

# Taking responsibility



Annual Report 2008

Stadtwerke Leipzig  
Alles ganz einfach.



## The 2008 Financial Year | Overview of Facts and Figures

		Group		GmbH	
		2008	2007	2008	2007
Turnover	€m	2,978	2,191	2,946	2,086
EBITDA	€m	106	151	60	79
EBITA	€m	49	90	37	53
EBIT	€m	19	64	52	67
Adjusted EBIT	€m	46	90	48	65
EBT	€m	–	43	36	47
Subgroup net earnings	€m	–7	20	–	–
Equity capital	€m	261	307	250	250
Fixed assets	€m	633	693	628	639
Current assets <sup>1)</sup>	€m	320	324	279	235
Balance-sheet total	€m	953	1,017	907	874
Net working capital	€m	83	46	35	13
Operational assets	€m	743	765	663	652
Financial debt	€m	299	315	248	254
Net financial debt	€m	279	275	235	232
ROCE	%	6.2	11.8	7.2	10.0
Equity ratio	%	27.4	30.2	27.6	28.6
Ratio of outside capital to total capital	%	67.4	63.1	59.6	61.9
Special item ratio	%	5.2	6.7	12.8	9.5
Return on equity	%	–	14.0	14.4	18.8
Staff and trainees (balance-sheet date)		2,356	2,357	1,162	1,144

<sup>1)</sup> including Prepaid expenses

Definition of ratios	
EBITDA	Sales revenues + Inventory changes + Internally produced and capitalised assets + Other operating income – Cost of materials – Staff costs – Other operating expense
EBITA	EBITDA – Amortisation of tangible fixed assets and intangible assets + Amortisation of goodwill
EBIT	EBITA – Amortisation of goodwill + Income from affiliated companies
Adjusted EBIT (Group)	EBIT + Amortisation of goodwill
Adjusted EBIT (GmbH)	EBIT – Income from the release of the special items with partial reserve character
EBT	EBIT + Interest income – Interest paid = Profit on ordinary activities
Net working capital	Tied-up operational assets (Inventories + Receivables and other assets + ARAP) – Financing via interest-free debt capital (Short-term provisions + Short-term liabilities without banks + PRAP)
Operational assets	Fixed assets + Net working capital + Amortisation of goodwill
Financial debt	Bank loans and overdrafts
Net financial debt	Financial debt – Cash and cash equivalents (incl. securities)
ROCE (Group)	Adjusted EBIT (Group)/Operational assets
ROCE (GmbH)	Adjusted EBIT (GmbH)/Operational assets
Equity ratio	Equity capital/Balance-sheet total * 100
Ratio of outside capital to total capital	(Provisions + Liabilities)/Balance-sheet total * 100
Special item ratio	Special items/Balance-sheet total * 100
Return on equity	EBT/Equity capital * 100

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## Bolstering growth

Our Group has successfully held its course, consistently pursuing our value-oriented growth strategy. We are making the most of our opportunities in new business areas and markets. Our aim is to engage in stable business to counter the price fluctuations on the energy and commodity markets and in the segments that are worst hit by the crisis. We are laying the foundations for this with our energy-related services and by investing in eco-friendly ways of generating energy.

### Management Report of Stadtwerke Leipzig Group

#### 1 Overall economic and political situation

##### Overall economic situation

The eurozone has been in recession since mid-2008. The economy and the gross domestic product (GDP) began shrinking after the second quarter. GDP in the eurozone only rose by 0.7 % in 2008 as a whole (2007: +2.6 %).

The rate of growth of Germany's real GDP in 2008 (1.3 %) was markedly weaker than in the previous year (+2.5 %) as a result of the slowdown caused by the financial crisis, the strong euro and predominantly high oil prices.

##### Energy market

The first half of 2008 was marked by a rapid increase in crude-oil prices, which reached a record high of US-\$ 146 per barrel of Brent by mid-year. Apart from the strong world economy up to that point in time, the causes of the rising oil prices included the tense geopolitical situation in important producing countries and a failure in the past to invest in additional production capacity or develop new fields. As the real-estate crisis began and spread to banks and other sectors, however, investors increasingly withdrew from the market, and thus also from commodity investments. The trend reversed, and the price of crude oil fell sharply from mid-year. In September/October 2008 the banking crisis spread to Europe and Japan, and oil prices nosedived. The price of Brent crude closed at US-\$40.11 per barrel on 31 December 2008, having reached the lowest level since July 2004 (US-\$36.49 per barrel) in the previous week.

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Electricity prices on the futures market followed the general development and also fell sharply late in the year. By the end of December 2008, baseload contracts for delivery in 2010 were being traded at €58.02 per MWh, little change from the previous year's level of €59.39 per MWh (at the end of 2007). Electricity prices on the spot market rose steadily until the summer; by the end of the year they had fallen back to roughly the same price level as in January.

Prices on the gas futures market followed the movements on the crude-oil market; by December they had also returned to their level at the beginning of the year. On the spot market, however, gas still cost considerably more in 2008 than in the previous year.

The second period of European trading in CO<sub>2</sub> certificates – which will last until 2012 – began on 1 January 2008. Compared to the first trading period, overall conditions for energy companies have deteriorated due to the considerable reduction in the number of state-allocated certificates. Many utilities now have to purchase additional certificates on a large scale.

Final consumers in Poland have been able to freely choose their heat and gas providers since 1 July 2007. Customers have made little use of this opportunity up to now. The charges for district heating still have to be approved by the URE, and although the law provides for the adjustment of tariffs to take account of the return on capital employed, in practice this right has proved difficult to assert. Demand for renewable energies and corresponding input materials has also risen strongly in Poland because of the price development for primary energy sources.

### Network management

As an operator of electricity and gas networks, the Group is subject to regulation in the electricity field by the Federal Network Agency (Bundesnetzagentur, BNetzA), and in the gas field by the Dresden Land Regulatory Authority (Landesregulierungsbehörde Dresden, LRegB).

In its decisions dated 14 August 2008, Germany's Federal Supreme Court (Bundesgerichtshof, BGH) issued rulings on fundamental issues concerning the regulation of use-of-system charges. The BGH decided that a grid operator was not allowed to permanently keep the additional revenues received during the period from the date on which its application was filed until the first approval of the use-of-system

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charges. The BNetzA therefore reserves the right to oblige grid operators to compensate for these additional revenues across several periods by lowering the annual revenue ceiling in the course of the regulation period beginning on 1 January 2010.

The 2008 financial year was marked by the second round of approval negotiations for use-of-system charges for electricity and gas and the preparations for incentive regulation, which began on 1 January 2009. On 20 March 2008 the BNetzA approved the use-of-system charges for electricity with retroactive effect from 1 January 2008. On 18 April 2008 the Dresden Land Regulatory Authority approved the use-of-system charges for gas with retroactive effect from 1 April 2008, taking into account the current cost development and certain peculiarities that affect Leipzig, such as the cost of replacing the crumbling grey cast-iron mains.

### Services market

**Telecommunications:** The price decline in the market for telecommunications services continued in 2008, especially in the telephony and Internet business. The market price development was primarily influenced by competition for what are known as all-inclusive offers (combining a telephone and DSL line with a telephone flat rate and an Internet flat rate). As part of our consistent implementation of our long-term strategy for the telecommunications market, we have been countering this trend with customer- and sector-oriented solutions. We developed our Cable TV business area in particular by adding voice-over-IP products.

**Information Technolog:** Despite the recession, growth in the German information-technology market continued, albeit at a slower rate. Medium-sized IT service providers in particular were investing in the modernisation of their IT infrastructures, giving top priority to raising efficiency. Our range of services in this market targets especially utility and health-service companies as well as medium-sized firms.

**Accounting:** Competition is becoming keener in the market for accounting services. In addition to spin-offs from energy companies offering a broad, full service, more and more companies from non-energy sectors of the economy are entering the market and offering not only classic billing services, but also increasingly customer services and IT consulting. We advanced our business development in this market by focusing on accounting, submetering, consulting and collection.

## Bolstering growth

## 2 Group business development

### Changes in the Group structure

SHH GmbH SystemHaus Hemminger, Esslingen (SHH), was removed from the consolidated group as per 31 December 2008 because of Stadtwerke Leipzig GmbH's intention to sell its shares in the company. All of SHH's consolidated balance-sheet items were taken out of the books as part of the deconsolidation process. The existing shares were transferred to Current assets. In addition, 2 % of SHH's shares were sold by notarised contract of sale and assignment dated 17 December 2008.

### Turnover and income development

The Group's external turnover amounted to €2,978 million in the 2008 financial year (2007: €2,191 million). Most of the turnover was generated by Stadtwerke Leipzig GmbH.

The Group's Profit on ordinary activities amounted to €0 million in the financial year (2007: €43 million).

In 2008 Consolidated income was greatly influenced by Stadtwerke Leipzig GmbH's profit development. This included the much lower profits generated by the Trading segment specifically in the medium-sized business-customer segment (0.1 to 10 GWh per annum) and the creation of the provision for the elimination of additional revenues in the Networks segment. Because the Federal Network Agency (BNetzA) intends to implement the elimination of additional revenues as a consequence of the judgement by the Federal Supreme Court (BGH) of 14 August 2008, a +€16 million provision was formed covering the period from November 2005 to March 2007, which was deducted in full from the Profit on ordinary activities.

A comparison of profit development between 2007 and 2008 shows reversals of depreciation with effect on net income in 2007 that were unrelated to accounting period. Reversals of depreciation totalling €14 million were made to the fixed assets of the Polish subsidiary Gdańskie Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o., Gdańsk, Poland (GPEC), and Zakład Energetyki Ciepłej "STAR-PEC" Sp. z o.o. Starogard-Gdański, Poland (STAR-PEC); these were the result of excessively high depreciation in the previous years. Furthermore, a deconsolidation profit of +€4 million was made in the context of the deconsolidation of WABIO® Bioenergietechnik GmbH & Co. Biokraftwerk KG, Bad Köstritz (WABIO KG), in 2007; this was shown under Other operating income.

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**Income situation**

After aggregating and offsetting certain items, the profit and loss accounts of the last two financial years can be combined to give the following information on the development of income:

<b>Income situation</b>	<b>2008</b>	<b>2007</b>
	[in €m]	[in €m]
Operating performance	2,994	2,183
(of which: turnover from Wholesale Energy Trading) <sup>2)</sup>	(2,340)	(1,500)
(of which: turnover from other energy sales) <sup>2)</sup>	(543)	(585)
Expenses incurred in connection with operating performance	-2,960	-2,125
<b>Operating profit</b>	<b>34</b>	<b>58</b>
Financial result	-22	-21
<b>Business profit</b>	<b>12</b>	<b>37</b>
Balance of other income and expenditure	-12	6
(of which provision for the elimination of additional revenues)	(16)	(0)
<b>Profit or loss on ordinary activities</b>	<b>0</b>	<b>43</b>
Taxes on income <sup>1)</sup>	-10	-23
Extraordinary profit or loss	3	-
<b>Net income</b>	<b>-7</b>	<b>20</b>
Profit attributable to other shareholders	-5	-9
Payments to other shareholders	-24	-31
Group retained earnings brought forward	-35	-15
<b>Consolidated net earnings</b>	<b>-71</b>	<b>-35</b>

1) Includes, among other things, notional taxes on corporate income and business profits

2) Turnover from Wholesale Energy Trading was split into turnover from electricity trading and turnover from gas trading in 2008. Gas sales to Heizkraftwerk Eutritzscher Strasse GmbH & Co. KG, Leipzig (EuKG), were integrated into the item Wholesale Energy Trading. Figures for 2007 were adjusted accordingly to ensure comparability.

The Group's Operating profit amounted to €34 million in 2008 (2007: €58 million).

The main reason for the fall in Operating profit was business development in the Trading segment. Business profit in 2008 was significantly down on the previous year in the retail business. The intensifying competition led to a deterioration in

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sales conditions. Sales targets were not reached in the segment of nationwide medium-sized business customers (0.1 to 10 GWh per annum); in the segment of private and commercial customers we were only able to pass on a proportion of increases in procurement costs – and that only after a time delay. Both existing countermeasures and additional measures introduced in 2008 will, for the most part, not have an effect until 2009. Furthermore, the fall in profits was a result of the one-off effect of a stop-loss sale of power to limit risks in procurement; the sale was carried out in 2007, but was effective in 2008.

The main contrary influence was lower regular depreciation (–€3 million). This fall was largely caused by the lower regular amortisation of tangible fixed assets and intangible assets (–€4 million). On the other hand, there was a higher amortisation of goodwill at GNL (+€1 million).

Profits in the Telecommunications field (Services segment) rose by +€1 million due to positive business development.

The development of the financial result (–€22 million; 2008: –€21 million) was primarily the result of a +€3 million increase in the Write-down of financial assets. On the other hand, there was a –€3 million reduction in interest and similar expenses.

The Balance of other income and expenditures (–€12 million) was essentially made up of expenditure on allowances for doubtful debt and written-off receivables (€13 million), on power purchases unrelated to the accounting period (€2 million), and on the formation of provisions (€18 million, €16 million of which was for the elimination of additional revenues), minus income from the release of provisions (€10 million), from the sale of fixed assets (€3 million), from the release of allowances for doubtful debt (€4 million), and other income unrelated to the accounting period (€3 million).

The Payments to other shareholders (–€24 million) were essentially based on Stadtwerke Leipzig GmbH's results in 2007. Accounting and valuation differences exist between the separate annual financial statements of Stadtwerke Leipzig GmbH and the consolidated financial statements, leading to changes in the results reported in the Group. The main items in this context were the amortisation of goodwill (€27 million) and the absence of releases to income of the Special item (€4 million) pursuant to section 4 of the Development Area Act (FördGG).

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**Net worth position**

After aggregating certain items, each financial year's balance sheet can be combined to give the following overview. Liabilities with a remaining time to maturity of more than one year are treated as long-term.

<b>Net worth position</b>	<b>31 Dec. 2008</b>	<b>31 Dec. 2007</b>
	[in €m]	[in €m]
<b>ASSETS</b>		
Fixed assets	633	693
Current assets/Prepaid expenses	320	324
<b>Balance-sheet total</b>	<b>953</b>	<b>1,017</b>
<b>EQUITY AND LIABILITIES</b>		
Equity (including Goodwill arising on consolidation)	264	310
Special item	61	65
Long-term liabilities (including Payments received on account of orders)/Provisions	393	379
Short-term liabilities (including Payments received on account of orders)/Provisions/Deferred income	235	263
<b>Balance-sheet total</b>	<b>953</b>	<b>1,017</b>

The balance-sheet total fell by –€64 million compared to the previous year.

The –€60 million fall in Fixed assets was primarily caused by the scheduled amortisation of goodwill (–€27 million). The figure for depreciation of fixed assets was –€6 million higher than investment during the financial year. Fixed assets were further reduced by deconsolidation measures, currency differences and sales of tangible assets.

The –€4 million fall in Current assets was mainly due to the reduction in financial resources (–€20 million). This fall was largely counteracted by an increase in Receivables and other assets (+€11 million) and an increase in Inventories (+€5 million). The increase in inventories was connected with the construction of the Piesteritz biomass cogeneration power plant, the building up of stocks for the Bischofferode biomass power plant and the related increase in wood inventories.

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The main reason for the –€46 million fall in equity capital was the –€36 million increase in the Consolidated net loss and a lower Equity capital difference caused by foreign-exchange translation (–€7 million).

The Special item in the Group includes investment bonuses of Stadtwerke Leipzig GmbH and GPEC shown on the liabilities side, as well as building-cost subsidies of Stadtwerke Leipzig GmbH. The –€4 million fall resulted from scheduled releases to income, in particular at Stadtwerke Leipzig GmbH.

Long-term liabilities/Provisions rose by €14 million. This increase was essentially caused by the formation of the provision for the elimination of additional revenues (+€16 million) and transfers to other provisions (+€7 million). A contrary influence was the repayment of long-term borrowings (–€8 million) mainly relating to the GmbH and GPEC.

The –€28 million reduction in Short-term liabilities/Provisions was mainly caused by the reduction in short-term provisions (–€7 million), the repayment of short-term borrowings (–€7 million) mainly relating to HL komm and the GmbH, and the reduction in Other liabilities (–€8 million).

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**Financial position**

The following cash-flow statement shows the changes in financial resources and the movements of funds that caused them:

<b>Financial position</b>	<b>2008</b> [in €m]	<b>2007</b> [in €m]
1. Profit or loss on ordinary activities	–	43
2. + Depreciation/– reinstated depreciation	85	73
<b>3. = Profit before taxes on income and before depreciation/ amortisation</b>	<b>85</b>	<b>116</b>
4. + Loss/– profit from sale of fixed assets	–2	2
5. – Increase/+ decrease in other assets	–28	–7
6. + Increase/– decrease in other liabilities	9	6
<b>7. = Cash flows from operating activities</b>	<b>64</b>	<b>117</b>
8. + Receipts from sale of fixed assets	19	12
9. + Subsidies	2	2
10. – Capital expenditure	–52	–58
11. – Disbursements from the purchase of consolidated companies	–	–11
<b>12. = Cash flows from investment activities</b>	<b>–31</b>	<b>–55</b>
13. – Disbursements to the majority shareholders	–45	–54
14. – Disbursements to the minority shareholders	–5	–9
15. + Increase in short- and long-term loans received	3	6
16. + Increase in repayments of short- and long-term loans granted	12	32
17. – Payments relating to the redemption of short- and long-term loans	–18	–52
18. – Payments relating to the granting of short- and long-term loans	–1	–
<b>19. = Cash flows from financing activities</b>	<b>–54</b>	<b>–77</b>
<b>20. Net change in cash flow (7. + 12. + 19.)</b>	<b>–21</b>	<b>–15</b>
21. + Changes in financial resources caused by exchange rates – the consolidated group or valuation	1	2
<b>22. Financial resources on 1 Jan.</b>	<b>40</b>	<b>53</b>
<b>23. Financial resources on 31 Dec.</b>	<b>20</b>	<b>40</b>

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Cash flows from operating activities were essentially influenced by the lower Net income before taxes on income and before depreciation/amortisation (–€31 million). The main causes of this reduction are explained under Income situation. The figures were also influenced by the increase in Trade debtors as per the balance-sheet date (–€21 million).

Cash flows from investment activities included in particular capital expenditure amounting to –€52 million (2007: –€58 million). The Services (–€30 million) and Networks (–€8 million) segments accounted for most of this. For a more detailed breakdown of these investments, please refer to the "Group segments" section.

Cash flows from financing activities (–€54 million) essentially consisted of the transfer of profit to LVV (–€45 million) and disbursements for the repayment of bank loans and overdrafts (–€18 million); the main contrary influence was the cash flows from the repayment of granted short-term loans in the cash pool (+€11 million).

Financial resources fell by –€20 million in the year ended 31 December 2008 compared to the previous year and contained only Cash and cash equivalents (without cash pool).

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**Value-oriented management**

The use of control ratios raises the transparency of economic development in the Group. At the same time they serve as a basis for business decisions by management.

<b>Control ratios</b>		
	<b>2008</b>	<b>2007</b>
EBITDA in €m = profit on ordinary activities before depreciation and financial result	106	151
ROCE as % = adjusted EBIT/(fixed assets + net working capital) * 100	6.2	11.8
Return on equity as % = profit on ordinary activities/equity * 100	0	14.0

The –€45 million fall in EBITDA (profit on ordinary activities before depreciation and financial result) was mostly due to the development of operating profit as explained under Income situation.

The worsening of the ROCE by 5.6 percentage points was caused by a €44-million-lower adjusted EBIT. The main causes of these developments are explained under Income situation and Net worth position.

**Covenants (Financial ratios)**

On signing unsecured long-term financing contracts, Stadtwerke Leipzig GmbH agreed covenants containing certain financial relations on indebtedness, cash flows from operating activities and the equity ratio. The contractually agreed ratios correspond to the Group's financing strategy, which is aimed at maintaining its existing investment-grade status (credit rating) in the future. Data on compliance with the covenants is gathered at the level of the Stadtwerke Leipzig Group.

The agreement of covenants also serves to secure transactions in Wholesale Energy Trading contracts (EFET contracts). Data on compliance with these covenants is gathered at the Stadtwerke Leipzig GmbH level.

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### Group segments

The Stadtwerke Leipzig Group operates in three Segments: in **Trading** (business areas: Generation, Wholesale Energy Trading, Retail Energy Trading), **Networks** and **Services** (business areas: Energy-Related Services, Energy Supplies Pomerania, Information Technology, Telecommunications and Accounting). Activities that cannot be allocated to the separately presented segments are shown under Central Functions and Others.

	Total turnover		Consolidation		External turnover		Investment in tangible fixed assets and intangible assets <sup>1)</sup>	
	2008	2007	2008	2007	2008	2007	2008	2007
	[in € m]	[in € m]	[in € m]	[in € m]	[in € m]	[in € m]	[in € m]	[in € m]
Trading	2,880	2,016	65	<sup>2)</sup> 6	2,815	2,010	11	7
Networks	286	254	250	233	36	21	8	10
Services	150	187	32	34	118	153	30	37
<b>Central Functions and Others</b>	<b>18</b>	<b>16</b>	<b>9</b>	<b><sup>2)</sup>9</b>	<b>9</b>	<b>7</b>	<b>1</b>	<b>2</b>
<b>Total</b>	<b>3,334</b>	<b>2,473</b>	<b>356</b>	<b>282</b>	<b>2,978</b>	<b>2,191</b>	<b>50</b>	<b>56</b>

1) Not including book-value additions at the newly consolidated companies or additions to goodwill

2) Internal turnover was reallocated from Retail and Wholesale Trading to Central Functions and Others according the proper allocation in 2008. Figures for 2007 were adjusted accordingly to ensure comparability.

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### Trading

The Group's external turnover in the Trading segment totalled €2,815 million in the 2008 financial year (2007: €2,010 million). The segment's entire turnover was generated by the Group's parent company Stadtwerke Leipzig GmbH.

The main source of turnover in the Trading segment was Wholesale Energy Trading. In 2008 turnover in Wholesale Trading totalled €2,188 million (2007: €1,467 million) in electricity trading and €152 million (2007: €33 million) in gas trading. Successive business expansion continued in line with our growth strategy, leading in 2008 to an increase in turnover of +€721 million in the electricity field and +€119 million in the gas field. The contributing factors to this increase in turnover were a higher physical trading volume in exchange and OTC futures trading, rising market liquidity and higher average prices. The turnover also contains income from the nationwide marketing of structured supply contracts and services to distributors and industrial customers. Nationwide wholesale distribution of gas was launched on 1 October 2008. In addition to our own customer portfolio, we also serve and deliver to electricity and gas customers nationwide in cooperation with partners.

The Group's external turnover in Retail trading amounted to €450 million in 2008 (2007: €482 million). With a turnover share of 55 % or €250 million (2007: €285 million), the retail electricity business was the mainstay of turnover in this business area.

Competition intensified further in 2008. A large number of new providers, volatile energy prices and greater public awareness led at times to an emotionally charged atmosphere. In 2008 necessary adjustments of prices to cost developments could only be enforced after a time delay. Measures aimed adjusting to the changed market conditions concentrated on realigning nationwide distribution in the medium-sized business-customer segment (0.1 to 10 GWh per annum) and on optimising procurement.

