

# Annual Report 2011

# Report of the Supervisory Board

**With this report, the Supervisory Board describes its activity during the past financial year 2011 and explains its dialogue with the Executive Board, the emphases of the consultations in the board, the work of the committees, as well as compliance with corporate governance, the annual and consolidated financial statement audit and the changes in the bodies:**

The Supervisory Board advised the Executive Board in the past 2011 financial year. In doing so, it performed its functions conscientiously in accordance with the law and statutes and monitored the Executive Board. The benchmarks for monitoring were the legality, proper form, purposefulness and efficiency of the Executive Board and Group management. A significant basis for the fulfilment of the monitoring function were the written and verbal reports of the Executive Board, which were discussed in detail in the board, as well as in the responsible committees. The Supervisory Board was directly involved in all decisions of fundamental importance to the company. The Executive Board fulfilled its reporting obligations on a regular basis, in writing as well as verbally and comprehensively and informed the Supervisory Board about corporate planning issues, the course of business, the strategic and financial development, as well as the company's situation. The deviations from the course of business originally planned by the company were also explained by the Executive Board in detail. In addition to the reports, the Supervisory Board had supplemental information and details provided by the Executive Board. The Supervisory Board reviewed the reports and other information provided by the Executive Board with regard to its plausibility. After thorough review and consultation, the Supervisory Board approved the resolution proposals of the Executive Board. In total, the Supervisory Board convened in three meetings. Furthermore, several resolutions were passed in a written circulation procedure. The Members of the Supervisory Board who were elected by the shareholders and the employees prepared the meetings in separate preliminary meetings. No Supervisory Board Member took part in fewer than half of the meetings.

The Supervisory Board Chairman was in contact with the Executive Board beyond the Supervisory Board meetings and was informed about the current business development and the corporate decisions.

## Emphases of the consultations in the board

Specific emphases of the consultations and resolutions were:

- Regular and detailed reports by the Executive Board regarding the sales revenue and profit development, the financial situation and basic issues of corporate policy and a discussion of the risk situation and the compliance organisation.
- The further development and optimisation of the organisational structure of the Berlinwasser Group and specifically:
  - the approval to sell a minority holding (BCH) of Berlinwasser International AG and measures for targeted performance and cost management of the Berlinwasser International business field.
  - Approval of the reintegration of the Information Technology and Well and Measuring Points Service divisions of Berlinwasser Services GmbH into Berliner Wasserbetriebe due to the introduction of the law on the modernisation of company annual accounts and the resulting changes to significant basic principles.
- The impact of the ongoing review of drinking water prices by the Federal Cartel Office at Berliner Wasserbetriebe, inter alia, also on the 2010 annual financial statement. The clarification of the applicability of cartel-law price misuse provisions and the question of which government control system is relevant for the Berliner Wasserbetriebe water tariffs were also discussed in detail.
- Approval of the change of business distribution in the Executive Board in relation to the introduction of a compliance management system.

In addition to this, the Supervisory Board also received reports from the Executive Board regarding the Group-wide risk management and Group-wide risk controlling, on a regular basis. On the basis of its reviews and discussions, the Supervisory Board reached the conclusion, together with the annual auditors, that the risk management system and Group-wide risk controlling are effective and functional.

Furthermore, the Members of the Supervisory Board convened for various information and advanced training events of the company.

### Committee activities

In order to increase the efficiency of its work, the Supervisory Board set up a total of four committees. The committees prepared the Supervisory Board resolutions, as well as topics to be dealt with in the board. In individual cases, decision-making authorities of the Supervisory Board were transferred to the committees, within the legal framework.

In its function as the Audit Committee, the Presidential Committee/Audit Committee mainly dealt with the preparation of the annual financial statement audit and the consolidated financial statement audit of Berlinwasser Holding AG, as well as the cooperation with the annual auditor. Furthermore, the Presidential Committee/Audit Committee dealt with the review of the risk management system and the concept for setting up a Group-wide compliance management system. The Presidential Committee discussed detailed issues regarding the individual performance-based assessment criteria for the Executive Board remuneration, defined the objectives and evaluated these for the previous year. The required membership of at least one financial expert in the Audit Committee was accommodated.

The Arbitration Committee, to be legally formed pursuant to Article 27 Par. 3 MitBestG [Co-determination Act], the Directive Committee, as well as the Committee for Special Matters, were not convened in the past financial year 2011.

In its meetings, the Supervisory Board was informed about the content and results of the committee meetings on a regular basis.

### Corporate Governance Code

During the reporting year, the Supervisory Board dealt with the content of the Corporate Governance Code of Berlinwasser Holding AG. The Executive Board and Supervisory Board passed a resolution on the Declaration of Compliance for 2010 in analogous application of Article 161 AktG [Companies Act] on 24 January 2011. Furthermore, the annex to the Declaration of Compliance, which is published in the company's annual report, was updated with a resolution of the Executive Board and Supervisory Board dated 28 September 2011. A resolution has not yet been passed on the Declaration of Compliance for 2011.

A possibly occurring conflict of interest for the Mr. Harald Wolf (former Senator), in his function as highest authority in the State Cartel Office, was discussed in detail in the Supervisory Board.

### Annual financial statement and consolidated financial statement audit

The Executive Board presented the Supervisory Board with the annual financial statement and consolidated financial statement, the management report of Berlinwasser Holding AG and the proposal for the appropriation of net profit on time.

The annual auditor, appointed by the Shareholders' Meeting for the 2011 financial year and on the basis of the Supervisory Board's proposal, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the annual financial statement and consolidated financial statement, prepared on the basis of the German Commercial Code [HGB], as well as the management report of Berlinwasser Holding AG and issued an unqualified audit opinion for each of these. The annual auditor declared that no business, financial, personal or other relationships exist between the auditors and its bodies and audit managers, on the one hand, and the company and the members of its bodies, on the other hand, which could cast doubt on its independence. Within the context of this declaration, the scope of the services carried out in the previous year and those other services for the company that are arranged for the subsequent year were explained. Furthermore, the Presidential Committee/Audit Committee reviewed the necessary independence and confirmed that it is given. Prior to its resolution regarding the election proposal to the Shareholders' Meeting, the Supervisory Board was informed about the result of the review.

The Members of the Supervisory Board reviewed the financial statement documents, the audit reports of the annual auditor and the proposal by the Executive Board for the appropriation of net profit. In order to prepare the review and resolution by the Supervisory Board, the Presidential Committee/Audit Committee dealt with the documentation in detail. The annual auditor participated in the meeting and reported on the audit activities, the defined audit emphases and the main result of his audit, as well as explaining the audit reports. Weaknesses of the internal control system, risk management and the accounting process were not ascertained by the annual auditor. The Members of the

Presidential Committee/Audit Committee appraised the audit reports and audit opinions and discussed these with the annual auditor. The Presidential Committee/Audit Committee was able to convince itself about the proper form of the audits and audit reports and reached the conclusion that these comply with the legal requirements. As a result of its own review, the Presidential Committee/Audit Committee recommended to the Supervisory Board to approve the result of the audits by the annual auditor and approve the annual financial statement and the consolidated financial statement, as well as the joint management report and agree with the proposal by the Executive Board for the appropriation of net profit.

After the final result of the audit by the Presidential Committee/Audit Committee and the Supervisory Board's own review, no objections were raised. The Supervisory Board approved the financial statements prepared by the Executive Board; these are therefore adopted. The proposal by the Executive Board for the appropriation of net profit was approved.

### **Membership of the Supervisory Board and Executive Board**

In the 2011 financial year, the employee representatives were newly elected to the Supervisory Board of Berlinwasser Holding AG. The election was successfully concluded on 19 August 2011. With effect from the end of the Ordinary Shareholders' Meeting on 6 October 2011, the election of the employee representatives: Oliver Behm, Wolfgang Börner, Dieter Eckholz, Jürgen Humernik, Friedrich Huntemann, Mathias Ladstätter, Jörg Marquardt, Steffen Siebenhüner, Beate Schuh and Susanne Stumpfenhusen became valid. At the same time, Manfred Pritzel withdrew from the Supervisory Board. Subsequently, the Members of the Supervisory

Board elected Susanne Stumpfenhusen as Deputy Chairperson of the Supervisory Board again, by means of a written circulation procedure.

Furthermore, the Chairman of the Supervisory Board, Harald Wolff (former Senator), resigned from his mandate in the Supervisory Board as of 12 December 2011.

The Supervisory Board thanks the Members of the Executive Board, the management boards, the resigned Supervisory Board Member and all employees of Berlinwasser Group for their major commitment in the 2011 financial year.

Berlin, 29 February 2012

A handwritten signature in black ink, appearing to read 'Sybille v. Oberritz', written in a cursive style.

On behalf of the Supervisory Board  
Senator Sybille von Oberritz  
Chairperson of the Supervisory Board of  
Berlinwasser Holding Aktiengesellschaft

# Berlinwasser Holding AG, Berlin Consolidated Management Report for the Financial Year from 1 January 2011 to 31 December 2011

## 1. Business conditions and general conditions

### Overview of the Group, business activity and general terms and conditions

Berlinwasser Holding AG is the parent company of the Berlinwasser Group, which emerged from the partial privatisation of Berliner Wasserbetriebe in 1999. The shareholders are the State of Berlin, with a majority stake of 50.1% and the companies, RWE and Veolia, with 24.95% each. The public-private partnership model of the Berlinwasser Group is forward-looking for the water industry in Germany. The holding company fulfils Group management and cross-divisional functions.

Technical and management expertise characterise the Group of companies, which is developing efficiently, as well as establishing a market-oriented and customer-oriented profile. The customers from the industrial, commercial and municipal sectors profit from a high level of technical and business knowledge and the wide-reaching experience of the Berlinwasser Group. The companies in the Group provide extensive services for a safe drinking water supply and environmentally sound waste water treatment. The largest company in the Group and simultaneously Germany's number one in the industry, is Berliner Wasserbetriebe.

In 2011, changes occurred, which have an influence on the Group structure of the Berlinwasser Group:

The business activity of Berlinwasser International AG was realigned and significantly reduced. The main aspects of this reorientation are the discontinuation of project acquisition activities, as well as the sale of the minority stake of Berlinwasser International AG in Berlinwasser China Holding Ltd. at the end of August 2011, in the joint venture partner, Metito Utilities China Ltd. In future, Berlinwasser International AG will only manage the existing, mostly very long-term contracts.

Also in 2011, the reintegration of Berlinwasser Services GmbH into Berliner Wasserbetriebe was resolved as of 31 December 2011. The Information Technology and Well and Measuring Points Service divisions provide their services almost exclusively for the Berlinwasser Group. Furthermore, following the coming-into-force of the law on the modernisation of company annual accounts in 2010, the advantages of capitalisation of IT projects, resulting from the BWS autonomy, have lapsed, as the capitalisation is now also possible directly with Berliner Wasserbetriebe. In view of this, the Information Technology

and Well and Measuring Points Service divisions will be sold to Berliner Wasserbetriebe.

### Course of business and economic situation

Virtually all of the companies are at or above budget with their profit in the 2011 financial year.

The water sales of Berliner Wasserbetriebe were below budget in 2011, particularly due to the above-average level of rain in the summer. Sales revenue was at the previous year's level, at EUR 1.2 billion.

The course of business at Berlinwasser International AG is essentially characterised by the sales process of the China business and the restructuring.

Berlinwasser Services GmbH successfully implemented numerous IT projects. It will be reintegrated into Berliner Wasserbetriebe as of 1 January 2012.

The business of Berlinwasser Regional has developed well. For example, a long-term operations management contract exists with the Municipality of Panketal. The Berlinwasser Group is also integrated into the infrastructure of the hub airport BER.

pigadi GmbH has a good reputation, both nationally and internationally. It is worth highlighting that existing skeleton agreements were extended in the past year.

p2m berlin GmbH is also developing positively. It has numerous national and international incoming orders.

The business development of bluepartner GmbH proceeded successfully. The optimisation of the business processes with Berliner Wasserbetriebe, as well as the optimisation of process flows and the expansion of third-party business were promoted.

perdie.net GmbH continues to take on an important role as a human resources service provider, to cover the requirements of the Group companies.

### Berliner Wasserbetriebe division

The business development of Berliner Wasserbetriebe was characterised by low water sales in 2011, in comparison to the previous year. Particularly the high level of rain in the summer caused water sales to remain behind expectations. Sales revenue was at the previous year's level, at EUR 1.2 billion. Over the long term, the tariff systems is intended to stabilise sales revenues and better reflect the cost structure, through a stronger weighting of the basic price. Ultimately, the majority

of the costs for drinking water supply and waste water disposal are independent from quantities. As a result of the low water sales, the company profit EBIT<sup>1</sup> is reduced to EUR 384.5 million (previous year: EUR 403.5 million).

Also in 2011, Berliner Wasserbetriebe carried out major investments. Around EUR 277.9 million was spent on maintaining and upgrading the plants (previous year: EUR 270.2 million). Of this, water supply accounted for EUR 97.0 million (previous year: EUR 98.8 million) and drainage accounted for EUR 180.9 million (previous year: EUR 171.4 million). In total, deliveries and services were acquired in 2011 with a value of EUR 385.0 million (previous year: EUR 385 million). Around 83% of the orders were awarded to regional companies.

The efforts for further optimisation of costs were continued with the aim of increasing performance and efficiency even further. A comprehensive compliance management system is set up. Particularly in the area of waste water disposal, the recalculation of the future investment requirement is being worked on. Rising demands on the quality of bodies of water prospectively require a further increase in the purification performance of the sewage treatment plants. The number of cracked pipes in the drinking water network is very low in proportion of the network length, based on a Germany-wide comparison. In 2011, 605 cases of damage to main and supply lines were rectified (previous year: 849). The energy requirement is being further optimised. Already today, 45% of the electricity requirement and 79% of the heat requirement of the sewage treatment works is generated from the renewable energy sources, biogas and sewage sludge.

In the untreated water of two water works in Spandau, individual instances of coliform germs were discovered in the summer. In consultation with the authorities, a three-day boiling order was imposed for around 200,000 Berlin citizens. The public were quickly and comprehensively informed. The immense precipitation was identified as the cause, which was four times above the long-term average in July alone. This resulted in saturation of the soil, so that – benefited by a specific type of sealant – water near the surface was able to penetrate the well chambers of several wells. Several water suppliers were affected by this throughout Germany.

In the Berlin-Brandenburg region, Berliner Wasserbetriebe is one of the largest employers, trainers and clients. Around 4,581 staff are currently employed in the company (3,821 person-

years, previous year: 4,638 staff/3,861 person-years). With 321 vocational trainees (previous year: 344) in 22 professions, the training level at Berliner Wasserbetriebe continues to be far above average.

The Executive Board has decided to hire additional former vocational trainees for 2011 and 2012, who were employed at *perdie.net* and is therefore fulfilling the commitment of covering the future requirement for skilled employees mainly from the company's own training programme. By the end of 2011, 57 *perdie.net* employees received a permanent contract with Berliner Wasserbetriebe.

The vocational training website has been completely revised. The special feature of this website: It has been designed for future vocational trainees by vocational trainees and is directed at everyone who is interested in vocational training at Berliner Wasserbetriebe.

In addition to commitment in the “mehrwert berlin” [added-value berlin] and “Berlin braucht Dich!” [Berlin needs you!] networks, Berliner Wasserbetriebe will support “Rock your Life” by means of a sponsoring membership in the coming years. This charitable organisation brings pupils, students and companies together, where students become qualified as coaches and voluntarily support particularly secondary school pupils over a period of two years.

In March 2010, cartel administrative proceedings were initiated against Berliner Wasserbetriebe by the Federal Cartel Office due to the suspicion of abusively excessive drinking water prices. The authority specifically justifies this with the decision by the Federal Court of Justice dated 2 February 2010 in the matter of “Water Prices Wetzlar” and has judged the Berlin water prices in comparison to those of the other suppliers on a preliminary basis and determined higher earnings per m<sup>3</sup> than the average of the comparative group. In the draft of a warning dated 5 December 2011, the Federal Cartel Office demands an average price reduction of 16%. However, in the opinion of Berliner Wasserbetriebe, significant points were not taken into account in this comparison. On the basis of the regulations of the Berlin Works Act and the Water Tariff Ordinance of the State of Berlin, there are detailed, legal calculation specifications. These regulations specify which costs must be taken into consideration in the tariff and which are not. In addition to the legal calculation specifications, the manner of setting and the government control of the tariffs is legally regulated. The auditors appointed by the Supervisory Board, as well as the responsible tariff approval authority of the State of Berlin and several courts have always certified Berliner Wasserbetriebe's correct application of

<sup>1</sup> Profit before income tax, costs from partial profit transfer, income from loss assumption by silent shareholders, extraordinary profit, net interest income and investment profit

the Berlin state laws. Therefore, the company holds the view that the cartel law price misuse regulations are not applicable to the water tariffs of Berliner Wasserbetriebe. Otherwise, this would lead to dual government control of the water tariffs with entirely different results. Therefore, Berliner Wasserbetriebe felt that it was necessary to have the question of which government control system applies to the water tariffs of Berliner Wasserbetriebe clarified by a court. A final ruling is still outstanding.

Throughout Germany, various cartel authorities have initiated investigations against individual water suppliers. This has led to a public debate on a suitable supervision model for water supply companies. Inter alia, a regulation similar to the electricity sector by the Federal Network Agency has been discussed. The water industry opposes this. It regards the existing instruments as being sufficient. If the water supply relationship is processed on a private law basis, the law against competition restrictions (GWB) intervenes, which envisages misuse control through the cartel authorities. If the water supplier demands fees in accordance with the Local Tax Act, the GWB does not apply. However, the Local Tax Acts contain detailed regulations on fee calculation.

