EPAL
Grupo Águas de Portugal

ANNUAL REPORT & ACCOUNTS 2013

EPAL
Grupo Águas de Portugal

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

Annual Report and Accounts **2013**

Corporate Governance

The Company's Activity

Accounts

Table of Contents

Chairman's Statement

José Sardinha
Chairman of the Board of Directors

...EPAL responded with a marked increase in efficiency, implementing several optimisation measures...

...we should also highlight an increase in productivity...

2013 was a very important year for EPAL.

The reduction of its activity, as a result of a contraction in water consumption, required EPAL to implement a strategy that could adjust its cost structure, namely in terms of operating costs, to a new income level.

At the operational level, there was a 3.2% decrease in water supply, to a value below 200 million cubic meters, a situation that had not been recorded since 1997.

In view of this decrease, EPAL responded with a strong increase in efficiency, implementing several optimisation measures that resulted in a considerable reduction of costs associated to supplies and services, of about 7%, in addition to a 20% reduction in consumed materials. In this context, we should also highlight the increase of productivity inherent to the internalisation of various services that were previously outsourced.

In terms of human resources, it is important to underline that the company reduced its staff by 42 employees, mostly through mutually agreed terminations, corresponding to a 6% change. This value doubles the target imposed by the 2013 State Budget Law. With this change, for the first time in EPAL's history, the number of employees was less than 700.

These changes, associated with good financial performance, allowed achieving a net income of €40M, which is excellent, considering the increase in staff costs as a result of the decision made by the constitutional court and of the mutually agreed termination programme.

The volume of non-invoiced water in the Distribution Network, which was already one of the best at an international level, has further improved, representing only 7.9% of the water that enters the system. With this indicator, EPAL consolidated its international benchmark position, establishing itself as one of the world's leading companies in terms of the efficient management of water resources and best practices for the reduction of non-invoiced water.

2013 was also marked by the granting of important international and national awards to EPAL, which are the recognition of the company's innovative capacity and of the merit and excellence of its employees who, over the last 145 years, developed and rooted a culture focused on the continuous improvement of the company's services, products and processes, generating value for the organisation, the sector and the Country.

A good example of this attitude is Waterbeep, an innovative service that was fully designed and developed by EPAL during 2013. It is intended to promote interaction with the customers/consumers, encouraging them to adopt good practices in terms of the control and reduction of their water consumption levels, thus contributing to the implementation of responsible environmental protection policies, namely concerning the efficient use of existing resources. Aquamatrix, Wone and CAL - Chave Águas Livres - are other good examples of innovative technologies fully designed and developed by the company, which, being launched on the market, add unquestionable value for the industry and for the stakeholders, allowing all to take advantage of EPAL's experience and knowledge.

We must also highlight a few highly significant achievements, such as the implementation of a Social Tariff for the first time in the company's 145-year history and the reactivation of the Carlos Pereira Relief Fund, whose management relies on the participation of members from the Workers Committee, with the goal of supporting employees in need of social support.

In 2013, we also prepared for the future and, therefore, we created the Águas Livres Academy, whose goal is to contribute for the certified training offer in the water and environment sector. This is a strong investment made by EPAL on the qualification of its employees, which also contributes, thanks to a close collaboration with the IEFP, to the qualification of active professionals and the integration and employability of young unemployed people.

All the work, performance and success achieved by EPAL throughout 2013 is due, above all, to a close collaboration between the company's governing bodies and the employees, who managed to respond to the challenges posed and whose professionalism, competence and commitment to the fulfilment of their tasks were not reduced or compromised by the enormous difficulties they felt as a result of the financial assistance programme.

Thus, we wish to express our special thanks and recognition to all those who work at EPAL, for their competence and professionalism and, especially, to the employees' representatives, who knew how to be demanding and rigorous in the protection of their rights, contributing for the excellent public service we are proud to provide; So, it is with satisfaction, confidence and great motivation that we are ready to respond to one more year of work, focused on the creation of value, at EPAL and, above all, on providing an excellent service to the consumer.

Lastly, a word of appreciation to our suppliers, who knew how to respond in a professional and prompt way to EPAL's demanding quality standards, and to our customers, for their spirit of collaboration and understanding.

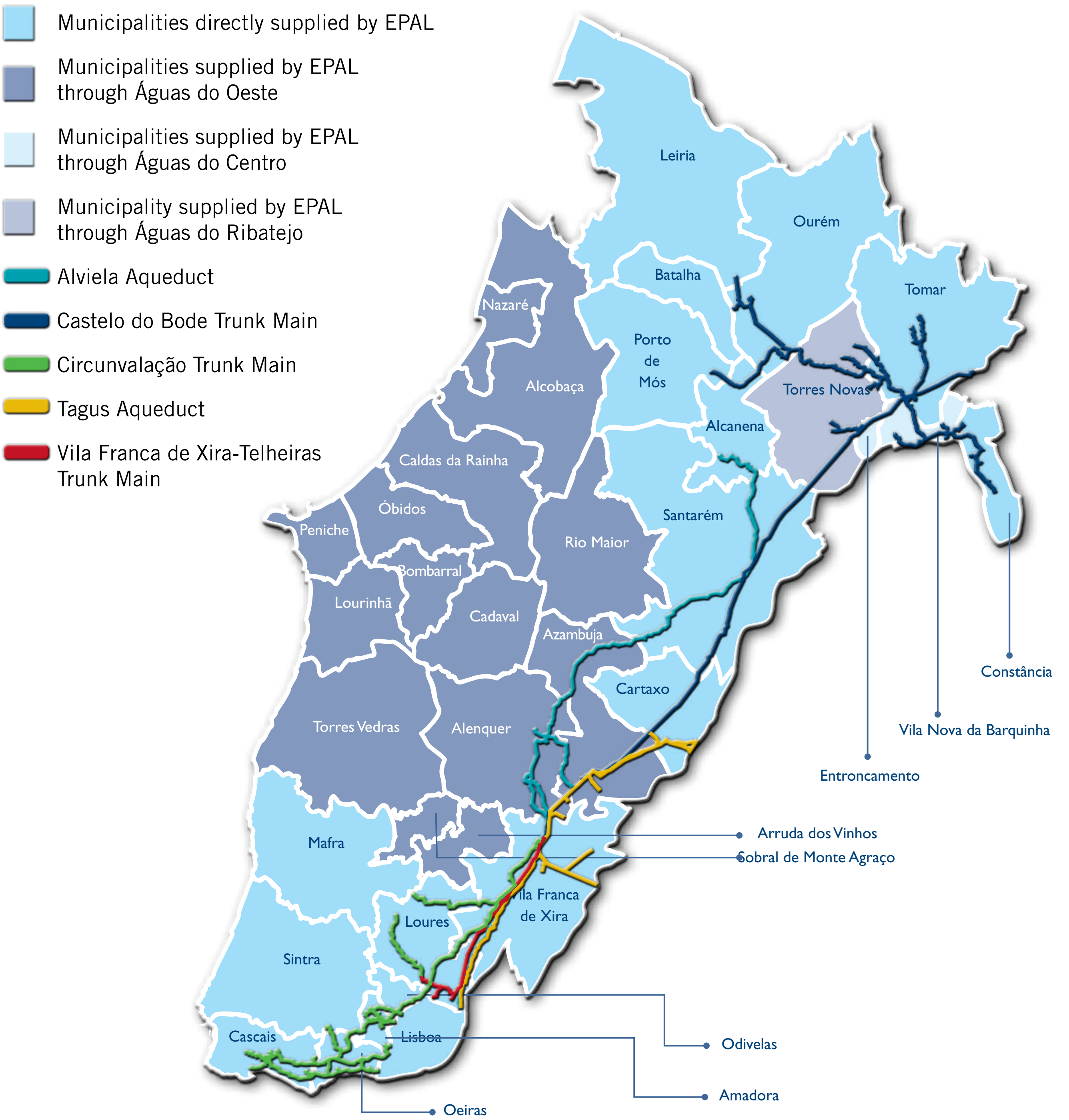
I also wish to thank the shareholder, whose attitude of constant collaboration and support was a key incentive to our performance.

...EPAL consolidated its international benchmark position, establishing itself as one of the world's leading companies in terms of the efficient management of water resources and best practices for the reduction of non-invoiced water.

The Company

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

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



Shareholder

Águas de Portugal was established in 1993, under private commercial law, with Parpública – Participações Públicas, SGPS, SA, and Parcaixa, SGPS, SA, as its shareholders.

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

Financial Indicators

	2011	2012	2013	Change 13/12	
Share capital (10^6 €)	150,0	150,0	150,0	0,0	0,0%
Equity (10^6 €)	524,4	535,2	536,3	1,0	0,2%
Total Net Assets (10^6 €)	902,2	883,8	863,7	-20,0	-2,3%
Total Liabilities (10^6 €)	377,7	348,5	327,5	-21,1	-6,0%
Turnover (10^6 €)	147,0	144,2	143,1	-1,1	-0,8%
COGS (10^6 €)	2,9	2,9	2,3	-0,6	-20,5%
Supplies and services (10^6€)	35,1	34,5	32,1	-2,4	-7,0%
Capital expenditure (10^6 €)	12,0	13,1	6,6	-6,4	-49,3%
Medium- and long-term debt (10^6 €)	222,4	205,2	187,4	-17,8	-8,7%
EBITDA (10^6 €)	86,5	87,5	81,4	-6,1	-7,0%
Recurrent EBITDA (10^6 €) *	86,5	87,5	84,9	-2,7	-3,1%
Net Profit for the Period (10^6 €)	42,6	43,6	40,0	-3,6	-8,3%
Recurrent Net Profit for the Period (10^6 €)*	42,6	43,6	42,3	-1,3	-2,9%
Evolution of the Number of Employees	739	736	694	-42	-5,7%
Average Payment Term (APT) (days)	31	30	30	0	0,0%

Note: In the financial information of the management report, 2012 was only restated due to the adoption of the revised IAS19 standard

Activity Indicators

	2011	2012	2013	Change 13/12	
Volume of Water sold (m^3)	210 286 101	205 210 051	198 667 724	-6 542 328	-3,20%
Direct Customers	348 790	346 121	347 233	1 112	0,32%
Municipal Customers	17	17	17	0	0,00%
Multi-municipal Customers	3	3	3	0	0,00%
Directly and Indirectly Supplied Municipalities*	34	34	34	0	0,00%
Consumers	2 870 314	2 870 507	2 859 714	-10 793	-0,38%
Supplied Area (km^2)	7 090	7 090	7 090	0	0,00%

* Excluding Lisbon

Main Events

2013 was characterised by an important 3.2% reduction in water consumption against 2012, a circumstance that was similar across the entire Country and strengthened the need felt by our managing bodies to reduce costs in order to remunerate the capital employed, while maintaining appropriate Customer service levels. We highlight our particular focus on the optimisation of processes, on the rationalisation of resources and on the increase of the efficiency of the systems in operation. EPAL achieved a very significant optimisation in terms of Supplies and Services, with a reduction of 2.4 million euros (-7%), and of 0.6 million euros (-21%) in COGS, in comparison with 2012.

We must also point out the significant reinforcement in our investments on innovation and on the development of new marketable processes, technologies and products with export potential, such as **AQUAMATRIX®**, which not only attracted new customers, but also gave way to our technological migration/update process. In turn, **WONE®** gained national and international recognition, having received three awards in 2013.

In 2013 we launched an innovative service; **Waterbeep®**, which was fully conceived and developed by EPAL. It provides information on actual water consumption levels to our Direct Customers, allowing them to monitor their evolution over time and compare it with the actual average water consumption level in the city of Lisbon. It also provides an alert service that issues warnings in case of deviating consumption levels.

2013 was also marked by the creation of the **Águas Livres Academy**, which, benefiting from the significant financial support provided by IEFP, aims at promoting the qualification of EPAL's staff and active professionals, as well as young people who are interested in the Water and Environment market.

In terms of innovative initiatives, we highlight the planning and implementation of the **Water Tasting Course**, which has proven to be a huge success, with each edition being completely full.

We created and implemented the **Social Tariff**, an extremely important and unprecedented initiative in the company's 145 years of history.

2013 is marked as the year in which the company received the largest number of relevant international and national awards, such as the **WEX (Water and Energy Exchange) Global Award for Innovation**, the **Green Project Award**, the **ENEG award for the reduction of water losses** for the WONE system, an honourable mention for the campaign "Vamos dar o Litro" (Let's Give It All), the **Água & Ambiente/ ERSAR award** for knowledge in the area of infrastructures and the **ERSAR Exemplary Quality Seal for Water Distributed for Human Consumption.**

There was a great effort to optimise processes and teams, which allowed **internalising a few services that were previously outsourced**, with clear economic benefits, such as in the case of the inspection of building networks. This optimisation also allowed the company to achieve a reduction of 42 employees in comparison with 2012, which corresponds to a 6% change, that is, a value that doubles the target imposed by the 2013 State Budget Law, and that was mostly accomplished through the mutually agreed termination programme.

We must also point out the approval of a plan for the optimisation of the company's vehicle fleet, involving a reduction by 34 vehicles, in comparison with 2012.

The Application submitted in 2012 by the company to the Agency for Innovation, within the scope of the Tax Incentive System for Corporate Research and Development (SIFIDE), for the period between 2007 and 2011 was approved, corresponding to a total tax benefit of about 1.348 million euros, and a new application was submitted with regard to 2012, whose estimated tax benefits amount approximately to 235 thousand euros.

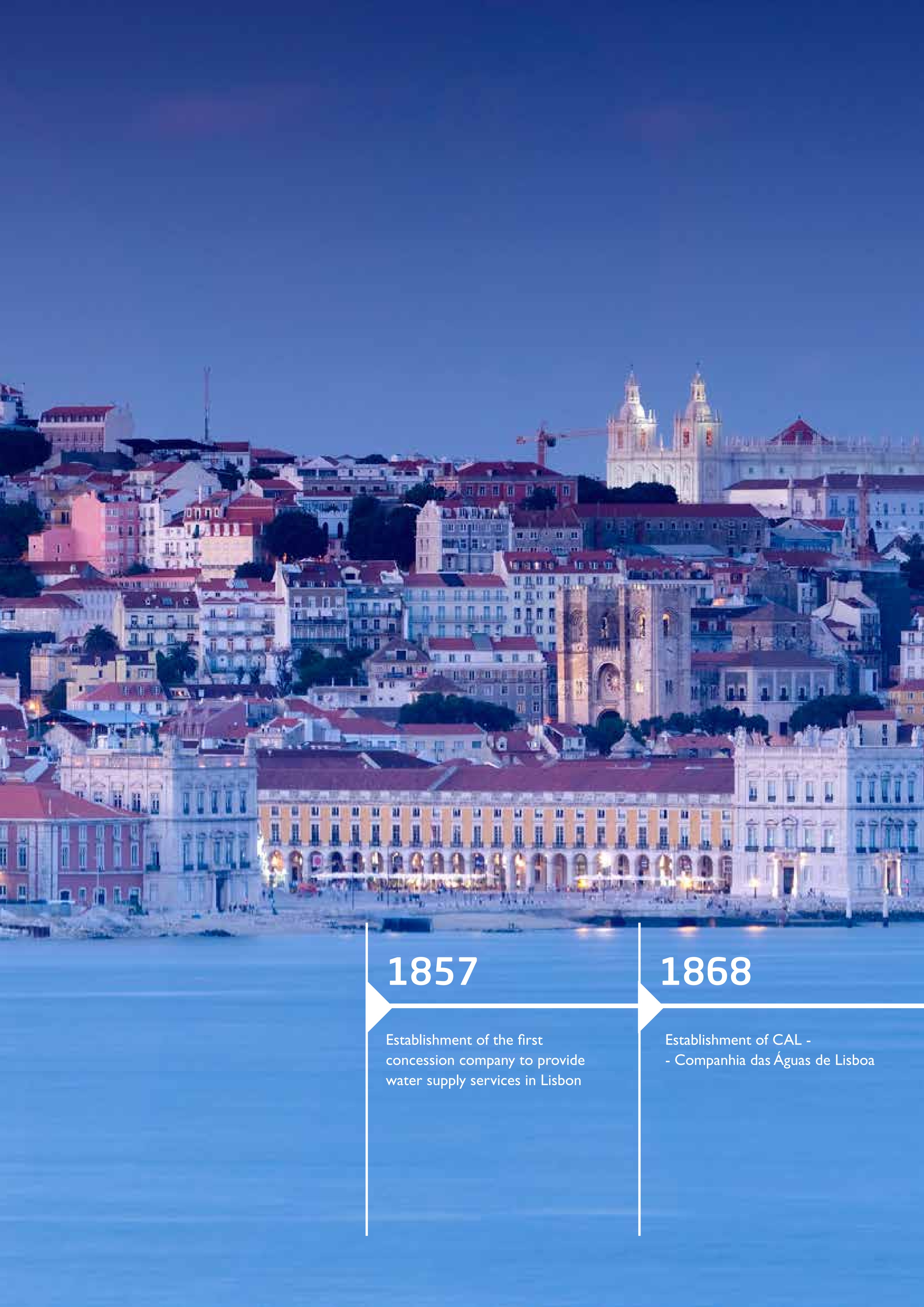
We organised and presented a process to submit the investments on assets assigned to operating activities for tax purposes within the scope of the Extraordinary Tax Credit for Investments (CFEI), which will allow EPAL to benefit from total tax deductions estimated at approximately 1 million euros, the maximum amount permitted.

We highlight the launch of the project for the rehabilitation of the Vale da Pedra WTP, awarded for €13 M, which represents a significant optimisation, in comparison with the tender that was cancelled (40 M€). We also started to implement, resorting to internal means, the technological reconversion of the company's chlorination stations, which will bring economic advantages but, above all, eliminate risks and dangers for the employees and the surrounding communities.

The General Project for the Rehabilitation and Extension Works in Lisbon's Distribution Network was awarded for €3,220,500.55.

The decrease in the level of losses in the distribution network reached 7.9%, a fact that proves the excellent performance of the WONE system and consolidates the company's "best in class" position on an international level.

Finally, we highlight the establishment of important cooperation protocols , both nationally and internationally, such as the EPAL SA / EPAL EP protocol (largest water company in Angola), or the EPAL / QUERCUS protocol, which brings together efforts and competences in the area of environmental protection focused on the most important water source in Portugal, or the EPAL / Associação Hoteleira de Portugal Protocol which promotes the customers' trust in the use of tap water in the city of Lisbon, or also the EPAL/ Fundação Arpad-Szenes Vieira da Silva Protocol, and the integration in the Passeios com Arte e Ciência-das Amoreiras ao Chiado (Walks with Art and Science-from Amoreiras to Chiado) museum circuit, which strengthens our relationship with the Water Museum and other important museums in Lisbon.



1857

Establishment of the first concession company to provide water supply services in Lisbon

1868

Establishment of CAL -
- Companhia das Águas de Lisboa

1880

Inauguration of the Alviela Aqueduct and the Barbadinhos steam pumping station

1935

First contract to provide water supply services in other municipalities other than Lisbon

1941

Commissioning of the Cascais Trunk Main

Corporate Governance

1. Mission, Values and Policies

Mission

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

Vision

To be a model Company in the Portuguese Water Sector.

To follow International Best Practices.

Policy

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

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

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

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

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

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

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

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

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

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

Values

EPAL is guided by the following Values:

- Quality, achieved through Innovation, Modernity and Excellence;
- Social responsibility in the rendering of essential public services;
- Sustainability and associated goals, such as management efficiency, environmental protection, respect for human beings and community involvement;
- Customer Orientation, the very reason for the Company's existence;
- Integrity and transparency in relationships with all stakeholders;
- Competence and rigour in decision-making and actions, establishing Trust as the governing principle for all relationships with its diverse audiences;
- Respect for and practice of Lawfulness;
- Continuous advancement of Persons, Knowledge, Processes, Business Practices and Society.

2. Internal and External Regulations

Internal Regulations

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

1. Hygiene Best Practice Code for EPAL'S Supply System
2. Code of Ethics and Conduct
3. SIRE – Integrated Corporate Responsibility System Guide
4. Welcome Guide
5. External Entities Welcome Guide
6. Water Supply Infrastructure Inspection Management Guide
7. Water Supply Infrastructure Inventory Guide
8. Supply System Infrastructure Operation Guide
9. Internal Regulation - Organisational Structure
10. Internal Regulation - Definition of Departments and Responsibilities
11. Internal Regulation - Responsibility Centres
12. Internal Regulation – Delegation of Powers
13. Plan for the Management of Corruption Risks and Related Offences
14. Computer and Communication Equipment Usage Policy
15. Vehicle Allocation and Usage Regulations

Relevant Legislation

The legal acts published in 2013 with an impact on EPAL's activities were the following:

1. Law no. 66-B/2012 of 31 December

   2013 State Budget

2. Law no. 35/2013 of 11 June

   Second amendment to the sector delimitation law

3. Decree-Law no. 82/2013 of 17 June

   Approves tax measures to stimulate investment

4. Law no. 39/2013 of 21 June

   Regulates the resuming of holiday bonuses for public workers

5. Law no. 41/2013 of 26 June

   Approves the Code of Civil Procedure

6. Decree-Law 92/2013 of 11 July

   New scheme for the operation and management of multi-municipal water abstraction, treatment and distribution systems for human consumption.

7. Law no. 54/2013 of 31 July

   Review of the law regarding the organisation, duties and operation of justices of the peace

8. Law no. 59/2013 of 23 August

   Defines the scheme for the disclosure of information about remunerations, supplements and other wage-related components of workers employed by public entities

9. Ordinance no. 277/2013 of 26 August

   Defines the default interest rates under the terms of Decree-Law no. 62/2013 of 10 May

10. Law n° 64/2013 of 27 of August.

    Regulates the obligation to publish benefits granted by the public administration

11. Law no. 67/2013 of 28 de August

    Framework law for regulating entities

12. Law n° 69/2013 of 30 of August.

    Fifth amendment to the Labour Code

13. Decree-Law no. 133/2013 of 3 October

    Legal regime for State-owned companies

14. Law no. 76/2013 of 7 November

    Regime for the extraordinary renewal of fixed-term employment contracts

15. Law no. 78/2013 of 21 November

    Amendment to the regime of the ownership of water resources

3. Information About Relevant Transactions

Procedures adopted in terms of purchase of goods and services

EPAL follows the procedures imposed by applicable legislation currently in force, specifically regarding the public procurement rules enshrined in the Public Procurement Code, approved by Decree-Law no. 18/2008 of 29 January, with the wording provided by Law no. 59/2008 of 11 September, by Decree-Law no. 278/2009 of 2 October, by Law no. 3/2010 of 27 April and by the amendments resulting from Decree-Law no. 149/2012 of 12 July (applicable to procedures initiated after 11 August 2012). The company also follows the procedures set out by Decree-Law no. 107/2012 of 18 May, regarding the duty to inform and the issuance of a prior opinion for the purchase of goods and the rendering of services in the area of information technology and communication.

The AdP group has a shared services unit called AdP Serviços Ambientais, SA, which, based on an in-house relationship model defined by the shareholder AdP SGPS, SA, works as an operational structure for the centralisation of the purchase of certain goods and services.

Universe of transactions that did not occur in market conditions

Not applicable.

Relevant transactions with related entities

- Águas de Portugal group companies: - Please see Note 29 of the Notes to the Financial Statement
- Clube de Golfe das Amoreiras, SA - Please see Note 8 of the Notes to the Financial Statement

Other relevant transactions

List of suppliers whose turnover is over 1 million euros

Entity	Amount w/ VAT (thousand euros)
EDP Comercial, SA	7.211,8
Iberdrola Generácion, SAL	5.233,5
CME - Construção Manutenção Eletromecânica, SA	3.557,0
AdP - Águas de Portugal, SPGS, SA	3.064,8
Câmara Municipal de Lisboa	2.639,3
Oliveiras, SA	1.655,2
AdP - Águas de Portugal, Serviços Ambientais, SA	1.417,4
MDS - Corretor de Seguros, SA	1.195,2

4. Governance Model

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

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

4.1. Governing Bodies

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

General meeting board

Chairman	AMEGA - Associação de Municípios para Estudos e Gestão da Água
Vice-chair	Dra. Ana Cristina Rebelo Pereira
Secretary	Dra. Alexandra Varandas

The General Assembly's minute book includes the records of minutes 41, 42 and 43, drafted in 2013. The first one concerns the unanimous resolution of 10 January that authorised the investment for the project for the rehabilitation and refurbishment of the Vale da Pedra treatment plant. The second one concerns the regular meeting held on 25 March for the approval of the management report, of the accounts and of the proposal for the appropriation of profits pertaining to the financial year 2012. The third one concerns the unanimous resolution of 15 July for the election of the company's Statutory Auditor, following the exit of the previous auditor;

Board of Directors

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

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

Chairman – Eng.º José Manuel Leitão Sardinha

- SG - Company Secretary
- PCG - Management Planning and Control
- DSO - Organisational development
- GIC - Image and communication
- JUR - Legal
- AUD – Internal audit
- DOP - Operations
- Company Representation
- Coordination of Departments and Responsibilities

Executive Director - Dra. Maria do Rosário da Silva Cardoso Águas

- DRH - Human resources
- DGA - Asset management
- DGO - Building site management
- DIR - Network Infrastructure
- LAB - Water quality control
- Employees' Representative Bodies

Executive Director - Dra. Maria do Rosário Mayoral Robles Machado Simões Ventura

- DRC - Customer relations
- DAF - Finance
- DSI - Information systems
- LOG - Logistics
- MDA - Water Museum
- "Águas Livres" Newspaper
- Historical Archives

The board of directors held 44 meetings throughout the year.

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

José Manuel Leitão Sardinha - Chairman of the Board of Directors

With a Degree in Environmental Engineering, in the field of Sanitary Engineering, from the Nova University of Lisbon, he began his professional activity in 1991, providing consultancy in the field of water, waste water and urban solid waste management, having also worked in the Department of Environmental Sciences and Engineering of the Faculty of Sciences and Technology of the Nova University of Lisbon. From 2000 onward, he took up the activity of guest lecturer in the field of water, urban waste water and industrial effluent treatment. Between 1998 and 2002, he also worked at Hidrocontrato, where he held a position in the technical/commercial, production and operations division. In March 2002, he joined the Águas de Portugal Group, as Managing Director of Águas do Oeste, S.A. until November 2004, when he took on a position as a non-executive member of its Board of Directors, until May 2012. He was a member of the Southern Region Environmental Engineering Board of the Portuguese Association of Engineers [Conselho Regional Sul do Colégio de Engenharia do Ambiente da Ordem dos Engenheiros] during the 2004-2007 and 2007-2010 terms.

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

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

Guest Lecturer at the Department of Environmental Sciences and Engineering of the Faculty of Sciences and Technology of the Nova University of Lisbon since September 2000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Maria do Rosário Ventura – Executive Director of the Board of Directors

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

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

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

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

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

Supervisory Body

Sole Auditor - António Dias Nabais

Deputy sole auditor - Severo Praxedes Soares

Remuneration Committee

Chairman – Afonso José Marçal Grilo Lobato de Faria

Executive Director - Paulo Jorge Pinto da Silva

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

Chairman - Carlos Pimenta

Member - Maria Paula Batista Antunes

Member - Manuel Duarte Pinheiro

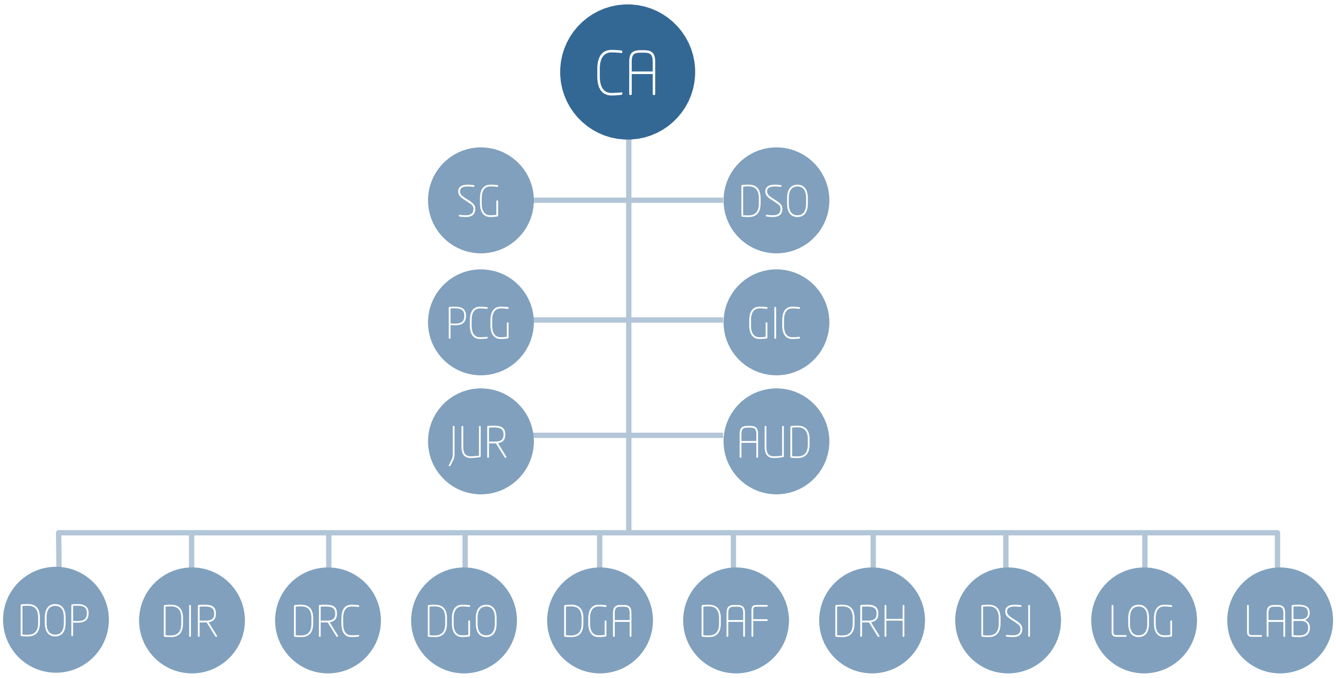
The Sustainability Advisory Board did not hold any meetings in 2013 and did not receive any remuneration.