In 2008 external turnover in the retail gas business amounted to €90 million (2007: €85 million). The increase in turnover was a result of price adjustments related to the price of heating oil, which only offset part of the higher costs in procurement. Since the beginning of 2007, the liberalisation of the gas market has made competition between gas suppliers possible, and it has been intensifying all the time. In 2008 this led to sales losses, which were offset – and in some cases more than offset – by temperatures, which were about 0.3 °C cooler than in the previous year.

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At €110 million, external turnover in retail district heating was slightly down on the previous year (2007: €112 million). The weather caused an increase in sales. The decline in turnover compared to 2007 was caused by the price cut related to the price of heating oil.

External turnover in the Generation business area amounted to €25 million (2007: €28 million). In 2007 the figures for Generation turnover included income from the sale of gas to EuKG. Following the splitting of Wholesale Energy Trading into electricity and gas trading, sales of gas to EuKG were integrated into wholesale gas turnover. The turnover included electricity revenue from the biomass power station at Bischofferode/Holungen amounting to €9 million (2007: €12 million) as well as turnover from service charges amounting to €16 million (2007: €15 million).

The turnover from service charges was made in business with Heizkraftwerk Eutritzscher Strasse GmbH & Co. KG, Leipzig (EuKG), the owner of the gas and steam turbine plant. Plant-management, maintenance and investment services for the gas and steam turbine plant were provided on the basis of a contract.

The electricity needed for Wholesale and Retail Trading was purchased on the wholesale market during the financial year. The contractual relations with VNG Verbundnetz Gas AG, Leipzig, on the supply of gas, and the district-heating-supply contract with Vattenfall Europe Generation AG & Co. KG, Berlin, were continued. Increasing amounts were purchased on the wholesale market to supply customers with gas. The energy-supply contract with EuKG on the procurement of electricity and district heating from the gas and steam turbine plant also remained unchanged as in previous years. The Wholesale Trading business area secured the supply of fuel (wood and oil) to the Generation business area by concluding both framework and individual contracts with different suppliers.

The Trading segment invested €11 million in intangible assets and tangible fixed assets during the financial year (2007: €7 million). The investment related primarily to the construction of the Piesteritz biomass cogeneration power plant (€4 million on balance) and a down payment on a core engine (main component of a gas turbine) for the Leipzig gas and steam turbine plant (€4 million).

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### Networks

External turnover in the Networks segment amounted to €36 million in 2008 (2007: €21 million). Use-of-system revenues in the Leipzig network area accounted for a substantial proportion of turnover and totalled €31 million (2007: €15 million).

In 2008 Stadtwerke Leipzig GmbH was awarded the electricity- and gas-franchise contracts and the district-heating licensing contract for the already existing Leipzig franchise and licensing area. The Leipzig State Directorate (Landesdirektion) has confirmed the award of the franchises and licence to Stadtwerke Leipzig as from 2013, so that the agreements for the period from 1 January 2013 to 31 December 2032 have been signed by the representatives of the City of Leipzig.

The segment's capital spending during the financial year included investment in intangible assets and tangible fixed assets amounting to €8 million (2007: €10 million). The main investments were in the medium- and low-voltage electricity mains to maintain the stability of supply (€5 million).

### Services

The Services segment's external turnover amounted to €118 million in 2008 (2007: €153 million). The main elements of external turnover were €68 million from Energy Supplies Pomerania (2007: €75 million), €10 million from Information Technology (2007: €41 million) and €36 million from Telecommunications (2007: €33 million).

Turnover from the Energy Supplies Pomerania business area came almost exclusively from sales of district heating (€68 million).

The shares in the company AB Klaipėdos energija, Klaipėda, Lithuania, were sold in the first half of 2008. The shares in Kompania za Energospestiaviane, Sofia, Bulgaria (KES), were also sold. Stadtwerke Leipzig GmbH has thus closed down its operations in Lithuania and Bulgaria.

## Bolstering growth

The –€31 million fall in turnover compared to the previous year in Information Technology was essentially due to the termination of (final invoice for) a major project of SHH on the introduction of a network information system at Vattenfall Europe Berlin (formerly BEWAG) in 2007.

The +€3 million increase in turnover in the Telecommunications business area was largely a result of the further development of the Cable TV business area by the addition of voice-over-IP products.

The main components of the Segment's investment in intangible assets and tangible fixed assets amounting to €30 million (2007: €37 million) were carried out in Energy Supplies Pomerania (€21 million) and Telecommunications (€5 million). Most of the investment carried out in Energy Supplies Pomerania was in the renewal and expansion of the heating networks. Customer-related investment remained the focus of investment in the Telecommunications business area.

### **Central Functions and Others**

Income unrelated to the accounting period and remaining other income was posted under Central Functions and Others.

### 3 Staff and employment policy

#### Development of the headcount

On 31 December 2008, 2,356 members of staff including trainees and apprentices were employed by the Group (2007: 2,357). The number of people employed by the Leipzig-based Group companies rose by +69. By contrast, the number of staff working in the Polish companies fell by a total of –75.

#### Human-resources policy

The aim of strategic HR policy is to actively support planned business development by promoting long-term staff development and permanently optimising their performance. In this context our staff-development strategy focuses on consolidating core competencies and the development and use of future staff potential.

The Group has a systematic approach to competence management. It is founded on a competence model that is determined by our strategy and forms the basis for all value-adding HR processes.

The initial training and qualification of staff in commercial and technical professions is given a high priority at Stadtwerke Leipzig GmbH. In view of demographic change, Stadtwerke Leipzig GmbH trains staff to meet its future needs. At the beginning of the 2008/2009 training year, the development of specialised commercial knowledge was being promoted in the context of a dual course of study leading to a Bachelor of Science degree. We are ensuring the availability of long-term engineering expertise by increasing the amount of training we offer in engineering.

As part of our long-term promotion of young talent, staff throughout the Group can develop into strategically operating experts and managers.

An efficient structural organisation has emerged as a result of the business-process optimisation efforts at GPEC. As the new structure developed, vacancies were filled on the basis of agreements with the unions. Work is currently in progress on a transparent remuneration system and effective communications. Optimisation work also began at the other Polish holdings in order to make processes more efficient and to achieve synergies.

## Bolstering growth

### 4 Environmental protection

Environmental protection and power generation do not have to be contradictory concepts. Indeed, this is shown by parent company Stadtwerke Leipzig GmbH's corporate strategy, in which environmental management is an integrated element code-termining the company's strategic orientation. At all company levels, there are concrete targets on reducing emissions and conserving natural resources. Investment decisions always take environmental protection into account. Among other things, this is illustrated in Stadtwerke Leipzig GmbH's commitment to the use of wood biomass and combined heat and power generation.

Since 2004 Stadtwerke Leipzig GmbH has been operating a certified environment-management system according to the international ISO 14001:2004 standard; every year we furnish data proving our compliance within the company. Every three years, the certification has to be renewed, and surveillance audits are conducted in the relevant departments by TÜV SÜD (Technical Inspectorate for Southern Germany). The 2007 recertification was again confirmed by a surveillance audit in 2008.

Stadtwerke Leipzig GmbH and Stadtwerke Leipzig Netz GmbH have drawn up a new environmental programme for the period from 2008 to 2011. The environmental measures focus on reducing emissions, saving on resources and guaranteeing organisational security.

In 2008 the Land Administration Office in Halle issued the third and fourth outline planning permits pursuant to the Federal Emission Control Act for the construction and operation of the Piesteritz biomass cogeneration power station. This will be Stadtwerke Leipzig GmbH's second biomass power plant; it will start generating power in 2009.

In 2008 GPEC successfully completed the verification of the existing certificate confirming that the management system conforms with the ISO standards 9001:2000 and 14001:2004 as well as PN-N 18001:2004 in the fields of generation, supply, distribution and district heating, as well as the generation of electrical energy, energy services in the field of modernisation and installation work, and laboratory examinations.

## 5 Risk report

### Risk management

Since 2000 the Group's parent company Stadtwerke Leipzig GmbH has had a risk-management system (RMS) that complies with the requirements of the German Law on Control and Transparency in Business (KonTraG). The Group's financial risk-management system is derived from this and is oriented towards our long-term financing strategy of ensuring the availability of the capital needed for future growth in the Group.

In the course of its operational business activities, the Group is also exposed to financial risks – particularly liquidity, non-payment and price risks. The main aim of risk management is to limit these risks using appropriate management and monitoring systems. Risk limitation does not mean the complete exclusion of financial risks, but economic control of these risks within a documented action framework and strict limits.

The main original financial instruments we use include cash and cash equivalents, financial investments, trade debtors and creditors, and borrowings. The derivative financial instruments we use are mainly interest-rate and foreign-exchange derivatives in the financial sphere and commodity derivatives in the energy-trading sphere. For further information on derivatives, please see the Notes to the Consolidated Financial Statements.

Furthermore, Stadtwerke Leipzig Netz GmbH's risk-management system was fully implemented in 2008. The company is integrated into Stadtwerke Leipzig GmbH's risk-management system and reports regularly in this context.

## Bolstering growth

### Financing and liquidity risks

A liquidity risk is defined as the risk of being unable to meet one's payment obligations on the due date. Financing risks essentially consist of the loan-prolongation risk and the financing-cost risk caused by a worsening of the company's credit standing.

The Group's cash management is based on a rolling system of monthly liquidity planning for the following twelve months respectively. Liquidity planning is a component part of monthly corporate risk reporting.

On 31 December 2008, the Group had €79 million in liquidity available at short notice (including available lines of credit).

The financing of the Group is based on compliance with covenants which could also be influenced by the situation regarding the operating result.

### Market risks

The liberalisation of the energy market and growing competitive pressure in the procurement and sales markets have exposed the Group to greater price and volume risks.

In our dealings with business and private customers, we counter the sales risks by active distribution and marketing activities.

As part of our procurement strategy for this customer segment, we predominantly conduct forward transactions on the wholesale market which enable us to fix the price of the quantities to be delivered. The delivery quantities that have fixed prices but have not yet been completely tied to final customers are monitored daily on the basis of the current wholesale market prices. The instruments for monitoring risks and optimising the procurement strategy are continuously being enhanced.

The energy sources for power generation are procured both on the basis of long-term delivery contracts and in the short term on the market at the current terms.

Commodity derivatives are used to secure the energy prices on both the procurement and sales side. The main instruments used to hedge against price increases are forwards, futures and options.

Commodity derivatives are also traded for profit for our own account. All positions traded for our own account are controlled within narrow limits, and compliance is continuously monitored by organisationally separate units.

## Management Report of Stadtwerke Leipzig Group

On the basis of the risk guideline for energy trading, special instruments are also used to counter the potential risks involved in entering into trading positions in energy trading.

The regulatory risks are seen in the provisions of the Energy Industry Act, the ordinances, especially those on incentive regulation and use-of-system charges, the BNetzA's (administrative) decisions and the resultant future schedules for the lowering of the revenue ceilings for use-of-system charges, as well as new conditions for the approval of prices that were not known at the time of the base years.

In 2009 grid operators face new challenges with the transition from cost to incentive regulation. The determined individual efficiency values and incentive paths will establish the extent to which it will be possible to achieve efficiencies in the next few years. On the other hand, the introduction of incentive regulation means that the outlook is becoming calculable for the first time for several years.

### **Non-payment risks**

A non-payment risk is the risk of a loss that can arise if a business partner becomes insolvent. These risks are related either to transactions with final customers and trading partners or to financing transactions.

Non-payment risks in business with final customers are countered by a strict system of receivables management. The creditworthiness of small and medium-sized business customers and key accounts is the prerequisite for the conclusion of contracts and is constantly monitored.

In Wholesale Energy Trading, the risk of non-payment by trading partners is reduced by customer-related limits, and we are constantly monitoring their creditworthiness and how close they are to their limits.

In the case of financial derivatives, risks of non-payment by the contracting party amount to the positive fair values. Stadtwerke Leipzig GmbH hedges against these risks by spreading risk, i.e. by concluding derivative transactions with several first-class European financial institutions.

## Bolstering growth

### Price risks

The risk of price changes can be caused by fluctuations in exchange rates, interest rates or energy prices. The Group uses derivative financial instruments to hedge against such price changes.

The Stadtwerke Leipzig Group hedged against foreign-exchange risks related to an existing borrower's note in US dollars by concluding a cross-currency swap over the entire term of the loan.

In line with our active interest-rate management, the Group's entire credit portfolio is subject to variable interest. The resultant risks of changes in interest rates are limited for a substantial part of the overall portfolio by transacting interest-rate swaps and options. The intensity of hedging operations was increased in 2008 because of the interest-rate environment.

### Operational risks

The Stadtwerke Leipzig Group invests in and operates complex technical plants to promote its business development. The Group's use of technological production plants exposes the company to risks of equipment failure and loss of output. Permanently maintaining the high quality standard of these plants and ensuring that they are operated by qualified members of staff is of key importance for the Stadtwerke Leipzig Group. In order to avoid potential risks in this field, the members of staff deployed there are integrated into a continuous training system to ensure and extend their high level of qualification in security-relevant measures. Furthermore, the effects of potential damage or loss are substantially limited by corresponding insurance policies.

### Political and legal risks

The accelerating pace of change in the economic, legal and social environment increases the Stadtwerke Leipzig Group's business risk. Particular importance is therefore attached to observing the legal and political environment.

## Management Report of Stadtwerke Leipzig Group

### Overall risk

No risks have been found that could prejudice the continued existence of the Group.

### Supplementary report

The revenue ceilings were fixed in the field of power distribution by the BNetzA's administrative decision dated 5 February 2009 and in the gas field by the Dresden Land Regulatory Authority's administrative decision dated 9 February 2009.

## 6 Forecast report

### Economic- and energy-policy outlook

The German Institute for Economic Research (DIW) expects negative GDP growth of  $-1.1\%$  in 2009 in view of the emerging slowdown in global economic growth. This is the biggest drop in Germany's economic output since 1945.

Important EU energy-policy targets for the coming years were specified in detail when the EU's climate-change package was passed by the European Parliament on 17 December 2008. Among other things, the package contains guidelines on emissions trading, promoting renewable energies and the sequestration and storage of carbon dioxide.

It lays down specific obligations for member states on the use of renewable energy in the generation of electricity and heat, as well as the principle of full auctioning of CO<sub>2</sub> certificates in the field of power generation.

The financial crisis and the weakening global economy will dominate the situation in the electricity and commodity markets for the foreseeable future.

In the long term, however, electricity prices will remain comparatively high, or start rising again, due to the development of fuel and CO<sub>2</sub> certificate prices and the continuing shortage of production capacity.

In accordance with the Energy Industry Act (EnWG) the system of incentive regulation was launched on 1 January 2009. This regulation model supersedes the present system of cost control by the regulatory authorities and prescribes an individual revenue ceiling for grid operators based on a nationwide efficiency comparison;

## Bolstering growth

this ceiling will gradually fall in the course of the regulatory periods. In the field of power distribution, the first regulation period covers a period of five years to 2013. The first regulation period for gas distribution will end after four years in 2012.

In the context of incentive regulation, the BNetzA has fixed the rates of return on new investment in the electricity and gas networks at a uniform 9.29 % and for old plants at 7.56 % before tax with effect from 1 January 2009.

In Poland the economics ministry began consultations on its draft of a new energy policy in August 2008. Primarily as a result of the developments on the world energy market, energy security is one of the key issues. Furthermore, the tougher EU conditions on the regulation of carbon dioxide emissions passed in December 2008 are also forcing Poland to alter its energy mix in favour of cleaner energy sources.

### Opportunities and risks of future development

The current financial-market crisis could impact on the Stadtwerke Leipzig Group's further corporate development. Up to now, the capital market has recognised the Stadtwerke Leipzig Group as a modern energy-service provider and supported the company in the implementation of its growth strategy. If the banks continue their extremely restrictive lending policy because of the financial-market crisis, we will have to consider adjusting our financing structure in 2009. This could lead, among other things, to shifts in investment in new plant and equipment.

### Trading segment

The liberalised electricity market offers distribution opportunities in nationwide retail business with small- and medium-sized companies. The largely standardised products are currently marketed via a network of distribution partners, which in future will be controlled by regional representatives.

By expanding distribution and trading activities and extending the company's range of standardised and structured products, the Wholesale business area is taking advantage of profit opportunities resulting from our position as one of the leading traders in the municipal sector and a distribution-oriented portfolio manager for small- to medium-sized distributors, major public clients and industrial customers. The Group has developed competitive advantages with the help of an extensive and innovative product portfolio for wholesale customers. We are making the most of growth opportunities that have emerged since the liberalisation of the gas market by establishing and developing gas trading, gas-portfolio management and wholesale

## Management Report of Stadtwerke Leipzig Group

distribution. Further growth potential can be tapped by expanding our range of services. This will mean in particular developing delivery management, marketing power-station capacity, the plant management of power-generation plants belonging to third parties, and balance-area and schedule management for other suppliers.

The scheduled beginning of continuous operations at the Piesteritz biomass cogeneration power plant will also launch continuous sales of power and steam, starting on 1 July 2009. Profit risks could arise as a result of a potential increase in the price of timber or a fall in the volume of steam deliveries to third parties. On the other hand, there are chances of increasing the amount of power marketed via payment according to the EEG (Renewable Energies Act) and a further improvement in our own wood procurement and logistics. Furthermore, solutions are being sought in the currently ongoing contract negotiations to offset the possible fall in income from steam deliveries.

Future investments are planned in new generation plants aimed at hedging the sales and trading positions of energy trading by achieving a corresponding level and flexibility of installed output. These investments will be linked to the development of the sales portfolio and make a lasting contribution to minimising risks and ensuring the independence of our energy procurement.

Changes in the prices of primary energy sources pose a potential risk to profits when prices rise. Rising wholesale-market prices cannot always be passed on swiftly and in full to final customers. A regular management report ensures that this risk to margins is monitored. The risk is also countered by cost-optimising and efficiency-raising measures.

The "City East Redevelopment Scheme", the population's demographic development, and, not least, the consequences of climate change will exert a considerable influence on the development of profits from the Leipzig heating market. One way in which the Group is countering these consequences is by its planned capital investment in new and replacement plant and equipment at the gas and steam turbine plant. The aim is to ensure that the power station operates economically in the long term. Moreover, our strategy to encourage and strengthen customer loyalty will be geared more strongly towards quality and service leadership.

Further profit risks are posed by the liberalisation of the electricity and gas market and the resultant increase in competition. The Group limits these risks, too, with a targeted customer-loyalty strategy and by expanding nationwide electricity-trading activities. We are also optimising our costs by building up and improving our own gas-trading and gas-portfolio management.

## Bolstering growth

### Networks segment

The Federal Network Agency (BNetzA) fixed the Group's electricity revenue ceilings for the years 2009 to 2013 in its administrative decision dated 5 February 2009. The individual efficiency figure determined by the BNetzA is above the industry average. The Land Regulatory Authority informed the company about the gas revenue ceilings for the years 2009 to 2012 in an administrative decision dated 9 February 2009. Here, too, the individual efficiency figure is above the industry average. The revenue ceilings took into account certain peculiarities that affect Leipzig, such as the cost of replacing the crumbling grey cast-iron mains.

There is also a risk that the per-contra entries included in the calculation of the provision for the elimination of additional revenues (i.e. the decisions made by the BGH in the grid operators' favour on 14 August 2008) will not be recognised, and that the chosen interest rates (compensating for inflation) have been set too low.

Cost risks must also be reckoned with, since the upstream power-grid operator is expected to raise prices sharply. At present it is not clear whether, to what extent, or when this cost increase can be passed on.

Future development will essentially be determined by incentive regulation and the administrative decisions of the BNetzA. Incentive regulation will lead to a further decline in revenues. The removal of the link between revenues and costs will create opportunities and risks as regards the rapid exploitation of efficiency potential. On the revenue side, the introduction of incentive regulation will lead to stable but gradually worsening overall prospects.

The market for the operation of metering points and the provision of measuring services was liberalised on 23 October 2008 by the amendment of the Energy Industry Act (EnWG) and the adoption of the Metering Access Ordinance (MessZV). In the medium term the grid operator's role in this field will be reduced to the provision of baseload services.

## Management Report of Stadtwerke Leipzig Group

### Services segment

**Contracting:** The contracting market and the market for renewable energies offer growth opportunities for the Energy-Related Services business area, especially in the use of biomass. In future, the development of standard retail products based on a contracting solution will be an important instrument for winning new customers and boosting customer loyalty in the Leipzig heating market. The contracting business is subject to the latent risk that the customers might postpone contracting projects or not place them on the market because of changes in the economic climate.

**Pomerania:** By implementing its strategy for the Pomerania business area (i.e. successfully seeking access to the Polish district-heating and services market) and the strategic core measures derived from it, the Group has taken a decisive step towards stabilising business in Pomerania. Priority is being given to improving profitability, raising market share and securing the long-term heating-supply infrastructure. The Energy Supplies Pomerania business area, too, is subject to potential profit risks, because of the worldwide increases in the prices of primary energy sources and fuels and the effects of the financial crisis, which could slow down a dynamic development of the Polish economy and the cities. Our Polish subsidiaries are countering this risk by realising synergies and investing in marketing expansion.

**Telecommunications:** The primary objective for the 2009 financial year is further organic growth. Another objective is to assert our position as a supplier in view of the expected consolidation among cable TV operators. There is a latent risk of a network operator switching to a different provider or providing Internet and voice services itself. In order to make further progress as an infrastructure-based provider, a pilot project to provide fibre-optic services is being conducted in the current financial year; more specific steps will be decided on once this project has been completed. These development plans include the provision of fibre-optic services to the whole city of Leipzig. Potential profit risks from a market-determined pressure on prices in the telecommunications business are primarily countered by meeting high technical quality requirements and implementing highly efficient processes, combined with intensive market monitoring.

## Bolstering growth

**Information Technology:** Growth opportunities in the information-technology market are mostly realised in the utility and health-service fields. In the next few years the focus in the utilities field will be on process consulting, the implementation of regulation issues, efficient accounting solutions and customer-relations management; in the health service we will concentrate on networking and integrating the service providers. Risks of individual investment projects being postponed as a result of economic developments are partly offset by opportunities for additional rationalisation projects for customers.

**Accounting:** As a result of the existing market roles, demand for pure network- or distribution-accounting services is gradually growing, especially from small network companies and pure distribution companies. This will create opportunities for growth in the accounting business. The opening of the metering market, especially the introduction of "smart metering", will lead both to opportunities (for winning additional customers) and to risks (e.g. that existing customers might switch to other providers).

Management Report of Stadtwerke Leipzig Group

**Group outlook**

The strategic goal pursued by the Group's parent company Stadtwerke Leipzig GmbH is to grow profitably on the basis of efficient processes as an independent, specialised energy-service provider in Leipzig, Germany and eastern Europe. One of the results of our further development in the context of the 2008 strategy process is that Stadtwerke Leipzig, as an environmentally oriented company, will in future be even more committed to climate protection and energy efficiency and raise the proportion of electricity it generates from renewable energy sources.

On-balance-sheet investments totalling €265 million are planned for 2009 and 2010; they represent important success factors in achieving our strategic objectives. The investment planned by the Stadtwerke Leipzig Group will be directed towards installing new generating capacity, improving the reliability and infrastructure of our supply networks, expanding our Services segment and strengthening its profitability.

On the basis of current medium-term planning, the Stadtwerke Leipzig Group's target for 2009 is a profit on ordinary activities of approx. €23 million.

