011
Current assets
Non-current assets

Medium- and long-term debt, million euros

- Medium- and long-term debt amounted to 222.4 million euros at the end of 2011, down 16.9 million euros on 2010, which was due to the lack of new borrowings in the year, coupled with continued debt service

Medium- and long-term debt



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

Cash flow, million euros

- The company had a net cash outflow of 4.8 million euros in the year

	2009	2010	2011
Cash flow from operating activities	76.2	55.2	48.8
Cash flow from investing activities	(32.1)	(30.9)	(10.9)
Cash flow from financing activities			
Dividend payments and debt service	(32.5)	(49.3)	(42.7)
Proceeds from financing activities			
Drawdowns in the year	20.0	50.0	-
Change in cash and cash equivalents	**31.6**	**25.0**	**(4.8)**

- Despite the total net cash outflow for the year, the inflow of cash from operating activities covered the cash outflow in respect of capital expenditure and almost all cash used to service bank debt and pay a dividend to the shareholder
- Self-financing remains the primary source of finance
- The average collection time of 31 days implied a 11.3% improvement on 2010

Pension fund

- EPAL's defined benefit pension fund amounted at the end of the year to 35.4 million euros, implying a coverage ratio of 122% according to the Portuguese insurance institute (ISP)'s minimum fund rules
- This healthy funding level was once again the result of the company's substantial annual contribution to the fund – 1.3 million euros in 2011
- The defined contribution pension fund amounted to 14.4 million euros at the end of 2011

Associates

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

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

Clube de Golfe das Amoreiras, SA

- Its object is the development, construction and operation of an establishment for training and teaching golf on EPAL's Amoreiras site
- Its share capital is 350,000 euros
- It has had no activity in the last few years pending the settlement of arbitration proceedings

Outlook

In 2012 EPAL will pursue improved quality levels reflecting the performance of the company and of its employees as well as of those who help the company achieve its mission.

Investments in the upgrade of the company’s infrastructure and the training of its staff will be essential to securing service excellence.

The domestic and international economic environment has not been favourable lately, which is bound to raise strictness and responsibility-sharing according to each one’s skills. The actions taken by the company are expected to intensify, particularly regarding process consolidation leading to extended certifications, lower water loss and centralised administration with a view to raising efficiency.

Finally, the announced restructuring of the industry and, consequently, Grupo Águas de Portugal, will create opportunities for improvement and expanded scale, which is bound to optimize participants’ service quality.

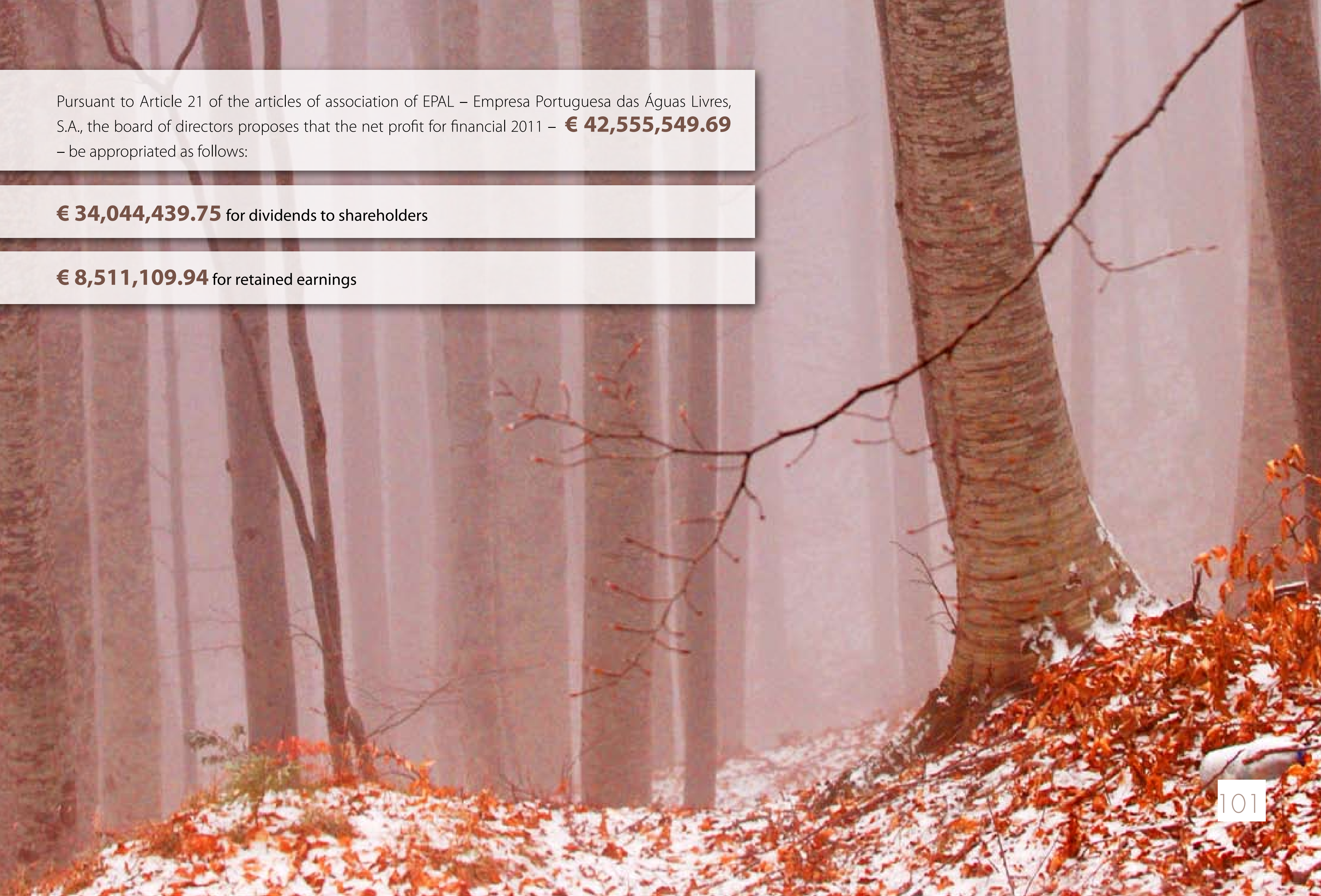
Against this background, EPAL will, once again, act in concert with Grupo Águas de Portugal, of which it is a part.

Proposed appropriation of net profit

Pursuant to Article 21 of the articles of association of EPAL – Empresa Portuguesa das Águas Livres, S.A., the board of directors proposes that the net profit for financial 2011 – **€ 42,555,549.69** – be appropriated as follows:

€ 34,044,439.75 for dividends to shareholders

€ 8,511,109.94 for retained earnings



Closing remarks

After having reported the results of activities in 2011, we are pleased to highlight the contributions and support that made it possible to overcome challenges, achieve goals, meet obligations and keep EPAL active and dynamic in fulfilling its mission of good service.

In doing this, we wish to thank all those who, directly or indirectly, have contributed to the results achieved, mentioning in particular:

- Secretary Assunção Cristas, for the thrust given to the industry
- The shareholder Águas de Portugal, SGPS, SA, for its interest, availability and support
- Government departments such as ERSAR and DGAE, for their excellent relationship
- The banking and insurance industries, particularly the European Investment Bank, for the efficiency brought to the EPAL file
- The company's suppliers, for their efforts in satisfying promptly the needs of the company
- The company's clients, for their constructive demands and cooperation
- The board of directors that departed in February, for the good results achieved
- The sole and statutory auditors, for their excellent monitoring of the company's operations
- The members of the general meeting and sustainability advisory boards
- The company's employees, for their remarkable sense of service and mission

The board of directors

José Manuel Sardinha

Maria do Rosário Águas

Maria do Rosário Ventura

Accounts

Statements of financial position at 31 December 2011 and 2010

(Amounts in euros)

The notes are an integral part of the statement of financial position at 31 December 2011

Assets	Notes	31 December 2011	31 December 2010
Non-current assets			
Tangible fixed assets	6	773,552,649.94	786,602,555.19
Investment properties	7	1,146,269.83	1,241,048.81
Investments in subsidiaries	8	-	-
Other financial assets	9	110,230.68	110,230.68
Deferred tax assets	10	5,998,822.78	6,948,800.06
Other non-current assets	11	10,727,537.62	9,083,744.76
Total non-current assets		791,535,510.85	803,986,379.50
Current assets			
Inventories	12	1,147,041.23	1,126,484.91
Clients	13	18,640,903.13	19,699,286.56
Other accounts receivable	13	14,625,090.67	11,131,533.34
Deferred expenses	14	1,042,544.33	919,742.06
Other financial assets	9	72,500,000.00	76,800,000.00
Cash and bank deposits	4	2,671,769.42	3,188,762.43
Total current assets		110,627,348.78	112,865,809.30
Total assets		902,162,859.63	916,852,188.80

Equity and liabilities			
Equity			
Paid-up capital	15	150,000,000.00	150,000,000.00
Legal reserve	15	30,000,000.00	30,000,000.00
Other reserves	15	22,171,377.45	22,171,377.45
Retained earnings	15	279,691,887.70	258,053,435.94
Other changes in equity		(4,063.81)	(4,063.81)
		481,859,201.34	460,220,749.57
Net profit for the period		42,555,549.69	45,887,091.77
Total equity		524,414,751.03	506,107,841.34
Liabilities			
Non-current liabilities			
Borrowings	16	222,356,429.06	239,327,893.58
Investment grants	17	34,556,839.74	36,439,298.46
Post-employment benefit obligations	18	12,119,946.37	12,640,737.98
Deferred tax liabilities	10	44,190,405.99	46,198,852.89
Non-current liabilities		313,223,621.16	334,606,782.91
Current liabilities			
Provisions	19	1,872,347.02	2,035,944.91
Accounts payable	16	15,037,933.03	30,901,509.21
Government entities	20	4,418,400.31	4,604,838.41
Borrowings	16	17,864,687.39	12,804,797.84
Other accounts payable	16	25,331,119.69	25,790,474.18
Total current liabilities		64,524,487.44	76,137,564.55
Total liabilities		377,748,108.60	410,744,347.46
Total equity and liabilities		902,162,859.63	916,852,188.80

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

The board of directors
José Manuel Leitão Sardinha
Maria do Rosário da Silva Cardoso Águas
Maria do Rosário Mayoral Robles Machado Simões Ventura

Separate income statements for the periods ended on 31 December 2011 and 2010

(Amounts in euros)

The notes are an integral part of the statement of financial position at 31 December 2011

Income and expense	Notes	2011	2010
Sales and services rendered	21	147,038,145.26	147,454,718.70
Investment grants	17	1,882,458.72	1,872,600.85
Cost of goods sold	12	(2,949,695.85)	(2,810,388.27)
Supplies and services purchased	22	(35,142,672.51)	(39,231,068.07)
Staff expenses	23	(25,750,686.32)	(31,651,741.35)
Debtor impairments (losses)/reversals	13	(431,001.05)	(296,398.20)
Provisions (increases)/reductions	19	177,362.26	10,943,493.41
Other income and gains	24	3,072,866.13	2,397,476.44
Other expenses and losses	25	(1,387,465.00)	(1,727,961.79)
Profit before depreciation, financial expense and tax		86,509,311.64	86,950,731.72
Depreciation and amortisation expense/reversal	26	(24,404,732.45)	(23,534,083.78)
Operating profit (before financial expense and tax)		62,104,579.19	63,416,647.94
Interest and similar income	27	3,676,557.86	1,459,308.53
Interest and similar expense	27	(5,851,398.91)	(4,346,653.34)
Profit before tax		59,929,738.14	60,529,303.13
Income tax for the period	10	(17,374,188.45)	(14,642,211.36)
Net profit for the period		42,555,549.69	45,887,091.77
Basic earnings per share	31	1.42	1.53

The financial manager and chief accountant
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Statements of comprehensive income for the periods ended on 31 December 2011 and 2010

(Amounts in euros)

The notes are an integral part of the statement of financial position at 31 December 2011

	Notes	2011	2010
Net profit for the period		42,555,549.69	45,887,091.77
Deferred-tax adjustments		(248,640.00)	(3,761,277.09)
Other changes		-	(21,300.28)
Total comprehensive income for the period		42,306,909.69	42,104,514.40

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

The board of directors
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Maria do Rosário da Silva Cardoso Águas
Maria do Rosário Mayoral Robles Machado Simões Ventura

Statements of changes in equity in the periods ended on 31 December 2011 and 2010

(Amounts in euros)

The notes are an integral part of the statement of financial position at 31 December 2011

