

# MANAGEMENT REPORT OF THE BOARD OF DIRECTORS

## For the Financial Year 2007

Dear Shareholders,

The steady growth of EYDAP S.A. continued within 2007, further strengthening the company's leading position in the Greek water and sewage market.

The year 2007 was characterized by the effort to reinforce the implementation of the five-year strategic goals set on 2004 and the maintenance of the Company's earnings growth, in conjunction with the **upgrade of the existing water supply and sewage services**, the **environmental protection** and the **corporate modernization**.

The sustainable water resource management so as to cover the needs of Attica citizens and the water resources' quality remained one of the main concerns of the Company for this year.

Moreover, based on the environmental protection and the reassurance of the citizens' quality of life, EYDAP continued to operate and expand the wastewater collection, treatment and disposal system.

EYDAP set the basis to further undertake business initiatives and agreements for the protection of the environment and the utilization of the renewable energy sources that will strengthen its position and open its horizons within the modern enterprise map.

During 2007, EYDAP continued with the implementation of its five-year investment plan, supporting its investment philosophy and having as a main requirement the increased customer satisfaction, while maintaining full consciousness of its responsibilities towards the shareholders, employees and the society where it operates and evolves.

## **I. EVOLUTIONS AND PERSPECTIVES IN THE GLOBAL WATER MARKET**

The water market has been attracting, for the past few years, intense interest on behalf of the qualified water management organizations, the water commercial exploitation companies, as well as the investors on a global basis. According to estimations on behalf of international organizations, the perspectives in the global water market are exceptionally optimistic. Water is generally characterized as “the transparent gold”, as its usage grows twice as much as the population grows, while in the meantime the physical supply constantly decreases. It is already stated that almost one third of the global population faces conditions of incremental service due to restricted inventories, while until 2025 it is estimated that 64% of the population will face, to a bigger or smaller extent, problems of water insufficiency. The climate changes as well as the constantly growing demand for potable water, make it a socially valuable good and operationally much promising. Within this frame, the strategic grid in which the Company operates, assures its sustainable growth, relying on business development as well as rational administrative and operational activities.

## **II. STRATEGIC GOALS AND ACTIONS BASED ON A FIVE-YEAR SCOPE 2005-2009**

By EYDAP's IPO, the company had announced an eight-year investment program for 2000-2008, based on the Greek State commitment to subsidize it via European Union funds or via the Public Investment Program, by 60% of its capital expenditures.

However, as the aforementioned subsidize was not obtained, the company at the Shareholders General Assembly on August 2004 set new Strategic Goals for 2005-2009 and revised its investment program based on its equity and European Union funds financing.

For the implementation of the company's strategic goals, EYDAP focuses on four basic fields of actions:

## **1. Upgrade of the Existing Water Supply and Wastewater Infrastructure within the context of Environmental Protection**

### *1.1. Upgrade of the existing water supply infrastructure*

- Construction of new potable water reservoirs and new supply pipes
- Network replacement and upgrade
- Implementation of a pressure management system

### *1.2. Completion of Water Treatment Plant (WTP) renovation*

- Procedure and equipment upgrade for water treatment facilities
- Improved security and monitoring systems

### *1.3. Modernization of the sewerage network*

- Solutions for the problems in the combined sewer portion of the network
- Monitoring of effluent quality throughout the network
- Network replacement and upgrade

### *1.4. Upgrade of existing Wastewater Treatment Plants (WWTP)*

- Solution to problems concerning odours, sludge disposal, etc.
- Construction of interconnection works between phase A & B sections of Psyttalia WWTP
- Utilization of the produced biogas for the production of thermal and electrical power

## **2. Company Profitability Improvement**

### *2.1. Geographic Expansion*

- Municipal network acquisition
- Construction of new facilities and networks
- New WWTPs at Thriasio Pedio and new sewerage networks at the western suburbs of Attica
- Expansion of the sewerage network at the northern suburbs of Attica

