

Annual Report 2007

This company report is the English translation of
the audited German annual statement.

berlinwasser

Supervisory Board report

In 2007 the Supervisory Board of Berlinwasser Holding AG fulfilled its responsibilities and duties as established under the law and by the company's statutes. It continuously monitored the work of the Executive Board and provided regular support and consultation in its management of Berlinwasser Group. The Supervisory Board was directly involved in all decisions of fundamental importance to the company.

Development in sales, earnings and employment of Berlinwasser Group, as well as its financial situation and key investment projects, provided the topics for regular consultations in plenary sessions. The Executive Board kept the Supervisory Board informed promptly and comprehensively by means of regular written and oral reports on all relevant issues of strategy, business development and the current situation of the entire Berlinwasser Group, as well as its individual companies, including the risk situation and risk management.

The Executive Board worked in coordination with the Supervisory Board in establishing the strategic direction of Berlinwasser Group. Any transactions that required the consent of the Supervisory Board or were of special significance were discussed in depth with the Executive Board prior to taking any decision. The Executive Board also provided detailed information on any special events and plans that were considered urgent for Berlinwasser Group in the periods between sessions. In the event that resolutions were required in these situations, the Supervisory Board formulated such resolutions in writing.

The Chairman of the Supervisory Board was in regular contact with the Executive Board outside the context of the Supervisory Board sessions as well and sought information on the current business situation and significant activities of Berlinwasser Group.

No conflicts of interest requiring immediate disclosure to the Supervisory Board arose during the year. Potential conflicts of interest related to similar business interests on the part of the shareholders and the company were considered in joint consultations and avoided by taking appropriate measures.

Four ordinary Supervisory Board sessions took place during financial year 2007. Two members of the Supervisory Board were able to participate only in less than half the Supervisory Board sessions.

In order to fulfil its tasks efficiently, the Supervisory Board has instituted four committees which prepare the Supervisory Board resolutions as well as topics that are to be dealt with in plenary sessions.

The Supervisory Board's consultations focused on the concentration of Berlinwasser Group on its core business and the associated restructuring measures, as well as the company's financial situation.

Central topics included the restructuring and reorganisation concept for future international activities of Berlinwasser International AG and the change in the Group's structure (in particular the Berlinwasser Services sub-Group) in order to optimise Berlinwasser Group's internal business divisions.

A new business model has been developed for Berlinwasser International AG, based on comprehensive market, business, financial and sensitivity analyses. According to this model, its future activities will consist of the continuation of existing investments, as well as the development and implementation of non-investment projects. To this end Berlinwasser International AG has continued to step up its activities, already begun, for expanding the Consulting, Management contracts/operations management and Cooperation with investors product lines. Berlinwasser International AG can thus continue to operate in this fashion in the market for investment projects, utilising its core competences in the technological, operations management, management and investment areas, without using its own capital.

Based on detailed documentation the Supervisory Board agreed to the changes in the Group's structure, which required a restructuring of the Services for Communities and Companies business division and which were launched by establishing Berlinwasser Regional GmbH as a fully owned subsidiary of Berlinwasser Holding AG on 1 November 2007.

Further changes included the transfer of the shares of Berlinwasser Services GmbH in p2m berlin GmbH and pigadi GmbH to Berlinwasser Holding AG and of the Berlinwasser Services GmbH Communities and Companies business division to the newly founded Berlinwasser Regional GmbH. The altered organisational structure affords greater transparency and clearly defined interfaces and responsibilities.

The Supervisory Board also agreed the budget for financial year 2008 after a thorough preliminary review and decided upon the mid-term plan for Berlinwasser Group for 2009 to 2012.

During financial year 2007 the directors of the individual subsidiaries of Berlinwasser Holding Aktiengesellschaft presented the Supervisory Board with their portfolios, in addition to the highlights and the results of the companies' operations as well as their future direction.

Furthermore the Supervisory Board was involved with the application, implementation and development of principles of corporate governance for Berlinwasser Holding AG and took into account the changes related to statutory modifications, which took effect upon resolution of the extraordinary general shareholders' meeting on 14 December 2006, in Berlinwasser Holding AG's Corporate Governance Code.

In December of 2007 a declaration in accordance with Section 161 of the AktG (German Companies Act) on the Corporate Governance Code of Berlinwasser Holding AG was issued and made permanently available on the company's website. The Executive and Supervisory Boards are in compliance with the recommendations of this code and will continue to comply in future.

By resolution on 1 November 2007, the extraordinary general shareholders' meeting appointed KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, as external auditors for financial year 1 January 2007 to 31 December 2007, on the recommendation of the Supervisory Board.

The auditors conducted an audit on the individual and consolidated financial statements of Berlinwasser Holding AG, as well as the joint management report, for financial year 2007, as prepared by the Executive Board based on the rules of the German Commercial Code, and issued an unqualified audit opinion.

Members of the Supervisory Board received documentation related to the financial statements, the auditors' reports and the Executive Board's recommendation for appropriation of profits – all of which the Presiding Committee (Audit Committee) of the Supervisory Board had dealt with in depth in advance – in timely fashion prior to the accounts review session.

The auditor informed the Supervisory Board concerning key audit findings during the accounts review session and was available to respond to any additional queries. The Supervisory Board acknowledged and agreed with the audit findings.

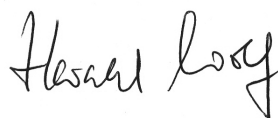
Furthermore the Supervisory Board raised no objections based on the conclusions of its own reviews and approved the individual and consolidated financial statements of Berlinwasser Holding AG and the joint management report based on the recommendation of its Presiding Committee (Audit Committee). The annual financial statements are hereby ratified. The Supervisory Board also approved the recommendation of the Executive Board regarding the appropriation of profits.