	Notes	Paid-up capital	Legal reserve	Other reserves	Retained earnings	Other changes in equity	Net profit for the period	Total equity
Position at the start of 2010		150,000,000.00	30,000,000.00	22,171,377.45	253,124,399.44	(4,063.81)	32,735,676.26	488,027,389.34
Changes in the year:								
Effect of changes in tax rates on deferred tax	10	-	-	-	(3,761,277.09)	-	-	(3,761,277.09)
Other changes recognised in equity								
Appropriation of net profit		-	-	-	32,735,676.26	-	(32,735,676.26)	-
Other changes		-	-	-	(21,300.28)	-	-	-21,300.28
		150,000,000.00	30,000,000.00	22,171,377.45	282,077,498.33	(4,063.81)	-	484,244,811.97
Net profit for 2010							45,887,091.77	45,887,091.77
Equity transactions with owners in the period								
Dividends	15	-	-	-	(24,024,062.39)	-	-	(24,024,062.39)
		-	-	-	(24,024,062.39)	-	-	(24,024,062.39)
Position at the end of 2010		150,000,000.00	30,000,000.00	22,171,377.45	258,053,435.94	(4,063.81)	45,887,091.77	506,107,841.35
Position at the start of 2011		150,000,000.00	30,000,000.00	22,171,377.45	258,053,435.94	(4,063.81)	45,887,091.77	506,107,841.35
Changes in the year:								-
Effect of changes in tax rates on deferred tax	10	-	-	-	(248,640.00)	-	-	(248,640.00)
Other changes recognised in equity								
Appropriation of net profit		-	-	-	45,887,091.77	-	(45,887,091.77)	-
		150,000,000.00	30,000,000.00	22,171,377.45	303,691,887.71	(4,063.81)	-	505,859,201.35
Net profit for 2011							42,555,549.69	42,555,549.69
Equity transactions with owners in the period								
Dividends	15	-	-	-	(24,000,000.00)	-	-	(24,000,000.00)
		-	-	-	(24,000,000.00)	-	-	(24,000,000.00)
Position at the end of 2011		150,000,000.00	30,000,000.00	22,171,377.45	279,691,887.71	(4,063.81)	42,555,549.69	524,414,751.04

The financial manager and chief accountant

Daniela Marina Alves Fernandes Valle Santos

The board of directors

José Manuel Leitão Sardinha

Maria do Rosário da Silva Cardoso Águas

Maria do Rosário Mayoral Robles Machado Simões Ventura

Statements of cash flows in the periods ended on 31 December 2011 and 2010

(Amounts in euros)

The notes are an integral part of the statement of financial position at 31 December 2011

	Notes	2011		2010	
Cash flows from operating activities:					
Receipts from clients		183,870,184.00		182,011,428.65	
Payments to suppliers		(61,482,031.76)		(52,075,262.15)	
Payments to the staff		(30,800,339.18)		(35,566,793.90)	
Cash generated by the operations		91,587,813.06		94,369,372.60	
Payment/receipt of income tax		(16,139,573.75)		(15,276,556.53)	
Other receipts/payments		(26,671,156.23)		(23,932,464.41)	
Flows from operating activities (1)			48,777,083.08		55,160,351.67
Cash flows from investing activities:					
Payments related to:					
Tangible fixed assets		(14,641,342.46)		(32,634,816.94)	
Other assets		-	(14,641,342.46)	(46,000,000)	(78,634,816.94)
Receipts from:					
Tangible fixed assets		13,581.14		309,439.42	
Other assets		46,000,000.00		-	
Interest and similar income		3,733,583.73	49,747,164.87	1,376,791.55	1,686,230.97
Flows from investing activities (2)			35,105,822.41		(76,948,585.97)
Cash flows from financing activities:					
Receipts from:					
Borrowings		-		50,000,000.00	50,000,000.00
Payments related to:					
Borrowings		(12,804,797.86)		(20,937,779.05)	
Interest and similar expense		(5,895,100.64)		(4,338,340.26)	
Dividends	15	(24,000,000.00)	(42,699,898.50)	(24,024,062.39)	(49,300,181.70)
Flows from financing activities (3)			(42,699,898.50)		699,818.30
Change in cash and cash equivalents (4)=(1)+(2)+(3)			**41,183,006.99**		**(21,088,416.00)**
Cash and cash equivalents at the start of the period	4		33,988,762.43		55,077,178.43
Cash and cash equivalents at the end of the period	4		75,171,769.42		33,988,762.43

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

The board of directors
José Manuel Leitão Sardinha
Maria do Rosário da Silva Cardoso Águas
Maria do Rosário Mayoral Robles Machado Simões Ventura

Notes to the financial statements

At 31 December 2011

1. INTRODUCTORY NOTE

1.1 Introduction

EPAL – Empresa Portuguesa das Águas Livres, S.A (hereinafter referred to as "EPAL" or "the Company") is a limited liability company whose shares are ultimately owned by the Portuguese state.

The object of the Company is to abstract, treat, transport and distribute water for public consumption and to undertake other related industrial, commercial or research activities, and rendering of services, namely those related to the water cycle.

1.2 Activities

EPAL abstracts, transports, treats and distributes water for human consumption. In doing so the Company aims to provide a quality service while respecting essential social and environmental concerns. The Company's services cover the distribution of water to consumption points in the city of Lisbon as well as bulk delivery to 33 municipalities in the Greater Lisbon area.

In addition, following the Company's status as an entity with delegated management of distribution to the city of Lisbon and as a supplier of the Greater Lisbon area as set out in government decree Decreto-Lei No. 230/91 of 21 of June, EPAL's management model also covers the following aspects: (i) the freedom to supply water to municipalities; (ii) the application of prices agreed with the government's Direcção Geral das Actividades; (iii) the obligation for all consumers, public or private, to pay the water they use as well as the services rendered to them.

Regarding the use of water resources for abstraction of surface water from the Castelo do Bode reservoir for public supply, the Company signed in 2009 a concession agreement with the government to ensure compliance with a law passed by the parliament, Lei nº 58/2005 of December 29, whose Article 61, a) stipulates that the private use of water resources from the public domain is subject to concession. According to the agreement, the concession was granted in 2009 for a period of 75 years. However, the Company considers that interpretation IFRC 12 Service Concession Arrangements is not applicable to the agreement for the following reasons: (i) the assets existed when the agreement was signed, were the Company's property and were recorded on the Company's statement of financial position, (ii) if they have net accounting value when the concession expires, the Company will be reimbursed accordingly and (iii) a return has not been set on the operation of the assets covered by the concession.

1.3 Shareholders

At 31 December 2011, the Company was wholly owned by AdP – Águas de Portugal, SGPS, S.A.

1.4 Approval of the financial statements

The financial statements appended to the management report are presented in euros and have been approved in a meeting of the board of directors on 14 March 2012. However, they have not yet been approved by the general meeting according to Portuguese commercial law.

The board of directors considers that these financial statements truthfully and appropriately reflect EPAL's operations, financial position and performance as well as its cash flows.

2. ACCOUNTING FRAMEWORK FOR PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements appended hereto have been prepared in accordance with the legal provisions effective in Portugal, in compliance with Decreto-Lei No. 158/2010 of 13 July, and according to the Framework for the Preparation and Presentation of Financial Statements, the International Accounting and Financial Reporting Standards (IAS/IFRS) and interpretations (SIC/IFRIC) as adopted by the European Union and applicable to the reporting year ended on 31 December 2011.

3. MAIN ACCOUNTING POLICIES

The following are the main accounting policies adopted in the preparation of the financial statements hereto:

3.1 Basis of presentation

The Company's financial statements have been prepared on a going concern assumption, on the basis of historical cost as per the Company's accounting records and books, kept in accordance with the International Financing Accounting Standards as adopted by the European Union and effective for the financial year that started 1 January 2010. These standards should be understood to encompass the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) and related interpretations – IFRIC and SIC – issued by the International Financial Reporting Interpretation Committee (IFRIC) and Standing Interpretation Committee (SIC). Hereinafter, these standards and interpretations will be generally designated as IAS/IFRS or IFRS.

Prior to approval of the financial statements hereto, the following accounting standards, interpretations, amendments and revisions were endorsed by the European Union with mandatory application to the Company's reporting period starting on 1 January 2011:

	Effective from (reporting periods starting on or after)
IAS 24 Related Party Disclosures (Revised)	01-jan-11
Amendments to IFRS 1 Limited Exemption from comparative IFRS 7 Disclosures for First Time Adopters	01-jul-10
Amendment to IAS 32 - Financial Instruments: Presentation - Classification of Rights Issues	01-fev-10
IFRIC 19 - Extinguishing of Financial Liabilities with Equity Instruments	01-jul-10
Amendment to IFRIC 14 - Prepayments of Minimum Funding Requirements	01-jan-11
Amendments to IFRS 7 - Financial instruments: Disclosures - Transfer of Financial Assets	01-jul-11

All the aforementioned standards, when applicable to the Company, were first applied in 2011 and their adoption has not resulted in retroactive impacts on the financial statements hereto.

The following accounting standards, with mandatory application in future reporting periods, were endorsed by the European Union prior to approval of the financial statements hereto:

	Effective from (reporting periods starting on or after)
Improvements to IFRS (2010)	Several (the earliest one will be on 1 July 2010)

Although these standards were endorsed by the European Union, the Company did not adopt them in the reporting period ended on 31 December 2011 because their application was not mandatory at the time. No significant impacts are expected on the financial statements as a result of the adoption of these standards.

The following accounting standards and interpretations have been issued by the IASB but have not been endorsed by the European Union yet:

	Effective from (reporting periods starting on or after)
IFRS 9 - Financial Instruments	01-jan-13
Amendments to IAS 12 - Deferred Tax: Recovery of Underlying Assets	01-jan-12
Amendments to IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for Fisrt-time Adopters	01-jul-11
Amendments to IFRS 7 - Financial Instruments: Disclosures	01-jul-11
IFRS 10 - Consolidated Financial Statements	01-jan-13
IFRS 11 - Joint Arrangements	01-jan-13
IFRS 12 - Disclosure of Interests in Other Entities	01-jan-13
IFRS 10 - Fair Value Measurement	01-jan-13
IAS 27 (Revised 2011)- Separate Financial Statements	01-jan-13
IAS 28 (Revised 2011)- Investments in Associates and Joint Ventures	01-jan-13
Amendments to IAS 1 - Presentation of Comprehensive Income	01-jan-13
Amendments to IAS 19 - Post Employment Benefits	01-jan-13
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	01-jan-13

Regarding these standards and interpretations issued by the IASB but not yet endorsed by the European Union, no significant impacts are expected from their future adoption on the financial statements hereto.

The preparation of financial statements in accordance with the IAS/IFRS requires the use of estimates, assumptions and judgment in the application of policies to be adopted as these affect the reported amounts of assets or liabilities, income and expense for the reporting period.

Although these estimates are based on the experience of management and their best estimates of events and actions, current and future, both current and future outcomes may ultimately differ from these estimates. The issues involving a higher degree of judgment or complexity or those where assumptions or estimates have played a significant role in the financial statements are presented in Note 3.18.

3.2 Tangible fixed assets

Tangible fixed assets acquired up to and including 31 December 2008 are recorded at cost or deemed cost, which includes the effects of revaluations under the provisions of several pieces of legislation, the latest of which was Decreto-Lei No. 31/98 of 11 February, as well as the effects of free revaluations of tangible fixed assets of similar nature and use, based on appraisals made by independent specialist surveyors with reference to 1 January 2009 – the date of transition to the IFRS. Fixed assets acquired after 1 January 2009 are recorded at cost, which includes the purchasing cost and any costs directly linked to activities necessary to bring assets to the location and condition required to operate as intended, less depreciation and accumulated impairment losses, if any.

Depreciation charges are calculated, from the day the asset is ready to be used, in accordance with the straight-line method throughout the economic life estimated for each class of assets.

The depreciation rates used depend on the economic life that is estimated for each asset class:

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

The economic life of assets and the depreciation methods used for the various classes of assets are reviewed annually. The effect, if any, of changes in these estimates are projected in future income statements.

Maintenance and repair expenses (subsequent outlays) that are not likely to generate additional economic benefits in the future are expensed in the period when they occur.

The gain (or loss) arising from the disposal or write-off of a tangible fixed asset is determined as the difference between the fair value of the proceeds from the transaction, either received or to be received, and the carrying amount net of accumulated depreciation, and is recognised in profit or loss in the period when the disposal or the write-off occurs.

3.3. Investment properties

Investment properties consist of buildings that are not aimed for production, for the delivery of goods and services, for administrative purposes or for sale in the ordinary course of business.

Investment properties acquired up to and including 31 December 2008 are recorded at their deemed cost, which includes the effects of revaluations under the provisions of several pieces of legislation, the latest of which was Decreto-Lei No. 31/98 of 11 February, as well as the effects of free revaluations of investment properties of similar nature and use, based on appraisals made by independent specialist surveyors with reference to 1 January 2009, the date of transition to the IFRS, and they are systematically depreciated over their estimated economic life. Investment properties acquired after 1 January 2009 are recorded at cost.

Costs related to investment properties in use, namely maintenance, repair, insurance premiums and property tax are recognised as expense in the period when they occur.

Enhancements to investment properties that are expected to generate additional economic benefits in the future beyond what was originally estimated are capitalised under "Investment properties".

To disclose and review recovery values, the Company obtains every three years, and with reference to the reporting date, appraisals by independent specialist surveyors to determine the fair value of investment properties. This fair value is retained throughout the period except in situations when market conditions change or exceptional events occur that may cause significant changes in the fair value of investment properties. In this case, appraisals are obtained for shorter periods, with reference to the statement of financial position immediately after the occurrence of these situations. Whenever, at the end of the reporting period, the value of investment properties net of accumulated depreciation is higher than their fair value, the Company records the resulting impairment loss.

3.4 Leases

Leases are classed as financial leases when their terms and conditions materially transfer to the lessee all risks and benefits associated with ownership of the asset. The other leases are classed as operating leases. Leases are classed according to the substance rather than the form of the contract.

Assets acquired through financial leases are – like the matching liabilities – recorded at inception at the lower of their fair value and the present value of the lease's minimum payments. Lease payments are divided into interest charges and reduction of the liabilities so that a constant interest rate can be obtained on the outstanding balance of the liabilities.

Payments for an operating lease are recognised as expenses on a straight-line basis throughout the leasing period. Incentives obtained are recorded as a liability and their aggregate amount is recognised as a reduction in leasing expenses, also on a straight-line basis.

Contingent payments are recognised as expenses for the period in which they occur.

