

SOCIEDAD GENERAL DE AGUAS DE BARCELONA, S.A.

REPORT OF THE BOARD OF DIRECTORS TO THE GENERAL MEETING OF SHAREHOLDERS EXPLAINING THE POINTS REFERRED TO IN ARTICLE 116 BIS OF THE *LEY DEL MERCADO DE VALORES* (SPANISH STOCK MARKET ACT) AND WHICH APPEAR IN THE MANAGEMENT REPORT

Article 116 bis of the *Ley del Mercado de Valores* introduced by Law 6/2007 of 12 April requires listed companies to include in the management report additional information on 9 different points which refer to the capital structure, to the restrictions on the transferability of securities, to significant interests in the capital, to restrictions to voting rights, to parasocial agreements, to the rules applicable to the appointment and dismissal of Directors and to the modification of the Articles of Association, to the powers of the members of the Board of Directors in particular as regards the issuance or purchase of shares, to the significant agreements reached by the company which can be conditioned by a change of control as the result of a takeover bid and to the agreements of the company with its directors, managers or employees which stipulate indemnities in certain circumstances.

In addition to including information on the aforementioned matters in the management report, the above-mentioned Article requires the Board to present an annual explanatory report to the General Meeting on the subjects referred to previously which have to be included in the management report.

In fulfilment of this obligation, the Board of Directors presents to the General Meeting this report explaining the information contained in the management report pursuant to Article 116 bis of the *Ley del Mercado de Valores*.

Firstly, the Board wishes to highlight that as regards the capital structure, restrictions on the transferability of securities, restrictions to voting rights and rules applicable to the appointment and replacement of members of the Board and to the modification of the Company's Articles of Association, there are no significant elements to emphasize in so far as the capital structure is very simple, with a single class of shares, which grant the same rights and obligations, without there being restrictions to the transfer of securities, or to voting rights, except those which result from the Law itself and, therefore, given that there is no specific circumstance in relation to these subjects, it understands that further explanations are not necessary. In relation to the minimum number of shares to attend the Meeting, this is not strictly speaking a restriction to voting and is due to reasons of facilitating the progress of the Meeting and preventing an extremely small investment (1 share) from being able to try to hold



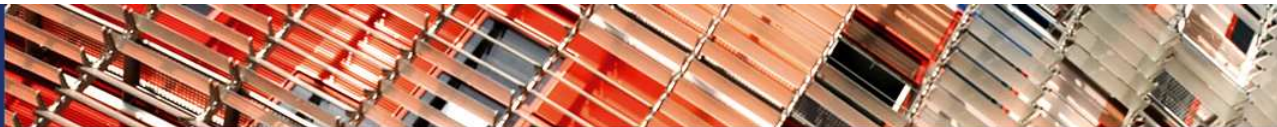
up the progress of the Meeting, seeking to obtain interests outside those of the shareholders.

In relation to the significant interests in the capital, the Board must indicate that the list of significant interests which is contained in the management report referring to 31 December has undergone a substantial change as a result of the takeover bid presented for the company's shares by HISUSA, Holding de Infraestructuras y Servicios Urbanos, S.A., Criteria CaixaCorp, S.A., Suez, S.A., Suez Environnement, S.A. and Suez Environnement España, S.L., because, as a result of this bid, the organizations which presented the takeover bid and which act as they have declared in a joint manner, now hold 90.01% of the share capital of Sociedad General de Aguas de Barcelona, S.A., the above-mentioned organizations therefore being in a situation of joint control of this company.

In relation to the parasocial agreement which has been transcribed in the management report, together with its two addenda (the first one, which complements and clarifies it, and the second one, which develops and implements the agreement), the Board of Directors wishes to highlight from them that the Suez Group and the "la Caixa" Group will act jointly in order to establish a common policy in the management of Sociedad General de Aguas de Barcelona, S.A. without prejudice to the fact that the direct or indirect interest of each group in the overall shares which they possess between them and through HISUSA is 51% for Suez Environnement, S.A. and 49% for Criteria CaixaCorp, S.A. In addition to the above, the Board understands that it should highlight in its report to the shareholders that the composition of the Board of Directors of HISUSA, Holding de Infraestructuras y Servicios Urbanos, S.A., which holds 66.44% of the capital of Sociedad General de Aguas de Barcelona, S.A., is made up equally by the Suez Environnement, S.A. and Criteria CaixaCorp, S.A. groups, without prejudice to the fact that the shareholding of HISUSA, Holding de Infraestructuras y Servicios Urbanos, S.A. is distributed in the proportion of 51% Suez and 49% Criteria CaixaCorp, S.A. and that moreover the representation of the Suez Group and of the "la Caixa" Group on the Board of Sociedad General de Aguas de Barcelona, S.A., in view of their direct or indirect interests in Sociedad General de Aguas de Barcelona, S.A. will at all times be equal.

Finally it should be stressed, from the above-mentioned parasocial agreement, and its two addenda, that any of the parties may request the dissolution and winding-up of HISUSA, Holding de Infraestructuras y Servicios Urbanos, S.A., the assets of the company being awarded in this winding-up on the basis of the interest of each party in the capital of HISUSA, this dissolution or winding-up representing the end of the parasocial agreement in relation to Sociedad General de Aguas de Barcelona, S.A.

As regards the powers of the members of the Board and in particular those relating to the possibility of issuing or repurchasing shares, the General Meeting of Shareholders traditionally grants the Board authorization to agree to capital increases pursuant to the provisions of Article 153 1b) of the *Ley de Sociedades Anónimas*, that



is for a period of 5 years and up to half of the share capital existing at the time of the delegation, the Board also having been authorized to be able to exclude the right of first refusal when the interest of the company so requires, complying with the legal prescriptions.

This authorization to increase the share capital is a traditional and usual practice in Spanish companies and the Board has made use of it in almost all the previous years.

The authorization of the Board to issue convertible bonds is also usual, in the interests of the Board having available to it all the measures possible for the financing of the company with the greatest flexibility, given the volatility of the stock markets. This is the reason that led the Board to propose to the Meeting authorization to issue convertible bonds of up to 500 million euros for a period of 5 years and with the possibility of eliminating the right of first refusal. The Board of Directors has not made use of this authorization.

Likewise, in the terms established in the Law and as is a usual practice in many Spanish companies, the General Meeting of Shareholders authorizes the Board annually to purchase own shares within the limits established by the Law, it being worthy of note that in 2007 the Board did not make use of the authorization.

The Company has not concluded any agreement which is going to come into force, is modified or concluded in the event of a change of control due to a takeover bid, as the company has not adopted any anti-takeover bid measure.

Finally, as regards indemnity clauses, the Board wishes to stress: 1) that they do not affect the Directors; and 2) that they only affect the staff with a Senior Management contract, as the regulation covering these contracts, Royal Decree 1382/1985, establishes that unless otherwise agreed, in the event of unilateral abandonment by the company, the executive is only entitled to an indemnity of seven days per year worked, with a maximum of six monthly instalments, and therefore it is a usual practice consolidated in the market that indemnities of 2/4 years are agreed on, this being the practice for the Company's Senior Management contracts (2 years' indemnity plus 1 for the one-year ban on competition).

Moreover, except in a case in which a change of Chairman is considered as a hypothesis in which the senior manager can terminate the contract with entitlement to indemnity, the senior management contracts do not especially consider the hypotheses in which the senior manager is entitled to this termination, and therefore the provisions of the regulations governing these contracts are applied, as set forth in the management report.