Berliner Wasserbetriebe is part of the Berlinwasser Group. It includes additional companies that perform water-related services for the internal and external market. With the introduction of the law on the modernisation of company annual accounts, significant foundations have specifically changed for Berlinwasser Services GmbH. Therefore, the Group management decided to reintegrate the functions of the company into Berliner Wasserbetriebe and perform the services of the Well and Measuring Points Service and IT services in Berliner Wasserbetriebe again under its own direction from 2012.

## International division

Berlinwasser International AG is active on international water markets as a service provider for operations management and management contracts and performs consulting services.

The dominant event during the course of business in 2011 was the sale of the stake in Berlinwasser China Holding Ltd. (49%) to co-shareholder, Metito Utilities China Ltd. The sale process was driven forward intensively by the shareholders of Berlinwasser International AG since the beginning of the year. The business development of Berlinwasser China Holding Ltd. was slightly behind expectations until the time of the sale. Only

one new project – in Yuan Ping in the province of Shanxi – was acquired. The projects in Nanchang, Hefei and Panjin were able to generate slightly higher profits than planned. At the end of August 2011, Berlinwasser International AG discontinued its business activities in China.

In parallel with this, restructuring measures were initiated and the business activity of Berlinwasser International AG was realigned and significantly reduced. This reduction is the result of a sharp decline in acquisition success and falling margins with the acquired projects. Project acquisition was completely given up and the employment contracts of most employees were cancelled. Fundamental business processes were outsourced or adapted to the changed business model. The function of Berlinwasser International AG is now to manage and optimise the existing investments. Changes to the investments in the WINGOC joint venture in Windhoek, Namibia or the Budapest Kanalisationswerke, Hungary project are not envisaged.

Already in 2010, Berlinwasser International AG acquired the shares of H.P. GAUFF Ingenieure GmbH & Co. KG in a jointly held joint venture, Berlinwasser Management Consult GmbH & Co. KG, in view of a planned liquidation of this company. At the beginning of October 2011, the shareholders' resolution regarding the liquidation of the company was entered in the commercial register of the Charlottenburg District Court.

Metito Berlinwasser Ltd., Guernsey, remained significantly behind expectations, as no significant order was acquired. This is mainly due to the political developments in the MENA region, which led to a standstill in project business.

The joint venture, WINGOC in Namibia, which operates a plant in Windhoek that generates drinking water from surface and waste water, within the context of an operation and maintenance contract, is developing above budget.

The seven-year operations management contract, acquired by Berlinwasser International AG in August 2008 for the Saint Martin sewage treatment plant in Mauritius, remained behind expectations overall. A supplemental contract for building services in the amount of EUR 220,000 was concluded in 2011.

The management contract concluded in December 2010 for the management of the water and waste water company of the city of Kathmandu, Nepal, was started in January 2011. Due to the reorganisation of the decision-making bodies of the city, necessary personnel decisions were not able to be made. Therefore, the sales revenue advised for 2011 remained behind expectations.

Berlinwasser International AG successfully concluded the order from InWent – Internationale Weiterbildung und

Entwicklung GmbH for the implementation of parts of the "International Leadership Training" for the Federal Ministry of Economic Cooperation and Development for approx. 33 participants from the MENA region and Latin America.

## Services division

The Services division is characterised by activities regarding the core business of water supply and waste water disposal, the marketing of Berliner Wasserbetriebe's know-how and human resources services.

### Berlinwasser Services GmbH

Berlinwasser Services GmbH develops and realises organisational and product-related IT solutions in the Information Technology, Well Service and Measuring Point Service divisions. It has achieved its quality and efficiency targets.

In the Information Technology division, as in the previous years, the emphasis in 2011 was on project business with Berliner Wasserbetriebe. The release change of Office software was implemented on all end devices of the Berlinwasser Group. Within the context of an expanded security concept for data interchange with mobile end devices (inter alia USB sticks), a software was introduced for all end devices connected to the network for interface management and data encryption. With this, the authorisation for mobile data transport can be controlled and encryption of the mobile storage devices can be ensured.

In the Berlinwasser Services GmbH data centre, a re-organisation of the computer landscape was initiated. The central mainframe and associated storage technology were replaced with more efficient devices.

In addition to the core business of well regeneration and renovation, refitting/dismantling of wells and maintenance activities on peripheral plants belong to the range of functions in the Well and Measuring Points Service division. As in the previous years, Berlinwasser Services GmbH was also recertified in 2011 for its processes in accordance with ISO 9001.

The Information Technology and Well and Measuring Points Service divisions almost exclusively perform their current business for the Berlinwasser Group. Furthermore, following the coming-into-force of the law on the modernisation of company annual accounts in 2010, the advantages of capitalisation of

IT projects, resulting from the BWS autonomy, have lapsed, as the capitalisation is now also possible directly with Berliner Wasserbetriebe. In view of this, it was decided to reintegrate the Information Technology and Well and Measuring Points Service divisions as of 1 January 2012, thereby selling them to Berliner Wasserbetriebe.

### Berlinwasser Regional GmbH

Berlinwasser Regional GmbH is the sales partner of Berliner Wasserbetriebe in the Berlin-Brandenburg region. At its core, the company, founded at the end of 2007, offers technical and commercial water supply and waste water treatment services for industrial customers and municipal partners.

The business of Berlinwasser Regional has developed well in the past years. From the core business of Berliner Wasserbetriebe, services have been placed on the market/new services have been investigated, which, in turn, have positive effects on the core business. A 10-year operations management contract for the technical operations management for the drinking water supply of the Municipality of Panketal, as well as the involvement of the Berlinwasser Group in the development of the infrastructure for the hub airport BER are worth highlighting.

### p2m berlin GmbH

As an engineering service provider, p2m berlin GmbH is active in the water industry and in project management. It implements well-founded engineering know-how and many years of project experience. The service range is comprehensive, sustainably conceived and includes all realisation processes – from planning, to tender, and site management, right up to commissioning of plants. p2m berlin GmbH offers project control and management, for which the company implements innovative software.

p2m berlin GmbH looks back on a successful 2011 financial year. In addition to diverse national projects, inter alia, a significant contractual amendment with the BER Airport project, an important reference project for p2m berlin for the planning and construction supervision of an 8-km-long waste water pressure mains pipeline (Wilhelmshaven) and a sophisticated feasibility study in landscape planning (moor protection) for the State of Brandenburg, international projects were also acquired. In Bahrain, p2m berlin GmbH implemented follow-up orders in the area of waste water. For the capacity expansion of the sewage treatment plant, the company performed engineering services to improve the efficiency of the biological purification

level and the reduction of the sludge output from the post-treatment in the Tubli Bay.

### **pigadi GmbH**

The business of pigadi GmbH is well renovation and regeneration on national and international markets. The range of services spans the entire chain – from building wells to their operation and maintenance, right up to refitting and modernisation.

In 2011, pigadi extended skeleton agreements with Bayer AG/Currenta GmbH & Co., RWE Power AG, Zoologischer Garten Berlin and Energie und Wasser Potsdam GmbH. Furthermore, a new skeleton agreement was concluded with Infraserv GmbH & Co. Höchst KG. In the field of high-performance desanding, the ascertainment of as-is analyses and well renovation, pigadi GmbH has successfully implemented numerous projects in Germany. The high-performance desanding of a horizontal filter well on the island of Scharfenberg in Berlin is worth highlighting. International projects in Switzerland and Luxembourg round off the 2011 financial year.

### **bluepartner GmbH**

bluepartner GmbH is a customer service centre with a comprehensive range of customised front office and back office services. It masters the complex tasks of sophisticated customer management, as well as a customised, flexible and cost-effective secretarial service.

The planned expansion of third-party business has been continuously advanced. Additional customers were acquired for the secretarial service in 2011. A total of 404 customers therefore utilise these services at present. The customer, Zweitausendeins Versand-Dienst GmbH cancelled its contract with bluepartner GmbH for the order hotline of the online mail order company as of 31 December 2011.

The services for Berliner Wasserbetriebe were performed at a constantly high level. The contact statistics show a steady decline in calls, which are compensated by an increase in e-mails, which is just as steady. However, a decline in written contact in the form of letters is particularly shown in this financial year and therefore a reduction of the chargeable processing time for bluepartner GmbH. It remains to be seen whether this trend will continue. bluepartner GmbH is dealing with the resulting decline in sales revenue with optimisations. Ultimately, a low contact rate by the Berliner Wasserbetriebe customers suggests higher customer satisfaction. Since March 2010,

bluepartner GmbH has been certified in accordance with ISO 9001-2008. In February 2011, an inspection was carried out on system promotion, in which the reconfirmation of fulfilling all certification requirements was issued.

### **perdie.net GmbH**

perdie.net GmbH supports the Berlinwasser Group with training and advanced training. As a company for human resources services, perdie.net GmbH provides 100 vocational training positions each year for currently 22 commercial, technical and academic professions. The aim is to secure employment for young workers and integrate them into the regular labour market. With this, perdie.net GmbH focuses on placement and leasing of young, skilled workers for a qualified activity within and outside of the Berlinwasser Group. As the human resource requirement in the Berlinwasser Group is very high, only ten vocational trainees with completed training were placed on the external market in 2011.

## 2. Earnings, financial and net assets situation

### Earnings situation

#### Profit and Loss Statement

	2011 €'000	%	2010 €'000	%
Sales revenue	1,205,532	91	1,204,167	91
Reduction of inventory of unfinished services	-666	0	-337	0
Other capitalised services	64,690	5	65,249	5
Other operating income	59,614	4	60,357	4
<b>Total performance</b>	<b>1,329,170</b>	<b>100</b>	<b>1,329,436</b>	<b>100</b>
Cost of materials	241,769	18	228,111	17
Personnel expense	295,106	22	291,643	22
Depreciation	270,978	20	270,329	20
Other operating expense and other taxes	82,006	6	82,926	6
<b>Result of ordinary activities (EBIT)</b>	<b>439,311</b>	<b>33</b>	<b>456,427</b>	<b>34</b>
Investment result	8,315	0	8,714	0
Financial result	-116,595	-10	-120,947	-10
Extraordinary result	-136	0	-5,025	0
<b>Profit before tax (PBT)</b>	<b>330,895</b>	<b>24</b>	<b>339,169</b>	<b>25</b>
Costs from partial profit transfer agreements	114,929	9	120,089	9
Tax on income and profit	39,893	3	27,434	2
<b>Consolidated net profit</b>	<b>176,073</b>	<b>13</b>	<b>191,646</b>	<b>13</b>
Net profit attributable to minority interests	-162,711	-12	-173,471	-13
<b>Consolidated net profit attributable to the parent company</b>	<b>13,361</b>	<b>1</b>	<b>18,175</b>	<b>0</b>

In total, sales revenue in the Group grew by EUR 1.4 million to EUR 1,205.5 million. The included sales revenues from the water sales of Berliner Wasserbetriebe are -2.4 million m<sup>3</sup> below the level of the previous year due to the rain-intensive summer months of July and August. The lower quantities sold also result in lower sales revenue from drainage services. The improved ratio between water sales and drainage services has an opposing effect in the 2011 financial year. Overall, the lower periodic sales revenues of Berliner Wasserbetriebe are compensated by higher basic price earnings and higher non-periodic sales revenues. p2m berlin GmbH was able to increase its sales revenues in the financial year by EUR 2.5 million to EUR 5.6 million.

Cost of materials is a total of EUR 13.7 million above the previous year's level. The main cause of this is the distinct rise in energy and fuel costs of Berliner Wasserbetriebe.

Personnel expense is at EUR 295.1 million and is therefore EUR 3.5 million above the comparative period for the previous year. The tariff increase as of 1 January 2011 and the agreed one-off payment and the associated adjustment of the personnel provision for holiday, flexitime and full-time light credit balance results in a rise in personnel expense. However, the lower number of employees compared with the previous year has an opposing effect.

Depreciation increased by EUR 0.6 million in comparison to the previous year. This is mainly due to the extraordinary depreciation on silent reserves in properties in the amount of EUR 2.2 million. The revealing of the silent reserves in properties took place within the context of the initial consolidation of Berliner Wasserbetriebe.

Other operating expenses and other taxes are also at the previous year's level, at EUR 82.0 million. The sale of Berlinwasser China Holdings Ltd. occurred at a purchase price (EUR 26.0 million) below the book value (EUR 26.1 million) and therefore led to a loss from the disposal of financial assets in the amount of EUR 0.1 million, which is stated in the Group's other operating expenses. The purchase price was linked to the USD-EUR exchange rate. Berlinwasser International AG concluded an exchange rate hedging transaction in order to manage the risk, which was comprised of a EUR call option and a USD put option, for which cash compensation was arranged. The costs of this transaction amounted to EUR 0.8 million. The exercising of the option led to other operating income of EUR 0.6 million.

During the 2011 financial year, the Group generated profit from operating activities (EBIT) in the amount of EUR 439.3 million (previous year: EUR 456.4 million). EUR 384.5 million (previous year: EUR 403.5 million) is attributable to Berliner Wasserbetriebe. TELO Beteiligungsgesellschaft mbH & Co. Objekt Kläranlage Waßmannsdorf KG (TELO KG) is included with EUR 44.4 million (previous year: EUR 43.9 million) and Immobilien-Vermietungsgesellschaft Schumacher GmbH & Co. Objekt Rolandufer KG (Rolandufer KG) with EUR 11.3 million (previous year: EUR 11.1 million). Compared to the previous year, the Group EBIT is reduced by EUR 17.1 million. This essentially results from the reduction of the EBIT of Berliner Wasserbetriebe (EUR 19.0 million).

The investment profit of the Group essentially includes the dividends of Csatorna Holding Zrt. (EUR 7.1 million) and the profit of Berlinwasser China Holdings Ltd. (EUR 1.0 million).

The financial result was mainly the outcome of the negative interest result of Berliner Wasserbetriebe in the amount of EUR -99.6 million (previous year: EUR -102.3 million). The reason for the improvement is mainly a lower interest charge, particularly on long-term loans. Furthermore, the negative interest result of TELO KG with EUR -10.7 million (previous year: EUR 11.7 million) and Rolandufer KG with EUR -6.7 million (previous year: EUR -6.9 million) are stated.

The high extraordinary profit for the previous year, in the amount of EUR 5.0 million, resulted from the first-time application of the HGB [German Commercial Code] in the version of the BilMoG [Law on the modernisation of company annual accounts]. In accordance with the Introductory Law to the German Commercial Code (HGB), all costs arising from the first-time application of the BilMoG [law on the modernisation of company annual accounts] are to be reported in the extraordinary profit. This mainly affected the valuation of

personnel provisions, particularly on the basis of cost rises and interest discounting effects. In 2011, the follow-up effects from the BilMoG changeover are stated here.

The costs from partial profit transfer originate from the silent company with RWE-Veolia Berlinwasser Beteiligungs GmbH. The consolidated profit and loss statement fully includes the profit of Berliner Wasserbetriebe, through the silent company of Berlinwasser Holding AG with Berliner Wasserbetriebe. As Berliner Wasserbetriebe generated a lower profit this year, the costs from partial profit transfer decline in accordance with the investment share of RWE-Veolia Berlinwasser Beteiligungs GmbH (EUR -8.1 million). The decline in taxes of the silent company have an opposing effect compared to the previous year by EUR 1.9 million. Higher contributions to the Chamber of Trade and Industry for the years 1999 to 2010 were also included in the previous year of EUR 1.2 million.

Compared to the previous year, taxes on income and profit increased by EUR 12.5 million. This is mainly due to the fact that tax refunds from the tax audit for the years 1999 to 2001 were included in the previous year at Berliner Wasserbetriebe.

The consolidated net profit for the year is mainly generated by Berliner Wasserbetriebe (EUR 144.8 million). Furthermore, the profit shares of the special purpose companies of TELO KG (EUR 30.5 million) and Rolandufer KG (EUR 4.3 million) are included in this. In comparison to the previous year, the consolidated net profit fell by EUR 15.6 million. For the profit, it should be considered that part of the Berliner Wasserbetriebe profit is transferred to RWE-Veolia Berlinwasser Beteiligungs GmbH within the context of the partial profit transfer agreement.

The stake of the State of Berlin in the annual profit of Berliner Wasserbetriebe is stated in the "Consolidated net profit attributable to minority interests" item. The profit shares from TELO KG and Rolandufer KG are fully attributable to minority interests and are also stated in the "Consolidated net profit attributable to minority interests" item.

## Financial situation

The aim of financial management is to ensure solvency at all times and optimum financing of the investments and operations of the companies in the Berlinwasser Group, under cost and risk aspects.

The Berlinwasser Group aims at the highest possible level of self-financing. However, as a high and regular investment requirement particularly exists for the Berliner Wasserbetriebe division, which can only be amortised over the long term, debt financing is also necessary.

Significant investments took place by Berliner Wasserbetriebe in the pipeline and sewer network (EUR 189.5 million) and for extensive renewal measures in the Wuhlheide, Beelizhof and Spandau water works, as well as the Ruhleben, Schönerlinde and Münchehofe sewage treatment plants. In the Friedrichshagen water works and the Tegel surface water treatment plant, extensive renewal measures were completed. The new construction for the Berlin XII waste water pumping station in Berlin-Friedrichshain/Kreuzberg was started.