3.5 Impairment of tangible fixed assets

At the end of each reporting period a review is conducted of the amounts recorded as tangible fixed assets, the purpose being to ascertain whether there are indications that the assets might be impaired. If any such indication exists, the recoverable amount of the assets (or the cash-generating unit) is estimated so that the extent of the impairment loss, if any, can be ascertained.

The recoverable amount of the asset (or the cash-generating unit) consists of the larger of (i) its fair value less selling costs and (ii) its use value. When determining use value, the estimated future cash flows are discounted at a rate reflecting market expectations of the time value of money and the specific risks of the asset (or the cash-generating unit) for which the estimation of future cash flows has not been adjusted.

Whenever the carrying amount of the asset (or the cash-generating unit) is larger than the recoverable amount, an impairment loss is recognised and immediately recorded in the income statement under "Impairment losses" except when the loss is offset by an excess revaluation of equity. In this case, the loss will be treated as a reduction in the revaluation until the excess is used up; the excess, if any, is recorded as an expense of the reporting period.

The reversal of impairment losses that have been recognised in previous reporting periods is recorded when there is evidence that the losses no longer exist or have subsided. The reversal of impairment losses is recognised in the income statement under "Reversals of impairment losses". The reversal may be made up to the limit of the amount that would have been recognised (net of depreciation and amortisation) if the impairment loss had not been recorded.

3.6 Investments in subsidiaries, jointly controlled entities and associates

Financial investments consisting of equity interests in subsidiaries and associates are recorded at cost after deduction of estimated impairment losses.

Regarding financial investments in subsidiaries (effective control above 50%), whenever the liabilities taken on by the Company exceed the acquisition cost, an additional provision is made – beyond the impairment loss recorded for the financial investment – for the amount of liabilities that exceeds the recognised impairment loss.

The Company has not prepared consolidated financial statements considering that the effects of consolidating the subsidiary would be immaterial compared with the separate financial statements.

3.7 Inventories

Inventories for EPAL's production process primarily include (i) reagents such as liquid chlorine, lead sulphate, carbon dioxide and other products used in water treatment, and (ii) hydro components for civil engineering.

These inventories are valued at the lower of their acquisition cost (including all expenses prior to warehousing) and their net liquidation value. This in turn equals the estimated sales price in the Company's ordinary course of business less all estimated expenses that are required to finish and sell the inventories. In the cases when the recorded cost is higher than the net liquidation value, an adjustment (impairment loss) is recorded for the difference. Changes in inventory impairment losses in the reporting period are recorded in the income statement under "Cost of goods sold".

Inventories are valued at weighted-average cost.

3.8 Financial assets and liabilities

Assets and liabilities are recognised in the statement of financial position when the Company becomes a party to the corresponding contractual provisions.

Financial assets and liabilities with the following features are valued "at cost or amortised cost" if they:

- are at sight or have a defined maturity;
- yield a fixed or ascertainable return; and
- are not a derivative financial instrument or have no such instrument embedded in their structure.

The amortised cost is determined by the effective interest method. Effective interest is obtained with the rate (the effective interest rate) that exactly discounts estimated future payments and receipts for the expected economic life of the financial asset to the net amount recorded as a financial asset or liability.

Consequently, the following financial assets and liabilities are included in this category:

a) **Securities and other financial investments**

Financial investments in securities and other placements are valued at cost after deduction of adjustments for estimated losses on their disposal.

b) **Financial investments in entities that are not subsidiaries, jointly controlled companies or associates**

Financial investments held by the Company that are not classed as investments in subsidiaries are recorded at cost less accumulated impairment losses to the extent they relate to entities whose capital instruments are not publicly traded (unlisted shares) and whose fair value cannot be reliably ascertained.

c) **Clients and other debtors**

Client and other debtor balances are recorded at amortised cost after deduction of impairment losses, if any. As a rule, the amortised cost of these financial assets does not differ from their nominal value.

d) **Cash and bank deposits**

The amounts under "Cash and bank deposits" and "Other financial assets – current" include cash items, demand deposits, time deposits and other treasury investments.

These assets are measured at amortised cost. As a rule, the amortised cost of these financial assets does not differ from their nominal value.

e) **Suppliers and other creditors**

The balances of suppliers and other creditors are recorded at amortised cost. As a rule, the amortised cost of these financial liabilities does not differ from their nominal value.

f) **Borrowings**

Borrowings are recorded as liabilities at amortised cost.

Expenses, if any, incurred when securing these borrowings, as well as interest and similar charges, are recognised in profit or loss by the effective interest method throughout the life of these borrowings. As a rule, the amortised cost of these financial liabilities does not differ from their nominal value

Impairment of financial assets

Financial assets under the "at cost or amortised cost" category are subject to impairment tests at the end of each reporting period. Such financial assets are impaired when there is objective evidence that, as a result of one or more events after their initial recognition, the estimated future cash flows are affected.

For financial assets measured at amortised cost, the impairment loss to be recognised equals the difference between the amount recorded as an asset and the present value at the end of the reporting period of new estimated future cash flows discounted at their original effective interest rate.

For financial assets measured at cost, the impairment loss to be recognised equals the difference between the carrying amount and the best estimate of the asset's fair value at the end of the reporting period.

Impairment losses are recorded in profit or loss under "Impairment losses" in the period when they have been determined.

Subsequently, if the amount of the impairment loss is reduced and this reduction can be objectively related to an event having occurred after recognition of the loss, this should be reversed in profit or loss. This reversal shall not exceed the amount that would have been recognised (amortised cost) if the loss had not been initially recorded. The reversal of impairment losses is recorded in profit or loss under "Reversals of impairment losses". The reversal of impairment losses on investments in equity instruments (measured at cost) is not permitted.

De-recognition of financial assets and liabilities

The Company de-recognises financial assets only when contractual rights to their cash flows expire upon collection or when it transfers to another entity the control over these financial assets and all significant risks and benefits associated with their ownership.

The Company de-recognises financial liabilities only when the attendant obligation is settled, cancelled or otherwise expires.

3.9 Accrual accounting

The Company uses accrual accounting to record income and expense, which means these are recorded as they occur, regardless of the moment when receipt or payment occurs. The differences between amounts received or paid and the related income and expense are recorded as assets or liabilities..

3.10 Investment grants

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

Investment grants related to the acquisition of tangible fixed assets are disclosed as non-current liabilities and are credited to the income statement on a straight-line basis for the expected remaining life of the related assets.

The other grants are deferred and recognised in the income statement in the same period as the matching expense occurs.

3.11 Post-employment benefits

The Company has extended its employees a package of social benefits including the payment of complementary pensions (for long service or disability); it has also taken on the obligations resulting from early-retirement situations.

The Company's pension scheme consists of two plans – a defined contribution and a defined benefit plan.

Defined contribution plans

A defined contribution plan is a pension plan whereby the Company's sole monetary obligation is to make fixed contributions into a separate entity (fund).

The Company's contributions to defined contribution, post-employment benefit plans are recognised as expense in the period when the employees covered by the plan render the service that gives them the right to the Company's contribution; the contributions are calculated as a percentage of the salary of each participant in the scheme.

Defined benefit plans

A defined benefit plan is a pension plan that sets the complementary pension that an employee will receive upon retirement; this complementary pension usually depends on one or a range of factors such as age, length of service and remuneration.

The Company has a defined benefit plan for complementary pensions. Independent actuaries using the projected unit credit method calculate annually the obligations of the Company under this plan. The present value of the obligations is determined by discounting the future benefit payments at a rate that equals the yield of high-grade bonds denominated in the same currency as the benefits will be paid and with maturities that approximate the obligations' own maturities.

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

Past service cost is recognised on a straight-line basis in profit or loss for the period until the related benefits are earned; if the benefits have been entirely earned, past service cost is recognised immediately.

The obligation related to the guaranteed benefits that is recognised in the balance sheet equals the present value of the obligation adjusted for actuarial gains and losses and for unrecognised past service cost, less the fair value of the assets in the plan.

Independent actuaries using the projected unit credit method calculate annually the benefits allocated to early retirement. The present value of the obligations is determined by discounting the future benefit payments at a rate that equals the yield of high-grade bonds denominated in the same currency as the benefits will be paid, with maturities that approximate the obligations' own maturities.

3.12 Provisions

Provisions are recorded when the Company has a current (legal or constructive) obligation resulting from a past event whereby an outflow of resources is probable for the settlement of the obligation and the amount of the obligation can be reasonably estimated.

The amount of recorded provisions is the best estimate of the settlement amount at the end of the reporting period. This estimate, which is reviewed at the end of each reporting period, is determined considering the risks and uncertainties associated with each obligation.

Current obligations resulting from onerous contracts are recognised and measured as provisions. An onerous contract exists when the Company is a party to the provisions of a contract or agreement, whose fulfilment carries costs that cannot be avoided while exceeding the contract's economic benefits.

Contingent liabilities are not recognised in the financial statements but are disclosed when the possibility exists that an outflow of resources, including economic benefits, is not remote. Contingent assets are not recognised in the financial statements but are disclosed when a future inflow of economic benefits is probable

3.13 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Recognised revenue is net of refunds, discounts and other rebates and does not include value-added tax (VAT) or other sales-related taxes.

Revenue from the sale of goods (water) is recognised when all following conditions are met:

- Significant risks and rewards associated with ownership of the goods have been transferred to the buyer;
- The Company has no control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that future economic benefits associated with the transaction will flow to the Company;
- The costs incurred or to be incurred with the transaction can be measured reliably.

Revenue from rendering of services is recognised based on the percentage of completion, provided all following conditions are met:

- The amount of revenue can be measured reliably;
- It is probable that future economic benefits associated with the transaction will flow to the Company;
- Cost incurred or to be incurred with the transaction can be measured reliably;
- The stage of completion of the transaction/service can be measured reliably.

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

Throughout the year revenue from the sale of water is recognised as it is invoiced on the basis of consumption determined through meter readings or, in periods when readings have not been carried out for a given client, on the basis of estimated consumption. At the end of the year, according to the principle for accrual accounting, the estimated value of consumption that has not been read or invoiced is recognised under accounts receivable.

At the end of each reporting period the amount recorded for the sale of water corresponds to actual consumption as determined by meter readings and, when readings have not been feasible, reliable consumption estimates.

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

3.14 Borrowing costs

The costs of borrowings related to the acquisition, construction or production of fixed assets are capitalised as an integral part of the cost of those assets. Capitalisation of these borrowing costs starts with the first expenses on the assets and extends over the period when the necessary actions are taken to make the assets ready for their intended use or sale. Such capitalisation ceases when all necessary activities to make the assets ready for their intended use or sale have been materially completed. In addition, capitalisation is suspended when the aforementioned activities are interrupted for a long period. Any income from the temporary investment of amounts borrowed for the aforementioned purposes shall be deducted from the amount of borrowing costs eligible for capitalisation.

However, the Company considered at 31 December 2011 and 2010 that the effect of borrowing costs related to the acquisition and/or construction of its fixed assets was not a significant one. Consequently, it did not capitalise these costs and expensed them for the period when they were incurred.

3.15 Income tax

Income tax for the reporting period recorded in the income statement equals the sum of current and deferred taxes. Both current and deferred taxes are recorded in profit or loss, except when deferred taxes are related to items recorded under equity, in which case they are also recorded under equity.

Current tax payable is calculated on the basis of the Company's taxable profit. Taxable profit differs from accounting profit to the extent it excludes several income and cost items which will be either deductible or taxable in other reporting periods or not at all.

Deferred tax is related to temporary differences between the carrying and taxable amounts of assets and liabilities. Deferred tax assets and liabilities are measured at the tax rates expected to apply when temporary differences are reversed, based on tax rates (laws) that have been enacted by the end of the reporting period.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for deductible temporary differences for which it can be reasonably expected that there will be sufficient future taxable profit against which the deferred tax assets can be utilised, and for taxable temporary differences that are reverted in the same period as the reversal of deductible temporary differences. At the end of each reporting period deferred tax assets are reviewed and adjusted according to expectations of their future utilisation.

3.16 Transactions and balances in foreign currency

Transactions in foreign currency (other than the Company's functional reporting currency) are recorded using transaction-date exchange rates. At the end of each reporting period the carrying amounts of monetary items denominated in foreign currency are re-translated using the exchange rate at the end of the reporting period.

Exchange differences that arise from the settlement of foreign-currency transactions and from the aforementioned re-translations are recognised in profit or loss for the period when they occur.

3.17 Financial risk management policies

Financial risks factors

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

Liquidity risk

Management of liquidity risk implies that cash balances be kept at a reasonable level, that the floating debt stock is backed up by adequate credit facilities and that the ability is retained to settle market positions. The Company aims to keep the floating debt flexible by securing the availability of credit lines. The Company manages liquidity risk by negotiating committed credit lines and financing facilities that give it immediate, flexible access to funds.

Cash flow and fair value risk associated with interest rates

Interest rate risk to the Company arises primarily from its long-term borrowings. Floating-rate borrowings expose the Company to cash flow risk whereas fixed-rate borrowings expose the Company to fair value risk associated with interest rates. The Company's policy is to keep a balance between floating-rate and fixed-rate borrowings.

Interest rate sensitivity analysis

The sensitivity analysis below has been prepared in accordance with the Company's exposure to the interest rates payable on its borrowings. If the interest rate for the borrowings had been 1% higher or lower, the impact on the Company's net profit for 2011 and 2010 would have been the following:

	2011	2010
Interest payable on bank borrowings (Nota 27)	5,846,560.98	4,345,596.05
Impact on net profit:		
If floating rates had been 1% higher	(1,182,742.30)	(1,271,406.64)
If floating rates had been 1% lower	1,182,742.30	1,119,785.42

3.18 Critical judgements and main sources of estimation uncertainty

In the preparation of the financial statements hereto, judgements, estimates and assumptions have been made affecting the reported amounts of assets and liabilities, as well as income and expense for the reporting period.