Statutory Auditor/External Auditor

Effective Statutory Auditor - PricewaterhouseCoopers & Associados, SROC, Lda

4.2. Organisational Structure

ORGANISATIONAL CHART



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

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

• MDA – Water Museum

• Historical Archives

DOP – Operations

Role: Water abstraction, treatment, transportation and distribution, ensuring its quantity and quality. Maintenance of the operational integrity of production assets

Corrective assistance of control instrumentation

Directly subordinate bodies:

FAS - Asseiceira Water Treatment Plant

FAP - Vale da Pedra Water Treatment Plant

RED - Network

UDE – Dispatching Unit

UMD – Mobile Dispatching Unit

DIR – Network infrastructure

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

Management of the implementation of additions to the distribution network

Directly subordinate bodies:

MIV - Vila Franca Maintenance

UMV – Vila Franca Maintenance Unit

ULO – Licensing and Construction Works Unit

MIL - Lisbon Maintenance

UML – Lisbon Maintenance Unit

DRC – Customer relations

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

Directly subordinate bodies:

CLE - Strategic Customer

SCL - Customer Service and Local Assistance

ATD – Customer Service Unit

ASL – Local Assistance Unit

FCG – Invoicing and Collection Unit

MKT – Marketing Unit

NVA – New Supplies Unit

AQUAmatrix Business

DGO – Building site management

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

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

Directly subordinate bodies:

PGO - Project, Supervision and Building Works Management

PRO – Project Management Unit

STE – Technical Services Unit

URB - Urban Infrastructures

OBR – Network Building Works Unit

APO – Administrative Support Unit

DGA – Asset management

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

Directly subordinate bodies:

PLA - Asset Planning Unit

MON - Monitoring Unit

INS - Inspections Unit

MAN - Maintenance

MEQ - Equipment Management Unit

MED - Meter Maintenance Unit

DAF – Financial

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

Directly subordinate bodies:

GEF - Financial Management Unit

CTB – General Accounts and Taxes

PAE – Heritage Assets, Analytics and Studies Unit

DRH – Human resources

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

Directly subordinate bodies:

GPS - Staff Management Unit

MSS - Medicine, Health and Social Activities Unit

DSI – Information systems

Role: Centralised management of the company's technological platforms

Development of Information Systems, as well as the corresponding support technologies. Management of telecommunication technologies

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

Directly subordinate bodies:

UIT - Infrastructures and Telecommunications Unit

UAC - Corporate Applications Unit

LOG – Logistics

Role: Management of stocks and procurement

Management of the fleet and of the range of administrative equipment

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

Directly subordinate bodies:

CGS - Procurement and Stock Management Unit

SGR - General Services Unit

LAB – Quality control

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

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

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

Managing the laboratories' accreditation system

Managing EPAL's Water Safety Plan

Directly subordinate bodies:

UAT - Technical Support Unit

LAC – Central Laboratory Unit

LAS – Asseiceira Laboratory (Functional team)

LVP – Vale da Pedra Laboratory (Functional team)

SG – Company Secretary

Role: Legal role of Company Secretary

Public spokesperson

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

Document management

DSO – Organisational development

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

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

Managing the role centralisation project

GIC – Image and communication

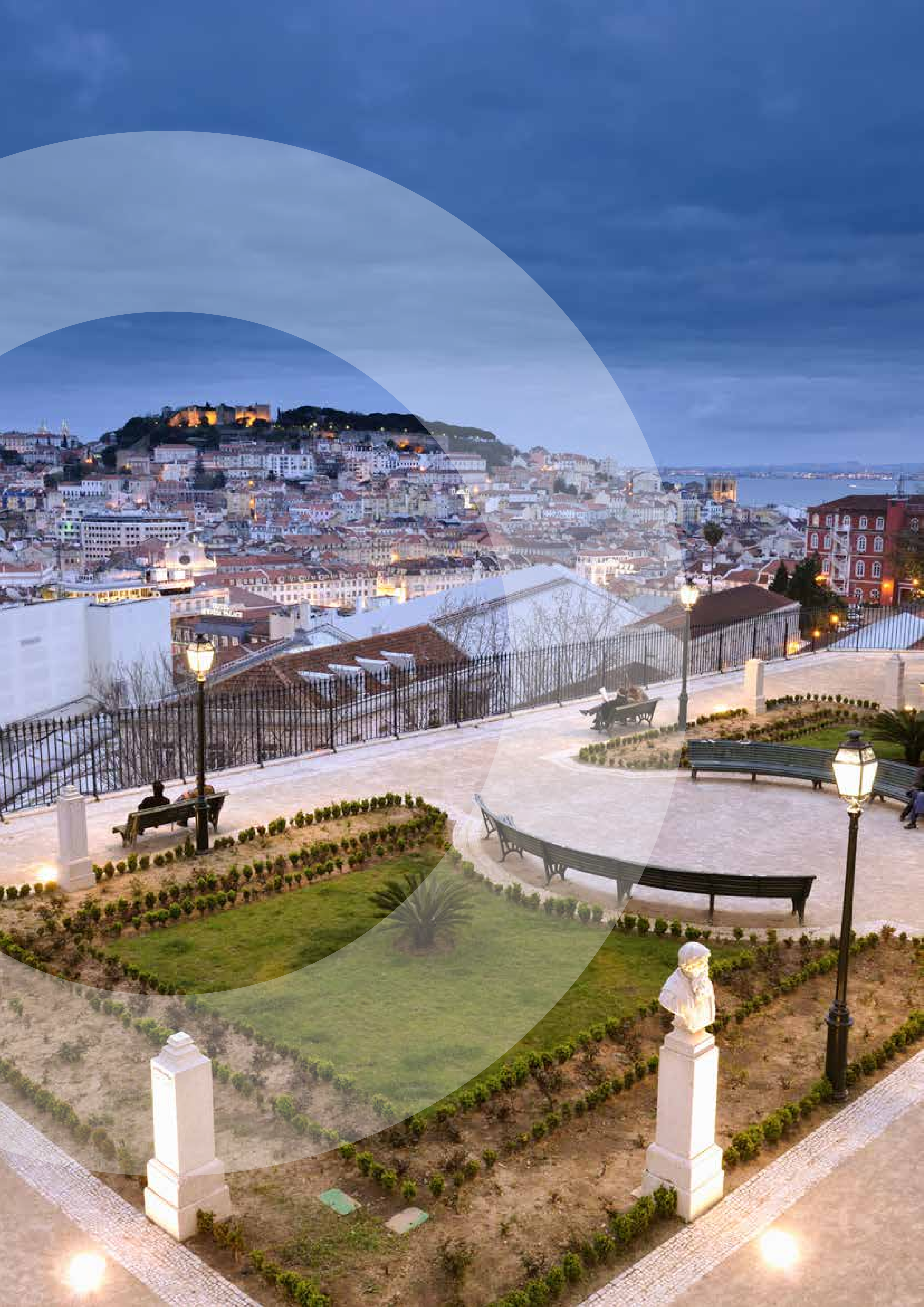
Role: Managing the company's image through efficient institutional communication, harmonising communication formats with internal and external stakeholders

PCG – Management planning and control

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

JUR – Legal

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



5. Remunerations and Other Costs

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

The amounts of the remunerations paid and the benefits and further privileges granted by the company to the members of the governing bodies are stated in the Notes to the Financial Statements – Note 31.

6. Sustainability Analysis

The account of EPAL's performance regarding sustainability during 2013 can be found in the company's Sustainability Report.

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

7. Management of Human Capital

EPAL's guiding management principles regarding human resources are:

• Equal treatment and opportunities for men and women

• Rejection of any kind of discrimination

• Professional promotion and advancement

• Respect for personal and family life

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

• Compliance with law and with the company's internal regulations Characterisation of human resources working for EPAL

Number of Employees on 31 December

	2011	2012	2013	Change 13/12	
Male	541	538	502	-36	-6,7%
Female	198	198	192	-6	-3,0%
Total	739	736	694	-42	-5,7%

At the end of 2013, the number of employees working for the company was 694, which corresponds to a reduction of 42 employees (-5.7%) in relation to the previous year;

Nature of the employment relationship

	2011	2012	2013	Change 13/12	
Permanent	704	702	665	-37	-5,3%
Fixed-term	35	34	29	-5	-14,7%
Total	739	736	694	-42	-5,7%

Staff movements during the year

	2011	2012	2013	Change 13/12	
Hirings	25	14	3	-11	-78,6%
Departures	32	17	45	28	164,7%
Retirements	26	7	2	-5	-71,4%
Departures due to early retirement	0	0	0	0	-
Departures due to other reasons	6	10	43	33	330,0%

Age

	2011	2012	2013	Change 13/12	
Average Employee Age	46	47	47	0,0	0,0%
Number of Employees by Age Group	739	736	694	-42	-5,7%
age - <25	5	5	5	0	0,0%
age - 25-34	130	109	93	-16	-14,7%
age - 35-44	162	180	186	6	3,3%
age - 45-54	227	217	195	-22	-10,1%
age - >55	215	225	215	-10	-4,4%

In 2013, the 45-54 and >55 age groups recorded a decrease of 10.1% and 4.4%, respectively, in comparison with the previous year.

Seniority

	2011	2012	2013	Change 13/12	
Average Seniority	20	21	21	0,0	0,0%
Numbers of Employees by Seniority Level	739	736	694	-42	-5,7%
seniority - <2	45	33	12	-21	-63,6%
seniority - 2-5	65	73	68	-5	-6,8%
seniority - 6-10	63	39	63	24	61,5%
seniority - 11-20	176	200	180	-20	-10,0%
seniority - >20	390	391	371	-20	-5,1%

The number of employees who have been working for the company for over 20 years decreased by 5.1%.

Distribution by professional category

	2011	2012	2013	Change 13/12	
Number of employees by professional category	739	736	694	-42	-5,7%
Senior managers	97	98	94	-4	-4,1%
Middle managers	172	172	167	-5	-2,9%
Forepersons	35	35	34	-1	-2,9%
Highly-Skilled Workers	131	129	120	-9	-7,0%
Skilled workers	299	297	275	-22	-7,4%
Semi-skilled workers	5	5	4	-1	-20,0%

In the year under review, 59.8% of employees are highly-skilled workers, forepersons and middle and senior managers groups. There was also a 7.4% decrease in the number of skilled workers, in comparison with the previous year.

Distribution by education level

	2011	2012	2013	Change	
Number of Employees by Education Level	739	736	694	-42	-5,7%
Basic	285	280	250	-30	-10,7%
Secondary	216	218	208	-10	-4,6%
University	238	238	236	-2	-0,8%

Employees with university education represent 34% of the company's total human assets, in 2013.

Absenteeism

	2011	2012	2013	Change 13/12	
Absenteeism rate	5,16%	4,32%	4,28%	-0,04 pp	
Hours of absenteeism	67.176	55.677	54.268	-1.409	-2,5%

There was a decrease of 1,409 hours of absenteeism, in comparison with 2012.

Training

	2011	2012	2013	Change 13/12	
Number of training hours	14 724	12 024	15 205	3.181	26,46%
Number of trainees	787	823	1 515	692	84,08%
Number of participants	419	430	538	108	25,12%

In comparison with the previous year, there were 3,181 additional training hours, which correspond to a 26.46% increase.

The number of people who participated in training sessions represented 77.5% of the total number of employees.

Occupational hygiene and safety

	2011	2012	2013	Change 13/12	
Total number of workplace accidents	34	28	39	11	39,3%
Number of workplace accidents - with leave	21	22	22	0	0,0%

Safety Indicators

	2011	2012	2013	Change 13/12	
TF - Frequency rate of all workplace accidents	29	21,78	34,39	12,61	58%
Tf - Frequency rate of workplace accidents with leave	22	17,42	20,28	2,86	16%
Tg - Severity rate (for the current year only)	1,4	0,59	1,83	1,24	210%
TG -Severity rate (includes sequels of accidents occurred in previous years)	1,24	1,04	0,99	-0,05	-4,8%

TF=NA/HTx10^6 Tf=NAita/HTx10^6 TG=Ndb/HTx10^3 Tg=Ndba/HTx10^3

NA – Number of accidents

NAita – Number of accidents with absolute temporary disability

Ndb – Number of leave (calendar) days

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

HT – Number of hours worked

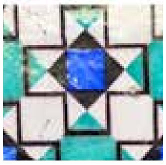
Occupational medicine

	2011	2012	2013	Change 13/12	
Total number of medical examinations conducted	936	1.010	1.114	104	10,3%
Number of dentist appointments	1.344	1.408	789	-619	-44,0%
Number of physical therapy treatments	551	0	0	0	-
Number of information/health campaigns	2	5	0	-5	-100,0%

The change in the number of dentist appointments resulted from the fact that, halfway through the year, there was a decision to include this medical specialty in the health insurance, meaning that these services were no longer provided directly at the company's facilities.

Canteens

	2011	2012	2013	Change 13/12	
Number of meals served	89.367	90.646	88.974	-1.672	-1,8%



8. R&D and Innovation

- **EPAL Collaborative Portal** – Internal coordination and development of the new EPAL Intranet version, with the goal of increasing and facilitating the sharing of information among staff members, turning it into the company's main internal communication vehicle and into an access point to all general interest contents and applications. This new Intranet also provides a means for managing bodies to share information deemed public and relevant with other corporate bodies in an organised Manner. Since the day it was launched, the portal had a daily average of 298 visits, with more 4,000 accessed pages and about 150 searches made. Our new Intranet was launched on 4 February 2013

- **MILLENIUM** – Coordination of the project, installation and configuration of the new application for staff Assiduity Control. The goal of this project was to provide a Web Portal in order to allow all employees to intervene in the assiduity process through real-time knowledge of what is happening (justifications, authorisations, vacations) and immediately proceed with the corresponding regularisation. The "Manager" module also allows authorising requests, leading to a quick completion of the process, so that, in the first weeks of the following month, all absenteeism processing is regularised. This project was commissioned on 9 July.

- **WeMake** – Project coordination and installation and configuration of the application to support EPAL's Integrated Corporate Responsibility System

  This application is aimed at the efficient management of the entire Integrated System, allowing for the management of procedural documents and Audits, updating of applicable legislation, and the implementation and monitoring of corrective and preventive actions. It is a tool for continuous improvement, which allows monitoring processes and controlling the progress of proposed goals allowing participants, both internal and external, to obtain the necessary indicators for their management.

- **WONE** – Internal development of WONE with the goal of marketing this software, under a "Software as a Service" (SaaS) model. This development required deep technological restructuring, both from the applicational and infrastructural points of view, leading to the graphic and functional redesign of the application in order to increase its attractiveness and efficiency, focusing on the usability, accessibility, robustness and reliability of the information it provides. Developed in accordance with the highest technological standards available on the market, WONE ensures a universal use. In order to do that, it is provided as a multilingual, multi-browser, multi-platform and multi-customer application, meaning it is compatible with most of the telemetry equipment available on the market. WONE was prepared to provide real-time data through synchronisation with telemetry systems on a minute-by-minute basis. We also developed a georeferencing module for events that take place in the MCZs, which is integrated with the Google Maps service. In order to ensure the high availability and scalability of this service, the application is currently stored in a Cloud Computing environment, and can be accessed at www.wonenet.com. Currently, WONE is available on a Cloud and includes data from EPAL's telemetry systems, which are constantly being synchronised

- **GInterAqua** – Project coordination, installation and configuration of a new version of GInterAqua Web, whose main novelty is the fact that it offers a multi-browser georeferencing tool.

- **Photographic System** - Due to the technical obsolescence of the existing system, it had to be technologically updated in order to support the maintenance, calibration and testing of large-sized water meters. This project consisted in the installation of a video system with a photo finish feature, which by taking pictures at the zero and final moments of the tests, provides documentary evidence to support the reports made for each of the meters tested.

- **TELEGESTÃO** - Implementation of new features and automated systems in order to optimise the automatic operation of pumping stations, with a special focus on the rationalisation of energy costs. We also developed all the algorithms for the control, safety and monitoring of the Olivais pumping stations, ensuring that their operation delivers high performance levels and eliminating the need for operators and for the routine tasks they had to perform.

- **MAXIMO** – Development of the MAXIMO project, which, besides solving a few existing problems (LogBook), allowed optimising the Corrective Maintenance processes, developing and implementing the Preventive Maintenance system for all assets and enabling the appropriate control of scheduled actions

- **R&D Project «Fungi Watch**: Benefits and hurdles associated with the presence of fungi in drinking water sources», which is being developed in partnership with the Institute of Experimental and Technological Biology (IBET) and the Faculty of Pharmacy of the University of Lisbon.

- **Project "LDmicrobiota** - O microbiota dos sedimentos dos sistemas de distribuição e a qualidade da água para consumo humano" (Microbiota in the sediment of distribution systems and the quality of water for human consumption), in collaboration with the National Civil Engineering Laboratory (LNEC).

- **Project "ChloriDec** - Tecnologia para monitorização em tempo real das taxas de decaimento do cloro em sistemas de abastecimento de Água" (Technology for the real-time monitoring of chlorine decay rates in water distribution systems), in collaboration with LNEC and IST

- **R&D Project by the Foundation for Science and Technology (FCT)** called "Contaminantes Ambientais Emergentes: Produtos Farmacêuticos" " (Emerging Environmental Contaminants: Pharmaceuticals), in collaboration with the Faculty of Pharmacy of the University of Lisbon.

- **European Project "AquaVIR** - Portable Automated Water Analyser for Viruses", whose goal is to develop a portable, low-cost system for on-site installation and detection in order to monitor human enteric viruses in different types of water bodies.

- Development and implementation of tests on materials in contact with water and metal tests for products used in water treatment (aluminium sulphate).

- Completion of the **Project AdaptaClima** - A project that aims at providing EPAL with a medium- and long-term strategy for an adjustment to climate change.

- **Project Prepared** - completion of a project whose main purpose is to create a common, European-wide platform that offers solutions for water supply and management entities to help them adjust to climate changes.

- **Strategic Risk Management Project** - Development and application of a methodology for the integrated management of risks at a strategic level (doctoral thesis in collaboration with the Cranfield University).

- **WATERBEEP** - Development and commissioning of the WATERBEEP system, which provides information on customers' actual water consumption levels allowing them to follow their evolution over time and compare them with the average water consumption level in the city of Lisbon. It also includes an alert service that issues warnings whenever non-standard consumption levels are reached.

- **AQUAmatrix** – Technological modernisation and update of the AQUAmatrix system, which included the migration to Microsoft technologies and the development of a new costing model that aims at identifying all the costs and criteria for the allocation of shared costs.

- **Research study "Metodologias para a Delimitação de Perímetros de Proteção das Captações de Água Superficiais da EPAL"** - (Methodologies for defining perimeters to protect EPAL's superficial water abstraction facilities) - in cooperation with the Faculty of Sciences and Technology of the Nova University of Lisbon and with the collaboration of the Hydrographic Institute.

We have received twelve applications for the 2013 edition of EPAL in, a competition that aims at encouraging business innovation, rewarding the internal development of projects that contribute to the efficiency and effectiveness of the company's processes and activities and to the valorisation and assertion of the EPAL brand within the water Sector.

The award was given ex aequo to the projects "Common rail de água motriz" (motive water common rail) and "Dispositivo de Fecho Automático de Recipientes de Cloro" (Chlorine Container Automatic Closure Device). There were also 3 honourable mentions awarded to the projects "Máquina semi-automática para Retificação de Roscas de Ligação dos Contadores de Água à Tubagem", "Sacatampas" and "Water-QI - Quick Investments in Water Network".

9. Ethics and Corruption Prevention

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

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

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

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

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

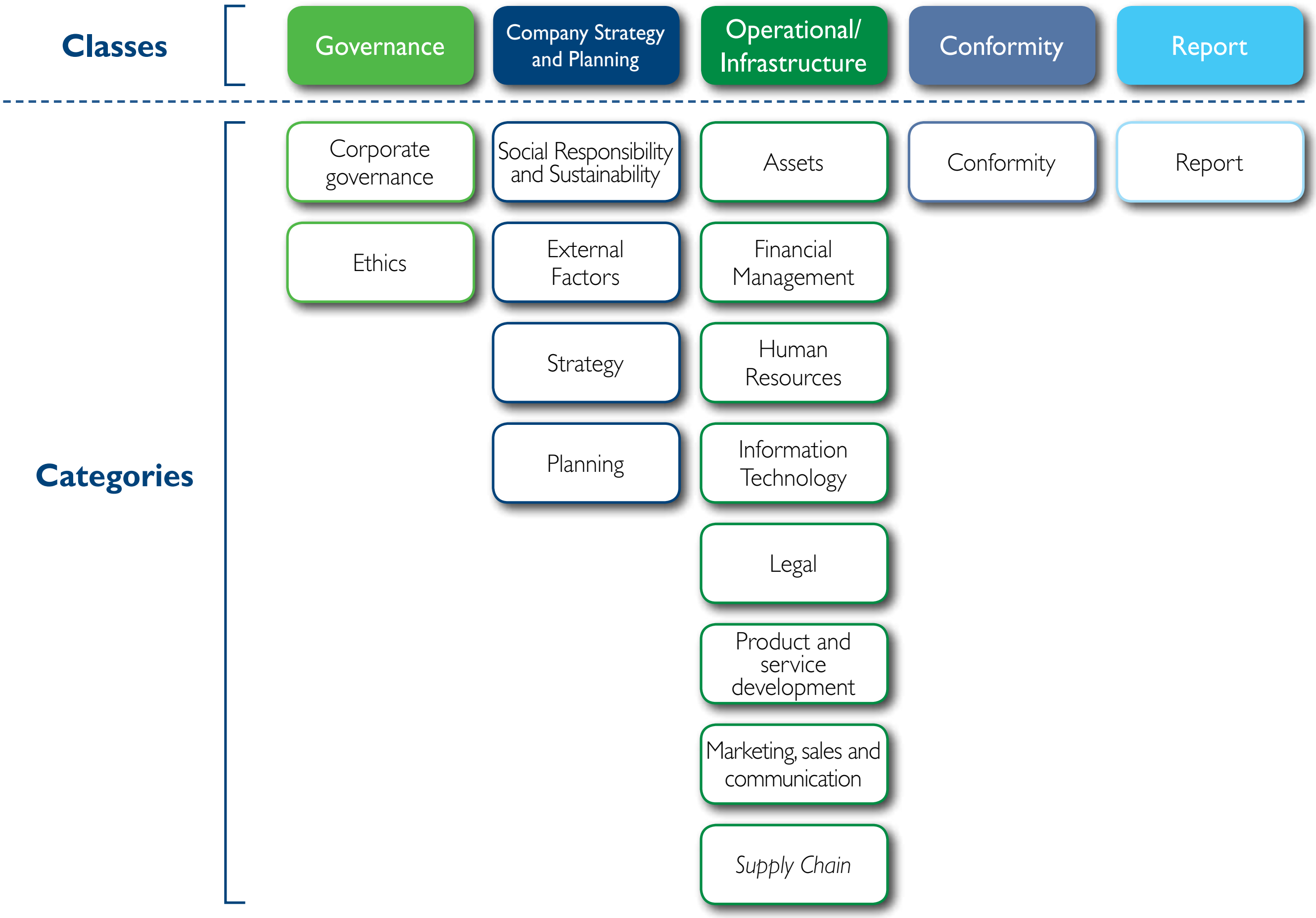
The Plan also intends to strengthen the culture of the group and its collaborators in terms of ethical behaviours and best practices in their commercial relationship with customers, suppliers and other entities.

Comprising the entire company, this Plan complies with the recommendation issued by the CPC - Corruption Prevention Board, as of 1 July 2009.

In 2013, we carried out two monitoring initiatives in the functional areas that are more directly related to the topics "Granting of Public Benefits (Sponsorships and Donations)" and "Licensing of Projects and Construction Works Concerning New Water Supply Facilities".

10. Risk Control

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



Risks are assessed considering several dimensions, namely;

- Financial;
- Reputation;
- Legal or regulatory and
- Level of compliance with business goals.

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

- Existence and efficiency of controls;
- Previous occurrence of the risk;
- The complexity of the risk; and
- The installed capacity to manage risk (people, processes, systems).

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

EPAL took part in the Corporate Risk self-assessment process, promoted by AdP/AICR, which included the development of an in-depth characterisation of the different control measures implemented in the company to mitigate various corporate risks. We should highlight that the global residual risk level is Low.

Risk management is a constant concern for all EPAL managers and staff members. We present below the main risks to which the company is exposed:

Operating Risks

Water Quality	Mitigation
Risk of adverse consequences for public health from accidents or breakdowns in the supply process	Integrated Water Quality Control Programme, encompassing legal, operating and monitoring controls, as well as the control of the treatment processes in place at the plants included in the Water Safety Plan, which assesses risks to consumer health and water shortage risks, from its abstraction to the tap, including a comprehensive analysis of all the existing hazards and implemented control measures
Failure or unavailability of assets	**Mitigation**
May jeopardise supply continuity	The Telemanagement System monitors and operates assets in real time The inspection of water supply infrastructures is an activity regularly and systematically carried out by EPAL, which allows the Company to obtain constantly updated information about the status and evolution of the physical conditions of its assets. This activity is important to learn about the risks associated with the operation of the company's assets, support decision-making on the most urgent investments, as well as support and define the preventive and corrective maintenance actions to be carried out.
Physical security of premises	**Mitigation**
Risks of damage caused by random situations, accidents, namely of natural origin, and third-party actions	The existence of emergency plans and security schemes ensuring the integrity of the premises

Financial Risks

Liquidity Risk	Mitigation
The risk of not holding sufficient funds to honour commitments	To keep a comfortable level of liquidity To ensure a solid financial structure by adapting financing sources to the operating and fixed assets to ensure flexibility in the use of credit lines, in amounts that are adequate to the normal development of the business
Interest Rate Risk	**Mitigation**
Risk of exposure to volatile market rates and, on the other hand, timing risk associated to the contracting of fixed rates	Balancing fixed and floating rate debt. At the end of 2013: fixed rate: 53% and floating rate: 47% Selecting the most competitive fixed interest rate by comparing fixed rates with floating rates plus hedging

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

Other Risks

Climate Change	Mitigation
Risk of changes to the quality and quantity of the water resources available	2013 brought the continuation of the Project Adapta Clima, which aims at providing EPAL with a medium- and long-term adaptation strategy to climate change. The project is scientifically coordinated by the Faculty of Sciences of the University of Lisbon and followed by EPAL's Climate Change Group (GAC). 2013 saw the continuation of the PREPARED Project, whose main purpose is to create a common, European-wide platform that offers solutions for water supply and management entities to help them adjust to climate changes.

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

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

Legal Framework	Mitigation
Increased costs to the company arising from new legislation and regulations	Cooperation with relevant authorities, issuing opinions on new proposed legislation and regulations


VIRTVTIBVS
MAIORVM

11. Prevention of Conflicts of Interest

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

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

- Submission to the Inspectorate-General of Finance of a statement disclosing all shareholdings and financial interests directly or indirectly held in the Company, as well as any positions, roles or activities exercised by them (article 22(9) of Decree-Law no. 71/2007 of 27 March);

- Submission of the Statement of Properties and Incomes to the Constitutional Court (Law no. 4/83 of 2 February, in the wording of Law no. 25/95 of 18 August, Implementing Decree no. 1/2000 of 9 March and also Law no. 28/82 of 15 November);

- Submission of the Statement of Non-Existence of Incompatibilities or Impediments to the General Attorney's Office (article 11 of Law no. 63/94 of 26 August and article 22(8) of Decree-Law no. 71/2007 of 27 March);

- Non-involvement in resolutions in case of direct or indirect personal interests (article 22 of Decree-Law no. 71/2007 of 27 March);

- Fulfilment of the remaining provisions of Decree-Law no. 71/2007 of 27 March, and of the Commercial Companies Code regarding this matter.

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

- Plan for the Management of Corruption Risks and Related Offences

- Disclosure and adoption of the Code of Ethics and Conduct

- Enshrining and practice, in the relationship with all Stakeholders, of the following values:

    - Integrity and transparency

    - Competence and rigour

    - Respect for the Law Continuous improvement

- Autonomous and independent auditing processes

- Secondment contracts banning the exercise of other roles

- Strict compliance with the Public Procurement Code

- Diversified composition of the panels set up to decide on the selection and hiring of staff and the purchase of goods and services

12. Disclosure of Information

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

13. Institutional Advertising Initiatives

Advertising carried out by the company in 2013

Month	Media	Type	Cost €
January	Água e Ambiente Newspaper	Product	2 297
		Supplement	1 963
	Construção Sustentável Magazine	Institutional	4 920
	Indústria e Ambiente Magazine	Institutional	1 025
February	Água e Ambiente Newspaper	Institutional	2 297
	Público	Vamos dar o litro	s/custos
March	Água e Ambiente Newspaper	Product	2 603
	Diário Económico		1 845
	Negócios Newspaper		2 841
April	Água e Ambiente Newspaper	Product	2 450
May	Água e Ambiente Newspaper	Product	2 450
	Diário de Noticias	Public Tender	288
	Diário de Notícias	Water Quality	2 952
	Metro	Photo Marathon	1 367
	Destak	Photo Marathon	1 367
	Indústria e Ambiente Magazine	Wone	1 025
July	Água e Ambiente Newspaper	Institutional	2 450
	País Positivo Magazine	Infomercial	3 506
	Metro	Tariffs	967
	Destak	Tariffs	967
	Público	Tariffs	no charges
	Correio da Manhã	Water Quality	1 476
September	Água e Ambiente Newspaper	Water Tasting Course	2 450
	Metro	Sale of Goods - Tender	967
	Destak	Sale of Goods - Tender	967
	Correio da Manhã	Sale of Goods - Tender	812
November	Água e Ambiente Newspaper	Águas Livres Academy	2 450
	O Mirante	Institutional	1 661
	Correio da Manhã	Water Quality	1 476
December	Água e Ambiente Newspaper	waterbeep	2 450
		TOTAL	**54 289**

14. Compliance with Instructions, Orders and Miscellaneous Legislation

EPAL fully complied with the following instructions, orders and miscellaneous legislation

Compliance with legal Guidelines	Compliance			Quantification	Justification
	Y	N	NA		
Management Goals: [if applicable]			X		The Shareholder did not define any goals
Financial Risk Management			X		The assessment of this indicator is made from the consolidated point of view and disclosed in AdP's management report.
Evolution of the APT to suppliers	X				*Information included in the 2013RA*
Arrears	X				*Information included in the 2013RA*
Recommendations of the shareholders for the approval of accounts			X		-
Remunerations:					
Non-attribution of management bonuses, under the terms of art. 37, Law no. 66-B/2012	X			-	
Governing Bodies - reduction in remunerations, under the terms of art. 27, Law no. 66-B/2012	X			26 574,16	
Governing Bodies - 5% reduction due to the application of article 12 of Law no. 12-A/2010	X			13 986,40	
External Auditor - reduction in remuneration, under the terms of art. 75 of Law no. 66-B/2012			X	-	
Other Employees - reduction in remuneration, under the terms of art. 27 of Law no. 66-B/2012	X			838 657,13	
Article 32 of EGP					
Credit card use	X				EPAL has not assigned any credit cards to its Governing Bodies
Reimbursement of personal representation expenses	X				EPAL did not reimburse any personal representation expenses
Public Procurement					
Public Procurement Standards	X				
Contracts submitted for prior approval by the constitutional court			X		
Vehicle Fleet	X				EPAL reduced the number of vehicles in its fleet by 11.5%, in comparison with 2012
Cost Reduction Plan, under the terms of articles 62, 63 and 63 of Law no. 66-B/2012					
Reduction in operating expenses			X		The assessment of this indicator is made from the consolidated point of view and is disclosed in AdP SGPS' management report.
Reduction in communication and travelling expenses			X		The assessment of this indicator is made from the consolidated point of view and is disclosed in AdP SGPS' management report.
Reduction in the number of staff members and managing positions					
Number of staff members			X		The assessment of this indicator is made from the consolidated point of view and is disclosed in AdP SGPS' management report.
Number of management positions			X		The assessment of this indicator is made from the consolidated point of view and is disclosed in AdP SGPS' management report.
Principle of Treasury Unity (DL 133/2013)			X		The assessment of this indicator is made from the consolidated point of view and is disclosed in AdP SGPS' management report.
Indebtedness limits (DL 133/2013)			X		The assessment of this indicator is made from the consolidated point of view and disclosed in AdP SGPS' management report.

EPAL, through AdP SGPS, is awaiting indications from the Administration on the way of organising and reporting the information required under the terms of Decree-Law no. 133/2013 of 3 October to the Technical Unit for the Monitoring and Modernisation of the Public Corporate Sector.

The shareholder did not define any management goals for 2013, so the goals applied were those defined by current legislation, namely the 2013 State Budget Law.

According to what was established by the Shareholder, AdP SGPS, SA, the assessment of the indicator associated with financial risk management is made from the consolidated point of view and is disclosed in AdP SGPS' management report. In page 26 of the present report we identify EPAL's financial risks, whose management complied with the guidelines included in Order no. 101/2009-SETF and Order no. 155/2011-MEF

The evolution of the average payment term to suppliers throughout the three-year period was as follows:

(days)

APT	2011	2012	2013	Change 13/12
APT to Suppliers	31	30	30	0%

Delayed payments were distributed as follows:

(thousand euros)

Nature of the goods and services	90 - 120	120-240	240-360	> 360
Other goods and services	54,8	11,8	21,9	261,2

The shareholder did not make any recommendations upon the approval of the accounts. The instructions received from the shareholder during 2013 within the context of the monitoring of the company's management and activity were fully complied with.

The following guidelines regarding the remuneration of the governing bodies and staff members fully complied with:

- General Meeting Board - implementation of reductions in remunerations, under the terms of art. 27 of Law no. 66-B/2012 (no remunerations in 2013) - see NOTE 31 of the Notes to the Financial Statements;

- Board of Directors - no attribution of management bonuses (art. 37 of Law no. 66-B/2012), implementation of reductions in remunerations (art. 27 of Law no. 66-B/2012), as well as the maintenance of the application of a 5% reduction (art. 12 of Law no. 12-A/2010) - see NOTE 31 of the Notes to the Financial Statements;

- Regarding other Employees - implementation of reductions in remunerations, under the terms of art. 27 of Law no. 66-B/2012.

The provisions of article 32 of the Public Manager Statute, as republished in Decree-Law no. 8/2012 of 18 January, with particular regard to:

- The ban on the use of credit cards and other payment instruments by public managers to pay expenses made while working for the Company;

- The non-reimbursement of any expenses that fall within the scope of personal representation expenses to public managers

The company followed the public procurement standards in force. Compliance with the guidelines provided by Law no. 66-A/2012 and regarding the "National Public Procurement System" and the "State Vehicle Fleet" may, according to the indications issued by AdP SGPS, SA, are presented in AdP SGPS, SA's report and accounts. The large majority of purchased goods and services is included in the categories specific to the activities of the group's companies and, therefore, those purchases are processed within the scope of AdP - Serviços Ambientais, SA., which works as an operational structure for the centralisation, optimisation and rationalisation of the purchasing of goods and services within the scope of the activities developed by Group's companies. Within this framework, the company established a relational model that comprises a standardised series of goods and services whose procurement is made through the General Services and Procurement Department of AdP Serviços Ambientais.

The assessment of the results of the measures implemented to reduce operating costs is made in consolidated terms and their level of compliance is shown in AdP, SGPS, SA's report and accounts, according to the information it provided. EPAL's cost reduction had a particular incidence in terms of Supplies and Services (2.4 million euros), COGS (0.6 million euros) and Financial Expenses (1.3 million euros).