Leipzig, 19 March 2009

The Management



Dr Anke Tuschek



Raimund Otto

## Consolidated Financial Statements for the Financial Year 1 January to 31 December 2008

<b>Stadtwerke Leipzig Group</b>					
<b>Balance Sheet – Assets</b>		<b>31 Dec. 2008</b>		<b>31 Dec. 2007</b>	
	Notes	[in €k]	[in €k]	[in €k]	[in €k]
<b>A. FIXED ASSETS</b>					
<b>I. Intangible assets</b>					
1. Land access rights, franchises, licences and software		13,069		13,168	
2. Goodwill (positive consolidation difference)		36,735	49,804	64,146	77,314
<b>II. Tangible assets</b>					
1. Real estate, rights equivalent to real estate, and buildings including buildings on third-party land		135,661		142,797	
2. Technical equipment and machines		406,184		430,524	
3. Other equipment, factory and office equipment		12,303		11,960	
4. Payments on account and assets under construction		22,614	576,762	16,221	601,502
<b>III. Financial assets</b>					
	[1]				
1. Shares in affiliated unconsolidated companies		2,367		5,293	
2. Loans to affiliated unconsolidated companies		18		212	
3. Associated undertakings		87		5,203	
4. Holdings in associated undertakings		249		223	
5. Loans to associated undertakings		–		100	
6. Other loans		4,211	6,932	3,669	14,700
<b>Total fixed assets</b>		<b>633,498</b>		<b>693,516</b>	
<b>B. CURRENT ASSETS</b>					
<b>I. Inventories</b>					
	[2]				
1. Raw materials and supplies		15,795		11,980	
2. Work in progress		4,863	20,658	4,065	16,045
<b>II. Receivables and other assets</b>					
	[3]				
1. Trade debtors		146,806		125,548	
– of which with a remaining term of more than one year: €418k (2007: €11k)					
2. Receivables from affiliated unconsolidated companies		55,526		77,010	
– of which with a remaining term of more than one year: €0k (2007: €0k)					
3. Receivables from associated undertakings		9,493		6,211	
– of which with a remaining term of more than one year: €0k (2007: €0k)					
4. Other assets		63,971		55,702	
– of which with a remaining term of more than one year: €17,089k (2007: €19,440k)			275,796		264,471
<b>III. Securities</b>					
Other securities			163		–
<b>IV. Cheques, cash at bank and in hand</b>					
			19,666		40,264
<b>Total current asset</b>			<b>316,283</b>		<b>320,780</b>
<b>C. PREPAID EXPENSES</b>					
	[4]		<b>3,531</b>		<b>2,994</b>
<b>Balance sheet total, assets</b>			<b>953,312</b>		<b>1,017,290</b>

Consolidated Financial Statements for the Financial Year 1 January to 31 December 2008

<b>Stadtwerke Leipzig Group</b>					
<b>Balance Sheet – Equity and Liabilities</b>					
	Notes	31 Dec. 2008		31 Dec. 2007	
		[in €k]	[in €k]	[in €k]	[in €k]
<b>A. EQUITY</b>	[5]				
I. Subscribed capital			22,000		22,000
II. Capital reserve			184,397		184,397
III. Revenue reserves			127,618		127,618
IV. Equity capital difference caused by foreign-exchange translation			-623		6,665
V. Consolidated net loss			-70,873		-34,511
VI. Balancing item for shares of other shareholders			-1,261		591
			<b>261,258</b>		<b>306,760</b>
<b>B. GOODWILL ARISING ON CONSOLIDATION</b>	[6]		<b>2,706</b>		<b>2,802</b>
<b>C. SPECIAL ITEMS</b>	[7]				
1. Special item for fixed assets			7,997		8,794
2. Special item for building-cost subsidies			52,704		56,235
3. Special item for gratuitous rights			-	<b>60,701</b>	-
					<b>65,029</b>
<b>D. PROVISIONS</b>	[8]				
1. Provisions for pensions and similar obligations			16,053		17,018
2. Provisions for taxation			9,579		23,583
3. Other provisions			184,770	<b>210,402</b>	155,446
					<b>196,047</b>
<b>E. LIABILITIES</b>	[9]				
1. Bank loans and overdrafts – of which with a remaining term of up to one year: €18,313k (2007: €25,669k)			299,145		314,930
2. Payments received on account of orders – of which with a remaining term of up to one year: €1,514k (2007: €694k)			1,514		694
3. Trade creditors – of which with a remaining term of up to one year: €87,738k (2007: €89,636k)			87,738		89,641
4. Amounts owed to unconsolidated affiliated companies – of which with a remaining term of up to one year: €1,672k (2007: €11,511k)			1,672		11,511
5. Amounts owed to associated undertakings – of which with a remaining term of up to one year: €5,226k (2007: €3,753k)			5,226		3,753
6. Other liabilities – of which with a remaining term of up to one year: €20,765k (2007: €24,416k) – of which tax liabilities: €5,461k (2007: €5,461k) – of which social security liabilities: €607k (2007: €607k)			22,063	<b>417,358</b>	25,174
					<b>445,703</b>
<b>F. DEFERRED INCOME</b>				<b>887</b>	<b>949</b>
<b>Balance sheet total, liabilities</b>			<b>953,312</b>		<b>1,017,290</b>

## Bolstering growth

Stadtwerke Leipzig Group					
Profit and Loss Account					
	Notes	2008		2007	
		[in €k]	[in €k]	[in €k]	[in €k]
1. Turnover	[10]				
Turnover without Wholesale Energy Trading		638,246		691,047	
Wholesale Energy Trading turnover		2,339,563	2,977,809	1,499,962	2,191,009
2. Reduction/Increase in work in progress			3,225		-26,985
3. Other internally produced and capitalised assets			2,949		3,456
4. Other operating income	[11]		32,904		42,585
5. Cost of materials	[12]				
a) Costs of raw materials and supplies and purchased goods		-2,681,683		-1,846,013	
b) Cost of purchased services		-32,439	-2,714,122	-29,443	-1,875,456
6. Staff costs					
a) Wages and salaries		-79,609		-81,037	
b) Social security costs, expenditure on old-age pensions and other benefits – of which on old-age pensions: €1,877k (2007: €2,523k)		-16,325	-95,934	-16,705	-97,742
7. Amortisation of intangible and tangible fixed assets	[13]		-83,624		-86,603
8. Other operating expenses	[14]		-101,537		-86,346
9. Income from holdings – of which from affiliated unconsolidated companies: €315k (2007: €87k)			315		268
10. Income from associated undertakings			62		87
11. Income from long-term financial investments – of which from affiliated unconsolidated companies: €24k (2007: €20k)			207		696
12. Other interest earned and similar income – of which from affiliated unconsolidated companies: €1,579k (2007: €1,604k)			7,944		8,409
13. Write-down of financial assets and marketable securities			-3,838		-668
14. Interest and related expenses – of which from affiliated unconsolidated companies: €8k (2007: €7k)			-26,224		-29,354
<b>15. Profit or loss on ordinary activities</b>			<b>136</b>		<b>43,356</b>
16. Extraordinary income			2,376		–
17. Extraordinary expenditure			-51		-10
<b>18. Extraordinary profit or loss</b>	[15]		<b>2,325</b>		<b>-10</b>
19. Taxes on the Group's corporate income and business profits	[16]		-9,832		-23,521
<b>20. Retained earnings</b>	[17]		<b>-7,371</b>		<b>19,825</b>
21. Profit attributable to other shareholders			-4,807		-8,923
22. Payments to other shareholders			-24,184		-30,499
23. Group profit/loss carried forward			-34,511		-14,914
<b>24. Consolidated net loss</b>			<b>-70,873</b>		<b>-34,511</b>

Consolidated Financial Statements for the Financial Year 1 January to 31 December 2008

<b>Stadtwerke Leipzig Group</b>		
<b>Cash flow statement</b>		
	<b>2008</b>	<b>2007</b>
	[in €k]	[in €k]
Profit or loss on ordinary activities	136	43,356
Depreciation minus reinstated depreciation	85,151	73,101
<b>Profit before taxes on income and before depreciation/amortisation</b>	<b>85,287</b>	<b>116,457</b>
Result from sale of fixed assets	-2,348	1,688
Increase/decrease in other assets	-27,514	-7,216
Increase/decrease in other liabilities	9,285	5,813
<b>Cash flows from operating activities</b>	<b>64,710</b>	<b>116,742</b>
Receipts from sale of fixed assets	18,895	12,477
Subsidies	1,828	1,895
Capital expenditure	-51,659	-57,775
Disbursements for the acquisition of consolidated companies	-160	-11,134
<b>Cash flows from investment activities</b>	<b>-31,096</b>	<b>-54,537</b>
Disbursements to the majority shareholder	-45,272	-54,000
Disbursements to the minority shareholders	-4,807	-8,923
Receipts from capital increase	-	14
Increase in short- and long-term loans received	2,513	5,970
Receipts from repayments of loans granted	11,651	32,461
Payments relating to the redemption of short- and long-term loans	-17,379	-52,438
Payments relating to the granting of short- and long-term loans	-1,201	-84
<b>Cash flows from financing activities</b>	<b>-54,495</b>	<b>-77,000</b>
<b>Net change in cash flow</b>	<b>-20,881</b>	<b>-14,795</b>
Changes in financial resources caused by exchange rates, the consolidated group or valuation	446	2,419
<b>Financial resources on 1 Jan.</b>	<b>40,264</b>	<b>52,640</b>
<b>Financial resources on 31 Dec.</b>	<b>19,829</b>	<b>40,264</b>

## Bolstering growth

# Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

## 1 General remarks

The consolidated financial statements of Stadtwerke Leipzig GmbH (abbreviated here to "the GmbH") have been prepared according to the regulations of the German Commercial Code (HGB) and the relevant provisions of the German Limited Liability Company Act (GmbHG) and the DM Balance Sheet Act (DMBilG).

The "total cost" type of short-term results accounting was chosen as the format for the profit and loss account.

## 2 The Group, participation ratios, consolidated group

The consolidated financial statements were compiled on the basis of the audited, separate financial statements of the included companies. 31 December 2008 was chosen as the consolidation date. Audited sets of consolidation forms were available for SWL Anlagenvermögensverwaltungs GmbH and SWL Kapitalvermögensverwaltungs GmbH. The financial statements of the included companies are prepared on the same reporting date as the parent company.

On 31 December 2008, the GmbH was indirectly or directly affiliated with – or had an indirect or direct holding in – the following companies:

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

**1. Consolidated affiliated companies  
(full consolidation)**

	Shareholder	Share [%]	Equity capital [in €k]	Profit/loss 2008 [in €k]
SWL Kapitalvermögensverwaltungs GmbH, Leipzig (KVV) <sup>1)</sup>	SW Leipzig	100.00	98,877	7,478
SWL Anlagenvermögensverwaltungs GmbH, Leipzig (AVV) <sup>1)</sup>	SW Leipzig	100.00	54,966	2,411
HL komm Telekommunikations GmbH, Leipzig (HL komm) <sup>1)</sup>	SW Leipzig	100.00	12,604	6,229
perdata Gesellschaft für Informationsverarbeitung mbH, Leipzig (perdata) <sup>1)</sup>	SW Leipzig	100.00	2,512	2,437
ENDICO Sp. z o.o., Jelenia Góra, Poland (ENDICO) <sup>7)</sup>	SW Leipzig	100.00	2,480	41
Stadtwerke Leipzig Netz GmbH, Leipzig (SWL Netz) <sup>1)</sup>	SW Leipzig	100.00	1,009	-7,360
LAS GmbH, Leipzig (LAS) <sup>1)</sup>	SW Leipzig	100.00	499	1,299
SWL Polska Sp. z o.o., Gdańsk, Poland (SWL Polska) <sup>7)</sup>	SW Leipzig	100.00	207	18
GNL Gasnetz Leipzig AG, Leipzig (GNL) <sup>1)</sup>	KVV	100.00	55	7,198
Zakład Energetyki Ciepłej Sp. z o.o., Tczew, Poland (ZEC Tczew) <sup>7)</sup>	SW Leipzig	99.85	4,654	359
Zakład Energetyki Ciepłej STAR-PEC Sp. z o.o., Starogard-Gdański, Poland (STAR-PEC) <sup>7)</sup>	SW Leipzig	87.28	5,519	122
Gdańskie Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o., Gdańsk, Poland (GPEC) <sup>7)</sup>	SW Leipzig	83.66	46,463	748
FWNL Fernwärmenetz Leipzig GmbH & Co. KG, Leipzig (FWNL)	SW Leipzig KVV	0.03 0.12	-9,215	4,090

**2. Unconsolidated affiliated companies**

	Shareholder	Share [%]	Equity capital [in €k]	Profit/loss 2008 [in €k]
ZUC Zakład Usług Ciepłowniczych Sp. z o.o., Gdańsk, Poland <sup>4) 5) 7)</sup>	GPEC	100.00	1,787	322
Innvo Innovationsgesellschaft mbH & Co. KG, Leipzig <sup>4) 5)</sup>	SW Leipzig	100.00	818	-2
SWL Beteiligungs GmbH, Leipzig <sup>4) 5)</sup>	SW Leipzig	100.00	77	26
Rector Beteiligungsgesellschaft mbH, Leipzig <sup>4) 5)</sup>	KVV	100.00	32	6
Innvo Innovationsgesellschaft-Management mbH, Leipzig <sup>4) 5)</sup>	SW Leipzig	100.00	29	1
smartlux Lichtsteuerungen GmbH, Leipzig <sup>4) 5)</sup>	Innvo KG	100.00	-629	-1,119
Orchis Energia Sopot Sp. z o.o., Poland <sup>4) 5) 7)</sup>	GPEC	60.00	1,403	67
PROMETHEUS – Gesellschaft für Erdgasanwendungsanlagen mbH, Leipzig <sup>5)</sup>	SW Leipzig	51.00	262	6

## Bolstering growth

### 3. Associated undertakings (included according to the equity method)

	Shareholder	Share [%]	Equity capital [in €k]	Profit/loss 2008 [in €k]
Erdgasversorgung Industriepark Leipzig Nord GmbH, Leipzig (EVIL)	SW Leipzig	50.00	500	123

### 4. Associated undertakings

	Shareholder	Share [%]	Equity capital [in €k]	Profit/loss 2008 [in €k]
Energy Services GmbH, Leipzig <sup>2) 3)</sup>	SW Leipzig	50.00	121	8
WABIO® Biokraftwerk Managementgesellschaft mbH, Leipzig <sup>2) 4)</sup>	SW Leipzig	50.00	19	-7
„EL-POMIAR“ Sp. z o.o., Gdańsk, Poland <sup>2) 4) 7)</sup>	GPEC	31.41	46	22
Solarion AG, Leipzig <sup>2) 4)</sup>	Innvo KG	14.46	3,223	-837
ennovatis GmbH, Großpösna <sup>2) 4)</sup>	Innvo KG	13.03	267	126
WABIO® Bioenergietechnik GmbH & Co. Biokraftwerk KG, Bad Köstritz <sup>2) 6)</sup>	SW Leipzig	5.00	-	-
Miedzynarodowe targi Gdańskie S.A., Gdańsk, Poland <sup>2) 3) 7)</sup>	GPEC	1.28	4,211	364
UNIMOR S.A., Gdańsk, Poland <sup>2) 4) 7)</sup>	ZEC Tczew	0.06	1,166	86
Heizkraftwerk Eutritzscher Straße GmbH & Co. KG, Leipzig (EuKG) <sup>2)</sup>	SW Leipzig	0.05	-41,540	3,978

1) Net income/loss for the year before profit/loss transfer

2) Associated undertakings not consolidated pursuant to section 311 subsection 2 of the Commercial Code (HGB) because they are of minor importance

3) Deviating or incomplete financial year

4) Data according to financial statements for 2007

5) Affiliated companies not included pursuant to section 296 subsection 2 of the HGB because they are of minor importance

6) Not available

7) Conversion rate on the balance-sheet date

## Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

Further shares in the fully consolidated companies STAR-PEC and GNL were acquired during the 2008 financial year. The number of shares in Tczew held by the GmbH was reduced in the course of a capital reduction.

ENDICO was included in the consolidation for the first time.

The shares in SHH GmbH SystemHaus Hemminger, Esslingen (SHH), were deconsolidated on 31 December 2008 because of the intention to sell the shares.

### 3 Consolidation principles

The consolidated financial statements are compiled according to uniform accounting and evaluation methods.

All included affiliated companies are fully consolidated.

The exchange rates on the reporting dates are used to translate items on the annual financial statements of foreign subsidiaries, the historical exchange rates for the equity capital.

The consolidated financial statements are prepared in accordance with the regulations on capital consolidation (section 301 of the HGB), debt consolidation (section 303 of the HGB) and the consolidation of expenses and revenues (section 305 of the HGB).

The capital consolidation is carried out according to the book-value method by offsetting the acquisition costs against the pro-rata equity capital of the respective subsidiary. Application of the German Accounting Standard no. 4 (DRS 4) is waived. If a stake is acquired between 1 January and 30 June, the offsetting is effected according to section 301 subsection 2 of the HGB using the valuations as at 1 January; if it is acquired between 30 June and 31 December it is valued as at 31 December. In cases where the valuation is carried out as at 1 January, the holding's entire balance sheet and profit and loss account are included in the consolidated financial statements. The entire profit for the year is included in the Consolidated income. In cases where the valuation is carried out as at 31 December, only the balance sheet is included in the Consolidated income; the profit for the year is included in full in the equity to be consolidated. The profit and loss account is not included.

## Bolstering growth

Positive and negative consolidation differences arising as a result of initial consolidation are shown as separate items on the balance sheet.

A positive consolidation difference (goodwill) is the result of a positive discrepancy between the parent company's costs of acquiring a holding and the value of the equity of the consolidated company allotted to this holding; in accordance with DRS 4 it is posted as Goodwill under Intangible assets.

According to section 309 subsection 1 of the HGB, the goodwill is amortised over a period of four years.

A negative consolidation difference (negative goodwill) arises as a result of capital consolidation if the pro-rata equity exceeds the book value of the holding. It is shown separately on the liabilities side of the balance sheet. In subsequent evaluation, there is no release with effect on net income, since the prerequisites of section 301 subsection 3 in conjunction with section 309 subsection 2 of the HGB are not met.

The holdings in the associated undertakings are posted at book value on first use pursuant to section 312 subsection 1 sentence 1 no. 1 of the HGB. The positive consolidation differences (goodwill) resulting after the book values of the holdings have been offset against the pro-rata equity capital of the associated undertakings are depreciated over a period of four years.

The associated undertakings' share of the profit for the year is shown in the subsequent years as a change in the book values of the holdings and posted in the result from holdings in associated undertakings.

Receivables and liabilities between fully consolidated companies are eliminated. Internal sales revenues and intragroup income are netted with the corresponding expenditure.

The elimination of intermediate results is waived pursuant to section 304 subsection 2 of HGB.

Notional taxes on corporate income and business profits are determined for the Group result.

A fully consolidated company that leaves the consolidated group must be de-consolidated. All consolidated balance-sheet items of the company concerned were taken out of the books and all effects on the Group result were undone as part of the de-consolidation. If the company is deconsolidated as at the balance-sheet date 31 December 2008, the current year's result is still allocated to the Group.

## 4 Accounting and valuation methods

The separate financial statements of the companies included in the consolidated financial statements are compiled according to uniform accounting and evaluation methods. In individual cases, the foreign subsidiaries deviated from the uniform valuation pursuant to section 308 of the HGB.

### a) Assets

Purchased intangible assets and tangible fixed assets are valued at acquisition or production cost minus regular and unscheduled depreciation. The production costs of assets constructed by the company for its own use include not only direct costs, but also appropriate overhead (without interest paid on borrowings). Real-estate additions within the meaning of the Assets Allocation Act (Vermögenszuordnungsgesetz) are shown on the balance sheet at a flat-rate land value.

Fixed assets taken over free of charge were reported in previous years at their fair market value on the date of transfer.

Most regular depreciation is carried out on a straight-line basis over the asset's useful life and using the highest rates permissible under tax law. Fixed assets purchased in the course of the year are written off pro rata temporis. Low-value assets in the fiscal sense are included in a collective item at acquisition or production cost between €150 and €1,000 per asset. One fifth of the collective item is released, reducing profit, in the financial year in which it was formed and the following four financial years respectively (pursuant to section 6 subsection 2 of the Income Tax Act [EStG]).

In the Polish companies, low-value assets in the fiscal sense are written off in full in the year of acquisition up to a value of PLN 3,500 (€843). No revaluation was carried out because of the minor importance of the matter.

Shares in non-consolidated affiliated companies and associated undertakings are stated at acquisition cost. Shares in foreign companies are translated at the current exchange rate that applied on the date of the transaction. Interest-free loans are shown on the balance sheet at their present value. Where necessary, items were written down to the lower fair value on the balance-sheet date.

## Bolstering growth

All raw materials and supplies are reported at average cost prices, applying the principle of the lower of cost or market. In the case of the Polish companies they are reported according to the FIFO method. No revaluation was carried out because of the minor importance of the matter.

Emission certificates allocated free of charge are posted under Inventories at the memo value. Purchased emission certificates are shown on the balance sheet under Inventories at acquisition cost. Where necessary, items were written down to lower fair value on the balance-sheet date.

Work in progress is valued loss-free at production cost.

Receivables and other assets are valued at their nominal value. Recognisable risks are taken into account by making appropriate writedowns. General bad-debt provisions are made according to the age structure of the receivables to cover both general non-payment risks and expected risks arising from the assignment of receivables from energy deliveries to later periods. Furthermore, a general bad-debt provision of 1 % is made to cover general credit risks.

Under Receivables from gas, electricity and district heating supplied, received payments on account are set off against accrued consumption that has not yet been read.

Taking section 246 subsection 2 of the HGB into consideration, receivables and liabilities are netted out where netting contracts have been agreed with wholesale trading partners.

The Other assets include, among other items, financial derivatives that must be shown on the balance sheet. See the information provided on financial derivatives (section 5) for more details on the valuation of interest-rate options shown on the balance sheet.

Cash resources (cheques, cash at bank and in hand) are shown at their nominal value. Amounts in foreign exchange are translated at the exchange rate on the reporting date or at their current fair value, whichever is lower.

Prepaid expenses shows expenditure paid before the balance-sheet date that represent expenditure for a certain time after this date.

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

**b) Equity and liabilities**

The subscribed capital is reported at its nominal value.

The Group's Revenue reserves include the GmbH's special-purpose reserve pursuant to section 27 subsection 2 of the DMBilG, LAS's other revenue reserves, the GmbH's Special item with partial reserve character pursuant to section 4 of the Development Area Act (FördG), and FWNL's other revenue reserves based on the elimination of tax depreciation pursuant to the provisions of the Law on the Further Reform of Stock-Corporation and Balance-Sheet Law, and the Law on Transparency and Disclosure (TransPuG).

The item Equity capital difference caused by foreign-exchange translation in the group is, on the one hand, a result of the deviation between the valuation of items of the balance sheet and profit and loss account at the exchange rate on the reporting date and, on the other hand, the valuation of equity capital at the historical exchange rate used by the consolidated foreign companies.

Capital investment grants and bonuses are shown under Liabilities as a Special item for fixed assets. Capital investment grants are fully released to income, either over the useful life of the fixed assets or on their retirement. The release of the capital investment bonuses to income is based on an across-the-board assumption of a twenty-year useful life.