### Capital structure

	31/12/2011 €'000	%	31/12/2010 €'000	%
<b>Equity capital</b>	<b>2,375,479</b>	<b>33</b>	<b>2,357,652</b>	<b>33</b>
Special item from subsidies	530,141	8	519,196	7
Building cost subsidies	142,302	2	145,994	2
<b>Equity capital and similar funds</b>	<b>3,047,922</b>	<b>43</b>	<b>3,022,842</b>	<b>42</b>
Provisions	47,710	1	59,895	1
Liabilities due to banks	2,425,662	34	2,414,663	34
Accounts payable	151	0	169	0
Liabilities due to affiliates, investments and shareholders	5,260	0	5,771	1
Other liabilities	133,293	2	155,216	2
Deferred tax assets	38,685	1	38,975	1
<b>Long-term debt capital (&gt; 1 year)</b>	<b>2,650,761</b>	<b>38</b>	<b>2,674,689</b>	<b>39</b>
Provisions	114,351	2	132,245	2
Liabilities due to banks	217,698	3	237,919	3
Payments received on account for orders	819,614	11	797,738	11
Accounts payable	21,730	0	21,143	0
Liabilities due to affiliates, investments and shareholders	130,307	2	116,720	2
Other liabilities	38,973	1	53,233	1
Accruals and deferrals	11	0	9	0
<b>Short-term debt capital (&lt; 1 year)</b>	<b>1,342,684</b>	<b>19</b>	<b>1,359,007</b>	<b>19</b>
<b>Liabilities and Equity</b>	<b>7,041,367</b>	<b>100</b>	<b>7,056,538</b>	<b>100</b>

The possibility of short-term and long-term borrowing, as well as the conditions for these funds, are based mainly on the guarantee indemnity of the State of Berlin for Berliner Wasserbetriebe, as well as the type and structure of the business model and the derived, own good creditworthiness. The majority of debt borrowing takes place by taking up long-term loans from

banks. The constant solvency is additionally supported by credit lines from banks.

As of the reference date, liabilities of EUR 2,643.4 million result from this (previous year: EUR 2,652.6 million), which are stated with Berliner Wasserbetriebe in the amount of EUR 2,319.1 million (previous year: 2,298.1 million).

Furthermore, loan liabilities also exist with Berliner Wasserbetriebe vis-a-vis insurance companies and government institutions in the amount of EUR 145.5 million (previous year: EUR 160.9 million). These are stated under other liabilities in the consolidated financial statement.

Around 71% of the existing liabilities due to banks (previous year: 66%) are repayable within the period of more than five years. In the coming financial year, EUR 217.7 million of liabilities due to banks will fall due. The average interest rate was at 3.97% (previous year: 4.10%) during the 2011 financial year.

Equity capital increases by EUR 17.8 million / 0.7% compared to the previous year. The equity ratio rises to 33.7% (previous year: 33.4%) on the balance sheet date.

The Group's long-term debt capital falls by EUR 23.9 million compared with the previous year. Through the refinancing of loans, the fixed interest period of which had expired, the long-term loan liabilities of Berliner Wasserbetriebe grew by EUR 41.1 million. The short-term and medium-term loan liabilities fell by EUR 20.2 million.

The Group's short-term debt capital falls by EUR 16.3 million compared with the previous year. This is essentially due to the reduction of provisions and other liabilities. The increase in payments received on account on orders had an opposing effect.

## Consolidated Cashflow Statement

	2011 €'000	2010 €'000
Cashflow from ordinary activities	+ 536,412	+ 527,507
Cashflow from investment activity	- 217,450	- 229,329
Cashflow from financing activity	- 281,540	- 294,708
<b>Change to liquid funds</b>	<b>+ 37,422</b>	<b>+ 3,470</b>
+ Balance of funds at the beginning of the period	+ 62,673	+ 38,986
+ Changes due to basis of consolidation	- 115	+ 20,217
<b>Balance of funds at the end of the period</b>	<b>+ 99,980</b>	<b>+ 62,673</b>

Cash flow from ordinary activities is only slightly higher than in the previous year at EUR 536.4 million, which is due to the reduction of other costs not affecting payments (lower reduction of provisions).

The cash flow from the Group's investment activities improved by EUR 11.9 million compared to the previous year.

This essentially results from the flow of funds in relation to the sale of Berlinwasser China Holdings Ltd. in the amount of EUR 26.0 million, which was realised at Berlinwasser International AG. Investments in intangible assets and fixed assets of EUR 7.9 million have an opposing effect compared to the previous year, as well as lower deposits from investment and building subsidies of EUR 9.1 million.

The negative cash flow from the financing activity improved by EUR 13.2 million. The cause of this is essentially lower payments to shareholders, which is seen alongside a negative balance from borrowing and loan repayment.

From January to December 2011, a total of EUR 96.3 million of interest and EUR 32.6 million of income tax were paid.

### Net assets situation

The consolidated balance sheet is characterised by extensive fixed assets. 91.7% of fixed assets (previous year: 91.1%) are comprised of Berliner Wasserbetriebe assets.

The Berlinwasser Group invested EUR 289.3 million (previous year: EUR 283.2 million) during the financial year. From January to December 2011 Berliner Wasserbetriebe invested EUR 277.9 million (previous year: EUR 270.2 million) in fixed assets. Of this, water supply accounted for EUR 91.3 million (previous year: EUR 98.8 million) and drainage accounted for EUR 180.0 million (previous year: EUR 171.4 million). This is seen alongside depreciation of EUR 255.7 million (previous year: EUR 255.1 million).

### Balance Sheet Structure

	31/12/2011 €'000	%	31/12/2010 €'000	%
Non-current assets	6,063,222	86	6,083,146	86
Current assets	960,374	14	946,496	13
Accruals and deferrals	1,214	0	1,580	0
Deferred tax assets	16,557	0	25,316	1
<b>Assets</b>	<b>7,041,367</b>	<b>100</b>	<b>7,056,538</b>	<b>100</b>
Equity capital	2,357,479	33	2,357,652	33
Building cost subsidies and investment subsidies	672,442	10	665,190	9
Provisions	162,062	2	192,140	3
Liabilities	3,792,688	54	3,802,572	54
Accruals and deferrals	11	0	9	0
Deferred tax assets	38,685	1	38,975	1
<b>Liabilities and Equity</b>	<b>7,041,367</b>	<b>100</b>	<b>7,056,538</b>	<b>100</b>

Berlinwasser Services GmbH produced intangible assets in the amount of EUR 36.2 million for Berliner Wasserbetriebe by the end of the financial year, which are not capitalised in the consolidated financial statement. Of this, EUR 2.4 million was attributable to the 2010 financial year. This mainly involves the introduction and optimisation of software in the area of consumption invoicing and in the network operation, as well as the introduction and optimisation of SAP modules. Self-produced intangible assets, the production of which was initiated in the 2010 financial year, are capitalised in the consolidated financial statement in the amount of EUR 3.4 million.

The deferred tax assets and deferred tax liabilities mainly resulted from the application of the HGB [German Commercial Code] in the version of the BilMoG [law on the modernisation of company annual accounts].

Out of the Group's equity capital of EUR 2,375.5 million, EUR 1,127.8 million is attributable to Berlinwasser Holding AG and EUR 1,247.7 million is attributable to minority interests. The generated Group equity capital amounts to EUR –228.0 million. With this, it must be taken into consideration that due to the articles of association between Berlinwasser Holding AG and the silent shareholder, RWE-Veolia Berlinwasser Beteiligungs GmbH, the share in the annual result of Berliner Wasserbetriebe (49.9% of this equates to EUR 127.8 million as of 31 December 2011) is passed on directly to RWE-Veolia Berlinwasser Beteiligungs GmbH, by being stated as a cost comprised of a partial profit transfer. With this, profits and losses from the former subsidiary, Sekundärrohstoff-Verwertungszentrum Schwarze Pumpe GmbH i.L. of EUR –275.7 million (cumulative as of 31 December 2011) are not deducted, in accordance with the contract. For the Berliner Wasserbetriebe division, the generated Group equity capital therefore only includes the losses from the former subsidiary, Sekundärrohstoff-Verwertungszentrum Schwarze Pumpe GmbH i.L., as well as reserves attributable to Berlinwasser Holding AG at Berliner Wasserbetriebe and the results from other Berlinwasser Group divisions. During the 2011 financial year, EUR 371.4 million was withdrawn from the capital reserve of Berlinwasser Holding AG. This is also reflected in the generated Group equity capital.

The Group's equity capital rises by EUR 17.8 million in the financial year. The positive consolidated annual profit of EUR 176.1 million during the 2011 financial year had an effect on the Group's equity capital. The share of minority interests increases by EUR 9.9 million. This results from the addition of the share of minority interests in the 2011 consolidated net profit in the amount of EUR 162.7 million, which is seen alongside the distribution of the previous year's profit, in the amount of EUR 152.8 million.

Special items from subsidies and building cost subsidies received from customer only grew slightly overall, in comparison to the previous year.

With the provisions, the other provisions for compensation payments in accordance with Article 9 GBBerG [Land Register Amendment Act] in the amount of EUR 17.1 million and personnel provisions (semi-retirement and early retirement) in the amount of EUR 14.4 million of Berliner Wasserbetriebe were utilised.

The liabilities are at the previous year's level. Liabilities due to affiliates and investments, as well as shareholders, essentially includes the partial profit distribution to the silent shareholder of EUR 120.8 million (previous year: EUR 120.1 million). Other significant liabilities are liabilities due to banks in the amount of EUR 2,643.4 million (previous year EUR 2,652.6 million) and advance payments received on orders in the amount of EUR 819.6 million (previous year EUR 797.7 million).

## Research and development

The focus is on safe, efficient and sustainable fulfilment of the supply and disposal functions, with optimum employment of resources. Through needs-based, controlled, applied research and development, forward-looking and sustainable technologies and processes can be developed with a practical orientation. The company participates in research projects with a research budget of approx. EUR 2.6 million. In its own demonstration systems and in association with other institutes, universities and companies, several projects are currently being conducted for further waste water purification, including the removal of trace elements, as well as energy efficiency projects.

With the "space filtration" R&D project, through the combination of biofiltration and flocculation filtration, extensive nutrient removal is being investigated under practical conditions in the Waßmannsdorf sewage treatment plant. The "ODOCO II" R&D project maps the dependencies between odour and corrosion in the sewer system under realistic long-term conditions. The "Well management" and "Anti-ochre" R&D projects determine the reasons for well ageing, provide recommendations for well maintenance and ensure efficient untreated water extraction.

With the ELaN "Entwicklung eines integrierten Landmanagements zur nachhaltigen Wasser- und Stoffnutzung in Nordostdeutschland" ["Development of integrated land management for sustainable water and substance utilisation in Northeastern Germany"] cooperative project, the linking of technological innovations in the field of water management and

nutrient management is aimed at. With the integration of the former irrigation fields in the surrounding area of Berlin, solution approaches are being developed for natural water recycling in combination with agricultural and forestry use and landscape design for water management.

### 3. Supplementary Report

Business transactions of particular significance did not occur after the close of the financial year.

### 4. Report on anticipated development, with its significant opportunities and risks

#### Risk Report

The Berlinwasser Group has implemented the risk management requirements stipulated in Article 91 Par. 2 AktG [Companies Act] and has established an extensive risk management system. As a result of the evaluations of the risk inventories and current changes, in 2011 there are no risks identifiable which jeopardise the portfolio. Environmental and legal risks mainly exist, which are assessed as being relevant/significant risks. In order to compensate and reduce these risks, suitable measures have been undertaken by the company management. For the timely identification of particularly negative developments, issue management has been implemented at the companies in the Berlinwasser Group. Issues are (weak) signals from the company's environment and the company itself, which represent a risk to reputation and strategy, as well as opportunities.

#### FINANCIAL RISKS

Financial risks for Berlinwasser International AG are mainly comprised of exchange rate fluctuations. However, these are optionally minimised with transfers in the euro zone through suitable hedging instruments (options, forward contracts).

#### ENVIRONMENTAL RISKS

The water authority approvals applied for in 1996 for all water works, for pumping ground water for public drinking water supply, shall be granted by 2014, according to the Senate Administration for Health, Environment and Consumer Protection. In 2001, an approval was granted for the Wuhlheide water works. For all other water works, with a letter from the Senate Administration for Urban Development, the period formulated in the letter dated 4 June 1998 for pumping ground water for the drinking water supply in the previous form (tolerance without approval) until further notice, was extended, however not longer than until the existence of a definitive pumping approval. For the approvals, environmental compatibility investigations are being carried out with public involvement, as well as with the requirement for flora-fauna habitat compatibility investigations. The authority inspections can result in compensation and monitoring requirements, which can lead to investments and running costs.

Another risk was identified with the excesses for the CSB (chemical oxygen requirement),  $N_{anorg}$  (anorganic nitrogen) and Pges (total phosphorus) parameters in the discharge of the Waßmannsdorf sewage treatment plant, which were mainly determined within the context of self-monitoring. The Brandenburg State Office for Environment, Health and Consumer Protection can impose a renovation order, for example, in the case of non-compliance with water law conditions. In the location development concept for the Waßmannsdorf sewage treatment plant, the requirements from the legally valid ruling of the Cottbus Administrative Court dated 2 June 2010 are being taken into consideration regarding compliance with the monitoring value for the  $N_{anorg}$  nitrogen of 13 mg/l. The necessary investments for upgrading the sewage treatment plant have been developed. The location development concept envisages a two-stage upgrade of the plant and is currently being consulted on with the water authorities of the federal states of Berlin and Brandenburg. This nitrogen monitoring value is also binding for the Münchehofe and Stahnsdorf sewage treatment plants. Investments will possibly only become necessary there in the 2020s.

On 8 September 2011, the "Joint Action Plan of the Water Management Administrations of the Federal States of Berlin and Brandenburg" was adopted, which is aimed at implementing the EU Water Framework Directive for the reduction of nutrient impacts in the Berlin and Brandenburg bodies of water. By December 2013, the action plan envisages the establishment of a

joint programme of measures for the reduction of nutrients, with which the second management cycle is intended to be prepared in accordance with the EU Water Framework Directive of the River Basin Community Elbe. In particular, it can be derived from the action plan that the official requirements for the reduction of nutrients in sewage treatment plants, particularly Pges, will be increased in the future. Concrete results regarding the future requirements are expected by no earlier than 2013 and are to be implemented by the mid-2020s with long-term measures.

A risk also lies in non-compliance with the officially prescribed minimum quantity of waste water from mixed sewers, which is intended to be pumped to the sewage treatment plants when it rains. In the event of rain, non-compliance can occur due to limited purification capacities in the sewage treatment plants. Furthermore, waste water is pumped from the separate sewer system as a priority, which contains high portions of third-party water. The water authority assesses a shortfall of the minimum pumping quantity on the basis of lacking sewage treatment plant capacity as non-compliance with the water authority approval and can declare an adjustment of sewage treatment plant and/or storage capacities, possibly also sanctions. Therefore, Berliner Wasserbetriebe are in clarification discussions with the Senate Administration for Urban Development and Environment regarding the third-party water problem and particularly, financing the storage tanks in the sewage treatment plants.

## LEGAL RISKS

Berliner Wasserbetriebe operates within a regulated market and is therefore confronted with specific legal risks.

The processes regarding the legality of the water supply and waste water disposal tariffs are worth highlighting. On 14 July 2010, the State of Berlin Constitutional Court dismissed two relevant constitutional complaints. After these decisions became known, legal actions were withdrawn in all legally pending proceedings. However, it cannot be excluded that as a result of an order by the cartel office, judicial disputes will take place retroactively in the future regarding the fairness of the tariffs.

## CARTEL ADMINISTRATIVE PROCEEDINGS

With a letter dated 17 March 2010, the Chairman of the 8th Deciding Division of the Federal Cartel Office notified Berliner Wasserbetriebe that his Deciding Division had initiated cartel administrative proceedings against Berliner Wasserbetriebe, due

to the suspicion of abusively excessive drinking water prices in the Berlin supply region.

The proceedings are based on the relevant provisions of the Act Against Restraints of Competition (Article 19 Par 4 No. 2 GWB [exploitation prohibition], Article 103 Par. 5 and 7 and Article 122 Par. 5 GWB old version [comparative market principle]).

With a letter dated 28 February 2011, the Federal Cartel Office provided notification of the “preliminary status” regarding the investigation against Berliner Wasserbetriebe. The legal comments of the Federal Cartel Office regarding the applicability of cartel law price misuse regulations to the Berliner Wasserbetriebe water tariffs are not new, in relation to the findings obtained so far in the proceedings. It essentially involves a rendition of already-known positions of the Federal Cartel Office.

On 19 May 2011, Berliner Wasserbetriebe commented in detail, in writing, regarding the preliminary investigation status. In addition to the comments on the question of applicability of cartel law price misuse regulations on the Berliner Wasserbetriebe water tariffs, the level of the water tariffs was justified in detail with non-attributable legal specifications, with non-attributable economic disadvantages due to a decline in consumption and with non-attributable, additional structural costs.

On 5 December 2011, Berliner Wasserbetriebe received the draft of a warning from the Federal Cartel Office. In this the authority demands an average price reduction of 16%. Berliner Wasserbetriebe will comment on this. Fundamental doubts still exist regarding the applicability of cartel law on the Berlin water tariffs. Furthermore, the non-attributable circumstances must be clearly taken into account.