The following changes have occurred in the Supervisory Board's membership since its most recent report:

Effective close of business on 28 February 2007, the extraordinary general shareholders' meeting appointed Mr Ralf Zimmermann to succeed the departing Mr Werner Böttcher as a member of the Supervisory Board of Berlinwasser Holding AG. The Supervisory Board also appointed Mr Zimmermann to be a member of the Presiding/Audit Committee, as well as the Committee for Special Affairs, in place of the departing Mr Werner Böttcher.

The Supervisory Board wishes to thank the Executive Board members, the departed member of the Supervisory Board, company management and, in particular, the employees for their commitment throughout financial year 2007. They have once again contributed to a very successful financial year for Berlinwasser Group.

Berlin, 27 February 2008



Senator Harald Wolf
Chairman of the Supervisory Board
of Berlinwasser Holding AG

Berlinwasser Holding Aktiengesellschaft, Berlin

Management report on the company and the Group for financial year 2007

Financial year 2007 in the headlines

12 FEBRUARY 2007

Drainage of public streets and squares: The litigation between the state of Berlin and the Berliner Wasserbetriebe concerning receivables outstanding from 1995 and future settlement of drainage services for public streets and squares was adjudicated in favour of Berliner Wasserbetriebe by the Berlin administrative court on 12 February 2007.

11 JUNE 2007

Approximately 736,000 m³ of pure water was pumped on this day. This was the highest figure for the rainy summer. The comparable quantity for the peak day in 2006 was almost 868,000 m³.

13 JUNE 2007

The Supervisory Board of Berlinwasser Holding Aktiengesellschaft resolves to implement a new three-pillar business model for Berlinwasser International AG.

1 JULY 2007

Berliner Wasserbetriebe changes its rate structure. The prices for drinking water and sewage water, hitherto based only on quantity, are lowered and, as customary in the industry, supplemented by basic prices.

1 SEPTEMBER 2007

Start-up of Internet portals www.berlinwasser.de and www.bwb.de offering new perspectives and a significantly expanded range of services.

3 SEPTEMBER 2007

A total of 119 young people start their training within Berlinwasser Group. This includes, for the first time, two business people for dialogue marketing. This cooperation with bluepartner GmbH is one of a total of 21 professions that can be learned in the corporate Group.

19 SEPTEMBER 2007

The Supervisory Board of Berlinwasser Holding Aktiengesellschaft resolves to change the Group's structure. The Communal Services and Industry Services business areas of Berlinwasser Services GmbH will be organised under the newly founded, autonomous Berlinwasser Regional GmbH starting in 2008.

19 SEPTEMBER 2007

Promises kept: The Supervisory Board of Berliner Wasserbetriebe sets the new rates for 2008 pending approval of the Berlin pricing review authority. The required price increases are below the inflation rate.

Management report

1. Business and general conditions

Overview of the company, its business activities and overall conditions

Berlinwasser Holding Aktiengesellschaft was founded on 18 June 1998, as Berlinwasser Aktiengesellschaft with registered headquarters in Berlin. In the context of the partial privatisation of Berliner Wasserbetriebe, the state of Berlin transferred 49.9% of the shares of Berlinwasser Holding Aktiengesellschaft to RWE-Veolia Berlinwasser Beteiligungs AG on 29 October 1999. Since then the object of the company is in its activities as a holding company, performing Group management tasks spanning all business fields, in particular in connection with the dormant investment in Berliner Wasserbetriebe, as well as in other companies in Germany and abroad.

Berlinwasser Group has been navigating innovative, and – for the water business in Germany – unique, paths since 1999 with its public-private partnership model. By means of its proven technical competence and up-to-date management know-how the corporate Group has recreated its profile to one of efficiency and market and customer orientation over the past few years by means of a radical transformation.

This has included restructuring of the Group's portfolio, as well as the preservation and future-orientated development of processes and infrastructure for the Berlin drinking water supply and wastewater treatment so important to its core business.

The top corporate goal continues to be to make water useful to humans in as efficient a manner as possible and to assure its quality on a sustainable basis with a sense of responsibility and with the commitment of its employees, as well as the most up-to-date technology.

Regulated business and competitive business are combined under the umbrella of Berlinwasser Holding Aktiengesellschaft. The business division of "Berliner Wasserbetriebe" (regulated business) includes the services of Berliner Wasserbetriebe for Berlin. The International and Services business divisions (competitive business) render water-related services to domestic and international markets.

Drinking water supply and wastewater disposal form the core of the business of Berlinwasser Group. Berliner Wasserbetriebe is the largest company in the industry in Germany. It supplies 3.9 million Berliners and residents of neighbouring communities in Brandenburg with drinking water, or disposes of and purifies their wastewater. The traditional company Berliner Wasserbetriebe has a history lasting over 150 years and is considered a stable business enterprise, reliable employer and longterm investor well beyond Berlin's city limits.

In the International and Services business divisions the focus is on operational management projects in the water and wastewater area, as well as water-related services such as well rehabilitation, engineering services and technical and business consulting.

The Services division comprises Berlinwasser Services GmbH, which provides a wide range of services for Berlinwasser Group in particular, as well as the engineering firm p2m berlin GmbH, pigadi GmbH, specialised in well service, the customer care service provider, bluepartner GmbH and the training and personnel services company, perdie.net GmbH.

Berlinwasser International AG utilises the competences of Berlinwasser Group, particularly Berliner Wasserbetriebe, in the international market. Major activities include the operation and management of drinking water and wastewater equipment and systems. Berlinwasser International AG operates in such countries as China, Hungary, Azerbaijan, Albania and Namibia.

Analysis of the course of business, the economic situation and its development

During financial year 2007 business development in Berlinwasser Group companies was characterised by stabilisation and expansion of their market position. bluepartner GmbH continued to establish itself in the area of third-party business and was able to increase its external sales. p2m berlin GmbH was also able to attract two major projects during financial year 2007 with gratifyingly high order volumes.