Subsidies carried as liabilities are shown under the Special item for subsidies. The annual release of the Special item amounts to 5 % for building-cost subsidies received up to 31 December 2002. Building-cost subsidies received after 1 January 2003 are released to income over the useful life of the subsidised assets. Subsidies received by the Polish companies are always immediately recorded with effect on the operating result.

Selected provisions for staff as well as provisions for pensions and similar obligations are formed on the basis of actuarial expert opinions according to the going-concern-value method at an interest rate of 5.5 % and 6 % respectively. The computation of the going-concern values is based on the 2005 G guideline tables compiled by Klaus Heubeck.

At the Polish companies, provisions for old-age allowances are formed on the basis of mathematical expert opinions in accordance with IAS 19; the provisions for

## Bolstering growth

anniversary bonuses are based on the amounts likely to be paid. This is a change in accounting procedure of minor importance pursuant to section 308 subsection 2 sentence 3 of HGB.

The item Other provisions includes the emission certificates allocated free of charge, which are posted at the memo value. In order to meet the obligation to return the certificates, a provision amounting to the market value on the balance-sheet date was formed for the additional certificates required.

Recognisable risks and uncertain obligations are taken into account in the determination of Other provisions.

Liabilities are reported at their repayment value.

Deferred income includes income received before the balance-sheet date if it continues to represent revenue for a certain time after this date.

## 5 Notes to the Balance Sheet

### Fixed assets

Changes in individual fixed-asset items and depreciation in the financial year are shown in the "Movements in the Group's Fixed Assets in the 2008 Financial Year" schedule.

The item Goodwill contains the positive consolidation differences amounting to €36,735k (2007: €64,146k). The amortisation of existing goodwill totalled €27,090k. Additional goodwill amounting to €106k was formed by the GmbH's acquisition of further shares in STAR-PEC.

### [1] Financial assets

The item Financial assets includes the shares in and loans to the affiliated companies and associated undertakings that are not included in the consolidated group, as well as other loans to non-company third parties and staff.

The book value of the holding in EVIL was updated, taking into account the payment to shareholders and the pro-rata results for the year (€62k) in the 2008 financial year.

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

**Current assets**

**[2] Inventories**

Inventories on the balance-sheet date include returnable emission certificates worth a total of 355,378 tonnes of CO<sub>2</sub> that were allocated free of charge for the second trading period (2008–2012); they were posted at a memo value of €1 (market value on 31 December 2008: €5,729k). Inventories also contain emission certificates worth 50,000 tonnes of CO<sub>2</sub> with a market value of €748k that were purchased at acquisition cost.

**[3] Receivables and other assets**

The Trade debtors essentially contain invoices for sales of electricity, gas and district heating. These are receivables relating to energy consumption between the date of the last meter reading and the balance-sheet date which is charged to subsequent periods; these receivables were set off against payments received on account.

Receivables from affiliated (unconsolidated) companies essentially relate to receivables from the shareholder Leipziger Versorgungs- und Verkehrsgesellschaft mbH, i.e. the advance transfer of profits (€34,000k) and Receivables from cash pooling (€12,326k).

Receivables from associated undertakings consist of Trade debtors from EuKG.

The Other assets relate to receivables from a forfeiting agreement of KVV (€17,346k) among other items.

The Receivables and other assets include €17,507k with a remaining time to maturity of more than one year.

**[4] Prepaid expenses**

Prepaid expenses amounted to €3,531k on the balance-sheet date. €329k of this is a disagio of the GmbH.

## Bolstering growth

### [5] Equity

The subscribed capital in the consolidated financial statements corresponds to the GmbH's share capital.

The Revenue reserves contain the GmbH's Special item with partial reserve character amounting to €41,223k relating to the elimination of tax depreciation. A further €42,752k relates to the other revenue reserves of FWNL created as a result of the subsequent elimination of the special tax depreciation since the time of the first depreciation on the assets side. The similar revenue reserve at GNL was netted when calculating goodwill during the initial consolidation of capital.

The main components of the Balancing item for shares of other shareholders amounting to –€1,261k are the shares of various limited partners in FWNL, the shares of the municipality of Starogard-Gdański in STAR-PEC, and the shares of the municipality of Gdańsk in GPEC.

The Group closes the financial year with a net loss of €7,371k. After taking into account the dividend payment to outside shareholders amounting to €24,184k, the loss carried forward from the previous year of €34,511k, and the profit attributable to other shareholders in the financial year amounting to €4,807k, the Consolidated net loss comes to €70,873k.

### [6] Goodwill arising on consolidation

The negative consolidation difference arising on consolidation amounts to €2,706k on the balance-sheet date (2007: €2,802k). Of this, €1,651 relates to GPEC, €601k to KVV, €152k to LAS, €15k to STAR-PEC, €9k to SWL Netz and €6k to perdata.

The €272k increase during the financial year relates to the subsequent consolidation of the Polish subsidiaries Tczew (€105k) and GNL (€163k) as a result of the further acquisition of shares and the initial consolidation of ENDICO (€4k).

### [7] Special items

The Special item for fixed assets in the consolidated financial statements contains not only the GmbH's grants (€6,563k) but also World Bank subsidies to GPEC (€844k) and a government subsidy to ENDICO for the construction of a hydroelectric power plant (€589k). It also shows the GmbH's Special items for building-cost subsidies.

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

[8] Provisions

Provisions	31 Dec. 2008 [in €k]	31 Dec. 2007 [in €k]
1. Provisions for pensions and similar obligations	16,053	17,018
2. Provisions for taxation	9,579	23,583
3. Other provisions	184,770	155,446
<b>Provisions</b>	<b>210,402</b>	<b>196,047</b>

The Provisions for taxation essentially contain notional taxes on the GmbH's business profits (€9,438k)

The most important items in the Other provisions are provisions for a repurchase obligation vis-à-vis EuKG (€49,787k), for procurement-expenditure invoices not yet received (€40,191k), for expenditure on part-time employment schemes for older employees, social compensation plans and staff costs (€16,308k), for the cost of cleaning up ecological damage (€14,566k), and for obligations to pay compensation for property-secured rights to run lines across third-party properties pursuant to section 9 of the Land Registry Adjustment Act (GBBerG) (€12,706k).

Furthermore, a provision for the elimination of additional revenues amounting to €15,800k was shown on the balance-sheet date affecting the GmbH and SWL Netz. This provision takes account of the risk position resulting from the future implementation of a judgement by the Federal Court of Justice (Bundesgerichtshof, BGH) dated 14 August 2008. According to the judgement, although grid operators were entitled to demand the use-of-system charges costed according to the StromNEV (Regulation on Charges for Access to Electricity Supply Networks) under Associations' Agreement II (Verbändevereinbarung II) in the period from 29 October 2005 until the first approval of the use-of-system charges, they should not have been allowed to finally keep the resultant additional revenues. The Federal Network Agency (BNetzA) reserves the right to oblige grid operators to reduce their annual revenue ceiling (beginning in 2010) by any additional revenues received in the course of the regulation period.

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A provision for uncertain liabilities was formed to cover this eventuality for the period from November 2005 until March 2007. The calculation of the size of the provision took into account in particular the decisions taken by the BGH in the grid operators' favour on 14 August 2008:

- costs budgeted for lost energy may be included,
- a risk premium may be included on the rate of return on the proportion of equity that exceeds the permitted equity ratio (known as EK-Zinssatz II),
- assets under construction may be taken into account in the imputed rate of return on equity.

In addition, rates of return on the determined additional revenues up to and including 2008 were added, offsetting the rate of inflation in each year. The rate on which the calculation was based varied from 1.5 % for 2005 to 2.6 % for 2008.

Provisions worth a total of €89,730k fall due within a year.

### [9] Liabilities

Liabilities ageing report	31 Dec. 2008	Remaining term		31 Dec. 2007
	[in €k]	up to 1 year [in €k]	over 5 years [in €k]	[in €k]
1. Bank loans and overdrafts	299,145	18,313	180,916	314,930
2. Payments received on account of orders	1,514	1,514	–	694
3. Trade creditors	87,738	87,738	–	89,641
4. Amounts owed to affiliated (unconsolidated) companies	1,672	1,672	–	11,511
5. Amounts owed to associated undertakings	5,226	5,226	–	3,753
6. Other liabilities	22,063	20,765	–	25,174
<b>Liabilities</b>	<b>417,358</b>	<b>135,228</b>	<b>180,916</b>	<b>445,703</b>

The main companies affected by the Bank loans and overdrafts are the GmbH (€247,662k), GNL (€26,318k), GPEC (€16,926k) and HL komm (€5,588k). €138,600k was secured by charges on associated undertakings or simple negative declarations and the assignment of claims. No collateral was agreed for the remaining liabilities.

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

The Amounts owed to affiliated (unconsolidated) companies essentially contain the amounts owed by GPEC to "EL-POMIAR" Sp. z o.o., Gdańsk, Poland (€1,077k) and the amounts owed to the shareholder LVV, amounting to €58k.

The Amounts owed to associated undertakings relate to EuKG.

**Contingent liabilities and contingencies**

On 31 December 2008, banks held two letters of comfort issued as collateral for the liabilities of associated undertakings amounting to €26,123k (2007: €27,624k). Furthermore, the company has joint and several liabilities for lines of credit up to €61,000k (2007: €61,000k); €28,724k of these lines (2007: €0k) had been used by 31 December 2008.

Purchase commitments from orders placed totalled €9,437k on 31 December 2008 (2007: €501k).

**Other financial commitments**

Operational leasing commitments amounted to €86,726k on 31 December 2008 (2007: €84,701k). Furthermore, commitments relating to tenancy, lease and leasing agreements amounted to €102,390k. Of this, €91,727k related to the GmbH, €7,413k to HL komm, €2,023k to LAS, and €1,227 to perdata.

Options on rights of tender of delivery and rights of pre-emption vis-à-vis the GmbH amounted to €55,474k. There were also commitments to pay limited-partner capital contributions (€1,474k).

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### Financial derivatives

Interest-rate and foreign-exchange derivative transactions are made to limit interest-rate and foreign-exchange risks. We hedge against energy-price risks with commodity derivatives in the form of options, forwards and futures.

On the balance-sheet date, the nominal volumes, fair values and book values of the financial derivatives posted under Other assets or Other liabilities were as follows:

Financial derivatives	Nominal volume		Fair value		Book value	
					Assets	Equity and liabilities
	31 Dec. 08 [in €k]	31 Dec. 07 [in €k]	31 Dec. 08 [in €k]	31 Dec. 07 [in €k]	31 Dec. 08 [in €k]	31 Dec. 08 [in €k]
<b>Interest-rate derivatives</b>	<b>646,893</b>	<b>943,909</b>	<b>-15,019</b>	<b>-13,825</b>	<b>1,323</b>	<b>1,433</b>
Interest-rate swaps	530,893	503,909	-16,342	-15,890	-	-
Interest-rate options	116,000	440,000	1,323	2,065	1,323	1,433
<b>Foreign-exchange derivatives</b>	<b>98,151</b>	<b>92,050</b>	<b>-11,212</b>	<b>-16,399</b>	<b>-</b>	<b>-</b>
Foreign-exchange futures	6,101	-	285	-	-	-
Cross-currency swaps	92,050	92,050	-11,497	-16,399	-	-
<b>Commodity derivatives</b>	<b>4,977,934</b>	<b>2,088,969</b>	<b>488</b>	<b>32,296</b>	<b>4,708</b>	<b>164</b>
Commodity forward transactions	4,977,934	2,088,969	488	32,296	4,708	164

The nominal volume is the sum of all the amounts of capital on which the derivative financial transactions are based.

In its use of derivative financial instruments the company is exposed to a credit (or repayment) risk and a market risk. If a counterparty fails to meet its payment obligations under the derivative contract, the counterparty risk corresponds to the derivative's positive market value. If its market value is negative, it corresponds to the debt vis-à-vis the counterparty that bears the repayment risk.

Each of the indicated fair values of the financial derivatives corresponds to the price at which an independent third party would acquire the rights/obligations of this financial instrument on the valuation date. The fair values of the derivatives are determined on the basis of generally recognised valuation models (present-value or option-price models).

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

Negative market values of the interest-rate swaps used, such as a deterioration in the present value of the underlying transactions secured, do not appear on the balance sheet. The current interest payments are recorded under Net interest income and affect the operating profit.

The caps and swaptions posted under Interest-rate options are capitalised at the time of acquisition as Other assets at acquisition cost (= option premium to be paid). There were no caps in the portfolio on the balance-sheet date 31 December 2008. The capitalised option premiums of the swaptions were written off to the positive fair value on the balance-sheet date. The swaptions shown in the portfolio were concluded in 2008; their remaining terms run until December 2012. Since the GmbH assumes that these options are of value on the balance-sheet date because of their remaining terms, the capitalised option premiums of the swaptions are written off to the positive fair value on the balance-sheet date.

If the premiums for the interest-rate options are paid pro rata temporis, the outstanding payments are shown on the balance sheet separately under Other liabilities and have not affected the fair value.

The fair values of the foreign-exchange futures transactions and the cross-currency swap are determined on the basis of the exchange rates on the balance-sheet date, taking into account forward premiums/discounts. The foreign-exchange futures existing on 31 December 2008 served to hedge the short-term loan to the Polish subsidiary GPEC. The posted cross-currency swap forms a separate valuation unit together with the US borrowers' note loan, since its only purpose is to hedge the dollar liabilities at matching maturities. There are no plans for closing the cross-currency swap prematurely.

In line with section 285 sentence 1 number 18 of the HGB, all financial derivatives purchased for trading purposes are reported under Commodity derivatives in the Notes to the financial statements. The previous year's statement was adjusted accordingly.

The nominal volume corresponds to the additive value of all agreed purchase (€2,488 million) and selling agreements (€2,490 million) for future delivery periods in the commodities electricity, gas and emission certificates.

The fair value is determined at market prices on the balance-sheet date based on externally recognised sources, e.g. the official closing prices on the European Energy Exchange AG, Leipzig (EEX).

The balance-sheet valuation of options and forward transactions is carried out at original or production cost or at the fair value, whichever is lower.

## Bolstering growth

## 6 Notes to the Profit and Loss Account

## [10] Turnover

Turnover	2008 [in €k]	2007 [in €k]
Retail electricity business (gross)	282,804	324,299
Electricity tax	-33,181	-39,099
Retail electricity business (net) <sup>1)</sup>	249,623	285,200
Retail gas business (gross)	99,223	93,400
Natural-gas tax	-8,745	-8,705
Retail gas business (net) <sup>1)</sup>	90,478	84,695
District-heating retail business	110,267	112,462
Wholesale electricity trading (gross)	2,188,144	1,467,212
Electricity tax	-237	-
Wholesale electricity trading (net) <sup>1)</sup>	2,187,907	1,467,212
Wholesale gas trading (gross)	163,841	42,773
Natural-gas tax	-12,185	-10,023
Wholesale gas trading (net) <sup>1) 2)</sup>	151,656	32,750
Income from power stations	9,248	12,454
Service charges to EuKG	15,750	15,482
<b>Subtotal: Trading segment</b>	<b>2,814,929</b>	<b>2,010,255</b>
Supply networks	30,691	15,188
Income from building-cost subsidies	5,625	5,498
<b>Subtotal: Networks segment</b>	<b>36,316</b>	<b>20,686</b>
Electricity Supplies Pomerania	68,001	75,158
IT services	9,663	40,853
Telecommunications	35,978	32,885
Accounting services	206	703
Energy-related services	3,518	3,366
<b>Subtotal: Services segment</b>	<b>117,366</b>	<b>152,965</b>
Other turnover	9,198	7,103
<b>Subtotal: Other turnover <sup>1)</sup></b>	<b>9,198</b>	<b>7,103</b>
<b>Turnover</b>	<b>2,977,809</b>	<b>2,191,009</b>

1) Internal turnover was reallocated from Retail to Wholesale Energy Trading and Other turnover according to the proper allocation in 2008. Figures for 2007 were adjusted accordingly to ensure comparability.

2) Turnover from Wholesale Energy Trading was split into turnover from electricity trading and turnover from gas trading in 2008. Furthermore, sales of gas to EuKG were integrated into the item Wholesale Energy Trading. Figures for 2007 were adjusted accordingly to ensure comparability.

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

Other turnover included turnover unrelated to the accounting period amounting to €1,946k (2007: €1,165k). This turnover (€1,770k) essentially related to the GmbH and is the difference between deferred turnover for the year ended 31 December 2007 and the invoiced turnover for the deferred period.

[11] **Other operating income**

<b>Other operating income</b>	<b>2008</b> [in €k]	<b>2007</b> [in €k]
Income from the release of provisions	10,048	7,368
Release of allowances for doubtful debt	4,425	1,261
Income from disposals of fixed assets	3,285	296
Remaining income unrelated to the accounting period	3,307	16,441
<b>Subtotal: Other operating income unrelated to the accounting period</b>	<b>21,065</b>	<b>25,366</b>
Remaining income	11,839	17,219
<b>Other operating income</b>	<b>32,904</b>	<b>42,585</b>

The increase in Income from disposals of fixed assets was essentially the result of the sale of the GmbH's shares in AB Klaipėdos energija, Klaipėda.

The Remaining income unrelated to the accounting period is essentially made up of credit entries for energy purchases and electricity and natural-gas tax for other accounting periods.

The Remaining income includes income from dunning and incidental expenses (€2,308k), rental and lease income (€1,474k) and income from the release of capital investment bonuses and grants.

[12] **Cost of materials**

Costs of raw materials, supplies and purchased goods include energy purchases amounting to €1,763k that are unrelated to the accounting period (2007: €4,094k). The cost of purchased services essentially relates to expenditure based on the service contracts with the fund-management companies EuKG, GNL and FWNL.

[13] **Amortisation**

Amortisation of goodwill amounted to €27,090k during the financial year.

## Bolstering growth

### [14] Other operating expenses

Other operating expenses	2008 [in €k]	2007 [in €k]
Transfer to Provisions for the elimination of additional revenues	15,800	–
Taxes unrelated to the accounting period	1,898	936
Remaining expenses unrelated to the accounting period	1,589	2,631
<b>Subtotal: Expenditure unrelated to the accounting period</b>	<b>19,287</b>	<b>3,567</b>
Franchise fees	20,352	20,194
Expenditure on services and invoicing services	3,309	3,482
Expenditure on information technology	2,177	2,344
Losses on receivables/Allowances for doubtful debt	12,927	9,820
Expenditure on customer care and marketing	6,146	6,584
Remaining other expenditure	37,339	40,355
<b>Other operating expenses</b>	<b>101,537</b>	<b>86,346</b>

The Remaining expenses unrelated to the accounting period essentially include losses from sales of fixed assets (€942k) and expenditure relating to the franchise fees in other accounting periods (€428k). Among other items, the Group's Remaining other expenditure includes expenditure on auditing and consulting (€4,819k), on rent, leases and leasing (€9,654k), on legal costs (€2,117k), and on other taxes (€3,726k).

### [15] Extraordinary profit or loss

The main item in the Extraordinary profit or loss amounting to €2,325k is SHH's waiver of repayments of loans extended to the other shareholders.

### [16] Taxes on corporate income and business profits

Taxes comprise the notionally determined taxes on the GmbH's corporate income and business profits (€9,438k) and current expenditure in the Group on taxes on corporate income and business profits (€393k).

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

[17] **Consolidated income**

The Consolidated income amounts to –€7,371 k (2007: €19,825 k). It is made up of the following items:

<b>Consolidated income</b>	<b>2008</b> [in €k]	<b>2007</b> [in €k]
<b>Consolidated income</b>	<b>–7,371</b>	<b>19,825</b>
Profit attributable to other shareholders	–4,807	–8,923
Payment to the shareholder	–24,184	–30,499
Group loss carried forward from previous years	–34,511	–14,914
Transfer to other revenue reserves	–	–
<b>Consolidated net loss</b>	<b>–70,873</b>	<b>–34,511</b>

The share of the Consolidated income attributable to the outside shareholders in 2008 amounted to €4,807 k (2007: €8,923 k). The item Payments to other shareholders included the payment from the previous year. This relates to the profit transfer from the GmbH to the shareholder LVV amounting to €47,272 k minus the notional tax burden (€23,088 k). The Group loss carried forward from previous years corresponds to the previous year's Consolidated net loss.

## 7 Other information

a) **Annual average number of employees**

<b>Annual average number of employees</b>	<b>2008</b>	<b>2007</b>
Employees	2,263	2,237
Trainees (incl. apprentices)	102	107
	<b>2,365</b>	<b>2,344</b>

## Bolstering growth

On the balance-sheet date the Group employed a total of 2,356 members of staff including 106 trainees and apprentices.

### b) Management

Dr Anke Tuschek

Mr Raimund Otto

### c) Members of the Supervisory Board

	Function	
<b>Shareholders' representatives</b>		
Mr Uwe Albrecht	Chairman	Mayor
Dr Hans-Joachim Klein	2nd Vice-Chairman (until 17 April 2008)	Managing director
Mr Josef Rahmen	2nd Vice-Chairman (since 18 April 2008)	Managing director
Mr Alexander Achminow		Managing director of a publishing house
Mr Reiner Engelmann		Teacher
Ms Ingrid Glöckner		Certified engineer
Ms Ursula Grimm		Mayor (rtd.)
Mr Detlef Kruse	(since 18 April 2008)	Managing director
Ms Bettina Kudla		Mayor
Mr Gunter Müller		Lawyer
Mr Roland Quester		Library manager
<b>Employees' representatives</b>		
Mr Rainer Hartmann	1st Vice-Chairman	Works council member
Mr Michael Eberhard		Trade union secretary
Ms Ines Jahn		Trade union secretary
Mr Bernhard Krabiell		Trade union secretary
Mr Peter Lintzel		Head of department
Mr Uwe Lübeck		Works council member
Mr Jürgen Mackott		Senior fitter
Mr Peter Reichenbach		Master electrician
Mr Udo Schieritz		Works council member
Mr Thomas Washeim		Shift supervisor, gas and steam turbine plant

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

The total remuneration for the members of the Supervisory Board amounted to €46k in the 2008 financial year.

**d) Advances and loans to members of the Supervisory Board and contingencies to the credit of members of the Supervisory Board**

A loan to a member of the Supervisory Board amounting to €11k (2007: €19k) existed on 31 December 2008. €8k was repaid during the financial year. The loan bears 6.32 % interest p.a. and ends in 2013.