The information regarding the reduction in the number of staff members and managing positions is, as defined by the Shareholder AdP SGPS, SA, presented in a consolidated way and disclosed in AdP, SGPS' management report. However, we should highlight that EPAL achieved a 6% reduction, which is twice the minimum reduction required by the 2013 State Budget Law.

Under the terms of article 124 (1), Law no. 66-B/2012 of 31 December, AdP requested the exemption to comply with the State treasury unity principle for all the Group's companies, which was granted through Order no. 2424/13 of 19 December, issued by the State Department of Treasury.

There are no recommendations regarding audits from the Court of Auditors.

The disclosure of the information included on the website of the Public Corporate Sector is made by the Águas de Portugal Group.

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

15. Compliance with Good Governance Principles

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

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

1948

Commissioning of the Tagus Aqueduct Subsystem, with the inauguration of the Olivais pumping station

1964

Extension of the Tagus Aqueduct Subsystem, when the abstraction in Valada do Tejo and the Vale da Pedra WTP came into operation

1970

Commissioning of the Costa do Sol Trunk Main

1974

End of the concession of CAL, and establishment of EPAL - Empresa Pública das Águas de Lisboa

1979

Commissioning of the Vila Franca de Xira Trunk Main

The Company's Activity

1. Introduction

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

Besides providing services associated with water supply, such as customer service and home support, we also provide complementary laboratory testing and control, calibration and repair of meters and network monitoring services. EPAL also sells a commercial information and management system, called AQUAmatrix®, intended for water, sanitation and solid waste management entities. It also sells WONE®, a system for the reduction of water losses and a service focused on providing information and encouraging efficient water use, called Waterbeep®.

EPAL's market for the rendering of water supply services comprises an area of 7,090 km^2, with 347,233 Direct Customers in the Lisbon municipality, 17 Municipal Customers and 3 Multi-Municipal Customers, which includes, in its whole, 35 municipalities and totals approximately 2.9 million consumers.

With its area of intervention, the number of customers being served, an annual water abstraction volume of 218.2 million cubic meters, a turnover of around 143.1 million euros and 694 employees, EPAL is the largest Portuguese company in the water supply sector and the largest company of the Águas de Portugal Group.

2. Macroeconomic Framework

As in 2012, in 2013 the world's economy shows moderate growth levels (3.0% in 2013; 3.1% in 2012).

In 2013, the European Union's economy recorded a significant recession, with a GDP contraction of around 0.4% (less 0.7% than in 2012). However, we witnessed growth in exports, which contributed for slight economic improvements across European Union countries.

In 2013, the expected inflation for the euro zone should remain below 1%. Although in line with these expectations, these inflation levels reflect decreasing price levels, even driven by the positive evolution of energy prices.

Unemployment rates still remain high, despite their consistency with the values from the previous year (12.0% in 2013, 11.9% in 2012). The lowest unemployment rates are found in Austria (4.9%), Germany (5.1%) and Luxembourg (6.2%) and the highest ones in Greece (27.8%) and Spain (25.8%).

In November 2013, the European Central Bank decided to lower the intervention reference rate to 0.25%, that is, the lowest rate since the Euro was created.

The evolution of the Portuguese economy has been conditioned by the process of correction of macroeconomic imbalances, which has implied that the decisions made caused a recessive impact and had negative consequences in the labour market. In the public sector, the correction of these imbalances involves the maintenance of the budgetary consolidation process.

In 2013, there was a continuation of the adjustment programme resulting from the request for Economic and Financial Assistance from the European Commission, the European Central Bank and the International Monetary Fund. The GDP drop should be approximately of 1.5%, which is an improvement when compared with the 3% drop that occurred in 2012. The Portuguese public debt will correspond approximately to 128.7% of the country's GDP. In 2013, the budgetary deficit remained below the 5.5% of GDP agreed with the Troika.

The Portuguese economy grew by 1.3% in the last quarter of 2013, when compared with the same period of the previous year.

The unemployment rate was, on average, 16.4%, having reached 15.3% in the last quarter of the year.

The Portuguese economic situation will remain highly dependent on budgetary and financing restrictions. In 2014, Portugal faces the uncertainty associated with the completion of the first 3 years of the adjustment programme at the end of the first semester, which will bring consequences in terms of the viability of the State's autonomous financing capability, as well as in terms of the corresponding financing costs. Besides, there is still some uncertainty regarding the actual dimension of the budgetary adjustments for 2014 and their short-term impact on growth.

Source: AdP Group; IMF world economic outlook; ES Research; Economic Bulletin of the Bank of Portugal; Eurostat; Portuguese Catholic University.

3. Sector Framework

In 2013, the sector continued to experience a context of significant restrictions.

The restrictions imposed on the State Corporate Sector date back to 2010, and they have shown an important development within the scope of the Economic and Financial Adjustment Programme (EFAP), both in terms of cost evolution, and in terms of the growing level of indebtedness.

Besides, the nature of a public service that relies on highly demanding structures in order to ensure the proper levels in terms of well-being for the communities, public health, development of economic activities and environmental sustainability, turn the achievement of the targets set into a more demanding process.

EPAL has been up to the challenge of achieving the different targets set, by adjusting several internal processes and thanks to the important commitment of all staff members.

At the same time, during 2013 we continued to implement the measures outlined by the Government for the water and waste sector which, naturally, strongly affect the AdP Group, as a key player.

The Governmental Programme establishes the following restructuring guidelines:

- Reorganising the water supply and waste water sanitation sector, prioritising its economic and financial sustainability;
- Proceeding with the calculation and solving of the tariff deficit, reviewing the tariff system, showing greater openness to the participation of private entities in the operation and management of the different systems, promoting efficiency, vertical integration and aggregation of demanding systems, proper maintenance of old networks and equipment and avoiding the building of unnecessary capacity;
- Making the waste sub-sector autonomous within the Águas de Portugal Group and implementing the necessary measures to open it to the private sector.

The AdP Group continued to develop works aimed at promoting territorial cohesion in the water sector, both in terms of multi-municipal systems, and within the scope of public partnerships related to municipal systems. EPAL took part in this entire process, to the full extent of its competences.

The goal of restructuring of sector has materialised in several legal documents and legislative initiatives, of which we highlight:

- Law no. 35/2013 of 11 June, introduced amendments to Law no. 88-A/97 of 25 July, called the Sector Delimitation Law, in order to allow sub-concession to private entities, with the grantor's authorisation, of concessions associated with the abstraction, treatment and distribution of water for public consumption, and the collection, treatment and disposal of urban waste water.
- Projects for the aggregation of several existing multi-municipal systems and their respective management entities, following the publication of Decree-Law no. 92/2013 of 11 July, the scope of which already includes the creation of three new multi-municipal systems through the aggregation of existing ones;
- Creation of a new public partnership and further negotiations for the conclusion of public partnerships with municipalities that are integrated within the scope of multi-municipal systems, by delegating the operation and management of municipal systems aggregated through public partnerships to companies that will manage the concessions of multi-municipal systems, thus "integrating" the service into a single managing entity.

4. Regulations

Economic Regulations

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

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

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

- an appropriate return on invested capitals;
- appropriate self-financing levels;
- the coverage of operating costs.

Regulation of the Service Quality

The Regulation of the Service Quality is ensured by the Water and Waste Services Regulation Authority - ERSAR [Entidade Reguladora dos Serviços de Águas e Resíduos], which also covers its monitoring and assessment using a series of indicators, benchmarking the different management entities in the water and waste sectors and publishing the results in its yearly report on the sector: In 2013, the 3rd Volume of the Annual Report on the Water and Waste water Sector in Portugal (RASARP) [Relatório Anual do Sector de Águas e Resíduos em Portugal] was published, showing the results of the system for assessing the quality of the service provided by managing bodies in 2011, with reference to 31 December.

Water Quality Regulation

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

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

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

The results obtained within the scope of legal control are assessed annually by the Water and Waste Services Regulation Authority (ERSAR) and published once a year in the "Annual Report on the Water and Water Sector in Portugal (RASARP) [Relatório Anual do Sector de Águas e Resíduos em Portugal]". Within the scope of the publication of the 4th volume of RASARP, and for the first time in 2013, the Regulatory Authority awarded the "Exemplary Quality Seals for Water Distributed for Human Consumption", with which EPAL was distinguished.

Environmental Regulation

The entities that manage water services are also subject to the Portuguese Environment Agency (APA), the environmental regulator.

Among others, APA has the role of National Authority for Water and, within this scope, it is responsible for issuing licenses for the use of water resources and supervising their application, enforcing the economic and financial regime for water resources and managing drought and flood situations, coordinating the adoption of exceptional measures in drought or flood situations and addressing disputes with users related to obligations and priorities resulting from the Water Law and complementary regulation.

5. Economic and Financial Analysis

In view of the need to restate the 2012 financial year, solely due to the adoption of the reviewed IAS 19 standard (related to the international accounting standard for employee benefits that, in EPAL's case, introduces changes in the recognition and measurement of expenses with defined benefit pension plans and employment termination benefits), the figures for 2012 are adjusted considering its effects and, thus, do not match the ones that were presented in last year's report and accounts.

Main Indicators

	2011	2012 (restated)	2013	Change 13/12	
Turnover	147,0	144,2	143,1	-1,1	-0,8%
Volume of water sold (million m^3)	210,3	205,2	198,7	-6,5	-3,2%
Net profit	42,6	43,6	40,0	-3,6	-8,3%
Recurrent net profit *	42,6	43,6	42,3	-1,3	-2,9%
EBITDA	86,5	87,5	81,4	-6,1	-7,0%
Recurrent EBITDA *	86,5	87,5	84,9	-2,7	-3,1%
Bank debt	239,3	223,0	205,3	-17,7	-8,0%
Net Debt	164,2	152,8	136,2	-16,6	-10,9%
Net Debt to EBITDA	1,9	1,7	1,7	0,0	0,0%
Recurrent Net Debt to EBITDA *	1,9	1,7	1,6	-0,1	-7,8%
Total Assets	902,2	883,8	863,7	-20,0	-2,3%
Equity	524,4	535,2	536,3	1,0	0,2%
Total Liabilities	377,7	348,5	327,5	-21,1	-6,0%

* Adjusted by the deduction of non-recurrent charges of 2013

- In 2013, EPAL recorded the holiday bonuses for 2012, taking into account that the decision of the Constitutional Court, which declared the rule in the 2013 State Budget Law, which excluded that payment, as unconstitutional was issued only in the financial year under review. Additionally, given that the 2013 State Budget Law defined the need for a reduction by, at least, 3% in the number of staff members, EPAL proceeded with terminations by mutual agreement, having paid the corresponding compensations. Therefore, in order to establish a comparison between the 2012 and 2013 financial years, the indication "recurrent" is included in applicable headings.

- So, we see that 2013 was marked by a very positive economic performance and by the maintenance of a solid financial position and structure, despite the drop in turnover, which was offset by a strong and effective reduction of operating costs, particularly in terms of cost of goods sold and supplies and services.

Net profit (million euros)

- Net profit for 2013 amounted to 40.0 million euros, recording a decrease of 3.6 million euros in comparison with the results obtained in 2012.

	2011	2012 (restated)	2013	Change 13/12	
Total Income	156,0	154,2	150,2	-4,1	-2,6%
Total expenses (includes corporate income tax)	113,5	110,6	110,2	-0,4	-0,4%
Net Profit	42,6	43,6	40,0	-3,6	-8,3%
Recurrent net profit *	**42,6**	**43,6**	**42,3**	**-1,3**	**-2,9%**

* Adjusted by the deduction of non-recurrent charges of 2013

- Although there was a decrease in the Company's revenues, its economic performance in 2013 was very positive and its net profit, despite a reduction in comparison with the previous year, is comparable, if we consider the adjustment of non-recurrent charges. Furthermore, in 2013, EPAL recorded holiday and Christmas bonuses as expenses, something that did not occur in 2012.This prevents the comparison between the two financial years. If it had occurred, it would have generated a higher net profit than that of the previous year.

- In order to obtain these results, the implementation of cost-cutting measures played a crucial role.These were particularly focused on the areas of Supplies and Services (2.4 million euros), COGS (0.6 million euros) and Financial Expenses (1.3 million euros), which compensated the drop in turnover.

Total Income (million euros)

- Total income amounted to 150.2 million euros (-2.6%).

	2011	2012	2013	Change 13/12	
Turnover	147,0	144,2	143,1	-1,1	-0,8%
Investment subsidies	1,9	1,3	1,3	0,0	1,9%
Reversal of Provisions and Adjustments	0,4	1,0	0,4	-0,6	-59,6%
Other operating income and gains	3,1	4,3	2,6	-1,7	-39,3%
Interest and similar income	3,7	3,5	2,8	-0,7	-19,2%
Total income	**156,0**	**154,2**	**150,2**	**-4,1**	**-2,6%**

- The negative evolution in terms of total income was essentially a result of the decrease in turnover and in the contribution from the Ministry of Health to deal with the diverting of the path of the Circunvalação Trunk Main in the area close to the new Vila Franca de Xira Hospital.

- Interest and similar income decreased in 0.7 million euros, as the interest rates associated to the Company's investments were lower. However, this circumstance was offset by a higher decrease in the Company's funding expenses.

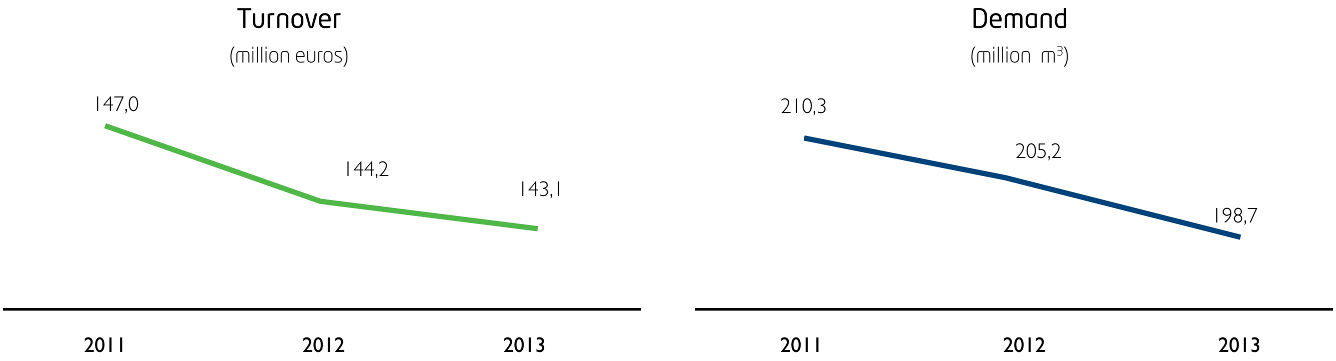
Turnover (million euros)

- Turnover amounted to 143.1 million euros (a decrease of 0.8%)

	2011	2012	2013	Change 13/12	
Sales	145,7	143,0	141,9	-1,1	-0,8%
Rendering of services	1,4	1,2	1,2	0,0	-3,9%
Turnover	**147,0**	**144,2**	**143,1**	**-1,1**	**-0,8%**

- Turnover dropped by 1.1 million euros (-0.8%) in comparison with 2012, essentially due to a decrease of 6.5 million m^3 in the volume of water sold (-3.2%). Revenue from the service fee (fixed component of the tariff) and the rendering of services also followed this trend, with reductions of 0.3 million euros (-1.1%) and 0.05 million euros (-3.9%), respectively.

Sales (million m^3)



- The volume of water sold in 2013 was 198.7 million m^3, considering that 145.1 million m^3 were sold to other management entities (municipal and multi-municipal customers) and 53.6 million m^3 were sold to final users (direct customers). There was a decrease of 5.4 million m^3 (-3.6%) in municipal and multi-municipal customers, resulting essentially from a drop in consumption in Lisbon's neighbouring municipalities. Sales to direct customers recorded a reduction of 1.1 million m^3 (-2.0%), with the State/Embassies and Trade /Industry segments having dropped over 9%.

Total Expenses (million euros)

- Total expenses amounted to 110.2 million euros.

	2011	2012	2013	Change 13/12	
Cost of goods sold and materials consumed	2,9	2,9	2,3	-0,6	-20,5%
Supplies and services	35,1	34,5	32,1	-2,4	-7,0%
Staff expenses	25,8	23,3	25,2	1,9	8,4%
Depreciations and impairment losses	24,4	26,3	25,0	-1,3	-5,0%
Impairment losses	0,5	0,6	0,7	0,1	16,3%
Provisions	0,1	0,1	0,6	0,5	630,6%
Taxes and fees	0,9	1,2	1,2	0,0	-1,9%
Other operating expenses	0,4	0,6	0,4	-0,2	-39,1%
Non-recurrent expenses	0,0	0,0	3,4	3,4	-
Interest and similar expenses	5,9	5,0	3,8	-1,3	-24,9%
Income tax for the period	17,4	16,0	15,5	-0,6	-3,6%
Total expenses	**113,5**	**110,6**	**110,2**	**-0,4**	**-0,4%**
As % of Turnover	**77%**	**77%**	**77%**		

- In 2013, EPAL proceeded with a significant cost-cutting effort, particularly in Supplies and Services (2.4 million euros), COGS (0.6 million euros) and Financial Expenses (1.3 million euros).

- The increase in Staff Expenses is fully justified by the fact that it incorporates expenses with the 2013 holiday and Christmas bonuses, which had not been paid in 2012. These two bonuses correspond to a total expense of approximately 2.6 million euros, which translated into an effective decrease of approximately 0.7 million euros against 2012.

- Within the Government's Plan for the Reduction of Operating Costs in the State Corporate Sector, a goal was set for the maintenance of the weight of operating costs (considering the headings cost of goods sold and materials consumed, supplies and services and staff expenses) as a component of turnover. In 2012, EPAL recorded a 4% reduction against the previous year, thus complying with the above mentioned guideline.

- The heading "Non-recurrent expenses" includes the recognition, only for the 2013 financial year, of the holiday bonuses paid in 2012, following the decision of the Constitutional Court to declare the non-payment of holiday and Christmas bonuses to State workers unconstitutional. It also includes the Compensations paid for contract terminations resulting from the staff reduction plan implemented in order to meet the provisions of art. 63 of the 2013 State Budget Law.

- The use of the Extraordinary Tax Credit for Investments (CFEI), as a result of eligible investments made in 2013, played a decisive role for the reduction of approximately 3.6% in the value of the income tax paid in this financial year.

- We should also highlight that the weight of total expenses in the Company's turnover shows a sustained evolution, remaining at similar levels to those shown in the last few years.

COGS

- This heading shows a strong decrease in comparison with previous years, with an overall reduction of 20.5% (nearly 0.6 million euros).

- In 2013 there was a decrease of 0.3 million euros (-15.6%) in expenses with reagents, whose total consumption was 13% lower than in the previous year, as a result of the increased use of the Asseiceira system, instead of the Vale da Pedra system. Approximately 12 thousand tons of reagents were consumed, including 4 thousand tons of aluminium sulphate, 4 thousand tons of calcium hydroxide and 3.3 thousand tons of carbon dioxide.

- The consumption of materials shows a decrease of 0.3 million euros (-29.8%), especially in materials used in asset repair interventions.

COGS	2011	2012	2013	Change 13/12	
Cost of goods sold and materials consumed	**2,9**	**2,9**	**2,3**	**-0,6**	**-20,5%**
Reagents	1,8	1,9	1,6	-0,3	-15,6%
Materials and other assets under construction	1,2	1,0	0,7	-0,3	-29,8%

Supplies and services

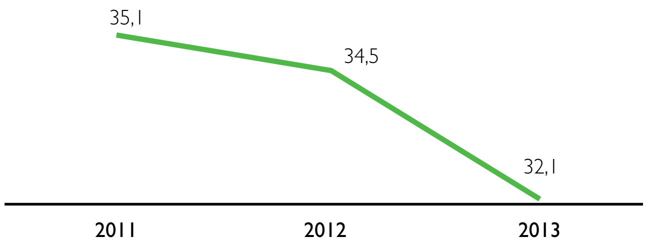
- Despite the drastic reductions made in the previous financial years, it was possible to reduce expenses with Supplies and Services even further, and in 2013 there was an overall decrease of 7.0% (approximately 2.4 million euros).

- Electricity, the heading that corresponds to 35% of the total supplies and services, recorded a reduction of 0.8 million euros (-6.5%) in comparison with the previous year. Nearly 50% of that reduction results from an improvement in energy efficiency, as a result of the operational changes introduced, especially the greater use of the Bode subsystem to the detriment of the Tagus subsystem.

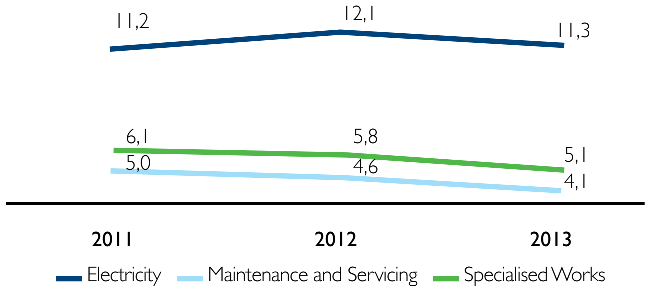
- In the specialised work headings, there was a significant decrease of 0.7 million euros (-12.4%), mainly due to the rationalisation implemented in terms of technical assistance and software licenses, and the internalisation of the building network inspection services.

- There was also a reduction of 0.6 million euros (-12.6%) in the heading of maintenance and repairs.

Supplies and services



Evolution of the main Supplies and Services headings



Staff Expenses

- In 2013 there was an increase of approximately 1.9 million euros in staff expenses, in comparison with 2012. These expenses amounted to 25.2 million euros.

- This increase is justified by the addition, in 2013, of the holiday and Christmas bonuses, as in 2012 these headings were not processed due to legislative changes that affected the companies of the state corporate sector.

- There was also an increase of 0.4 million euros in expenses with retirement benefits due to the mandatory adoption of the reviewed IAS19 standard, which means that remeasurements are now recognised as retained earnings.

- Conversely, there was a decrease in the remunerations headings (approximately by 0.2 million euros) due to a reduction in the Company's average number of employees, as a consequence of the agreements made in order to meet the reductions set forth in the 2013 State Budget Law (minimum 3% reduction in the number of staff members. EPAL achieved a 6% reduction in the number of employees). There was also a decrease of about 29% in extra work (approximately 0.1 million euros).

- The combined effect of the above mentioned changes also gave rise to an increase of approximately 0.5 million euros in social security charges.

- In order to compare 2012 with 2013, the heading "staff expenses" heading did not include the costs incurred with:

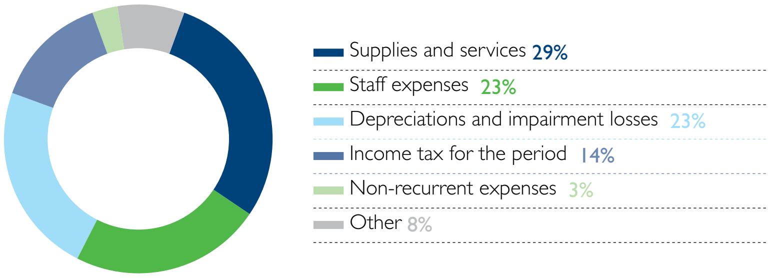
  - the payment of holiday bonuses in 2012, since these were not considered in 2012, as per the 2012 State Budget Law. However, as the Constitutional Court declared that rule unconstitutional after the closing of the accounts for that financial year, EPAL had to record that expense in 2013 (approximately 1.5 million euros);

  - additionally, and also as a result of the 2013 State Budget Law, there was a need to reduce the number of staff members at least by 3%. EPAL achieved a 6% reduction in the number of employees, mostly through terminations by mutual agreement, with the consequent awarding of compensations (approximately 1.9 million euros)

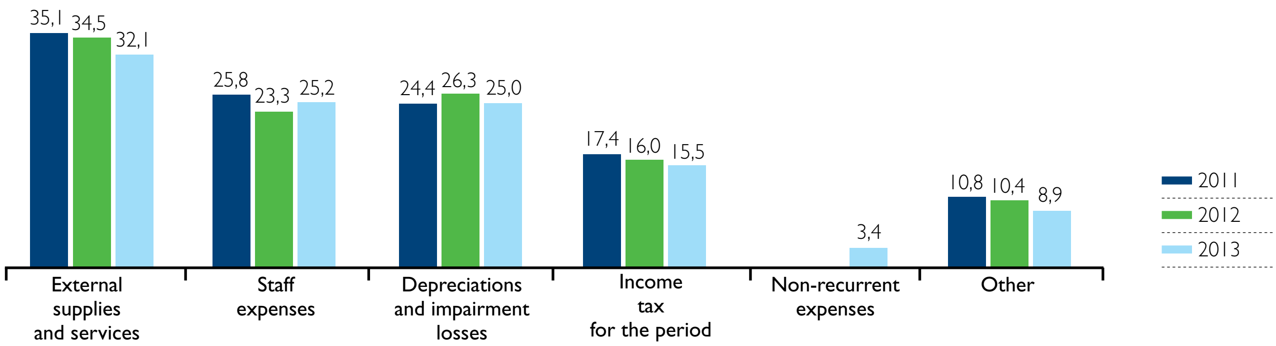
- Thus, in order to compare the 2012 and 2013 financial years, the above mentioned expenses were recorded as "non-recurrent expenses, amounting to 3.4 million euros.

Expense Structure

- The most significant headings are Supplies and Services, which correspond approximately to 29% of the Company's total expenses, the Staff Expenses and Depreciations headings, which correspond approximately to 23% each, considering that the income tax heading corresponds approximately to 14% of the total expenses. Overall, it maintains approximately the same distribution proportion as that of previous years.



• Regarding the evolution of each of the headings, there is a decrease in comparison with the previous years in almost all the headings. The only exception is staff expenses, for reasons that have already been stated, meaning that non-recurrent charges obviously cannot be compared.



Operating Margins (million euros)

• Despite the fact that the overall expense reduction largely offsets the decrease in turnover, the increase in staff expenses due to the resuming of the holiday and Christmas bonuses, as well as the impairment recognised in 2012 as a result of the diverting of the path of the Circunvalação Trunk Main in the area close to the new Vila Franca de Xira Hospital in EBITDA (approximately 1.5 million euros), which lowered to 81.4 million euros (-7.0%).

• Eliminating non-recurrent expenses, the decrease is lower; recurrent EBITDA is then 84.9 million euros, which corresponds to a reduction of only 3.1%.

• Slight decrease, of 0.9%, in operating profit, down to 61.6 million euros.

	2011	2012	2013	Change **13/12**	
Turnover	147,0	144,2	143,1	-1,1	-0,8%
Other operating income	5,3	6,5	4,3	-2,3	-34,5%
Operating Income	**152,3**	**150,7**	**147,4**	**-3,4**	**-2,2%**
Cost of sales	-2,9	-2,9	-2,3	0,6	-20,5%
Supplies and services	-35,1	-34,5	-32,1	2,4	-7,0%
Staff expenses	-25,8	-23,3	-25,2	-1,9	8,4%
Depreciations and asset impairments	-24,4	-26,3	-25,0	1,3	-5,0%
Impairment losses	-0,5	-0,6	-0,7	-0,1	16,3%
Other operating expenses	-1,4	-1,8	-1,6	0,3	-14,0%
Non-recurrent expenses	0,0	0,0	-3,4	-3,4	-
Provisions	**-0,1**	**-0,1**	**-0,6**	**-0,5**	**630,6%**
Operating Expenses	-90,2	-89,5	-90,9	-1,4	1,6%
Depreciations and asset impairments	-24,4	-26,3	-25,0	1,3	-5,0%
Operating cash flow (EBITDA)	**86,5**	**87,5**	**81,4**	**-6,1**	**-7,0%**
Non-recurrent expenses	0,0	0,0	-3,4	-3,4	-
Recurrent operating cash flow (EBITDA)	**86,5**	**87,5**	**84,9**	**-2,7**	**-3,1%**

• These results are also significant in terms of EBITDA margin (EBITDA to Turnover), which fell from 61% to 57% (6.2% decrease).

	2011	2012	2013	Change 13/12	
EBITDA	86,5	87,5	81,4	-6,1	-7,0%
Turnover	147,0	144,2	143,1	-1,1	-0,8%
EBITDA Margin	**59%**	**61%**	**57%**	**-**	**-6,2%**

EBITDA Margin = EBITDA / Turnover

• Similarly, there was a decrease in the recurrent EBITDA margin, which is now 59% (2.3% decrease).

	2011	2012	2013	Change 13/12	
Recurrent EBITDA	86,5	87,5	84,9	-2,7	-3,1%
Turnover	147,0	144,2	143,1	-1,1	-0,8%
Recurrent EBITDA margin	**59%**	**61%**	**59%**	**-**	**-2,3%**

EBITDA Margin = EBITDA / Turnover

Financial Income (million euros)

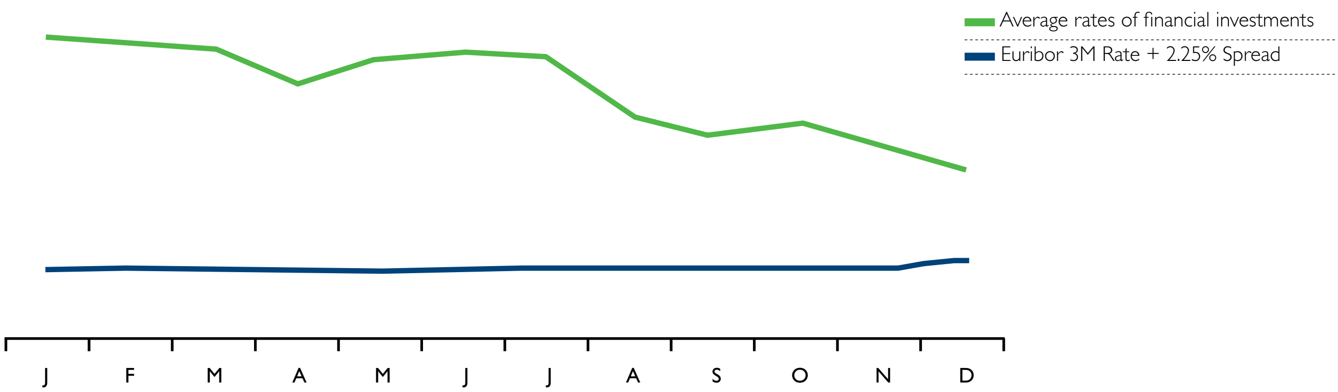
• There was an improvement of 0.6 million euros in the net financial income, which, in 2013, amounted to -1.0 million euros, thus representing a decrease of 37.5%. EPAL continues to maintain a balanced financial structure, with good correlation between the management of its financing and its cash flow.

	2011	2012	2013	Change 13/12	
Financial income and gains	3,7	3,5	2,8	-0,7	-19,2%
Financial expenses and losses	-5,9	-5,0	-3,8	1,3	-24,9%
Financial income	**-2,2**	**-1,6**	**-1,0**	**0,6**	**-37,5%**

• The reduction in financial expenses (-1.3 million euros) was offset by the reduction in financial income (-0.7 million euros)

• The financial income of 2.8 million euros is related mainly to interest earned in banking applications. Its evolution in comparison with the previous year is justified by the growing contraction of the interest rates that remunerate financial surpluses. However, the average rate achieved stood at 3.75%, while market rates, based on the average 3-month Euribor rate, plus a maximum spread of 2.25% (guidelines from the Bank of Portugal for investments of up to three months) stand at 2.47%.

• The financial expenses amounting to 3.8 million euros were 24.9% lower than those of the previous year and correspond mainly to interests payable on the debt to the European Investment Bank (EIB) and respective associated guarantees.



• In 2013, considering the current market conditions, the average financing cost at EPAL, including guarantee-related costs, stood at rather attractive levels, reaching an average of 1.72% for a capital distribution of approximately 53% at a fixed rate and approximately 47% at a variable rate. We must also highlight a decrease by nearly 21% in financing costs, in comparison with the previous year, whose percentage reached 2.11%.

• In 2013, the company did not resort to any new financing, having carried out repayments amounting to 17.7 million euros related to EIB loans, according to the defined reversal plan.

On the **financial level**, EPAL maintains a balanced financial structure with a proper correspondence in terms of maturities between its application of funds and its funding resources. At the end of 2013, the Company's indebtedness amounted to 205.3 million euros, entirely associated with EIB loans with remaining maturities between 4 and 16 years. The medium- and long-term debt to the EIB was reduced by 17.7 million euros. From the value to be amortised, 53% corresponds to fixed-rate loans and 47% to variable-rate loans.

Financial Position (million euros)

• At the end of 2013, EPAL's total assets amounted to 863.7 million euros and equity and liabilities totalled 536.3 million euros and 327.5 million euros, respectively.