A new business model was developed for Berlinwasser International AG. The goal was to map out the future field of activity for Berlinwasser International AG, with focus to be placed on the areas of consulting and non-investment operations management. The Supervisory Board of Berlinwasser Holding Aktiengesellschaft decided on an appropriate business model in its session of 13 June 2007. The sale of 80% of the shares of Berlinwasser International AG initiated in financial year 2005 was not pursued this past financial year.

A new organisational structure was resolved for Berlinwasser Group in the Supervisory Board session of Berlinwasser Holding Aktiengesellschaft on 19 September 2007. This structure will become effective on 1 January 2008, and provides a solution for the complexity of the Berlinwasser Services GmbH business model. The Services for Communities and Companies business division will in future be organised in an autonomous company in the newly established Berlinwasser Regional GmbH. The goal is to highlight more clearly the interfaces and responsibilities among the new company and the other companies of Berlinwasser Group. Furthermore, the Group's role as competent service provider for water and wastewater is to be solidified with business customers from communities and industry, as well as with end users. Once the Services for Communities and Companies business division has been separated out, the Information Technology and Well and Measurement Point Service business areas will remain with Berlinwasser Services GmbH. Moreover, as part of the structural changes, pigadi GmbH and p2m berlin GmbH, until now part of Berlinwasser Services GmbH, will become subsidiaries of Berlinwasser Holding Aktiengesellschaft.

Uniform interest calculations, as well as the related profit transfer agreements entered into between Berlinwasser Holding Aktiengesellschaft and p2m berlin GmbH, pigadi GmbH and perdie.net GmbH, introduced during the review of the financial structure conducted in 2006, have proven to be sound and will be retained in their present form.

Berlinwasser Group achieved sales revenues of €1,139 million in financial year 2007. These results are in line with the assumptions of the business plan. Sales revenues were earned primarily in the Berliner Wasserbetriebe business area.

BERLINER WASSERBETRIEBE BUSINESS DIVISION

As the industry forerunner in Germany, as well as the entity responsible for drinking water supply and wastewater treatment in the capital, Berliner Wasserbetriebe is committed to sustainability. Because the quality of the treated wastewater of today influences the quality of the water obtained for the drinking water supply of tomorrow. Ongoing substantial investment ensures that quality assurance is maintained at a high technological and ecological level. Over €270.7 million was invested during 2007.

Business earnings have developed positively. Operating EBIT¹ improved by €55.7 million over the previous year. PBT² in the amount of €389.9 million is also above the comparable figure for the previous year. Business earnings were significantly impacted by the conclusion of litigation regarding the drainage of public streets and squares. The Berlin administrative court made a decision completely in favour of Berliner Wasserbetriebe in this case. Sales of water, however, continue to decline. Only 192.5 million m³ of drinking water were supplied in 2007. This represents a decrease of 4.5% or 9.0 million m³ compared to the previous year. The dry weather during March and April was followed by the rainiest summer since weather records were first kept more than a hundred years ago. From the beginning of May until the end of August alone 425 litres of rain per square metre fell – approximately 15 litres more than in all of 2006.

After consultation with representatives of interested political and business parties, a rate model was successfully introduced effective 1 July 2007, which is partially independent of consumption and includes a basic price and a quantity price. This change was preceded by detailed and widespread communication. Residents of Berlin were, in addition, kept informed on the change in the rate system via a customer newsletter and our major customers informed via individual presentations.

The quality of corporate performance is confirmed by certification of the entire company in accordance with the applicable standards for quality and environmental management (DIN EN ISO 9001 and DIN EN ISO 14001). Conformity to technical safety man-

¹ Income before income tax, costs of partial profit transfers, revenue from assumption of losses by dormant partners, extraordinary income, interest and investment incomes

² Income before taxes, costs of partial profit transfers, revenue from assumption of losses by dormant partners

agement has also been certified in accordance with W1000 and M1000, as well as occupational health and safety management in accordance with OHSAS 18001.

“Our commitment protects the environment” was the central theme of the image campaign of 2007. Berliner Wasserbetriebe has considered itself to be a company committed to the environment for many years now. A variety of approaches has been pursued under the motto “Our commitment to protect future generations”. For instance, the use of renewable energy is being intensively promoted. Berliner Wasserbetriebe has produced an energy report for the first time. It provides a transparent overview of all energy-related data, such as consumption and costs, as well as of the trends in consumption and cost development. This allows for effective energy control. In the context of energy optimisation, moreover, the maximum reference performance and energy supply, for instance, are being reduced by means of analysing and optimising points of consumption. Efficient fleet management as well has been able to lower fuel consumption on a sustainable basis. Waste prevention and the use of construction methods without trenches are also part of environmentally friendly action. Furthermore, Berliner Wasserbetriebe is working intensively on a climate protection agreement with the state of Berlin, designed to lower CO₂ emissions. A total of 14.0 million m³ of clarified water, the wastewater purified in the water treatment plants, were used during 2007 for renaturation. This subsequent purification step leads to higher quality in the water returned into the water cycle or the groundwater. Furthermore, the groundwater protection areas, which constitute one quarter of the surface area of Berlin, afford a natural refuge for endangered animal and plant species. It is not only the spadefoot toads and whorl snails shown in the campaign posters that inhabit these areas that are subject to strict usage limitations. For decades now the surface water treatment facilities (OWA) of Tegel and Beelitzhof have done their part to contribute significantly to the improvement of water quality in the Havel lake chain and Grunewald. Today once again a healthy and stable population of 34 species of fish can be found in Berlin bodies of water.

An important legal decision was taken in October of 2007: the Higher Administrative Court of Berlin Brandenburg decided, in an appeals process of the Verband Berlin-Brandenburgischer Wohnungsunternehmen e.V. (BBU) against Berliner Wasserbetriebe

regarding publication of the rate documentation, that Berliner Wasserbetriebe is obliged to disclose the rates of its monopoly business, but that information on competitive business is covered by business and trade secrecy provisions. Berliner Wasserbetriebe had already prepared a manual on the principles of rate calculation and published the manual in the autumn.