Within the context of the price misuse proceedings, Berliner Wasserbetriebe has expressed doubts from the start, whether the cartel law price misuse proceedings are applicable to its water tariffs at all. These doubts were substantiated in detail in the correspondence with the Federal Cartel Office. With this, the specific Berlin circumstances were pointed out and it was clarified that formally, private law invoicing occurs, but there is no private autonomy behind the private law form of invoicing. Due to the tight legal specifications for the calculation of tariffs and the continuous state control of the tariffs by means of the approval process, cartel law control is furthermore not legally envisaged beyond this.

The doubts of Berliner Wasserbetriebe regarding the applicability of cartel law price misuse regulations were confirmed very clearly by the external opinion mandated by the

Executive Board. The opinion and the legal opinions unanimously conclude that overwhelming and significant reasons speak against the applicability of cartel law misuse regulations to the Berliner Wasserbetriebe water tariffs.

After receipt of the letter from the Federal Cartel Office dated 28 February 2011, the Freshfields Bruckhaus Deringer law firm conducted another assessment of the legal situation. The opinion also concluded that overwhelming reasons still speak against the applicability of cartel law price misuse regulations to the Berliner Wasserbetriebe water tariffs.

On the basis of this expertise, the Executive Board decided, with the acknowledgement of the Supervisory Board, the fundamental and preliminary question of the applicability of cartel law price misuse proceedings should be judicially clarified. For this, Berliner Wasserbetriebe filed legal action for a declaratory judgement with the Cologne Administrative Court. With this, an application was filed to declare that cartel law price misuse regulations are not applicable to the Berliner Wasserbetriebe water tariffs. In a first step, the administrative court will exclusively deal with the question of admissibility of recourse to the administrative court. With a decision dated 5 September 2011, the 4th Chamber of the Cologne Administrative Court decided that recourse to administrative law is not admissible and referred the legal dispute to the Düsseldorf Higher Regional Court. In the brief reason, the Cologne Administrative Court admitted that on the basis of the current legal situation, no legal protection options are envisaged under cartel law for the institution-law defence claim asserted by Berliner Wasserbetriebe, however this legal protection gap can only be closed by cartel-law case law. The very brief handling of the legal nature of the asserted claim (institution law), as well as the reference to closing a legal protection gap through cartel-law case law are not convincing, in the opinion of the legal advisers. For these reasons, the Executive Board decided to file an appeal against the decision and appeal to the second instance.

Furthermore, on the basis of the external expertise, the Executive Board concluded that according to the current situation and legal circumstances, there is no requirement for the formation of provisions on its own merits; utilisation is not anticipated.

However, if the price misuse provisions should apply to the Berliner Wasserbetriebe water tariffs and the cartel administrative proceedings result in a significant reduction of the tariff, this could have a negative effect on the earnings situation of Berliner Wasserbetriebe.

## Forecast Report

Berlinwasser Holding AG continues to be operated as a management holding company and supports its investments actively with the achievement of their corporate targets. It supports its subsidiaries regarding communication, accounting and legal matters. Up to the earnings before interest and tax, all operating expenses and income incurred in its function as a management holding are reflected. The profit in the coming year is approximately at the previous year's level.

### Berliner Wasserbetriebe division

#### TARIFF DEVELOPMENT FOR 2012/2013 AND SUBSEQUENT YEARS

The business planning and tariff calculation for 2012/2013 have not yet been handled in the Supervisory board. The current water and waste water tariffs are still valid until 31 March 2012. Tariff stability is aimed at for the entire year of 2012. A decision shall take place in the meeting of the Supervisory Board on 29 February 2012.

#### QUANTITY DECLINE CONTINUES

A basis of around 188.4 million m<sup>3</sup> is assumed for water sales in Berlin for 2012. Due to weather conditions, this is slightly above the result for the reporting year: In 2012, a normal weather trend is assumed, while 2011 was particularly characterised by a rainy summer. In the subsequent years, a further decline is anticipated. This reflects the national trend of falling water sales. In order to increase planning reliability for Berliner Wasserbetriebe with regard to sales development, an external study was carried out, which forecasted the future sales development. For the contracts with our partners from Brandenburg, the forecasts assume a rising trend with 3.9 million to 4.5 million m<sup>3</sup> (drinking water) and respectively, 24.4 million to 24.8 million m<sup>3</sup> (waste water). This corresponds to the volume trend for the past years.

#### INVESTMENTS PRIMARILY IN NETWORKS

The largest portion of the investment volume flows into the renewal and expansion of the network infrastructure of pipelines and sewers. Over time, the shares of the expansion investments reduce further, particularly during the course

of remaining development in the sewer network and the renovation investments rise significantly. In addition to this, there will be more investments in the structural preservation of the Waßmannsdorf sewage treatment plant, which is scheduled to be repurchased by Berliner Wasserbetriebe in 2013. In order to achieve the water law requirements, this sewage treatment plant must also be upgraded with regard to process technology. With the investments, retention of functionality and maintaining the substance of the facilities and networks in conjunction with the high supply and disposal standards are a priority for the customers of Berliner Wasserbetriebe. In 2012, the self-financed investment volume will be slightly above the level of 2011, of which more than 60% is attributable to the Drainage division. In the Water Supply division, the investment activity will continue at around the same level.

#### **ECONOMIC DEVELOPMENT – PROFIT SLIGHTLY ABOVE PREVIOUS YEAR'S LEVEL**

For 2012, Berliner Wasserbetriebe is anticipating water sales that are above the level from the previous year. Therefore, sales revenues will also be above the previous year's level. Berliner Wasserbetriebe assumes that due to the specific state law regulations, cartel law price misuse regulations are not applicable to the Berliner Wasserbetriebe water tariffs. Berliner Wasserbetriebe expects a pre-tax profit above the level of the previous year for 2012. The main reason is the increase in sales revenues related to the tariff adjustment, which is only partially reduced by cash-relevant cost increases.

#### **International division**

The decision regarding the restructuring of the company and the resulting, derived focus on the existing business leads to very constant business development in the next two years.

The discontinuation of the acquisition activity, combined with the release of employees, leads to a significant reduction in costs. Accordingly, the income from existing projects will decide on the company's economic success.

All costs from the restructuring of Berlinwasser International AG are included in the 2011 annual financial statement, so that a significant improvement in profit is anticipated for the next two years.

#### **Services division**

Berlinwasser Services GmbH discontinued its operations as of 31 December 2011. The Information Technology and Well and Measuring Points Service were integrated into Berliner Wasserbetriebe as of 1 January 2012. After the sale of the business divisions, Berlinwasser Services GmbH will process the remaining receivables and liabilities with Berlinwasser Services GmbH, in accordance with the purchase contract between Berliner Wasserbetriebe and Berlinwasser Services GmbH. A final decision has not yet been made regarding whether the company will be liquidated or whether it will be retained for the time being.

It is intended that the Industry Services division of Berlinwasser Regional GmbH will transfer to Berliner Wasserbetriebe in 2012 and offer water-related services for municipalities and companies in the future, as a division of Berliner Wasserbetriebe. Berlinwasser Regional GmbH will discontinue its operation. The company will remain in existence until the transfer is completed. p2m berlin GmbH is constantly expanding its business on the national and international market. For 2012 – inter alia, on the basis of orders in relation to the Waßmannsdorf sewage treatment plant – a rise in sales revenue is anticipated with Berliner Wasserbetriebe, as well as another slight rise in the external market. In the subsequent years, the slight upward trend with sales revenues in the external market will continue. The development of profit is expected to be slightly positive for 2012 and the following year.

pigadi GmbH has a constantly growing customer base, which has formed the basis of moderate and stable sales revenue growth in the past. In spite of the slight fall in sales revenue, it is anticipated that sales revenue can be continuously increased, even in the upcoming financial years. For the 2012 financial year, pigadi GmbH also anticipates a positive result.

The third-party business of bluepartner GmbH shall continue to be actively expanded and will secure positive sales development in the long term. In parallel with this, the internal Group sales revenues with Berliner Wasserbetriebe will be reduced, with performance remaining the same. For the 2012 and 2013 financial year, bluepartner GmbH also anticipates positive results.

In 2012 and the subsequent years, perdie.net GmbH is supporting the retention by the Group of employees with

development potential, using targeted human resources development measures, thereby securing the long-term human resources requirement of the Berlinwasser Group. Due to the assumed compensation of sales through personnel placement (internal) and the personnel costs incurred, during the entire planning period, a consistently constant profit is assumed.

For the consolidated net profit for the year, a positive result is expected for 2012 and 2013, at the level of the previous year.

Berlin, 10 February 2012  
Berlinwasser Holding AG



Frank Bruckmann



Jörg Simon



Dr. Georg Grunwald



Norbert Schmidt

## Consolidated Balance Sheet of Berlinwasser Holding AG, Berlin as of 31 December 2011

### Assets

	31/12/2011 €	31/12/2010 €'000
<b>A. Non-current assets</b>		
I. Intangible assets		
1. Self-produced industrial property rights and similar rights and values	3,675,061.61	730
2. Concessions, industrial property rights and similar rights, as well licences to such rights, acquired against payment	86,368,738.53	88,646
3. Payments made on account	3,792,635.07	3,325
	<b>93,836,435.21</b>	<b>92,701</b>
II. Tangible assets		
1. Land, land rights and buildings, including buildings on third-party land	742,671,400.57	765,644
2. Technical equipment and machinery	4,831,367,568.24	4,807,274
3. Other equipment, plant and office equipment	39,991,298.48	41,052
4. Payments made on account and construction in progress	321,090,851.98	311,671
	<b>5,935,121,119.27</b>	<b>5,925,641</b>
III. Financial assets		
1. Shares in affiliates	27,514.50	3
2. Investments in associated companies	30,870,030.43	61,434
3. Other investments	60,574.94	61
4. Memberships in special purpose associations	3,304,402.23	3,304
5. Non-current marketable securities	1,915.30	2
	<b>34,264,437.40</b>	<b>64,804</b>
	<b>6,063,221,991.88</b>	<b>6,083,146</b>
<b>B. Current assets</b>		
I. Inventories		
1. Raw materials and supplies	10,488,892.09	9,311
2. Unfinished services	6,064,325.69	6,730
3. Payments made on account	6,450.00	2
	<b>16,559,667.78</b>	<b>16,043</b>
II. Receivables and other assets		
1. Accounts receivable of which, with a remaining maturity of more than one year €175,213.09	803,488,488.67	815,187 (360)
2. Receivables due from companies, in which an investment is held, of which, with a remaining maturity of more than one year € –	1,030,473.24	941 (–)
3. Receivables due from shareholders of which, with a remaining maturity of more than one year € –	7,940,046.12	20,468 (4,631)
4. Other current assets of which, with a remaining maturity of more than one year €2,859,827.75	31,376,216.95	31,184 (3,248)
	<b>843,835,224.98</b>	<b>867,780</b>
III. Cash balances, cash deposits with banks and cheques	99,979,634.62	62,673
	<b>960,374,527.38</b>	<b>946,496</b>
<b>C. Accruals and deferrals</b>	1,213,622.81	1,580
<b>D. Deferred tax assets</b>	16,556,818.59	25,316
	<b>7,041,366,960.66</b>	<b>7,056,538</b>

## Liabilities and equity

	31/12/2011 €	31/12/2011 €	31/12/2010 €'000
<b>A. Equity capital</b>			
I. Paid-in capital		51,129,188.12	51,128
II. Capital contribution from silent shareholders		1,296,966,237.65	1,296,966
III. Capital reserve		14,600,000.00	385,993
IV. Retained earnings			
1. Legal reserve	637,439.26		610
2. Other retained earnings	126,300,427.43	126,937,866.69	108,131
V. Balancing item from currency conversion		– 6,897,808.96	– 1,422
VI. Net loss for the year		– 354,934,978.07	– 721,492
VII. Shares of minority interests		1,247,678,417.59	1,237,738
		<b>2,375,478,923.02</b>	<b>2,357,652</b>
<b>B. Special items from contributions and subsidies</b>			
1. Special item from investment subsidies		210,442.00	236
2. Special item from other subsidies		529,930,279.70	518,960
		<b>530,140,721.70</b>	<b>519,196</b>
<b>C. Building cost subsidies</b>		142,301,731.25	145,994
<b>D. Provisions</b>			
1. Provisions for pensions		7,472,791.06	6,709
2. Tax provisions		1,702,436.18	4,100
3. Other provisions		152,887,216.96	181,331
		<b>162,062,444.20</b>	<b>192,140</b>
<b>E. Liabilities</b>			
1. Liabilities due to banks of which, with a remaining maturity of up to one year €217,697,753.87		2,643,359,380.02	2,652,582 (237,918)
2. Payments received on account for orders of which, with a remaining maturity of up to one year €819,613,965.02		819,613,965.02	797,738 (797,738)
3. Accounts payable of which, with a remaining maturity of up to one year €21,729,871.92		21,880,434.48	21,312 (21,143)
4. Liabilities due to companies, in which an investment is held of which, with a remaining maturity of up to one year €23,835.44		23,835.44	109 (109)
5. Liabilities due to shareholders of which, with a remaining maturity of up to one year €130,283,025.13		135,543,656.39	122,382 (116,611)
6. Other liabilities a) from taxes €13,536,809.77 b) within the context of social security €32.94 c) with a remaining maturity of up to one year €38,973,389.10		172,266,320.04	208,449 (16) (4) (53,232)
		<b>3,792,687,591.39</b>	<b>3,802,572</b>
<b>F. Accruals and deferrals</b>		10,870.49	9
<b>G. Deferred tax assets</b>		38,684,678.61	38,975
		<b>7,041,366,960.66</b>	<b>7,056,538</b>

## Consolidated Profit and Loss Statement of Berlinwasser Holding AG, Berlin for the financial year from 1 January to 31 December 2011

	1.1. – 31.12.2011 €	1.1. – 31.12.2011 €'000
1. Sales revenue	1,205,531,785.74	1,204,167
2. Reduction of/increase in inventory of unfinished services	-665,964.04	-337
3. Other capitalised services	64,689,546.35	65,249
4. Other operating income	59,614,269.65	60,357
	<b>1,329,169,637.70</b>	<b>1,329,436</b>
5. Cost of materials		
a) Costs for raw materials and supplies and for purchased goods	70,482,810.20	66,623
b) Costs for external services	104,614,077.68	95,415
c) Ground water extraction fee and sewerage contribution	66,672,114.08	66,073
	<b>241,769,001.96</b>	<b>228,111</b>
6. Personnel expense		
a) Wages and salaries	233,446,205.22	230,758
b) Social security contributions and costs for old-age pension and support of which for old-age pension EUR 16,820,129.25	61,659,917.24	60,885 (16,838)
	<b>295,106,122.46</b>	<b>291,643</b>
7. Depreciation on intangible assets and fixed assets of which, pursuant to Article 253 Par. 3 Sentence 3 HGB [German Commercial Code] € 2,172,222.00	270,977,626.34	270,329 (46)
8. Other operating expenses	73,298,227.36	73,534
	<b>881,150,978.12</b>	<b>863,617</b>
9. Income from investments	133,193.71	46
10. Result from associated companies	8,181,758.23	8,669
11. Income from other securities and loans of financial assets	11,390.94	95
12. Other interest and similar income	1,978,210.42	4,110
13. Interest and similar expenses of which, to affiliates €69,264.84	118,585,122.05	125,153 (56))
<b>14. Result of ordinary activities</b>	<b>339,738,090.83</b>	<b>353,586</b>
15. Extraordinary expenses	136,454.11	5,025
16. Extraordinary result	<b>-136,454.11</b>	<b>-5,025</b>
17. Taxes on income and profit of which deferred taxes €8,468,983.32	39,893,102.88	27,434 (7,651)
18. Other taxes	8,707,612.07	9,392
19. Costs from partial profit transfer	114,928,542.00	120,089
<b>20. Consolidated net profit</b>	<b>176,072,379.77</b>	<b>191,646</b>
21. Consolidated net profit attributable to minority interests	-162,711,447.56	-173,471
22. Loss carried forward	-721,491,722.15	-720,769
23. Withdrawal from the capital reserve	371,393,125.36	-
24. Transfer to retained earnings		
a) to the legal reserve	27,653.49	290
b) to other retained earnings	18,169,660.00	18,608
<b>25. Net loss for the year</b>	<b>-354,934,978.07</b>	<b>-721,492</b>

## Cash Flow Statement of Berlinwasser Holding AG, Berlin for the financial year from 1 January to 31 December 2011

	2011 €'000	2010 €'000
+/- Periodic result prior to extraordinary items	+176,209	+196,672
+/- Depreciation/write-ups on fixed assets	+269,481	+269,136
+/- Increase/reduction in provisions	- 30,122	-99,276
+/- Other income not affecting payments from the release of provisions from subsidies and building cost subsidies	- 30,835	-28,952
+/- Other costs/income not affecting payments	-1,149	+217
+/- Profit/loss from the disposal of fixed assets	+1,720	+6,317
+/- Increase/reduction in inventories, receivables and other assets as well as miscellaneous assets that are not attributable to the financing or investment activity	+32,467	+66,118
+ Increase/decrease in liabilities, as well as other liabilities that are not attributable to the investment or financing activity	+118,641	+117,275
<b>Cashflow from ordinary activities</b>	<b>+536,412</b>	<b>+527,507</b>
+ Receipts from the disposal of fixed assets	+6,539	+107
- Withdrawals for investments in fixed assets	- 277,919	-270,129
+ Receipts from investment subsidies and building cost subsidies into fixed assets	+33,911	+43,024
+ Receipts from the disposal of intangible assets	+4	+2
- Withdrawals for investments in intangible assets	- 6,051	-4,813
+ Receipts from the disposal of financial assets	+26,066	+4,179
- Withdrawals for investments in financial assets	0	-1,699
<b>Cashflow from investment activity</b>	<b>- 217,450</b>	<b>-229,329</b>
- Payments to company owners and minority interests	- 259,260	-275,473
+ Receipts from taking up loans	+180,000	+200,827
- Payments from loan repayments	- 202,280	-220,062
<b>Cashflow from financing activity</b>	<b>- 281,540</b>	<b>- 294,708</b>
Change to liquid funds	37,422	3,470
+ Balance of funds at the beginning of the period	62,673	38,986
+ Changes due to basis of consolidation	-115	20,217
<b>Balance of funds at the end of the period</b>	<b>99,980</b>	<b>62,673</b>