Leipzig, 19 March 2009  
The Management



Dr Anke Tuschek



Raimund Otto

## Bolstering growth

## Movements in the Group's Fixed Assets in the 2008 Financial Year

	Acquisition and production cost						
	At 1 Jan. 2008	Additions	Transfers	Disposals	Additions on con- solidation	With- drawals con- solidation	Exchange- rate differences
	[in €k]	[in €k]	[in €k]	[in €k]	[in €k]	[in €k]	[in €k]
<b>I. Intangible assets</b>							
1. Land access rights, franchises, licences and software	57,111	5,091	998	170	–	392	–169
2. Goodwill (positive consolidation difference)	112,410	160	–	–	–	1,923	–
	<b>169,521</b>	<b>5,251</b>	<b>998</b>	<b>170</b>	<b>–</b>	<b>2,315</b>	<b>–169</b>
<b>II. Tangible assets</b>							
1. Real estate, rights equivalent to real estate, and buildings including buildings on third-party land	252,482	6,416	1,370	3,342	–	–	–17,897
2. Technical equipment and machines	949,965	11,563	3,178	5,019	3,382	–	–6,252
3. Other equipment, factory and office equipment	46,247	5,112	147	3,834	–	800	–1,374
4. Payments on account and assets under construction	17,585	22,353	–5,693	11,053	406	–	–593
	<b>1,266,279</b>	<b>45,444</b>	<b>–998</b>	<b>23,248</b>	<b>3,788</b>	<b>800</b>	<b>–26,116</b>
<b>III. Financial assets</b>							
1. Shares in affiliated (unconsolidated) companies	10,245	1,125	–	17	–2,476	102	–348
2. Loans to affiliated (unconsolidated) companies	212	130	16	23	–	317	–
3. Associated undertakings	6,075	–	–	5,101	–	481	–23
4. Holdings in associated undertakings	223	26	–	–	–	–	–
5. Loans to associated undertakings	372	–	–16	84	–	–	–
6. Other loans	3,669	1,072	–	530	–	–	–
	<b>20,796</b>	<b>2,353</b>	<b>–</b>	<b>5,755</b>	<b>–2,476</b>	<b>900</b>	<b>–371</b>
<b>Total fixed assets</b>	<b>1,456,596</b>	<b>53,048</b>	<b>–</b>	<b>29,173</b>	<b>1,312</b>	<b>4,015</b>	<b>–26,656</b>

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

Cumulative depreciation											Book values	
At 31 Dec. 2008	At 1 Jan. 2008	Additions	Transfers	Disposals	Additions on con- solidation	With- drawals con- solidation	Revalua- tion of fixed assets	Exchange- rate differences	At 31 Dec. 2008	At 31 Dec. 2008	At 31 Dec. 2007	
[in €k]	[in €k]	[in €k]	[in €k]	[in €k]	[in €k]	[in €k]	[in €k]	[in €k]	[in €k]	[in €k]	[in €k]	
62,469	43,943	5,997	–	103	–	315	–	–122	49,400	13,069	13,168	
110,647	48,264	27,091	–	–	–	1,443	–	–	73,912	36,735	64,146	
<b>173,116</b>	<b>92,207</b>	<b>33,088</b>	–	<b>103</b>	–	<b>1,758</b>	–	<b>–122</b>	<b>123,312</b>	<b>49,804</b>	<b>77,314</b>	
239,029	109,685	6,599	–	3,233	–	–	15	–9,668	103,368	135,661	142,797	
956,817	519,441	39,693	–8	4,052	99	–	–	–4,540	550,633	406,184	430,524	
45,498	34,287	4,237	8	3,750	–	756	–	–831	33,195	12,303	11,960	
23,005	1,364	6	–	848	–	–	–	–131	391	22,614	16,221	
<b>1,264,349</b>	<b>664,777</b>	<b>50,535</b>	–	<b>11,883</b>	<b>99</b>	<b>756</b>	<b>15</b>	<b>–15,170</b>	<b>687,587</b>	<b>576,762</b>	<b>601,502</b>	
8,427	4,952	1,227	–	3	–	102	14	–	6,060	2,367	5,293	
18	–	317	–	–	–	317	–	–	–	18	212	
470	872	13	–	–	–	481	–	–21	383	87	5,203	
249	–	–	–	–	–	–	–	–	–	249	223	
272	272	–	–	–	–	–	–	–	272	–	100	
4,211	–	–	–	–	–	–	–	–	–	4,211	3,669	
<b>13,647</b>	<b>6,096</b>	<b>1,557</b>	–	<b>3</b>	–	<b>900</b>	<b>14</b>	<b>–21</b>	<b>6,715</b>	<b>6,932</b>	<b>14,700</b>	
<b>1,451,112</b>	<b>763,080</b>	<b>85,180</b>	–	<b>11,989</b>	<b>99</b>	<b>3,414</b>	<b>29</b>	<b>–15,313</b>	<b>817,614</b>	<b>633,498</b>	<b>693,516</b>	

## Bolstering growth

Statement of changes in equity  
of Stadtwerke Leipzig Group

	Parent company		
	Generated Group equity		
	Subscribed capital	Capital reserves	Revenue reserves
	[in €k]	[in €k]	[in €k]
<b>Total on 1 Jan. 2007</b>	<b>22,000</b>	<b>184,397</b>	<b>127,605</b>
Foreign-exchange effects in 2007	–	–	–
Allocation of capital in 2007	–	–	13
Withdrawals on consolidation in 2007	–	–	–
Withdrawal of capital in 2007	–	–	–
External withdrawal in 2007	–	–	–
<b>Total on 31 Dec. 2007/1 Jan. 2008</b>	<b>22,000</b>	<b>184,397</b>	<b>127,618</b>
Foreign-exchange effects in 2008	–	–	–
Allocation of capital in 2008	–	–	–
Withdrawal of capital in 2008	–	–	–
External withdrawal in 2008	–	–	–
Withdrawals on consolidation in 2008	–	–	–
<b>Total on 31 Dec. 2008</b>	<b>22,000</b>	<b>184,397</b>	<b>127,618</b>

Notes to the Consolidated Financial Statements, Stadtwerke Leipzig Group

	Consolidated net earnings/loss [in €k]	Equity capital difference caused by foreign-exchange translation [in €k]	Subtotal [in €k]	Minority companies	Group equity [in €k]
				Balancing item for shares of other shareholders [in €k]	
	<b>-14,914</b>	<b>4,151</b>	<b>323,239</b>	<b>-2,483</b>	<b>320,756</b>
	-	2,514	2,514	1,664	4,178
	135,535	-	135,548	8,048	143,596
	-	-	-	1,186	1,186
	-122,950	-	-122,950	-7,520	-130,470
	-32,182	-	-32,182	-304	-32,486
	<b>-34,511</b>	<b>6,665</b>	<b>306,169</b>	<b>591</b>	<b>306,760</b>
	-	-7,288	-7,288	-103	-7,391
	76,834	-	76,834	2,163	78,997
	-88,611	-	-88,611	-3,651	-92,262
	-24,585	-	-24,585	-8	-24,593
	-	-	-	-253	-253
	<b>-70,873</b>	<b>-623</b>	<b>262,519</b>	<b>-1,261</b>	<b>261,258</b>

## Bolstering growth

### Audit Report

"We have carried out an audit on the consolidated financial statements (consisting of the balance sheet, the profit and loss account, the cash-flow statement, the statement of changes in equity, and the notes to the annual financial statements) compiled by Stadtwerke Leipzig GmbH, Leipzig, and on the Group management report for the financial year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the Group management report according to the regulations of German commercial law is the responsibility of the company's management. Our task is to express an opinion on the consolidated financial statements and the Group management report on the basis of our audit.

We performed our audit of the consolidated financial statements pursuant to section 317 of the (German) Commercial Code [HGB] in accordance with the German principles on the orderly auditing of annual accounts issued by the (German) Institute of Chartered Accountants [IDW], according to which an audit must be planned and performed in such a way as to obtain reasonable assurance that any mistakes or infringements that seriously affect the view of the net worth, financial position and income situation presented by the consolidated financial statements according to the principles of orderly accounting and by the Group management report will be recognized. In planning the audit, knowledge of the group's business operations as well as its economic circumstances and legal situation are taken into account, as are expectations of possible errors. In the course of the audit, the effectiveness of the internal accounting control system and evidence backing up information given in the consolidated financial statements and the Group management report are assessed mainly on the basis of random samples. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the definition of the consolidated group, the accounting and consolidation principles used and significant estimates made by the company's legal representatives, as well as an assessment of the overall view of the company

presented in the consolidated financial statements and the Group management report. We believe that our audit provides a sufficiently sound basis for our assessment.

Our audit did not lead to any objections.

On the basis of the information gained in the course of the audit, it is our assessment that the consolidated financial statements comply with the provisions of the law and present an accurate picture of the Group's net worth, financial position and income situation in accordance with the principles of orderly accounting. The Group management report is consistent with the consolidated financial statements and presents an accurate overall picture of the Group's position; it also accurately describes the opportunities and risks attending future development.

Leipzig, 19 March 2009

KPMG AG Wirtschaftsprüfungsgesellschaft (auditing company)

(formerly KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft)  
(auditing company)



Dr Flascha  
Wirtschaftsprüfer  
(Certified accountant)



Schultze  
Wirtschaftsprüfer  
(Certified accountant)



| Management Report of Stadtwerke Leipzig GmbH |  
| Annual Financial Statements |  
| Notes to the Annual Financial Statements |

## Creating Structures for the Future

Stadtwerke Leipzig GmbH used 2008 to lay further foundations for value-oriented growth. We are adjusting the staff structure to the long-term demands that will be made on our company. In this context we are developing skills that will secure our present and future position in the market. This also includes a system of environmental management at all levels of the company that co-determines our strategic orientation. We are thus confident that we are well prepared – even for a difficult economic year.

### Management Report of Stadtwerke Leipzig GmbH

#### 1 General economic conditions

##### Overall economic situation

Despite extensive state support measures, the dramatically intensified financial crisis is not over yet; in fact it is now impacting on the entire real economy. As a result, the climate of dynamic economic growth seen in recent years has been replaced by expectations of recession. Although it is still too early to predict the exact scale of the downturn, its consequences for the overall economy will be clearly felt in 2009, with levels of consumption and investment falling in all sectors.

The rate of growth of the real gross domestic product in 2008 (+1.3 %) was markedly weaker than in the previous year (+2.5 %) as a result of the slowdown caused by the financial crisis, the strong euro and predominantly high oil prices.

##### Legal situation in the energy industry

Three key instruments for implementing Germany's Integrated Energy and Climate Programme (IEKP) were adopted in 2008: the amendment of the Act on Combined Heat and Power Generation (KWKG), the amendment of the Renewable Energies Act (EEG), and the introduction of the Renewable Energies Heat Act (EEWärmeG).

The amended version of the KWKG provides for a cogeneration levy on new and existing installations to promote the highly efficient generation of electricity and heat. In the case of existing installations, the corresponding levy only applies if the cost of plant modernisation amounts to 50 % of the construction costs. An evaluation

## Creating Structures for the Future

of the extent to which the IEKP's target of doubling cogeneration's share of total power generation to 25 % by 2020 has been achieved is already scheduled for early 2010.

The amendment of the Renewable Energies Act provides for modified prices depending on which primary energy source is used. Most of the proposed prices provide for technology-promotion components that are differentiated according to plant size. The priority given to small and micro-plants represents a difficult constraint, particularly against the background of the announced target of increasing renewable energies' share of power generation to 25–30 % by 2020.

With the passing of the Renewable Energies Heat Act, legislators have introduced for the first time an obligation to use a certain percentage of renewable energies in the supply of heat energy to new buildings. District heating from highly efficient cogeneration plants is recognised as a measure that can replace the compulsory use of renewable energies. The obligation to use renewable energies can be extended to modernised buildings at the discretion of the Länder legislatures.

### **Economic situation in the energy industry**

The first half of 2008 was marked by a rapid increase in crude-oil prices, which reached a record high of US-\$146 per barrel of Brent by mid-year. Apart from the strong world economy up to that point in time, the causes of the rising oil prices included the tense geopolitical situation in important producing countries and a failure in the past to invest in additional production capacity or develop new fields. As the real-estate crisis began and spread to banks and other sectors, however, investors increasingly withdrew from the market and thus also from commodity investments. The trend reversed, and the price of crude oil fell sharply from mid-year. In September/October 2008 the banking crisis spread to Europe and Japan, and oil prices nosedived. The price of Brent crude oil closed at US-\$40.11 per barrel on 31 December 2008, having reached the lowest level since July 2004 (US-\$36.49 per barrel) in the previous week.

Electricity prices on the futures market followed the general development and also fell sharply late in the year. By the end of December 2008, base load contracts for delivery in 2010 were being traded at €58.02 per MWh, representing little change from the previous year's level of €59.39 per MWh (at the end of 2007). Electricity prices on the spot market rose steadily until the summer; by the end of the year they had fallen back to roughly the same price level as in January.

## Management Report of Stadtwerke Leipzig GmbH

Prices on the gas futures market followed the movements on the crude-oil market; by December they had also returned to their level at the beginning of the year. On the spot market, however, gas still cost considerably more in 2008 than in the previous year.

The second period of European trading in CO<sub>2</sub> certificates – which will last until 2012 – began on 1 January 2008. Compared to the first trading period, overall conditions for energy companies have deteriorated due to the considerable reduction in the number of state-allocated certificates. Many utilities now have to purchase additional certificates on a large scale.

Because certificates from the first trading period are non-transferable, their price fell to just a few cents per tonne of CO<sub>2</sub> at the end of December 2007. The prices for the second period (contract for the 2009 front year) rose from €23.45 per tonne to €30.48 per tonne due to the scarcity of certificates and a market that rose rapidly at the beginning of 2008. As the economy cooled off, however, they fell back to around €16 per tonne at the end of the year.

European companies are allowed to cover their domestic emissions by submitting CER (Certified Emission Reduction) certificates up to a ceiling of 22 %. The price of CERs closed at €13.78 per tonne of CO<sub>2</sub> at the end of 2008.

2008 timber prices were approximately 10 % up on 2007 – for cyclical reasons and as a result of the timber industry's dependence on exports. Compared to the 2002–2006 period, prices remained very high in 2008. The timber market is currently easing slightly, although the regional forestry enterprises are trying to stabilise the price at a high level by reducing the number of trees felled.

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### 2 Business development

#### Turnover and income development

Stadtwerke Leipzig GmbH's sales revenues amounted to €2,946 million in the 2008 financial year (2007: €2,086 million). For an analysis of the composition and development of sales revenues, please refer to the Segments section. Stadtwerke Leipzig GmbH completed the 2008 financial year with Net earnings before profit transfer of €36 million (2007: €47 million). This reduction in profits was largely caused by special effects.

The development of sales revenues in the 2008 financial year was marked by the continuous expansion of the Wholesale Energy Trading business in both power and gas, as well as by the volume-related fall in turnover in the retail electricity business.

The development of other expenditures and income (see Income situation) led to a fall in profits compared to the previous year.

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**Income situation**

After aggregating and offsetting certain items, the profit and loss accounts of the last two financial years can be combined to give the following information on the development of income:

Income situation	2008 [in €m]	2007 [in €m]
Operating performance	3,005	2,150
(of which: turnover from Wholesale Energy Trading) <sup>2)</sup>	(2,346)	(1,506)
(of which: turnover from other energy sales) <sup>2)</sup>	(519)	(495)
Expenses incurred in connection with operating performance	-2,960	-2,091
<b>Operating profit</b>	<b>45</b>	<b>59</b>
Financial result	-2	-5
<b>Business profit</b>	<b>43</b>	<b>54</b>
Balance of other income and expenditure	-11	-9
(of which provision for the elimination of additional revenues)	(-13)	(0)
Tax depreciation		
(Release of Special item with partial reserve character)	4	2
<b>Profit or loss on ordinary activities/ Net earnings before profit transfer</b>	<b>36</b>	<b>47</b>
(of which Taxes on income) <sup>1)</sup>	(-11)	(-24)
Transfer of profits	-36	-47
<b>Net income</b>	<b>0</b>	<b>0</b>

1) Notional determination of Taxes on income

2) Turnover from Wholesale Energy Trading was split into turnover from electricity trading and turnover from gas trading in 2008. Gas sales to Heizkraftwerk Eutritzscher Strasse GmbH & Co. KG, Leipzig (EuKG), were integrated into the item Wholesale Energy Trading. Figures for 2007 were adjusted accordingly to ensure comparability.

Stadtwerke Leipzig GmbH's Operating profit amounted to €45 million in the 2008 financial year (2007: €59 million).

The main reason for the fall in Operating profit was business development in the Trading segment. Business profit in 2008 was significantly down on the previous year in the retail business. The intensifying competition led to a deterioration in

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sales conditions. Sales targets were not reached in the segment for nationwide medium-sized business customers (0.1 to 10 GWh per annum); in the segment for private and commercial customers we were only able to pass on a proportion of increases in procurement costs – and that after a time delay. Both existing countermeasures and additional measures introduced in 2008 will, for the most part, not start having an effect until 2009. Furthermore, the fall in profits is a result of the one-off effect of a stop-loss sale of power to limit risks in procurement carried out in 2007 but effective 2008. The lower profits from district heating compared to the previous year were a result of the price cut related to the price of heating oil.

Profits in the Trading segment were reduced by the continuing effects of the three-month downtime at the Bischofferode biomass power station following damage to the steam turbine, as well as by the price development on the timber market. On the other hand, the Leipzig gas and steam turbine plant increased its output, further optimising the use of cogeneration.

The Networks segment made a positive profit contribution at the operating profit level.

The improvement in the financial result compared to the previous year was primarily the result of higher income from profit/loss transfer agreements (+€3 million) and less interest paid, caused by a reduced write-down on financial derivatives held as current assets (–€3 million). A higher transfer of losses from Stadtwerke Leipzig Netz GmbH (+€2 million) had a contrary effect.

The Balance of other income and expenditures of –€11 million was essentially made up of expenditure on allowances for doubtful debt and written-off receivables (€12 million), expenditure on power purchases unrelated to the accounting period (€2 million), and expenditure on the formation of provisions (€15 million), minus income from the release of provisions (€8 million), income from the sale of fixed assets (€3 million), the release of allowances for doubtful debt (€4 million), and other income unrelated to the accounting period (€2 million). A provision for the elimination of additional revenues is subsumed under the above-mentioned expenditures. Because the Federal Network Agency (Bundesnetzagentur, BNetzA) intends to implement the elimination of additional revenues in the wake of the judgement by the Federal Supreme Court (Bundesgerichtshof, BGH) dated 14 August 2008, a €13 million provision was formed for Stadtwerke Leipzig GmbH covering the period from November 2005 to December 2008, which was deducted in full from the Profit on ordinary activities.

The total of scheduled (+€2 million) and unscheduled (+€2 million) releases to income of the Special item with partial reserve character posted under Tax depreciation was higher during the financial year than in the previous year.

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**Net worth position**

After aggregating certain items, each financial year's balance sheet can be combined to give the following overview. Liabilities with a remaining time to maturity of more than one year are treated as long-term.

<b>Net worth position</b>	<b>31 Dec. 2008</b>	<b>31 Dec. 2007</b>
	[in €m]	[in €m]
<b>ASSETS</b>		
Fixed assets	628	639
Current assets/Prepaid expenses	279	235
<b>Balance-sheet total</b>	<b>907</b>	<b>874</b>
<b>EQUITY AND LIABILITIES</b>		
Equity capital	250	250
Special item	74	83
Long-term liabilities (incl. payments received on account of orders)/Provisions	345	330
Short-term liabilities (incl. profit transfer)/ Provisions/Deferred income	238	211
<b>Balance-sheet total</b>	<b>907</b>	<b>874</b>

The balance-sheet total rose by €33 million compared to the previous year. The decline in Fixed assets was offset by a strong increase in Current assets.

The shares in SHH GmbH SystemHaus Hemminger, Esslingen (SHH), shown last year under Financial assets, were fully value-adjusted in 2008 and transferred to Current assets because of the company's intention to sell the shares. The sale of the shares to the companies AB Klaipėdos energija, Klaipėda, Lithuania, and Kompania za Energospetiaviane, Sofia, Bulgaria (KES), led to a reduction in Fixed assets. The figure for depreciation of fixed assets was higher than investment during the financial year. This depreciation led to a fall in Fixed assets totalling –€11 million.

The +€44 million increase in Current assets was largely the result of an increase in trade debtors from Wholesale Energy Trading as per the balance-sheet date

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(+€31 million), a rise in receivables relating to not-yet-deductible tax prepayments (+€9 million), and higher inventories (+€5 million). The increase in inventories was connected with the construction of the Piesteritz biomass cogeneration power plant, the building up of stocks for the Bischofferode biomass power plant and the related increase in wood inventories.

The reduction in the Special items (–€9 million) on the liabilities side was due to scheduled (–€7 million) and unscheduled (–€2 million) releases to income.

Long-term liabilities/Provisions rose, essentially as a result of the creation of the provision for the elimination of additional revenues (+€13 million).

The +€27 million increase in Short-term liabilities/Provisions was primarily the result of an increase in short-term provisions (+€13 million), Amounts owed to affiliated companies (+€8 million), and Amounts owed to associated undertakings (+€6 million).

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**Financial position**

The following cash-flow statement shows the changes in financial resources and the movements of funds that caused them:

<b>Financial position</b>		
	<b>2008</b>	<b>2007</b>
	<b>[in €m]</b>	<b>[in €m]</b>
1. Net earnings before profit transfer	36	47
2. + Write-down of fixed assets	25	29
<b>3. = Net income before profit transfer and before depreciation/amortisation</b>	<b>61</b>	<b>76</b>
4. + Loss/- profit from sale of fixed assets	-2	1
5. - Increase/+ decrease in other assets	-64	-27
6. + Increase/- decrease in other liabilities	22	26
<b>7. = Cash flows from operating activities</b>	<b>17</b>	<b>76</b>
8. + Receipts from sale of fixed assets	10	1
9. + Subsidies	2	2
10. - Capital expenditure	-21	-20
<b>11. = Cash flows from investment activities</b>	<b>-9</b>	<b>-17</b>
12. - Payments to shareholder	-45	-54
13. + Increase in short- and long-term loans received	25	11
14. + Receipts from repayments of loans granted	27	39
15. - Payments relating to the redemption of short- and long-term loans	-6	-33
16. - Payments relating to the granting of short- and long-term loans	-18	-18
<b>17. = Cash flows from financing activities</b>	<b>-17</b>	<b>-55</b>
<b>18. Net change in cash flow (7. + 11. + 17.)</b>	<b>-9</b>	<b>4</b>
<b>19. Financial resources on 1 Jan.</b>	<b>22</b>	<b>18</b>
<b>20. Financial resources on 31 Dec.</b>	<b>13</b>	<b>22</b>

Cash flows from operating activities in 2008 (+€17 million) were essentially influenced by Net income before profit transfer and before depreciation/amortisation (+€61 million) and an increase in Trade debtors as per the balance-sheet date (+€24 million), Receivables from associated undertakings (+€5 million), receivables

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relating to not-yet-deductible tax prepayments (+€9 million), short-term receivables in the cash pool (+€18 million), and an increase in inventories (+€5 million). Net income before profit transfer and before depreciation of fixed assets was –€15 million down on the previous year; this was primarily caused by the factors explained under Income situation.

Cash flows from investment activities included investment in intangible assets and tangible fixed assets totalling €18 million (2007: €19 million), as well as investment in loans under financial assets amounting to €3 million (2007: €1 million). For a detailed breakdown of the investments, please refer to the Segments section.

Cash flows from financing activities (–€17 million) were essentially made up of the transfer of profit to LVV (–€45 million), the granting of short-term and long-term loans (–€18 million), and the repayment of bank loans and overdrafts (–€6 million); contrary influences came in particular from cash flows from the repayment of short-term loans in the cash pool (+€18 million), the repayment of lendings (+€9 million), and the utilisation of the cash pool (+€25 million).

Financial resources in the year ended 31 December 2008 fell by –€9 million compared to the previous year and contained only Cash and cash equivalents (without cash pool).

### Value-oriented management

The use of control ratios raises the transparency of economic development at Stadtwerke Leipzig GmbH. At the same time they serve as a basis for business decisions by management.

Control ratios		
	2008	2007
EBITDA in €m = profit on ordinary activities before depreciation and financial result	60	79
ROCE as % = adjusted EBIT / (fixed assets + net working capital) * 100	7.2	10.0
Return on equity as % = profit on ordinary activities / equity * 100	14.4	18.8

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The –€19 million fall in EBITDA (profit on ordinary activities before depreciation and financial result) was largely due to the development of operating profit as explained under Income situation.