## *2.2. Business Development and New Business Activities*

- Hydroelectric Plants
- Participation in the Suburb Gas Company by 35% (promotion of natural gas connections)
- Water operator concession contracts abroad (i.e. Tunisia, Syria, etc.)
- Consulting Services
- Real Estate Development
- Bottling Mineral Water from its own boreholes
- Business expansion in the telecommunications industry

## *2.3. Reduction of Operational Expenses*

- Development and implementation of advanced information control systems for the management of personnel overtime
- Development and implementation of advanced information control systems for the management of employee health benefit expenses

## **3. Company Effectiveness and overall Performance Improvement**

### *3.1. Administrative Restructuring and Modernization of Internal Procedures*

- New “Billing & Customer Care” (BCC) system as well as advanced information systems for the budget and cost activity accounting and document management
- Reorganization and rationalization of business activities

### *3.2 Increased Productivity via implementation of new information systems and employee training*

- Electronic document management
- Employee training program in new information systems and in business management issues.

## **4. Increased Levels of Customer Service**

### *4.1. Customer Service Modernization*

- Upgrade and restructuring of the Regional Commercial Offices

- Development of new company-client communication channels via the Internet and mail as well as interconnection with the Citizens Service Centres

#### *4.2 Internal procedures Improvement and modernization of customer service policies*

- Improvements of the 24-hr call centre for the customer service (1022)
- Operation of the reorganized company's web-site at [www.eydap.gr](http://www.eydap.gr), built with customer oriented philosophy (access to bill tracking and bill settlement platforms, necessary information and application forms for every transaction with the Company, access to personal data change platforms).

### **III. INVESTMENT PROJECTS IN PROGRESS**

EYDAP's scope of works is to contribute in the global efforts for the environmental protection and the saving of resources via the reduction of energy expenses.

Within this context, during 2007, EYDAP continued the implementation of the investment projects that have started within 2006 and fulfil the aforementioned purpose.

As a result, the investment program of 2007 comprises of new investments in 33% of total projects, which mainly target at the satisfactory service of new customers, as well as the maintenance and upgrading of the services quality level, within the context of the environment protection and citizens' life quality improvement. Part of these investments concerns the construction of the wastewater treatment plant and wastewater network at Thriasio Pedio, projects that are co-financed by the European Union Cohesion Fund in 45%. According to the approved program, 14.1% of the funds will finance works of high economic return, such as hydroelectric works at the Evinos Dam, as well as new units for the production of electrical and thermal power at Psyttalia, projects that are also co-financed by the European Union Cohesion Fund.

Another 21.9% and 25% of the investment program relates to investment projects for the upgrading of the water and wastewater network respectively, setting a higher target for the company's customer service level. Last but not least, the investment program includes the necessary investments on operational modernization, leading to the expenses reduction as well as the amelioration of the company's services.

Some important data of the investment works are listed below:

<b>Project</b>	<b>Budget</b>
Construction of the primary collector sewerage network at Thriasio Pedio (west section)	€ 11.69 mil.
Construction of the primary collector sewerage network at Thriasio Pedio (east section)	€ 8.45 mil.
Construction of the Wastewater Treatment Facilities at Thriasio Pedio	€ 36.43 mil.
Construction of the co-generation of electric and thermal power plants at Psyttalia	€ 16 mil.
Construction of water supply pipeline for Salamina and enhancement of the water supply at western suburbs of Attica	€ 16.63 mil.
Construction of a new storage tank and works for its interconnection with EYDAP's network at Markopoulos of Attica	€ 7.46 mil.
Construction of Small Hydroelectric Plants along the aqueduct of Evinos - Mornos	€ 5.71 mil

Small Hydroelectric Plants already operate at Kirfi, Elikon, Kithairona, while the completion of a similar plant at Mandra is anticipated on March 2008. At the same time, the construction of a small hydroelectric plant will launch at the Evinos Dam and will be completed within the beginning of 2009.

Furthermore, within 2007 the study for the construction of the along-side Kifisos pipeline of wastewater collection, on behalf of the Hellenic Ministry for the Environment, Physical Planning and Public Works, was completed (study budget appr. € 38 mil.)