	2011	2012	2013	Change 13/12	
Non-current assets	791,5	775,9	755,5	-20,4	-2,6%
Current assets	110,6	107,9	108,2	0,4	0,3%
Total assets	**902,2**	**883,8**	**863,7**	**-20,0**	**-2,3%**
Equity	524,4	535,2	536,3	1,0	0,2%
Non-current liabilities	313,2	287,8	267,8	-19,9	-6,9%
Current liabilities	64,5	60,7	59,6	-1,1	-1,8%
Total equity and liabilities	**902,2**	**883,8**	**863,7**	**-20,0**	**-2,3%**

• EPAL ended 2013 with a solid financial position, showing an equity to assets ratio of 62.1% and a working capital of 48.6 million euros. Both the Net Debt/EBITDA value of 1.67 in 2013, and the recurrent Net Debt/EBITDA value of 1.61 confirm EPAL'S sustainability in financial terms.

	2011	2012	2013
Solidity	58,1%	60,6%	62,1%
Net Debt/EBITDA	1,90	1,75	1,67
Recurrent Net Debt/EBITDA	1,90	1,75	1,61
Working capital (million euros)	46,1	47,1	48,6
Solvency	1,39	1,54	1,64

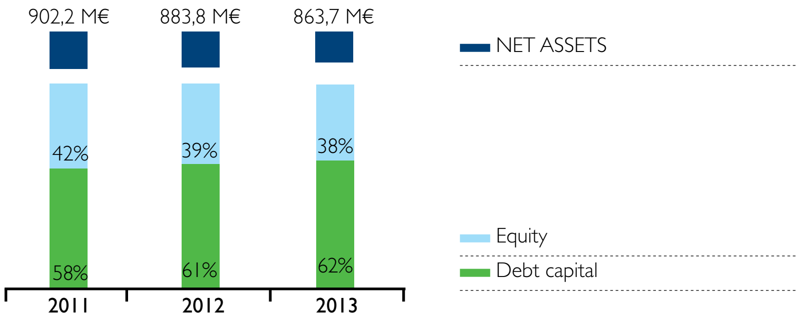
Solidity = Equity to Total Assets ratio

NET Debt/EBITDA = [Borrowings -Cash Balances]/EBITDA

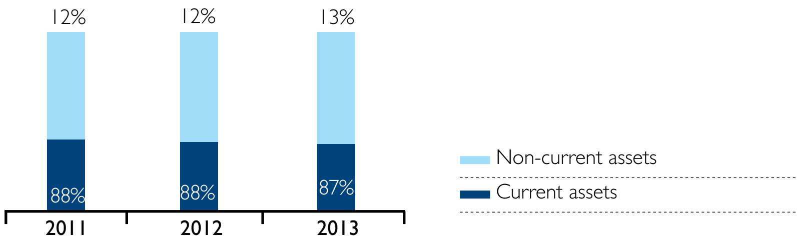
Working capital = Current Assets minus Current Liabilities

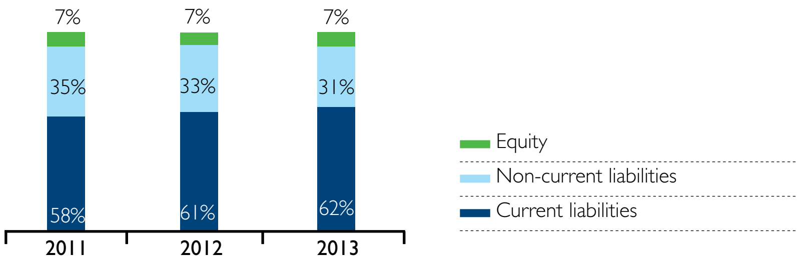
Solvency = Equity to Total Liabilities ratio

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



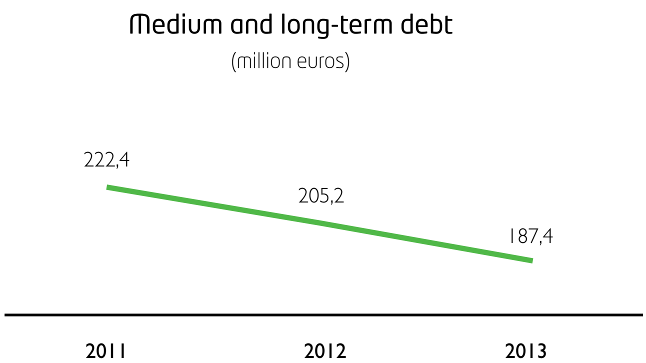
• The optimisation of financial resources is still one of EPAL's priorities, seeking an appropriate correspondence between asset maturities and the respective sources of financing. At the end of 2013 there was a strong relationship between non-current assets (87.4% of the total value) and permanent capitals (equity and non-current liabilities together corresponded to 93% of the total value)





Medium- and Long-Term Debt (million euros)

• Medium- and long-term debt amounted to 205.4 million euros at the end of 2013, 17,7 million euros less than in 2012, an evolution justified by the lack of new indebtedness in the period, coupled with continued debt service



• All bank indebtedness was contracted with the European Investment Bank and accounted for a maximum of 50% of capital expenditure between 1997 and 2010.

Cash flow generated (million euros)

• The company had a net cash inflow of 12.4 million euros in this financial year.

	2011	2012	2013
Cash flows from operating activities	48,8	65,3	59,8
Cash flows from investing activities	-10,9	-15,0	9,2
Cash flow from financing activities			
Dividend payments and bank debt service	-42,7	-55,3	-56,6
Proceeds from financing activities			
Drawdowns in the year	0	0,0	0,0
Changes in cash and cash equivalents	**-4,8**	**-5,0**	**12,4**

• The cash flows that resulted from operating activities were enough to ensure all the bank debt service and the shareholder's remuneration.

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

• The average payment term was 30 days, maintaining the value attained in 2012.

Pension Fund

• The Defined Benefit Pension Fund amounted, at the end of the year, to 37.8 million euros, with a level of funding of 102% and a discount rate of 3.1%, considering that past service liabilities corresponded to 37.1 million euros (138%, according to the assumptions of the ISP's Minimum Fund).

• The Defined Contribution Pension Fund amounted to 16.2 million euros at the end of 2013.

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 facilities for training and teaching golf at Epal's facilities, at Amoreiras

• Its share capital is 350,000 euros.

• It has had no activity in the last few years pending the settlement of arbitration proceedings, which have conditioned the pursuance of its corporate purpose

6. Corporate Activity

Water Production

Sources

The company used the following sources for water abstraction:

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

Water abstracted, treated, sold and non-invoiced

	2011	2012	2013	Change 13/12	
Water abstracted (Volume abstracted per source) (m^3)	**234 505 083**	**224 490 035**	**218 251 646**	**-6 238 389**	**-2,8%**
Castelo de Bode	156 334 720	159 137 870	175 765 850	16 627 980	10,4%
Valada Tejo	55 963 950	46 934 750	26 717 710	-20 217 040	-43,1%
Underground Abstractions	22 206 413	18 417 415	15 768 086	-2 649 329	-14,4%
Water treated/produced (m^3)	**234 213 353**	**224 184 675**	**217 838 881**	**-6 345 794**	**-2,8%**
Castelo de Bode	156 328 200	159 132 240	175 759 785	16 627 545	10,4%
Valada Tejo	55 678 740	46 635 020	26 311 010	-20 324 010	-43,6%
Underground Abstractions	22 206 413	18 417 415	15 768 086	-2 649 329	-14,4%
Water sold (m^3)	**210 286 101**	**205 210 051**	**198 667 724**	**-6 542 328**	**-3,2%**
Municipal/Multi-municipal customers	154 012 530	150 510 004	145 065 697	-5 444 307	-3,6%
Municipal customers	126 851 459	121 545 908	116 950 916	-4 594 992	-3,8%
Multi-municipal customers	27 161 071	28 964 096	28 114 781	-849 315	-2,9%
Direct Customers (in and outside Lisbon)	56 273 571	54 700 047	53 602 027	-1 098 020	-2,0%
Non-invoiced water (m^3)	**24 218 982**	**19 279 984**	**19 583 923**	**303 939**	1,6%
Water not invoiced in the distribution network	11 218 589	9 008 306	8 166 925	-841 381	-9,3%
Water not invoiced in Production and Transportation	13 000 393	10 271 678	11 416 998	1 145 320	11,2%
Non-invoiced water (%)	**10,3%**	**8,6%**	**9,0%**	**0,4 p.p.**	
Water not invoiced in the distribution network	10,0%	8,7%	7,9%	-0,8 p.p.	
Water not invoiced in production and transportation	5,5%	4,6%	5,2%	0,7 p.p.	

In 2013, EPAL abstracted less 6.2 million m^3 of water than in the previous year, which corresponds to a 2.8% decrease.

There was a significant increase in the volume abstracted in Castelo do Bode (10.4%), but a sharp decrease in the volumes abstracted in the Tagus River (-43.1%) and in Underground water abstractions (-14.4%), with the goal of reducing the overall consumption of energy and reagents, which also allowed improving the quality of the water that was distributed.

Regarding the volume of water sold, there was a decrease by 6.5 million m^3, in comparison with the previous year, which corresponds to a 3.2% drop. Water sales to Direct Customers have dropped by approximately 1 million m^3 and, in the Multi-Municipal and Municipal Customer segment, the decrease was approximately 5.4 million m^3.

We should highlight that, over the last few years, there has been a declining trend in terms of the volumes purchased by the Company's Customers.

Non-invoiced water increased by approximately 0.3 million m^3 in comparison with the previous year, which corresponds to a 1.6% increase.

We should highlight that the company continues to show values that reveal excellent performance in terms of policies to fight water losses and leaks, managing to achieve a loss level of only 7.9% in the distribution network.

Transportation

	2011	2012	2013	Change 13/12	
Piping length (km)	710	710	710	0	0,00%
Pumping stations (no.)	31	31	31	0	0,00%
Reservoirs (no.)	28	28	28	0	0,00%
Delivery Points (no.)	128	128	127	-1	-0,78%

	2011	2012	2013	Change 13/12	
Breakdowns in pipings of the Abstraction Network	13	26	13	-13	-50,00%

In 2013, there were 13 breakdowns in Production and Transportation pipings. That is 13 breakdowns less than in the previous year.

Distribution

	2011	2012	2013	Change 13/12	
Network length (km)	1 430	1 434	1 448	14	1,0%
Pumping stations (no.)	10	10	10	0	0,0%
Reservoirs (no.)	14	14	14	0	0,0%
Service mains (n.º)	83 555	83 984	86 428	2444	2,9%
Altimetric Zones (no.)	4	4	4	0	0,0%

	2011	2012	2013	Change 13/12	
Renovation of the distribution network (km)	14,17	12,41	9,29	-3	-25,1%
Rehabilitation of pipings of the Distribution Network (as %)	0,99%	0,87%	0,64%	-0,2 p.p.	
Rehabilitation of Service Mains (as %)	2,05%	2,30%	1,32%	-1,0 p.p.	

	2011	2012	2013	Change 13/12	
Breakdowns in pipings of the Distribution Network (ERSAR)	465	527	528	1	0,2%
Breakdowns in pipings/ 100 km/ Year in the Distribution Network	33	37	36	-1	-1,5%
Bursts in service mains	833	857	706	-151	-17,6%

In 2013, a total of 9.3 kilometres of the Distribution Network, accounting for 0.6% of the network's total length, underwent renovation works.

Compared to the previous year, there was a 17.6% decrease in the number of bursts in service mains.

Quality

Water quality

The quality control in EPAL's Water Supply System is ensured by compliance with the Water Quality Control Plan - PCQA [Plano de Controlo da Qualidade da Água]. The PCQA comprises Legal Control, as set forth by Decree-Law no. 306/2007 of 27 August, Operational Control/Monitoring of the quality of the water at the sources and for human consumption at EPAL's Supply System, and the control of treatment processes (water, effluents and sludge and products used in water treatment), which is performed at the Plants and at the Alenquer decarbonation plant.

Sampling points

To bring about compliance with Legal Control, 1,352 sampling points are installed on customers' taps, 95 points at delivery points to Management Entities, and 7 at delivery points to customers located in the areas of Intervention of other Management Entities.

In terms of Operational Control/Monitoring there are 181 fixed sampling points along the Distribution Network in the city of Lisbon, 58 points representing the Supply and Transportation System, and 51 installed at water sources.

For the purpose of Process Control, 106 sampling points are used, representing the process control carried out at the Asseiceira and Vale da Pedra facilities, as well as at the Alenquer Decarbonation Plant.

Samples and measurements

In 2013, 8,270 water samples were taken, as part of the Legal and Operational Control/Monitoring, and 14,851 samples were taken as part of the Process Control. These samples comprised the examination of 177 different parameters, which correspond to 275 individual substances.

There were 271,782 parameter measurements (308,960 individual substances were isolated), distributed as follows:

	No. of measurements	
	(parameters)	(substances)
Legal control		
Direct customers via the transportation network	559	895
Deliveries to Management Entities	19 920	21 352
Consumers' taps in the city of Lisbon	14 164	14 428
Sub-total	**34 643**	**36 675**
Operational control/monitoring:		
Underground water abstractions	6 408	11 251
Surface water abstractions	22 693	27 044
Transportation Systems (from plants)	58 817	72 972
Distribution Network (Fixed Points)	35 826	42 008
Sub-total	**123 744**	**153 275**
Process control		
Asseiceira plant	39 506	40 741
Vale da Pedra plant	71 038	75 322
Alenquer decarbonation plant	2 851	2 947
Sub-total	**113 395**	**119 010**
Total	**271 782**	**308 960**

More than 475 samples, which resulted in the isolation of 5,384 individual substances, were collected as a result of complaints about the quality of the water; processes associated with the non-compliance of alert values; parametric and recommended processes, and cleaning and disinfection operations conducted in reservoirs and pipings.

Evolution of water quality

Water at Sources

Zêzere River - Castelo do Bode reservoir

Water quality in the Castelo do Bode Reservoir was deemed Class A2 for parameters such as faecal Coliforms and total Coliforms, dissolved Hydrocarbons and Salmonellae. However, the Asseiceira Plant has a treatment plan in place that is suitable for the water quality of this abstraction.

Tagus River - Valada Tejo

Water quality has remained stable, with occasional worsening, caused by rain and drought. Regarding the parameter "substances extractable with chloroform", the water from the Tagus River ranks above A3, and regarding parameters "Total coliforms" and "Salmonellae", it is in Class A3. In terms of parameters such as Faecal coliforms, Colour and Faecal streptococci, the water quality at this abstraction falls into Class A2, and into Class A1 for all other parameters controlled.

Underground water abstractions

Medium or hard mineralised waters, whose parameters generally comply with the figures of Class A1, with no noticeable evolution in quality.

The quality parameters that exceeded the Maximum Permissible Value (VMA) defined for Class 1 in Decree-Law no. 236/98 of 1 August were just Barium and Temperature in the Lezírias underground water abstractions used for the production of water for human consumption.

Supplied/Distributed water

In Lisbon

The quality of water at the consumer's tap complied with the standards set forth under Portuguese law, with the exception of a few non-repetitive cases, with non-compliant readings occurring in 0.49% (70 non-compliances) of the substance measurements performed.

At the fixed sampling points installed in the distribution network, the number of outcomes carried out allowed us to conclude that, with the exception of a few non-repetitive cases, the water met the quality standards set forth under Portuguese law, with 0.10% non-compliant readings, out of the total number of substance measurements that were performed (43 non-compliances).

To Management Entities

In the measurements performed on samples collected at water delivery points to Water Supply System Management Entities, there were 0.12% non-compliant readings (25 non-compliances).

In comparison with 2012, we conclude that there was a slight increase in the number of non-compliant water samples collected for the verification of legal requirements and for operational control and monitoring purposes. However, they correspond to very low percentages

Data disclosure

Every month, the company's website, www.epal.pt presents the statistical charts regarding compliance tests conducted on water collected from consumers' taps and from delivery points to Management Entities..

Quarterly:

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

7. Investments

Change during the three-year period

2011	2012	2013	Change 2013/2012	Total in the three-year period
11.957.901	13.071.983	6.626.841	-49%	31.656.725

Group Description	2011	2012	2013
Capacity assurance	**3 707 331**	**2 741 141**	**448 327**
Expansion of the Castelo do Bode subsystem	2 560 762	112 221	2 500
Expansion of the distribution network	1 087 025	2 427 927	445 827
Other	59 544	200 993	0
Assurance of reliability and safety	**6 356 255**	**6 186 475**	**4 416 008**
Rehabilitation of the Vale da Pedra abstraction and treatment plant	0	103 132	1 794 085
Renovation of the distribution network	2 867 095	1 391 821	1 617 737
Renovation of the transportation network	1 427 593	3 475 116	75 121
Rehabilitation of Pumping Stations and Reservoirs	850 048	344 168	128 000
Other	1 211 519	872 239	801 065
Quality assurance	**435 039**	**543 576**	**385 538**
Sustainability and innovation	**192 128**	**651 000**	**155 695**
Monitoring and control	38 738	210 149	116 801
Energy efficiency	153 391	440 852	38 894
Information and communication technologies	**698 623**	**456 503**	**687 668**
Aquamatrix	348 861	46 100	239 149
Infrastructure and remote management	237 209	115 698	37 225
Other	112 553	294 704	411 294
Other investments	**568 524**	**2 493 288**	**533 604**
TOTAL	**11 957 901**	**13 071 983**	**6 626 841**

- In 2013, the investment made by EPAL amounted to 6.6 million euros, which is below the amount invested in the previous year (-49%), reflecting a strong concern with the rationalisation of its investments, trying to ensure a level of investment that does not compromise the performance of its assets but, at the same time, is sustainable in economic and financial terms.

- The heading "assurance of reliability and safety" was responsible for 67% of the total investment, while "information and communication technologies" absorbed approximately 10% and "capacity assurance" corresponded to nearly 7% of the overall investments made in 2013.

From the various projects carried out, we highlight the following investments:

- Ongoing Rehabilitation and Refurbishment of the Valada do Tejo Abstraction, amounting to 1.8 million euros;
- Renovation of 9.3 km of the Distribution Network (trunk and service mains), amounting to 1.6 million euros;
- Extension of the Distribution Network by 1.1 km, amounting to 0.4 million euros;
- Structuring works associated with the Safety Project (0.3 million euros);
- Interventions in operating structures, in the amount of 0.2 million euros;
- 0.7 million euros in Information and Communication Technologies.

8. Commercial Activity

Area and population served

	2011	2012	2013	Change 13/12	
Total supplied area (km²)	7 090	7 090	(1) 7 090	0	0,00%
Lisbon	85	85	85	0	0,00%
Municipalities	7 005	7 005	7 005	0	0,00%
Number of consumers	2 870 314	2 870 507	(2) 2 859 714	-10 793	-0,38%
Lisbon	547 631	547 733	524 282	-23 451	-4,28%
Municipalities	2 322 683	2 322 774	2 335 432	12 658	0,54%

(1) Area in km² (data from 2013 respecting to 2012)

(2) INE - Number of residents in the supplied area (Annual INE estimates, with respect to 2012)

Customers and market

Direct customers

	2011	2012	2013	Change 13/12	
Direct customers (in and outside Lisbon)	348 790	346 121	347 233	1 112	0,32%
Domestic	298 506	297 336	298 992	1 656	0,56%
Industry and trade	42 943	41 712	41 318	-394	-0,94%
State, Lisbon City Council and Embassies	4 624	4 367	4 269	-98	-2,24%
Private institutions under public law	2 715	2 704	2 652	-52	-1,92%
Military facilities	2	2	2	0	0,00%

In 2013, the number of Domestic Customers grew by 1,656 in relation to the previous year.

Municipal customers

In 2013, the number of Municipal Customers directly supplied by EPAL remained unchanged, at 17:

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

Multi-municipal customers

In 2013, EPAL supplied the following Multi-Municipal Customers:

• Águas do Oeste

Comprises 14 municipalities indirectly supplied by EPAL:

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

• Águas do Centro

Supplies EPAL water to 2 municipalities:

ENTRONCAMENTO	VILA NOVA DA BARQUINHA

• Águas do Ribatejo

• Águas do Ribatejo supplies 1 municipality with EPAL water:

TORRES NOVAS

Rendering of services

Water Sold (m^3)

	2011	2012	2013	Variação 13/12
Direct customers	56 273 571	54 700 047	53 602 027	-1 098 020
Municipal customers	126 851 459	121 545 908	116 950 916	-4 594 992
Multi-municipal customers	27 161 071	28 964 096	28 114 781	-849 315
Total	**210 286 101**	**205 210 051**	**198 667 724**	**-6 542 328**

In 2013, there was a 3.2% decrease in the volume of water sold against the previous year, which corresponds to less approximately 6.5 million m^3 of water.

The drop was of 2.0% in Direct Customers, 3.8% in Municipal Customers and 2.9% in Multi-Municipal Customers.

Similarly to previous years, there is a slowdown trend in the volumes of water sold by EPAL.

Sold directly to customers

Un: x10³ m³

Consumption Structure	2011	2012	2013	change 13/12	change % 13/12
Domestic	27 043	26 857	26 492	-364	-1,4%
Trade/Industry	12 626	11 722	11 483	-239	-2,0%
Public Interest Institutes	1 979	1 877	1 861	-16	-0,9%
Embassies	169	179	159	-20	-11,3%
State	5 817	5 342	4 866	-476	-8,9%
Military facilities	340	360	318	-42	-11,6%
Câmara Municipal de Lisboa	8 300	8 363	8 423	60	0,7%
Total Water Supplied	**56 274**	**54 700**	**53 602**	**-1 098**	**-2,0%**

Regarding direct customers, there was a decrease by approximately 1 million m³ in the volume of water sold in comparison with the previous year, a decrease that was more significant in the Domestic, Trade and Industry and State segments.

Invoicing and collection

Invoicing

In 2013 there was an increase in the number of invoices sent electronically. Indeed, of the nearly 2.5 million invoices that were issued, 15.2% were sent via e-bill, which corresponds to a significant increase in comparison with 2013, when that percentage had been 12.5%.

With regard to invoicing frequency, the number of customers who requested monthly invoicing rose to 18.4%.

Collection

The accumulated overdue debt amounts to nearly 7.9 million euros, excluding accrued values, showing an increase of approximately 3 million euros, which is mainly related to the non-payment of financial offset invoices by a number of defaulting customers.

If we include accrued values, the overdue debt is approximately 14.9 million euros, corresponding to an increase of nearly 3.8 million euros, in comparison with the previous year.

The increase in the overdue debt should also be understood within the context of crisis that the country has been experiencing over the last few years.

Customer service

Contact Centre

	2011	2012	2013	Change 13/12
Customers served (no.)	260 747	246 935	253 386	2,6%
Average waiting time (sec)	29	25	33	32%
Service level	93%	94%	95%	1%
Calls answered in less than 30 sec	**76%**	**72%**	**75%**	**4%**

Personal service

	2011	2012	2013	Change 13/12
Customers served in stores (no.)	190 323	174 356	163 308	-6,3%
Waiting time of up to 15 minutes (head office store)	90%	83%	70%	-15,7%
Average waiting time (head office store) (min)	5	8	12	50,0%

Service levels

Service interruptions with impact for customers

Service interruptions with impact for customers	2011	2012	2013	Change 13/12	
By time (h)	**3 153**	**3 197**	**2 708**	**-489**	**-15,3%**
Total production and transportation	**337**	**375**	**191**	**-184**	**-49,1%**
Scheduled	324	375	191	-184	-49,1%
Unscheduled	13	0	0	0	-
Total Distribution	**2 816**	**2 822**	**2 517**	**-305**	**-10,8%**
Scheduled	696	698	479	-219	-31,4%
Unscheduled	2 120	2 124	2 038	-86	-4,0%
By quantity	**861**	**858**	**781**	**-77**	**-9,0%**
Total production and transportation	**27**	**14**	**13**	**-1**	**-7,1%**
Scheduled	25	14	13	-1	-7,1%
Unscheduled	2	0	0	0	-
Total Distribution	**834**	**844**	**768**	**-76**	**-9,0%**
Scheduled	170	179	127	-52	-29,1%
Unscheduled	664	665	641	-24	-3,6%

Service effectiveness	2011	2012	2013	Change 13/12	
Service interruptions > 4h - Municipal Customers	26	13	11	-2	-15,4%
Service interruptions > 4h - Direct Customers	287	289	256	-33	-11,4%
Service interruptions > 12h - Municipal Customers	12	7	1	-6	-85,7%
Service interruptions > 12h - Direct Customers	11	6	7	1	16,7%
Number of delivery points affected (> 4h)	45	28	24	-4	-14,3%

Complaints

In 2013, again, there was a reduction in the number of complaints (-3.7%). There were 6,386 complaints, less 244 than in 2012.

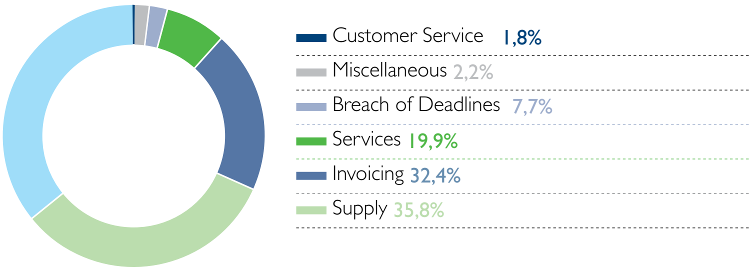
The heading "Supply" is still the most significant one, corresponding to 35.8% of the total number of complaints, although it showed a 19.7% decrease.

On the other hand, the number of complaints about "Invoicing" and "Services" recorded increases in comparison with the previous year, corresponding respectively to 32.4% and 19.9% of all complaints.

From the total number of complaints that were submitted, 15% were handled in a front-office context, while 5,430 were examined in a back-office context, 78.8% of which were handled in less than 15 days and 72.4% were accepted.

The number of written complaints showed a 17% increase, most of them regarding "Invoicing" issues (60.7%). From the total number of written complaints, 100% were answered within 22 working days, thus meeting the goal established by ERSAR.

Distribution of complaints by Categories/Subjects



Satisfaction Levels

For the 5th year in a row, EPAL took part in the ECSI – Índice Nacional de Satisfação de Clientes (National Customer Satisfaction Level) - a system for evaluating the quality of goods and services using a customer satisfaction survey - providing EPAL, not only with the satisfaction level of its customers, but also with a comparison against the water sector and other sectors nationwide.

The satisfaction level was 7.74, which corresponds to high satisfaction values, which are well above the average in the sector.

Variables	EPAL					Water Sector					"Change 2012 EPAL - Water Sector"
	2012	2011	2010	2009	2008	2012	2011	2010	2009	2008	
Image	7,77	7,81	7,79	7,84	7,51	7,65	7,53	7,78	7,30	7,23	0,12
Expectations	7,61	7,66	7,65	7,70	7,04	7,46	7,29	7,35	7,07	6,87	0,15
Quality	7,99	8,09	7,98	7,94	7,40	7,68	7,65	7,73	7,27	7,19	0,31
Value	6,71	6,73	6,90	7,09	6,29	6,41	6,41	6,49	6,10	5,80	0,30
Satisfaction	7,74	7,75	7,74	7,71	7,32	7,50	7,31	7,42	7,04	6,84	0,24
Complaints	7,07	7,24	7,03	7,13	6,48	6,81	6,54	6,86	6,46	5,98	0,26
Confidence	7,80	7,97	_	_	_	7,64	7,42	_	_	_	0,16
Loyalty	7,26	7,28	7,29	7,38	6,92	7,09	6,78	6,88	6,54	6,48	0,17

Scale of 1 to 10:

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

Of the 34 sub-criteria examined, EPAL recorded values above or equal to 8 points in 14 items, of which we highlight "Stable company, well established on the market" (8.7); "Adequacy of payment methods" (8.6); "Supply", "Customer service facilities" and "Recommendable to colleagues and friends" (all with 8.3).

As in 2011, the variable with the best score was "Quality", with 7.99 points, having obtained a score equal to or above 8 in more than half of its sub-criteria, followed by "Confidence", with 7.80, and "Image", with 7.77. Although there was a slight decrease in "Satisfaction", EPAL is still above the average for the sector (7.5), and "overall satisfaction" maintained the highest figure (8.1).

In terms of consumption habits, the percentage of customers who "drink tap water" decreased from 84.3% to 80.3%, a trend that contradicts that recorded in the last few years, when there was progressive growth. Customers who "don't drink tap water" pointing out the "quality/taste of the water" as the main reason (61.2%), representing an increase in comparison with 2011 (51.3%).

Other services

In 2013, EPAL provided the following services to external entities:

- Laboratory collections and tests

  Throughout 2013, the company awarded 28 contracts to provide services to external customers, which amounted to 123.6 thousand euros.

- Water meter repairs and tests

  EPAL provided 442 services, which corresponds to the number of water meters or water flow measuring instruments that underwent repairs

- WONE

  EPAL provided services to the following entities:

  - Faculty of Sciences
  - Faculty of Law
  - Santa Casa da Misericórdia
  - ISOLUX
  - Instituto Português de Oncologia de Lisboa
  - Carris
  - Ministry of Finance

AQUAmatrix

Regarding the marketing of AQUAmatrix, 2013 was marked by the following events:

- Renewal of the contracts with SMAS Sintra, SMAS Loures, SMAT Portalegre e SMAS Castelo Branco;
- AQUAmatrix was implemented in the Municipality of Fronteira (as a result of conversations with CTT/Mailtec in order to establish a partnership that would allow offering a complementary range of finishing and collection services);
- Conclusion of the contract with Águas da Região Maputo;
- Conversations with FIPAG regarding the possibility of implementing AQUAmatrix in the 5 largest cities of Mozambique;
- Awarding of the implementation of AQUAmatrix at Águas do Noroeste.

In 2013 we started a technological evolution process for this product, based on Microsoft technologies, having defined a strategy for the modernisation and technological upgrade of AQUAmatrix in order to improve its competitiveness and promote its internationalisation, which involved reviewing the respective business plan.

9. Management Goals

As the Shareholder did not define management goals for 2013, the Board of Directors decided to monitor the conditions provided for in articles 63 and 64 of the 2013 State Budget Law, which set forth a reduction in the number of employees working for companies of the state corporate sector (article 63) and that public companies must pursue a policy to optimise their operating expense structure in a way that promotes operational balance (article 64).

Article 63 of the State Budget Law establishes that, in 2013 all public companies must reduce their overall number of employees, at least by 3% in comparison with the number they had on 31 December 2012

For the purposes laid down in article 64 of the 2013 State Budget Law, companies must take steps to ensure that:

- overall, the reduction of the weight of operating expenses in their turnover (EPAL followed the guidelines laid down in circular letter no. 82 of 6 January 2012, issued by the DGTF [Directorate-General for the Treasury and Finance], which defined a proportion between the sum of COGS, Supplies and services and Staff expenses (excluding compensations) over the Company's Turnover);

- they reach a minimum savings of 50%, in comparison with the amount spent in 2010, in travelling, subsistence allowance and accommodation expenses. The company considered incurred expenses regarding activities that are mainly performed within EPAL's area of intervention. The Company did not consider expenses actually incurred with complementary activities (Aquamatrix, Wone, Laboratory Tests and Other Services), given that they promote the generation of additional revenues other than those resulting from the Company's main activity.

- communication expenses must correspond to a maximum of 50% of the average expenses of this nature made in 2009 and 2010 (expenses incurred with the Company's supervision and operational telemanagement systems, as well as with data transmission and fixed expenses related to communications were not included. Expenses with postal charges and orders were also not included, considering that this item is mostly related to invoice shipping).

The following table presents the indicators monitored, the corresponding goals and the achievement attained, showing that the provisions laid down in articles 63 and 64 of the 2013 State Budget Law were fully complied with.

Indicators	Reference Value	Objective	Performance	Reduction	Assessment
Reduction of the weight of operating expenses in turnover	-	41,2%	39,7%	-4%	✓
Reduction in travelling expenses, subsistence allowances and accommodation expenses (thousand €)	187,4	<= 50%	28,9	-85%	✓
Reduction in communication expenses (thousand €)	251,3	<= 50%	56,6	-77%	✓
Reduction in the number of employees	-	714	694	-6%	✓

10. Outlook

EPAL's horizons for the future are outlined around values such as Efficiency, Productivity, Innovation, Development and Quality.

Our aim is to adopt these values as a motivation for our daily activities in order to overcome the challenges that the company is faced with, among which we highlight the restructuring of the water sector, in which EPAL holds a reference position, and the efficient modernisation and maintenance of its production, transportation and distribution systems, within a framework of rationalised investment.

In the context of a progressive and consistent reduction in water consumption, it is important to create conditions that allow maintaining the company's economic and financial solidity, increasing the efficiency of its operations, without compromising the efficiency of its actions or the quality of the public service we provide.