## Consolidated Equity Capital Schedule of Berlinwasser Holding AG, Berlin for the period from 31 December 2009 to 31 December 2011

### Parent company

	in € '000						
	Paid-in capital	Capital reserve	Capital contribution from silent shareholders	Consolidated equity capital generated	Cumulative other consolidated result		Equity capital
					Balancing item from currency conversion	Other neutral transactions	
<b>Balance as of 31.12.2009</b>	<b>51,129</b>	<b>385,028</b>	<b>1,296,966</b>	<b>-633,225</b>	<b>-3,458</b>		<b>1,096,440</b>
Paid dividends	-	-	-	-	-	-	-
Change to the basis of consolidation	-	-	-	-	-	-	-
Other changes	-	965	-	2,299	-	-	3,264
Consolidated net profit	-	-	-	18,175	-	-	18,175
Other consolidated result	-	-	-	-	2,035	-	2,035
Total consolidated result	-	-	-	18,175	2,035	-	20,210
<b>Balance as of 31.12.2010</b>	<b>51,129</b>	<b>385,993</b>	<b>1,296,966</b>	<b>-612,751</b>	<b>-1,423</b>		<b>1,119,914</b>
Paid dividends	-	-	-	-	-	-	-
Change to the basis of consolidation	-	-	-	-	-1,542	-	-1,542
Other changes	-	-371,393	-	371,393	-	-	-
Consolidated net profit	-	-	-	13,361	-	-	13,361
Other consolidated result	-	-	-	-	-3,932	-	-3,932
Total consolidated result	-	-	-	13,361	-3,932	-	9,429
<b>Balance as of 31.12.2011</b>	<b>51,129</b>	<b>14,600</b>	<b>1,296,966</b>	<b>-227,997</b>	<b>-6,897</b>		<b>1,127,801</b>

## Consolidated Equity Capital Schedule of Berlinwasser Holding AG, Berlin for the period from 31 December 2009 to 31 December 2011

### Minority interests

	in € '000				
	Minority capital	Cumulative other consolidated result		Equity capital	Consolidated equity capital
		Balancing item from currency conversion	Other neutral transactions		
<b>Balance as of 31.12.2009</b>	<b>1,243,355</b>	–	<b>696</b>	<b>1,244,051</b>	<b>2,340,491</b>
Paid dividends	–147,935	–	–	–147,935	–147,935
Change to the basis of consolidation	–39,291	–	–	–39,291	–39,291
Other changes	7,442	–	–	7,442	10,706
Consolidated net profit	173,471	–	–	173,471	191,646
Other consolidated result	–	–	–	–	2,035
Total consolidated result	173,471	–	–	173,471	193,681
<b>Balance as of 31.12.2010</b>	<b>1,237,047</b>	–	<b>696</b>	<b>1,237,738</b>	<b>2,357,652</b>
Paid dividends	–144,973	–	–	–144,973	–144,973
Change to the basis of consolidation	–	–	–	–	–1,542
Other changes	–7,798	–	–	–7,798	–7,798
Consolidated net profit	162,711	–	–	162,711	176,072
Other consolidated result	–	–	–	–	–3,932
Total consolidated result	162,711	–	–	162,711	172,140
<b>Balance as of 31.12.2010</b>	<b>1,246,982</b>	–	<b>696</b>	<b>1,247,678</b>	<b>2,375,479</b>

**Explanation:**

The other consolidated result is comprised of the amounts resulting from the currency conversion according to the modified reference date method. These mainly result from the associated companies in Hungary.

The generated consolidated equity capital contains legal retained earnings for Berlinwasser Holding AG of EUR 122,000 and EUR 515,000 of legal retained earnings for Berlinwasser International AG, which is subject to a statutory distribution block.

# Berlinwasser Holding AG, Berlin

## Consolidated Notes for the

### Financial Year from 1 January 2011

### to 31 December 2011

## 1. General Information

The consolidated financial statement of Berlinwasser Holding AG is prepared in accordance with the German Commercial Code (HGB) and the German Companies Act. The prescribed classification is adapted to the specific structure of the Berlinwasser Holding AG Group through the insertion of individual items. The profit and loss statement has been prepared using the total cost method.

The German Commercial Code in the version of the law on the modernisation of company accounts (BilMoG) dated 25 May 2009 (BGBl. I p. 1102) was applied for the first time from 1 January 2010.

## 2. Basis of consolidation

### Affiliates

	Capital share Direct %	Capital share Indirect %	Basis of Con- solidation
Berliner Wasserbetriebe AöR, Berlin <sup>1</sup>	49.9		Article 294 HGB
Berlinwasser Services GmbH, Berlin	100		Article 294 HGB
pigadi GmbH, Berlin	100		Article 294 HGB
p2m berlin GmbH, Berlin	100		Article 294 HGB
bluepartner GmbH, Berlin	100		Article 294 HGB
perdie.net GmbH, Berlin	100		Article 294 HGB
Berlinwasser International AG, Berlin	100		Article 294 HGB
Berlinwasser Regional GmbH, Berlin	100		Article 294 HGB
pbv potsdam GmbH, Potsdam		100	Article 294 HGB
TELO Beteiligungsgesellschaft mbH & Co. Objekt Kläranlage Waßmannsdorf KG, Berlin		100	Article 294 HGB
Immobilien-Vermietungsgesellschaft Schumacher GmbH & Co. Objekt Rolanderufer KG, Berlin		100	Article 294 HGB

### Associated companies

Klärwerk Wansdorf GmbH, Wansdorf		49	Articles 311 et seqq. HGB
Wasser Nord GmbH & Co. KG, Hohen Neuendorf		49	Articles 311 et seqq. HGB
Wasser Nord Verwaltungs GmbH, Hohen Neuendorf		49	Articles 311 et seqq. HGB
Berlinwasser China Holdings Ltd., Hong Kong, China <sup>2</sup>		49	Articles 311 et seqq. HGB

<sup>1</sup> Share of assets within the context of silent investments, inclusion occurs in accordance with Article 290 Par. 2 No. 2 HGB [German Commercial Code]

<sup>2</sup> Initial consolidation as of 31 August 2011

The deconsolidation of Berlinwasser Management Consult GmbH & Co. KG took place as of 1 January 2011 due to the liquidation of the company as of 14 December 2011. Berlinwasser China Holding Ltd. was sold as of 31 August 2011 and deconsolidated at that time. Berlinwasser China Ltd. was deconsolidated as of 31 December 2011.

### 3. Consolidation principles

For the initial consolidations prior to 1 January 2010, the capital consolidation takes place according to the book value method, by offsetting the acquisition costs for the investments from the attributable equity capital shares at the time of acquisition/first-time inclusion. A resulting difference amount is attributed to assets according to their actual values. A difference amount remaining after this is stated as goodwill. For initial consolidations after 1 January 2010, the capital consolidation occurs according to the revaluation method. With this, the equity capital of the subsidiary from the time at which it became a subsidiary results from the attributable present values of the assets, liabilities, accruals, deferrals and special items to be added to the consolidated financial statement.

The balance sheet date for all fully consolidated companies is 31 December 2011.

The investments in associated companies are valued at their book value (Article 312 Par. 1 No. 1 HGB [German Commercial Code]). With regard to the treatment of difference amounts from initial consolidation, the principles stated for full consolidation apply. Difference amounts on the liability side are not accounted for. The valuation of the investments occurred at the time when the companies became associated companies (initial consolidation prior to 1 January 2010).

An adjustment of the annual financial statements of the associated companies pursuant to Article 312 Par. 5 HGB [German Commercial Code] to the standard Group accounting principles did not take place. The inclusion takes place according to the annual financial statements prepared according to state law regulations.

Within the balance sheet valuation for the associated companies, total goodwill of EUR 134,000 is accounted for. The non-accounted-for negative difference between the book values and the proportional equity capital of associated companies amounts to EUR 4,587,000.

Sales, expenses and income, as well as receivables and liabilities between the included companies are eliminated, intermediate profits and differences in the debt consolidation are offset to affect profit.

Deferred taxes are taken into consideration in the consolidation processes, affecting profit, to the extent that the deviating tax expense is compensated in later financial years. Furthermore, deferred taxes are calculated for differences expected to reduce in the subsequent financial years between the commercial code and tax valuations of assets, liabilities, accruals and deferrals. In addition to this – if available – tax losses carried forward are also taken into consideration, if their utilisation is anticipated in the subsequent five years. The resulting deferred tax assets and liabilities are valued without offsetting.

The functional currency of Berlinwasser Holding AG is the euro. Receivables, liabilities and deposits with banks in foreign currency are converted at the acquisition exchange rate or the respective less favourable exchange rate on the balance sheet date, in accordance with Article 256 a HGB [German Commercial Code]. The currency conversion in the consolidated financial statement takes place according to the modified reference date method.

### 4. Accounting and valuation principles

The financial statements of the included companies are generally prepared according to standardised accounting and valuation principles.

Self-produced intangible assets, in the form of software products, the production of which was initiated in 2010, are capitalised at their production costs and are subject to scheduled depreciation. The total costs for the development of software products amount to EUR 3,362,000 in the financial year. The production costs for the capitalised, self-produced, intangible software products in the reporting year amount to EUR 1,926,000. Intangible assets that are acquired against payment are accounted for on the basis of the acquisition costs, deducting linear depreciation.

The capitalisation of the personal limited easements took place at Berliner Wasserbetriebe according to a technical and commercial assessment of the anticipated compensation obligations on the basis of the provisions of Article 9 of the

Land Register Amendment Act (GBBerG) in conjunction with the Property Law Implementing Regulation (SachenRDV). It specifically regulates the easements of utility companies for non-public properties, as well as the compensation payments to be granted for this to the respective property owners. The capitalised easements are reported under the intangible assets and are not subject to scheduled depreciation.

Fixed assets are valued at acquisition/production costs, reduced by linear depreciation. Adequate overheads are taken into consideration in the production costs. The valuation in the Systems Engineering division took place at full costs. Debt capital interest is capitalised pursuant to Article 255 Par. 3 HGB [German Commercial Code].

The useful life of the current assets and the resulting depreciation are defined on the basis of the operational lifetime. If necessary, depreciation on intangible assets and fixed assets takes place on the lower attributable value.

The financial assets are valued at acquisition costs plus ancillary costs/the lower attributable value, with a constant reduction in value.

The raw materials and supplies are valued at average prices carried forward, lower daily values on the balance sheet date are considered according to the legal regulations.

The unfinished services are capitalised at production costs, including adequate overheads, or if necessary, at the lower attributable value. Payments made on account are valued at the nominal value.

Receivables and other non-current assets are accounted for at their nominal value, value-adjustments are carried out for identifiable risks. Non-collectable receivables are written off.

Liquid funds are valued at their nominal value.

Accruals and deferrals on the asset side are valued at the amounts to be accrued on the reference date.

Special items from contributions and other subsidies have been formed on the basis of German Commercial Code principles. The special items from investments subsidies and contributions are released on a linear basis, according to the depreciation term of the assets contributed to.

Building cost subsidies received from customers are accounted for on the liability side and are released at 5.0% per annum, affecting earnings. For additions during the financial year, a release of 2.5% takes place.

The valuation of provisions occurs at the fulfilment amount that is necessary to cover future payment obligations, on the basis of a prudent commercial assessment. Future price and

cost rises are taken into consideration, provided that sufficient objective indications exist for their occurrence. Provisions with a remaining maturity of more than one year are discounted pursuant to Article 253 Par. 2 HGB [German Commercial Code] at the interest rate corresponding to their remaining maturity, in accordance with the Provision Discounting Ordinance.

The valuation of pension provisions occurs according to the actuarial principles and in consideration of the HGB [German Commercial Code] in the version of the BilMoG [law on the modernisation of company annual accounts]. The Projected Unit Credit Method (PUC method) was used as a valuation method, on the basis of the international standards. The calculation interest rate (5.13%) was taken into consideration with the computation, in accordance with the Provision Discounting Ordinance. As biometric calculation principles, 2005 G Guideline Tables by Klaus Heubeck were used. Remuneration and pension increases expected in the future (1.8%) are taken into consideration with the calculation of the obligations.

The provisions for semi-retirement are accounted for on the liability side on the basis of actuarial calculations pursuant to the IDW [German Institute of Auditors] statement dated 18 November 1998, in conjunction with the HGB [German Commercial Code] in the version of the BilMoG [law on the modernisation of company annual accounts]. The calculation interest rate of 5.13% was taken into consideration with the computation, in accordance with the Provision Discounting Ordinance. As biometric calculation principles, 2005 G Guideline Tables by Klaus Heubeck were used.

The valuation of anniversary provisions occurs according to the actuarial principles and in consideration of the HGB [German Commercial Code] in the version of the BilMoG [law on the modernisation of company annual accounts]. The Projected Unit Credit Method (PUC method) was also used as a valuation method, on the basis of the international standards. As biometric calculation principles, 2005 G Guideline Tables by Klaus Heubeck were used.

Other provisions account for all identifiable risks and uncertain liabilities.

Use was made of the option to retain provisions, provided that the released amount would need to be added again by no later than 31 December 2024 (Article 67 Par. 1 Sentence 2 of the Introductory Act to the German Commercial Code). The excess coverage of provisions amounts to EUR 562,000 as of the reference date.

Liabilities are accounted for with their fulfilment amount.

## 5. Explanations regarding the Balance Sheet

### Intangible assets, fixed assets and financial assets

The development of non-current assets is shown in the asset schedule.

Intangible assets include anticipated compensation payments for line rights of Berliner Wasserbetriebe on non-public properties. With Senate Resolution No. S-2096/2009 dated 26 May 2009, the State of Berlin specified the following regarding compensation payments pursuant to GBBerG [Land Register Amendment Act] for road drainage canals: The State is obligated to refund Berliner Wasserbetriebe for the compensation payments, which Berliner Wasserbetriebe

is obligated to pay on the basis of GBBerG [Land Register Amendment Act] in conjunction with SachenRDV [Property Law Implementing Regulation] for securing road drainage plants on private properties in the land register. For securing road drainage plants in the land register on properties of the State of Berlin and the property fund, compensation claims are not asserted against Berliner Wasserbetriebe. Regarding properties owned by other state-owned companies and public-law institutions, Berliner Wasserbetriebe must investigate whether claims pursuant to Article 9 Par. 3 GBBerG [Land Register Amendment Act] exist, on a case-by-case basis. When deducting the claims already paid out, the value of the provision amounts to EUR 3,870,000 as of 31 December 2011.

The price difference shown in the asset schedule relates to Csatorna Holding Zrt. with EUR –3,932,000. It results from currency changes of the proportional equity capital of this associated company.

### Shares in affiliates

	Capital share Direct	Capital share indirect	Equity capital	Annual profit
	%	%	€'000	€'000
avida GmbH, Berlin <sup>1</sup>	100		– 33	– 1
Berlin Management Consult GmbH, Berlin <sup>2</sup>		100	25	0
Hume Rohr GmbH, Doberlug-Kirchhain <sup>3</sup>		90	3,947	– 852

<sup>1</sup> Annual financial statement as of 31 December 2010

<sup>2</sup> Prepared annual financial statement 2011

<sup>3</sup> Interim financial statement as of 31 October 2005

These companies were not included in the consolidated financial statement, as they are of subordinated significance, individual and in total, for the presentation of the net assets, financial and income situation of the Group. The Cottbus Local Court ordered preliminary insolvency administration regarding the assets of Hume Rohr GmbH, with a decision dated 21 October 2005. For this reason, the initial consolidation of Hume Rohr GmbH took place on 31 October 2005. The insolvency proceedings regarding the assets of Hume Rohr GmbH were initiated on 22 December 2005. With effect from 1 March 2008, Hume Rohr GmbH transferred its business operation to another company.

## Investments

	Capital share Direct %	Capital share Indirect %	Equity capital €'000	Annual profit €'000
KWB Kompetenzzentrum Wasser Berlin gemeinnützige GmbH, Berlin <sup>1</sup>	12.03	12.5	-113	82
Metito Berlinwasser Ltd., Germany <sup>1</sup>		40	-1,063	-1,162
Windhoek Operating Goreangab Company Ltd., Windhoek, Namibia <sup>1</sup>		33	1,269	385

<sup>1</sup> Annual financial statement as of 31 December 2010

The inclusion of investments as associated companies in the consolidated financial statement was waived, as they are of subordinated significance for conveying an accurate picture of the net assets, financial and income situation of the Group.