#### **IV. OPERATIONAL MODERNIZATION OF EYDAP**

Following EYDAP's management efforts during 2006, targeting at the company's modernization on operational and financial level, during 2007 the internal reorganization and improvement of internal operations has been of great importance, in order to elevate EYDAP to an attractive and dynamic company. For this purpose, a Technical and Operational Audit Study has been completed, which concerned the evaluation of the

current situation, under the scheme of technical and operational performance quantitative ratios, the evaluation of the current state of the company's assets and the detection of the potential improvement of the overall performance on a short-term, mid-term and long-term basis.

The Technical and Operational evaluation includes performance ratios and identification of areas that need improvement, as well as categorisation of the measured performance in satisfying, marginal or non-acceptable standards (compared to benchmarking data). According to the conclusions of the analysis, the Company proceeded with the design of various actions on the following sectors:

- Customer service level
- Level of the offered services (Operational Service)
- Current state and operational performance of the Company's Assets

The Technical and Operational Performance Study constitutes an important basis for the classification and planning of the investment needs of the company for the forthcoming years.

**In the Customer Service field**, after a thorough analysis of the market data and the customer needs, and following the cultivation of customer oriented perception and philosophy within the Company, EYDAP continued the efforts for the upgrading of the offered services. More specifically, the following projects have been promoted:

- Reorganization and translocation of the Regional Commercial Offices for the best area coverage of EYDAP's activities.
- The new Billing and Customer Care System continued to operate in all Regional Commercial Offices. This system achieves the interconnection of the involved Divisions, resulting to a positive cooperation for the improvement of customer service, thus assuring the reduction of the time and cost needed for the processing of the customers' requests.
- In accordance with the technological evolution, EYDAP's customers are now able to monitor their bill and settle it via internet. The company's website is fully updated and contains all the information needed by the customer so as to deal with EYDAP (necessary documents, application forms. etc.). In order for EYDAP to achieve improved customer service needs coverage, the cooperation with the

Agricultural Bank of Greece was continued, offering the opportunity to the customers to settle their bill with the minimum expense. At the same time, the examination of equivalent collaborations is in progress.

The overall goal is the integrated management and the upgrade of all company's services, for the improved customer service with the minimum annoyance, and the more effective work load allocation at the Regional Commercial Offices.

**In the Human Resources Management field**, organizational changes were planned and implemented after thorough study of the company's needs, with the intention to offer the relative opportunities to some new business activities.

- Emphasis was given to new human resources management practices (such as the promotion of contemporary personnel evaluation and development systems as well as personnel allocation systems according to the current needs) and the rationalisation of the personnel overtime management.
- The perpetual education of the employees was also underlined, through contemporary and up to date educational programs. During 2007, the translocation of the Education Centre to new premises was realised. The Education Centre is located in a new building, which fully covers the needs for effective educational services.

The main goal of the above mentioned activities is the employee performance optimization, and the promotion of the belief that all employees are active company members that contribute to its dynamic growth.

**In the New Business Activities field**, EYDAP within the priority frame that has set for geographical expansion, continued with the incorporation of some municipalities' networks that showed interest in a cooperation, and are under the company's jurisdiction, in order to minimize the problems that arise due to their water supply reinforcement from EYDAP. The plan for the company's expansion to new networks quantifies geographical, technical and financial factors in advantage of the Customers, the Shareholders and the Company.



The aforementioned efforts resulted to the recent incorporation of the water network of the Municipality of Nea Peramos to EYDAP, apart from the network in the hamlet of Agios Panteleimonas, which will be handed in EYDAP after the completion of its construction by the Municipality Authorities. In parallel, the Company processes feasibility studies in order to launch negotiations for the incorporation of the network management and operation at the Municipalities of Megara, Keratea, Ag. Stefanos, Salamina, Mandra and Glyka Nera. The studies target at the optimization of the customer approach procedure at the above mentioned Municipalities, the investment assessment regarding the evaluation of the network (networks with intervention and maintenance needs), the time estimation for the network incorporation, as well as the indispensable resources determination for their administration.

