

ATHENS WATER AND SEWERAGE COMPANY SA
MANAGEMENT REPORT
OF THE BOARD OF DIRECTORS
FOR THE ANNUAL GENERAL MEETING OF SHAREHOLDERS
FOR THE YEAR ENDED AT 31 DECEMBER 2005

Dear Shareholders,

In setting EYDAP's corporate aims, one must observe a delicate balance between the firm's dynamic social and environmental role and its corporate action as a listed company in Athens Stock Market.

EYDAP, taking into consideration developments in the international and domestic markets, strives to apply a modern development strategy aiming at the empowerment of the Company and without disturbing the delicate balance mentioned above.

Given the drastic international developments in the corporate world, EYDAP's responsibility to supply 40% of the Greek population with potable water, the natural growth of Athens in combination with the Olympic Games of 2004 as well as the firm's obligation towards its shareholders, EYDAP is obliged to move forward, in order to fulfill projects of decisive importance and major financial gain.

EYDAP's continued success depends on maintaining the company's focus on customer satisfaction, sustainable water resource management and a constructive Company-Employees relationship based on a common goal - the growth of EYDAP.

The company's strategic goals based on a five-year scope are:

- **Maintaining and Augmenting Company Earnings**

- In order for EYDAP to increase its earnings, it must achieve the following goals:
- The increase of the customer base primarily via the geographical expansion within or outside the borders of Attica
- Provision of new services to existing customers
- The development of new activities and products in the areas of energy production (Hydro electrical and Thermo electrical works), natural gas promotion (affiliate firm EAP

ATTIKIS), telecommunications, provision of consulting services, bottled water, and activities expansion abroad.

- Operating costs reduction
- Real estate development of EYDAP's land properties

▪ **Upgrade of the existing water supply and sewage services**

In order for EYDAP to improve its customer service, it plans projects and invests in the following sectors:

- Renovation and upgrade of the Water Treatment Plants' operation
- Renovation and upgrade of the Wastewater Treatment Plants' operation
- Technical and technological actions for a more effective operation of the wastewater and water supply networks.

• **Environmental protection**

EYDAP is obliged by the nature of its core business, to be sensitive about environmental issues. EYDAP's environmental policy involves the adoption of effective methods for the disinfection and treatment of water, the implementation of cutting-edge technology so as to limit water losses, and the construction of new wastewater treatment plants and wastewater networks in areas of Attica like the Thriasio Pedio and Eastern Attica.

▪ **Corporate modernization**

EYDAP 's goal is to adopt private sector management criteria, via company reorganization and the use of new information system technology. The firm's main strategy is focused on a customer based approach, as well as the implementation of internal marketing techniques that promote effective communication and incentives to employees, given that the amelioration of EYDAP water supply and sewerage services depends greatly on the effective actions of its personnel.

EYDAP, having successfully faced the challenge of increased demand during the 2004 Olympic Games, is now preparing to successfully confront new challenges that will further strengthen the company by reinforcing its core businesses and expanding its activities in areas that promote growth.

Given EYDAP's constant goal for modernization and effective operational performance for the benefit of our clients and shareholders, the firm's management has set priorities that primarily involve the compatibility of company performance with the principles of Corporate Governance and the optimization of EYDAP's financial future via the modification of the Concession Contract (signed 9/12/1999) between EYDAP and the Greek Government. Moreover, EYDAP is striving to collect all outstanding debt, especially long term debt owed by the Greek State and local municipalities. All the above, combined with effective financial management will ensure EYDAP's position as a leader and innovator in the field of water. In addition to the above, EYDAP will be in a position to prove its dynamic potential and its flexibility, by entering new business areas and promoting new products and managing them to the benefit of the company and its shareholders.

Water Consumption

During 2005, total water consumption decreased by 2,3% compared to the rise of 1,3% in 2004. During the 5-year period 2001 – 2005 the average annual increase was 0,4%. Water Consumption invoiced rose by 1,9% (+0,5% in 2004). During the last five years the average yearly increase was 1%. The increase of invoiced consumption in combination with the total decrease resulted in the reduction of the unaccounted for water, as percentage in the total consumption at 19,2%, from 22,6% in 2004.

Regarding the basic categories of consumers, an increase of 3,3% (+2,8 in 2002) has been observed in the largest category the one of Domestic customers, while the second largest the one of Bulk Water Supply to Municipal Networks has an increase of 1,5%. A –6,7%% decline has been observed in 2005, in Industrial – Commercial customers.

The increase in water invoiced by 5,9 million m³ was the combined result of the increases in the categories of Domestic customers (+6,5 million m³), Bulk Water Supply to Municipal Networks (+0,9 million m³), together with a decrease in the categories of Industrial customers (-1,4 million m³) and Raw Water consumption (-0,1 million m³).

The percentage breakdown of consumption during 2005 presented no significant changes. Domestic customers held 64,7% of total consumption (3-years average 64%) while the Bulk Water Supply to Municipal Networks held 18,7% (3-years average 19%), the Public Services-Municipalities held 6,8% (3-years average 7%), and Industrial–Commercial customers held 6,2% (3-years average 7%).

Total water invoiced consumption increased by 4,2%, during 2005, leading to revenues of 228,2M€. The 5-year average annual rise was 5,4 %.