## Other investments

	Capital share Indirect %	Equity capital €'000	Annual profit €'000
aquabench GmbH, Hamburg <sup>1</sup>	8.0	124	65
GWZ Gas- und Wasserwirtschaftszentrum GmbH & Co. KG, Bonn <sup>2</sup>	0.7	237	-24
Sonderabfallgesellschaft Berlin/Brandenburg Abfallerzeuger GbR, Berlin <sup>1</sup>	6.8	378	0

<sup>1</sup> Annual financial statement as of 31 December 2010

<sup>2</sup> Annual financial statement as of 31 December 2009

## Accounts receivable

The accounts receivable are mainly comprised of receivables from water sales and receivables from drainage services and building connection works. The receivables include water sales and drainage services, which have not yet been invoiced. The instalment payment amounts received from the customers for the financial year, but not yet invoiced, are reported as payments received on account.

### Receivables due from companies, in which an investment is held

Other receivables are mainly stated here.

## Receivables due from shareholders

Receivables due from shareholders mainly include receivables from the drainage of public roads and spaces in the amount of EUR 6.4 million (previous year: EUR 12.2 million). Furthermore, the statement of other receivables here involves securing road drainage plants in the land register in the amount of EUR 0.3 million (previous year: EUR 6.7 million) as well as from cost refunds.

### Other current assets

Other assets as the end of the financial year are stated at EUR 31.4 million (previous year: EUR 31.2 million). Under other current assets, essentially non-invoiced order work and subsidies, receivables from other services and receivables due from employees are stated.

## Deferred tax assets

Deferred taxes include deferred tax assets on losses carried forward from trade income tax and corporation tax, as well as differences between the commercial code and tax law balance sheet valuations.

Main differences:			Measurement basis €'000
Intangible assets	Trade tax rate	14.350 %	31,264
Intangible assets	Corporation tax rate	15.825 %	4,262
Loss carried forward	Trade tax rate	14.350 %	5,118
Loss carried forward	Trade tax rate	7.000 %	106,191
Loss carried forward	Corporation tax rate	15.825 %	5,714

## Equity capital

The ordinary capital of Berlinwasser Holding AG amounts to DEM 100,000,000 (EUR 51,129,000). It is comprised of 20,000,000 no-par-value bearer shares. On the reference date, the shares are held 49.9 % (9,980,000 shares) by REW-Veolia Berlinwasser Beteiligungs GmbH, Berlin, and 50.1 % (10,020,000 shares) by the State of Berlin.

## Capital contribution from silent shareholders

With the contract regarding a silent company dated 25 June 1999, RWE-Veolia Berlinwasser Beteiligungs GmbH holds 100 % of the silent companies of Berlinwasser Holding AG, with its contribution.

## Capital reserve

With the contribution agreement dated 31 August 1999, Berliner Wasserbetriebe contributed shares in nine companies to Berlinwasser Holding AG, in an amount of EUR 205,028,000. These are stated in the capital reserve as a different benefit of the shareholder within the meaning of Article 272 Par. 2 No. 4 HGB [German Commercial Code]. During the 2004 financial year, the capital reserve was increased by EUR 180,000,000 by means of a cash contribution by the shareholders.

From the initial application of the HGB [German Commercial Code] in the version of the BilMoG [law on the modernisation of company annual accounts], a profit-neutral amount resulted for Berlinwasser Holding AG for deferred taxes in the amount of EUR 965,000. This was taken into account in the capital reserve.

In the current financial year, EUR 371,393,000 was withdrawn from the capital reserve formed pursuant to Article 272 Par. 2 No. 4 HGB [German Commercial Code] in accordance with the Executive Board resolution dated 22 December 2011.

## Transfer to the legal reserve

The contribution of EUR 27,000 by the subsidiary, Berlinwasser International AG, to the legal reserve is stated here.

## Transfer to other retained earnings

During the 2011 financial year, Berliner Wasserbetriebe transferred an amount of EUR 36,412,000 (previous year: EUR 37,291,000) to the legal reserve.

In the 5th Amendment Agreement to the syndication agreement, it was agreed between the shareholders of Berliner Wasserbetriebe to form retained earnings, which are based on the difference between the depreciation on the basis of the historical acquisition costs and the depreciation, taken into account in the tariff calculation, which result from the replacement values. The retained earnings were formed in view of the anticipated tax deduction, in the amount of approx. 60 % of the measurement basis.

The share of EUR 18,242,000 (previous year: EUR 18,683,000) attributable to minority interests was reclassified in the consolidated financial statement to the share of minority interests. Therefore, EUR 18,170,000 remains from a Group point of view (previous year: EUR 18,608,000).

## Shares of minority interests

Share of minority interests in the Group's capital and the annual profit is stated here.

Company	Minority share %	Total share of minority shareholders €'000	Of which: Share of Annual profit 2011 €'000
Berliner Wasserbetriebe AöR	50.1	1,254,743	127,836
TELO Beteiligungsgesellschaft mbH & Co. Objekt Kläranlage Waßmannsdorf KG	100	39,300	30,529
Immobilien-Vermietungsgesellschaft Schumacher GmbH & Co. Objekt Rolandufer KG	100	-46,365	4,346
<b>Total</b>		<b>1,247,678</b>	<b>162,711</b>

In order to ensure the continuity of the flow of profit transfers by Berliner Wasserbetriebe to the Berlin state budget for the budget years 2010 and 2011, part of the net profit in the amount of EUR 7,700,000 was transferred to another retained earnings reserve in favour of the State of Berlin shareholder account in 2010. In the consolidated financial statement, this was reclassified to share of minority interests. This has now been released and transferred to the budget of the State of Berlin in 2011.

## Balancing item from currency conversion

On a cumulative basis, conversion differences recorded in equity capital amounted to EUR -6,897,000 (previous year: EUR -1,423,000). The change compared to the previous year amounts to EUR -5,474,000, of which EUR -1,542,000 results from the deconsolidation of Berlinwasser China Holding Ltd., and EUR -3,932,000 is attributable to Csatorna Holding Zrt. The profit-neutral change during the reporting year amounts to EUR 3,932,000.

## Special items from contributions and other subsidies

The special items comprised of investment contributions and other subsidies amount to a total of EUR 530,140,000 (previous year: EUR 519,196,000). These items are formed by Berliner Wasserbetriebe. This relates to subsidies for development measures of the State of Berlin, capital contributions for rain water drainage plants and third-party subsidies. As of the balance sheet date, special items from investment subsidies in the amount of EUR 210,000 (previous year: EUR 236,000) and from other subsidies in the amount of EUR 529,930,000 (previous year: EUR 518,960,000) are stated.

## Building cost subsidies

Building cost subsidies received from customers are accounted for on the liability side and are stated in the amount of EUR 142,302,000 (previous year: EUR 145,994,000).

## Provisions for pensions

The Group has made use of the option pursuant to Article 28 Par. 1 Sentence 1 EGHGB [Introductory Act to the German Commercial Code]. For the amounts not stated in the provisions for pension commitments for Berliner Wasserbetriebe in this context, a non-allocated partial value remains of EUR 9,824,000 (previous year: EUR 11,081,000).

The non-allocated value from the application of Article 67 Par. 1 Sentence 1 EGHGB [Introductory Act to the German Commercial Code] is EUR 1,773,000 (previous year: EUR 1,963,000).

## Tax provisions

The tax provisions stated as of 31 December 2011 amount to EUR 1,702,000 (previous year: EUR 4,100,000). They are mainly comprised of trade income tax liabilities of EUR 1,015,000 and other taxes in the amount of EUR 676,000.

## Other provisions

This essentially comprises provisions for semi-retirement and early retirement EUR 53,797,000 (previous year: EUR 68,250,000), for the sewerage fee EUR 15,047,000 (previous year: EUR 17,833,000), for the special utilisation fee EUR 27,055,000 (previous year: EUR 17,855,000), for compensation payments for easements EUR 3,780,000 (previous year: EUR 20,992,000), for personnel costs EUR 22,939,000 (previous year: EUR 22,450,000), for deliveries and services not invoiced EUR 17,338,000 (previous year: EUR 15,252,000), for the ground water extraction fee EUR 6,271,000 (previous year: EUR 6,266,000).

Figures in €'000	Total	Of which, with a remaining maturity		
		up to 1 year	from 1 year to 5 years	more than 5 years
Liabilities due to banks	2,643,359	217,698	556,321	1,869,340
Payments received on account for orders	819,614	819,614	–	–
Accounts payable	21,881	21,730	151	–
Liabilities due to companies, in which an investment is held	24	24	–	–
Liabilities due to shareholders	135,544	130,283	2,193	3,068
Other liabilities	172,266	38,973	50,159	83,134
<b>Total</b>	<b>3,792,688</b>	<b>1,228,322</b>	<b>608,824</b>	<b>1,955,542</b>

## Liabilities

No liabilities exist, which are secured by liens or similar rights.

### Liabilities due to companies, in which an investment is held

These are essentially other liabilities.

### Liabilities due to shareholders

Liabilities due to shareholders mainly include other liabilities from the partial profit transfer for the 2011 financial year of EUR 114,929,000.

### Deferred tax assets

The deferred taxes are comprised of deferred tax liabilities on differences between the commercial code and tax law balance sheet valuations.

Main differences:			Measurement basis €'000
Easements	Trade tax rate	14.350 %	39,556
Tangible assets	Trade tax rate	14.350 %	157,313
Tangible assets	Trade tax rate	7.000 %	130,366

### Contingent liabilities

Performance guarantees exist in the amount of EUR 4,113,000. The development of the relevant projects in the past years shows that no claim is currently anticipated under the guarantees.

### Other financial commitments

	€'000
Rental contracts	17,559
Ordering obligation for investments	130,041
Leasing contracts	5,542
Syndicated financing Klärwerk Wansdorf GmbH, Wansdorf	5,154

## 6. Explanations regarding the Profit and Loss Statement

### Sales revenue

Sales revenues were generated in the following business divisions:

	Domestic €'000	Foreign €'000	Total €'000
Berliner Wasserbetriebe division	1,198,719	–	1,193,719
International division	40	1,905	1,945
Services division	9,002	866	9,868
<b>Total</b>	<b>1,202,761</b>	<b>2,771</b>	<b>1,205,532</b>

### Other operating income

Other operating income is essentially comprised of income from operations management fees of EUR 4,876,000 (previous year: EUR 5,055,000), income from the release of special items from contributions and subsidies in the amount of EUR 17,430,000 (previous year: EUR 16,064,000), income from rental and leasing in the amount of EUR 7,008,000 (previous year: EUR 8,368,000), cost refunds in the amount of EUR 4,348,000 (previous year: EUR 3,606,000), income from other operating services in the amount of EUR 8,267,000 (previous year: EUR 8,097,000) and income from the disposal of fixed assets in the amount of EUR 2,583,000 (previous year: EUR 942,000).

Non-periodic income from the release of write-downs on receivables no longer required of EUR 1,445,000 (previous year: EUR 1,439,000) and income from the release of provisions in the amount of EUR 7,683,000 (previous year: EUR 10,319,000) and write-ups in the amount of EUR 1,497,000 (previous year: EUR 1,190,000) are also stated here.

### Depreciation

	2011 €'000
Pursuant to Article 252 (3) Sentence 1 and 2 HGB [German Commercial Code]	268,806
Pursuant to Article 252 (3) Sentence 3 HGB [German Commercial Code]	2,172
<b>Total</b>	<b>270,978</b>

## Other operating expenses

Non-periodic costs from losses on the disposal of fixed assets in the amount of EUR 4,303,000 (previous year: EUR 7,259,000) and costs from depreciation in the amount of EUR 1,756,000 (previous year: EUR 2,599,000) are included in this.

## Interest result

Net interest income in 2011 is at EUR –116,596,000 (previous year: EUR –120,948,000) and is therefore EUR 4,352,000 better than in the previous year. The cause of this is mainly lower average interest, particularly on long-term loans. For interest accrual and discounting on long-term provisions, interest income was incurred in the 2011 financial year of EUR 644,000 (previous year: EUR 72,000) and interest expenses in the amount of EUR 3,836,000 (previous year: EUR 5,492,000).

## Extraordinary expenses

Extraordinary expenses in the amount of EUR 136,000 result from the provision for pensions and similar obligations in relation to the five-tenths regulations of Art. 67 Par. 1 Sentence 1 EGHGB [Introductory Act to the German Commercial Code]).

## Costs from partial profit transfer

In accordance with the contract regarding a silent company between Berlinwasser Holding AG and RWE-Veolia Berlinwasser Beteiligungs GmbH dated 29 October 1999, the profit share of RWE-Veolia Berlinwasser Beteiligungs GmbH is stated, which amounts to EUR 114,929,000 as of 31 December 2011 (previous year: EUR 120,089,000).

## Taxes on income and profit

	2011 €'000
Corporation tax	8,776
Trade income tax	22,648
Deferred taxes	8,469
<b>Total</b>	<b>39,893</b>

## 7. Explanations regarding the cash flow statement

The funds correspond to the “Cash balances, cash deposits with banks and cheques” balance sheet item. During the financial year, interest was paid of EUR 96,289,000 (previous year: EUR 102,513,000) and income tax of EUR 32,569,000 (previous year: EUR 49,321,000) was paid. During the financial year, pipelines were manufactured by third parties for EUR 4,177,000 and transferred to the property of Berliner Wasserbetriebe without remuneration.

A sale price of EUR 26,021,000 was generated from the sale of shares in Berlinwasser China Holding Ltd. (49%) during the financial year.

## 8. Additional Notes Details

### Bodies

#### Executive Board

Dipl.-Kfm. Frank Bruckmann	Chairman/Finance
Dipl.-Ing., Dipl.-Wirtsch.-Ing. Jörg Simon	National Investments
Dr.-Ing. Georg Grunwald	Technology
Norbert Schmidt	Human Resources and Social Affairs

## Supervisory Board

### Representatives of the shareholders

Sybille von Obernitz	Chairperson of the Supervisory Board Senator for Economy, Technology and Women of the State of Berlin since 7 February 2012
Harald Wolf	Chairman of the Supervisory Board Former Senator for Economy, Technology and Women of the State of Berlin Member of the DIE LINKE faction in the Berlin House of Representatives until 12 December 2011
Michel Cunnac	Spokesman of the Executive Board of Veolia Wasser GmbH
Philippe Guitard	Executive Board Europe of Veolia Eau-Compagnie Générale des Eaux
Dr. Volker Hassemer	Former Senator of Berlin, Chairman of Stiftung Zukunft Berlin
Secretary of State Klaus Feiler	Senate Director of the Senate Administration for Finance since 2 February 2012
Christiane Hotz-Firlus	Business Coach of PRAESTA Deutschland GmbH
Monika Kuban	Former City Director of Berlin
Ingeborg Neumann	Managing Partner of PEPPERMINT.Holding GmbH
Dr. Ulrich Nußbaum	Senator for Finances of the State of Berlin until 31 January 2012
Ralf Zimmermann	Member of the Executive Board of RWE Vertrieb AG
Dr. Knut Zschiedrich	Chairman of the Executive Board of Süwag Energie AG

### Representatives of the employees

Susanne Stumpfenhusen	Deputy Chairperson of the Supervisory Board State District Manager of the ver.di trade union, State District Berlin/Brandenburg
Oliver Behm	Employee Committee Headquarters, Berliner Wasserbetriebe
Wolfgang Börner	Manager Legal, Berliner Wasserbetriebe
Dieter Eckholz	Network Administrator, Berlinwasser Services GmbH
Jürgen Humernik	Manager Facility Management, Berliner Wasserbetriebe
Friedrich Huntemann	Technical Employee, Berliner Wasserbetriebe
Mathias Ladstätter	National Specialist Group Manager Water Industry of the ver.di trade union, Federal Administration
Jörg Marquardt	Foreman, Berliner Wasserbetriebe since 6 October 2011
Manfred Pritzel	Managing Safety Engineer, Berliner Wasserbetriebe until 6 October 2011
Beate Schuh	Trade Union Attorney of the ver.di trade union, State District Berlin/Brandenburg
Steffen Siebenhüner	Employee Committee Pipeline Network, Berliner Wasserbetriebe

## Costs for bodies

	€'000
Pension provision for a former Executive Board Member	196
Activity remuneration of the Supervisory Board Members	110

## Average number of employees per annum

	2011	2010
Employees	5,521	5,628
of which, female employees	1,605	1,623
of which, male employees	3,628	3,692
Vocational trainees	288	313

## Split of the Executive Board remuneration for 2011 in accordance with Article 8 Par. 5 of the statutes of Berlinwasser Holding AG

	Jörg Simon €	Frank Bruckmann €	Dr. Georg Grunwald €	Norbert Schmidt €	Total €
Salaries (Fixed annual income)	201,065.00	201,065.00	180,000.00	183,000.00	765,130.00
Allowance/bonus	0.00	0.00	55,000.00	0.00	55,000.00
Performance-related and profit-related remuneration on the basis of objectives	130,411.80	131,642.10	128,400.00	119,840.00	510,293.90
Profit share	0.00	0.00	0.00	0.00	0.00
Cost compensation	0.00	0.00	0.00	0.00	0.00
Insurance payments	7,385.16	8,423.15	22,959.75	9,011.88	47,779.94
Commissions and ancillary benefits of all types	10,060.00	8,400.00	7,161.36	4,920.00	30,541.36
<b>Total</b>	<b>348,921.96</b>	<b>349,530.25</b>	<b>393,521.11</b>	<b>316,771.88</b>	<b>1,408,745.20</b>

## Auditor's fees

	€'000
Annual audit services	403
Tax consulting services	77
Other services	191
<b>Total</b>	<b>671</b>

## Transactions with related companies and persons

### Type of transaction

	Type of relationship Shareholders and minority shareholders €
Fees for the drainage of public roads and spaces	99,997
Investment subsidies	20,193
Sewerage contribution	– 11,178
Special utilisation fees	– 20,692
Ground water extraction fees	– 50,167
Partial profit distribution	– 106,490
Distribution of net profit	– 108,430

All sales with affiliates and related persons in relation to water deliveries/drainage services are not included in the schedule. These deliveries/services are invoiced with the companies and persons at market conditions.