The underlying estimates and assumptions were made with reference to the end of the reporting period on the basis of the best knowledge of events and ongoing transactions available when the financial statements were approved, and on the basis of past and current events. However, situations may occur in subsequent periods that have not been considered in the estimates because they could not be foreseen when the financial statements were approved. Changes in estimates after the date of approval of the financial statements will be applied in coming periods. For this reason, and given the associated degree of uncertainty, actual results may differ from those based on the assumptions made.

The main judgments and estimates made in the preparation of the financial statements hereto were related to the following:

a) Economic life of tangible fixed assets;

b) Impairment analysis of tangible fixed assets;

c) Recognition of impairment losses on financial assets and recognition of provisions for obligations to third parties;

d) Actuarial assumptions used to determine obligations associated with post-employment benefits; and

e) Recoverability of deferred tax assets.

3.19 Subsequent events

Events after the date of the statement of financial position that provide additional information about conditions prevailing at that date ("adjusting events" or events after the date of the statement of financial position giving rise to adjustments) are reflected on the financial statements. Events after the date of the statement of financial position that provide information about conditions prevailing after that date ("non-adjusting events" or events after the date of the statement of financial position not giving rise to adjustments) are disclosed in the financial statements only if they are deemed material.

4. CASH FLOWS

Cash and cash equivalents in the statement of cash flows include cash on hand, bank deposits, other highly liquid short-term investments – which are readily convertible into a known amount of money and are subject to an insignificant risk of change in value –and bank overdrafts. Bank overdrafts are shown in the balance sheet under current liabilities, heading “Debt to credit institutions – short term”, and are also considered in the preparation of the consolidated statement of cash flows. Cash and cash equivalents at 31 December 2011 and 2010 are detailed as follows:

	Notes	2011	2010
Cash on hand		51,865.29	34,786.81
Readily available bank deposits		2,619,904.13	3,153,975.62
		2,671,769.42	3,188,762.43
Time deposits	9	72,500,000.00	30,800,000.00
		75,171,769.42	33,988,762.43

In the reporting period ended on 31 December 2011 Group AdP adopted a concept that it extended to all group companies, including EPAL, whereby financial investments that are readily convertible into cash and have an insignificant risk of loss of value should be considered as cash and cash equivalents, provided their maturity does not exceed 6 months. Up to the 31 December 2010 EPAL considered as cash and cash equivalents those financial investments whose maturity did not exceed 3 months, which led to an increase in cash and cash equivalents compared with a year earlier.

5. CHANGES IN ACCOUNTING POLICIES AND ERROR CORRECTIONS

In the reporting periods ended 31 December 2011 and 2010 no changes were made to accounting policies, no significant changes were made to estimates and no material errors were identified and corrected.

6. TANGIBLE FIXED ASSETS

The changes in the recorded amount of tangible fixed assets, and accumulated depreciation and impairment losses, in the reporting periods ended on 31 December 2011 and 2010 were the following:

	2011								
	Land and natural resources	**Buildings and other constructions**	**Production equipment**	**Transportation equipment**	**Office equipment**	**Other tangible fixed assets**	**Tangible fixed assets in progress**	**Advance payments**	**Total**
Assets									
Opening balance	113,652,517.60	192,270,738.70	1,000,912,322.90	1,461,033.94	19,604,554.17	21,724,265.83	15,725,843.08	693,926.60	1,366,045,202.82
Acquisitions	-	-	611,004.61	95,510.00	124,533.46	52,989.45	10,228,271.13	173,665.40	11,285,974.05
Disposals	-	-	(27,538.05)	(154,950.03)	-	-	-	-	(182,488.08)
Transfers	2,723,335.58	1,874,280.89	10,680,234.63	-	599,552.73	746,846.74	(15,756,658.57)	(867,592.00)	0.00
Write-offs	-	-	(97,846.94)	-	(3,536.20)	(51.24)	-	-	(101,434.38)
Other transactions	(4.79)	-	(6.65)	-	-	-	-	-	(11.44)
Closing balance	116,375,848.39	194,145,019.59	1,012,078,170.50	1,401,593.91	20,325,104.16	22,524,050.78	10,197,455.64	-	1,377,047,242.97
Accumulated depreciation and impairment losses									
Opening balance	-	83,399,210.33	457,428,254.58	1,404,497.71	17,511,846.24	19,698,838.77	-	-	579,442,647.63
Depreciation charges (Note 26)	-	4,431,464.94	18,805,277.81	23,655.31	519,991.07	529,564.34	-	-	24,309,953.47
Disposals	-		(27,179.80)	(154,950.03)			-	-	(182,129.83)
Write-offs	-		(97,846.92)		(3,536.20)	(51.24)			(101,434.36)
Other transactions	-	(43,630.28)	25,556.12		2,341.79	41,288.49	-	-	25,556.12
Closing balance	-	87,787,044.99	476,134,061.79	1,273,202.99	18,030,642.90	20,269,640.36	-	-	603,494,593.03
Net assets	116,375,848.39	106,357,974.60	535,944,108.71	128,390.92	2,294,461.26	2,254,410.42	10,197,455.64	-	773,552,649.94

	2010 (Restated)								
	Land and natural resources	**Buildings and other constructions**	**Production equipment**	**Transportation equipment**	**Office equipment**	**Other tangible fixed assets**	**Tangible fixed assets in progress**	**Advance payments**	**Total**
Opening balance	113,644,296.17	176,874,535.13	988,398,601.12	1,446,560.00	18,711,954.20	21,116,041.06	21,793,594.52		1,341,985,582.20
Acquisitions	-	-	818,427.62	48,500.00	200,921.35	49,206.52	22,708,759.64	693,926.60	24,519,741.73
Disposals	-	(267.48)	(96,495.37)	(34,026.06)	(12,215.51)	(82,196.76)	-	-	(225,201.18)
Transfers	8,221.43	15,396,471.05	11,898,958.34	-	703,894.13	641,215.01	(28,776,511.08)	-	(127,751.12)
Write-offs	-	-	(107,168.81)	-	-	-	-	-	(107,168.81)
Closing balance	113,652,517.60	192,270,738.70	1,000,912,322.90	1,461,033.94	19,604,554.17	21,724,265.83	15,725,843.08	693,926.60	1,366,045,202.82
Opening balance	-	79,518,068.88	439,518,072.17	1,434,175.10	16,790,989.37	19,076,453.58	-	-	556,337,759.10
Depreciation charges (Note 26)	-	3,881,408.93	18,112,322.45	4,348.67	733,051.38	702,439.09	-	-	23,433,570.52
Disposals	-	(267.48)	(96,495.37)	(34,026.06)	(12,194.51)	(80,053.90)	-	-	(223,037.32)
Write-offs	-	-	(105,644.67)	-	-	-	-	-	(105,644.67)
Closing balance	-	83,399,210.33	457,428,254.58	1,404,497.71	17,511,846.24	19,698,838.77	-	-	579,442,647.63
	113,652,517.60	108,871,528.37	543,484,068.32	56,536.23	2,092,707.93	2,025,427.06	15,725,843.08	693,926.60	786,602,555.19

The heading "Production equipment" includes primarily the distribution network, piping, reservoirs, water and power facilities, water works and meters. At 31 December 2011 and 2010, this heading also included fixed assets in the possession of third parties, namely water meters in the distribution network.

Acquisitions of tangible fixed assets in the 2011 reporting year amounted to close to 11.3 million euros and were primarily related to projects for renewal of large distribution mains, recovery of the Castelo do Bode last stretch and expansion of the Castelo do Bode trunk main (the Azambuja special works).

The 15.8 million euro reduction in "Tangible fixed assets in progress" in 2011 is primarily related to completion in the year of the overhaul of the Olivais pumping station, renewal of the Vila Franca de Xira reservoir, duplication of the stretch of the Castelo do Bode trunk main located close to Monte da Várzea das Chaminés and part completion of the project for recovering the final stretch of the Castelo do Bode trunk main. The amounts of these projects were 5.2 million euros, 1.3 million euros, 1.1 million euros and 1.3 million euros, respectively.

At 31 December 2011 the heading "Tangible fixed assets in progress" relates primarily to projects for the expansion of the Castelo do Bode trunk main (the Azambuja special works), several land ownership proceedings, piping replacement and the renewal of large distribution mains.

Acquisitions of tangible fixed assets in 2010 amounted to 24.7 million euros and are primarily related to projects for the new central laboratory, the replacement of piping and the renewal of the Olivais pumping station.

The 28.8 million euro reduction in "Tangible fixed assets in progress" in 2010 is primarily related to completion in the year of the new central laboratory for an amount of 15.4 million euros, the overhaul of a few stretches of piping for an approximate amount of 5 million euros and the renewal of the distribution network for 3.3 million euros.

At 31 December 2010 the heading "Tangible fixed assets in progress" relates primarily to the following projects: Olivais pumping station, expansion of the Castelo do Bode trunk main, renewal of the Vila Franca de Xira reservoir and several land ownership proceedings.

At 31 December 2011 and 2010 EPAL's tangible fixed assets were completely covered by insurance. However, the insurance bought sets limits on damages: 250 million euros for accidents and natural disasters and 25 million euros for terrorist actions.

Tangible fixed assets are depreciated on a straight-line and monthly basis for their estimated economic life as shown in Note 3.2.

Depreciation charges of 24,309,953.47 euros for 2011 (23,433,570.52 for 2010) were recorded under "Depreciation and amortisation charges" (Note 26).

The increase in "Land and natural resources" in the reporting period ended on 31 December 2011 relates to land expropriation proceedings completed in the period.

7. INVESTMENT PROPERTIES

Changes in the carrying amount of investment properties in the reporting periods ended on 31 December 2011 and 2010 were the following:

	In progress	Total
Opening balance – gross amount	2,451,045.23	2,451,045.23
Additions	-	-
Closing balance – gross amount	**2,451,045.23**	**2,451,045.23**
Opening balance - accumulated depreciation and impairment losses	(1,209,996.43)	(1,209,996.43)
Depreciation charges (Note 26)	(94,778.97)	(94,778.97)
Closing balance – accumulated depreciation and impairment losses	(1,304,775.40)	(1,304,775.40)
Closing balance – net carrying amount	**1,146,269.83**	**1,146,269.83**

	In progress	Total
Opening balance – gross amount	2,451,045.23	2,451,045.23
Closing balance – gross amount	**2,451,045.23**	**2,451,045.23**
Opening balance – accumulated depreciation and impairment losses	(1,109,483.17)	(1,109,483.17)
Depreciation charges (Note 26)	(100,513.26)	(100,513.26)
Closing balance – net carrying amount	**1,241,048.81**	**1,241,048.81**

Investment properties relate to buildings that are located on Company sites but are not allocated to the Company's operations.

The latest appraisal of these buildings, by an independent specialist entity with reference to 31 December 2009, amounted to 1,341,562.07 euros. The opinion of the Company's management is that, if an updated appraisal of these buildings were to be obtained with reference to 31 December 2011, there would be no significant differences compared with the latest appraisal.

In the reporting periods ended on 31 December 2011 and 2010 the following income and expenses related to investment properties were recognised in profit or loss:

	2011			2010		
	Lease income	**Depreciation charges (Note 26)**	**Impairment losses**	**Lease income**	**Depreciation charges (Note 26)**	**Impairment losses**
In progress	-	(94,778.97)	-	-	(100,513.26)	-
	-	(94,778.97)	-	-	(100,513.26)	-

Investment properties are depreciated on a straight-line and monthly basis for their estimated economic life, which is comparable with those applicable to "Buildings and other constructions" as shown in Note 3.2.

8. INVESTMENTS IN SUBSIDIARIES

At 31 December 2011 and 2010 the "Investments in subsidiaries" and accumulated impairment losses were the following:

	2011	2010
Equity interest in subsidiaries	250,000.00	250,000.00
Accumulated impairment losses	(250,000.00)	(250,000.00)
	-	-

At 31 December 2011 and 2010 the Company had the following investments in subsidiaries:

Companies	Head office	Equity interest, %	Assets	Equity	Net profit	Equity interest (a)	Impairment losses	Net value at 31 December 2011	Net value at 31 December 2010
Clube de Golfe das Amoreiras	Lisboa	100%	1,412,916.47	28,998.15	(108,901,97)	250,000.00	(250,000.00)	-	-

a) consists of shareholder loans

The Company is the sole shareholder in Clube de Golf das Amoreiras, S.A., whose object is the development, building and operation of an establishment for training and teaching golf on EPAL's Amoreiras site following the Lisbon municipality's request for the reservoir site to be developed; its share capital is 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. undertook to assign the operation of the site for golf training and teaching.

After a first arbitration award, a new arbitral tribunal was set up in 2006 on the initiative of Supergolf Amoreiras-Academia de Golfe, S.A. for the purpose of finding responsibilities. In 2008 the tribunal issued a unanimous award, which has in the meantime been enforced, that set the damages at a delivered net amount and an amount to be delivered that has been estimated and recorded in the Company's financial statements at 31 December 2011.