It is important to encourage, give space to, and promote the potential for innovation and development that exists in the company, which allowed the creation and launch of products and services that have earned national and international attention and recognition, such as AQUAmatrix, WONE, Chave Águas Livres and Waterbeep. Along this dynamic line, we have made a commitment to launch a new product/service every year, something that will also happen in 2014.

Last, but not least, we intend to invest on the technical and professional training of EPAL's employees as, the more solid and up-to-date their training is, the more prepared they will be to take part in overcoming the company's future challenges.

11. Closing remarks

As we conclude EPAL's Annual Report and Accounts for the financial year of 2013, we must point out the Board of Directors' high level of appreciation and acknowledgement towards all those who directly and indirectly contributed to the results achieved.

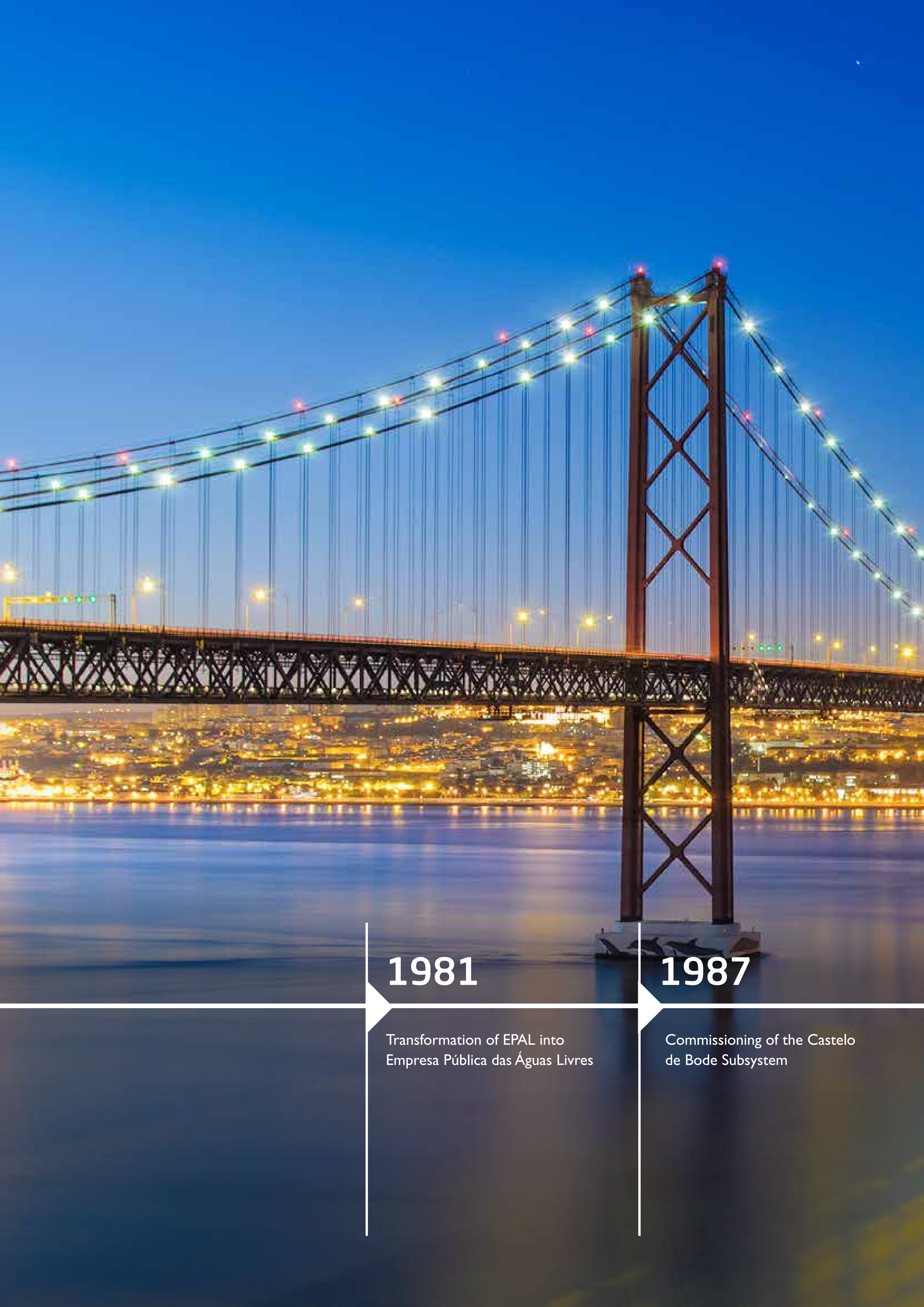
The Board of Directors would, therefore, like to thank the Government members who ensure the company's administration, the Shareholder, in the persons of its Board of Directors, the managing officers of the public bodies and services that collaborate with EPAL, namely ERSAR, DGAE, DGTF and the Court of Auditors, the managing officers and staff members of banking institutions and insurance companies, all the other members of the company's governing bodies and the external auditors, our suppliers, project designers and contractors, all of EPAL's Customers and its managing officers and staff members.

12. Proposed appropriation of net profit

Pursuant to the provisions of article 21 of the Articles of Association of EPAL – Empresa Portuguesa das Águas Livres, S.A., the Board of Directors proposes that the Net Profit for the Financial Year 2013, in the amount of € 39,961,784.04 (thirty-nine million, nine hundred and sixty-one thousand, seven hundred and eighty-four euros and four cents) are appropriated as follows:

€ 31.969.427,23 (thirty-one million, nine hundred and sixty-nine thousand, four hundred and twenty-seven euros and twenty-three cents), to be distributed as dividends to the Shareholders

€ 7.992.356,81 (seven million, nine hundred and ninety-two thousand, three hundred and fifty-six euros and eighty-one cents) as Retained Earnings



1981

Transformation of EPAL into Empresa Pública das Águas Livres

1987

Commissioning of the Castelo de Bode Subsystem

1991

Transformation of EPAL into Empresa Portuguesa das Águas Livres, a State-owned public limited company

1993

Integration of EPAL into the AdP - Águas de Portugal group

2001

The Circunvalação trunk main came into operation

Statements of Financial Position on 31 December 2013 and 2012

(amounts in Euros)

ASSETS	Notes	31 December 2013	31 December 2013 Restated *
NON-CURRENT ASSETS:			
Tangible fixed assets	6	742 085 113,67	760 381 486,46
Investment properties	7	956 714,69	1 051 493,78
Investments in subsidiaries	8	-	-
Other financial assets	10	110 230,68	110 230,68
Deferred tax assets	11	4 237 268,17	4 520 816,49
Other non-current assets	12	8 098 635,03	9 816 151,61
Total non-current assets		**755 487 962,24**	**775 880 179,02**
CURRENT ASSETS:			
Inventories	13	907 879,57	1 159 767,84
Customers	14	20 401 189,80	18 713 329,93
State and other public entities	21	2 096 301,15	1 610 534,00
Other accounts receivable	14	15 089 248,56	15 329 663,20
Deferrals	15	687 257,42	882 308,98
Other financial assets	5 e 10	67 000 000,00	67 500 000,00
Cash and bank deposits	5	2 063 759,41	2 678 460,18
Total current assets		**108 245 635,91**	**107 874 064,13**
Total assets		**863 733 598,15**	**883 754 243,15**
EQUITY AND LIABILITIES			
EQUITY			
Paid-up capital	16	150 000 000,00	150 000 000,00
Legal reserve	16	30 000 000,00	30 000 000,00
Other reserves	16	22 171 377,45	22 171 377,45
Retained earnings	16	294 136 905,46	289 484 942,85
Other changes in equity		(4 063,81)	(4 063,81)
		496 304 219,10	491 652 256,49
Net profit for the period		39 961 784,04	43 577 439,12
Total equity		**536 266 003,14**	**535 229 695,61**
LIABILITIES:			
NON-CURRENT LIABILITIES:			
Borrowings	17	187 444 544,52	205 216 386,67
Investment subsidies	18	33 950 414,76	35 226 391,44
Post-employment benefit obligations	19	4 260 078,57	6 041 078,57
Deferred tax liabilities	11	42 181 516,43	41 292 962,91
Total non-current liabilities		**267 836 554,28**	**287 776 819,59**
CURRENT LIABILITIES:			
Provisions	20	1 363 566,29	1 058 504,35
Trade payables	17	14 029 914,80	12 784 865,90
State and other public entities	21	4 648 618,71	4 276 240,46
Borrowings	17	18 311 266,91	18 393 159,30
Other accounts payable	17	21 277 674,02	24 234 957,94
Total current liabilities		**59 631 040,73**	**60 747 727,95**
Total liabilities		**327 467 595,01**	**348 524 547,54**
Total equity and liabilities		**863 733 598,15**	**883 754 243,15**

** 2012 was only restated due to the adoption of the reviewed IAS 19 standard*

The notes are an integral part of the statements of financial position on 31 December 2013.

The CFO and Chartered Accountant
Marcos Levi Santinho de Faria Miguel

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

Financial statement by nature for the financial years ended 31 December 2013 and 2012

(amounts in Euros)

Income and Expenses	Notes	2013	2012 Restated *
Sales and services provided	22	143 079 104,53	144 205 267,87
Cost of goods sold and materials consumed	13	(2 285 540,93)	(2 876 183,62)
Supplies and services	23	(32 122 093,96)	(34 527 224,65)
Staff expenses	24	(25 244 378,84)	(23 297 213,62)
Debtor impairment (losses) / reversals	14	(524 458,93)	(496 708,03)
Provision (increases) / reductions	20	(338 025,82)	829 168,40
Investment subsidies	18	1 275 976,68	1 252 533,96
Other income and gains	25	2 603 307,47	4 289 797,15
Other expenses and losses	26	(1 583 776,68)	(1 842 335,72)
Non-recurrent expenses	24	(3 430 505,81)	-
Profit before depreciations, financing expenses and taxes		**81 429 607,71**	**87 537 101,74**
Depreciation and amortisation expenses	27	(25 008 813,75)	(24 796 339,13)
Impairment of depreciable and amortisable assets (losses) / reversals		-	(1 541 296,23)
Operating profit (before financing expenses and taxes)		**56 420 793,96**	**61 199 466,38**
Interest and similar income	28	2 797 403,15	3 463 847,81
Interest and similar expenses incurred	28	(3 779 861,85)	(5 036 245,54)
Profit before taxes		**55 438 335,26**	**59 627 068,65**
Income tax for the period - deferred	11	1 449 693,46	2 457 308,46
Income tax for the period - current	11	(16 926 244,68)	(18 506 937,99)
Net profit for the period		**39 961 784,04**	**43 577 439,12**
Basic earnings per share	32	1,33	1,45
Diluted earnings per share		1,33	1,45

** 2012 was only restated due to the adoption of the reviewed IAS 19 standard*

The notes are an integral part of the statements of financial position on 31 December 2013.

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

The CFO and Chartered Accountant
Marcos Levi Santinho de Faria Miguel

Comprehensive income statement for the financial years ended 31 December 2013 and 2012

(amounts in Euros)

	2013	2012 Restated *
Net profit for the period	39 961 784,04	43 577 439,12
Items that are not recycled by incomes:		
Remeasurement of the pension plan	(1 221 883,24)	1 258 868,34
Effect of change in the tax rate	(1 264 808,28)	-
Deferred land tax	(1 356 987,02)	-
Total comprehensive income for the period	36 118 105,50	44 836 307,46

** 2012 was only restated due to the adoption of the reviewed IAS19 standard*

The notes are an integral part of the statements of financial position on 31 December 2013

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

The CFO and Chartered Accountant
Marcos Levi Santinho de Faria Miguel

Statement of changes in equity for the financial years ended 31 December 2013 and 2012

(amounts in Euros)

	Notes	Paid-up capital	Legal Reserve	Other Reserves	Retained earnings	Other changes in equity	Net profit for the period	Total equity
Position at the end of the 2011 financial year (reported)		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
Restatement on the IAS 19R standard								
Position at the start of 2012 (restated)		-	-	-	1 282 260,00	-	-	1 282 260,00
Changes in the year:								
Pension Fund - remeasurements (net of ID)	19	-	-	-	1 258 868,34	-	-	1 258 868,34
Other changes recognised in equity:								
Appropriation of net profit		-	-	-	42 555 549,69	-	(42 555 549,69)	-
Adjustments to the investment subsidy (change in service lives)		-	-	-	(1 259 183,13)	-	-	(1 259 183,13)
		150 000 000,00	**30 000 000,00**	**22 171 377,45**	**323 529 382,61**	**(4 063,81)**	**-**	**525 696 696,25**
Net profit for 2012							**43 577 439,12**	**43 577 439,12**
Equity transactions with owners in the period								
Dividend distribution		-	-	-	(34 044 439,75)	-	-	(34 044 439,75)
		-	**-**	**-**	**(34 044 439,75)**	**-**	**43 577 439,12**	**(34 044 439,75)**
Position at the end of 2012		**150 000 000,00**	**30 000 000,00**	**22 171 377,45**	**289 484 942,85**	**(4 063,81)**	**43 577 439,12**	**535 229 695,61**
Position at the start of 2013		**150 000 000,00**	**30 000 000,00**	**22 171 377,45**	**289 484 942,85**	**(4 063,81)**	**43 577 439,12**	**535 229 695,61**
Position at the start of 2013		**150 000 000,00**	**30 000 000,00**	**22 171 377,45**	**289 484 942,85**	**(4 063,81)**	**43 577 439,12**	**535 229 695,61**
Changes in the year:								
Effect of changes in tax rates on deferred taxes	11	-	-	-	(1 264 808,30)	-	-	(1 264 808,30)
Pension Fund - remeasurements (net of ID)	19	-	-	-	(1 221 883,24)	-	-	(1 221 883,24)
Other changes		-	-	-	(1 356 987,00)	-	-	(1 356 987,00)
Other changes recognised in equity:								
Appropriation of net profit		-	-	-	43 577 439,12	-	(43 577 439,12)	-
		150 000 000,00	**30 000 000,00**	**22 171 377,45**	**329 218 703,43**	**(4 063,81)**	**0,00**	**531 386 017,07**
Net profit for 2013							**39 961 784,04**	**39 961 784,04**
Equity transactions with owners in the period								
Dividend distribution	16	-	-	-	(35 081 797,97)	-	-	(35 081 797,97)
		-	**-**	**-**	**(35 081 797,97)**	**-**	**-**	**(35 081 797,97)**
Position at the end of 2013		**150 000 000,00**	**30 000 000,00**	**22 171 377,45**	**294 136 905,46**	**(4 063,81)**	**39 961 784,04**	**536 266 003,14**

The notes are an integral part of the statements of financial position on 31 December 2013.

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

The CFO and Chartered Accountant
Marcos Levi Santinho de Faria Miguel

Cash flow statement for the financial years ended 31 December 2013 and 2012

(amounts in Euros)

	Notes	31 December 2013		31 December 2012	
Cash Flows from Operating Activities:					
Payments from customers		179 384 554,98		184 256 218,16	
Payments to suppliers		(38 950 208,00)		(45 519 230,64)	
Payments to staff		(28 690 845,00)		(25 089 023,21)	
Cash generated by operations		111 743 501,98		113 647 964,31	
Payment / receipt of income tax		(21 552 140,00)		(23 357 099,28)	
Other receipts / payments		(30 438 236,93)		(24 971 794,29)	
Flows from operating activities [1]			59 753 125,05		65 319 070,74
Cash Flows from Investment Activities:					
Payments related to:					
Tangible fixed assets		(6 218 319,07)		(18 349 936,02)	
Financial investments		(5 000,00)		-	
Other assets	5 e 10	(58 000 000,00)	(64 223 319,07)	(13 500 000,00)	31 849 936,02
Receipts from:					
Tangible fixed assets		10 063,08		7 184,39	
Other assets		13 500 000,00		-	
Interest and similar income		1 913 554,30	15 423 617,38	3 377 128,58	3 384 312,97
Flows from investment activities [2]			(48 799 701,69)		(28 465 623,05)
Cash Flows from Financing Activities:					
Payments related to:					
Borrowings		(17 731 562,00)		(16 329 284,02)	
Interest and similar expenses		(3 754 764,13)		(4 973 033,16)	
Dividends	16	(35 081 798,00)	(56 568 124,13)	(34 044 439,75)	(55 346 756,93)
Flows from financing activities [3]			**(56 568 124,13)**		**(55 346 756,93)**
Change in cash and cash equivalents [4]=[1]+[2]+[3]			**(45 614 700,77)**		**(18 493 309,24)**
Cash and cash equivalents at the start of the period	5		**56 678 460,18**		**75 171 769,42**
Cash and cash equivalents at the end of the period	5		**11 063 759,41**		**56 678 460,18**

The notes are an integral part of the statements of cash flows for the financial year ended 31 December 2013.

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

The CFO and Chartered Accountant
Marcos Levi Santinho de Faria Miguel

Notes to the Financial Statements on 31 December 2013

(amounts in Euros)

1. Introductory Note

1.1 Introduction

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

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

1.2 Activities

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

In addition, as an entity with the delegated management of distribution to the city of Lisbon and supply to the Greater Lisbon area, and pursuant to the provisions of Decree-Law no. 230/91 of 2 June, the Company has adopted a management model with the following characteristics: (i) freedom to sign contracts for the supply of water to Municipalities; (ii) the application of prices agreed upon by the State, through the Directorate General for Economic Activities, and the Company; (iii) all consumers, public or private, must pay for the water they use, as well as for the services rendered to them.

With regard to the use of water resources in the abstraction of surface water intended for public supply from the Castelo do Bode reservoir, during the financial year 2009, the Company signed a concession agreement with the Ministry of the Environment, Territorial Planning and Regional Development, in compliance with Law no. 58/2005, of 29 December, whose article 61(a) states that the private use of water resources of public domain is subject to prior concession. In accordance with that agreement, the concession was granted in 2009 for a period of 75 years. Given that: (i) on the date of conclusion of the agreement, the concessioned assets were already owned by the Company and operated by it; and (ii) a specific remuneration regarding the operation of the assets covered by the concession has not been defined; the Company considers that IFRIC 12 – Service Concession Agreements - does not apply to this agreement.

The price system applicable to the selling of water by EPAL is established by Decree-Law no. 230/91, of 21 June, which provides that the agreement is to be concluded between EPAL and the State, which is represented by the Directorate-General for Economic Activities.

1.3 Shareholders

On 31 December 2013, the Company is fully owned by AdP - Águas de Portugal, SGPS, S.A.

1.4 Approval of financial statements

The appended financial statements are presented in Euro and were approved by the Board of Directors in its meeting of 12 February 2014. However, they are still subject to the approval of the General Shareholders' Meeting, according to the Portuguese commercial legislation in force.

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

2. Accounting Framework for the Preparation of the Financial Statements

The attached financial statements have been prepared within the framework of the provisions in force in Portugal, pursuant to Decree-Law no. 158/2009, of 13 July (2010), and in accordance with the conceptual structure ("Framework for the Preparation and Presentation of Financial Statements"), International Accounting and Financial Reporting Standards ("IAS/IFRS") and interpreting standards ("SIC/ IFRIC"), as adopted by the European Union, applicable from 13 January 2013.

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

3. Main Accounting Policies

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

3.1 Basis of presentation

EPAL's financial statements have been prepared in the assumption of continued operations, from the Company's books and accounting records, which are kept in accordance with International Financial Reporting Standards, as adopted by the European Union, effective for financial years begun 2013 January 2013. It shall be considered that said standards include both the IFRS-International Financial Accounting Standards, as issued by the International Accounting Standard Board ("IASB"), and the International Accounting Standards ("IAS"), as issued by the International Accounting Standards Committee ("IASC"), as well as the respective interpretations - SIC and IFRIC, as issued by the International Financial Reporting Interpretation Committee ("IFRIC") and Standing Interpretation Committee ("SIC").

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

The Company will not be preparing consolidated financial statements, as, pursuant to Article 7(1) of Decree-Law no. 158/2009 of 13 July, it is exempt from doing so because it is a subsidiary fully owned by another entity that prepares its own consolidated financial statements, which are available for public consultation and comply with the International Financial Reporting Standards.

3.1.1 New standards and changes in policies

For the financial year ended 31 December 2013, there were no voluntary changes in accounting policies in relation to those considered in the preparation of the financial information of the previous year presented in the comparative statements.

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

IAS 1 Presentation of financial statements (Amendment)	The amendment to IAS 1 changes the aggregation of items presented in the Comprehensive Income Statement. Items that may be reclassified (or "recycled") to future profit or loss (for example, at the date of derecognition or settlement) shall be presented separately from items not likely to be reclassified to profit or loss (e.g., revaluation reserves set forth in IAS 6 and IAS 38).
The Comprehensive Income Statement was prepared according to this change	This amendment does not alter the nature of the items that must be recognised in the Statement of Comprehensive Income, nor whether they should or not be likely to be reclassified to future profits or losses.

IFRS 1 - Adoption of International Financial Reporting Standards - hyperinflationary economies, for the first time (Amendment)	When the transition to IFRS occurs on or after the date on which the functional currency ceases to be a currency of a hyperinflationary economy, the entity can measure all assets and liabilities held before the date of termination, which were subject to the effects of a hyperinflationary economy, at the fair value on the date of transition to IFRS. This fair value can be used as the cost considered for those assets and liabilities on the date of the opening of the statement of financial position. The amendment also removes the dates established in IFRS 1 relating to the derecognition of financial assets and liabilities and gains and losses on transactions on initial recognition. The new date to be considered shall be the date of transition to IFRS.
This change is no longer applicable to the Company because it already adopted the IFRS	

IFRS 7 (Amendment) Offsetting financial assets and financial liabilities	This amendment requires that entities disclose information about rights of set-off and related agreements (e.g. collateral). These disclosures provide information that is useful in assessing the net effect that these agreements may have on the Statement of Financial Position of each entity. The new disclosures are mandatory for all financial instruments that can be offset, as provided by IAS 32 Financial Instruments: Presentation. The new disclosures also apply to financial instruments that are subject to master netting agreements or other similar agreements, regardless of whether they are offset in accordance with the provisions of IAS 32.
No impact on the Company	

IFRS 13 - Fair value measurement	IFRS 3 provides a single framework for measuring fair value in accordance with IFRS. IFRS 3 does not indicate when an entity should use fair value, but it provides guidance on how fair value should be measured whenever it is permitted or required. Fair value is defined as the "price that would be received in the sale of an asset or paid to transfer a liability in a transaction between market participants at the measurement date".
Its impact will be taken into account in future disclosures	

IAS 12 - Income taxes	The amendment to IAS 12 clarifies that the determination of deferred taxes on investment property measured at fair value under IAS 40, shall be calculated taking into account its recovery through its future sale. However, this presumption can be repealed if the entity has a business plan that demonstrates that the recovery of such tax shall be effected through the use of the investment properties. Additionally, the amendment states that deferred taxes recognised for non-depreciable tangible fixed assets that are measured in accordance with the revaluation model shall be calculated on the assumption that their recovery will be effected through their sale.
No impact on the Company	

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

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

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

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

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

IAS 34 - Interim Financial Reporting	Clarifies the requirements of IAS 34 regarding segment information for total assets and liabilities for each reportable segment, in order to improve consistency with IFRS 8 Segment Reporting.
No impact on the Company	According to this amendment, total assets and liabilities for each reportable segment need only be disclosed when they are regularly provided to key managers of management.

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

IFRS 10. Consolidated financial statements	IASB issued IFRS 10 - Consolidated Financial Statements, which replaced the consolidation requirements provided for by SIC 12 - Consolidation - Special Purpose Entities and IAS 27 - Consolidated and Separate Financial Statements. IFRS establishes a new control concept that shall apply to all entities and special purpose vehicles. The changes introduced by IFRS 10 will require that the Management uses a significant amount of judgement to determine which entities are controlled and must be, therefore, included in the consolidated financial statements of the parent company. *This standard shall apply for financial years begun on or after 1 January 2014.*
No impact on the Company	

IFRS 11 Joint arrangements No impact on the Company	IFRS 11: • supersedes IAS 3 - Interests in Joint Ventures and SIC 3 - Jointly Controlled Entities - Non-monetary Contributions by Venturers. • changes the concept of joint control and removes the option to account for a jointly controlled entity through the proportional consolidation method, prescribing that an entity accounts for its interests in these entities through the equity method. • additionally, it defines the concept of joint operations (combining the existing concepts of controlled assets and jointly controlled operations) and redefines the concept of proportionate consolidation for these operations; thus, each entity shall record in its financial statement its absolute or relative interests in assets, liabilities, income and expenses. *This standard is effective for financial years begun on or after 1 January 2014.*

IFRS 12 - Disclosure of interests in other entities No impact on the Company	IFRS 12 - "Disclosure of interests in other entities" establishes the minimum disclosures in respect to subsidiaries, joint ventures, associated companies and other non-consolidated entities. This standard includes, therefore, all the disclosures that were mandatory under IAS 27 - "Consolidated and Separate Financial Statements" relating to the consolidated accounts, as well as the disclosures included in IAS 3 - "Interests in Joint Ventures" and IAS 28 - "Investments in Associates", besides new additional information. *This standard is effective for financial years begun on or after 1 January 2014.*

IAS 27 - Consolidated and Separate Financial Statements (Reviewed in 2012) No impact on the Company	With the introduction of IFRS 10 and IFRS 12, IAS 27 is limited to the prescription of the accounting treatment concerning subsidiaries, joint ventures and associates in separate accounts. *Changes to IAS 27 shall apply for financial years beginning on or after 1 January 2014.*

IAS 28 Investments in associates and Jointly Controlled Entities (Revised in 2011) No impact on the Company	With the amendments to IFRS 11 and IFRS 12, IAS 28 has been renamed and it now prescribes the application of the equity method also for jointly controlled entities, similarly to what already happened with associates *Changes to IAS 28 shall apply for financial years beginning on or after 1 January 2014.*

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

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

EPAL adopted this standard in 2013 having restated its financial statements, according to the accounting standards.

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

<table>
<tr><td>IFRS 9 - Financial Instruments (introduces new requirements for classifying and measuring financial assets and liabilities)</td><td rowspan="2">The first phase of IFRS 9 Financial Instruments addresses the classification and measurement of financial assets and liabilities. The IASB continues to work and discuss issues related to impairment and hedge accounting, in order to review and completely replace IAS 39. IFRS 9 applies to all financial instruments that fall within the scope of IAS 39. The main changes are the following:

Financial Assets:

All financial assets are measured at fair value on their initial recognition.

Debt instruments may be subsequently measured at amortised cost if:

• the fair value option is not exercised;
• the purpose of holding the asset, according to the business model, is to receive the contracted cash flows; and
• under the terms of the contract, the financial assets will generate, on given dates, cash flows that materialise only in the reimbursement of principal and interest on outstanding principal.

The remaining debt instruments are subsequently measured at fair value.

All equity investments are measured at fair value through the Statement of Comprehensive Income or through profit and loss. Each of the equity instruments shall be measured at fair value through (i) the Statement of Comprehensive Income or (ii) Profits and Losses (equity financial instruments shall be measured at fair value with the corresponding changes always acknowledged through profit and loss).

Financial Liabilities:

Differences in fair value of financial liabilities at fair value through profit or loss resulting from changes in the Entity's credit risk shall be presented in the Statement of Comprehensive Income. All other changes shall be recorded in profit or loss, unless the presentation of the differences in fair value resulting from financial liabilities credit risk is likely to create or increase a significant imbalance in the income statement for the period.

All other rules regarding the classification and measuring of financial liabilities existing in IAS 39 remain unchanged in IFRS 9, including the rules of the separation of embedded derivatives and the criterion to be recognised at fair value through profit and loss.

The implementation date for this standard is yet to be defined, since it is awaiting the completion of the remaining stages of the standard.</td></tr>
<tr><td>No impact on the Company</td></tr>
</table>

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

Amendments to IFRS 10, IFRS 11 and IFRS 12	Clarifies a few transitional provisions of IFRS 10, IFRS 11 and IFRS 12.
No impact on the Company	*This application guide shall apply for financial years begun on or after 1 January 2014*

IAS 36 (amendment) - Recoverable Amount Disclosures for Non-Financial Assets	This amendment regards the disclosure of information about the recoverable amount of impaired assets, as long as it has been measured through the fair value model minus selling costs.
No impact on the Company.	*Shall apply for financial years begun on or after 1 January 2014*

IAS 39 (amendment) - Novation of Derivatives and Continuation of Hedge Accounting	This amendment to IAS 39 allows for the continuation of hedge accounting in certain circumstances in which the counterparty to a hedging instrument is replaced by a clearing counterparty for that instrument, as a result of the application of a law or regulation.
No impact on the Company.	*Shall apply for financial years begun on or after 1 January 2014*

Amendments to IFRS 10, IFRS 12 and IAS 27 - "Investment entities"	This amendment defines what Investment entities are and introduces an exception to the application of consolidation within the scope of IFRS 10, for Companies that qualify as Investment entities, whose investments in subsidiaries must be measured at fair value, through profit and loss for the year, in reference to IAS 39. Specific disclosures required by IFRS 12.
No impact on the Company.	*Shall apply for financial years begun on or after 1 January 2014.*

IAS 19 (amendment), "Defined benefit plans - Contributions from employees"	This amendment to IAS 19 is applicable to contributions from employees or third-party Companies to defined-benefit plans, and intends to simplify their accounting, when contributions are independent from the number of years of service.
No impact on the Company.	*Shall apply for financial years begun on or after 1 January 2014. This amendment is still subject to the process of endorsement by the European Union.*

IFRIC 21 (new), 'Government rates'	This interpretation is still subject to endorsement by the European Union. IFRIC 21 is an interpretation of IAS 37 and of the recognition of liabilities, clarifying that a past event that results in an obligation to pay a tax or levy corresponds to the activity described in the relevant legislation that requires the payment.
No impact on the Company.	*Shall apply for financial years begun on or after 1 January 2014. This amendment is still subject to endorsement by the European Union.*

Improvements to standards 2010 - 2012, shall apply mostly to financial years begun on or after 1 July 2014. These amendments are still subject to endorsement by the European Union. This cycle of improvements affects the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. The Company will apply the amendments made to the standards during the 2010-2012 cycle in the period when they become effective.

Improvements to the 2011-2013 standards, (generally applicable to financial years begun on or after 1 July 2014). These amendments are still subject to endorsement by the European Union. This cycle of amendments affects the following standards: IFRS 1, IFRS 3, IFRS 13, and IAS 40. The Company will apply the amendments made to the standards during the 2010-2012 cycle in the period when they become effective, except for the improvements to IFRS 1, given that the Company is already applying IRFS.

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

Although these estimates are based on managing experience and on their best expectations relative to current and future events and actions, current and future results may ultimately differ from such estimates. Areas involving a higher degree of judgement or complexity, or areas in which the assumptions and estimates are significant to the consolidated financial statements are disclosed under Note 3.19.

3.2 Tangible Fixed Assets

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

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

The depreciation rates correspond to the following estimated service lives:

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

The service lives and depreciation method for the various assets are reviewed annually. The effects of any changes to these estimates are recognised prospectively in the financial statements.

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

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

3.3 Investment properties

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

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

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

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

Because their accounting treatment is similar to that of tangible fixed assets, depreciations are calculated after the moment when the asset is ready to be used, according to the straight-line method, by twelfths, in compliance with the estimated useful live for each asset class (indicated in Note 3.2).

For the purposes of analysing the recovery value of investment properties and for disclosure purposes, the Company believes that the external assessments prepared by independent specialised entities remain adequate, as there were no changes in market conditions or exceptional events that could cause significant changes in the fair value of investment properties.

On the reporting date, whenever the value of investment properties, net of accumulated depreciations, is higher than their fair value on the reporting date, the company shall record the corresponding loss of impairment.

3.4 Leases

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

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

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

Tangible fixed assets purchased through finance leases are depreciated according to the shorter period between its useful life or its lease period when EPAL has no purchase option at the end of the contract, or according to its estimated useful life when EPAL intends to purchase the assets at the end of the contract.

3.5 Intangible assets

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

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

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

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

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

3.6 Impairment of tangible fixed assets

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

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

Where the carrying amount of the asset (or cash-generating unit) exceeds its recoverable amount, an impairment loss is considered. Impairment losses are immediately recorded in the financial statement under the heading "Impairment of depreciable and amortisable assets".

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

3.7 Financial holdings in subsidiaries, jointly controlled and associate companies

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

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

3.8 Inventories

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

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

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

3.9 Financial assets and liabilities

3.9.1 Financial assets

The Board of Directors determines the classification of the financial assets on the date of their initial recognition according to the purpose of their purchase, reassessing this classification at each reporting date.