## Disclosure exemption

Pursuant to Article 264 Par. 3 HGB [German Commercial Code], p2m berlin GmbH has been exempted by Berlinwasser Holding AG from disclosing its annual financial statement in the elektronischer Bundesanzeiger [electronic Federal Gazette].

## Inclusion

Berlinwasser Holding AG is a subsidiary of REW-Veolia Berlinwasser Beteiligungs GmbH. The consolidated financial statement of Berlinwasser Holding AG is integrated into the consolidated financial statement of RWE-Veolia Berlinwasser Beteiligungs GmbH, Berlin. This is the largest consolidated group. The smallest consolidated group is represented in the consolidated financial statement of Berlinwasser Holding AG. Both consolidated financial statements are published by the operator of the elektronischer Bundesanzeiger [electronic Federal Gazette].

Berlin, 10 February 2012  
Berlinwasser Holding AG



Frank Bruckmann



Jörg Simon



Dr. Georg Grunwald



Norbert Schmidt

## Consolidated Asset Schedule of Berlinwasser Holding AG, Berlin, as of 31 December 2011

### Acquisition and production costs

Non-current asset items	Starting balance as of 01/01/2011	Price difference Start of period (+/-)	Additions +	Reductions -
Figures in €'000				
<b>I. Intangible assets</b>				
1. Self-produced industrial property rights and similar rights and values				
Other intangible assets	820,103.93	-	3,362,203.28	-
2. Concessions, industrial property rights and similar rights, as well as licences to such rights and values, acquired against payment, of which:				
Easements	61,999,999.70	-	-	-
Asset-like rights	36,813,015.45	-	-	-
Concessions	-	-	-	-
Other intangible assets	69,995,233.57	-	633,648.68	932,781.22
3. Payments made on account	3,325,222.80	-	2,054,801.93	-
	<b>172,953,575.45</b>	<b>-</b>	<b>6,050,653.89</b>	<b>932,781.22</b>
<b>II. Tangible assets</b>				
1. Land, land rights and buildings, including buildings on third-party land	1,575,419,244.61	-	5,079,906.94	5,317,591.83
2. Technical equipment and machinery	9,147,117,493.13	-	80,361,874.05	21,818,168.38
3. Other equipment, plant and office equipment	136,571,382.01	-	6,807,955.68	10,028,694.03
4. Payments made on account and construction in progress	312,072,028.73	-	189,846,093.96	3,084,347.23
	<b>11,171,180,148.48</b>	<b>-</b>	<b>282,095,830.63</b>	<b>40,248,801.47</b>
<b>III. Financial assets</b>				
1. Shares in affiliates	777,946.46	-	25,000.00	-
2. Loans to affiliates	2,127,281.44	-	-	-
3. Investments in associated companies	61,838,062.62	-3,932,550.00	1,164,067.85	27,795,912.73
4. Other investments	263,817.50	-	-	-
5. Loans to other investments	47,711.00	-	-	-
6. Memberships in special purpose associations	3,304,402.23	-	-	-
7. Non-current marketable securities	1,915.30	-	-	-
8. Other loans	1,248,587.82	-	-	-
	<b>69,609,724.37</b>	<b>-3,932,550.00</b>	<b>1,189,067.85</b>	<b>27,795,912.73</b>
<b>Total</b>	<b>11,413,743,448.30</b>	<b>-3,932,550.00</b>	<b>289,335,552.37</b>	<b>68,977,495.42</b>

## Continuation: Acquisition and production costs

Non-current asset items	Rebookings	Final balance as of 31/12/2011
Figures in €'000	(+/-)	
<b>I. Intangible assets</b>		
1. Self-produced industrial property rights and similar rights and values		
Other intangible assets	–	4,182,307.21
2. Concessions, industrial property rights and similar rights, as well as licences to such rights and values, acquired against payment, of which:		
Easements	–	61,999,999.70
Asset-like rights	–	36,813,015.45
Concessions	–	–
Other intangible assets	2,159,990.84	71,856,091.87
3. Payments made on account	–1,587,389.66	3,792,635.07
	<b>572,601.18</b>	<b>178,644,049.30</b>
<b>II. Tangible assets</b>		
1. Land, land rights and buildings, including buildings on third-party land	6,486,375.59	1,581,667,935.31
2. Technical equipment and machinery	168,132,852.98	9,373,794,051.78
3. Other equipment, plant and office equipment	2,150,060.47	135,500,704.13
4. Payments made on account and construction in progress	–177,341,890.22	321,491,885.24
	<b>– 572,601.18</b>	<b>11,412,454,576.46</b>
<b>III. Financial assets</b>		
1. Shares in affiliates	–	802,946.46
2. Loans to affiliates	–	2,127,281.44
3. Investments in associated companies	–	31,273,667.74
4. Other investments	–	263,817.50
5. Loans to other investments	–	47,711.00
6. Memberships in special purpose associations	–	3,304,402.23
7. Non-current marketable securities	–	1,915.30
8. Other loans	–	1,248,587.82
	–	<b>39,070,329.49</b>
<b>Total</b>	–	<b>11,630,168,955.25</b>

## Depreciation

Non-current asset items	Starting balance as of 01/01/2011	Write-downs in the financial year	Write-ups in the financial year
Figures in €'000		+	–
<b>I. Intangible assets</b>			
1. Self-produced industrial property rights and similar rights and values			
Other intangible assets	90,378.10	416,867.50	–
2. Concessions, industrial property rights and similar rights, as well licences to such rights, acquired against payment, of which:			
Easements	–0.30	–	–
Asset-like rights	19,940,420.14	1,533,875.64	–
Concessions	–	–	–
Other intangible assets	60,221,986.58	3,532,677.86	–
3. Payments made on account	–	–	–
	<b>80,252,784.52</b>	<b>5,483,421.00</b>	–
<b>II. Tangible assets</b>			
1. Land, land rights and buildings, including buildings on third-party land	809,775,484.83	33,290,375.29	–1,496,786.00
2. Technical equipment and machinery	4,339,843,329.56	222,372,590.56	–
3. Other equipment, plant and office equipment	95,518,976.67	9,831,238.09	–
4. Payments made on account and construction in progress	401,032.36	1.40	–
	<b>5,245,538,823.42</b>	<b>265,494,205.34</b>	<b>–1,496,786.00</b>
<b>III. Financial assets</b>			
1. Shares in affiliates	775,431.96	–	–
2. Loans to affiliates	2,127,281.44	–	–
3. Investments in associated companies	403,637.31	–	–
4. Other investments	203,242.56	–	–
5. Loans to other investments	47,711.00	–	–
6. Memberships in special purpose associations	–	–	–
7. Non-current marketable securities	–	–	–
8. Other loans	1,248,587.82	–	–
	<b>4,805,892.09</b>	–	–
<b>Total</b>	<b>5,330,597,500.03</b>	<b>270,977,626.34</b>	<b>–1,496,786.00</b>

## Continuation: Depreciation

Non-current asset items	Accumulated Depreciation on reductions	Rebookings	Final balance as of 31/12/2011
Figures in €'000	–	(+/-)	
<b>I. Intangible assets</b>			
1. Self-produced industrial property rights and similar rights and values			
Other intangible assets	–	–	507,245.60
2. Concessions, industrial property rights and similar rights, as well licences to such rights, acquired against payment, of which:			
Easements	–	–	–0.30
Asset-like rights	–	–	21,474,295.78
Concessions	–	–	–
Other intangible assets	928,591.43	–	62,826,073.01
3. Payments made on account	–	–	–
	<b>928,591.43</b>	<b>–</b>	<b>84,807,614.09</b>
<b>II. Tangible assets</b>			
1. Land, land rights and buildings, including buildings on third-party land	2,577,144.46	4,605.08	838,996,534.74
2. Technical equipment and machinery	19,786,340.81	–3,095.77	4,542,426,483.54
3. Other equipment, plant and office equipment	9,839,300.30	–1,508.81	95,509,405.65
4. Payments made on account and construction in progress	–	–0.50	401,033.36
	<b>32,202,785.57</b>	<b>–</b>	<b>5,477,333,457.19</b>
<b>III. Financial assets</b>			
1. Shares in affiliates	–	–	775,431.96
2. Loans to affiliates	–	–	2,127,281.44
3. Investments in associated companies	–	–	403,637.31
4. Other investments	–	–	203,242.56
5. Loans to other investments	–	–	47,711.00
6. Memberships in special purpose associations	–	–	–
7. Non-current marketable securities	–	–	–
8. Other loans	–	–	1,248,587.82
	<b>–</b>	<b>–</b>	<b>4,805,892.09</b>
<b>Total</b>	<b>33,131,377.00</b>	<b>–</b>	<b>5,566,946,963.37</b>

## Residual book values

Non-current asset items	at the end of the financial year 31 December 2011	at the end of the previous financial year 31 December 2009
Figures in €'000		
<b>I. Intangible assets</b>		
1. Self-produced industrial property rights and similar rights and values		
Other intangible assets	3,675,061.61	729,725.83
2. Concessions, industrial property rights and similar rights, as well as licences to such rights and values, acquired against payment, of which:		
Easements	62,000,000.00	62,000,000.00
Asset-like rights	15,338,719.67	16,872,595.31
Concessions	–	–
Other intangible assets	9,030,018.86	9,773,246.99
3. Payments made on account	3,792,635.07	3,325,222.80
	<b>93,836,435.21</b>	<b>92,700,790.93</b>
<b>II. Tangible assets</b>		
1. Land, land rights and buildings, including buildings on third-party land	742,671,400.57	765,643,759.78
2. Technical equipment and machinery	4,831,367,568.24	4,807,274,163.57
3. Other equipment, plant and office equipment	39,991,298.48	41,052,405.34
4. Payments made on account and construction in progress	321,090,851.98	311,670,996.37
	<b>5,935,121,119.27</b>	<b>5,925,641,325.06</b>
<b>III. Financial assets</b>		
1. Shares in affiliates	27,514.50	2,514.50
2. Loans to affiliates	–	–
3. Investments in associated companies	30,870,030.43	61,434,425.31
4. Other investments	60,574.94	60,574.94
5. Loans to other investments	–	–
6. Memberships in special purpose associations	3,304,402.23	3,304,402.23
7. Non-current marketable securities	1,915.30	1,915.30
8. Other loans	–	–
	<b>34,264,437.40</b>	<b>64,803,832.28</b>
<b>Total</b>	<b>6,063,221,991.88</b>	<b>6,083,145,948.27</b>

# Auditor's Opinion

## Audit Report Consolidated Financial Statement as of 31 December 2011 and Consolidated Management Report

We have issued our unqualified opinion as follows:

### “Auditor's Opinion

We have audited the consolidated financial statement of Berlinwasser Holding AG, Berlin – comprising the consolidated balance sheet, consolidated profit and loss account, consolidated cash flow statement, consolidated equity capital schedule and consolidated notes – and its consolidated management report for the financial year from 1 January to 31 January 2011. The preparation of the consolidated financial statement and consolidated management report in accordance with German Commercial Code are the responsibility of the Executive Board of the company. Our responsibility is to issue an opinion on the basis of our audit regarding the consolidated financial statement and the consolidated management report.

We conducted our audit of the consolidated financial statement in accordance with Article 317 HGB (German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and income situation in the consolidated financial statement and the consolidated management report, under consideration of the principles of orderly accounting, are detected with reasonable assurance. In determining the audit procedures, we considered our knowledge of the business, the economic and legal environment of the Group, as well as the expected occurrence of errors. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statement and the consolidated management report are examined primarily on a random sample basis within the framework of the audit. The audit includes assessing the annual financial statements for the companies included in the consolidated financial statement, the delineation of the basis of consolidation, the accounting principles applied and significant estimates made by the legal

representatives, as well as evaluating the overall presentation of the consolidated financial statement and the consolidated management report. We are of the opinion that our audit forms a sufficiently certain basis for our opinion.

Our audit did not give rise to any objections.

In our opinion, based on the findings of our audit, the consolidated financial statement provides a true and fair view of the net asset, financial position and income situation of the Group, which is in keeping with the legal stipulations and complies with the principles of proper accounting. The consolidated management report is consistent with the consolidated financial statement and, as a whole, provides a suitable view of the position of the Group and suitably presents the opportunities and risks of future development.”

Berlin, 10 February 2012

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Geisler  
Auditor

Riese  
Auditor

# Declaration of Compliance

## Declaration of Compliance by the Supervisory Board and Executive Board regarding the Recommendations of the Corporate Governance Code of Berlinwasser Holding Aktiengesellschaft

- (1) Berlinwasser Holding Aktiengesellschaft shall comply with the recommendations of the Corporate Governance Code of Berlinwasser Holding AG, resolved by the Supervisory Board and published on the company's website, in the current valid version dated 4 March 2010 and has complied with the recommendations since issuing the last Declaration of Compliance on 24 January 2011, with the exception of the deviation mentioned under point 2.
- (2) The deviations from the code are fully stated below:  
The Members of the Supervisory Board exclusively receive a fixed remuneration in accordance with the articles of association, the amount of which is disclosed in the notes to the consolidated financial statement. Separate remuneration of the committee activity has not been carried out (Code clause 5.4.5). The annual financial statement and consolidated financial statement were not made publicly accessible within 90 days of the financial year-end; these were approved in the balance sheet meeting of the Supervisory Board on 15 June 2011. The annual financial statement and consolidated financial statement, as well as the supplemental reports pursuant to Article 316 HGB [German Commercial Code], were submitted to the shareholders in the Shareholders' Meeting on 6 October 2011, after a resolution was passed by the Supervisory Board (Code Clause 7.1.2).

Berlin, 29 February 2012

### On behalf of the Supervisory Board

Senator Sybille von Oberritz  
Supervisory Board Chairperson



### On behalf of the Executive Board

Frank Bruckmann  
Executive Board Chairman



Jörg Simon  
Member of the Executive Board



# Annex to the Declaration of Compliance 2011 to the Corporate Governance Code of Berlinwasser Holding AG

Reference	Subject matter	Declaration by the Supervisory Board and Executive Board
<b>I. Cooperation between Executive Board and Supervisory Board</b>		
I. 1 CGC BWH	<ul style="list-style-type: none"> <li>■ Cooperation between Supervisory Board and Executive Board</li> <li>■ Disclosure of all necessary information and findings by the Executive Board for a proper assessment of the course of transactions</li> <li>■ Compliance with third party confidentiality regarding business matters</li> </ul>	The Executive Board and Supervisory Board of Berlinwasser Holding AG have cooperated closely. All necessary information and findings that are required for a proper assessment of the course of transactions have been disclosed to the Supervisory Board. The persons outside of the bodies were committed to secrecy.
I. 2 CGC BWH	<ul style="list-style-type: none"> <li>■ Supervisory Board meetings</li> </ul>	The Supervisory Board generally held its meetings with the participation of the Executive Board.
I. 3 CGC BWH	<ul style="list-style-type: none"> <li>■ Development of the strategic orientation of the company, its consultation with the Supervisory Board and regular reporting by the Executive Board</li> <li>■ Handling of transactions that are of significant importance for the asset, financial or income situation, including changes to valuation methods in the Supervisory Board</li> </ul>	The Executive Board coordinated the strategic orientation of the Berlinwasser Group with the Supervisory Board and regularly fulfilled its reporting obligations regarding the implementation status, in written form. In accordance with the statutes, the Executive Board presented/notified all transactions of significant importance to the Supervisory Board for consent. In addition to the provisions in the statutes, by-laws resolved by the Supervisory Board existed for the Executive Board, as well as by-laws for the Supervisory Board. These were sufficient and required no amendments.
I. 4 CGC BWH	<ul style="list-style-type: none"> <li>■ Report by the Executive Board to the Supervisory Board regarding all relevant issues of planning, business development, the risk situation, risk management and compliance</li> <li>■ Description of the target/actual situation and the reasons for deviations</li> </ul>	<p>The Executive Board fulfilled the reporting obligation stipulated by the Supervisory Board regularly and comprehensively in written form, including the necessary documentation; the advance period for the sent documents for meeting and decision dates was sufficient (2 weeks prior to the meeting) and complied with the time limit according to the statutes. The first compliance reporting for the entire Berlinwasser Group will take place in 2012.</p> <p>Target/actual comparisons and reasons for deviations were plausibly and traceably described to the Supervisory Board on a monthly basis, in written form; measures for possibly necessary countermeasures were proposed in an implementable form.</p>
I. 5 CGC BWH	<ul style="list-style-type: none"> <li>■ Compliance with rules of proper company management and preserving the duty of care of a proper and conscientious Executive Board and Supervisory Board</li> <li>■ D&amp;O insurance for the Executive Board and Supervisory Board</li> </ul>	<p>The Executive Board and Supervisory Board fulfilled their obligations under the observance of proper business management; they preserved the duty of care of a proper and conscientious Executive Board/Supervisory Board.</p> <p>D&amp;O insurance has been concluded with an excess for the Executive Board and Supervisory Board.</p>