INTERNATIONAL BUSINESS DIVISION

Berlinwasser Group is in great demand as an industrial service provider in the water and wastewater industry, both nationally and internationally. Berlinwasser International AG represents unified Berlinwasser commitment throughout the international market. The recognised competence in infrastructure is increasingly called upon in the markets of Eastern Europe and China, so that Berlinwasser International AG will continue to establish itself in these regions. This will contribute to Berlin's status as an international competence centre for water in the long term.

Berlinwasser International AG has developed a new business model based on comprehensive market, business, financial and sensitivity analyses in 2007. This new field of activity encompasses not only the continuation of existing investments in Azerbaijan, China, Namibia and Hungary, but also the development and implementation of projects without investment aspects. To this end Berlinwasser International AG has continued to step up its activities, already begun, for expanding the Consulting, Management contracts/operations management and Cooperation with investors product lines. As part of this cooperation with investors, development of capital-intensive projects such as concessions and BOOT models are in the forefront; these are to be implemented in cooperation with strategic and financial investors who are to provide capital. Berlinwasser International AG can continue to operate in this fashion in the market for investment projects, utilising its core competences in the technological, operations management, management and investment areas, without using its own capital.

Moreover, in order to strengthen the project references required for international business as well as to optimise portfolio management within Berlinwasser Group, the intention is to transfer all the shares held by Berlinwasser Holding Aktiengesellschaft in the Hungarian investment Csatorna Holding Zrt. to Berlinwasser International AG as the entity responsible for international business. Requirements for transfer of these shares include the approval of the city of Budapest. The agreements and measures necessary for this approval were initiated at the end of 2007. The inter-Group transfer of Csatorna shares is anticipated to be finalised during 2008.

Berlinwasser International AG participated in over 60 pre-qualification processes for international consulting and operations management projects during financial year 2007. More than 20 offers were submitted, of which the majority were in the Consulting division. Order contracts of over €500,000 for the institutional development of an independent water company in Rajasthan, India, and over €100,000 for consulting regarding the reduction of water losses in the drinking water network of Adana, Turkey, have been signed. In addition, a contract for preparation of a feasibility study for boosting efficiency of the treatment plant for the city of Kiev in the Ukraine, as well as accompanying sludge recycling, was signed in the amount of €415,000. Further consulting projects in the Ukraine, Russia and Jordan are in the negotiating stage.

Key ongoing projects of Berlinwasser International AG developed as follows during financial year 2007:

- The Nanchang Quing Shan Hu Project Co. Ltd investment company was extremely successful and achieved planned investment results.
- The Chinese subsidiary, Hefei Wang Xiao Ying Sewage Treatment Co. Ltd., also met expectations both from an operational perspective and in view of investment results.
- The Csatorna Holding Zrt. Hungarian investment company exceeded plan in this financial year as well, paying out dividends in the amount of €4.4 million to Berlinwasser International AG in 2007 for financial year 2006.

SERVICES BUSINESS DIVISION

The Services business division conducts activities related to the core business of water supply and wastewater disposal, markets the know-how accumulated during the lengthy history of Berliner Wasserbetriebe and provides personnel services.

Berlinwasser Services GmbH. Services of Berlinwasser Services GmbH are rendered in the areas of information technology, well and measuring point services and service provision for communities and companies (Communal Services and Industrial Services).

An important project in the information technology area in 2007 was the redesign of the Internet presence of Berliner Wasserbetriebe (www.bwb.de) and Berlinwasser Group (www.berlinwasser.de). Both were given a youthful, modern design with easily manageable, intuitive navigation and search tools, as well as an expanded service range. All processes related to water sales and billing were completely overhauled in the project that introduced the basic price system. In addition to integrating new computational models into the billing system, a newly created invoice form allows future price components to be presented to the customer in a simple and easily comprehensible fashion. In June the third and last phase of the SAP-SD (Sales Distribution) project for systems-wide processing of house service connections went live and in November a sub-project of strategic initiatives for improving the ability to obtain and provide information for customers on a company-wide basis started up.

The Services for Communities and Companies business division offers individual services for community supply and disposal, entire technical and commercial operations management and the operation of water management facilities. Services for companies include the operation of drainage and water supply systems with the relevant individual services. During the current financial year a restructuring of the Services for Communities and Companies business area was resolved. Starting on 1 January 2008, the Communal Services and Industrial Services divisions are being reorganised under the newly established autonomous Berlinwasser Regional GmbH. The company is being handled as a direct subsidiary of Berlinwasser Holding Aktiengesellschaft. The altered organisational structure affords greater transparency and clearly defined interfaces and responsibilities.

As at 31 December 2007, Berlinwasser Services GmbH sales totalled €27.9 million (prior year: €26.2 million). EBIT of €642 thousand was achieved as at 31 December 2007.

p2m berlin GmbH. p2m berlin GmbH exhibited positive development in 2007. A close network with partners in local and national water management, strategic partnerships with other engineering companies and firms, as well as the active participation of p2m management in industry associations and organisations fostered this development. Orders received from the external market of c. €6.1 million are twice as high as planned. In addition to projects for Berliner Bäderbetriebe, Berliner Hafen- und Lagerhausgesellschaft mbH (BEHALA), HanseWasser Bremen, Sanofi Frankfurt and at the airport “Berlin-Brandenburg International” (BBI), p2m berlin GmbH is working on two major treatment plant projects in Ahwaz, Iran, and Manama, Bahrain. It is above all the development of international projects, with a total order value of €4.1 million, that has most positively impacted the role of p2m berlin GmbH in the German engineering firm market during 2007. This development is reflected in an EBIT of €388 thousand and a PBT of €470 thousand. The above figures exceed the previous year’s results.