Financial assets may be classified as:

i) Financial assets at fair value through profit and loss - includes non-derivative financial assets held for negotiation that are associated with short-term investments, and assets at fair value through profit and loss on the date of their initial recognition. They are initially recognised at fair value, and the corresponding transaction costs are recognised as profit or loss. These assets are subsequently measured at fair value, and the gains and losses that result from changes to the fair value are recognised in the financial statement for the period, in which they are included under the heading "changes in fair value". The dividends obtained are recognised under "Other income and gains" when they are attributed to EPAL.

ii) Loans and receivables - includes non-derivative financial assets with fixed or determinable payments that do not have a quoted market price in an active market. They are recorded in the Statement of Financial Position under "Customers and Other accounts receivable" (Note 14), and are recognised at their amortised cost using the effective interest rate, net of any impairment losses. The adjustment of accounts receivable through impairments is made when there are objective evidences that EPAL will not receive the unpaid amounts according to the initial conditions of the transactions that originated them. The identified impairment losses are recorded in the income statement under "Impairment of accounts receivable", and subsequently reversed through income, if their impairment indicators diminish or disappear.

iii) Investments held to maturity – including non-derivative financial assets with fixed or determinable payments and fixed maturities, that the entity intends and is able to hold until the maturity date;

iv) Financial assets available for sale - including non-derivative financial assets that are designated as available for sale at the moment of their initial recognition or that do not fit into any of the above mentioned categories. They are recognised as non-current assets except if there is an intention to dispose of them in the 12 months following the date when the financial report was produced. They are initially recognised at fair value plus transaction costs. In subsequent periods, these assets are measured at fair value and changes in fair value are recognised in the fair value reserve, in equity. Dividends and interest obtained from financial assets available for sale are recognised as profit or loss in the period in which they occur, under the heading other operating gains, when the right of receipt is established. On each reporting date, EPAL assesses the existence of objective evidence of depreciation of its financial assets. If there is evidence of loss of value in the financial assets available for sale, the accumulated loss - calculated as the difference between the acquisition cost and the current fair value, minus any impairment losses associated with those financial assets that have been previously recognised as profit or loss - is removed from equity and recognised in the comprehensive income statement. Impairment losses of capital instruments that are recognised as profit or loss are not reversible in the comprehensive income statement.

Purchases and sales of investments in financial assets are recognised on the transaction date – the date on which EPAL undertakes to purchase or sell the asset.

Financial assets are derecognised when the rights to receive the cash flows resulting from those investments expire or are transferred, together with all the risks and rewards associated with their ownership.

The amounts included under the heading cash and cash equivalents correspond to cash amounts, bank deposits, term deposits and other treasury applications, with maturities under six months, which are immediately convertible and for which the risk of changes in value is insignificant.

For cash flow statement purposes, the heading "Cash and cash equivalents" also includes bank overdrafts, which are presented in the Statement of Financial Position as current liabilities under the heading "Borrowings".

3.9.2 Financial liabilities

IAS 39 establishes the classification of financial liabilities in two categories:

a) Financial liabilities at fair value through profit and loss;

b) Other financial liabilities

Other financial liabilities include "Borrowings", "Suppliers" and "Other accounts payable".

Funding obtained is initially recognised at fair value, net of incurred transaction costs. Loans are subsequently measured at amortised cost, and the difference between the nominal value and the initial fair value is recognised in the financial statements over the period of the funding by using the effective interest rate method.

Liabilities classified as "Suppliers" and "Other accounts payable" are initially recognised at fair value and subsequently measured at amortised cost, according to the effective interest rate.

Financial liabilities are classified as current liabilities, except if there is an unconditional right to defer the payment of the liability, at least for 12 months after the date on which the report is produced. In this case, they are classified as non-current liabilities.

Financial liabilities are derecognised when the related obligations are settled, cancelled or expire.

3.9.3 Impairment of financial assets

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

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

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

Impairment losses are recorded as profit and loss under the heading "Impairment of debts receivable (losses)/Reversals" in the period when they are calculated.

Subsequently, if the amount of the impairment loss decreases and this decrease can be related objectively to an event that took place after the recognition of loss, it should be reversed by results. This reversal must be done up to the amount that would be recognised (amortised cost) if the loss had not been initially recorded. The reversal of impairment losses is recorded as profit and loss under the heading "Impairment of debts receivable (losses)/Reversals".

3.9.4 Fair value of financial assets and liabilities

If there is an active market, the quoted market price is used to determine the fair value of a financial asset or liability. This is level 1 in the hierarchy of fair value as defined in IFRS 7 - Financial instruments.

If there isn't an active market, which is the case for some financial assets and liabilities, the fair value is calculated using valuation techniques accepted on the market, which are based on market assumptions. This is level 2 in the hierarchy of fair value as defined in IFRS 7.

EPAL applies valuation techniques for non-quoted financial instruments, such as derivatives, financial instruments at fair value through profit and loss and financial assets available for sale. The most frequently used valuation models are discounted cash flow models and option pricing models that incorporate market-related information, such as interest rate curves.

For some types of financial instruments that are more complex, the company uses more advanced valuation models, which include assumptions and data that are not directly observable in the market, for which EPAL uses internal estimates and assumptions. This is level 3 in the hierarchy of fair value as defined in IFRS 7.

3.10 Accrual basiss

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

3.11 Investment subsidies

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

Investment subsidies related to the acquisition of tangible fixed assets are disclosed as non-current liabilities and credited in the financial statements at the same rate as the depreciations of the associated assets are recognised.

The remaining subsidies are deferred and recognised in the financial statements in the same expense period that such subsidies are intended to compensate.

3.12 Post-employment benefits

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

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

Defined contribution plans

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

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

Defined benefit plan

A defined benefit plan is a pension plan that defines the amount of the benefit that will supplement the pension received by an employee upon retirement, usually depending on one or several factors, such as age, years of service and wages.

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

Remeasurements are recognised in other comprehensive income in the period when they are calculated.

The cost of past services is recognised immediately on the date when there are changes to the benefits granted.

The responsibility associated with benefits defined, as recognised under the statement of financial position, represents the present value of the corresponding bond minus the fair value of the plan's assets. The benefits given to early retirements are calculated annually by independent actuaries using the projected unit credit method. The present value of responsibilities is determined by discounting future payments of benefits, using the interest rate of high-quality bonds denominated in the same currency as that of the benefits to be paid and whose maturity terms approach those of the shouldered responsibility.

3.13 Provisions

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

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

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

The most common provisions recorded by EPAL are related to legal actions mainly associated with contractual disagreements with third parties. EPAL recognises that provision when the assessment of ongoing litigations by the lawyers assigned to them results in a possible and likely obligation to pay.

Contingent liabilities are not recognised in financial statements, and they are disclosed whenever the possibility of an outflow of resources that encompasses economic benefits is not remote nor likely.

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

3.14 Revenue

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

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

- Significant risks and advantages associated with ownership of the assets were transferred to the buyer;
- The Company does not maintain any control over the asset sold;
- The amount of revenue can be measured in a reliable manner;
- It is probable that future economic benefits associated with the transaction will flow to the Company;
- The costs incurred or to be incurred in the transaction can be measured in a reliable manner

Water sales and the service fee are supported by contracts signed with customers, where prices are perfectly defined via a duly approved set of rates.

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

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

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

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

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

- The amount of revenue can be measured in a reliable manner;
- It is probable that future economic benefits associated with the transaction will flow to the Company;
- The costs incurred or to be incurred in the transaction can be measured in a reliable manner;
- he stage of completion of the transaction/service can be measured in a reliable manner.

EPAL provides services that are mainly related to its water selling activities, such as the opening and closing of water supply facilities, the installation and replacement of water meters and the construction and repairing of service mains. The company also provides complementary services such as the marketing of the Aquamatrix invoicing system, a system for the management and reduction of water losses in the distribution network (WONE), laboratory tests and water meter repairs.

Interest revenue is recognised using the actual interest method, provided it is probable that economic benefits will flow to the Company and its amount can be reliably measured. They are recorded in the income statement for period to which they relate in an accrual basis.

3.15 Financial expenditure with loans

Financial expenditure with loans obtained pertaining to the acquisition, construction or production of fixed assets whose construction or production period exceeds one year, they are capitalised, becoming a constituent part of the asset's cost. The capitalisation of such financial expenditure begins with the start of incurred expenses with assets, which are extended as long as there are ongoing activities needed for preparing the asset for its intended use or for its sale. Such capitalisation ceases when substantially all activities needed for preparing the asset for its intended use or for its sale are concluded. In addition, capitalisation is suspended during extended periods when the development the aforementioned activities is stopped. Any income generated by loans obtained in advance and related to a specific investment are deducted from the eligible financial expenditure for capitalisation.

In the 2013 and 2012 financial years, the Company did not resort to any funding for the investments made on the acquisition and/or construction of its fixed assets, and thus did not capitalise any financial charges.

3.16 Income taxes

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

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

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

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

3.17 Transactions and balances in foreign currency

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

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

3.18 Financial risk management policies

Financial risk factors

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

Analysis of credit risk

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

Operations-related credit risk is basically associated with credits for services provided to customers (water services). Theoretically, this risk is low, given the characteristics of the service provided. However, given the country's particular economic and financial situation in the last 2 years, with direct consequences for local authorities, the amount of balances fallen due has increased (Note 14).

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

The following table shows EPAL's maximum exposure to credit risk (not including customers' balances or those of other debtors disclosed under Note 14) on 31 December 2013, excluding any collateral held or other credit improvements, calculated based on the carrying amount reported on that date.

Banking Financial Assets	2013	2012
Demand Deposits (Note 5)	2 022 057,24	2 639 460,49
Term Deposits (Note 10)	67 000 000,00	67 500 000,00
Other Financial Assets (Note 10)	110 230,68	110 230,68
	69 132 287,92	**70 249 691,17**

Rating	2013	2012
A3 (Moodys)	-	17 474,87
A2 (Moodys)	3 930,62	-
Baa3 (Moodys)	1 114 729,43	472 565,40
Ba1 (Moodys)	32 233 965,34	32 257 823,70
Ba3 (Moodys)	11 580 576,91	22 961 945,70
B1 (Moodys)	16 194 084,60	6 039 881,50
B2 (Moodys)	-	8 500 000,00
Caa1 (Moodys)	1 002 501,02	-
No rating	7 002 500,00	-
	69 132 287,92	**70 249 691,17**

Rating (Moodys) - Note: ratings obtained from the websites of the respective financial institutions in January 2014

Liquidity risk

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

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

The table below presents financial liabilities grouped according to their remaining maturities on the date when the statements were produced:

2013

	Less than 1 year	1 - 5 years	Over 5 years
Borrowings:			
Bank loans	18 311 266,91	69 869 202,71	117 575 341,81
Trade Payables	14 029 914,80	-	-
Other accounts payable	21 277 674,02	-	-
	53 618 855,73	**69 869 202,71**	**117 575 341,81**

2012

	Less than 1 year	1 - 5 years	Over 5 years
Borrowings:			
Bank loans	18 393 159,30	71 808 684,16	133 407 702,51
Trade payables	12 784 865,90	-	-
Other accounts payable	24 234 957,94	-	-
	55 412 983,14	**71 808 684,16**	**133 407 702,51**

The expected value with interest to be paid with regard to bank loans from the EIB have the following maturity dates:

Interest	Less than 1 year	1 - 5 years	Over 5 years
2013	3 260 800,37	7 731 439,08	10 354 571,80
2012	5 266 549,05	11 449 414,25	13 361 719,92
	8 527 349,42	**19 180 853,33**	**23 716 291,72**

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

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

Analysis of interest rate sensitivity

The sensitivity analysis below was prepared in accordance with the Company's exposure to interest rates on obtained loans. If the variability of the interest rate applicable to those loans during the 2013 and 2012 financial years had been 1% above and/or below the rate applied on such loans, the impact on the Company's net profit on 31 December 2013 and 2012, would be as follows:

	2013	2012
Interest borne with bank funding (Note 28)	3 423 192,46	4 683 453,57
Impact on net profit:		
If variable interest rates had been 1% above the actual ones	1 021 245,38	1 110 426,88
If variable interest rates had been 1% below the actual ones	n.a. (a)	(852 845,86)

a) variable interest rates on 31 December 2013 were lower than 1%

Capital management analysis

EPAL's goal in terms of capital management, which is a broader concept than the capital shown in the statement of financial position, is to maintain an optimal capital structure through a prudent use of debt.

The purpose of capital risk management is to safeguard the continuity of EPAL's operations, providing the shareholder with proper remuneration and generating income for all the interested third parties.

The contraction of debt is periodically analysed through the weighing of factors such as financing costs and investment needs.

In 2013, EPAL's strategy was to maintain the levels of its net indebtedness ratio over its total capital, which actually decreased due to bank financing amortisations. The ratios on 31 December 2013 and 2012 were the following:

	2013	2012
Total funding obtained	205 755 811,43	223 609 545,97
Cash and Bank Deposits	(69 063 759,41)	(70 178 460,18)
Net debt	136 692 052,02	153 431 085,79
Equity	536 266 003,14	535 229 695,61
Total Capital	536 266 003,14	535 229 695,61
Net Debt/Total Capital	**0,25**	**0,29**

3.19 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

a) Useful lives of tangible fixed assets

The determination of the service lives of assets and the depreciation method applicable are essential to determine the amount of depreciation and amortisations to be recognised in EPAL's financial statement.

These two parameters were defined according to the Board of Directors' best estimate for the assets and businesses in question

b) Recording of impairment losses associated with financial and non-financial assets

The determination of possible impairment losses is generated by the occurrence of various events, many of which are outside EPAL's sphere of influence, as well as by any internal or external changes that may affect the Company. The identification of impairment indicators, the estimated future cash flows and determining the fair value of assets (or series of assets) involve a high degree of judgement by the Board of Directors regarding the identification and evaluation of different impairment indicators, expected cash flows, applicable discount rates, service lives and residual values. Impairment losses for accounts receivable are calculated mainly based on the ageing of accounts receivable, on the customers' risk profile and on their financial situation.

On the date when the financial statements were issued, the existence of any impairments in the reported assets other than the impairment losses recognised in these financial statements was deemed not likely. Should any evidence of impairments arise as a result of an evaluation, the accounting value of the corresponding assets shall be adjusted in the income statement for that financial year.

c) Provisions to meet liabilities to third parties

EPAL regularly analyses any possible obligations that may arise from past events and that must be subject to recognition or disclosure. EPAL is a party in several ongoing legal proceedings for which it makes a judgement on whether a provision should be established for these contingencies, based on the opinion of its legal advisers.

The subjectiveness inherent to the determination of the likeliness and the amount of internal resources that may be necessary to settle obligations may lead to significant adjustments, both through changes to those assumptions, and through the future recognition of provisions that were previously disclosed as contingent liabilities

d) Actuarial assumptions used to determine the liabilities associated with post-employment and early retirement benefits.

In order to evaluate the liabilities associated with post-employment and early retirement benefits, it is necessary to adopt several actuarial assumptions, such as the discount rate, mortality tables or salary progressions, as well as the retirement age and the salary deemed pensionable by the Company. The actual values of these assumptions may turn out to be different from those estimated when the liabilities were calculated. Those differences may give rise to slight annual (positive or negative) imbalances that, in the long-term, may cancel each other out, because the values of actuarial assumptions are periodically adjusted according to the corresponding observed values.

So, the principle of actuarial balance ensures a long-term balance and, on this date, we do not anticipate any relevant impacts.

3.20 Subsequent events

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

4. Restatement of the Financial Statements Arising from the Adoption of Accounting Standards

The Company adopted the (revised) IAS 19 standard, "Employee benefits", which introduces changes in the recognition and measurement of expenses related to defined benefits and employment termination benefits, as well as in the disclosure of all employee benefits. Actuarial deviations, which shall be henceforth called "remeasurements", are immediately recognised only as Other comprehensive income (the use of the corridor method is no longer allowed) The financial costs of the defined contribution plans with constituted funds is calculated based on the net value of non-funded liabilities and is then designated "net interest".

In order to present comparable financial information, the financial statements of the previous financial year were restated as follows:

Statement of financial position on 1 January 2012

	Released	Adoption of the IAS19 R standard	Restated
Assets			
Non-current assets			
Deferred tax assets	5 998 822,78	(523 740,00)	5 475 082,78
Other non-current assets	10 727 537,62	(1 170 000,00)	9 557 537,62
Non-current assets	774 809 150,45	-	774 809 150,45
Total non-current assets	**791 535 510,85**	**(1 693 740,00)**	**789 841 770,85**
Current assets			
Current assets	110 627 348,78	-	110 627 348,78
Total current assets	**110 627 348,78**	**-**	**110 627 348,78**
Total assets	**902 162 859,63**	**(1 693 740,00)**	**900 469 119,63**
Equity and Liabilities			
Equity			
Paid-up capital	150 000 000,00	-	150 000 000,00
Legal reserve	30 000 000,00	-	30 000 000,00
Other reserves	22 171 377,45	-	22 171 377,45
Retained earnings	322 247 437,39	1 282 260,00	323 529 697,39
Other changes in equity	(4 063,81)	-	(4 063,81)
	524 414 751,03	**1 282 260,00**	**525 697 011,03**
Net profit for the period	-	-	-
Total equity	**524 414 751,03**	**1 282 260,00**	**525 697 011,03**
Liabilities			
Non-current liabilities			
Post-employment benefit obligations	12 119 946,37	(2 976 000,00)	9 143 946,37
Non-current liabilities	301 103 674,79	-	301 103 674,79
Total non-current liabilities	**313 223 621,16**	**(2 976 000,00)**	**310 247 621,16**
Current liabilities			
Current liabilities	64 524 487,44	-	64 524 487,44
Total current liabilities	**64 524 487,44**	**-**	**64 524 487,44**
Total liabilities	**377 748 108,60**	**(2 976 000,00)**	**374 772 108,60**
Total equity and liabilities	**902 162 859,63**	**(1 693 740,00)**	**900 469 119,63**

Statement of financial position on 31 December 2012

	Released	Adoption of the IAS19 R standard	Restated
Assets			
Non-Current Assets:			
Deferred tax assets	5 446 496,50	(925 680,00)	4 520 816,50
Other non-current assets	10 222 151,61	(406 000,00)	9 816 151,61
Non-current assets	761 543 210,92	-	761 543 210,92
Total non-current assets	777 211 859,03	(1 331 680,00)	775 880 179,03
CURRENT ASSETS:			
Current assets	107 874 064,13	-	107 874 064,13
Total current assets	107 874 064,13	-	107 874 064,13
Total assets	**885 085 923,16**	**(1 331 680,00)**	**883 754 243,16**
Equity and Liabilities			
Equity:			
Paid-up capital	150 000 000,00	-	150 000 000,00
Legal reserve	30 000 000,00	-	30 000 000,00
Other reserves	22 171 377,45	-	22 171 377,45
Retained earnings	286 943 814,52	2 541 128,34	289 484 942,86
Other changes in equity	(4 063,81)	-	(4 063,81)
	489 111 128,16	**2 541 128,34**	**491 652 256,50**
Net profit for the period	43 852 247,46	(274 808,34)	43 577 439,12
Total equity capital	**532 963 375,62**	**2 266 320,00**	**535 229 695,62**
Liabilities:			
Non-Current Liabilities:			
Post-employment benefit obligations	9 639 078,57	(3 598 000,00)	6 041 078,57
Non-current liabilities	281 735 741,02	-	281 735 741,02
Total non-current liabilities	**291 374 819,59**	**(3 598 000,00)**	**287 776 819,59**
Current Liabilities:			
Current liabilities	60 747 727,95	-	60 747 727,95
Total current liabilities	**60 747 727,95**	**-**	**60 747 727,95**
Total liabilities	**352 122 547,54**	**(3 598 000,00)**	**348 524 547,54**
Total equity and liabilities	**885 085 923,16**	**(1 331 680,00)**	**883 754 243,16**

Financial Statements by nature on 31 December 2012

Income and expenses	Released	Adoption of the IASI9 R standard	Restated
Sales and services provided	144 205 267,87	-	144 205 267,87
Cost of goods sold and materials consumed	(2 876 183,62)	-	(2 876 183,62)
Supplies and services	(34 527 224,65)	-	(34 527 224,65)
Staff expenses	(22 910 213,62)	(387 000,00)	(23 297 213,62)
Debtor impairment (losses) / reversals	(496 708,03)	-	(496 708,03)
Provision (increases) / reductions	829 168,40	-	829 168,40
Investment subsidies	1 252 533,96	-	1 252 533,96
Other income and gains	4 289 797,15	-	4 289 797,15
Other expenses and losses	(1 842 335,72)	-	(1 842 335,72)
Profit before depreciations, financing expenses and taxes	**87 924 101,74**	**(387 000,00)**	**87 537 101,74**
Depreciation and amortisation expenses	(24 796 339,13)	-	(24 796 339,13)
Impairment of depreciable and amortisable assets (losses) / reversals	(1 541 296,23)	-	(1 541 296,23)
Operating profit (before financing expenses and taxes)	**61 586 466,38**	**(387 000,00)**	**61 199 466,38**
Interest and similar income	3 463 847,81	-	3 463 847,81
Interest and similar expenses incurred	(5 036 245,54)	-	(5 036 245,54)
Profit before tax	**60 014 068,65**	**(387 000,00)**	**59 627 068,65**
Income tax for the period - deferred	2 345 116,80	112 191,66	2 457 308,46
Income tax for the period - current	(18 506 937,99)	-	(18 506 937,99)
Net profit for the period	**43 852 247,46**	**(274 808,34)**	**43 577 439,12**
Basic earnings per share	**1,46**	**-**	**1,45**

5. Cash and Cash Equivalents

For the purposes of the statement of cash flows as well as cash and cash equivalents, these include cash amounts, bank deposits, other short-term, high-liquidity investments, promptly convertible to a known amount of money and are subject to an insignificant risk of loss of value, and bank overdrafts. Bank overdrafts are shown in the statement of financial position as current liabilities, under the heading "Debts to credit institutions - short term", which were also considered when preparing the consolidated statement of cash flows. On 31 December 2013 and 2012, there were no bank overdrafts.

Cash and cash equivalents on 31 December 2013 and 2012, are broken down as follows:

	2013	2012
Cash	41 702,17	38 999,69
Demand deposits	2 022 057,24	2 639 460,49
	2 063 759,41	**2 678 460,18**
Term deposits	67 000 000,00	67 500 000,00
	69 063 759,41	70 178 460,18
Investment flows	(58 000 000,00)	(13 500 000,00)
Cash and cash equivalents	**11 063 759,41**	**56 678 460,18**

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

For cash flows purposes, on 31 December 2013, the heading "Term deposits" includes 58,000,000.00 euros that do not meet classification criteria such as cash and cash equivalents, as set forth by the AdP group, which are mentioned above.

6. Tangible fixed assets

During the financial years ended 31 December 2013 and 2012, the operations performed on the carried amount of tangible fixed assets, as well as in the respective accumulated depreciations and impairment losses, were as follows:

2013

	Land and natural resources	Buildings and other constructions	Production equipment	Transportation equipment	Administrative equipment	Other tangible fixed assets	Tangible fixed assets	Ongoing advances	Total
Assets									
Opening balance	116 459 062,41	194 636 290,66	1 028 174 581,57	1 401 593,91	20 736 663,91	22 594 295,30	5 770 058,50	-	1 389 772 546,26
Acquisitions	-	-	500 160,95	-	108 204,20	68 273,99	5 950 201,36	-	6 626 840,50
Disposals	(9 178,61)	-	-	(209 299,84)	-	-	-	-	(218 478,45)
Transfers	-	211 639,02	3 579 010,84	-	530 588,44	240 260,11	(4 561 498,41)	-	-
Regularisations	-	57 957,59	(144 725,41)	-	-	-	-	-	(86 767,82)
Write-offs	-	-	(2 141 047,24)	-	(148 028,44)	-	-	-	(2 289 075,68)
Closing balance	**116 449 883,80**	**194 905 887,27**	**1 029 967 980,71**	**1 192 294,07**	**21 227 428,11**	**22 902 829,40**	**7 158 761,45**	**-**	**1 393 805 064,81**
Accumulated depreciations and impairment losses									
Opening balance	-	92 146 734,99	496 572 503,46	1 310 644,36	18 616 677,72	20 744 499,27	-	-	629 391 059,80
Depreciations for the period (Note 26)	-	4 353 418,00	19 463 614,95	35 501,02	641 672,50	419 828,19	-	-	24 914 034,66
Regularisations	-	57 957,59	(144 725,41)	-	-	-	-	-	(86 767,82)
Disposals	-	-	-	(209 299,84)	-	-	-	-	(209 299,84)
Impairment losses	-	-	(1 541 296,23)	-	-	-	-	-	(1 541 296,23)
Write-offs	-	-	(599 750,99)	-	(148 028,44)	-	-	-	(747 779,43)
Closing balance	**-**	**96 558 110,58**	**513 750 345,78**	**1 136 845,54**	**19 110 321,78**	**21 164 327,46**	**-**	**-**	**651 719 951,14**
Net assets	**116 449 883,80**	**98 347 776,69**	**516 217 634,93**	**55 448,53**	**2 117 106,33**	**1 738 501,94**	**7 158 761,45**	**-**	**742 085 113,67**

2012

	Land and natural resources	Buildings and other constructions	Production equipment	Transportation equipment	Administrative equipment	Other tangible fixed assets	Tangible fixed assets	Ongoing advances	Total
Assets									
Opening balance	116 375 848,39	194 145 019,59	1 012 078 170,50	1 401 593,91	20 325 104,16	22 524 050,78	10 197 455,64	-	1 377 047 242,97
Acquisitions	-	1 900,00	1 875 546,45	-	119 218,82	50 267,82	11 025 050,27	-	13 071 983,36
Disposals	-	-	(77 595,48)	-	-	-	-	-	(77 595,48)
Transfers	83 214,02	489 371,07	14 567 544,69	-	292 340,93	19 976,70	(15 452 447,41)	-	-
Write-offs	-	-	(269 084,59)	-	-	-	-	-	(269 084,59)
Closing balance	**116 459 062,41**	**194 636 290,66**	**1 028 174 581,57**	**1 401 593,91**	**20 736 663,91**	**22 594 295,30**	**5 770 058,50**	**-**	**1 389 772 546,26**
Accumulated depreciations and impairment losses									
Opening balance	-	87 787 044,99	476 134 061,79	1 273 202,99	18 030 642,90	20 269 640,36	-	-	603 494 593,03
Depreciations for the period (Note 26)	-	4 359 690,00	19 243 534,94	37 441,37	586 034,82	474 858,91	-	-	24 701 560,04
Disposals	-	-	(77 595,93)	-	-	-	-	-	(77 595,93)
Impairment losses	-	-	1 541 296,23	-	-	-	-	-	1 541 296,23
Write-offs	-	-	(268 793,57)	-	-	-	-	-	(268 793,57)
Closing balance	**-**	**92 146 734,99**	**496 572 503,46**	**1 310 644,36**	**18 616 677,72**	**20 744 499,27**	**-**	**-**	**629 391 059,80**
Net assets	**116 459 062,41**	**102 489 555,67**	**531 602 078,11**	**90 949,55**	**2 119 986,19**	**1 849 796,03**	**5 770 058,50**	**-**	**760 381 486,46**

The heading "Production equipment" basically includes the distribution network, ducts, reservoirs, water and electricity facilities, hydraulic works and meters. On 31 December 2013, the heading "Production equipment" also included fixed assets owned by third parties, namely water meters placed along the distribution network, amounting to 1,680,150.88 euros.

The acquisitions made in the 2013 financial year in terms of tangible fixed assets amounted approximately to 6.6 million euros, and are essentially associated with the projects for the refurbishment of the Valada-Tejo abstraction, the extension of the distribution network and the conduction of repair works in pipings of the Barbadinhos - Penha de França, Rua Filipa de Vilhena and Rua Soldados da India sections.

As for the decrease in the heading "Ongoing tangible fixed assets" in 2013, in the amount of 4,474,730.39 euros, it corresponds mainly to the completion of projects for the extension of the Lisbon network (368,123 euros) and the rehabilitation of the Barbadinhos - Penha de França section (1,232,124 euros), as well as various other renovations conducted in the Lisbon network.

On 31 December 2013, the heading "Ongoing tangible fixed assets" regards, mainly, the refurbishment of the Vale da Pedra Abstraction, as well as several other smaller projects.

In 2013, the heading "write-offs" refers mainly to the shut-down of a section from the Circunvalação Trunk Main due to a deviation in its path caused by the construction of the new Vila Franca de Xira Hospital, which represents 2,028,021.36 euros, and for which an impairment was recorded, which was reversed in 2013.

On 31 December 2013 and 2012, the value of EPAL's tangible fixed assets is fully insured. However, the insurance taken out sets compensation limits of 250 million euros for accidents and natural catastrophes and 25 million euros for acts of terrorism.

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

Depreciations of the 2013 financial year, in the amount of 24,914,034.66 euros (24,701,560.04 euros in 2012), were recorded under "Depreciation and amortisation expenses" (Note 27).

7. Investment Properties

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

During the financial years ended 31 December 2013 and 2012, the following expenses regarding investment properties were recognised as profit or loss:

2013

	In progress	Total
Opening balance - gross amount	2 537 813,05	2 537 813,05
Regularisations	-	-
Closing balance - gross amount	**2 537 813,05**	**2 537 813,05**
Opening balance - accumulated depreciations and impairment losses	(1 486 319,27)	(1 486 319,27)
Depreciations for the period (Note 27)	(94 779,09)	(94 779,09)
Closing balance - accumulated depreciations and impairment losses	(1 581 098,36)	(1 581 098,36)
Closing balance - net carried amount	**956 714,69**	**956 714,69**

2012

	In progress	Total
Opening balance - gross amount	2 451 045,23	2 451 045,23
Regularisations	86 767,82	86 767,82
Closing balance - gross amount	**2 537 813,05**	**2 537 813,05**
Opening balance - accumulated depreciations and impairment losses	(1 304 775,40)	(1 304 775,40)
Regularisations	(86 764,78)	(86 764,78)
Depreciations for the period (Note 27)	(94 779,09)	(94 779,09)
Closing balance - accumulated depreciations and impairment losses	(1 486 319,27)	(1 486 319,27)
Closing balance - net carried amount	**1 051 493,78**	**1 051 493,78**

The fair value of investment properties is equivalent to their accounting value. The fair value of each investment property was determined with respect to 2009 through evaluations made by an independent specialised entity with recognised and relevant professional qualification, and it is the Company's opinion that it did not show any significant changes on 31 December 2013 and 31 December 2012.

8. Investments in subsidiaries

On 31 December 2013 and 2012, the heading "Investments in subsidiaries", minus accumulated impairment losses, was broken down as follows:

	2013	2012
Shares in subsidiary companies	250 000,00	250 000,00
Losses by accumulated impairments	(250 000,00)	(250 000,00)
	-	**-**

On 31 December 2013 and 2012, the Company made the following investments in subsidiaries:

	Head-Office	% capital Held	Assets	Total Equity	Net profit	Shares in companies belonging to the group (a)	Losses by accumulated impairments	Net value on 31 December 2012	Net value on 31 December 2011	Financial year under review
Clube de Golfe das Amoreiras	Lisboa	100%	1 365 588,06	(33 092,22)	(27 815,69)	250 000,00	(250 000,00)	-	-	**2013**
Clube de Golfe das Amoreiras	Lisboa	100%	1 388 076,75	(5 276,53)	(34 274,68)	250 000,00	(250 000,00)	-	-	**2012**

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

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

Following a prior arbitration ruling, and on the initiative of Supergolfe Amoreiras-Academia de Golfe, S.A., another Arbitration Court was set up in 2006, to establish any responsibilities. In 2008, the said Arbitration Court issued a unanimous judgement, which has since become final, which set forth the required compensation, which comprised a net amount (already settled) and an amount to be settled (pending), which was estimated and recorded in the Company's financial statement on 31 December 2013.