Reference	Subject matter	Declaration by the Supervisory Board and Executive Board
<b>II. Executive Board</b>		
II. 1 CGC BWH	<ul style="list-style-type: none"> <li>■ Duty to serve the company interest and operate sustainable increasing of the company value</li> <li>■ Compliance with the legal provisions and internal company guidelines</li> <li>■ Risk management and risk controlling in the company</li> </ul>	<p>The Executive Board manages the company under its own responsibility and has served in the interest of the Berlinwasser Group and worked on its sustainable value enhancement. No activities were carried out to the detriment of the company.</p> <p>A duty of care was exercised by the Executive Board for compliance with the legal provisions and internal company guidelines. The introduction of a Group-wide compliance management system is currently being prepared. The Executive Board ensured adequate and effective risk management and risk controlling. The Risk Management Report is presented to the Executive Board half-yearly. The Supervisory Board is integrated into the risk management system, as well as the ongoing risk monitoring.</p>
II. 2 CGC BWH	<ul style="list-style-type: none"> <li>■ Business distribution and cooperation in the Executive Board</li> <li>■ Establishment of the required decision-making majority for Executive Board resolutions</li> </ul>	<p>Business distribution and cooperation in the Executive Board are regulated in the by-laws for the Executive Board. A Chairman of the Executive Board was appointed. A required decision-making majority was established. The Supervisory Board consented to a modification of the business distribution plan as an annex to the Executive Board by-laws on 28 September 2011.</p>
II. 3 CGC BWH	<ul style="list-style-type: none"> <li>■ Remuneration regulations for the Members of the Executive Board</li> <li>■ Conclusion of objectives for the Members of the Executive Board</li> <li>■ Disclosure of the individual remuneration</li> <li>■ Compliance with the regulations regarding the severance payment cap</li> </ul>	<p>The total remuneration of the Executive Board members is comprised of a fixed annual salary and a variable performance bonus. Annual objectives are set for performance-related remuneration. The objectives were defined by the Presidential Committee/Audit Committee of the Supervisory Board at the beginning of the business year, with the involvement of the Executive Board. The variable performance remuneration is defined by the Supervisory Board for the past business year, after adoption of the annual financial statement by the annual auditor, on the basis of the fulfilled objectives and the overall performance, based on the recommendation of the Presidential Committee/Audit Committee.</p> <p>With the assessment, it is taken into consideration that all Executive Board Members also belong to the Executive Board of Berliner Wasserbetriebe, in addition to their activity with Berlinwasser Holding AG, thereby fulfilling a dual function. The remuneration is defined under consideration of the tasks and performance of the individual Executive Board Members.</p> <p>The Supervisory Board consulted on and regularly reviews the remuneration structure in the plenum (every two years); the last time, in its meeting on 17 November 2010. The changed framework conditions resulting from the law on the adequacy of executive board remuneration were taken into consideration. The annual total remuneration of the individual Executive Board Members is disclosed in the notes to the annual financial statement and consolidated financial statement, individually pursuant to the provisions of the 2nd Remuneration and Transparency Act.</p> <p>During the 2011 financial year, no severance payments were made to Members of the Executive Board.</p>

Reference	Subject matter	Declaration by the Supervisory Board and Executive Board
<b>III. Supervisory Board</b>		
III. 1 CGC BWH	<ul style="list-style-type: none"> <li>■ Rights and duties of the Supervisory Board from the articles of association and by-laws for the Supervisory Board; poss. further commitments</li> <li>■ By-laws of the Supervisory Board</li> </ul>	<p>The Supervisory Board has fulfilled its functions in accordance with the laws, the statutes of Berlinwasser Holding AG and the by-laws of the Supervisory Board. It advised and monitored the Executive Board with the management of the Berlinwasser Group. It was included in/informed about decisions of fundamental importance to the Berlinwasser Group and passed resolutions on matters of fundamental importance to the company. The Supervisory Board did not see any supplemental regulation requirement. It has not bound any additional transactions to its consent.</p> <p>Meeting frequencies and time budgets corresponded to the company's requirements. The Supervisory Board has by-laws, which are available in the version dated 4 March 2010.</p>
III. 2 CGC BWH	<ul style="list-style-type: none"> <li>■ Regulations for the appointment and resignation of Executive Board Members: Initial appointment and reappointment; maximum age limits</li> <li>■ Decision structures in the Supervisory Board: (i) in the plenum after / without preparation in a committee; (ii) only in a committee with decision authority.</li> </ul>	<p>Hiring and remuneration regulations are decided in the plenum of the Supervisory Board after prior resolution in the Presidential Committee of the Supervisory Board.</p> <p>During the reporting period, no conclusion and no amendment of the Executive Board contracts occurred. A severance payment cap was not agreed.</p> <p>The Supervisory Board has set a maximum age level for entry of 63 for the Members of the Executive Board; the age of 68 should not be exceeded. During the reporting period, no initial appointment/reappointment occurred.</p>
III. 3 CGC BWH	<ul style="list-style-type: none"> <li>■ Executive Board / Supervisory Board Chairperson cooperation and notification regarding important events for the company</li> <li>■ Notification of the Supervisory Board regarding important matters; convening extraordinary Supervisory Board meetings</li> </ul>	<p>Regular contact took place between the Supervisory Board Chairperson and the Executive Board. The Executive Board notified the Supervisory Board Chairperson about all important matters on an ongoing basis. No extraordinary Supervisory Board meeting was convened. During the reporting period, the Supervisory Board passed two resolutions using a written circulation procedure outside of meetings. Beyond the Supervisory Board meetings, the Supervisory Board was informed about important events, e.g. through resolutions of the Shareholders' Meeting.</p>

Reference	Subject matter	Declaration by the Supervisory Board and Executive Board
<b>III. Supervisory Board</b>		
III. 4 CGC BWH	<p>■ <a href="#">Supervisory Board committees; membership and decision competences</a></p>	<p>In order to increase its efficiency, the Supervisory Board has formed the following committees: Arbitration Committee, Presidential/Audit Committee, Directive Committee and a Committee for Special Matters. The Supervisory Board Chairperson is the Chairperson of the Presidential Committee / Audit Committee; however, the Chairperson was not a former Member of the Executive Board. The Presidential Committee prepares the Supervisory Board's resolutions regarding the conclusion of contracts pursuant to Article 114 AktG [Companies Act], regarding the appointment and recalling of Executive Board Members and; other resolutions of the Supervisory Board in Executive Board matters, the conclusion, amendment and termination of contracts with Members of the Executive Board. In place of the Supervisory Board, it decides on the entry of a Member of the Executive Board to the Supervisory Board, Advisory Board or Administrative Board of a commercially active company.</p> <p>The Presidential Committee represents the Supervisory Board vis-à-vis the members of the Executive Board pursuant to Article 112 AktG [Companies Act]. Furthermore, the Presidential Committee assumes the tasks of the Audit Committee.</p> <p>In this context, it deals in an advisory capacity with the auditing of the accounts; the review of the risk management; the review of compliance, examining the independence of the annual auditor; granting the audit mandate to the annual auditor and determining the audit emphases, as well as agreeing the fee with the annual auditor. As Chairperson of the Presidential Committee, the Supervisory Board Chairperson is simultaneously also the Chairperson of the Audit Committee.</p> <p>The Directive Committee decides, in place of the Supervisory Board, on the granting of consents to the directives of Berlinwasser Holding AG to Berliner Wasserbetriebe, pursuant to Article 11 of the contract regarding two silent companies and to establish standardised management between Berlinwasser Holding AG and Berliner Wasserbetriebe. The Directive Committee did not convene in 2011. The Committee for Special Matters particularly deals with complex financial and commercial business transactions, which are referred to it for review and consultation by the Supervisory Board Chairperson or the Supervisory Board. The Committee for Special Matters did not convene in 2011.</p> <p>The plenum of the Supervisory Board was notified by the Chairperson of the Presidential Committee/Audit Committee about the content and result of the committee consultations.</p>

Reference	Subject matter	Declaration by the Supervisory Board and Executive Board
<b>III. Supervisory Board</b>		
III. 5 CGC BWH	<ul style="list-style-type: none"> <li>■ Administering the tasks of the Members of the Supervisory Board</li> <li>■ Functions of Supervisory Board Members in competing companies</li> <li>■ Remuneration of the Supervisory Board Members</li> </ul>	<p>The Supervisory Board includes a member with in-depth knowledge in the field of finance and accounting (Financial Expert); former Members of the Executive Board do not belong to the Supervisory Board. The Supervisory Board has set a maximum age level for entry of 70 for the Members of the Supervisory Board; the age of 75 should not be exceeded. However, this regulation can be deviated from in justified, exceptional cases.</p> <p>The Supervisory Board Members have not carried out any board functions or consulting tasks with competitors, whereby the companies in the RWE and Veolia Group are not regarded as competitors in this sense.</p> <p>The remuneration of the Supervisory Board has been defined by the Shareholders' Meeting. The Members of the Supervisory Board exclusively receive a fixed remuneration in accordance with the articles of association, the amount of which is disclosed individually in the notes to the annual financial statement and consolidated financial statement for the first time from 2011. Separate remuneration of the committee activity has not been carried out. The Chair and Deputy Chair have been considered accordingly. Special benefits were not paid.</p>
III. 6 CGC BWH	<ul style="list-style-type: none"> <li>■ Submission of the objectives</li> </ul>	<p>The objectives agreed between the Supervisory Board and Executive Board for the year 2011, the salary structure of fixed and variable salary components, as well as the evaluation of the objectives agreed for the year 2010 were submitted to the shareholders for acknowledgement.</p>
III. 7 and 8 CGC BWH	<ul style="list-style-type: none"> <li>■ Participation in the Supervisory Board meetings and efficiency of the work in the Supervisory Board</li> </ul>	<p>No Supervisory Board Member participated in fewer than half of the Supervisory Board meetings. The absent Supervisory Board Members had the opportunity to participate in the resolutions of the Supervisory Board or its committees by submitting written votes.</p> <p>The Supervisory Board deals with the efficiency of its activity on a regular basis (every two years), most recently, in its meeting on 6 October 2010. No events took place, which allowed an impairment of its efficiency to be determined.</p>

Reference	Subject matter	Declaration by the Supervisory Board and Executive Board
<b>IV. Conflicts of interest</b>		
IV. 1 CGC BWH	<ul style="list-style-type: none"> <li>■ Competition prohibition for Members of the Executive Board</li> <li>■ Acceptance of advantages and granting of advantages by the Executive Board</li> </ul>	<p>The Members of the Executive Board have complied with the rules of competition prohibition. They have neither requested nor accepted advantages or unjustly granted any such advantages to third parties.</p> <p>The Executive Board did not become aware of any case of acceptance of advantages with the employees of the Berlinwasser Group.</p>
IV. 2 CGC BWH	<ul style="list-style-type: none"> <li>■ Preserving the company's interests</li> <li>■ Personal interests</li> </ul>	<p>The Executive Board and Supervisory Board have preserved the company's interests and have not pursued any personal interests.</p>
IV. 3 and 4 CGC BWH	<ul style="list-style-type: none"> <li>■ Creation and disclosure of conflicts of interest with Members of the Executive Board or the Supervisory Board</li> </ul>	<p>A possibly occurring conflict of interest for the Chairman of the Supervisory Board in his function as highest authority in the State Cartel Office was discussed in detail in the Supervisory Board. The Supervisory Board provided information about the subject matter in the Report of the Supervisory Board.</p>
IV. 5 CGC BWH	<ul style="list-style-type: none"> <li>■ Transactions with companies at the direct/indirect level of the Executive Board</li> <li>■ Transactions with companies at the direct/indirect level of the Executive Board</li> </ul>	<p>Transactions did not exist with Berlinwasser Group by Members of the Executive Board or persons associated with them, or companies personally associated with them. No consulting, service, work and labour contracts or other contracts were concluded by Supervisory Board Members with the Berlinwasser Group.</p> <p>The Supervisory Board has not issued any rules of procedure related to individual cases for transactions with the company.</p>
IV. 6 CGC BWH	<ul style="list-style-type: none"> <li>■ Secondary occupations by Members of the Executive Board</li> </ul>	<p>The Executive Board Members have carried out secondary occupations that are related to their activity as Executive Board Members of Berlinwasser Holding AG. The Supervisory Board Chairperson was authorised to provide consent to secondary occupations of Executive Board Members and reported on the approval of the secondary occupations in the Supervisory Board.</p> <p>Furthermore, the current overview of all secondary occupations of Executive Board Members for the 2011 business year was submitted to the Supervisory Board for acknowledgement.</p>
IV. 7 CGC BWH	<ul style="list-style-type: none"> <li>■ Granting loans to Members of the Executive Board to Members of the Supervisory Board and relatives</li> </ul>	<p>The Members of the Executive Board and the Members of the Supervisory Board/relatives of these board members were not granted any loans.</p> <p>According to the Corporate Governance Code of Berlinwasser Holding AG, employee representatives of the Berlinwasser Group on the Supervisory Board are exempted from this regulation; they are granted the conditions that are provided to the other employees.</p>
<b>V. Transparency</b>		
V. 1 and 2 CGC BWH	<ul style="list-style-type: none"> <li>■ Circumstances, such as those in the industry and market environment of the company's field of activity, with effects on the asset and financial situations/general course of business that are not insignificant for the annual budgeting/medium-term to long-term budgeting</li> <li>■ Information about the company on the Internet</li> </ul>	<p>The Supervisory Board was immediately notified about circumstances in the Berlinwasser Group's field of activity, which have effects on the asset and financial situation or the general course of business, which are not insignificant.</p> <p>Company information (e.g. the annual report) is also published on the Internet at <a href="http://www.berlinwasser.de">www.berlinwasser.de</a>.</p>

Reference	Subject matter	Declaration by the Supervisory Board and Executive Board
<b>VI. Rendering of accounts</b>		
VI. 1 to 3 CGC BWH	<ul style="list-style-type: none"> <li>■ Deadlines for the company's annual financial statement (within 90 days after the end of the business year) and interim reports (45 days after the end of the reporting period) pursuant to the recognised accounting standards, specifying the investments held by the company</li> <li>■ Discussion of the interim reports</li> </ul>	<p>The annual financial statement and consolidated financial statement were prepared in accordance with the legally recognised, generally accepted accounting standards. The annual financial statement and consolidated financial statement were not made publicly accessible within 90 days of the financial year-end; these were approved in the balance sheet meeting of the Supervisory Board on 15 June 2011.</p> <p>Due to the current situation in February 2011 in relation to the investigations of the Federal Cartel Office against Berliner Wasserbetriebe due to the suspicion of abusively excessive drinking water prices, the Executive Board amended the management report for the 2010 financial year and mandated a supplemental audit pursuant to Article 316 HGB [German Commercial Code]. The annual financial statement and consolidated financial statement, as well as the supplemental reports, were submitted to the shareholders in the Shareholders' Meeting on 6 October 2011, after a resolution was passed by the Supervisory Board. The annual financial statement lists the associated companies of Berliner Wasserbetriebe.</p> <p>Berlinwasser Holding AG reports to the shareholders by means of interim reports (monthly report on the economic situation of the Berlinwasser Group).</p>
<b>VII. Annual audit</b>		
VII. 1 CGC BWH	<ul style="list-style-type: none"> <li>■ Professional, financial or other relationships of the annual auditor, its bodies and audit managers, on the one hand and the company and its board members, on the other hand</li> <li>■ Services for the company, particularly in the consulting sector, in the previous year/ already contractually agreed or announced</li> <li>■ Notification of the Supervisory Board Chairperson by the auditing firm in case of existing/emerging prejudices</li> </ul>	<p>The Supervisory Board received the statement from the annual auditor that no professional, financial or other obligations existed – also not with the bodies of the annual auditor – and the Berlinwasser Group / the members of its bodies.</p> <p>The statement furthermore contained details regarding all of the services performed by the annual auditor; no doubts exist regarding the independence of the auditor, its bodies/the audit managers.</p> <p>The annual auditor was requested to immediately notify the Supervisory Board Chairperson about the existence of any possible reasons for prejudice; the annual auditor did not report any reasons for prejudice.</p>
VII. 2 CGC BWH	<ul style="list-style-type: none"> <li>■ Granting of the audit assignment and fee agreement to the auditing firm</li> </ul>	<p>After a Europe-wide tender procedure, the Supervisory Board granted the audit mandate to the annual auditor – in consultation with the Berlin Audit Court - and concluded the fee agreement with the annual auditor. The Supervisory Board is aware of the amount of the fee.</p>
VII. 3 CGC BWH	<ul style="list-style-type: none"> <li>■ Notification of the Supervisory Board by the auditing firm regarding significant findings and occurrences during the annual audit</li> <li>■ Ascertainment of circumstances by the auditing firm, which result in falsification of the declaration issued by the Executive Board and Supervisory Board regarding the Corporate Governance Code of Berlinwasser Holding AG</li> </ul>	<p>No significant findings and occurrences existed about which the annual auditor would have needed to notify the Supervisory Board. The annual auditor has confirmed that it will immediately report on all findings and occurrences that are significant for the Supervisory Board.</p> <p>The auditing firm did not become aware of any circumstances, which resulted in the falsification of the declaration issued regarding the Corporate Governance Code of Berlinwasser Holding AG.</p>
VII. 4 CGC BWH	<ul style="list-style-type: none"> <li>■ Participation by the auditing firm in the Supervisory Board consultations regarding the annual financial statement</li> </ul>	<p>The annual auditor participated in Supervisory Board consultations regarding the 2010 annual financial statement and reported the main results of its audit. The annual auditor will also participate in all consultations for the 2011 annual financial statement and report on significant findings of his audit.</p>