The worsening of the ROCE by 2.8 percentage points was caused by a €16-million-lower adjusted EBIT (earnings before interest, taxes and income from the release of the Special item with partial reserve character).

### **Covenants (Financial ratios)**

On signing unsecured long-term financing contracts, Stadtwerke Leipzig GmbH agreed covenants containing certain financial relations on indebtedness, cash flows from operating activities and the equity ratio. The contractually agreed ratios correspond to the Group's financing strategy, which is aimed at maintaining the existing investment-grade status (credit rating) in the future. Data on compliance with the covenants is gathered at the level of the Stadtwerke Leipzig Group.

The agreement of covenants also serves to secure transactions in Wholesale Energy Trading contracts (EFET contracts). Data on compliance with these covenants is gathered at the Stadtwerke Leipzig GmbH level.

### **Segments**

Segment reporting is an internal control perspective of Stadtwerke Leipzig GmbH which does not conform to unbundling.

Stadtwerke Leipzig GmbH operates in three segments: Trading (business areas: Generation, Retail and Wholesale Energy Trading), Networks, and Services (business areas: Energy-Related Services, Holdings and Energy Supply Pomerania). Activities that cannot be allocated to the separately presented segments are shown under Central Functions and Others.

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Segments	Turnover		Income from/expenditure on holdings and profit-and-loss transfer agreements		Investment in fixed assets	
	2008	2007	2008	2007	2008	2007
	[in €m]	[in €m]	[in €m]	[in €m]	[in €m]	[in €m]
Trading	2,880	2,016	–	–	12	8
Networks	50	54	–7	–6	8	10
Services	3	3	11	10	2	3
All segments	2,933	2,073	4	4	22	21
Central Functions	–	–	10	8	10	10
Others	13	13	–	–	–	–
<b>Total</b>	<b>2,946</b>	<b>2,086</b>	<b>14</b>	<b>12</b>	<b>32</b>	<b>31</b>

### Trading

Most of the segment's external turnover in the financial year amounting to €2,880 million (2007: €2,016 million) came from the Wholesale and Retail Trading business areas.

Turnover in Wholesale Trading totalled €2,193 million in 2008 (2007: €1,472 million) in electricity trading and €152 million (2007: €34 million) in gas trading. Successive business expansion continued in line with our growth strategy, leading to an increase in turnover in 2008 of +€722 million in the electricity field and +€119 million in the gas field. The contributing factors to this increase in turnover were a higher physical trading volume in exchange and OTC futures trading, rising market liquidity and higher average prices. The sales revenues also contain income from the nationwide marketing of structured supply contracts and services to distributors and industrial customers. Nationwide wholesale distribution of gas was launched on 1 October 2008. In addition to our own customer portfolio, we also serve and deliver to electricity and gas customers nationwide in cooperation with partners.

Stadtwerke Leipzig GmbH's sales revenues in the Retail Trading business area totalled €453 million in 2008 (2007: €483 million). With a turnover share of 56 % or €252 million (2007: €286 million), the retail electricity business was the mainstay of sales in this business area. The fall in turnover in the retail electricity business was essentially volume related. This was caused by a lack of canvassing success among the segment of medium-sized business customers (0.1 to 10 GWh per annum).

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Competition intensified further in 2008. A large number of new providers, volatile energy prices and greater public awareness led at times to an emotionally charged atmosphere. In 2008 necessary adjustments of prices to cost developments could only be enforced after a time delay. Adjustment measures to the changed market conditions concentrated on realigning nationwide distribution in the medium-sized business customer segment (0.1 to 10 GWh per annum) and on optimising procurement.

In 2008 turnover in the retail gas business amounted to €90 million (2007: €85 million). The increase in turnover was a result of price adjustments related to the price of heating oil, which only offset part of the higher costs in procurement. Since the beginning of 2007, the liberalisation of the gas market has made competition between gas suppliers possible, and it has been intensifying all the time. In 2008 this led to sales losses, which were offset – and in some cases more than offset – by temperatures, which were about 0.3 °C cooler than in the previous year.

At €110 million, retail district-heating sales were slightly down on the previous year (2007: €112 million). The weather caused an increase in sales. The decline in turnover compared to 2007 was caused by the price cut related to the price of heating oil.

Sales revenues in the Generation business area amounted to €82 million (2007: €28 million). In 2007 the figures for Generation turnover included income from the sale of gas to EuKG. Following the splitting of Wholesale Energy Trading into electricity and gas trading, sales of gas to EuKG were integrated into wholesale gas turnover. Furthermore, the amendment of the regulations on combined heat and power generation led to an increase in sales revenues, because the cogenerated electricity was charged to the grid operator Stadtwerke Leipzig Netz GmbH.

The Generation business area continues to show the service relations between Stadtwerke Leipzig GmbH and its holding Heizkraftwerk Eutritzscher Strasse GmbH & Co. KG, Leipzig (EuKG), the owner of the gas and steam turbine plant. Stadtwerke Leipzig GmbH has a contract to provide the gas and steam turbine plant with extensive plant-management, maintenance and investment services. In 2008 these business relations resulted in sales revenues from service charges amounting to €16 million (2007: €15 million).

The electricity needed for Wholesale and Retail Trading was purchased on the wholesale market during the financial year. The contractual relations with VNG Verbundnetz Gas AG, Leipzig, on the supply of gas, and the district-heating-supply contract with Vattenfall Europe Generation AG & Co. KG, Berlin, were continued. Increasing amounts were purchased on the wholesale market to supply customers

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with gas. The energy-supply contract with EuKG on the procurement of electricity and district heating from the gas and steam turbine plant also remained unchanged as in previous years. The Wholesale Trading business area secured the supply of fuel (wood and oil) to the Generation business area by concluding both framework and individual contracts with different suppliers.

The Trading segment invested €11 million in intangible assets and tangible fixed assets during the financial year (2007: €8 million). The investment related primarily to the construction of the Piesteritz biomass cogeneration power plant (€4 million on balance) and a down payment on a core engine (main component of a gas turbine) for the Leipzig gas and steam turbine plant (€4 million).

### Networks

In 2008 the Networks segment realised external sales revenues amounting to €50 million (2007: €54 million). Service charges accounted for a substantial proportion of turnover and totalled €45 million (2007: €48 million). The fall in sales revenues was primarily a result of the small volume of plant-management services that were provided to Stadtwerke Leipzig Netz GmbH.

The service charges again included income from the provision of extensive services to Fernwärmenetz Leipzig GmbH & Co. KG, Leipzig (FWNL), in the context of the plant management and maintenance of the district-heating network, and from sums invested in the gas and district-heating network that were on-charged to Gasnetz Leipzig GmbH & Co. KG, Leipzig (GNL), pursuant to the existing general-contractor agreements.

Losses amounting to €7 million (2007: €6 million) were transferred with effect on expenses on the basis of a profit/loss transfer agreement between Stadtwerke Leipzig GmbH and Stadtwerke Leipzig Netz GmbH. The increase in losses assumed for Stadtwerke Leipzig Netz GmbH compared to the previous year was largely a result of the formation of a provision for the elimination of additional revenues amounting to €3.2 million for the period from January until March 2007; this was based on a judgement by the Federal Supreme Court (Bundesgerichtshof, BGH) dated 14 August 2008 and the reasons for the judgement announced on 29 September 2008.

The Networks segment invested €5 million in intangible assets and tangible fixed assets (2007: €8 million). The main investments were in the medium- and low-voltage electricity mains to maintain the stability of supply.

Stadtwerke Leipzig GmbH grants long-term loans to its subsidiary companies GNL and FWNL for the purpose of investment financing; these loans are posted as

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long-term financial investments. Loans amounting to a combined total of €2 million were extended to GNL and FWNL via SWL Anlagenvermögensverwaltungs GmbH, Leipzig (AVV) in 2008.

In 2008 Stadtwerke Leipzig GmbH was awarded the electricity- and gas-franchise contracts and the district-heating licensing contract for the already existing Leipzig franchise and licensing area. The Leipzig State Directorate (Landesdirektion) has confirmed the award of the franchises and licence to Stadtwerke Leipzig as from 2013, so that the agreements for the period from 1 January 2013 to 31 December 2032 have been signed by the representatives of the City of Leipzig.

### Services

The Services segment's sales revenues amounted to €3 million (2007: €3 million). All the segment's turnover came from the Energy-Related Services business area and primarily from the provision of contracting services (€3 million).

The Holdings business area reported income from holdings and profit transfers amounting to €10 million during the financial year (2007: €8 million). Most of the income was generated by HL komm Telekommunikations GmbH, Leipzig (HL komm, €6.3 million), LAS GmbH, Leipzig (LAS, €1.3 million), and perdata Gesellschaft für Informationsverarbeitung mbH, Leipzig (perdata, €2.4 million). The increase of +€2 million over the previous year was due to positive business developments.

Income from holdings in the Pomerania business area amounted to €0.5 million (2007: €2 million) and stemmed from Zakład Energetyki Ciepłej Sp. z o.o., Tczew, Poland (ZEC Tczew), and Zakład Energetyki Ciepłej STAR-PEC Sp. z o.o., Starogard Gdański, Poland (STAR-PEC).

The shares in the company AB Klaipėdos energija, Klaipėda, Lithuania, were sold in the first half of 2008. The shares in the company Kompania za Energospestiaviane, Sofia, Bulgaria (KES), were also sold. Stadtwerke Leipzig GmbH has thus closed down its operations in Lithuania and Bulgaria.

All the segment's investment in intangible assets and tangible fixed assets amounting to €0.5 million (2007: €1 million) went to Energy-Related Services, specifically investment in contracting plants.

The Services segment's investment in financial assets amounted to €2 million in 2008 (2007: €1 million). This included a capital increase to STAR-PEC for the Pomerania business area.

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### **Central Functions and Others**

Central Functions contains income from profit transfers from AVV and SWL Kapitalvermögensverwaltungs GmbH, Leipzig (KVV), amounting to €10 million (2007: €8 million).

Income unrelated to the accounting period and remaining other income is posted under Others.

In 2008, Central Functions invested €10 million in tangible fixed assets (2007: €10 million). This related primarily to the long-term financial investments in HL komm (€8 million) in the context of group financing to finance further growth-related investment.

Stadtwerke Leipzig GmbH's operations-controlling department introduced a company-wide management information system (MIS). The MIS supports corporate and business control using measurable strategic targets on the basis of a web-based balanced scorecard (strategic target map).

### 3 Staff and employment policy

#### Development of the headcount

At the end of the year there were 1,071 employees (2007: 1,053) and 91 trainees (2007: 91) at Stadtwerke Leipzig GmbH. Most of the additional staff (+18) were hired in the business areas Generation, Wholesale Energy Trading and Retail Energy business. By contrast, there were staff reductions in the Networks segment. In the coming years, the staff structure at Stadtwerke Leipzig GmbH will shift further in favour of growth business.

#### Human-resources policy

Strategic HR policy in Stadtwerke Leipzig GmbH's business areas is geared towards efficient processes. In the context of long-term planning it describes not only the number of jobs but also the technical and more general skills required for future tasks. In this context our staff-development strategy focuses on consolidating core competencies and the development and use of future staff potential.

Stadtwerke Leipzig GmbH has a systematic approach to competence management. It is founded on a competence model that is determined by the strategy and forms the basis for all value-adding HR processes.

The qualified initial training of staff in commercial and technical professions (e.g. mechatronics technicians) is given a high priority at Stadtwerke Leipzig GmbH. In view of demographic change, Stadtwerke Leipzig GmbH trains staff to meet its future needs. At the beginning of the 2008/2009 training year, the development of specialised commercial knowledge is being promoted in the context of a dual course of study leading to a Bachelor of Science degree. By increasing the amount of training we offer in engineering, we are ensuring the availability of long-term engineering expertise.

A long-term staff-development programme has been implemented for future management personnel in the Generation business area. As part of our long-term promotion programme for young talent, staff can develop into experts and managers who can operate strategically and Group-wide.

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Various series of training courses for staff and managers in 2008 helped strengthen initiative and sharpen decision-making skills. Furthermore, HR development courses boosted our staff's job satisfaction and strengthened their loyalty towards the company.

### 4 Environmental protection

Environmental protection and power generation do not have to be contradictory concepts. Indeed, this is shown by Stadtwerke Leipzig GmbH's corporate strategy in which environmental management is an integrated element co-determining the company's strategic orientation. At all company levels, there are concrete targets on reducing emissions and conserving natural resources. Investment decisions always take environmental protection into account. Among other things, this is illustrated in Stadtwerke Leipzig GmbH's commitment to the use of wood biomass and combined heat and power generation.

Since 2004 Stadtwerke Leipzig GmbH has been operating a certified environment-management system according to the international ISO 14001:2004 standard; every year we furnish data proving our compliance within the company. Every three years the certification has to be renewed, and surveillance audits are conducted in the relevant departments by TÜV SÜD (Technical Inspectorate for Southern Germany). The 2007 recertification was again confirmed by a surveillance audit in 2008.

Stadtwerke Leipzig GmbH and Stadtwerke Leipzig Netz GmbH have drawn up a new environmental programme for the period from 2008 to 2011. The environmental measures focus on reducing emissions, conserving natural resources and guaranteeing organisational security.

In 2008 the Land Administration Office in Halle issued the third and fourth outline planning permit pursuant to the Federal Emission Control Act for the construction and operation of the Piesteritz biomass cogeneration power station. This will be Stadtwerke Leipzig GmbH's second biomass power plant; it will start generating power in 2009.

## 5 Risk report

### Risk management

Since 2000 Stadtwerke Leipzig GmbH has had a risk-management system (RMS) that complies with the requirements of the German Law on Control and Transparency in Business (KonTraG). The Group's financial risk-management system is derived from this and oriented towards our long-term financing strategy of ensuring the availability of the capital needed for future growth in the Group.

In the course of its operational business activities, Stadtwerke Leipzig GmbH is also exposed to financial risks – particularly liquidity, non-payment and price risks. The main aim of risk management is to limit these risks using appropriate management and monitoring systems. Risk limitation does not mean the complete exclusion of financial risks, but economic control of these risks within a documented action framework and strict limits.

The main original financial instruments we use include cash and cash equivalents, financial investments, trade debtors and creditors, and borrowings. The derivative financial instruments we use are mainly interest-rate and foreign-exchange derivatives in the financial sphere and commodity derivatives in the energy-trading sphere. For further information on derivatives, please see Stadtwerke Leipzig GmbH's Notes on the financial statements.

### Financing and liquidity risks

A liquidity risk is defined as the risk of being unable to meet one's payment obligations on the due date. Financing risks essentially consist of the loan-prolongation risk and the financing-cost risk caused by a worsening of the company's credit standing.

Stadtwerke Leipzig GmbH's cash management is based on a rolling system of monthly liquidity planning for the following twelve months respectively. Liquidity planning is a component part of monthly corporate risk reporting.

On 31 December 2008, Stadtwerke Leipzig GmbH had €45.7 million in liquidity available at short notice (including available lines of credit). This figure on the reporting date was thus several times higher than the internally laid-down minimum liquidity reserves.

The financing of Stadtwerke Leipzig GmbH is based on compliance with covenants on the level of the Stadtwerke Leipzig Group, which could also be influenced by the situation regarding the operating result.

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### Market risks

The liberalisation of the energy market and growing competitive pressure in the procurement and sales markets have exposed Stadtwerke Leipzig GmbH to greater price and volume risks.

In our dealings with business and private customers, we counter the sales risks by active distribution and marketing activities.

As part of our procurement strategy for this customer segment, we predominantly conduct forward transactions on the wholesale market which enable us to fix the price of the quantities to be delivered. The delivery quantities which have fixed prices but have not yet been completely tied to the final customers are monitored daily on the basis of the current wholesale market prices. The instruments for monitoring risks and optimising the procurement strategy are continuously being enhanced.

The energy sources for power generation are procured both on the basis of long-term delivery contracts and in the short term on the market at the current terms.

Commodity derivatives are used to secure the energy prices on both the procurement and sales side. The main instruments used to hedge against price increases are forwards, futures and options.

Commodity derivatives are also traded for profit for our own account. All positions traded for our own account are controlled within narrow limits, and compliance is continuously monitored by organisationally separate units.

On the basis of the risk guideline for energy trading, limits are also used to counter the potential risks involved in entering into trading positions in energy trading.

### Non-payment risks

A non-payment risk is the risk of a loss that can arise if a business partner becomes insolvent. These risks are related either to transactions with final customers and trading partners or to financing transactions.

Non-payment risks in business with final customers are countered by a strict system of receivables management. The creditworthiness of small and medium-sized business customers and key accounts is the prerequisite for the conclusion of contracts and is constantly monitored.

In Wholesale Energy Trading, the risk of non-payment by trading partners is reduced by customer-related limits, and we are constantly monitoring their creditworthiness and how close they are to their limits.

## Management Report of Stadtwerke Leipzig GmbH

In the case of financial derivatives, risks of non-payment by the contracting party amount to the positive fair values. Stadtwerke Leipzig GmbH hedges against these risks by spreading risk, i.e. by concluding derivative transactions with several first-class European financial institutions.

In order to hedge against the risk of the non-payment of loans extended to subsidiaries, Stadtwerke Leipzig GmbH's Holdings management systematically monitors our subsidiaries' liquidity and profit development. If risks emerge, we counter them in good time by taking active restructuring measures.

### Price risks

The risk of price changes can be caused by fluctuations in exchange rates, interest rates or energy prices. Stadtwerke Leipzig GmbH uses derivative financial instruments to hedge against such price changes.

Stadtwerke Leipzig GmbH hedged against foreign-exchange risks related to an existing borrower's note in US dollars by concluding a cross-currency swap over the entire term of the loan.

In line with our active interest-rate management, Stadtwerke Leipzig GmbH's entire credit portfolio is subject to variable interest. The resultant risks of changes in interest rates are limited for a substantial part of the overall portfolio by transacting interest-rate swaps and options. The intensity of hedging operations was increased in 2008 because of the interest-rate environment.

### Operational risks

Stadtwerke Leipzig GmbH invests in and operates complex technical plants to promote its business development. Stadtwerke Leipzig GmbH's use of technological production plants exposes the company to risks of equipment failure and loss of output. Permanently maintaining the high quality standard of these plants and ensuring that they are operated by qualified members of staff is of key importance for Stadtwerke Leipzig GmbH. In order to avoid potential risks in this field, the members of staff deployed there are integrated into a continuous training system to ensure and extend their high level of qualification in security-relevant measures. Furthermore, the effects of potential damage or loss are substantially limited by corresponding insurance policies.

## Creating Structures for the Future

### Political and legal risks

The accelerating pace of change in the economic, legal and social environment increases Stadtwerke Leipzig GmbH's business risk. Particular importance is therefore attached to observing the legal and political environment.

### Overall risk

No risks have been found that could prejudice the continued existence of Stadtwerke Leipzig GmbH.

## 6 Forecast report

### Economic- and energy-policy outlook

Important energy-policy targets for the coming years were specified in more detail when the EU's climate-change package was passed by the European Parliament on 17 December 2008. Among other things, the package contains guidelines on emissions trading, promoting renewable energies and the sequestration and storage of carbon dioxide.

It lays down specific obligations for member states on the use of renewable energy in the generation of electricity and heat, as well as the principle of full auctioning of CO<sub>2</sub> certificates in the field of electricity production.

After the vote by the European Parliament, a directive was passed on the geological storage of carbon dioxide from power stations (carbon capture & storage, CCS). According to this directive, the operators of power plants with an electrical output of more than 300 MW that are yet to be built must examine whether appropriate CO<sub>2</sub>-storage capacity is available and whether corresponding sequestration and transport possibilities are technically and economically feasible.

The German Institute for Economic Research (DIW) expects negative GDP growth of -1.1 % in 2009 in view of the emerging slowdown of global economic growth. This is the biggest drop in Germany's economic output since 1945.

The commodity sector is providing some relief for many companies. The current financial crisis and associated recession fears are curbing the prices of fuels,

## Management Report of Stadtwerke Leipzig GmbH

electricity and CO<sub>2</sub> and, at least in the short term, easing production costs in many sectors.

In the long term, however, electricity prices will remain comparatively high (or start rising again) due to the development of prices for fuels and CO<sub>2</sub> certificates and the continuing shortage of production capacity.

The financial crisis and the weakening global economy will dominate the situation in the electricity and commodity markets for the foreseeable future.

In 2008 the Federal Government passed amendments to the Renewable Energies Act and the Act on Combined Heat and Power Generation. Government energy policy hopes to continue significantly improving energy efficiency by further expanding the use of renewable energies and cogeneration.

### **Opportunities and risks of future development**

The current financial-market crisis could impact on Stadtwerke Leipzig GmbH's further corporate development. Up to now, the capital market has recognised Stadtwerke Leipzig GmbH as a modern energy-service provider and supported the company in the implementation of its growth strategy. If the banks continue their extremely restrictive lending policy because of the financial-market crisis, we will have to consider adjusting our financing structure in 2009. This could lead, among other things, to shifts in investment in new plant and equipment.

### **Trading segment**

The liberalised electricity market offers distribution opportunities in nationwide retail business with small and medium-sized companies. The largely standardised products are currently marketed via a network of distribution partners, which in future will be controlled by regional representatives.

By expanding distribution and trading activities and extending the company's range of standardised and structured products, the Wholesale business area is taking advantage of profit opportunities resulting from our position as one of the leading traders in the municipal sector and a distribution-oriented portfolio manager for small to medium-sized distributors, major public clients and industrial customers. Stadtwerke Leipzig GmbH has developed competitive advantages on the basis of an extensive and innovative product portfolio for wholesale customers. We are making the most of growth opportunities that have emerged since the liberalisation of the gas market by establishing and developing gas trading, gas-portfolio management and wholesale distribution. Further growth potential can be tapped by expanding

## Creating Structures for the Future

our range of services. This will mean in particular developing delivery management, marketing power-station capacity, the plant management of power-generation plants belonging to third parties, and balance-area and schedule management for other suppliers.

The scheduled beginning of continuous operations at the Piesteritz biomass cogeneration power plant will also launch continuous sales of power and steam, starting on 1 July 2009. Profit risks could arise as a result of a potential increase in the price of timber or a fall in the volume of steam deliveries to third parties. On the other hand, there are chances of increasing the amount of power marketed via payment according to the EEG (Renewable Energies Act) and a further improvement in our own wood procurement and logistics. Furthermore, solutions are being sought in the currently ongoing contract negotiations to offset the possible fall in income from steam deliveries.

Future investments are planned in new generation plants aimed at hedging the sales and trading positions of energy trading by achieving a corresponding level and flexibility of installed output. These investments will be linked to the development of the sales portfolio and make a lasting contribution to minimising risks and ensuring the independence of our energy procurement.

Changes in the prices of primary energy sources pose a potential risk to profits when prices rise. Rising wholesale-market prices cannot always be passed on swiftly and in full to final customers. A regular management report ensures that this risk to margins is monitored. The risk is also countered by cost-optimising and efficiency-raising measures.

The "City East Redevelopment Scheme", the population's demographic development, and, not least, the consequences of climate change will exert a considerable influence on the development of profits from the Leipzig heating market. One way in which Stadtwerke Leipzig GmbH is countering these consequences is by its planned capital investment in new and replacement plant and equipment at the gas and steam turbine plant. The aim is to secure an economical long-term operation of the power station: the investment measure will to some extent raise the level of efficiency and thus reduce specific costs in heat generating. Moreover, our strategy to encourage and strengthen customer loyalty will be geared more strongly towards quality and service leadership.