pigadi GmbH. pigadi GmbH – founded from Berliner Wasserbetriebe in 2000 – possesses a high level of know-how in the area of well diagnosis and appropriate well maintenance gained over the last few decades. In addition this area renders services in the field of technical measurement of quantitative and qualitative conditions of the groundwater situation. Sales revenues of €1.7 million (prior year: €1.9 million) were generated in the previous financial year from the core business, primarily on a national basis, but with the addition once again of several international projects. Sales in financial year 2007 were down slightly. The customer base is, however, growing steadily. This is the result of the high-quality services, as well as the longterm development of trusting relationships between the pigadi sales engineers and clients. Existing framework agreements were extended and new agreements entered into in 2007. The Bamberger Brunnentage (Bamberg Well Days), which are organised by pigadi and alternate every year with

the Blossiner Brunnentage, provide an excellent platform for exchanging experience with potential customers and national and international experts. Pre-tax income (PBT) is €176 thousand (prior year: €156 thousand).

bluepartner GmbH. bluepartner GmbH can also look back on successful business growth in financial year 2007. It is the customer care centre for Berliner Wasserbetriebe and has optimised this joint business process, as well as the processes involved in secretariat services for freelancers, small businesses and other customers. Circa 205,000 calls were accepted and processed in total for Berliner Wasserbetriebe as at 31 December 2007, with a service level of over 80%. bluepartner GmbH has extended the service hours of the Berliner Wasserbetriebe call centre as of 1 February 2007; it can now be reached from 7 a.m. to 8 p.m. Monday to Friday. Total sales with Berliner Wasserbetriebe amounted to €1.7 million as at 31 December 2007 (prior year: €1.6 million). The slightly higher sales figures for Berliner Wasserbetriebe compared to the previous year are the result of additional processing of written customer requests.

Sales in the area of third-party secretariat services total €216 thousand as at 31 December 2007, 39% above the previous year. This positive development is closely linked to restructuring steps undertaken in 2006 and successful marketing measures for the secretariat service. The Internet presence of bluepartner GmbH was updated and the “Customers attract customers” programme set up. Furthermore, a software solution for better resource planning of employees in the secretariat service was developed and implemented. Since the beginning of 2007 a close cooperation has existed with a well-known brand product firm for whom a customer hotline has been operated since 1 November 2007.

Sales of €2.0 million were achieved as at 31 December of financial year 2007 (prior year: €1.8 million). This is equivalent to a rise of roughly 14% compared to financial year 2006 and consists primarily of sales growth in the secretariat service areas.

Since September of 2007, bluepartner GmbH has sponsored two young people who are being trained in cooperation with perdie.net GmbH in the profession of management assistant for dialogue marketing, which has existed since 2006.

perdie.net GmbH. Berlinwasser Holding Aktiengesellschaft founded a personnel services agency in the form of perdie.net GmbH in 2000. The company qualifies, places or leases out primarily well-trained young staff. The company thus contributes to the stabilisation of a job market that is proving difficult for young professionals.

perdie.net GmbH and Berliner Wasserbetriebe entered into a framework agreement in June of 2006 with the employee representatives of Berliner Wasserbetriebe, which regulates the transfer of former trainees of Berliner Wasserbetriebe to perdie.net GmbH, their employment as temporary workers and their qualification. Furthermore, the two parties have agreed that all new training relationships starting in training year 2006 will be formed with perdie.net GmbH instead of Berliner Wasserbetriebe. Selection of the trainees to be hired, as well as their training, remains the responsibility of Berliner Wasserbetriebe. In July 2006, perdie.net GmbH and Berliner Wasserbetriebe concluded a service agreement that assures a solid basis for perdie.net GmbH's future.

Placement of business personnel was easier in 2007 than in the past few years due to the general revitalisation of the job market. It was possible to place additional perdie.net employees in employment situations on a fixed term and indefinite basis by means of company internships.

National and international placement has declined due to the improved economy. It is precisely in the traditional training professions of Berliner Wasserbetriebe, such as supply and disposal, however, that far better job opportunities exist in other parts of Germany than in our region.

Sales revenues for financial year 2007 exceeded those of the previous year. This can be traced back to continued high average staff levels and recruitment of trainees at perdie.net GmbH starting in September 2006. The higher sales revenues have a correspondingly positive impact on EBIT and PBT. Net profits from financial year 2007 were transferred to Berlinwasser Holding Aktiengesellschaft on the basis of the profit transfer agreement.

Research and development

A company's prospects for the future are only as good as its activities in the research and development area. Berlinwasser Group can look confidently towards the future in this respect. This is emphasised by the corporate Group's commitment to various research and development projects that are closely connected with the core business of Berliner Wasserbetriebe. These research and development themes are coordinated and pursued via a staff department, both under its own direction and in association with the Wasser Berlin gGmbH competence centre.

The Wasser Berlin gGmbH competence centre, established as a non-profit enterprise in 2001, combines potential from the universities of Berlin, Berlinwasser Group and Veolia Wasser Deutschland GmbH in research and development projects. This research network allows participants to conduct projects in cooperation with the foremost international and national technology centres. The purpose is to promote science, research and development in the field of water, as well as to provide consulting to public institutions and continuing education.

Specifically, scientists deal with topics such as the longterm, sustainable assurance of drinking water resources and quality and the development of sustainable sanitary systems and special wastewater purification processes for water supply and disposal in remote settlements.

2. Results of operations, financial position and net assets of Berlinwasser Holding Aktiengesellschaft

Results of operations

Income in financial year 2007 rose by €6.3 million over the previous year.

Other operating revenue decreased compared to the previous year. The share of chargeable Group service revenues was €0.3 million lower during the financial year. At the same time revenues from directly charged costs dropped by €0.6 million.

The average number of employees, and thus personnel expenses, decreased vis-à-vis the previous year.

Other operating expenses were lower than the previous year, since fewer legal and consulting costs were incurred. In the previous year costs for the planned sale of BWI were included in this item.