As an issue of crucial importance for the Company, is concerned the municipalities' debt to EYDAP, which withholds important funds forming an obstacle to its evolutionary path.

**In the Information Systems and Technology field**, beyond the aforementioned innovative systems in Customer Service, Budgeting, Pricing, Document Management and the new features provided in electronic Customer Service via the company's web site, EYDAP has also proceeded to the following actions:

- The mapping of water and sewage networks in a modern GIS has been completed, aiming at workgroups' enhanced efficiency and effectiveness and network proactive maintenance. Within 2007, the interconnection of the GIS with the Customer Service and Billing System was achieved, assuring the maximum service rate at the Company's Regional Commercial Offices.
- Successful integration of enhanced quality policies in IT networks, interconnecting remote PCs in several buildings to central database systems, achieving quality improvement in daily operation.
- Introduction and successful operation of the Citrix platform as a basic application infrastructure for remote users, achieving better response rate, rational application management and user's support.
- Introduction of a Disaster Recovery site in order to safeguard important electronic files against physical disaster or unavailability and ensure business continuity with two hours maximum delay.

- Successful completion and exploitation of Assets Register System, assuring the efficient management of the Company's real estate property and better coordination of maintenance and investment design activities for the Company.

## **V. IMPORTANT EVENTS AFTER THE END OF THE FISCAL YEAR – BRANCH OFFICES EXISTENCE – ACTIVITIES ON THE RESEARCH & DEVELOPMENT FIELD**

- From the end of the fiscal year (31/12/2007) until the day of this report's composition, no other important event has occurred.
- The Company does not operate branch offices with full operational and accounting independence.
- The Company has not developed any important research and development activity.

## **VI. FINANCIAL RISK**

All the related to the Company financial risks are reported at the Financial Statements.

## **VII. CORPORATE GOVERNANCE**

The operations of the Company are delimited by the Principles of Corporate Governance, according to the Greek legislation in force.

The existence and operation of Internal Audit constitutes prerequisite for the application of Corporate Governance good practices. According to this, within the Company operates Division of Internal Audit, which is an independent organizational unit that reports to the Board of Directors.

The Division's responsibilities, among others, are:

- To keep track of the implementation and constant observance of the Internal Regulations of Operation and EYDAP's Memorandum of Association as well as

the legislation that concerns the company, especially the legislation for the incorporated companies and for the stock market.

- To report to the Board of Directors regarding the cases of conflict of interests of the members of the Board of Directors or the Company's Directors with the company's interests, which are detected during the division's work practice.

Within the Corporate Governance Principles frame, EYDAP also operates an Internal Audit Committee that consists of three independent non-executive members of the Board of Directors.

## **VIII. WATER CONSUMPTION**

During 2007, total water consumption increased by 3.6%, in relation to the previous year. The average annual growth in the period 2000 – 2007 was 1.5%.

Water Consumption Invoiced increased by 10.6% (-1.4% in 2006). During the last five years the average yearly increase was 2.5%. The significant growth of Water Consumption Invoiced combined with the smaller increase of the Total Water Consumption resulted in the decrease of the Unaccounted Water Consumption, as percentage in the total consumption, at 19.0%, from 24.1% in 2006.

Regarding the basic categories of consumers, the category of Domestic Customers, which represents the most significant customer category, presented a rise of 6.2%.

The second largest category, the one of Bulk Water Supply to Municipal Networks has also an increase of 13.2% while a more significant increase of 26.7%% has been observed in the category of Public Services-Municipalities.

Rise of 7.6% was also observed in category of Industrial– Commercial customers.

The growth of the Invoiced Water Consumption, by 33.2 millions cubic meters, was the result of the rise of invoiced consumption in the categories of Domestic customers (12.7 millions cubic meters), Public Services - Municipalities (5.2 millions cubic meters), Bulk

Water Supply to Municipal Networks (7.8 millions cubic meters) and other categories (8 millions cubic meters).