9. Financial Assets and Liabilities

The accounting policies for measuring financial instruments in accordance with the IAS 39 standard have been applied to the following financial assets and liabilities:

2013

	Loans and accounts receivable	Liabilities at amortised cost	Total	Not classified as financial instruments	Total a 31.12.2013
Tangible fixed assets	-	-	-	742 085 113,67	742 085 113,67
Investment properties	-	-	-	956 714,69	956 714,69
Investments in subsidiaries	-	-	-	-	-
Other financial assets	67 110 230,68	-	67 110 230,68	-	67 110 230,68
Deferred tax assets		-	-	4 237 268,17	4 237 268,17
Other accounts receivable	23 187 883,59	-	23 187 883,59	-	23 187 883,59
Inventories		-	-	907 879,57	907 879,57
Customers	20 401 189,80	-	20 401 189,80	-	20 401 189,80
State and other public entities	2 096 301,15	-	2 096 301,15	-	2 096 301,15
Deferrals	687 257,42	-	687 257,42	-	687 257,42
Cash and cash equivalents	2 063 759,41	-	2 063 759,41	-	2 063 759,41
Total assets	**115 546 622,05**	**-**	**115 546 622,05**	**748 186 976,10**	**863 733 598,15**
Borrowings	-	205 755 811,43	205 755 811,43	-	205 755 811,43
Investment subsidies	-	-	-	33 950 414,76	33 950 414,76
Post-employment benefit obligations	-	-	-	4 260 078,57	4 260 078,57
Deferred tax liabilities	-	-	-	42 181 516,43	42 181 516,43
Provisions	-	-	-	1 363 566,29	1 363 566,29
Trade payables	-	14 029 914,80	14 029 914,80	-	14 029 914,80
State and other public entities	-	4 648 618,71	4 648 618,71	-	4 648 618,71
Other accounts payable	-	18 470 383,41	18 470 383,41	2 807 290,61	21 277 674,02
Total liabilities	**-**	**242 904 728,35**	**242 904 728,35**	**84 562 866,66**	**327 467 595,01**

2012 restated

	Loans and accounts receivable	Liabilities at amortised cost	Total	Not classified as financial instruments	Total a 31.12.2012
Tangible fixed assets	-	-	-	760 381 486,46	760 381 486,46
Investment properties	-	-	-	1 051 493,78	1 051 493,78
Investments in subsidiaries	-	-	-	-	-
Other financial assets	67 610 230,68	-	67 610 230,68	-	67 610 230,68
Deferred tax assets	-	-	-	4 520 816,49	4 520 816,49
Other accounts receivable	25 145 814,81	-	25 145 814,81	-	25 145 814,81
Inventories	-	-	-	1 159 767,84	1 159 767,84
Customers	18 713 329,93	-	18 713 329,93	-	18 713 329,93
State and other public entities	1 610 534,00	-	1 610 534,00	-	1 610 534,00
Deferrals	882 308,98	-	882 308,98	-	882 308,98
Cash and cash equivalents	2 678 460,18	-	2 678 460,18	-	2 678 460,18
Total assets	**116 640 678,58**	**-**	**116 640 678,58**	**767 113 564,57**	**883 754 243,15**
Borrowings	-	223 609 545,97	223 609 545,97	-	223 609 545,97
Investment subsidies	-	-	-	35 226 391,44	35 226 391,44
Post-employment benefit obligations	-	-	-	6 041 078,57	6 041 078,57
Deferred tax liabilities	-	-	-	41 292 962,91	41 292 962,91
Provisions	-	-	-	1 058 504,35	1 058 504,35
Trade payables	-	12 784 865,90	12 784 865,90	-	12 784 865,90
State and other public entities	-	4 276 240,46	4 276 240,46	-	4 276 240,46
Other accounts payable	-	22 602 570,60	22 602 570,60	1 632 387,34	24 234 957,94
Total liabilities	**-**	**263 273 222,93**	**263 273 222,93**	**85 251 324,61**	**348 524 547,54**

10. Other Financial Assets

On 31 December 2013 and 2012, the heading "Other financial assets", net of accumulated impairment losses, was broken down as follows:

	2013	2012
Non-current assets:		
Equity interests in associates	1 500,00	1 500,00
Bonds and other financial investments	108 730,68	108 730,68
	110 230,68	**110 230,68**
Current assets:		
Term deposits	67 000 000,00	67 500 000,00
	67 110 230,68	**67 610 230,68**

Associates

At the end of the financial years 2013 and 2012, the amount recorded under the heading "Equity interests in associates", which amounted to 1.500 euros, corresponded to a stake in the company Fundec.

Bonds and other financial investments

With regard to the amount recorded under the heading "Securities and other financial investments", which came to 108.731 euros, in both financial years this corresponded to court-mandated uncleared amounts (108.082 euros) and treasury bonds (649 euros).

Term deposits

On 31 December 2013, the heading "Term deposits", amounting to 67,000,000.00 euros is fully composed of term deposits (67,500,000.00 euros in 2012) (Note 5). Of this amount, 9.000.000 euros comprises deposits that qualify as cash equivalents, with 58.000.000 euros as investment flows, for statement of cash flows purposes (Note 5).

11. Income Taxes

Pursuant to the legislation in force, fiscal statements are subject to review and correction by the tax authorities for a period of four years (five years for Social Security), except in situations in which there have been tax losses, when tax losses or tax benefits have been granted, or when they are undergoing inspections, claims or challenges, in which cases, depending on the circumstances, deadlines may be extended or suspended. Thus, the tax statements of the Company for fiscal 2009 to 2013 may still be subject to review.

The Company's Board of Directors considers that the corrections resulting from the revisions/inspections carried out by the tax authorities to the tax statements shall not have a significant impact on the financial statements on 31 December 2013 and 2012.

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

Expenses with income taxes on 31 December 2013 and 2012 are broken down as follows:

	Notes	**2013**	2012 restated
Current tax and adjustments:			
Current tax for the period	17	17 032 010,64	19 877 462,73
Adjustments to current taxes from previous financial years	17	627 767,44	627 767,44
Estimated excess/insufficiency for the previous financial year		(83 343,68)	(387 758,18)
Tax credit		(650 189,72)	(1 610 534,00)
		16 926 244,68	**18 506 937,99**
Deferred taxes:			
Deferred taxes pertaining to the origin/reversion from temporary differences		(1 449 693,46)	(2 466 697,31)
Changes in the tax rate			9 388,85
		(1 449 693,46)	**(2 457 308,46)**
Income tax expenses		**15 476 551,22**	**16 049 629,53**

Adjustments to current taxes for previous periods, in the amount of 627,767.44 euros in 2013, corresponds to the tax effect, calculated based on a 29% tax rate, associated with the annual recognition of 1/5 of the positive changes in property stemming from the transitional system applicable to the adoption of the IAS/IFRS for the first time, a regimen provided for under articles 5(1), 5(5) and 5(6) of DL no. 59/2009 of 13 July.

The tax reconciliation for the financial years ended 31 December 2013 and 2012, is as follows:

	2013	2012 restated
Profit before tax	55 438 335,26	59 627 068,65
Permanent differences:		
Depreciations not accepted	4 876,83	4 876,83
Fines	6 261,76	8 165,26
Other	(16 969,63)	(10 520,58)
	(5 831,04)	**2 521,51**
Temporary differences:		
Effect of changes in service lives on the date of transition to IFRS	2 051 674,46	2 051 674,47
Effect of cancelling depreciations by the straight-line method	117 300,90	117 300,89
Effect of derecognition of the right of unlimited use	(4 260,06)	(4 260,06)
Depreciations not accepted	3 189 407,82	3 713 188,86
Impairment	38 305,62	449 827,34
Difference between accounting and tax-related base and of fixed assets	1 349 092,24	1 305 937,43
Provisions (Note 20)	(2 435 179,47)	(850 000,00)
Liabilities for retirement benefits	(368 000,00)	(2 272 867,79)
Impairment of assets (Note 6)	-	1 541 296,23
Other	(196 571,16)	(871 964,07)
	3 741 770,35	**5 180 133,30**
Taxable profit	**59 174 274,57**	**64 809 723,46**
Tax	14 793 568,64	16 299 180,87
Tax benefit (CFEI)	(1 000 000,00)	
Overtax (Derrama)	887 614,12	977 950,85
State overtax (Derrama estadual)	2 763 713,73	3 014 836,17
Autonomous taxation	214 881,59	213 262,28
Adjustments to previous financial years	(650 189,72)	(387 758,18)
Tax credit	(83 343,68)	(1 610 534,00)
Total current tax and adjustments	**16 926 244,68**	**18 506 937,99**
Effect of deferred taxes for the year	(1 449 693,46)	(2 457 308,46)
Total expenditures for the year	**15 476 551,22**	**16 049 629,53**
Real tax rate for the year	**28%**	**27%**

The tax rate provided for in the State Budget for 2014 was applied to measure the closing balances of deferred taxes and corresponds to a corporate income tax rate of 23%, plus an Overtax [Derrama] of 1.5% on the taxable income and the Additional State overtax [Derrama Estadual] of 3.5% and 7%, considering that an average rate of 5.5% was applied.

Changes in deferred tax assets and liabilities for the financial years ended 31 December 2013 and 2012 were as follows:

	Deferred tax assets		Deferred tax liabilities	
	2013	2012 (restated)	2013	2012
Differences arising from impairment losses:				
Debts receivable	1 660 788,34	1 496 549,28	-	-
In inventories	88 310,88	85 367,18	-	-
Liabilities for retirement benefits	1 067 412,57	1 138 552,14	-	-
Provisions	315 000,00	188 500,00	-	-
Reimbursement of taxed revenues in previous years (subsidies)	464 972,41	449 473,33	-	-
Effect of the debt discount of AdO and Municipality of Sintra	640 783,97	681 490,14	-	-
Losses by impairment of tangible fixed assets	-	480 884,42	-	-
Differences between the accounting base and tax-related base of tangible fixed assets and investment properties:				
Legal revaluations	-	-	7 167 845,84	7 170 176,77
Free revaluations at the date of transition to IFRS - Depreciable Assets	-	-	19 825 742,80	19 718 829,58
Free revaluations at the date of transition to IFRS - Land	-	-	14 487 803,05	13 048 927,43
Reinvested capital gains	-	-	49 432,13	49 305,96
Effect of changes in service lives in 2009	-	-	615 502,34	1 235 108,03
Effect of cancelling depreciations through the straight-line method in 2009	-	-	35 190,27	70 615,14
	4 237 268,17	**4 520 816,49**	**42 181 516,43**	**41 292 962,91**

	2013		2012 restated	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets restated	Deferred tax liabilities
Opening balance	**4 520 816,49**	**41 292 962,91**	**5 475 082,78**	**44 190 405,99**
Effect upon results:				
Differences arising from impairment losses:				
Debts receivable	108 879,47	-	(50 361,92)	-
In inventories	-	-	(6 524,17)	-
Liabilities for retirement benefits	(106 720,00)	-	(1 061 071,67)	-
Provisions	116 000,00	-	(246 500,00)	-
Reimbursement of taxed revenues	-	-	-	-
Effect of the debt discount of AdO and Municipality of Sintra	(62 065,64)	-	(70 922,95)	-
VFX Trunk Main	(480 884,42)	-	480 884,42	-
Differences between the accounting base and tax-related base of tangible fixed assets and investment properties:				
Legal revaluations	-	(241 259,12)	-	(406 771,84)
Free revaluations at the date of transition to IFRS - Depreciable assets	-	(553 944,87)	-	(1 155 944,49)
Free revaluations at the date of transition to IFRS - Land	-	(401 038,17)	-	(668 277,57)
Reinvested capital gains	-	(1 521,57)	-	(1 516,69)
Effect of changes in service lives in 2009	-	(640 122,44)	-	(638 070,76)
Effect of cancelling depreciations through the straight-line method in 2009	-	(36 597,88)	-	(36 480,58)
Effect of change in the tax rate	-	-	230,00	9 618,85
	(424 790,59)	**(1 874 484,05)**	**(954 266,29)**	**(2 897 443,08)**
Effect in retained earnings:				
Effect of change in the tax rate	141 242,27	1 406 050,55	-	-
Deferred land tax	-	1 356 987,02	-	-
	141 242,27	2 763 037,57	-	-
Closing balance	**4 237 268,17**	**42 181 516,43**	**4 520 816,49**	**41 292 962,91**

In the calculation of deferred tax liabilities related to free reappraisals of lands, there was a record regarding an outstanding balance that must not be recognised as an asset, as its recoverability depends on the disposal of the assets, which is not expected to happen, given that these lands are allocated to operational activities. Considering that the amounts to be adjusted are exclusively related to movements made in previous financial years, the adjustment was made through retained earnings

As we have already mentioned, EPAL updated the tax rate for the calculation of deferred taxes. The increase of the state overtax for profits above 35 million euros, whereas the previous legislation considered state overtax as a provisional measure, made it necessary to increase the average rate.

Considering that EPAL has significant deferred tax liabilities that result from reappraisals, and that the underlying asset and the deferred tax were recognised in the transition as equity, the change in the tax rate was recorded as retained earnings.

12. Other non-current assets

On 31 December 2013 and 2012, the heading "Other non-current assets" was broken down as follows:

	2013	**2012 restated**
Other debtors	7 396 598,35	7 701 114,93
Assets with defined benefit plans (Note 19)	702 036,68	2 115 036,68
	8 098 635,03	**9 816 151,61**

The heading "Other debtors" comprises debts receivable with payment plans that involve terms of more than 1 year.

On 31 December 2013 and 2012, the balance of this heading, in the amounts of 7,396,598.35 euros (net of debt update in the amount of 2,124,202.85 euros) and of 7,701,114.93 euros (net of debt update in the amount of 2,320,780.70 euros), respectively, corresponds to medium- and long-term debts of "Other debtors" and, basically, includes debts arising from the disposal of the Alenquer/Torres Vedras and Arruda dos Vinhos/Sobral de Monte Agraço supply subsystems, which had an annual repayment plan with a 26-year term.

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

	2013	**2012**
2014	-	501 094,43
2015	501 094,43	501 094,43
2016	501 094,43	501 094,43
> 2017	8 518 612,34	8 518 612,34
	9 520 801,20	10 021 895,63
Effect of debt discount	(2 124 202,85)	(2 320 780,70)
	7 396 598,35	**7 701 114,93**

13. Inventories

On 31 December 2013 and 2012, the Company's inventories were broken down as follows:

	2013			2012		
	Gross amount	Losses by accumulated impairments	Net amount	Gross amount	Losses by accumulated impairments	Net amount
Goods	233 419,60	(233 419,60)	-	233 419,60	(233 419,60)	-
Raw, subsidiary and consumable materials	968 829,57	(60 950,00)	907 879,57	1 220 717,84	(60 950,00)	1 159 767,84
	1 202 249,17	**(294 369,60)**	**907 879,57**	**1 454 137,44**	**(294 369,60)**	**1 159 767,84**

Cost of goods sold and materials consumed and changes in production inventories

The cost of goods sold and materials consumed recognised in the financial years ended 31 December 2013 and 2012 is broken down as follows:

	2013		
	Goods	Raw, materials, subsidiary and consumable materials	Total
Opening balance	233 419,60	1 220 717,84	1 454 137,44
Procurement	-	2 342 135,85	2 342 135,85
Regularisations	-	(308 483,19)	(308 483,19)
Closing balance	(233 419,60)	(968 829,57)	(1 202 249,17)
Cost of goods sold and materials consumed	-	2 285 540,93	2 285 540,93

	2012		
	Goods	Raw, materials, subsidiary and consumable materials	Total
Opening balance	255 916,73	1 207 991,23	1 463 907,96
Procurement	-	2 887 956,89	2 887 956,89
Regularisations	(22 497,13)	953,34	(21 543,79)
Closing balance	(233 419,60)	(1 220 717,84)	(1 454 137,44)
Cost of goods sold and materials consumed	-	2 876 183,62	2 876 183,62

Impairment losses

The evolution of accumulated impairment losses from inventories for the financial years ended 31 December 2013 and 2012 is broken down as follows:

	2013		
	Opening balance	Usage	Closing balance
Goods	233 419,60	-	233 419,60
Raw, subsidiary and consumable materials	60 950,00	-	60 950,00
	294 369,60	**-**	**294 369,60**

	2012		
	Opening balance	Usage	Closing balance
Goods	255 916,73	(22 497,13)	233 419,60
Raw, subsidiary and consumable materials	60 950,00	-	60 950,00
	316 866,73	**(22 497,13)**	**294 369,60**

14. Customers and other accounts receivable

On 31 December 2013 and 2012, the Company's "Customers" and "Other accounts receivable" headings were broken down as follows:

	2013			2012		
	Gross amount	Accumulated impairments	Net amount	Gross amount	Accumulated impairments	Net amount
Current:						
Customers						
- From the Group (Note 29)	4 846 329,26	-	4 846 329,26	3 306 681,54	-	3 306 681,54
- Outside the Group	20 859 254,51	(5 304 393,97)	15 554 860,54	20 193 757,18	(4 787 108,79)	15 406 648,39
	25 705 583,77	**(5 304 393,97)**	**20 401 189,80**	**23 500 438,72**	**(4 787 108,79)**	**18 713 329,93**
Other accounts receivable						
Staff	39,701.64	-	39,701.64	37 498,38	-	37 498,38
Clube de Golfe das Amoreiras	1 398 245,78	(1 398 245,78)	-	1 393 245,78	(1 393 245,78)	-
Debtors due to accrued income						
- From the Group (Note 29)	3 861 070,27	-	3 861 070,27	3 098 102,41	-	3 098 102,41
- Outside the Group	10 060 905,77	-	10 060 905,77	9 632 335,90	-	9 632 335,90
Other debtors						
- From the Group (Note 29)	706 243,90	-	706 243,90	703 672,67	-	703 672,67
- Outside the Group	844 218,30	(422 891,32)	421 326,98	2 278 771,41	(420 717,57)	1 858 053,84
	16 910 385,66	(1 821 137,10)	15 089 248,56	17 143 626,55	(1 813 963,35)	15 329 663,20
	42 615 969,43	**(7 125 531,07)**	**35 490 438,36**	**40 644 065,27**	**(6 601 072,14)**	**34 042 993,13**

During the financial year ended 31 December 2013, an amount of 524,458.93 euros was recognised as impairment losses / reversals of impairment losses in debts receivable (496,708.03 euros in 2012).

On 31 December 2013 and 2012, the total of the heading "Debtors, income accrual" in the amounts of 13,921,976.04 and 12,730,438.31 euros, respectively, is mainly associated with an income accrual related to non-invoiced water, in the amounts of 11,751,339.49 euros and 11,392,708.47 euros, respectively.

The schedule of receivables from customers and other debtors, including from third and related parties (Note 29) on 31 December 2013 and 2012 is as follows:

	2013					
	Not due	>60 days	60 - 90 days	90 - 180 days	>180 days	Total
Customers	9 036 230,72	1 064 361,50	740 944,00	1 816 055,16	13 047 992,39	25 705 583,77
Other debtors	1 011 487,50	-367 509,75	24 768,73	303 979,84	577 735,88	1 550 462,20

	2012					
	Not due	>60 days	60 - 90 days	90 - 180 days	>180 days	Total
Customers	12 162 071,21	1 142 379,03	593 283,79	1 511 379,96	8 091 324,73	23 500 438,72
Other debtors	930 422,09	661 315,58	49 122,27	859 720,27	481 863,87	2 982 444,08

15. Deferred assets

On 31 December 2013 and 2012, the current assets heading "Deferrals" was broken down as follows:

	2013	2012
Deferred expenses on insurances	451 290,49	857 820,69
Deferred expenses with maintenance and technical assistance	2 814,95	3 669,36
Other deferred expenses	233 151,98	20 818,93
	687 257,42	**882 308,98**

16. Equity instruments

Share capital

On 31 December 2013 and 2012 the Company's share capital, which was fully subscribed and paid-up, was composed of 30,000,000 shares with a nominal value of five euros each.

Legal reserve

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

On 31 December 2013 and 2012 the legal reserve amounted to 30,000,000.00 euros.

Other reserves

During the financial years ended 31 December 2013 and 2012, other reserves amounted to 22,171,377.45 euros, corresponding entirely to free reserves with no movements in either financial year.

Distributions

Dividends distributed to shareholders/partners in the financial year ended 31 December 2012 amounted to 35,081,797.97 euros, according to the resolution issued by the General Meeting held on 25 March 2013. This payment was made in April and May 2013.

Regarding dividends from the financial year ended 31 December 2013, the Board of Directors proposes the payment of 31,969,427 euros. These dividends are subject to approval by shareholders in the General Meeting, not having been included as liabilities in the attached financial statements.

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

On 31 December 2013, the Company includes in the heading "Retained earnings" increases arising from the application of the fair value criterion to tangible fixed assets and to investment properties, and reappraisals made in previous years, under the following legislation:

- Decree-Law no. 430/78, according to the provisions of Decree-Law no. 24/82 of 30 January
- Decree-Law no. 219/82 of 2 June
- Decree-Law no. 399-G/84 of 28 December
- Decree-Law no. 118-B/86 of 27 May
- Decree-Law no. 111/88 of 2 April
- Decree-Law no. 49/91 of 25 January
- Decree-Law no. 264/92 of 24 November
- Decree-Law no. 31/98 of 11 February

In accordance with current legislation and with Portuguese accounting practices, property increases arising from these reappraisals cannot be distributed to shareholders before they are concluded (by depreciation or disposal) and may only, in certain circumstances, be used for future increases in the Company's share capital or in other situations specified in the legislation.

On 31 December 2013 and 2012, the (gross) value of the legal reappraisal reserves amounts approximately to 338,178,152 euros and it is included in the balance of heading "Retained earnings".

The breakdown of the historical cost with the acquisition of tangible fixed assets and investment properties on 31 December 2013 and 2012 and the corresponding increase through the aforementioned reappraisals (legal and free), net of accumulated depreciations, is as follows:

				2013			
	Land	Deferred tax	Subtotal	Depreciable assets	Deferred tax	Subtotal	Total
Net historic costs	tax	Subtotal	19 657 340	492 658 610	-	492 658 610	512 315 950
Net legal revaluations	32 992 766	-	32 992 766	59 732 049	(7 167 846)	52 564 203	85 556 969
Net legal revaluations	63 799 778	(14 487 803)	49 311 975	66 085 809	(19 825 743)	46 260 067	95 572 041
Net deemed cost	**116 449 884**	**(14 487 803)**	**101 962 081**	**618 476 468**	**(26 993 589)**	**591 482 879**	**693 444 960**

				2012			
	Land	Deferred tax	Subtotal	Depreciable assets	Deferred tax	Subtotal	Total
Net historic costs	19 666 518	-	19 666 518	508 873 330	-	508 873 330	528 539 848
Net legal revaluations	32 992 766	-	32 992 766	61 564 369	(7 170 177)	54 394 192	87 386 958
Net legal revaluations	63 799 778	(13 048 927)	50 750 851	67 714 668	(19 718 830)	47 995 838	98 746 689
Net deemed cost	**116 459 062**	**(13 048 927)**	**103 410 135**	**638 152 366**	**(26 889 006)**	**611 263 360**	**714 673 494**

17. Financial liabilities

Suppliers and other accounts payable

On 31 December 2013 and 2012 the headings "Suppliers" and "Other accounts payable" were broken down as follows:

	2013	2012
Trade Payables:		
Trade Payables, current account		
- From the Group (Note 29)	371 497,57	42 436,04
- Outside the Group	11 112 547,36	11 353 485,53
Trade payables - Invoices pending approval	77 032,97	33 379,70
Investment suppliers	2 468 836,90	1 355 564,63
	14 029 914,80	**12 784 865,90**
Other accounts payable:		
Other creditors:		
CML - Sanitation Fee (Ordinance no. 399/85)	13 209 540,97	12 538 072,43
CML - Additional Fee (Ordinance no. 309/84)	1 207 396,79	1 189 639,02
Various creditors	672 797,27	305 646,56
Creditors due to accrued expenses:		
Insurances payable	118 931,07	241 530,73
Other accrued expenses		
- From the Group (Note 29)	25 755,74	255 390,14
- Outside the Group	1 855 082,71	1 486 002,05
Shareholders - other operations (Note 29)	1 377 842,98	5 465 173,79
Staff:		
Vacations and holiday bonus	2 740 301,05	1 508 064,30
Other debts to staff	66 989,56	124 323,04
Advances from customers	-	1 119 248,11
Deferred liabilities	3 035,88	1 867,77
	21 277 674,02	**24 234 957,94**
	35 307 588,82	**37 019 823,84**

Effective from 2010, the Company began to be taxed under the Special Taxation Regimen for Corporate Groups, the estimated income tax of each entity is recorded in its financial statements based on its tax results, representing an account payable to the entity AdP SGPS. Thus, the amount of 1,377,842.98 euros recorded under the heading "Shareholders - other operations" on 31 December 2012, is related to:

(i) the amount of income taxes payable in 2013, in the amount of 17,032,010.64 euros (Note 11);

(ii) plus adjustments to current taxes of former periods, resulting from corrections to the recognition of investment subsidies in the amount of 627,767.44 euros (Note 11);

(iii) minus the advance tax payments and tax withholdings, in the amount of 15,722,431.73 euros and 377,950.07 euros, respectively;

(iv) and minus the excess estimated tax pertaining to 2010, in the amount of 181,553.29 euros

The heading "Other accrued expenses" is mainly related to the increase in electricity costs, in the amount of 1,196,310 euros (1,090,750 euros in 2012).

Borrowings

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

		2013			2012				
			Amount used			Amount used			
	Financing Entity	Limit	Current	Non-current	Limit	Current	Non-current	Maturity date	Type of Amortisation
Financial institutions:									
Bank loans									
For investment - Loans "EPAL II and III"	BEI	205 755 811,43	17 822 501,36	187 444 544,52	223 609 545,93	17 782 222,87	205 216 386,67	Between 2017 and 2030	Half-yearly
Interest payable			488 765,55			610 936,43			
		205 755 811,43	18 311 266,91	187 444 544,52	223 609 545,93	18 393 159,30	205 216 386,67		

The loans were contracted in euros and by the end of the financial year ended 31 December 2013, they bore interest according to the following schedules and rates:

- 53.03% of the debt at a fixed rate, with interest paid on a half-yearly basis; and

- 46.97% of the debt at a variable rate, with interest rates updated on a quarterly basis.

According to IFRS 7, paragraph 25, we disclosed the fair value of the funding obtained from EIB, which were negotiated at a fixed rate. In this case they correspond to cash flows that were discounted using the last interest rate indicated by the EIB.

	2013		2012	
	Book Value	Fair value	Book Value	Fair value
EIB Financing	125 525 094,95	96 661 003,73	135 691 729,16	106 710 670,10

Funding obtained from EIB under a variable-rate regime are subject, during the period when the interests are paid, to updates to the interest rate, according to the reference rate in force on that date.

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

The loans are also associated to bank guarantees which are intended to cover the debt service (Note 30).

The figure classified as non-current on 31 December 2013 and 2012, has the following reimbursement plan:

	2013		2012	
	Capital	Interest	Capital	Interest
2014	-	-	17 848 193,71	3 260 800,37
2015	17 915 777,80	2 845 176,46	17 916 143,14	2 996 424,10
2016	18 011 457,50	2 586 578,25	17 986 130,47	2 730 693,06
2017	18 109 606,94	2 323 730,71	18 058 216,84	2 461 496,72
2018	15 832 360,47	2 066 953,66	18 058 216,84	2 461 496,72
2019 and following years	117 575 341,81	10 354 571,80	115 349 485,67	10 900 223,20
	187 444 544,52	**20 177 010,88**	**205 216 386,67**	**24 811 134,17**

18. Investment subsidies

On 31 December 2013 and 2012, the heading "Investment subsidies" was broken down as follows:

Subsidy	Total amount	Received amount	Revenue of the period	Revenue accumulated	Revenue to be recognised in 2013	Revenue to be recognised in 2012
Subsidies related to assets:						
COMPART.TORRES/MAFRA	1 215 795,31	1 215 795,31	-	1 215 795,31	-	-
FEDER C.BODE	11 326 074,49	11 326 074,49	-	11 326 074,49	-	-
FEDER TORRES/MAFRA	3 698 332,02	3 698 332,02	-	3 698 332,02	-	-
COMPART. MAFRA 2ª FASE	216 801,06	216 801,06	4 927,32	128 110,08	88 690,98	93 618,30
FEDER TOMAR/T.NOVAS	5 684 191,67	5 684 191,67	106 960,56	3 544 980,04	2 139 211,63	2 246 172,19
COMPART. OURÉM	550 553,17	550 553,17	10 359,84	343 355,58	207 197,59	217 557,43
COMPART.T.NOVAS	435 314,68	435 314,68	8 191,44	271 486,52	163 828,16	172 019,60
COMPART.TOMAR	497 804,04	497 804,04	9 367,32	310 458,22	187 345,82	196 713,14
FEDER OURÉM/ENTRONCAMENTO	3 027 720,39	3 027 720,39	56 973,24	1 888 255,47	1 139 464,92	1 196 438,16
COMPART. ENTRONCAMENTO	4 958,60	4 958,60	93,36	3 092,51	1 866,09	1 959,45
COMPART.V.N.BARQUINHA	72 725,64	72 725,64	1 443,72	40 964,71	31 760,93	33 204,65
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	220 848,36	6 266 574,06	4 858 665,00	5 079 513,36
FUNDO COESÃO REDE DISTRIBUIÇÃO	7 635 576,47	7 635 576,47	63 629,76	6 362 980,10	1 272 596,37	1 336 226,13
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	3 574 041,12	5 831 329,27	6 019 436,71
COMPART RESERV PATRIARCAL	74 819,68	74 819,68	383,64	61 390,56	13 429,12	13 812,76
FUNDO COESÃO ADUTOR C.BODE 2ªFASE	22 472 816,68	22 472 816,68	449 456,40	8 090 213,52	14 382 603,16	14 832 059,56
SANTA MARGARIDA	274 338,84	274 338,84	5 486,76	98 761,86	175 576,98	181 063,74
MINDE/MIRA D'AIRE/BATALHA/LEIRIA	4 472 788,99	4 472 788,99	107 190,96	2 007 395,62	2 465 393,37	2 572 584,33
COMPARTICIPAÇÃO CONSTÂNCIA	87 104,31	87 104,31	1 729,08	49 063,51	38 040,80	39 769,88
COMPARTICIPAÇÃO ALCANENA	139 940,94	139 940,94	3 353,76	62 805,60	77 135,34	80 489,10
COMPARTICIPAÇÃO PORTO DE MÓS	139 940,94	139 940,94	3 353,76	62 805,60	77 135,34	80 489,10
COMPARTICIPAÇÃO BATALHA	66 118,09	66 118,09	1 584,60	29 673,62	36 444,47	38 029,07
COMPARTICIPAÇÃO LEIRIA	66 118,09	66 118,09	1 584,60	29 673,62	36 444,47	38 029,07
PROJECTO SIURE	113 057,53	113 057,53	-	113 057,53	-	-
PROJECTO SPRINT	21 604,38	21 604,38	-	-	21 604,38	21 604,38
EDP	373 873,56	373 873,56	23 367,00	36 068,23	337 805,33	361 172,33
MINISTÉRIO DA SAUDE	375 060,98	375 060,98	7 583,76	8 215,74	366 845,24	374 429,00
	88 547 793,13	**88 547 793,13**	**1 275 976,68**	**54 597 378,37**	**33 950 414,76**	**35 226 391,44**

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

	2013	2012
Investment subsidies	1 275 976,68	1 252 533,96
	1 275 976,68	**1 252 533,96**

19. Post-employment benefit obligations

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

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

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

Post-employment benefits - defined contribution plan

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

The contributions that were made in 2013 and 2012, under the Defined Contributions Plan were as follows:

	2013	**2012**
Company Contributions	485 792,00	493 894,60
Employees' contributions	21 293,20	23 041,90
	507 085,20	**516 936,50**

The total expenses recognised with these contributions for the financial year ended 31 December 2013 amounted to 485.792,00 euros (493,894.60 euros in 2012) (Note 24).

Post-employment benefits - defined benefits plan and early retirement

The latest actuarial valuation of the plan assets and of the present value of the defined benefits obligation and of the early retirements was made with reference to 31 December 2013 by an independent third party. The present value of the defined benefits obligation and of the early retirement as well as current and past service costs were measured using the projected unit credit method.

The main assumptions adopted in the actuarial valuation on 31 December 2013 and 2012 were the following:

	2013	**2012**
Discount rate	3,10%	3,75%
Expected return from the plan's assets	-	3,75%
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80
Salary growth rate (a)	0,0%	0,0%
Social security salary growth rate (a)	0,0%	0,0%
Growth rate of early retirement benefits (a)	0,0%	0,0%

(a) Assumption of 0.0% growth in 2014.
After 2015, the assumption considered was 2.5%.

During the financial years ended 31 December 2013 and 2012, the following amounts were recognised as profit or loss under the heading "Staff expenses":

	2013	2012 restated
Cost of current services	193 000,00	196 000,00
Net interest	106 000,00	297 000,00
Cuts/changes to the plan	245 000,00	-
Total expenses (Note 24)	**544 000,00**	**493 000,00**

As of 31 December 2013 and 2012, the net past service liabilities associated with the defined benefit plan and early retirement were as follows:

	2013	2012 restated
Present value of defined benefit obligations - with constituted fund	37 108 000,00	35 365 000,00
Fair value of fund assets	37 810 000,00	37 480 000,00
Assets with defined benefit plans (Note 12)	**702 000,00**	**2 115 000,00**
Present value of defined benefit obligations - without constituted fund	4 257 000,00	6 039 000,00
Liabilities with defined benefit plans	**4 257 000,00**	**6 039 000,00**

The overall responsibilities of the Company are covered by the assets of the Pension Fund and by a specific provision, recorded under liabilities, which amounted to 4,257,000.00 euros in the financial year ended 31 December 2013 (6,039,000.00 euros in 2012).