Investment income includes distribution of profit from 2006 and an advance distribution for 2007 from Berlinwasser Services GmbH, a dividend from Csatorna Holding Zrt. for 2006, as well as revenues from the profit transfer agreements with bluepartner GmbH, p2m berlin GmbH, pigadi GmbH and perdie.net GmbH for 2007. The rise in investment income is chiefly the result of revenues from Csatorna Holding Zrt. in the amount of €1.9 million, the shares of which (15% minus one share) were acquired in the previous financial year, and an advance profit distribution from Berlinwasser Services GmbH in the amount of €3.4 million.

Financial income includes interest expense of €0.6 million and interest revenue of €1.1 million. Financial income is significantly improved over the previous year, since considerable loan liabilities were repaid in the previous year as well as the year under review.

Revenues from profit transfer agreements include profit transfer from the dormant company of Berlinwasser Holding Aktiengesellschaft to Berliner Wasserbetriebe in the amount of €189.6 million.

Summarised profit and loss statement

| | 2007 € 000 | % | 2006 € 000 | % | Change € 000 |
|--|---------------|--------------|---------------|--------------|-----------------|
| Other operating revenue | 4,247 | 100.0 | 5,367 | 100.0 | -1,120 |
| Personnel expenses | 2,039 | 48.0 | 2,102 | 39.2 | -63 |
| Amortisation and depreciation | 30 | 0.7 | 51 | 1.0 | -21 |
| Other operating expenses | 3,449 | 81.2 | 5,509 | 102.6 | -2,060 |
| Income from operating activity (EBIT) | -1,271 | -29.9 | -2,295 | -42.8 | 1,024 |
| Investment income | 7,654 | 180.2 | 2,873 | 53.5 | 4,781 |
| Financial income | 538 | 12.7 | 14 | 0.3 | 524 |
| Income from ordinary operations | 6,921 | 163.0 | 592 | 11.0 | 6,329 |
| Revenues from partial profit transfer agreements | 189,582 | 4,463.9 | 134,716 | 2,510.1 | 54,866 |
| Taxes from dormant company | 8,316 | 195.9 | 3,771 | 70.3 | 4,545 |
| Expenses related to partial profit transfers | 181,049 | 4,262.9 | 130,728 | 2,435.7 | 50,321 |
| Pre-tax income (PBT) | 7,138 | 168.1 | 809 | 15.1 | 6,329 |
| Income taxes | - | - | - | - | - |
| Net profit for the period | 7,138 | 168.1 | 809 | 15.1 | 6,329 |

lion. This amount, minus administrative costs and income tax charges, is due the dormant partner RWE-Veolia Berlinwasser Beteiligungs AG and is reported as an expense related to profit transfer agreements.

Income from operating activity in financial year 2007 was again improved. When adjusted for the one-time effect of the advance distribution from Berlinwasser Service GmbH (€3.4 million), income before taxes totals c. €3.7 million. Given the planned transfer of Csatorna Holding Zrt. shares to Berlinwasser International AG, Berlinwasser Holding Aktiengesellschaft will not receive the dividend payment for 2008. Declining, but still positive, income is thus anticipated for financial year 2008.

Financial position

Cash and cash equivalents rose on the one hand due to a distribution from Csatorna Holding Zrt. in the amount of €1.9 million, and on the other hand from repayment of the loans to Berlinwasser International AG in the amount of €2.0 million. This was countered by the planned loan repayments of €0.9 million and the utilisation of provisions for consulting services. During the financial year advance trade tax payments of €4.1 million were made for 2007; this amount is, however, offset by advance payment by Berliner Wasserbetriebe of a partial profit distribution for 2007 in the same amount.

Cash flow statement

| | 2007 € 000 | 2006 € 000 |
|--|-----------------|-----------------|
| +/- Net income for the period before extraordinary items | +7,138 | +809 |
| +/- Depreciation/write-ups of fixed asset items | +166 | +54 |
| +/- Increase/decrease in provisions | +3,527 | -10,606 |
| +/- Other non-cash expenses and revenues | -3,450 | -1,514 |
| +/- Increase/decrease in inventories, receivables and other assets, including assets that cannot be allocated to investment or financing activities | -54,854 | -1,188 |
| +/- Increase/decrease in liabilities including liabilities that cannot be allocated to investment or financing activities | +179,969 | +132,285 |
| Cash flow from operating activities | +132,496 | +119,839 |
| + Receipts from disposals of items of property, plant and equipment | +6 | - |
| - Disbursements for investments in property, plant and equipment | -7 | -5 |
| - Disbursements for investments in intangible assets | -19 | - |
| + Receipts from disposals of financial asset items | +2,000 | +1,596 |
| - Disbursements for investments in financial assets | -45 | -7,592 |
| Cash flow from investment activity | +1,935 | -6,000 |
| - Disbursements to company owners and minority shareholders | -130,729 | -123,014 |
| + Receipts from the assumption of loans | - | +1,514 |
| - Disbursements from the repayment of loans | -927 | -6,052 |
| Cash flow from financing activity | -131,656 | -127,553 |
| Change in cash and cash equivalents | +2,775 | -13,714 |
| + Cash and cash equivalents at the beginning of the period | +9,440 | +23,154 |
| Cash and cash equivalents at the end of the period | 12,215 | 9,440 |

A total of €0.6 million in interest and €4.1 million in income tax were paid during the financial year. The average interest rate was 5.94%.

Receipts from disposals of financial asset items resulted from the repayment of a loan by Berlinwasser International AG in the amount of €2.0 million.

Significant non-cash business transactions include the settlement of the purchase price of business shares of p2m GmbH and pigadi GmbH in the amount of €3.8 million with an advance distribution for 2007 of €3.4 million, as well as the liquidation of a portion of the capital reserves of Berlinwasser Services GmbH in the amount of €0.4 million.

Net assets

The balance sheet structure is determined by financial assets on the asset side and the capital contribution of RWE-Veolia Berlinwasser Beteiligungs AG on the liabilities side. The dormant holding of Berlinwasser Holding Aktiengesellschaft in Berliner Wasserbetriebe is reported under financial assets.