9. OTHER FINANCIAL ASSETS

At 31 December 2011 and 2010 "Other financial assets" after deduction of accumulated impairment losses had the following composition:

	2011	2010
Non-current:		
Equity interests in associates	1,500.00	1,500.00
Securities and other financial investments	108,730.68	108,730.68
	110,230.68	110,230.68
Current assets:		
Time deposits	72,500,000.00	76,800,000.00
	72,610,230.68	76,910,230.68

Associates

At the end of the 2011 and 2010 reporting periods the amount recorded under "Equity interests in associates" – 1,500 euros – represented an equity interest in Fundec.

Securities and other financial investments

The amount of 108,731 euros under "Securities and other financial investments" represented in both reporting periods 108,082 euros in escrow funds at the court's order and 649 euros in Portuguese government bonds.

Time deposits

At 31 December 2011 the heading "Time deposits" had a total of 72,500,000 euros (30,500,000 euros in 2010) exclusively in deposits classed as cash equivalents in the statement of cash flows (Note 4).

10. INCOME TAXES

According to the law, tax returns are subject to revision and correction by the tax authorities for a period of four years (five years for social security) except when there are tax losses, tax benefits, or when inspections, claims or injunctions are under way. In these cases, depending on the circumstances, terms are extended or suspended. Accordingly, the Company's tax returns for reporting periods 2009 through 2011 may still be revised.

The Company's management considers that corrections that might result from revisions/inspections of tax returns by the tax authorities would not have a significant effect on the financial statements at 31 December 2011.

From 2010 onwards the Company is taxed according to the special tax regime for groups of companies, with the combined taxable profit calculated at the AdP SGPS level. However, the income tax estimate is recorded for each entity in its financial statements on the basis of its taxable profit and is reflected in an account receivable or payable for AdP SGPS (Note 16).

Income tax expense for the 2011 and 2010 reporting periods is detailed as follows:

	Notes	2011	2010
Current tax and adjustments:			
Current tax for the period	16	18,067,566.01	15,574,467.75
Adjustments to current tax of previous periods	16	627,767.44	629,002.85
Excess/insufficient estimate from the previous period		(14,035.38)	(117,601.14)
		18,681,298.07	16,085,869.46
Deferred tax:			
Deferred tax related to the original recognition/reversal of temporary differences		(1,389,591.42)	(1,066,006.27)
Changes in the tax rate and new levies		82,481.80	(377,651.83)
		(1,307,109.62)	(1,443,658.10)
Income tax expense		17,374,188.45	14,642,211.36

Adjustments to current tax of previous periods for 627,767.44 in 2011 are related to the tax effect arising from a tax rate of 29%, coupled with the annual recognition of 1/5 of favourable changes in equity following the provisional regime applicable to the first-time adoption of IAS/IFRS as provided in Article 5, paragraphs 1, 5 and 6 of Decreto-Lei No. 159/2010 of 13 July.

Income tax for 2011 and 2010 is reconciled as follows:

	2011	2010
Profit before tax	59,929,738.14	60,529,303.13
Permanent differences:		
Non-deductible depreciation charges		
Fines		
Reversal of non-deductible provisions	-	(9,766,455.77)
Other	(5,141.05)	(57,124.96)
	(5,141.05)	(9,823,580.73)
Temporary differences:		
Effect of changes in the economic life of assets on the date for adoption of IFRS	2,051,674.46	2,051,674.46
Effect of the cancellation of straight-line annual depreciation charges	117,300.90	117,300.90
Effect of the de-recognition of limitless usage rights	(4,260.00)	-
Non-deductible depreciation charges	3,775,171.16	3,732,082.83
Inventory adjustments	536,493.17	282,860.73
Difference between fixed assets' accounting and tax bases	1,320,844.50	1,675,459.32
Provisions	(100,000.00)	(100,000.00)
Obligations for retirement benefits	(3,249,828.29)	(2,761,387.98)
Other	(375,340.89)	(375,751.40)
	4,072,055.01	4,622,238.86
Taxable income	**63,996,652.10**	**55,327,961.26**
Tax	15,966,034.12	13,832,403.14
Municipal tax (Derrama)	958,055.80	829,919.42
Additional state tax (Derrama estadual)	1,546,759.66	1,333,199.02
Separate taxation	224,483.87	207,949.02
Adjustments to previous years	(14,035.38)	(117,601.14)
Total current tax and adjustments	**18,681,298.07**	**16,085,869.46**
Effect of deferred tax in the period	(1,307,109.62)	(1,443,658.10)
Total expense for the period	17,374,188.45	14,642,211.36
Effective tax rate for the period	**29%**	**24%**

Deferred tax assets and liabilities at 31 December 2011 and 2010 are detailed below by the temporary differences that have generated them:

	Deferred tax assets		Deferred tax liabilities	
	2011	2010	2011	2010
Differences from impairment losses				
In debtors	1,546,911.20	1,455,037.34	-	-
In inventories	91,891.35	94,551.52	-	-
Obligations for retirement benefits	2,723,363.81	3,665,814.01	-	-
Provisions	435,000.00	464,000.00	-	-
Reversal of revenues taxed in previous years (grants)	449,473.33	449,473.33	-	-
Effect of the write-down in claims on AdO and the Sintra municipality	752,183.09	819,923.86	-	-
Differences between the accounting and tax base of tangible fixed assets and investment properties:				
Legal revaluations	-	-	7,575,628.61	7,903,233.52
Free revaluations on the date of adoption of IFRS – Depreciable assets	-	-	20,871,004.07	21,806,049.43
Free revaluations on the date of adoption of IFRS – Land	-	-	13,714,850.00	13,921,531.27
Reinvested capital gains	-	-	50,817.77	52,027.23
Effect of changes in the economic life of assets in 2009	-	-	1,871,127.11	2,379,942.38
Effect of the cancellation of straight-line annual depreciation charges in 2009	-	-	106,978.43	136,069.06
	5,998,822.78	6,948,800.06	44,190,405.99	46,198,852.89

The tax rate in state budget 2012 was used to measure the final deferred tax balances. This rate is composed of a Company tax rate (IRC) of 25% plus municipal tax (Derrama) at 1.5% on taxable income and additional state tax (Derrama estadual) at 2.5%, for a total tax rate of 29%. The exception from this are the temporary differences with a known date for reversal which will occur in the periods that will end on 31 December 2012 and 2013, where an additional tax rate of 4.6% was considered, for an aggregate tax rate of 31.1%.

Changes in deferred tax assets and liabilities in the periods ended on 31 December 2011 and 2010 were as follows:

	2011		2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Opening balance	**6,948,800.06**	**46,198,852.89**	**7,133,610.86**	**44,066,044.69**
Effect on profit:				
Differences from impairment losses				
In debtors	91,873.86	-	58,377.32	-
In inventories	(2,660.17)	-	(5,461.54)	-
Obligations for retirement benefits	(942,450.21)	-	(784,767.81)	-
Provisions	(29,000.00)	-	26,500.00	-
Reversal of revenues taxed in previous years (grants)	-	-	-	-
Effect of the write-down in claims on AdO and the Sintra municipality	(76,560.76)	-	(78,493.27)	-
Differences between the accounting and tax base of tangible fixed assets and investment properties:				
Legal revaluations	-	(383,044.91)	-	(444,019.55)
Free revaluations on the date of adoption of IFRS – Depreciable assets	-	(1,093,385.36)	-	(987,709.59)
Free revaluations on the date of adoption of IFRS – Land	-	(241,541.28)	-	157,948.41
Reinvested capital gains	-	(1,414.28)	-	(1,292.36)
Effect of changes in the economic life of assets in 2009	-	(594,985.59)	-	(543,693.73)
Effect of the cancellation of straight-line annual depreciation charges in 2009	-	(34,017.28)	-	(31,084.73)
Effect of change in the tax rate	8,820.00	91,301.80	599,034.50	221,382.64
	(949,977.28)	(2,257,086.90)	(184,810.80)	(1,628,468.90)
Effect on retained earnings				
Effect of change in the tax rate	-	248,640.00	-	3,761,277.10
	-	248,640.00	-	3,761,277.10
Closing balance	**5,998,822.78**	**44,190,405.99**	**6,948,800.06**	**46,198,852.89**

In the period ended on 31 December 2011, the amount of 248,640 euros recorded directly under retained earnings is related to the effect of the change in the tax rate on temporary differences previously recorded under reserves, namely legal and free revaluations on the basis of the deemed cost of tangible fixed assets and investment properties at 1 January 2009, the date when the IFRS were adopted.

11. OTHER NON-CURRENT ASSETS

At 31 December 2011 and 2010 "Other non-current assets" had the following composition:

	2011	2010
Other debtors	7,998,500.94	9,083,744.76
Assets under defined benefit plans (Note 18)	2,729,036.68	-
	10,727,537.62	9,083,744.76

The heading "Other debtors" is composed of debts receivable with repayment schedules extending beyond 1 year. At 31 December 2011 and 2010 the balances of 7,998,501 euros (net of an update of 2,524,489 euros) and 9,083,745 euros (net of an update of 2,827,324 euros), respectively, were related to medium- and long-term debt and included primarily: (i) debt resulting from the disposal of supply sub-systems Alenquer/Torres Vedras and Arruda dos Vinhos/Sobral de Monte Agraço, with an annual repayment schedule over 27 years, and (ii) debt resulting from the disposal of assets related to the Alto Carenque/Mercês trunk main (in 2010 only).

The repayment schedule at nominal value, that is, before the rebate, is broken down as follows:

	2011	2010
2012	-	1,394,242.00
2013	501,094.43	501,094.00
2014	501,094.43	501,094.00
> 2014	9,520,801.20	9,514,638.00
	10,522,990.06	11,911,068.00
Effect of debt rebate	(2,524,489.12)	(2,827,323.24)
	7,998,500.94	9,083,744.76

12. INVENTÁRIOS

Em 31 de dezembro de 2011 e 2010 os inventários da Empresa eram detalhados conforme se segue:

	2011			2010		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Goods	255,916.73	(255,916.73)	-	265,089.72	(265,089.72)	-
Raw materials, intermediate and final goods	1,207,991.23	(60,950.00)	1,147,041.23	1,187,434.91	(60,950.00)	1.126.484.91
	1,463,907.96	(316,866.73)	1,147,041.23	1,452,524.63	(326,039.72)	1,126,484.91

Cost of goods sold and changes in production inventories

The cost of goods sold recognised in the periods ended on 31 December 2011 and 2010 is detailed below:

	2011		
	Goods	Raw materials, intermediate and final goods	Total
Opening balance	265,089.72	1,187,434.91	1,452,524.63
Purchases	-	2,961,181.23	2,961,181.23
Adjustments	(9,172.99)	9,070.94	(102.05)
Closing balance	(255,916.73)	(1,207,991.23)	(1,463,907.96)
Cost of goods sold	-	2,949,695.85	2,949,695,85

	2010		
	Goods	Raw materials. intermediate and final goods	Total
Opening balance	285,698.74	1,306,086.68	1,591,785.42
Purchases	-	2,697,749.07	2,697,749.07
Adjustments	(20,609.02)	(6,012.57)	(26,621.59)
Closing balance	(265,089.72)	(1,187,434.91)	(1,452,524.63)
Cost of goods sold	-	2,810,388.27	2,810,388.27

Impairment losses

The accumulated impairment losses on inventories in the reporting periods ended on 31 December 2011 and 2010 are detailed as follows:

	2011			
	Opening balance	Increases	Uses	Closing balance
Goods	265,089.72	-	(9,172.99)	255,916.73
Raw materials, intermediate and final goods	60,950.00	-	-	60,950.00
	326,039,72	-	(9,172.99)	316,866.73

	2010			
	Opening balance	Increases	Uses	Closing balance
Goods	285,698.74	-	(20,609.02)	265,089.72
Raw materials, intermediate and final goods	60,950.00	-	-	60,950.00
	346,648.74	-	(20,609.02)	326,039.72

13. CLIENTS AND OTHER ACCOUNTS RECEIVABLE

At 31 December 2011 and 2010 "Clients" and "Other accounts receivable" had the following composition:

	2011			2010		
	Gross amount	Accumulated impairment	Net amount	Montante bruto	Imparidade acumulada	Montante líquido
Current						
Clients	22,952,292.22	(4,311,389.09)	18,640,903.13	23,584,367.14	(3,885,080.58)	19,699,286.56
	22,952,292.22	(4,311,389.09)	18,640,903.13	23,584,367.14	(3,885,080.58)	19,699,286.56
Other accounts receivable						
Employees	24,449.59	-	24,449.59	26,845.81	-	26,845.81
Clube de Golf das Amoreiras	1,383,245.78	(1,383,245.78)	-	1,373,245.78	(1,373,245.78)	-
Debtors, income accrual	12,120,206,.80	-	12,120,206.80	8,945,055.53	-	8,945,055.53
Other debtors	2,890,163.52	(409,729.24)	2,480,434.28	2,574,668.70	(415,036.70)	2,159,632.00
	16,418,065.69	(1,792,975.02)	14,625,090.67	12,919,815.82	(1,788,282.48)	11,131,533.34
	39,370,357.91	(6,104,364.11)	33,265,993.80	36,504,182.96	(5,673,363.06)	30,830,819.90

In the reporting period ended on 31 December 2011 impairment losses and reversals of impairment losses were recognised in accounts receivable for an amount of 431,001.05 (296,398.20 euros in 2010).

At 31 December 2011 and 2010 "Debtors, income accrual" of 12,120,206.80 euros and 8,945,055.53 euros, respectively, relate primarily to income accruals on account of non-invoiced water for 11,245,469 euros and 8,226,701 euros, respectively.