The percentage breakdown of consumption during 2007 presented no significant changes. Domestic Customers held 62.53% of total consumption (3-years average 64.04%) while the Bulk Water Supply to Municipal Networks held 19.21% (3-years average 18.92%), the Public Services-Municipalities held 7.14% (3-years average 6.72%), and Industrial–Commercial customers held 6.13% (3-years average 6.19%).

During 2007, Total Invoiced Water Consumption, in money terms, increased by 12%, leading to revenues of 252.2M€. The 5-year average annual rise was 5.4 %.

In the basic customer categories, the invoiced consumption was shaped as follows:

- The Domestic Customers category increased by 9%, reaching €170 m.
- The Bulk Water Supply to Municipal Networks category increased by 16.5%, reaching €31.5 m.
- The Public Services – Municipalities category increased by 29.4%, reaching €24 m.
- The Industrial–Commercial Customers category increased by 16.5%, reaching €19 m.

The biggest growth in a five-year period was noticed in the category of Bulk Water Supply to Municipal Networks (average annual increase 13.4%) and the smallest in the categories of Public Services – Municipalities (average annual increase 5.5%) and Industrial–Commercial Customers (average annual increase 3.5%). Domestic Customers have an average annual increase of 4.4% for a five-year period.

The average price of water sold for 2007 remained almost stable at 0.73 € (against 0.72 € in 2006). The same price stability prevailed at all categories of customers. The average price for Domestic Customers remained at 0.78 € per cubic meter. The lowest price (excluding raw water) continues to apply at the category of Bulk Water Supply to Municipal Networks, with an average price of 0.47 €/m<sup>3</sup> (which corresponds to 60% of the average price for domestic clients).

However, the category of Bulk Water Supply to Municipal Networks continues to generate disproportional revenues in relation with the amount of water it consumes, which derives from the citizens needs (domestic customers) outside the Company's area of water-supply responsibility. The category of Bulk Water Supply to Municipal Networks consumes 19.2% of the water invoiced and represents only 12.5% of sales revenue with extremely low receivables turnover.

## **IX. FINANCIAL RESULTS PRESENTATION**

During 2007, the Company's sales turnover increased by 7.3% (+€26.4m) reaching €388.4m compared to €362m in 2006. This growth was achieved mainly as a result of increases in both water-supply and related services revenues of €16.1m (+6.2%) and sewerage services revenues of €10.7m (+10.8%). Both of these increases were due to the water-supply and sewerage tariffs readjustment, effective from February 1st of 2007, as well as the increase in total annual water consumption by 3.6%.

It must be noted that water supply tariffs increased on average by 3% during the year, a percentage that was lower than half the accumulated inflation rate for the years 2005 and 2006. Sewerage tariffs readjusted from 60% of the total value of the consumed water to 65% of it. The previous tariffs' readjustment took place in the 15th December of 2004.

Cost of Services increased by €8.6m (+4.4%) reaching €204.3m from €195.7m in 2006. This increase was primarily related with the corresponding increases in Wages and Salaries by €3.5m (+3%) and in Provisions by €2m (+90.4%).

All the above factors lead to the increase of the gross profit by 10.7% or €17.8m. Gross profit margin reached the 47.4% of turnover from 46% in 2006.

General and Administrative expenses increased by €4.5m (+5.7%) while Distribution and Selling expenses increased by €3.9m (+11.9%). The increase of General and Administrative expenses was due to the increase of Wages and Salaries by €1.5m (+2.3%) and the allocation of Provisions of €1.5m. The increase of Distribution and

Selling expenses was also due to the increase of the Wages and Salaries by €2m and the increased Provisions by €1.2m (+45.6%).

EBITDA increased by 13.9% or €10.3m, totalling €74.2m, while EBITDA margin was 21.7% from 20.5% in 2006. EBIT reached €63.2m from €53.1m in 2006 and the EBIT margin was equal to 16.3% from 14.7% in 2006. .

As a result of the above, profits before tax increased by €7.3m (+14.3%), amounting €58.5m from €51.2m in 2006. Income tax of 2007 was €15.2m, and profits after tax reached €43.3m from €33.3m in 2006, reflecting a 30% increase. Net profit margin was equal to 11.1% against a 9.2% in 2006.