Financial assets rose by €1.4 million in the financial year. This stems from the acquisition of shares in p2m berlin GmbH and pigadi GmbH from Berlinwasser Services GmbH in the amount of €3.8 million and an addition of €0.3 million from the establishment of Berlinwasser Regional GmbH. This is offset on the one hand by a capital reduction of Berlinwasser Services GmbH of €0.6 million and the repayment of loans by Berlinwasser International AG in the amount of €2.0 million on the other.

Receivables from associated companies have risen due to the partial profit distribution, which is greater than in the previous year.

Higher provisions are in the main the result of the increased tax provisions in the previous year for trade tax related to 2007. In the previous year a refund claim vis-à-vis the tax authorities resulted. The taxes in question arise from the dormant partnership with RWE-Veolia Berlinwasser Beteiligungs AG and are also borne by the partnership financially.

The rise in liabilities to associated companies relates to higher partial profit transfers for 2007 (+ €50.5 million).

On the whole Berlinwasser Holding Aktiengesellschaft's profitability has continued to develop positively in financial year 2007. Interest charges have dropped. Continued reduction in financial liabilities will alleviate the interest burden in future.

Summarised balance sheet

| | 31 Dec. 2007 € 000 | % | 31 Dec. 2006 € 000 | % | Change € 000 |
|---|-----------------------|--------------|-----------------------|--------------|-----------------|
| Assets | | | | | |
| Intangible assets | 17 | 0.0 | – | 0.0 | 17 |
| Property, plant and equipment | 60 | 0.0 | 85 | 0.0 | –25 |
| Financial assets | 1,644,197 | 89.1 | 1,642,839 | 92.0 | 1,358 |
| Fixed assets | 1,644,274 | 89.1 | 1,642,924 | 92.0 | 1,350 |
| Receivables from associated companies, minority interests and shareholders | 188,049 | 10.2 | 132,287 | 7.4 | 55,762 |
| Other receivables | 461 | 0.0 | 1,370 | 0.1 | –909 |
| Cash and cash equivalents | 12,215 | 0.7 | 9,440 | 0.5 | 2,775 |
| Current assets | 200,725 | 10.9 | 143,097 | 8.0 | 57,628 |
| | 1,844,999 | 100.0 | 1,786,021 | 100.0 | 58,978 |
| Liabilities | | | | | |
| Equity | 1,646,077 | 89.2 | 1,638,939 | 91.8 | 7,138 |
| Debt | | | | | |
| Longterm | | | | | |
| Provisions | 372 | 0.0 | 438 | 0.0 | –66 |
| Other liabilities | 1,009 | 0.1 | 1,307 | 0.1 | –298 |
| | 1,381 | 0.1 | 1,745 | 0.1 | –364 |
| Medium and short term | | | | | |
| Provisions | 5,987 | 0.3 | 2,394 | 0.1 | 3,593 |
| Liabilities to banks | 1,950 | 0.1 | 2,656 | 0.1 | –706 |
| Trade payables | 164 | 0.0 | 164 | 0.0 | – |
| Liabilities to associated companies, minority interests and shareholders | 187,536 | 10.2 | 138,261 | 7.8 | 49,275 |
| Other liabilities | 1,904 | 0.1 | 1,862 | 0.1 | 42 |
| | 197,541 | 10.7 | 145,337 | 8.1 | 52,204 |
| | 1,844,999 | 100.0 | 1,786,021 | 100.0 | 58,978 |

3. Results of operations, financial position and net assets of the Group

Results of operations

EBIT increased over that of the previous year by €46.0 million. This improvement was brought about chiefly by Berliner Wasserbetriebe's EBIT, which was up €55.7 million. In contrast extraordinary expenses from write-offs and reductions of hidden land reserves of land in the amount of €9.3 million were higher than in the previous year. The disclosure of the hidden land reserves took place in the context of the initial consolidation of Berliner Wasserbetriebe.

Of total sales revenues, €1,117.2 million (prior year: €1,123.9 million) were earned in the business division of Berliner Wasserbetriebe, €4.7 million (prior year: €4.5 million) in the Services business division and €16.8 million (prior year: €18.4 million) in the International division. Domestic sales revenues totalled €1,121.9 million (prior year: €1,128.4 million). Revenues from abroad amounted to €16.8 million (prior year: €18.6 million).

Due to the decline in drinking water volumes sold and the reduction in rates compared to the previous year, revenues from water sales for Berliner Wasserbetriebe have decreased. Lower amounts are also evidenced in drainage services. Revenues from drainage services are, however, above the previous year's figures,

Summarised profit and loss statement

| | 2007 € 000 | % | 2006 € 000 | % | Change € 000 |
|--|------------------|--------------|------------------|--------------|-----------------|
| Sales revenues | 1,138,700 | 84.5 | 1,146,969 | 89.3 | -8,269 |
| Increase in the level of work in progress and completed work, as well as finished and semi-finished products | 2,056 | 0.2 | 1,257 | 0.1 | +799 |
| Other own work capitalised | 62,029 | 4.6 | 61,714 | 4.8 | +315 |
| Other operating revenue | 144,770 | 10.7 | 74,759 | 5.8 | +70,011 |
| Total operating performance | 1,347,555 | 100.0 | 1,284,699 | 100.0 | +62,856 |
| Cost of materials | 293,285 | 21.8 | 294,456 | 22.9 | -1,171 |
| Personnel expenses | 287,232 | 21.3 | 285,493 | 22.2 | +1,739 |
| Amortisation and depreciation | 277,203 | 20.6 | 250,359 | 19.5 | +26,844 |
| Other taxes | 7,168 | 0.5 | 5,643 | 0.4 | +1,525 |
| Other operating expenses | 90,882 | 6.7 | 102,944 | 8.0 | -12,062 |
| Income from operating activity (EBIT) | 391,785 | 29.1 | 345,804 | 27.0 | +45,981 |
| Investment income | 6,387 | 0.5 | 4,308 | 0.3 | +2,079 |
| Financial income | -22,224 | -1.7 | -99,286 | -7.8 | +77,062 |
| Extraordinary profit | 0 | 0.0 | 3,068 | 0.2 | -3,068 |
| Income before taxes and expenses related to partial profit transfer (PBT) | 375,948 | 27.9 | 253,894 | 19.7 | +122,054 |
| Income taxes | 44,451 | 3.3 | 33,749 | 2.6 | +10,702 |
| Expenses related to partial profit transfers | 181,049 | 13.4 | 130,729 | 10.2 | +50,320 |
| Consolidated net profit for the year | 150,448 | 11.2 | 89,416 | 6.9 | +61,032 |
| Net profit due to minority interests | -163,774 | -12.2 | -86,687 | -6.7 | -77,087 |
| | -13,326 | -1.0 | 2,729 | 0.2 | -16,055 |