In basic categories of customers Domestic consumers presented an increase of +5,3%, Industry-Commercial a decrease of -4,8%, Public Services – Municipalities an increase of +2,9%, and the category of Municipal Network Support an increase of 3,7%. Significant decrease – albeit with a small contribution to the overall result – presented the category of Raw Water consumption (+8,8% against a +12% in 2004). The biggest increase in a five-year period was noticed in the category of Bulk Water Supply to Municipal Networks (average annual increase 16,2%) and the smaller the categories of Industry-Commercial and Public Services – Municipalities (average annual increase 1,9%). Domestic consumers have an average annual increase of 4,8% for a five-year period.

The greatest increase was in the category of Bulk Water Supply to Municipal Networks, which exhibited an increase of +41,1% and the smallest increase in the category of third parties (+4,1 %). The lowest price (excluding raw water) continues to be regarding the category of Bulk Water Supply to Municipal Networks, with an average price of 0,42 €/m³, which corresponds to 58% of the average price for domestic clients. The category of third parties has the highest price, with an average price of 0,96 €/m³, which corresponds to 131% of the average price for domestic clients.

The average price of water sold for 2005 was 0,72 € as opposed to 0,70 € in 2004, representing an increase of 2,3%. Domestic consumers presented an increase of +2%, Bulk Water Supply to Municipal Networks of 2,2%, Public Services – Municipalities of 2,9% and Industry-Commercial of 1,9%. The lowest price (excluding raw water) continues to be regarding the category of Bulk Water Supply to Municipal Networks, with an average price of 0,46 €/m³, which corresponds to 61% of the average price for domestic clients. The category of third parties has the highest price, with an average price of 1,10 €/m³, which corresponds to 145% of the average price for domestic clients.

However, the category of Bulk Water Supply to Municipal Networks, despite the large price increase in 2003, continues to generate disproportional revenues in relation with the amount of water it consumes, which is consumed by their citizens (domestic customers) outside the area of Company's water-supply responsibility. The category of Bulk Water

Supply to Municipal Networks consumes 19% of the water invoiced and represents only 12% of sales revenue with low receivables turnover.

Financial results

During 2005, company's turnover increased by 6,6% (+€21,7m) reaching €349m compared to €327m in 2004. This increase was mainly the result of increases in both sewerage services revenues by €14,7m (+18%) and water supply and related services revenues by €9,4m (+4,9%). These increases came up from both the increase of water invoiced consumption (+1,9%) and of water supply and sewerage tariffs increases effective from December 2004, while the last increase of tariffs took place in April 2003.

The increases of water supply tariffs on December 2004 were equal to 3% for every level of consumption, while the sewerage tariff was formed to the 60% of water invoice from 56% prior effective for domestic customers, from 28% prior effective for Public Services – Municipalities, and from 39,2 prior effective for Industry-Commercial users.

The time of adjustment of water supply and sewerage tariffs has as a consequence the increases to pass partially on the revenues of 2004 resulting in significant increases for the revenues of 2005. The significant adjustment in sewerage tariffs of domestic customers but mainly in other categories of customers lead to significant increases of revenues from sewer usage right, reaching €93m from €79m in 2004, presenting an increase of 17,7%.

Cost of services increased by €14,8m (+7,7%) reaching €205,8m from €191m in 2004. This increase is mainly due to the increase by €9,3m in expenditures for the transportation and disposal of dehydrated sludge from Psytallia Wastewater Treatment Plant and in additional provisions of the amount of €9,2m. Additional provisions had this increase due to the fact of the additional formation of provisions of €6,9m for civil law pending litigations.

All these factors lead to the increase of the gross profit by only 5% or €6,9m. Gross profit margin reached the 41% of turnover from 41,6% in 2004.

General and administration expenses and Distribution and selling expenses increased by €3,5m and €1,2m respectively, which in a percentage basis were below the increase of

turnover (+4,9 and +4,2% respectively). The increase of General and administration expenses is attributable to the increase of Wages and Salaries by €3,4m.

EBITDA increased by 11,8% or €6,6m, reaching €62,8m, while EBITDA margin was 18% from 17,2% in 2004. EBIT reached €39m from €33,5m in 2004 and the EBIT margin was equal to 11,2% from 10,2% in 2004.

Financial revenues decreased by €0.2m, while financial expenses increased by €2m (+83%). These trends in net financial result are the outcome of increased debt, which at the end of 2005 reached €101m from €92m in 2004.

All these factors, mentioned before, lead to the increase of profits before tax by €3,3m (+9,8%), to €37m from €33,7m in 2004. Income tax of 2005 was €17m, decreased by €11,7m from 2004 mainly due to smaller non-deductible tax provisions. The effective tax rate reached 46% against a 85,1% in 2004 and the profits after tax reached €20m from €5m in 2004.

The Board of Directors of EYDAP will propose to the Annual General Meeting of Shareholders, which has been scheduled for the second part of June 2006 the distribution of a cash dividend of €0,07 per share. The proposed dividend is increased by 16,7% to the one of 2004 and on the basis of the closing price of 29/3/2006 (€7,68 per share) the dividend yield is equal to 0,91%.

Galatsi, March 30, 2006

The Members of the Board

K.Kostoulas , **Chairman**
Executive Member

A.Vartholomeos , **Chief Executive Officer**
Executive Member

Th.Georgakelos , **Member**
E.Baltas , **Member**
A.Manouris , **Member**
G.Zafiropoulos , **Member**
A.Spiropoulos , **Member**
N.Sigalas , **Member**
A.Giannouli , **Member**
G.Mastraggelopoulos , **Member**
A.Protonotarios , **Member**
K.Galanis , **Member**
E.Moutafis , **Member**