The age of accounts receivable from clients and other debtors at 31 December 2011 is shown below:

	Not yet due	>60 days	60 - 90 days	90 - 120 days	>120 days	Total
Clients	12,084,393.03	2,435,554.70	847,271.67	7,585,072.82		22,952,292.22
Other debtors	1,171,656.90	224,390.28	148,292.51	8,671.30	1,337,152.53	2,890,163.52

14. DEFERRED ASSETS

At 31 December 2011 and 2010 "Deferrals" under current assets had the following composition:

	2011	2010
Deferred expense with insurance	948,040.75	853,194.10
Deferred expense with maintenance and service	49,090.69	49,159.70
Other deferred expenses	45,412.89	17,388.26
	1,042,544.33	919,742.06

15. EQUITY INSTRUMENTS

Share capital

At 31 December 2011 and 2010 the Company's share capital, which was totally underwritten and paid-up, was composed of 30,000,000 shares with a nominal value of five euros each.

Legal reserve

Commercial law stipulates that at least 5% of annual net profit (EPAL's articles of association have raised that level to 10%) must be allocated to a legal reserve until this accounts for at least 20% of the share capital. This reserve may not be paid out unless the company is wound up but may be used to absorb losses when other reserves are depleted or to issue new shares to existing shareholders.

At 31 December 2011 and 2010 the legal reserve amounted to 30,000,000 euros.

Other reserves

At 31 December 2011 and 2010 other reserves amounted to 22,171,377.45 euros, consisted entirely of free reserves and did not change in either reporting period..

Dividends

Dividends to shareholders for the reporting period ended on 31 December 2010 amounted, following a general meeting resolution of 24 March 2011, to 24,000,000 euros and were paid on 29 April 2011.

For the reporting period ended 31 December 2011 the board of directors proposes a dividend of 34,044,439.75 euros. This dividend is subject to shareholder approval in a general meeting and has not been included as liabilities in the financial statements hereto.

According to Portuguese law, increases arising from the application of fair value through equity components, including the net profit for the period, are eligible for payment to shareholders only when the items or rights that gave rise to them are disposed of, exercised, extinguished, liquidated or, in the case of tangible and intangible fixed assets, used.

At 31 December 2011 the Company included in retained earnings increases arising from application of the criterion of fair-value tangible fixed assets and property investments and revaluations in previous years in accordance with the following pieces of legislation:

- *Decreto-Lei* No. 430/78 in accordance with provisions in *Decreto-Lei* No. 24/82 of 30 January
- *Decreto-Lei* No. 219/82 of 2 June
- *Decreto-Lei*No. 399-G/84 of 28 December
- *Decreto-Lei* No. 118-B/86 of 27 May
- *Decreto-Lei* No. 111/88 of 2 April
- *Decreto-Lei* No. 49/91 of 25 January
- *Decreto-Lei* No. 264/92 of 24 November
- *Decreto-Lei* No. 31/98 of 11 February

According to Portuguese law and accounting practice this amount cannot be paid to shareholders and can only be used, under certain circumstances, in future share capital increases or in other situations set out in the law.

The (gross) amount of revaluation reserves was approximately 256,500,000 euros at 31 December 2011 and 2010 and was included in "Retained earnings".

Historical acquisition costs of tangible fixed assets and investment properties at 31 December 2011 and 2010 and related increases through (legal and free) revaluations, net of accumulated depreciation, are detailed as follows:

	2011						
	Land	Differed tax	Sub-total	Depreciable assets	Deferred tax	Sub-total	Total
Historical costs, net	16,769,063	-	16,769,063	448,175,037	-	448,175,037	464,944,100
Legal revaluations, net	32,992,766	-	32,992,766	64,829,212	(7,575,629)	57,253,584	90,246,350
Free revaluations, net	63,799,778	(13,714,850)	50,084,928	71,422,980	(20,871,004)	50,551,975	100,636,903
Deemed cost, net	**113,561,607**	**(13,714,850)**	**99,846,757**	**584,427,229**	**(28,446,633)**	**555,980,596**	**655,827,353**

	2010						
	Land	Differed tax	Sub-total	Depreciable assets	Deferred tax	Sub-total	Total
Historical costs, net	16,769,063	-	16,769,063	462,620,661	-	462,620,661	479,389,724
Legal revaluations, net	32,992,766	-	32,992,766	68,131,323	(7,903,234)	60,228,089	93,220,855
Free revaluations, net	63,799,778	(13,921,531)	49,878,247	75,193,274	(21,806,049)	53,387,225	103,265,472
Deemed cost, net	**113,561,607**	**(13,921,531)**	**99,640,076**	**605,945,258**	**(29,709,283)**	**576,235,975**	**675,876,051**

Legal revaluation reserves at 31 December 2011 and 2010 amounted to 338,126,589.71 euros and 338,180,161.99 euros, respectively.

16. FINANCIAL LIABILITIES

Suppliers and other accounts payable

At 31 December 2011 and 2010 "Suppliers" and "Other accounts payable" had the following composition:

	Notes	2011	2010
Suppliers			
Suppliers, current account		12,137,560.49	27,234,885.76
Suppliers, invoices pending approval		22,005.80	28,662.33
Suppliers of production equipment		2,878,366.74	3,637,961.12
		15,037,933.03	30,901,509.21
Other accounts payable:			
Other creditors:			
CML – Sanitation levy (Portaria No. 399/85)		12,042,614.66	12,270,498.53
CML – Additional levy (Portaria No. 309/84)		1,123,646.63	1,433,461.18
Sundry creditors		95,660.76	15,658.66
Creditors, expense accruals:			
Interest payable		-	936,924.62
Insurance premiums payable		150,942.26	135,743.74
Other expense accruals		1,356,224.06	1,380,055.69
Shareholders – other transactions:	28	8,681,576.41	6,139,852.09
Employees:			
Holidays and holiday pay		1,431,751.83	3,198,973.85
Other debts to employees		100,699.91	131,107.30
Advance payments from clients		346,135.40	146,330.75
Deferred liabilities		1,867.77	1,867.77
		25,331,119.69	25,790,474.18
		40,369,052.72	56,691,983.39

The reduction in "Suppliers, current account" resulted from the payment of subsoil rights for previous years to the Lisbon municipality ("CML") after an agreement between the two entities was signed in 2011 (Note 19).

Effective from the 2010 reporting period the Company is taxed according to the special tax regime for groups of companies, whereby the income tax estimate is recorded for each entity in its financial statements on the basis of its taxable profit and an account receivable is created for AdP SGPS. Accordingly, the amount of 8,681,576.41 euros recorded under "Shareholders – other transactions" at 31 December 2011 is related to: (i) income tax payable in respect of 2011 for an amount of 18,067,566.01 euros (Note 10) plus (ii) the adjustments to current tax for previous periods for an amount of 627,767.44 euros (Note 10) minus (iii) advance payments of 9,308,875.53 euros and withholdings of 704,881.51 euros.

In the 2011 reporting period the Company started to record interest payable of 936,924.62 euros under "Borrowings" whereas this item was recorded under "Other accounts payable" in the previous period.

The heading "Other expense accruals" relates primarily to expense accruals of 825,723 euros (703,307 euros in 2010) for power.

The reduction in "Holidays and holiday pay" is explained by the impact of state budget 2012 on holiday pay.

Borrowings

Borrowings at 31 December 2011 and 2010 are detailed as follows:

		2011			2010				
			Utilised amount			Utilised amount			
	Lender	Limit	Current	Non-current	Limit	Current	Non-current	Maturity	Type of depreciation
Financial institutions									
Bank loans									
For capital expenditure – "EPAL II" and "EPAL III" loans	BEI	240,221,116.49	16,971,464.50	222,356,429.06	252,132,691.44	12,804,797.84	239,327,893.58	Between 2017 and 2030	Half-yearly
Interest payable			893,222.89						
		240,221,116.49	17,864,687.39	222,356,429.06	252,132,691.44	12,804,797.84	239,327,893.58		

The loans were taken up in euros and carried interest at 31 December 2011 according to the following periods and interest rate regimes:

- 52.8% of the debt was at fixed rate, with interest calculated half-yearly; and
- 47.2% of the debt was at floating rate, with interest calculated quarterly.

According to the agreement signed between the Company and the European Investment Bank (EIB), the unpaid loan balance falls due in case there are significant changes in the Company's shareholder structure, namely if the current shareholder gives up control of the Company.

There are also bank guarantees associated with the loans whose purpose is to cover debt service (Note 29).

The portion classed as non-current at 31 December 2011 and 2010 has the following repayment schedule:

	2011		2010	
	Capital	Interest	Capital	Interest
2012	-	-	15,582,575.65	5,270,139.90
2013	18,360,353.40	5,266,549.05	18,360,353.40	4,856,421.67
2014	18,360,353.40	4,808,401.84	18,360,353.40	4,433,255.17
2015	18,360,353.40	4,350,254.63	18,360,353.50	4,010,088.67
2016	18,360,353.40	3,895,523.71	18,360,353.40	3,589,458.93
2017 and thereafter	148,915,015.46	20,775,507.72	150,303,904.23	19,239,286.72
	222,356,429.06	39,096,236.95	239,327,893.58	41,398,651.06

17. INVESTMENT GRANTS

At 31 December 2011 and 2010 "Investment grants" had the following composition:

Grant	Total amount	Amount received	Revenue n the period	Accumulated revenue	Unrecognised revenue in 2011	Unrecognized revenue in 2010
Asset-related grants:						
COMPART. TORRES/MAFRA	1,215,795.31	1,215,795.31	-	1,215,795.31	-	-
FEDER C.BODE	11,326,074.49	11,326,074.49	-	11,326,074.49	-	-
FEDER TORRES/MAFRA	3,698,332.02	3,698,332.02	-	3,698,332.02	-	-
COMPART. MAFRA 2ª FASE	216,801.06	216,801.06	6,376.56	121,154.01	95,647.05	102,023.61
FEDER TOMAR/T.NOVAS	5,684,191.67	5,684,191.67	183,361.08	3,483,859.92	2,200,331.75	2,383,692.83
COMPART. OURÉM	550,553.17	550,553.17	17,759.76	337,435.65	213,117.52	230,877.28
COMPART. T.NOVAS	435,314.68	435,314.68	14,042.40	266,805.64	168,509.04	182,551.44
COMPART. TOMAR	497,804.04	497,804.04	16,058.16	305,105.39	192,698.65	208,756.81
FEDER OURÉM/ENTRONCAMENTO	3,027,720.39	3,027,720.39	97,668.36	1,855,699.21	1,172,021.18	1,269,689.54
COMPART. ENTRONCAMENTO	4,958.60	4,958.60	159.96	3,039.13	1,919.47	2,079.43
COMPART. V.N.BARQUINHA	72,725.64	72,725.64	2,346.00	39,881.93	32,843.71	35,189.71
FUNDO COESÃO ETA ASSEICEIRA	4,060,876.56	4,060,876.56	-	4,060,876.56	-	-
FEDER V.N.BARQUINHA/CONSTÂNCIA	11,125,239.06	11,125,239.06	358,878.72	6,100,937.96	5,024,301.10	5,383,179.82
FUNDO COESÃO REDE DISTRIBUIÇÃO	7,635,576.47	7,635,576.47	381,778.80	6,872,018.52	763,557.95	1,145,336.75
FUNDO COESÃO V.F.XIRA/AEROPORTO	912,876.57	912,876.57	-	912,876.57	-	-
FUNDO COESÃO ADUTOR C.BODE 1ªFASE	9,405,370.39	9,405,370.39	188,107.44	3,197,826.26	6,207,544.13	6,395,651.57
COMPART RESERV PATRIARCAL	74,819.68	74,819.68	3,741.00	67,337.89	7,481.79	11,222.79
FUNDO COESÃO ADUTOR C.BODE 2ªFASE	22,472,816.68	22,472,816.68	449,456.28	7,191,300.74	15,281,515.94	15,730,972.22
SANTA MARGARIDA	274,338.84	274,338.84	5,486.76	87,788.32	186,550.52	192,037.28
MINDE/MIRA D'AIRE/BATALHA/LEIRIA	4,472,788.99	4,472,788.99	131,552.64	1,841,736.92	2,631,052.07	2,762,604.71
COMPARTICIPAÇÃO CON STÂNCIA	87,104.31	87,104.31	2,809.80	47,766.69	39,337.62	42,147.42
COMPARTICIPAÇÃO ALCANENA	139,940.94	139,940.94	4,115.88	57,622.43	82,318.51	86,434.39
COMPARTICIPAÇÃO PORTO DE MÓS	139,940.94	139,940.94	4,115.88	57,622.43	82,318.51	86,434.39
COMPARTICIPAÇÃO BATALHA	66,118.09	66,118.09	1,944.60	27,224.56	38,893.53	40,838.13
COMPARTICIPAÇÃO LEIRIA	66,118.09	66,118.09	1,944.60	27,224.56	38,893.53	40,838.13
PROJETO SIURE	113,057.53	113,057.53	-	113,057.53	-	-
PROJETO SPRINT	21,604.38	21,604.38	-	-	21,604.38	21,604.38
EDP CORPORATE	86,032.00	86,032.00	10,754.04	11,650.21	74,381.79	85,135.83
	87,884,890.59	87,884,890.59	1,882,458.72	53,328,050.85	34,556,839.74	36,439,298.46

In the reporting periods ended on 31 December 2011 and 2010 the following amounts were recorded as gains:

	2011	2010
Investment grants	1,882,458.72	1,872,600.85
	1,882,458.72	1,872,600.85

18. POST-EMPLOYMENT BENEFIT OBLIGATIONS

EPAL has extended its employees a package of social benefits that includes two pension plans – a defined benefit and a defined contribution plan – implying a commitment to pay a post-employment (for long service and disability) complementary pension on top of the pension paid by the social security system. In addition, the Company has taken on the obligations resulting from early retirements.