The Operating Cash Flows reached €33m from €10.8m in 2006, showing a 206% increase. A significant part of this improvement – besides the increase of profitability – stems from the deceleration of the growth rate in Receivables during 2007 (+7.1%) versus 2006 (+22.4%). Free Cash Flows are positive, reaching €13.2m. These factors positively affected total bank debt which decreased to €115.8m from €120.4m in 2006.

## **X. DIVIDEND POLICY**

The Board of Directors of EYDAP will propose to the Annual General Meeting of Shareholders, which has been scheduled for June 2<sup>nd</sup>, 2008 the distribution of a cash dividend of €0,14 per share, or a total of 14.910.000 €.

The proposed dividend is increased by 27% to the one of 2006 (0.11 €) and on the basis of the closing price of 20/3/2006 (€8.26 per share) the dividend yield is equal to 1.7%.

## XI. RELATED PARTY TRANSACTIONS

The related party transactions are presented in the following tables:

### A) Transactions and amounts outstanding with the Members of the Board

	31 <sup>st</sup> DECEMBER	
	2007	2006
-Salaries (Chairman & CEO and Executive Directors)	207	206
-Salaries & participation fees of the Members of the Board of Directors	140	148
	<b>347</b>	<b>354</b>

### B) Transactions and amounts outstanding with the Greek State and the Municipalities

	31 <sup>st</sup> DECEMBER	
	2007	2006
<b>1) Transactions</b>		
-Revenues	75.625	61.274
-Cost of sales (construction contracts)	(1.498)	(1.770)
-Provisions	(3.146)	(2.581)
<b>1) Outstanding amounts</b>		
-Long term receivables (construction contracts)	93.126	91.538
-Long term receivables (Arrangement of Municipalities)	7.426	3.508
-Trade receivables	138.101	124.979
-Other receivables (coverage of Employees' end-of-service indemnity)	9.118	8.714

## **INFORMATION REQUIRED ACCORDING TO ARTICLE 11 OF LAW**

### **3371/2005**

*According to the article 11 of Law 3371/2005 in the present report is attached a supplementary report to the General Assembly of the shareholders which contains analytical information with regards to:*

- a. Share Capital Structure*
- b. Restrictions on the transfer of the Company's shares*
- c. Material direct or indirect participations as these are provided by P.D. 51/1992*
- d. Shares affording special control rights*
- e. Restrictions in the voting rights*
- f. Agreements between shareholders of the Company*
- g. Rules for the election and replacement of members of the Board of Directors and amendments to the articles of incorporation.*
- h. Responsibility of the Board of Directors for the issuance of new shares or the purchase of treasury shares*
- i. Significant agreements that are put into effect, amended or terminated as a result of a change of control following a public offer.*
- j. Agreements with members of the Board of Directors or employees of company as a result of a public offer*

**Galatsi, March 24<sup>th</sup>, 2008**



## THE MEMBERS OF THE BOARD

<i><b>NAME</b></i>	<i><b>POSITION</b></i>
<b>Konstantinos Kostoulas</b>	<b>Chairman – Executive Member</b>
<b>Anthony M. Vartholomeos</b>	<b>Chief Executive Officer – Executive Member</b>
<b>Theodoros Georgakelos</b>	<b>Member</b>
<b>Evangelos Baltas</b>	<b>Member</b>
<b>Athanasios Manouris</b>	<b>Member</b>
<b>Grigoris Zafiropoulos</b>	<b>Member</b>
<b>Alexios Spiropoulos</b>	<b>Member</b>
<b>Nikolaos Sigalas</b>	<b>Member</b>
<b>Anna Giannouli</b>	<b>Member</b>
<b>George Mastraggelopoulos</b>	<b>Member</b>
<b>Anthony Protonotarios</b>	<b>Member</b>
<b>Konstnatinos Galanis</b>	<b>Member</b>
<b>Evangelos Moutafis</b>	<b>Member</b>