Further profit risks are posed by the liberalisation of the electricity and gas market and the resultant increase in competition. Stadtwerke Leipzig GmbH limits these risks, too, with a targeted customer-loyalty strategy and by expanding nation-

## Management Report of Stadtwerke Leipzig GmbH

wide electricity-trading activities. We are also optimising our costs by building up and improving our own gas-trading and gas-portfolio management.

### **Networks segment**

Stadtwerke Leipzig GmbH is exposed to further profit risks posed by major future cost increases, since any losses made by Stadtwerke Leipzig Netz GmbH are offset by Stadtwerke Leipzig GmbH on the basis of a profit/loss transfer agreement. We are countering this profit risk by continuing our cost-cutting and efficiency-enhancing programmes while ensuring an appropriate level of supply reliability.

The Federal Network Agency (Bundesnetzagentur, BNetzA) fixed Stadtwerke Leipzig Netz GmbH's electricity revenue ceilings for the years 2009 to 2013 in its administrative decision dated 5 February 2009. The individual efficiency figure determined by the BNetzA is above the industry average. Saxony's Regulatory Authority informed the company about the gas revenue ceilings for the years 2009 to 2012 in an administrative decision dated 9 February 2009. Here, too, the individual efficiency figure is above the industry average. The revenue ceilings took into account certain peculiarities that affect Leipzig, such as the cost of replacing the crumbling grey cast-iron mains.

There is also a risk that the per-contra entries included in the calculation of the provision for the elimination of additional revenues (i.e. the decisions made by the BGH in the grid operators' favour on 14 August 2008) will not be recognised, and that the chosen interest rates (compensating for inflation) have been set too low.

Cost risks must also be reckoned with, since the upstream power-grid operator is expected to raise prices sharply. At present it is not clear whether, to what extent, or when this cost increase can be passed on.

### **Services segment**

The contracting market and the market for renewable energies offer growth opportunities for the Energy-Related Services business area, especially in the use of biomass. Given the overall political conditions in the energy industry, and since the price levels of primary energy sources are expected to remain high, profitable investments are likely to become possible especially in projects that combine contracting with the use of renewable energies. In future, the development of standard retail products based on a contracting solution will be an important instrument for winning new customers and boosting customer loyalty in the Leipzig heating market.

## Creating Structures for the Future

By developing energy-related holdings and forming subsidiaries that have broadened our business base, Stadtwerke Leipzig GmbH has already created the potential to make the most of profitable growth opportunities as they arise. Telecommunications, information technology and accounting are at the focus of our Holdings business area. These sectors have the advantage of being closely linked to Stadtwerke Leipzig GmbH's business areas, so that they meaningfully complement the value-added chain of a multi-utility energy-service provider.

By implementing its strategy for the Pomerania business area (i.e. successfully seeking access to the Polish district-heating and services market) and the strategic core measures derived from it, Stadtwerke Leipzig GmbH has taken a decisive step towards stabilising our portfolio of holdings in the dynamic growth market of Pomerania. Priority is being given to improving profitability, raising market share and securing the long-term heating-supply infrastructure.

Stadtwerke Leipzig GmbH is countering the potential risk that the return on its investments in the holdings might not develop according to plan by implementing a purposeful and forward-looking system of holdings management.

Management Report of Stadtwerke Leipzig GmbH

**Corporate outlook**

As a 100 % municipal enterprise, Stadtwerke Leipzig GmbH will continue to make an important contribution to the development of the city of Leipzig. Our strategic goal is therefore to grow profitably as an independent, specialised energy-service provider in Leipzig, Germany and eastern Europe on the basis of efficient processes. Our strategic orientation towards the defined growth markets will enable us to meet the challenges of the energy and service markets.

As an environmentally oriented company, Stadtwerke Leipzig GmbH will in future be even more committed to climate protection and energy efficiency; in 2009 we will raise our own pro-rata contribution to electricity generation from renewable energy sources.

On-balance-sheet investments totalling €228 million are planned for 2009 and 2010; they represent important success factors in achieving our strategic objectives. The investment planned by Stadtwerke Leipzig GmbH will be directed towards installing new generating capacity, improving the reliability and infrastructure of our supply networks, expanding our holdings and strengthening their profitability.

The crisis on the capital market has created a general financing risk which could in principle also impact on Stadtwerke Leipzig, especially on maturity periods, terms and conditions.

On the basis of current medium-term planning, Stadtwerke Leipzig GmbH's target for 2009 is an increase in net income before profit transfer of approx. +15 %.

Leipzig, 12 March 2009  
The Management



Dr Anke Tuschek



Raimund Otto

## Annual Financial Statements for the Financial Year 1 January to 31 December 2008

<b>Stadtwerke Leipzig GmbH</b>					
<b>Balance Sheet – Assets</b>					
	Notes	31 Dec. 2008		31 Dec. 2007	
		[in €k]	[in €k]	[in €k]	[in €k]
<b>A. FIXED ASSETS</b>					
<b>I. Intangible assets</b>					
Land access rights, licences and software			8,713		8,745
<b>II. Tangible fixed assets</b>					
1. Real estate, rights equivalent to real estate, and buildings including buildings on third-party land		79,653		81,262	
2. Technical equipment and machines		174,906		185,856	
3. Other equipment, factory and office equipment		3,616		3,375	
4. Payments on account and assets under construction		18,734	276,909	12,295	282,788
<b>III. Financial assets</b>					
	[1]				
1. Shares in affiliated companies		248,095		249,660	
2. Loans to affiliated companies		93,754		91,438	
3. Associated undertakings		202		5,309	
4. Loans to associated undertakings		–		100	
5. Other loans		575	342,626	788	347,295
<b>Total fixed assets</b>			<b>628,248</b>		<b>638,828</b>
<b>B. CURRENT ASSETS</b>					
<b>I. Inventories</b>					
	[2]				
1. Raw materials and supplies		12,329		9,293	
2. Work in progress		4,150	16,479	2,298	11,591
<b>II. Receivables and other assets</b>					
	[3]				
1. Trade debtors		125,375		99,958	
– of which with a remaining term of more than one year: €0k (2007: €0k)					
2. Receivables from affiliated companies		64,185		63,355	
– of which with a remaining term of more than one year: €0k (2007: €0k)					
3. Receivables from associated undertakings		9,493		6,179	
– of which with a remaining term of more than one year: €0k (2007: €0k)					
4. Other assets		47,882	246,935	31,482	200,974
– of which with a remaining term of more than one year: €2,248k (2007: €1,516k)					
<b>III. Securities</b>					
Other securities			163		–
<b>IV. Cheques, cash at bank and in hand</b>					
			13,202		21,855
<b>Total current asset</b>			<b>276,779</b>		<b>234,420</b>
<b>C. PREPAID EXPENSES</b>					
	[4]		<b>1,913</b>		<b>1,040</b>
<b>Balance sheet total, assets</b>			<b>906,940</b>		<b>874,288</b>

Annual Financial Statements for the Financial Year 1 January to 31 December 2008

<b>Stadtwerke Leipzig GmbH</b>					
<b>Balance Sheet – Equity and Liabilities</b>					
	Notes	31 Dec. 2008		31 Dec. 2007	
		[in €k]	[in €k]	[in €k]	[in €k]
<b>A. EQUITY</b>	[5]				
I. Subscribed capital			22,000		22,000
II. Capital reserves			184,397		184,397
III. Revenue reserves			43,618		43,618
IV. Retained earnings			–		–
			<b>250,015</b>		<b>250,015</b>
<b>B. SPECIAL ITEMS</b>	[6]				
1. Special item with partial reserve character			15,573		19,327
2. Special item for fixed assets			6,563		7,502
3. Special item for building cost subsidies			51,955	<b>74,091</b>	55,844
					<b>82,673</b>
<b>C. PROVISIONS</b>	[7]				
1. Provisions for pensions and similar obligations			14,341		14,737
2. Provisions for taxation			138		420
3. Other provisions			171,677	<b>186,156</b>	140,897
					<b>156,054</b>
<b>D. LIABILITIES</b>	[8]				
1. Bank loans and overdrafts			247,662		253,619
– of which with a remaining term of up to one year: €8,406 k (2007: €9,847k)					
2. Payments received on account of orders			1,047		526
– of which with a remaining term of up to one year: €1,047 k (2007: €526k)					
3. Trade creditors			74,665		72,614
– of which with a remaining term of up to one year: €74,665 k (2007: €72,614k)					
4. Amounts owed to affiliated companies			49,764		41,732
– of which with a remaining term of up to one year: €49,764 k (2007: €41,732k)					
5. Amounts owed to associated undertakings			5,226		369
– of which with a remaining term of up to one year: €5,226 k (2007: €369k)					
6. Other liabilities			18,102	<b>396,466</b>	16,473
– of which with a remaining term of up to one year: €17,027k (2007: €16,473k)					
– of which tax liabilities: €7,627k (2007: €2,530k)					
– of which social security liabilities: €0k (2007: €0k)					
					<b>385,333</b>
<b>E. DEFERRED INCOME</b>				<b>212</b>	<b>213</b>
<b>Balance sheet total, liabilities</b>			<b>906,940</b>		<b>874,288</b>

## Creating Structures for the Future

<b>Stadtwerke Leipzig GmbH</b>					
<b>Profit and Loss Account</b>					
	Notes	2008		2007	
		[in €k]	[in €k]	[in €k]	[in €k]
1. Turnover	[9]				
Turnover without Wholesale Energy Trading		600,701		580,371	
Wholesale Energy Trading turnover		2,345,718	2,946,419	1,505,697	2,086,068
2. Increase/reduction in work in progress			1,852		1,986
3. Other internally produced and capitalised assets			801		1,081
4. Other operating income	[10]		80,514		74,391
5. Cost of materials	[11]				
a) Costs of raw materials and supplies and purchased goods		-2,760,660		-1,884,991	
b) Cost of purchased services		-43,863	-2,804,523	-42,125	-1,927,116
6. Staff costs					
a) Wages and salaries		-49,348		-50,777	
b) Social security costs, expenditure on old-age pensions and other benefits – of which on old-age pensions: €1,499k (2007: €2,150k)		-10,063	-59,411	-10,501	-61,278
7. Amortisation of intangible and tangible fixed assets	[12]		-22,970		-26,267
8. Other operating expenses	[13]		-105,532		-96,209
9. Income from affiliated companies and associated undertakings – of which from affiliated companies: €561k (2007: €1,596k)			816		1,837
10. Income from profit/loss transfer agreements			19,854		16,534
11. Income from long-term financial investments – of which from affiliated companies: €4,048k (2007: €3,552k)			4,087		4,120
12. Other interest earned and similar income – of which from affiliated companies: €1,741k (2007: €1,607k)			6,386		5,838
13. Write-down of financial assets and marketable securities	[14]		-2,531		-3,168
14. Interest and related expenses – of which to affiliated companies: €712k (2007: €246k)			-22,811		-24,778
15. Expenses from loss transfer	[15]		-7,360		-5,658
<b>16. Profit or loss on ordinary activities</b>			<b>35,591</b>		<b>47,381</b>
17. Taxes on income			-		-109
18. Notional taxes on the GmbH's corporate income and business profits – of which to affiliated companies: €10,556k (2007: €24,127k)	[16]		-10,556		-24,127
19. Profit transfer			-25,035		-23,145
<b>20. Retained earnings</b>			<b>0</b>		<b>0</b>

## Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

### 1 General remarks

The annual financial statements of Stadtwerke Leipzig GmbH (abbreviated here to the "GmbH") were prepared according to the regulations of the German Commercial Code (HGB) and the relevant regulations of the German Limited Liability Company Act (GmbHG) and the DM Balance Sheet Act (DMBilG).

The "total cost" type of short-term results accounting was chosen as the format for the profit and loss account.

The annual financial statements of the GmbH are incorporated into the consolidated financial statements of its parent company – LVV Leipziger Versorgungs- und Verkehrsgesellschaft mbH, Leipzig – and into the subgroup financial statements of Stadtwerke Leipzig, both of which are published in the Electronic Federal Gazette.

### 2 Accounting and valuation methods

#### a) Assets

Purchased intangible assets and tangible fixed assets are valued at acquisition or production cost minus regular and unscheduled depreciation. The production costs of assets constructed by the company for its own use include not only direct costs, but also appropriate overhead (without interest paid on borrowings). Real-estate additions within the meaning of the Assets Allocation Act (Vermögenszuordnungsgesetz) are shown on the balance sheet at a flat-rate land value.

## Creating Structures for the Future

Fixed assets taken over free of charge were reported in previous years at their fair market value on the date of transfer.

Most regular depreciation is carried out on a straight-line basis over the asset's useful life and using the highest rates permissible under tax law. Assets purchased in the course of the year are written off pro rata temporis. Low-value assets in the fiscal sense are included in a collective item at acquisition or production cost between €150 und €1,000 per asset. One fifth of the collective item is released, reducing profit, in the financial year in which it was formed and in each of the following four financial years (pursuant to section 6 subsection 2 of the Income Tax Act [EStG]).

Financial assets are stated at acquisition cost. Shares in foreign companies are translated at the current exchange rate that applied on the date of the transaction. Interest-free loans are shown on the balance sheet at their present value. Where necessary, items were written down to net realisable value on the balance-sheet date.

All raw materials and supplies are reported at average cost prices, applying the principle of the lower of cost or market.

Emission certificates allocated free of charge are posted under Inventories at the memo value. Purchased emission certificates are shown on the balance sheet under Inventories at acquisition cost. Where necessary, items were written down to net realisable value on the balance-sheet date.

Work in progress is valued loss-free at production cost.

Receivables and other assets are valued at their nominal value. Recognisable risks are taken into account by making appropriate write-downs. Itemised general bad-debt provisions were made according to the age structure of the receivables to cover both general non-payment risks and expected risks arising from the assignment of receivables from energy deliveries to later periods.

Receivables from affiliated companies included the loan extended in Polish zloty which was secured by forward exchange transaction. The loan receivable was valued at the agreed secured exchange rate.

Furthermore, a general bad-debt provision of 1 % was made to cover general credit risks. Under receivables from gas, electricity and district heating supplied, received payments on account were set off against our customers' deferred consumption that has not yet been read.

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

Taking section 246 subsection 2 of the HGB into consideration, receivables and liabilities are netted out where netting contracts have been agreed with wholesale trading partners.

The Other assets include, among other items, financial derivatives that must be shown on the balance sheet. See the information provided on financial derivatives for more details on the valuation of interest-rate options shown on the balance sheet (point 3).

Cash resources (cheques, cash at bank and in hand) are shown at their nominal value. Amounts in foreign exchange are translated at the exchange rate on the reporting date or at the market value, whichever is lower.

Prepaid expenses include expenses paid before the balance-sheet date if they cause work for a certain time after this date.

**b) Equity and liabilities**

The subscribed capital is reported at the nominal value. The retained earnings contain the special reserves pursuant to section 27 subsection 2 of DMBilG.

The Special item with partial reserve character is released to income according to plan. The Special item is always released to income at the end of each preferential period on a straight-line basis, either for the remaining useful life of the fixed asset or on retirement of the subsidised fixed assets. Release begins at the latest, however, when the sum of total regular depreciation and special depreciation exceeds the amount of the original and production cost.

Capital investment grants and bonuses are shown under liabilities as a Special item for fixed assets. Capital investment grants are fully released to income, either over the useful life of the fixed assets or on their retirement. The release of the capital investment bonuses to income is based on an across-the-board assumption of a twenty-year useful life.

The annual release of the Special item for building-cost subsidies amounts to 5 % for building-cost subsidies received up to 31 December 2002. Building-cost subsidies received after 1 January 2003 are released over the useful life of the subsidised assets.

## Creating Structures for the Future

Selected provisions for staff as well as provisions for pensions and similar obligations are formed on the basis of actuarial expert opinions according to the going-concern-value method at an interest rate of 5.5 % and 6 % respectively. The computation of the going-concern values is based on the 2005 G guideline tables compiled by Klaus Heubeck.

Other provisions includes the emission certificates allocated free of charge, which are posted at the memo value. In order to meet the obligation to return the certificates, a provision amounting to the market value on the balance-sheet date was formed for the additional certificates required.

Recognisable risks and uncertain obligations are taken into account in the determination of Other provisions.

Liabilities are reported at their repayment value.

Deferred income includes income received before the balance-sheet date if it continues to represent revenue for a certain time after this date.

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

### 3 Notes to the Balance Sheet

#### Fixed assets

Changes in individual fixed-asset items and depreciation in the financial year are shown in Stadtwerke Leipzig GmbH's "Movements in the Fixed Assets in the 2008 Financial Year" schedule.

#### [1] Financial assets

On the balance-sheet date, the GmbH had a share of at least 20 % in the following undertakings:

Affiliated companies			
	Share	Equity	Profit/loss
	[%]	capital	2008
		[in €k]	[in €k]
SWL Kapitalvermögensverwaltungs GmbH, Leipzig (SWL-KVV) <sup>1)</sup>	100.00	98,877	7,478
SWL Anlagenvermögensverwaltungs GmbH, Leipzig (SWL-AVV) <sup>1)</sup>	100.00	54,966	2,411
HL komm Telekommunikations GmbH, Leipzig (HL komm) <sup>1)</sup>	100.00	12,604	6,229
perdata Gesellschaft für Informationsverarbeitung mbH, Leipzig (perdata) <sup>1)</sup>	100.00	2,512	2,437
ENDICO Sp. z o.o., Jelenia Góra, Poland (ENDICO) <sup>4)</sup>	100.00	2,480	41
Stadtwerke Leipzig Netz GmbH, Leipzig <sup>1)</sup>	100.00	1,009	-7,360
Innvo Innovationsgesellschaft mbH & Co. KG, Leipzig (Innvo) <sup>3)</sup>	100.00	818	-2
LAS GmbH, Leipzig (LAS) <sup>1)</sup>	100.00	499	1,299
SWL Polska Sp. z o.o., Gdańsk, Poland (SWL Polska) <sup>4)</sup>	100.00	207	18
SWL Beteiligungs GmbH, Leipzig <sup>3)</sup>	100.00	77	26
Innvo Innovationsgesellschaft-Management mbH, Leipzig <sup>3)</sup>	100.00	29	1
Zakład Energetyki Ciepłej Sp. z o.o., Tczew, Poland (ZEC Tczew) <sup>4)</sup>	99.85	4,654	359
Zakład Energetyki Ciepłej "STAR-PEC" Sp. z o.o., Starogard-Gdański, Poland (STAR-PEC) <sup>4)</sup>	87.28	5,519	122
Gdańskie Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o., Gdańsk, Poland (GPEC) <sup>4)</sup>	83.66	46,463	748
PROMETHEUS – Gesellschaft für Erdgasanwendungsanlagen mbH, Leipzig	51.00	262	6

## Creating Structures for the Future

<b>Holdings</b>			
	<b>Share</b>	<b>Equity capital</b>	<b>Profit/loss 2008</b>
	[ % ]	[ in €k ]	[ in €k ]
Erdgasversorgung Industriepark Leipzig Nord GmbH, Leipzig (EVIL)	50.00	500	123
Energy Services GmbH i. L., Leipzig <sup>2)</sup>	50.00	121	8
WABIO® Biokraftwerk Managementgesellschaft mbH, Leipzig <sup>3)</sup>	50.00	19	-7

- 1) Net income/loss for the year before profit transfer
- 2) Deviating financial year and/or incomplete financial year
- 3) Annual financial statements for 2007
- 4) Conversion rate on the balance-sheet date

Pursuant to the existing general-contractor agreements with GNL Gasnetz Leipzig AG (GNL), FWNL Fernwärmenetz Leipzig GmbH & Co. KG (FWNL), and Heizkraftwerk Eutritzscher Strasse GmbH & Co. KG (EuKG), Stadtwerke Leipzig GmbH provides investment services and sells them to the fund-management companies. Stadtwerke Leipzig GmbH grants the fund-management companies long-term loans via SWL AVV to finance these investment services. New loans worth €2,965k were extended during the financial year. The disposals amounting to €5,812k relate to the regular repayments of the loans.

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

**Current assets**

**[2] Inventories**

Inventories on the balance-sheet date include returnable emission certificates worth a total of 355,378 tonnes of CO<sub>2</sub> that were allocated free of charge for the second trading period (2008 – 2012); they were posted at a memo value of €1 (market value on 31 December 2008: €5,729k). Inventories also contain emission certificates worth 50,000 tonnes of CO<sub>2</sub> with a market value of €748k that were purchased at acquisition cost.

**[3] Receivables and other assets**

The Trade debtors essentially contain invoices for sales of electricity, gas and district heating. €163,582k (in 2007: €163,030k) of these are receivables relating to energy consumption between the date of the last meter reading and the balance-sheet date which is charged to subsequent periods; these receivables were netted off against payments received on account amounting to €129,022k (in 2007: €131,030k).

The Receivables from affiliated companies essentially consist of short-term receivables from profit/loss transfer agreements (€19,854k), receivables from cash pooling, (€12,326k), trade debtors (€13,532k), receivables from LVV relating to turnover tax €7,357k) and loan receivables (€6,097k).

Receivables from the shareholder LVV amounting to €20,353k (of which from cash pooling: €12,326k; 2007: €23,317k) are posted under Receivables from affiliated companies.

Receivables from associated undertakings consist mainly of Trade debtors from EuKG (€9,493k).

The Receivables and other assets contain €2,248k in receivables with a residual term of more than one year.

**[4] Prepaid expenses**

Prepaid expenses include a disagio amounting to €329k which is released by regular depreciation over the term of the underlying loan (eight years).

## Creating Structures for the Future

### [5] Equity

The Subscribed capital totalled €22,000k on the balance-sheet date. LVV held 100 % of the shares.

The profit on ordinary activities minus Taxes on corporate income and business profits amounting to €35,591k is transferred in full to LVV on the basis of a profit/loss transfer agreement. During the financial year there was an advance transfer of €34,000k of profits towards the 2008 result. The remaining amount of €1,591k is posted under Amounts owed to affiliated companies for the year ended 31 December 2008.

### [6] Special items

On 31 December 2008, €1,844k of the Special item with partial reserve character was released to income according to the regular schedule pursuant to section 4 of the Development Area Act (FördGG); €10k was released as a result of fixed-asset retirement. €1,900k of the Special item was released to income outside of the normal schedule.

The planned amount of the Special item for fixed assets (€939k) was released to income.

The Special item for building-cost subsidies included subsidies for connection costs amounting to €51,955k (in 2007: €55,844k). The planned amount of the Special item (€5,315k) was released to income in the year under review. There was also a fixed-asset retirement amounting to €24k. The additions amounted to €1,450k in the financial year.