The obligations arising from the pension plan are funded by Fundo de Pensões EPAL, which was set up in November 1990. Early retirement is directly borne by the Company.

In the reporting period ended on 31 December 2008 the Company re-negotiated its agreement (Acordo de Empresa) with its employees and trade unions, namely with respect to the pension plan. This re-negotiation resulted primarily in the transfer of a part of the Company's active employees to a defined contribution plan instead of the previous defined benefit plan. Formal cut-off of the previous plan and inception of the new plan for those who joined in occurred on 22 March 2008.

Post-employment benefits - defined contribution plan

The Company has undertaken to make monthly monetary contributions to a defined contribution pension fund. The Company's sole obligation in this regard is to make the contributions, which employees under the scheme can complement on a voluntary basis with their own contributions.

In the 2011 and 2010 reporting periods the contributions to the defined contribution plan were the following:

	2011	2010
Company contributions	502,742.10	510,923.10
Employee contributions	26,389.80	29,121.50
	529,131.90	540,044.60

Total expense on the contributions in the reporting period ended on 31 December 2011 amounted to 502,742.10 euros (510,923.10 euros in 2010) (Note 23)..

Post-employment benefits - defined benefit plan and early retirement

The latest actuarial appraisal of the plan's assets and of the present value of the defined benefit and early retirement obligations was conducted with reference to 31 December 2011 by an external independent entity. The present value of the defined-benefit and early-retirement obligations, as well as related current and past service cost, were measured according to the projected unit credit method.

The main assumptions adopted in the actuarial appraisal were the following:

	2011	2010
Discount rate	4.75%	4.5%
Expected return on the plan's assets	4.5%	4.5%
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80
Salary growth rate	2.5%	2.5%
Social security salary growth rate	2.5%	2.5%
Growth rate of early-retirement payments	2.5%	2.5%

In the reporting periods ended on 31 December 2011 and 2010 the following amounts have been recognised in profit or loss under "Staff expenses":

	2011	2010
Current service cost	233,000.00	249,000.00
Interest cost	2,030,000.00	2,419,000.00
Expected return on the plan's assets	(1,584,000.00)	(1,785,000.00)
Recognition of actuarial gains/losses	(175,000.00)	(5,000.00)
Present value of early retirements in the period	584,000.00	1,753,000.00
Total expenses (Note 23	1,088,000.00	2,631,000.00

The deferred actuarial losses/gains exceeding the higher of (i) the limit of 10% of the funds allocated to covering the Company's obligations and (ii) 10% of past service cost are recognised for the period between the active population's average age and the retirement age, starting in the period following the one when such situation occurs.

With reference to 31 December 2011 and 2010 net past service cost associated with the defined benefit plan and early retirements was the following:

	2011	2010
Present value of the obligation for defined benefits – with fund	33,801,150.00	35,611,941.00
Fair value of the fund's assets	35,360,261.00	36,267,749.00
	(1,559,111.00)	(655,808.00)
Present value of the obligation for defined benefits – without fund	9,142,012.00	12,174,628.00
	7,582,901.00	11,518,820.00
Unrecognised actuarial gains/(losses)	1,808,008.69	1,121,917.98
Net obligations of defined benefit plans	**9,390,909.69**	**12,640,737.98**
Assets for defined benefit plans (Note 11)	**2,729,036.68**	**-**
Liabilities for defined benefit plans	**12,119,946.37**	**12,640,737.98**

The Company's overall obligations are covered by pension fund assets and a specific provision recorded as a liability, which amounted to 12,119,946.37 euros (or 9,390,909.69 net of the assets) at 31 December 2011 (12,640,737.98 euros in 2010).

The changes in the present value of the obligation in the reporting periods ended on 31 December 2011 and 2010 are described below:

	2011	2010
Opening balance – defined benefit obligation	**47,786,569.00**	**48,900,000.00**
Current service cost	233,000.00	249,000.00
Interest cost	2,030,000.00	2,419,000.00
Actuarial (gains)/losses	(2,476,806.28)	24,706.83
Benefits paid	(5,213,600.97)	(5,559,000.00)
Present value of early retirements in the period	584,000.00	1,752,862.17
Closing balance – defined benefit obligation	**42,943,161.75**	**47,786,569.00**

The changes in the fair value of the plan's assets were the following:

	2011	2010
Opening balance – fair value of the fund's assets	**36,267,749.00**	**35,043,000.00**
Expected return on the assets	1,584,415.36	1,785,000.00
Actuarial gains/(losses)	(1,616,130.68)	(593,910.00)
Contributions to the fund	1,312,642.68	2,069,659.00
Benefits paid	(2,188,415.36)	(2,036,000.00)
Closing balance – fair value of the fund's assets	**35,360,261.00**	**36,267,749.00**

The main asset classes in the fund are detailed below:

	2011	2010
Equity instruments	11,528,243.50	11,421,233.51
Debt instruments	22,243,485.47	19,017,987.43
Property	-	-
Other	1,588,532.47	5,828,528.06
	35,360,261.44	36,267,749.00

19. PROVISIONS

Provisions in the reporting periods ended on 31 December 2011 and 2010 are detailed below:

	2011				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Ongoing litigation	213,958.83	60,771.64	(114,613.11)	(14,347.80)	145,769.56
Workplace accidents	149,986.30	4,591.38	-	-	154,577.68
Other provisions	1,671,999.78	-	(100,000.00)	-	1,571,999.78
	2,035,944.91	65,363.02	(214,613.11)	(14,347.80)	1,872,347.02

	2010				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Ongoing litigation	10,946,843.16	16,897.35	(10,749,781.68)	-	213,958.83
Workplace accidents	141,572.34	8,413.96	-	-	149,986.30
Other provisions	1,861,999.78	100,000.00	(290,000.00)	-	1,671,999.78
	12,950,415.28	125,311.31	(11,039,781.68)	-	2,035,944.91

On 15 February 2011 the Company signed an addendum to a cooperation agreement with the Lisbon municipality ("CML") whereby the Company ceased to have any responsibility for the payment of any fines or late-payment interest associated with subsoil rights relating to previous years. The provisions of the addendum had been approved by both entities in 2010.

Following this event the provision of 10,675,024.28 euros made in previous periods against the obligation to pay the aforementioned interest charges and fines was reversed in the period ended on 31 December 2010.

"Other provisions" is intended to cover the risks arising from the Company's operations.

20. STATE AND OTHER PUBLIC ENTITIES

At 31 December 2011 and 2010 the heading "State and other public entities" had the following composition::

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Personal income tax		266,000.07	-	327,718.59
Value added tax	-	285,438.95	-	278,807.20
Social Security contributions	-	491,073.88	-	538,677.71
Levy on water resources	-	3,375,887.41	-	3,459,634.91
	-	4,418,400.31	-	4,604,838.41

Effective from 2010 the Company became liable to pay tax under the special taxation regime for groups of companies. Therefore the estimated income tax after deduction of advance payments and withholdings became an account payable to parent AdP SGPS (Note 16).

21. REVENUE

Revenue recognised by the Company at 31 December 2011 and 2010 is detailed below:

	2011	2010
Sale of water and service fee	145,650,069.25	145,447,750.46
Rendering of services	1,388,076.01	2,006,968.24
	147,038,145.26	147,454,718.70

22. SUPPLIES AND SERVICES

"Supplies and services" for the periods ended on 31 December 2011 and 2010 is detailed below:

	2011	2010
Power	11,171,426.86	9,784,240.05
Specialist services	6,052,224.44	7,375,102.67
Maintenance and repair	4,978,179.81	6,731,718.97
Communications	1,515,604.54	1,981,991.75
Leases	1,362,449.00	1,299,382.02
Insurance premiums	1,011,814.14	1,160,116.57
Subcontracting	970,025.33	1,163,470.72
Security	868,075.71	971,043.74
Fuel	657,555.98	552,606.58
Cleaning, hygiene and comfort	630,360.30	696,439.27
Advertising	249,496.68	513,416.09
Other supplies and services	5,675,459.72	7,001,539.64
	35,142,672.51	39,231,068.07

23. STAFF EXPENSES

"Staff expenses" for the periods ended on 31 December 2011 and 2010 is detailed below

	2011	2010
Remuneration of the governing bodies	389,767.69	469,419.66
Employee remuneration	17,620,757.93	21,048,488.95
Post-employment benefits		
Defined contribution (Note 18)	502,742.10	510,923.10
Defined benefit and early retirement (Note 18)	1,088,000.00	2,631,000.00
Severance pay	88,367.00	161,928.57
Payroll charges	4,129,052.40	4,857,133.25
Workplace insurance and disease	84,854.22	107,346.70
Expenses for philanthropy	1 ,524,009.31	1,508,775.86
Training	235,234.00	292,590.82
Other	87,901.67	64,134.44
	25,750,686.32	31,651,741.35

The average number of staff at the Company's service was 743 at 31 December 2011 and 750 at 31 December 2010.

24. OTHER INCOME AND GAINS

The composition of "Other income and gains" in the periods ended on 31 December 2011 and 2010 is given below:

	2011	2010
Additional income	2,815,076.08	2,231,013.66
Income and gains on non-financial investments	83,141.61	98,997.91
Inventory gains	9,536.54	-
Favourable exchange differences	291.27	558.40
Income-related grants	-	7,027.91
Other	164,820.55	59,878.56
	3,072,866.13	2,397,476.44

Item "Additional income", which amounts at 31 December 2011 and 2010 to 2,815,076.08 euros and 2,231,013.66 euros, respectively, includes primarily: (i) service related to the Aquamatrix software for 1,722,527.46 euros (1,688,296.88 euros in 2010) and (ii) sanitation fees of 328,329.16 euros (326,584.80 euros in 2010).

25. OTHER EXPENSES AND LOSSES

The composition of "Other expenses and losses" in the periods ended on 31 December 2011 and 2010 is shown below:

	2011	2010
Taxes and levies	938,073.22	1,162,450.75
Damages for bursts	104,626.61	169,451.38
Donations	56,410.79	193,538.78
Membership fees	27,942.17	34,888.00
Other	260,412.21	167,632.88
	1,387,465.00	1,727,961.79

26. DEPRECIATION

The composition of "Depreciation and amortisation expenses/reversals" in the periods ended on 31 December 2011 and 2010 is given below:

	2011	2010
Tangible fixed assets (Note 6)	24,309,953.47	23,433,570.52
Investment properties (Note 7)	94,778.98	100,513.26
	24,404,732.45	23,534,083.78

27. INTEREST AND OTHER SIMILAR INCOME AND EXPENSE

Interest, dividends and other similar income recognised in the periods ended on 31 December 2011 and 2010 are detailed below:

	2011		2010	
Interest earned:				
Deposits at credit institutions	3,219,422.12		1,225,914.19	
Other	471.99	3,219,894.11	1,738.11	1,227,652.30
Other similar income		456,663.75		231,656.23
		3,676,557.86		1,459,308.53

Financial expense and losses recognised in the periods ended on 31 December 2011 and 2010 are detailed below:

	Notes	2011	2010
Interest payable:			
Bank borrowings	3.17	5,846,560.98	4,345,596.05
Other borrowings		4,837.93	1,057.29
		5,851,398.91	4,346,653.34

28. RELATED PARTIES

The Company is wholly owned by AdP SGPS into which its financial statements are consolidated.

Associates

Company	Head office	Equity interest, %	Equity	Net profit	Carrying amount	Adjustments	Net amount
Fundec	Lisboa				1,500.00	-	1,500.00

Changes

	Opening balance	Increases	Reductions	Closing balance
Equity interest in group companies	250,000.00	-	-	250,000.00
Equity interest in other associates	1,500.00	-	-	1,500.00
Impairment losses	(250,000.00)	-	-	(250,000.00)
	1,500.00	-	-	1,500.00

Transactions with group companies at 31 December 2011:

	Sales and rendering of services	Intra-group rendering of services	Financial gains	Intra-group acquisition of services
AdP SGPS	-	3,271.22	-	2,715,805.13
AdP Serviços	3,102.02	-	-	1,094,208.13
Aquasis	-	-	-	99,130.00
Águas do Centro	808,857.04	-	-	-
Águas Oeste	11,047,059.99	-	168,539.20	-
Sanest	-	1,050.00	-	-
Simtejo	144,006.19	-	-	-
Águas do Centro Alentejo	-	4,626.01	-	-
Águas Algarve	-	96,181.00	-	-
Águas do Noroeste	476.50	446.99	-	-
Águas S. André	-	18,626.82	-	-
Águas da Região de Aveiro	-	168,214.59	-	-
E.G.F.	-	-	-	2,974.36
Valorsul	10,113.23	-	-	-
AdP Internacional	-	-	-	-
	12,013,614.97	292,416.63	168,539.20	3,912,117.62

Transactions with group companies at 31 December 2010:

	Sales and rendering of services	Intra-group rendering of services	Financial gains	Intra-group acquisition of services
AdP SGPS	-	-	-	2,739,240.93
AdP Serviços	2,639.87	-	-	1,059,773.85
Aquasis	-	-	-	2,100.00
Águas do Centro	123,615.24	-	-	-
Águas Oeste	7,514,453.32	-	126,888.16	-
Simtejo	69,276.39	2,100.00	-	-
Águas do Norte Alentejano	-	2,481.25	-	-
Águas do Centro Alentejo	-	9,149.12	-	-
Águas Algarve	-	95,573.04	-	-
Águas do Noroeste	-	604.04	-	-
Águas S. André	-	18,222.75	-	-
Águas da Região de Aveiro	-	47,066.43	-	-
E.G.F.	-	-	-	7,363.39
Valorsul	21,512.21	-	-	-
AdP Internacional	-	178,949.52	-	-
	7,731,497.03	354,146.15	126,888.16	3,808,478.17