The movements in the present value of the obligation for the financial years ended 31 December 2013 and 2012 are described as follows:

	Plan liabilities	Fair value of plan assets	Total
On 1 January 2012 (restated)	42 943 000,00	(35 360 000,00)	7 583 000,00
Costs with pensions			
Costs of current services	196 000,00	-	196 000,00
Net interest	1 924 000,00	(1 627 000,00)	297 000,00
Benefits paid	(4 739 000,00)	3 312 000,00	(1 427 000,00)
Immediate recognition of gains and losses			
Remeasurements			
(gains)/losses changes in demographic assumptions	(2 209 000,00)	-	(2 209 000,00)
(gains)/losses changes in financial assumptions	3 289 000,00	-	3 289 000,00
revenue losses/ (gains)	-	(3 805 000,00)	(3 805 000,00)
benefit losses/ (gains)	-	-	-
On 31 December 2012 (restated)	**41 404 000,00**	**(37 480 000,00)**	**3 924 000,00**

	Plan liabilities	Fair value of plan assets	Total
On 1 January 2013	41 404 000,00	(37 480 000,00)	3 924 000,00
Costs with pensions			
Costs of current services	193 000,00	-	193 000,00
Net interest	1 476 000,00	(1 371 000,00)	105 000,00
Changes to the plan	245 000,00	-	245 000,00
Benefits paid	(4 481 000,00)	2 254 000,00	(2 227 000,00)
Immediate recognition of gains and losses			
Remeasurements			
(gains)/losses changes in demographic assumptions	267 000,00	-	267 000,00
(gains)/losses changes in financial assumptions	2 261 000,00	-	2 261 000,00
revenue losses/ (gains)	-	(1 213 000,00)	(1 213 000,00)
benefit losses/ (gains)	-	-	-
On 31 December 2013	**41 365 000,00**	**(37 810 000,00)**	**3 555 000,00**

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

	Fair value 2013	2012
Equity instruments	13 831 360,00	14 077 567,00
Debt instruments	22 760 271,00	22 379 765,00
Other	1 218 369,00	1 022 668,00
	37 810 000,00	**37 480 000,00**

The sensitivity of defined-benefit liabilities to changes in the main assumptions is the following:

	Impact in liabilities by defined benefit	
	Changes in assumptions	Liability by defined benefit
Assumption		
Discount rate	+0.4%	3.4% decrease

The sensitivity analysis presented here was calculated by changing the assumption (discount rate) and keeping all the other variables unchanged. In practice, this scenario is rather unlikely, because the changes to some of the assumptions may be correlated.

20. Provisions

On 31 December 2013 and 2012 the evolution of "Provisions" is detailed as follows:

	2013				
	Opening balance	Increases	Reversals	Usage	Closing balance
Ongoing litigations	189 098,29	181 157,44	(56 820,71)	(114 310,91)	199 124,11
Work accidents	147 406,28	-	(32 963,88)	-	114 442,40
Other provisions	721 999,78	400 000,00	(72 000,00)	-	1 049 999,78
	1 058 504,35	**581 157,44**	**(161 784,59)**	**(114 310,91)**	**1 363 566,29**

	2012				
	Opening balance	Increases	Reversals	Usage	Closing balance
Ongoing litigations	145 769,56	79 546,88	(27 915,76)	(8 302,39)	189 098,29
Work accidents	154 577,68	-	(7 171,40)	-	147 406,28
Other provisions	1 571 999,78	-	(850 000,00)	-	721 999,78
	1 872 347,02	**79 546,88**	**(885 087,16)**	**(8 302,39)**	**1 058 504,35**

21. State and other public entities

On 31 December 2013 and 2012 the heading "State and other public entities" was broken down as follows:

	2013		**2012**	
	Assets	Liabilities	Assets	Liabilities
Personal income tax	-	381 557,37	-	243 826,25
VAT	-	559 239,54	-	246 212,70
Social Security contributions	-	495 416,78	-	483 097,87
Levy on water resources	-	3 212 405,02	-	3 303 103,64
Corporate Income Tax (a)	2 096 301,15	-	1 610 534,00	-
	2 096 301,15	**4 648 618,71**	**1 610 534,00**	**4 276 240,46**

(a) On 31 December 2012, the amount under Corporate Income Tax concerns the SIFIDE tax benefit, pertaining to the years 2007 to 2012, as well as the recoverable amount arising from excess accrued amounts associated with the free and legal reappraisals made within the scope of the Corporate Income Tax estimates for 2010, 2011 and 2012.

Effective from 2010, the Company began to be taxed under the special regime for the taxation of groups of companies, so the estimated corporate income tax, net of advanced tax payments and withholding taxes, now represents an account payable to the entity AdP SGPS (Note 17).

22. Revenue

The company's revenue recognised as of 31 December 2013 and 2012 is detailed as follows

	2013	**2012**
Water sales and service fee	141 893 722,09	142 971 269,29
Rendering of services	1 185 382,44	1 233 998,58
	143 079 104,53	**144 205 267,87**

23. Supplies and services

In the financial years ended 31 December 2013 and 2012 the heading "Supplies and services" is detailed as follows:

	2013	2012
Electricity	11 290 491,21	12 080 411,93
Maintenance and repairs	4 057 560,89	4 640 787,95
Specialised work	5 085 662,07	5 808 733,10
Communication	1 303 606,26	1 405 498,90
Insurance	925 287,29	956 903,18
Leases and rents	1 252 701,05	1 337 659,99
Subcontracts	857 497,66	732 313,02
Surveillance and security	729 664,51	857 563,66
Advertisement	262 648,67	228 049,58
Cleaning, hygiene and comfort	581 276,58	598 060,60
Fuel	618 451,83	638 289,30
Other supplies and services	5 157 245,94	5 242 953,44
	32 122 093,96	**34 527 224,65**

There was an overall reduction in almost all Supplies and Services headings, especially in:

- Electricity - the decrease of approximately 6.5% is due to a decrease in the volumes abstracted and pumped by EPAL's facilities, combined with a decrease in specific consumption, due to optimisations that significantly increased its efficiency;

- Specialised Works - the reduction by approximately 12.5% in this heading was a result of the internalisation of the building network service, a reduction of costs with invoice printing services and the optimisation of the licensing of EPAL's software packages

- Maintenance and Repairs - decrease in the number of corrective interventions in the Lisbon distribution network

24. Staff expenses

In the financial years ended 31 December 2013 and 2012, the heading "Staff expenses" is detailed as follows:

	2013	2012 (restated)
Remunerations of governing bodies	241 598,61	239 226,01
Remunerations of the staff	17 857 541,37	16 195 461,89
Post-employment benefits		
Defined contribution (Note 19)	485 792,00	493 894,60
Defined benefit and early retirement (Note 19)	544 000,00	493 000,00
Compensations	2 344,11	105 887,88
Charges on remunerations	4 311 416,91	3 823 391,89
Work accident and occupational disease insurances	116 637,24	93 424,67
Expenditures with social actions	1 544 961,12	1 614 463,26
Training	102 430,58	204 737,30
Other	37 656,90	33 726,12
	25 244 378,84	**23 297 213,62**

The average number of employees working for the Company on 31 December 2013 and 2012 amounted to 721 and 738 people, respectively.

The increase in staff remunerations that took place in 2013 was mainly the result of the recognition of expenses associated with the payment of holiday and Christmas bonuses pertaining to the 2012 financial year, which had been suspended by Governmental decision.

As a result of the decision made by the Constitutional Court which, after the closing of the accounts for the 2012 financial year, declared the unconstitutionality of the non-payment of holiday and Christmas bonuses to State workers, which is applicable to EPAL, the expenses associated with the payment of that year's holiday bonus were accounted for in 2013.

The Company also established a mutually agreed termination programme, which allowed it to end the year with 694 employees whereas, at the end of 2012, the number of staff members was 736. This programme resulted in the payment of compensations amounting approximately to 1.9 million euros.

Considering the extraordinary nature of these headings, there was a decision to separate them within the financial statements:

	2013
Non-recurrent expenses:	
Holiday bonus and corresponding charges - 2012	1 513 585,59
Compensations	1 916 920,22
	3 430 505,81

25. Other income and gains

In the financial years ended 31 December 2013 and 2012, heading "Other income and gains" is broken down as follows:

	2013	2012
Supplementary income	2 443 099,17	2 581 482,63
Income and gains in non-financial investments	88 762,23	76 571,55
Gains in inventories	1 805,39	4 361,13
Discounts obtained in cash payments	1 737,41	-
Favourable exchange rate differences	129,09	84,71
Other	67 774,18	1 627 297,13
	2 603 307,47	**4 289 797,15**

The heading "Additional income", which on 31 December 2013 and 2012 amounted to 2.443.099.17 euros and 2.581.482.63 euros, respectively, essentially comprises: (i) technical assistance to third parties relating to the computer system Aquamatrix, in the amount of 1,547,286 euros (1,656,774 euros in 2012), and (ii) sanitation tax in the amount of 326,550 euros (322,924 euros in 2012).

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

26. Other expenses and losses

The breakdown of the heading "Other expenses and losses" for the financial years ended 31 December 2013 and 2012 is the following:

	2013	2012
Taxes and fees	1 217 345,92	1 241 070,14
Damages for bursts	132 583,32	388 613,11
Donations	79 931,59	48 800,00
Levies	59 340,67	73 018,93
Other	94 575,18	90 833,54
	1 583 776,68	**1 842 335,72**

27. Depreciations

The breakdown of the heading "Depreciation and amortisation expenses" for the financial years ended 31 December 2013 and 2012 is the following:

	2013	2012
Tangible fixed assets (Note 6).	24 914 034,66	24 701 560,04
Investment properties (Note 7)	94 779,09	94 779,09
	25 008 813,75	**24 796 339,13**

28. Interest and similar income and expenses

Interest and other similar income recognised during the financial years ended 31 December 2013 and 2012 are detailed as follows:

	2013		2012	
Interest earned:				
Deposits in credit institutions	2 272 693,64		2 796 033,06	
Other	4 276,13	2 276 969,77	2 652,61	2 798 685,67
Other similar income		520 433,38		665 162,14
		2 797 403,15		**3 463 847,81**

The financing losses and expenses recognised for the years ended 31 December 2013 and 2012 are broken down as follows::

	2013	2012
Interest paid:		
Bank funding	3 423 192,46	4 683 453,57
Other funding	356 669,39	352 791,97
	3 779 861,85	**5 036 245,54**

29. Related parties

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

Associates

Companies	Head-Office	% shareholding held	Equity	Net profit	Balance value	Adjustments	Net value
Fundec	Lisboa				1 500,00	-	1 500,00

Movements

	Opening balance	Reinforcements	Reductions	Closing balance
Shares in companies belonging to the group	250 000,00	-	-	250 000,00
Equity interests 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 related parties on 31 December 2013:

	Type of relationship	Sales and/or Rendering of Services	Services provided within the Group	Financial Gains	Services acquired within the Group
AdP SGPS	Parent company	-	497,00	-	2 496 964,74
AdP Serviços	Company belonging to the Group	2 781,85	-	-	1 037 183,17
Aquasis	Company belonging to the Group	-	-	-	431 629,00
Águas do Centro	Company belonging to the Group	683 526,90	-	-	150,00
Águas do Oeste	Company belonging to the Group	10 854 472,41	-	323 685,24	-
Simtejo	Company belonging to the Group	112 220,26	-	-	1 301,03
Águas Algarve	Company belonging to the Group	645,76	105 500,95	-	47 257,10
Águas do Noroeste	Company belonging to the Group	565,00		-	-
Águas S. André	Company belonging to the Group	-	19 128,63	-	250,00
Águas da Região de Aveiro	Company belonging to the Group	-	148 436,56	-	-
Valorsul	Company belonging to the Group	13 186,86	-	-	-
Algar	Company belonging to the Group	681,12	-	-	-
		11 668 080,16	**273 563,14**	**323 685,24**	**4 014 735,04**

Transactions with related parties on 31 December 2012:

	Type of relationship	Sales and/or Rendering of Services	Services provided within the Group	Financial Gains	Services acquired within the Group
AdP SGPS	Parent company	-	497,00	-	2 560 150,96
AdP Serviços	Company belonging to the Group	2 872,84	64,80	-	1 202 456,64
Aquasis	Company belonging to the Group	-	-	-	129 358,00
Águas do Centro	Company belonging to the Group	694 949,89	-	-	-
Águas do Oeste	Company belonging to the Group	10 482 055,17	-	434 358,84	-
Sanest	Company belonging to the Group	-		-	-
Simtejo	Company belonging to the Group	124 125,96	-	-	-
Águas do Centro Alentejo	Company belonging to the Group	-		-	-
Águas Algarve	Company belonging to the Group	90,00	99 701,20	-	-
Águas do Noroeste	Company belonging to the Group	-	602,08	-	-
Águas S. André	Company belonging to the Group	-	18 709,26	-	-
Águas da Região de Aveiro	Company belonging to the Group	-	189 766,57	-	-
Águas Públicas do Alentejo	Company belonging to the Group	-	900,00	-	
Valorsul	Company belonging to the Group	8 725,15	-	-	-
Algar	Company belonging to the Group	127,03	-	-	-
		11 312 946,04	**310 240,91**	**434 358,84**	**3 891 965,60**

Balances with related parties on 31 December 2013:

	Customers	Trade payables	Other Debtors	Accrued income	Accrued expenses	Other accounts payable (Note 16)
AdP SGPS	-	-	142,00	-	14 813,63	1 377 842,98
AdP Serviços	676,26	16 114,00	-	-	10 942,11	-
Aquasis	-	350 099,37	-	-	-	-
Águas do Centro	50 031,12	-	-	-	-	-
Águas do Oeste	4 777 721,47	-	10 021 895,29	3 808 427,35	-	-
Simtejo	17 094,76	-	-	-	-	-
Águas Algarve	-	5 284,20	128 744,38	-	-	-
Águas do Noroeste	694,95	-	-	-	-	-
Águas S. André	-	-	-	1 597,32	-	-
Águas da Região de Aveiro	-	-	76 262,75	49 545,60	-	-
Valorsul	-	-	-	1 500,00	-	-
Algar	110,70	-	-	-	-	-
	4 846 329,26	**371 497,57**	**10 227 044,42**	**3 861 070,27**	**25 755,74**	**1 377 842,98**

Balances with related parties on 31 December 2012:

	Customers	Trade payables	Other Debtors	Accrued income	Accrued expenses	Other accounts payable (Note 16)
AdP SGPS	-	22 012,34	106,50	-	9 545,12	5 465 173,79
AdP Serviços	773,74	-	-	-	126 112,02	-
Aquasis	-	20 423,70	-	-	119 733,00	-
Águas do Centro	45 579,34	-	-	-	-	-
Águas do Oeste	3 248 611,45	-	10 522 990,06	3 097 218,58	-	-
Simtejo	11 450,06	-	-	-	-	-
Águas Algarve	110,70	-	152 208,14	-	-	-
Águas do Noroeste	-	-	-	-	-	-
Águas S. André	-	-	3 838,92	-	-	-
Águas da Região de Aveiro	-	-	46 424,34	-	-	-
Valorsul	-	-	-	883,83	-	-
Algar	156,25	-	-	-	-	-
	3 306 681,54	**42 436,04**	**10 725 567,96**	**3 098 102,41**	**255 390,14**	**5 465 173,79**

The Company's Board of Directors was assessed as a related party and the remunerations paid are disclosed in Note 31.

30. Contingent Liabilities and Guarantees Provided Contingent liabilities

Contingent Liabilities

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

Guarantees

On 31 December 2013 and 2012, the Company had taken up the following responsibilities for guarantees provided:

	2013	2012
European Investment Bank (Note 17)	130 221 884,54	97 115 244,22
Courts	5 175 899,89	5 207 510,91
Other	331 169,72	288 788,47
	135 728 954,15	**102 611 543,60**

The increase in liabilities for guarantees provided within the scope of the funding obtained from EIB results from the fact that this entity only accepts the replacement of guarantees provided by financial institutions with guarantees provided by the State, considering that the banks' ratings are below the minimum currently required by EIB. This change means that the reserve base is no longer the annual debt service but the outstanding capital at the beginning of each financial year.

31. Disclosures required by law

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

It should also be mentioned that, effective from 1 April 2013, the remunerations of managers were established in accordance with the Public Manager Statute, approved by Decree-Law no. 71/2007 of 27 March, in the wording of Decree-Law no. 8/2013 of 18 January, rectified by Rectification Statement no. 2/2013 of 25 January and by the provisions of Resolution no. 16/2013 of the Council of Ministers, of 14 February and Resolution no. 36/2013 of the Council of Ministers of 26 March, notwithstanding the changes and adjustments that may be agreed upon by the shareholders or by the Remuneration Committee, within the scope of their competences and in strict compliance with the legislation in force

1. General meeting board

	2013		
General Meeting Board Term I	**Chair**	**Vice-Chairman**	**Secretary**
	AMEGA	Ana Cristina Rebelo Pereira	Alexandra Varandas
Fixed annual remuneration (*)	-	-	-

(*) Attendance Notes (corresponds to the gross annual salary earned as a result of the defined compensation statute)

2. Sole Auditor

Sole Auditor	**2013**	2012
	António Dias Nabais	António Dias Nabais
Effective annual remuneration	17 911,88	17 911,88

3. Statutory Auditor

External Auditor	2012	2013	
	Deloitte & Associados, SROC, SA	Deloitte & Associados, SROC, SA	PwC, SROC, SA
Statutory Audits	30 020,00	10 520,00	9 000,00

In 2013, EPAL launched a contractual procedure, which involved several entities, and ended with the awarding to PwC, SROC, SA the support in the definition of a costing model for EPAL's complementary activities. The incurred expense was 28,000 euros.

4. Board of Directors

Remunerations	Chief executive officer	Executive director	Executive director
	José Manuel Leitão Sardinha	Maria do Rosário da Silva Cardoso Águas	Maria do Rosário Mayoral Robles Machado Simões Ventura
Term	**II**	**II**	**II**
Adapted to EGP (Yes/No)	**Yes**	**Yes**	**Yes**
Total Remuneration (1.+2.+3.+4.)	**92 909,80**	**74 247,57**	**74 503,77**
OPRLO	**No**	**No**	**No**
Entity of Origin (identify)	**-**	**-**	**-**
Paying entity (origin/Destination)	**-**	**-**	**-**
1.1. Annual Remuneration	68 673,00	54 938,40	54 938,40
1.2. Representation Expenses (Annual)	27 469,20	21 975,36	21 975,36
3. Attendance note (Annual Value)	-	-	-
1.4. Reduction arising from Law no. 12-A/2010	5 379,39	4 303,51	4 303,51
1.5. Reduction arising from Law no. 64-B/2011	10 220,83	8 176,67	8 176,67
1.6. Holiday and Christmas Bonuses	11 445,50	9 156,40	9 156,40
1.7. Reductions from previous years	-	-	-
"1. Effective annual remuneration (1.1+1.2.+1.3-1.4-1.5+1.6-1.7)"	**91 987,48**	**73 589,99**	**73 589,99**
2. Variable remuneration	**-**	**-**	**-**
3. Exemption from Work Schedule (in Portuguese IHT)	**-**	**-**	**-**
4. Other (identify)	**922,32**	**657,58**	**913,78**
Travelling allowances			
Meal allowances	922,32	657,58	913,78
Costs with social benefits			
Social Protection Regimen	Social Security	Social Security	Social Security
Social Protection amount	17 012,23	16 537,58	16 537,58
Health insurances	355,25	1 425,32	766,87
Life insurance	1 876,94	1 480,00	1 480,00
Personal insurance	-	-	-
Other (mention)	n.a.	n.a.	n.a.
Accumulation of Management Roles (Y/N)	**No**	**No**	**No**
Entity (identify)	-	-	-
Annual remuneration	-	-	-

Vehicle Fleet	Chief executive officer	Executive director	Executive director
	José Manuel Leitão Sardinha	Maria do Rosário da Silva Cardoso Águas	Maria do Rosário Mayoral Robles Machado Simões Ventura
Term	II	II	II
Type of use	Operating Lease	Operating lease	Operating lease
New car price reference	42 337,14	41 028,07	44 098,37
Start	2008	2008	2008
End	2014	2014	2014
No. of instalments	12	12	12
Residual Value	16 162,40	15 146,34	18 912,15
Yearly lease / instalment value of the company car	7 286,16	7 803,24	7 308,12
Fuel and toll costs with the vehicle	3 096,16	3 051,18	2 913,31
Annual ceiling for fuel and tolls	6 867,30	5 493,84	5 493,84
Other (Repairs/Car Insurance)	527,16	1 797,28	637,88
Limit defined under Art. 33 of the EGP (Yes/No)	Yes	Yes	Yes

Other benefits and compensations	Chief executive officer	Executive director	Executive director
	José Manuel Leitão Sardinha	Maria do Rosário da Silva Cardoso Águas	Maria do Rosário Mayoral Robles Machado Simões Ventura
Term	II	II	II
Annual ceiling for mobile communications	960,00	960,00	960,00
Annual expenses with mobile communications	485,60	310,66	122,55
Other (mobile data)	307,22	426,99	213,73
Limit defined under Art. 32 of the EGP (Yes/No)	Yes	Yes	Yes

Traveling expenses	Chief executive officer	Executive director	Executive director
	José Manuel Leitão Sardinha	Maria do Rosário da Silva Cardoso Águas	Maria do Rosário Mayoral Robles Machado Simões Ventura
Term	II	II	II
Total annual travelling costs	11 066,97	10 573,10	368,25
Total annual accommodation costs	1 599,44	2 768,30	114,50
Subsistence allowances	696,98	1 385,03	98,29

32. Earnings per share

The earnings per share for the financial years ended 31 December 2013 and 2012 were calculated as follows:

	2013	2012 reexpresso
Profit:		
Net profit for the period	39 961 784,04	43 577 439,12
Number of shares		
Weighted average number of shares in circulation	30 000 000	30 000 000
Basic earnings per share	1,33	1,45
Diluted earnings per share	1,33	1,45

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

OThe CFO and Chartered Accountant
Marcos Levi Santinho de Faria Miguel

Report and Opinion of the Sole Auditor

ANTÓNIO DIAS NABAIS
REVISOR OFICIAL DE CONTAS
Avenida do Mar, 32 - 2.º B
2825-476 COSTA DE CAPARICA
E-mail: adn.roc@sapo.pt

REPORT AND OPINION OF THE SOLE AUDITOR

In compliance with the provisions laid down in art. 452 of the Commercial Companies Code (in Portuguese, CSC) and in the Articles of Association of EPAL - Empresa Portuguesa das Aguas Livres, SA, the undersigned hereby submits its annual activity Report and issues its Opinion on the Management Report and Accounts, Proposed Appropriation of Net Profit and Legal Certification of Accounts, concerning the financial year of 2013.

1. REPORT

Within the scope of his duties, the Sole Auditor controlled the Company's management in key activity areas, using as basic elements for his analysis the financial statements, operation and investment budgets, the water balance, including figures related to the abstraction, treatment and invoicing of the water produced, as well as the corresponding loss rates for the treatment, transportation and distribution phases. As per the provisions of art. 420 of the CSC, the Sole Auditor monitored compliance with all its standards, and also verified the company's compliance with current legal guidelines applicable to the State Corporate Sector [SEE], in order to ensure that the remuneration reductions provided for in the statute of public management bodies approved by Decree-Law no. 8/2012 were observed in this financial year. In terms of employment, the Sole Auditor confirms that the measures for the restraint/reduction in the number of staff members were applied by the company under the terms recommended by the 2013 State Budget. The Sole Auditor confirms that, in this field, EPAL complied with all the guidelines prescribed in the above mentioned legal texts, as, indeed, is mentioned in its annual report and accounts.

Summarily, the activity developed by the Sole Auditor in 2013, which, to a large extent, has already been presented in the quarterly reports submitted to the managing bodies and the Administration, essentially included the following procedures:

* Confirmation of the ownership of the assets and values that integrate the company's property, which showed that the elements of its tangible fixed assets were recorded according to the legal requirements applicable in the acquisition or revaluation periods, and are presented in the balance sheet net of amortisations or possible accumulated impairment losses. We should highlight that, in 2013, depreciation and amortisation expenses amounted approximately to 23 million euros, an amount that represents an increase by nearly 1% against the previous year. Investment properties, which are almost irrelevant in terms of the company's non-current assets, are being depreciated based on their estimated service life, on a twelfth basis and according to the straight-line method.

ANTÓNIO DIAS NABAIS
REVISOR OFICIAL DE CONTAS
Avenida do Mar, 32 - 2.º B
2825-476 COSTA DE CAPARICA
E-mail: adn.roc@sapo.pt

- Verification of the appropriateness and consistency of the accounting policies adopted by the company and of the asset valuation criteria used in the preparation of the financial statements, which are appropriately disclosed in the Notes to the Accounts, insofar as they express EPAL's financial position and the result of its operations on 31 December 2013 in a very realistic way.

- Monitoring of the financial execution of the annual operation budget, highlighting the deviations and changes calculated against the previous year. We consider that this budget shows an overall satisfactory index of implementation, despite the fact that there was an actual drop of 1.126 million euros in sales and rendering of services in comparison with the previous year. The contraction of the gross margin was not so pronounced due to the productivity gains recorded in the costs of consumed materials, whose actual drop reached nearly 20.5% (600 thousand euros) in comparison with the previous year. The company's income before depreciation, financing costs and taxes shows a decrease of approximately 6 million euros in comparison with 2012, as a result of an increase of 1.95 million euros in staff expenses, due to reasons beyond the management body's control, as well as of the compensations paid related to the reduction of the number of staff members and of other non-recurrent expenses, in the amount of 5 million euros. The cost containment in the supplies and services area, with a drop of 2.4 million euros, combined with the positive effect of the reduced financing costs, did not prevent the income before taxes from decreasing by 4.2 million euros, in comparison with the previous financial year. Due to the positive effect of current and deferred taxes, with marked drops in 2013, the company's net income recorded a contraction of 3.6 million euros (-8.3%), while still showing a highly expressive amount of 39.962 million euros. In our opinion, this is an excellent result from the point of view of the profitability of its corporate capital.

- In 2013, EPAL's financial position maintained all the fundamental indicators that support a very solid and balanced structure, which was significantly reinforced in the last triennium. This situation is characterised by the liquidity, solvency, debt capacity and autonomy ratios, whose indexes offer good prospects for the company, as well as satisfactory levels of profitability in the coming years. That position is also supported by the expressions of the recurrent EBITDA, whose average amounts exceed 80 million euros in the last few years. On the other hand, the EBITDA margin, which highlights the weight of the operating cash flow on turnover, has also maintained high levels, with a stable trend over the last triennium, despite a slight drop in 2013, due to a greater decrease in operating income, caused by the negative evolution of sales and service rendering.

ANTÓNIO DIAS NABAIS
REVISOR OFICIAL DE CONTAS
Avenida do Mar, 32 - 2.º B
2825-476 COSTA DE CAPARICA
E-mail: adn.roc@sapo.pt

- By analysing the customers' current accounts and "other accounts receivable" we may conclude that the customers' debit, net of accumulated impairments, showed a net increase of 1.7 million euros (9%) in comparison with the previous year. Current debt was negatively influenced by impairment losses, recording an increase of 517 thousand euros in 2013, an evolution similar to that occurred in the previous year. In "other accounts receivable", with a net total of 15.1 million euros, we should highlight the balance of "debtors, income accrual", which corresponds to 13.9 million euros. This amount includes the significant expression of anticipated income related to water consumed and not invoiced in December 2013, which amounted to 10.1 million euros. We should highlight the fact that, in the overall balance of the accounts of "customers and other debtors", whose total is 27.26 million euros, the overdue amount at the end of the year amounted to 10.048 million euros and the amount overdue for more than 180 days reached 13.626 million euros. In the expressed amount, it is considered that debts older than 6 months may cast uncertainty on the collection of a large part of the customers' debts, especially taking into account the nature of the product sold. In this sense, we should point out that this situation already existed at the end of 2012, considering that the maturity of nearly 35% of the customers' debts had already exceeded 180 days.

The supervisory body considers that it should stress the importance of the strategy that has been adopted by the company to ensure the good quality of the service provided, concurrently with the maintenance of a sustainable financial profile combined with a fair and adequate return on the capital invested. Such measures, while targeting the improvement of operational efficiency based on the implementation of a quality management system, created the conditions that underpin the current management model, whose impact on the economy of the company has been reflected unequivocally by a rising trend in its operating profitability coupled with a consistent reinforcement of results in successive years.

It is also worth underlining the good performance of the company regarding the coverage of its obligations related to staff pension funds, given the fact that the funding of the Defined-Benefit Pension Fund, worth 37.8 million euros, has reached a coverage level of about 102 % at the end of 2013. The company's past service liabilities increased to 37.1 million euros at the end of the year, with a level of coverage of 138%, according to the assumptions of the ISP's Minimum Fund.

Regarding the Defined Contribution Plan, the amount indicated by the company was 16.2 million euros by the end of 2013. EPAL contributed with 485.790 euros for this Fund, while employees contributed with 21.300 euros, amounts almost identical to those of the previous year.

ANTÓNIO DIAS NABAIS
REVISOR OFICIAL DE CONTAS
Avenida do Mar, 32 - 2.° B
2825-476 COSTA DE CAPARICA
E-mail: adn.roc@sapo.pt

Through a detailed analysis of all the items used to calculate the estimated Corporate Income Tax for 2013, based on an income before taxes of 55.438 million euros, we were able to conclude that the taxable profit, in the amount of 59.174 million euros, and the payable taxes, in the amount of 17.66 million euros, with the inclusion of the overtax and autonomous taxation, were calculated with considerable accuracy, which leads us to consider that the amount for the current income tax is adjusted to the estimated value. In this context, we can admit that any tax corrections, based on accounting examinations, will probably not distort, in a significant way, the tax amount recorded in the financial statements, of 16,926 million euros.

It is our opinion that the Management Report is formally in accordance with the financial statements and that the proposed appropriation of results meets the requirements set by the CSC, namely the provisions of articles 294 and 295 as regards the application of profits.

B - OPINION

The sole Auditor agrees with the Legal Certification of Accounts issued by Pricewaterhouse-Coopers & Associados, SROC, Lda*, and is also of the opinion that the following should be approved by the General Meeting:

- the Annual Report and Accounts for the financial year 2013
- the Proposal for the Appropriation of Net Profit

as proposed by the Board of Directors.

Lisbon, 21 March 2014.

The Sole Auditor

(António Dias Nabais)

Legal Certification of Accounts

pwc

Legal Certification of Accounts Introduction

1. We have audited the attached financial statements of EPAL - Empresa Portuguesa das Águas Livres, S.A., which comprise the Statement of Financial Position on 31 December 2012 [showing a total of 863,733,598.15 euros and an equity in the amount of 536,206,003.14 euros, including a net result of 39,961,734.04 euros]; the Financial Statements by Nature, the Comprehensive Income Statements, the Statements of Changes in Equity and Statements of Cash Flows (for the year ended on that date and the corresponding Notes.

Responsibilities

2. It is the responsibility of the Board of Directors to prepare the Management Report and the Financial Statements in a way that these provide a true and fair presentation of the Company's financial position, its comprehensive income and results of its operations, changes in equity and cash flows, as well as the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system.

3. Our responsibility consists of issuing a professional and independent opinion, based on our analysis of the aforementioned financial statements.

Scope

4. The examination we carried out was conducted according to the Technical Standards and Guidelines for Revision/Auditing issued by the Portuguese Society of Statutory Auditors, which require that such examination be planned and executed with the purpose of obtaining an acceptable level of certainty regarding whether the financial statements are exempt from any materially relevant distortions. To this end, the examination included: (i) the verification, on a sample basis, of evidence of the amounts and disclosures included in the financial statements; and assessment of estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation thereof; (ii) an appreciation of whether the accounting policies adopted and their disclosure are appropriate, under these particular circumstances; (iii) the verification of the applicability of the principle of continuity, and (iv) the assessment of the adequacy, in general terms, of the presentation of the financial statements.

5. Our examination also included verifying the consistency between the financial information of the management report and of the financial statements.

6. We consider that the examination that was thus conducted by us provides an acceptable basis for expressing our opinion.

Opinion

In our opinion, the above mentioned financial statements truthfully and appropriately present, in all material respects, the financial position of EPAL - Empresa Portuguesa das Águas Livres, S.A. on 31 December 2013, as well as the results and comprehensive income of its operations, changes in equity and cash flows, for the year ended on that date, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Reporting on other legal requirements

8 It is also our opinion that the information included in the Management Report is consistent with the financial statements for the financial year.

20 March 2014

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by;

João Rui Fernandes Ramos, R.O.C

EPAL

Grupo Águas de Portugal