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

[7] Other provisions

<b>Other provisions</b>						
	<b>01 Jan. 08</b> [in €k]	<b>Addi- tions</b> [in €k]	<b>Trans- fers</b> [in €k]	<b>Use</b> [in €k]	<b>Re- lease</b> [in €k]	<b>31 Dec. 08</b> [in €k]
Provision for the repurchase of the gas and steam turbine generator	47,174	2,613	–	–	–	49,787
Obligations to clean up ecological damage	16,669	281	–	255	1	16,694
Outstanding invoices for procurement expenditure	22,833	40,022	–998	17,553	4,125	40,179
Franchise fees	8,923	6,390	–	8,834	–	6,479
Provisions relating to staff and former employees	14,852	4,657	–	6,136	1,216	12,157
Provisions for compensation for property-secured rights to run lines across third-party properties pursuant to section 9 of the GBBerG	12,888	–	–	124	58	12,706
Provisions for the elimination of additional revenues	–	12,600	–	–	–	12,600
Provisions for invoices not yet received	7,909	2,367	–	6,060	1,406	2,810
Remaining provisions	9,649	10,769	1,088	2,140	1,101	18,265
<b>Other provisions</b>	<b>140,897</b>	<b>79,699</b>	<b>90</b>	<b>41,102</b>	<b>7,907</b>	<b>171,677</b>

## Creating Structures for the Future

A provision is posted for the elimination of additional revenues as per the balance-sheet date. This provision takes into account the risk position resulting from the future implementation of a judgement by the Federal Court of Justice (Bundesgerichtshof, BGH) dated 14 August 2008. According to the judgement, a grid operator was entitled to demand the use-of-system charges costed according to the StromNEV (Regulation on Charges for Access to Electricity Supply Networks) under Associations' Agreement II (Verbändevereinbarung II) in the period from 29 October 2005 until the first approval of the use-of-system charges, but should not have finally kept the resultant additional revenues. The Federal Network Agency (Bundesnetzagentur, BNetzA) reserves the right to oblige grid operators to reduce their annual revenue ceiling by any additional revenues received in the course of the regulation period beginning in 2010. A provision for uncertain liabilities was formed to cover this eventuality for the period from November 2005 until December 2006, i.e. until Stadtwerke Leipzig Netz GmbH commenced operational business. The calculation of the size of the provision took into account in particular the decisions taken by the BGH in the grid operators' favour on 14 August 2008:

- costs budgeted for lost energy may be included,
- a risk premium on the rate of return on the proportion of equity that exceeds the permitted equity ratio (known as EK-Zinssatz II) may be included,
- assets under construction may be taken into account in the imputed rate of return on equity.

In addition, rates of return on the determined additional revenues up to and including 2008 were added, offsetting the rate of inflation in each year. The rate on which the calculation was based varied from 1.5 % for 2005 to 2.6 % for 2008.

Provisions for pensions and similar obligations, Provisions for taxation and Other provisions worth €81,889k will fall due within one year.

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

[8] Liabilities

Liabilities	31 Dec. 2008	Remaining term		31 Dec. 2007
	[in €k]	up to 1 year [in €k]	over 5 years [in €k]	[in €k]
1. Bank loans and overdrafts	247,662	8,406	178,207	253,619
2. Payments received on account of orders	1,047	1,047	–	526
3. Trade creditors	74,665	74,665	–	72,614
4. Amounts owed to affiliated companies (of which to shareholder LVV)	49,764 (1,649)	49,764 (1,649)	– (–)	41,732 (15,022)
5. Amounts owed to associated undertakings	5,226	5,226	–	369
6. Other liabilities	18,102	17,027	–	16,473
<b>Liabilities</b>	<b>396,466</b>	<b>156,135</b>	<b>178,207</b>	<b>385,333</b>

€130,173k of the Bank loans and overdrafts are secured by charges on associated undertakings or by simple negative declarations. The foreign-exchange positions of the US private placement (US-\$110 million) are secured against US dollar currency risks for the entire term.

Amounts owed to affiliated companies essentially contain amounts owed to the shareholder LVV in connection with the transfer of profits (€1,591k), liabilities related to cash pooling (€35,855k), amounts owed to Stadtwerke Leipzig Netz GmbH in connection with the transfer of profits (€7,360k), and trade creditors (€4,032k).

Amounts owed to associated undertakings relate to EuKG (€5,226k). The Other liabilities contain €7,627k (2007: €2,530k) in Tax liabilities.

## Creating Structures for the Future

### Contingent liabilities and contingencies

On 31 December 2008, banks held two letters of comfort issued as collateral for the liabilities of associated undertakings amounting to €26,123k (2007: €27,624k). Furthermore, the company has joint and several liabilities for lines of credit up to €61,000k (2007: €61,000k); €28,724k of these lines (2007: €0k) had been used by 31 December 2008 and related to affiliated companies.

### Other financial commitments

Purchase commitments from orders placed totalled €4,402k on 31 December 2008 (2007: €510k).

Commitments relating to tenancy agreements amounted to €5,001k (2007: €6,742k). Furthermore, there were operational leasing commitments worth €86,726k (2007: €84,701k). Leasing rates were discounted at 6 % in the calculation of leasing expenses.

Options on rights of tender of delivery and rights of pre-emption amounted to €241,596k (2007: €244,209k), of which €186,122k (2007: €186,122k) were vis-à-vis affiliated companies. Commitments also existed to pay uncalled capital contributions related to GmbH shares in affiliated companies amounting to €1,109k (2007: €1,709k) and obligations to pay limited partners' capital contributions of €1,485k (2007: €2,607k).

### Financial derivatives

Interest-rate and foreign-exchange derivative transactions are made to limit interest-rate and foreign-exchange risks. We hedge against energy-price risks with commodity derivatives in the form of options, forwards and futures.

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

On the balance-sheet date, the nominal volumes, fair values and book values of the financial derivatives posted under Other assets or Other liabilities were as follows:

Financial derivatives	Nominal volume		Fair value		Book value	
	31 Dec. 08	31 Dec. 07	31 Dec. 08	31 Dec. 07	Assets	Equity and Liabilities
	[in €k]	[in €k]	[in €k]	[in €k]	31 Dec. 08 [in €k]	31 Dec. 08 [in €k]
<b>Interest-rate derivatives</b>	<b>646,893</b>	<b>943,909</b>	<b>-15,019</b>	<b>-13,825</b>	<b>1,323</b>	<b>1,433</b>
Interest-rate swaps	530,893	503,909	-16,342	-15,890	-	-
Interest-rate options	116,000	440,000	1,323	2,065	1,323	1,433
<b>Foreign-exchange derivatives</b>	<b>98,151</b>	<b>92,050</b>	<b>-11,212</b>	<b>-16,399</b>	<b>-</b>	<b>-</b>
Foreign-exchange futures	6,101	-	285	-	-	-
Cross-currency swaps	92,050	92,050	-11,497	-16,399	-	-
<b>Commodity derivatives</b>	<b>4,977,934</b>	<b>2,088,969</b>	<b>488</b>	<b>32,296</b>	<b>4,708</b>	<b>164</b>
Commodity forward transactions	4,977,934	2,088,969	488	32,296	4,708	164

The nominal volume is the sum of all the amounts of capital on which the derivative financial transactions are based.

In its use of derivative financial instruments the company is exposed to a credit (or repayment) risk and a market risk. If counterparties do not meet their payment obligations according to the derivative contract, the counterparty risk corresponds to the derivative's positive market value. If its market value is negative, it corresponds to the debt vis-à-vis the counterparty that bears the repayment risk.

Each of the indicated fair values of the financial derivatives corresponds to the price at which an independent third party would acquire the rights/obligations of this financial instrument on the valuation date. The fair values of the derivatives are determined on the basis of generally recognised valuation models (present-value or option-price models).

Negative market values of the interest-rate swaps used, such as a deterioration in the present value of the underlying transactions secured, do not appear on the balance sheet. The current interest payments are recorded under net interest income and affect the operating profit.

## Creating Structures for the Future

The caps and swaptions posted under interest-rate options are capitalised at the time of acquisition as Other assets at acquisition cost (= option premium to be paid). There were no caps in the portfolio on the balance-sheet date 31 December 2008. The capitalised option premiums of the swaptions were written off to the positive fair value on the balance-sheet date. The swaptions shown in the portfolio were concluded in 2008; their remaining terms run until December 2012. Since Stadtwerke Leipzig GmbH assumes that these options are of value on the balance-sheet date because of their remaining terms, the capitalised option premiums of the swaptions are written off to the positive fair value on the balance-sheet date.

If the premiums for the interest-rate options are paid pro rata temporis, the outstanding payments are shown on the balance sheet separately under Other liabilities and have not affected the fair value.

The fair values of the foreign-exchange futures transactions and the cross-currency swap are determined on the basis of the exchange rates on the balance-sheet date, taking into account forward premiums/discounts. The foreign-exchange futures existing on 31 December 2008 served to hedge the short-term loan to the Polish subsidiary GPEC. The posted cross-currency swap forms a separate valuation unit together with the US borrowers' note loan, since its only purpose is to hedge the dollar liabilities at matching maturities. There are no plans for closing the cross-currency swap prematurely.

In line with section 285 sentence 1 number 18 of the HGB, all financial derivatives purchased for trading purposes are reported under commodity derivatives in the Notes to the financial statements. The previous year's statement was adjusted accordingly.

The nominal volume corresponds to the additive value of all agreed purchase (€2,488 million) and selling agreements (€2,490 million) for future delivery periods in the commodities electricity, gas and emission certificates.

The fair value is determined at market prices on the balance-sheet date based on externally recognised sources, e.g. the official closing prices on the European Energy Exchange AG, Leipzig (EEX).

The balance-sheet valuation of options and forward transactions is carried out at original or production cost or at the fair value, whichever is lower.

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

## 4 Notes to the Profit and Loss Account

### [9] Turnover

Turnover	2008 [in €k]	2007 [in €k]
Retail electricity business (gross)	285,082	324,740
Electricity tax	-33,181	-39,099
Retail electricity business (net)	251,901	285,641
Retail gas business (gross)	99,223	93,400
Natural-gas tax	-8,745	-8,705
Retail gas business (net)	90,478	84,695
District-heating retail business	110,272	112,456
Wholesale electricity trading (gross)	2,193,735	1,471,978
Electricity tax	-237	-
Wholesale electricity trading (net)	2,193,498	1,471,978
Wholesale gas trading (gross)	164,405	43,742
Natural-gas tax	-12,185	-10,023
Wholesale gas trading (net) <sup>1)</sup>	152,220	33,719
Income from power stations	65,998	12,454
Service charges to EuKG	15,750	15,482
<b>Subtotal: Trading segment</b>	<b>2,880,117</b>	<b>2,016,425</b>
Charges for services	44,532	48,319
Income from building-cost subsidies	5,605	5,493
Income from heating stations	27	-
<b>Subtotal: Networks segment</b>	<b>50,164</b>	<b>53,812</b>
Energy-Related Services	3,518	3,366
<b>Subtotal: Services segment</b>	<b>3,518</b>	<b>3,366</b>
Other turnover	12,620	12,465
<b>Subtotal: Other turnover</b>	<b>12,620</b>	<b>12,465</b>
<b>Turnover</b>	<b>2,946,419</b>	<b>2,086,068</b>

1) Turnover from Wholesale Energy Trading was split into turnover from electricity trading and turnover from gas trading in 2008. Furthermore, sales of gas to EuKG were integrated into the item Wholesale Energy Trading. Figures for 2007 were adjusted accordingly to ensure comparability.

The amendment of the regulations on combined heat and power generation led to an increase in sales revenues from cogenerated electricity charged to the grid operator Stadtwerke Leipzig Netz GmbH, which was posted under the item Income

## Creating Structures for the Future

from power stations. The same amount of electricity procurement expenditure is posted without effect on net income under Cost of materials.

The service charges in the Services segment include income from technical services rendered to Stadtwerke Leipzig Netz GmbH and plant-management and maintenance services provided to the fund-management companies GNL und FWNL.

Other turnover includes turnover unrelated to the accounting period amounting to €1,770k (2007: €1,165k). The turnover unrelated to the accounting period is the difference between deferred turnover for the year ended 31 December 2007 and the invoiced turnover for the deferred period.

### [10] Other operating income

Other operating income	2008 [in €k]	2007 [in €k]
Income from the release of provisions	8,154	6,752
Release of allowances for doubtful debt	4,013	862
Income from disposals of fixed assets	3,223	675
Remaining income unrelated to the accounting period	3,556	2,176
<b>Subtotal: Other operating income unrelated to the accounting period</b>	<b>18,946</b>	<b>10,465</b>
Release of Special item with partial reserve character	3,754	2,109
Remaining income	57,814	61,817
<b>Subtotal: Other income</b>	<b>61,568</b>	<b>63,926</b>
<b>Other operating income</b>	<b>80,514</b>	<b>74,391</b>

The increase in Income from disposals of fixed assets was essentially the result of the sale of shares in AB Klaipėdos energija, Klaipėda. The increase in income from the Release of allowances for doubtful debt was largely due to the reduction in general bad-debt provisions.

The Remaining income unrelated to the accounting period is essentially made up of credit entries for energy purchases and electricity and natural-gas tax for other accounting periods.

The Remaining income includes income from the leasing of the electricity and gas network to Stadtwerke Leipzig Netz GmbH. Remaining income also includes income from on-charging, rental income, and income from the release of Special items for capital investment bonuses and grants.

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

[11] **Cost of materials**

Costs of raw materials and supplies and costs of purchased goods include energy purchases amounting to €1,710k that are unrelated to the accounting period.

The cost of purchased services in the 2008 financial year essentially consists of expenditure related to the provision of investment services to EuKG, GNL and FWNL, and expenditure based on the service contract with FWNL.

[12] **Amortisation**

In the 2008 financial year unscheduled depreciation/amortisation amounted to €15k (2007: €14k).

[13] **Other operating expenses**

Other operating expenses	2008 [in €k]	2007 [in €k]
Transfer to Provisions for the elimination of additional revenues	12,600	–
Taxes unrelated to the accounting period	1,898	936
Expenditure unrelated to the accounting period	1,274	2,288
<b>Subtotal: Expenditure unrelated to the accounting period</b>	<b>15,772</b>	<b>3,224</b>
Franchise fees	20,419	20,191
Expenditure on services and invoicing services	12,717	12,844
Losses on receivables/Allowances for doubtful debt	12,076	9,454
Expenditure on information technology	10,562	11,605
Expenditure on customer care and marketing	5,305	5,790
Remaining other expenditure	28,680	33,101
<b>Subtotal: Other expenditure</b>	<b>89,759</b>	<b>92,985</b>
<b>Other operating expenses</b>	<b>105,531</b>	<b>96,209</b>

The Expenditure unrelated to the accounting period includes losses from sales of fixed assets (€915k) and expenditure relating to the franchise fee in other accounting periods (€359k).

## Creating Structures for the Future

Among other things, the Remaining other expenditure is made up of expenditure on auditing and consulting (€3,518k), expenditure on rent and leases for real estate and technical equipment (€7,024k), expenditure on legal costs (€984k), and Other taxes (€401k).

### [14] Write-down of financial assets

The Write-down of financial assets (€2,531k) essentially affects SHH (€1,394k) and Innvo KG (€1,125k).

### [15] Expenses associated with the transfer of losses

On the basis of a profit/loss transfer agreement, the losses of Stadtwerke Leipzig Netz GmbH (€7,360k) were transferred to Stadtwerke Leipzig GmbH with effect on expenses.

### [16] Notional taxes on corporate income and business profits

The posted tax expenditure was determined on the assumption that there was no profit/loss transfer agreement with LVV. The notional tax expenditures amounting to €10,556k (2007: €24,127k) are a component of the expenses incurred in connection with the transfer of profits to the shareholder totalling €35,591k (2007: €47,272k). Of this, €4,642k (2007: €11,634k) was corporation income tax, €255k (2007: €640k) solidarity surcharge and €5,659k (2007: €11,853k) trade tax.

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

**5 Other information**

**a) Annual average number of employees**

<b>Annual average number of employees</b>		
	<b>2008</b>	<b>2007</b>
Employees	1,063	1,049
Trainees (incl. apprentices)	88	92
	<b>1,151</b>	<b>1,141</b>

The GmbH employed a total of 1,162 staff on the balance-sheet date including 91 trainees and apprentices.

**b) Management**

Dr Anke Tuschek  
 Mr Raimund Otto

## Creating Structures for the Future

### c) Members of the Supervisory Board

	Function	
<b>Shareholders' representatives</b>		
Mr Uwe Albrecht	Chairman	Mayor
Dr Hans-Joachim Klein	2nd Vice- Chairman (until 17 April 2008)	Managing director
Mr Josef Rahmen	2nd Vice- Chairman (since 18 April 2008)	Managing director
Mr Alexander Achminow		Managing director of a publishing house
Mr Reiner Engelmann		Teacher
Ms Ingrid Glöckner		Certified engineer
Ms Ursula Grimm		Mayor (rtd.)
Mr Detlef Kruse	(since 18 April 2008)	Managing director
Ms Bettina Kudla		Mayor
Mr Gunter Müller		Lawyer
Mr Roland Quester		Library manager
<b>Employees' representatives</b>		
Mr Rainer Hartmann	1st Vice- Chairman	Works council member
Mr Michael Eberhard		Trade union secretary
Ms Ines Jahn		Trade union secretary
Mr Bernhard Krabiell		Trade union secretary
Mr Peter Lintzel		Head of department
Mr Uwe Lübeck		Works council member
Mr Jürgen Mackott		Senior fitter
Mr Peter Reichenbach		Master electrician
Mr Udo Schieritz		Works council member
Mr Thomas Washeim		Shift supervisor, gas and steam turbine plant

The total remuneration for the members of the Supervisory Board amounted to €46k in the 2008 financial year.

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

**d) Advances and loans to members of the Supervisory Board and contingencies to the credit of members of the Supervisory Board**

A loan to a member of the Supervisory Board amounting to €11k (2007: €19k) existed on 31 December 2008. €8k was repaid during the financial year. The loan bears 6.32 % interest p.a. and ends in 2013.

Leipzig, 12 March 2009  
The Management



Dr Anke Tuschek



Raimund Otto

## Creating Structures for the Future

## Movements in the Fixed Assets in the Financial Year 2008

	Acquisition and production cost				At 31 Dec. 2008 [in €k]
	At 1 Jan. 2008 [in €k]	Additions [in €k]	Disposals [in €k]	Transfers [in €k]	
<b>I. Intangible assets</b>					
1. Land access rights, licences and software	39,456	2,034	–	998	42,488
<b>II. Sachanlagen</b>					
1. Real estate, rights equivalent to real estate, and buildings including buildings on third-party land	117,496	231	10	1,357	119,074
2. Technical equipment and machines	431,241	3,852	3,272	1,918	433,739
3. Other equipment, factory and office equipment	17,458	905	265	131	18,229
4. Payments on account and assets under construction	12,295	11,028	185	–4,404	18,734
	<b>578,490</b>	<b>16,016</b>	<b>3,732</b>	<b>–998</b>	<b>589,776</b>
<b>III. Financial assets</b>					
1. Shares in affiliated companies <sup>1)</sup>	257,801	2,492	4,089	–	256,204
2. Loans to affiliated companies <sup>2)</sup>	91,938	10,965	9,165	16	93,754
3. Associated undertakings <sup>3)</sup>	5,549	–	5,094	–	455
4. Loans to associated undertakings	372	–	84	–16	272
5. Other loans	790	30	245	–	575
	<b>356,450</b>	<b>13,487</b>	<b>18,677</b>	<b>–</b>	<b>351,260</b>
<b>Total fixed assets</b>	<b>974,396</b>	<b>31,537</b>	<b>22,409</b>	<b>–</b>	<b>983,524</b>

1) Disposals show the reclassification of a share under Other assets

2) Disposals show the reclassification of loans under Other assets

3) Disposals show the reclassification of shares under Other securities

Notes to the Annual Financial Statements, Stadtwerke Leipzig GmbH

Depreciation						Book values		
At 1 Jan. 2008 [in €k]	Additions [in T€]	Disposals [in €k]	Transfers [in €k]	Revaluation of fixed assets [in €k]	At 31 Dec. 2008 [in €k]	At 31 Dec. 2008 [in €k]	At 31 Dec. 2007 [in €k]	
30,711	3,064	–	–	–	33,775	8,713	8,745	
36,234	3,187	–	–	–	39,421	79,653	81,262	
245,385	15,924	2,475	–1	–	258,833	174,906	185,856	
14,083	794	265	1	–	14,613	3,616	3,375	
–	–	–	–	–	–	18,734	12,295	
<b>295,702</b>	<b>19,905</b>	<b>2,740</b>	<b>–</b>	<b>–</b>	<b>312,867</b>	<b>276,909</b>	<b>282,788</b>	
8,141	2,266	2,284	–	14	8,109	248,095	249,660	
500	253	753	–	–	–	93,754	91,438	
240	13	–	–	–	253	202	5,309	
272	–	–	–	–	272	–	100	
2	–	–	–	2	–	575	788	
<b>9,155</b>	<b>2,532</b>	<b>3,037</b>	<b>0</b>	<b>16</b>	<b>8,634</b>	<b>342,626</b>	<b>347,295</b>	
<b>335,568</b>	<b>25,501</b>	<b>5,777</b>	<b>0</b>	<b>16</b>	<b>355,276</b>	<b>628,248</b>	<b>638,828</b>	

## Audit Report

"We have carried out an audit on the annual financial statements (consisting of the balance sheet, the profit and loss account and the notes to the annual financial statements) including the accounting, and on the management report of Stadtwerke Leipzig GmbH, Leipzig, for the financial year from 1 January to 31 December 2008. Pursuant to section 10 subsection 4 of the German Energy Industry Act [EnWG], the audit also included an examination of compliance with the unbundling obligations in the internal rendering of accounts pursuant to section 10 subsection 3 of the EnWG. Accounting, the preparation of the annual financial statements and the management report pursuant to the regulations of German commercial law, and compliance with the obligations pursuant to section 10 subsection 3 of the EnWG are the responsibility of the company's management. Our task is to issue an assessment, on the basis of our audit, of the annual financial statements including the accounting, the management report and the internal rendering of accounts pursuant to section 10 subsection 3 of the EnWG.

We performed our audit of the annual financial statements pursuant to section 317 of the (German) Commercial Code [HGB] and in accordance with the German principles on the orderly auditing of annual accounts issued by the (German) Institute of Chartered Accountants [IDW], according to which an audit must be planned and executed in such a way as to obtain reasonable assurance that any mistakes or infringements that seriously affect the view of the net worth, financial position and income situation presented by the annual financial statements according to the principles of orderly accounting, and by the management report, will be recognised, and to obtain reasonable assurance that the obligations pursuant to section 10 subsection 3 of the EnWG have been met in all essential aspects. In planning the audit, knowledge of the company's business operations, economic circumstances and legal situation are taken into account, as are expectations of possible errors. In the course of the audit, the effectiveness of the internal accounting-control system and evidence backing up information given in the accounting, the annual financial statements and the management report are assessed mainly on the basis of random samples. The audit includes assessments of the applied accounting principles; of the fundamental estimations made by the management; of the overall view of the company presented in

the annual financial statements and the management report; of whether the valuations and the allocation of the accounts in internal accounting were carried out in a manner that was proper and comprehensible pursuant to section 10 subsection 3 of the EnWG; and of whether the principle of consistency was observed. We believe that our audit provides a sufficiently sound basis for our assessment.

Our audit did not lead to any objections.

On the basis of the information gained in the course of the audit, it is our assessment that the annual financial statements comply with the provisions of the law and present an accurate picture of the company's net worth, financial position and income situation in accordance with the principles of orderly accounting. The management report is consistent with the annual financial statements and presents an accurate overall picture of the company's position; it also accurately describes the opportunities and risks attending future development. The audit of compliance with the unbundling obligations relating to the internal rendering of accounts pursuant to section 10 subsection 3 of the EnWG did not lead to any objections."

Leipzig, 19 March 2009

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