Balances with group companies at 31 December 2011:

	Clients	Suppliers	Other debtors	Income accrual	Expense accrual	Other accounts payable (Note 16)
AdP SGPS	-	485,137.20	1,018.51	-	36,292.69	8,681,576.41
AdP Serviços	677.35	57,777.49	-	-	3,173.13	-
Aquasis	-	18,615.61	-	-	-	-
Águas do Centro	124,196.41	-	-	-	-	-
Águas Oeste	1,835,113.15	-	11,024,084.83	2,761,429.33	-	-
Simtejo	10,758.68	-	-	-	-	-
Águas Algarve	-	-	88,726.98	-	-	-
Águas do Noroeste	549.80	-	-	-	-	-
Águas S. André	-	-	1,917.41	-	-	-
Águas da Região de Aveiro	-	-	34,796.34	-	-	-
Valorsul	492.36	-	-	-	-	-
AdP Internacional	169,563.17	-	-	-	-	-
	2,141,350.92	561,530.30	11,150,544.07	2,761,429.33	39,465.82	8,681,576.41

Balances with group companies at 31 December 2010:

	Clients	Suppliers	Other debtors	Income accrual	Expense accrual	Other accounts payable (Note 16)
AdP SGPS	-	223,759.45	-	-	6,367.54	6,139,852.09
AdP Serviços	335.29	76,520.01	-	-	61,094.18	-
Aquasis	-	129,910.15	-	-	105,900,00	-
Águas do Centro	60,225.90	-	-	-	-	-
Águas Oeste	627,701.15	-	11,525,179.60	1,102,026.80	-	-
Simtejo	5,431.82	-	-	-	-	-
Águas do Norte Alentejano	3,462.36	-	-	-	-	-
Águas do Centro Alentejo	2,711.91	-	-	-	-	-
Águas Algarve	-	-	28,693.04	-	-	-
Águas S. André	-	-	1,806.86	-	-	-
Águas da Região de Aveiro	-	-	19,561.39	-	-	-
Valorsul	1,325.11	-	-	-	-	-
AdP Internacional	169,563.17	-	-	-	-	-
	870,756.71	430,189.61	11,575,240.89	1,102,026.80	173,361.72	6,139,852.09

29. CONTINGENT LIABILITIES AND GUARANTEES DELIVERED

Contingent liabilities

The Company conducted a thorough review of its exposure to risks and contingencies, whereupon it made provisions it considered to be adequate. In this review no other obligations were identified that should be disclosed as contingent liabilities.

Guarantees

At 31 December 2011 and 2010, the Company had taken on the following obligations on account of guarantees delivered:

	2011	2010
Municipalities	-	29,615,686
European Investment Bank (Note 16)	25,651,718	12,564,880
Courts of law	5,433,496	5,433,496
Other	274,604	264,304
	31,359,818	47,878,366

30. DISCLOSURES REQUIRED BY LAW

Chairperson	Attendance fee of €633.4
Vice-chairperson	Attendance fee of €475.0
Secretary	Attendance fee of €316.7

Remuneration and benefits of the board of directors

	Chairman João Fidalgo	Executive director Bento Franco	Executive director Manita Vaz	Executive director Rui Godinho
1. Remuneration				
1.1. Annual basic remuneration, €	a)	110,250	110,250	110,250
1.2. Remuneration following from Lei 12-A/2010, €	a)	5,513	5,513	5,513
1.3. Remuneration following from Lei 55-A/2010, €	a)	10,473	10,473	10,473
1.4. Effective annual remuneration, €	a)	94,263	94,263	94,263
1.5. Attendance fee, €	a)	N	N	N
1.6. Accumulation of management roles, €	a)	N	N	N
1.7. Variable remuneration, €	a)	N	N	N
1.8. Free working hours, €	a)	N	N	N
1.9. Other, €	a)	N	N	N
2. Other benefits				
2.1. Annual ceiling on mobile communications, €	2,095	2,095	2,095	2,095
2.2. Expenses in the use of mobile communications, €	67	592	656	597
2.3. Travel allowance, €	a)	N	N	N
2.4. Meal allowance, €	a)	1,590	1,590	1,590
2.5. Other, €	a)	N	N	N
3. Charges on account of benefits				
3.1. Social protection, €	a)	6,158	14,649	14,649
3.2. Health insurance, €	a)	985	712	N
3.3. Life insurance, €	a)	2,098	2,264	N
3.4. Personal insurance, €	a)	N	N	N
3.5. Other, €	a)	N	N	N

4. Company cars	a)			
4.1. Make	a)	AUDI	BMW	CITROEN
4.2. Model	a)	A4 2,0 TDI	320D	CS 2,0 HDI
4.3. Registration number	a)	40-GZ-57	75-GX-17	67-GV-85
4.4. Mode of use	a)	AO	AO	AO
4.5. New-car price reference, €	a)	36,748.64	35,280.95	34,190.06
4.6. Start	a)	2008	2008	2008
4.7. End	a)	2012	2012	2012
4.8. Number of lease payments	a)	48	48	48
4.9. Residual value, €	a)	22,414.22	19,700.41	18,456.06
4.10. Annual leasing cost, €	a)	8,021.88	7,710.36	8,175.49
4.11. Fuel costs, €	a)	2,787.83	2,613.75	3,840.06
4.12. Ceiling on fuel costs, €	a)	N	N	N
4.13. Other	a)	N	N	N
4.13.1. Car insurance, €	a)	627.29	601.31	555.18
4.13.2. Car maintenance, €	a)	166.61	530.12	2,211.80
4.13.3. Car parking, €	a)	5.80	4	N
4.13.4. Tolls, €	a)	683.38	260.53	673.42
5. Additional information				
5.1. Option of remuneration from original employer	a)	N	N	N
5.2. Gross annual remuneration from original employer	a)	N	N	N
5.3. Social protection regime	a)			
5.3.1. Social security	a)	S	S	N
5.3.2. Other	a)	N	N	ADSE
5.4. Paid positions outside the group	a)	N	N	N
5.5. Other	a)	N	N	N

a) The role of chairman of the board of directors was accumulated with the role of executive director of AdP – Águas de Portugal, SGPS, SA, implying that the parent company took on the cost of remuneration and benefits. More information on this can be found in AdP's annual report.

Fees agreed with the statutory auditor

The fees – before VAT – agreed with the statutory auditor for the reporting periods ended on 31 December 2011 and 2010 are detailed below:

	Invoiced fees	
Type of services	2011	2010
Legal audit of the annual accounts	32,825.00	22,845.00
Other services of reliability certification	11,900.00	10,200.00
Tax advisory	12,500.00	30,700.00
	57,225.00	63,745.00

31. EARNINGS PER SHARE

Earnings per share for the reporting periods ended on 31 December 2011 and 2010 were calculated as follows:

	2011	2010
Profit:		
Net profit for the period	42,555,549.69	45,887,091.77
Number of shares		
Weighted-average number of shares outstanding	30,000,000	30,000,000
Earnings per share, basic	1,42	1,53

The financial manager and chief accountant

Daniela Marina Alves Fernandes Valle Santos

The board of directors

José Manuel Leitão Sardinha

Maria do Rosário da Silva Cardoso Águas

Maria do Rosário Mayoral Robles Machado Simões Ventura

Report and opinion of the sole auditor

António Dias Nabais
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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 presents his annual activity report and gives his opinion on the legal certification of accounts, the management report and the proposed appropriation of net profit for 2011.

1. REPORT

In the fulfilment of his duties, the sole auditor followed the company's management of critical activities using as his basic tools of analysis the company's monthly financial statements, its capital expenditure programme and its financial performance indicators. Commercial and operating management information was also reviewed including the water balance, the maintenance of water infrastructure with a bearing on customer supply, and human resource indicators. Throughout the reporting period quarterly reports were prepared on management activities, with an emphasis on key sectors of the company.

To achieve his proposed goals, the sole auditor performed primarily the following tasks:

- Verification of the company's title to the goods and property that are part of its assets; in this regard, it was found that the company's tangible fixed assets are carried at acquisition or production cost while land and buildings have been revalued at fair value on the date of adoption of IAS/IFRS; depreciation and amortisation of 24.4 million euros were expensed in the reporting period on a straight-line, monthly basis at the top rates for the assets' estimated economic life.

- Verification of the adequacy and consistency of adopted accounting policies and asset valuation criteria used in the preparation of financial statements, which are adequately disclosed in the notes to the financial statements, for appropriately stating the company's financial position and the result of its operations in 2011.

- Control of annual budgets, comparing actual outcomes with budgeted and previous-year data; based on these criteria, we found that the operating budget was satisfactorily executed; turnover had a 1.6% shortfall against budget and a minor variance year on year; operating profit (EBIT) had a favourable variance of 1.5% against budget and a negative change of 2.1% year on year; another favourable outcome was the year-on-year change of 10.1% in operating cash flow (EBITDA), which amounted to 86.5 million euros.

António Dias Nabais
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- Review of capital expenditure execution, which was found to be 41% of budget, with the shortfall probably being, to a certain extent, a result of the guidelines arising from the stability and growth plan for 2011; in this context, the company gave priority to expenditure on enhancing the capacity, reliability and security of water supply systems, which absorbed 84% of the total.

- Analysis of the company's water cycle across its abstraction, treatment and invoicing stages whereby it was found that annual volumes have evidenced a downward trend since 2009, with water sold decreasing the least in 2011 – 1.6%; municipal clients and, to a lesser extent, direct clients weighed on sales as invoicing to multi-municipal clients grew 21% year on year; non-invoiced water (losses) in 2011 was 10%, implying a reduction in losses of 4.5 million cubic metres; in view of known data, this 10% level can be considered one of the lowest ever achieved by the company.

- Review of EPAL's financial position whereby it was found to be more solid and balanced in 2011 on the back of improved liquidity, solvency, self-financing ability and borrowing capacity; in our opinion EPAL's financial position can support sustained growth under excellent operating conditions; this is borne out by the 10.1 million euro rise in recurring EBITDA in 2011 although turnover remained stable.

- We emphasise the importance of the company's strategy in raising service quality while maintaining a sustainable financial profile, coupled with a fair and adequate return on capital employed; the action taken to raise operational efficiency through the implementation of a quality management system has vindicated the current management model, driving improved results.

- We have noted that the company has covered its pension obligations well considering that it has achieved a coverage of 122%, according to the rules of the Portuguese insurance institute (ISP), for its defined benefit plan; the company's contribution in 2011 amounted to 1.3 million euros.

- Our opinion is that the management report is in formal accordance with the financial statements and that the proposed appropriation of net profit complies with the requirements of the Companies Code, namely regarding the allocation of profit to free reserves.

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2. OPINION

The sole auditor agrees with the legal certification of accounts issued by Deloitte & Associados, SROC S.A. and his opinion is that

- the management report and accounts of 2011 and
- the proposed appropriation of net profit

should be approved by the general meeting as proposed by the board of directors.

Lisbon, 19 March 2012

The Sole Auditor

(António Dias Nabais)

Legal Certification of the Accounts

Deloitte.

Deloitte & Associados, SROC S.A.
Inscrição na OROC nº 43
Registo na CMVM nº 231

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LEGAL CERTIFICATION OF THE ACCOUNTS

Introduction

1. We have reviewed the financial statements of EPAL - Empresa Portuguesa das Águas Livres, S.A. hereto appended, consisting of the statement of financial position at 31 December 2011 evidencing a total of 902,162,860 euros and equity of 524,414,751 euros including net profit of 42,555,550 euros, the separate income statement and the statements of comprehensive income, of changes in equity and of cash flows for the reporting period ended on the aforementioned date, as well the notes to the financial statements.

Responsibilities

2. It is the board of directors' responsibility to prepare such financial statements that truly and appropriately present the Company's financial position, the result and comprehensive income of its operations, the changes in its equity and cash flows, to adopt adequate accounting policies and principles and to maintain an appropriate internal control system. Our responsibility is to express a professional and independent opinion based on the review of these financial statements.

Scope

3. Our review was conducted in accordance with the technical standards and auditing guidelines of the Portuguese Institute of Chartered Accountants, which require the review to be planned and executed with a view to obtaining an acceptable degree of confidence that the financial statements are free of material distortions. This review includes the verification on a sampling basis of the support for the amounts and disclosures in the financial statements and the appraisal of the estimates, based on the judgments of and criteria set by the board of directors, used in their preparation; this review also includes an appraisal of the adequacy of the adopted accounting policies and their disclosure, considering the circumstances, a verification of the applicability of the continuity principle and an appraisal of the overall adequacy of the presentation of financial statements; our review also verified the conformity of the financial information in the management report with the financial statements. We consider that our review has provided an acceptable basis for our opinion.

Deloitte.

Deloitte & Associados, SROC S.A.
Inscrição na OROC nº 43
Registo na CMVM nº 231

Opinion

4. In our opinion, the financial statements referred to in paragraph 1 above truly and appropriately present, in all materially relevant aspects, the financial position of EPAL - Empresa Portuguesa das Águas Livres, S.A. at 31 December 2011, the result and comprehensive income of its operations, the change in equity and cash flows in the reporting period ended on that date, in compliance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal requirements

5. It is also our opinion that the financial information in the management report is in accordance with the financial statements for the reporting period.

Lisbon, 14 March 2012

Deloitte & Associados, SROC S.A.
Represented by João Luis Falua Costa da Silva