since the effect of the rate increase started on 1 January 2007. Berliner Wasserbetriebe sales revenues fell by €6.7 million to €1,117.2 million.

Other operating revenues rose by €70.0 million over the previous year. This increase represents the liquidation of specific debt provisions and other provisions from the litigation regarding charges related to the drainage of public streets and squares.

Personnel expenses exceed the previous year's level by €1.7 million. As at December, 2007, staffing levels have continued to decrease compared to the previous year. Pay rate increases of 1.5% starting 1 April 2007 offset these lower levels. An average of 5,591 employees (not including trainees) was engaged by Berlinwasser Group in financial year 2007. At the end of December 2007, 4,886 employees were working for Berliner Wasserbetriebe. In other words, personnel levels at Berliner Wasserbetriebe dropped by 2.0%, or 100 employees. Since 2003, Berliner Wasserbetriebe has been offering part-time work and special leave and providing financial incentives in this respect. The part-time ratio rose from 29.9% as at 31 December 2006, to 25.1% as at December 31, 2007. Furthermore, since January of 2004, it has been possible to take early pre-retirement as early as age 55. When a request for payment according to the "55" regulation is accepted, the previous employment contract of the employee is continued with a special employment contract that stipulates 10% lower gross wages from the time the request is made until the end of the employee's 58th year. This special employment contract is linked to the mandatory cancellation of the employment contract for non-behaviour related reasons at the end of the employee's 58th year. The employer makes additional contributions to the company pension scheme during this time. According to service agreements this personnel tool could only be initiated prior to the end of 2006. As at 31 December 2007, only 27 employees operated under this model.

Berliner Wasserbetriebe again contributed significantly to the supply of apprenticeships in Berlin during 2007. During the autumn of 2007, training of 119 young men and women began. A total of 395 young people (prior year: 399) are thereby receiving an education in a total of 21 professions and 5 courses of study at Berlin Berufsakademie. The training ratio is 9.3%.

A total of 6,087 employees had participated in continuing education events as at 31 December 2007 (prior year: 5,750). A total of 9,340 working days and approximately €2.3 million (prior year: 10,245 days and €2.0 million) was invested in measures related to personnel qualifications.

Other operating expenses are €12.1 million lower than the previous year. This especially reflects a drop in expenses for telecommunications, bad debts, rents and leases, losses from disposal of assets and in particular costs related to partial retirement and pre-retirement.

As at 31 December 2007, €0.4 million has been invested in the continued education of 295 employees in other companies of Berlinwasser Group.

Dividends of Csatorna Holding Zrt. are included in the investment income of the Group.

Financial income is generated mainly by negative interest income of Berliner Wasserbetriebe of €19.8 million. Financial income has improved by €77.0 million over the previous year. This is the result primarily of the one-time interest revenues from the litigation on charges related to drainage of public streets and squares by Berliner Wasserbetriebe.

The Group's PBT is above that of the previous year (+ €122.1 million). This variance is influenced chiefly by the liquidation of the specific debt allowances and provisions for anticipated losses from pending transactions for 2007 and 2008, as well as for court costs arising from the litigation on drainage of public streets and squares. Once the State of Berlin had waived an appeal in the court proceedings and signalled payment of the outstanding claims to Berliner Wasserbetriebe, the effects were taken into account in the consolidated financial statements.

Regarding consolidated annual income, one should take into account that part of the income from Berliner Wasserbetriebe is to be transferred to RWE-Veolia Berlinwasser Beteiligungs AG under a partial profit transfer agreement. The share in income of the State of Berlin is reflected in the account "Net profits due to minority interests".

Financial position

Berlinwasser Group aims for the highest possible level of self-financing. Since, however, sizeable investment funds are required on a regular basis, particularly for the Berliner Wasserbetriebe business division, and can only be amortised over the long term, debt financing is necessary. Financing chiefly consists of bank loans. As at the balance sheet date, this has generated liabilities

of €1,938 million (prior year: €2,037 million) of which €1,900 million (prior year: €1,993 million) is related to Berliner Wasserbetriebe. In addition Berliner Wasserbetriebe carries liabilities similar to loans due the Federal Finance Ministry and the Reconstruction Loan Corporation in the amount of €281.7 million (prior year: €201.5 million). These are reflected in the consolidated balance sheet under other liabilities.

Consolidated cash flow statement

| | 2007 € 000 | 2006 € 000 |
|---|-----------------|-----------------|
| +/- Net income for the period before extraordinary items | +150,448 | +86,349 |
| +/- Depreciation/write-ups of fixed asset items | +277,339 | +250,365 |
| +/- Increase/decrease in provisions | -5,739 | -16,014 |
| +/- Other non-cash expenses and revenues | -318 | -6,081 |
| -/+ Profit/loss from the disposal of fixed asset items | +2,259 | +3,143 |
| -/+ Increase/decrease in inventories, receivables and other assets, including assets that cannot be allocated to investment or financing activities | -149,835 | -53,321 |
| +/- Increase/decrease in liabilities including liabilities that cannot be allocated to investment or financing activities | +218,821 | +184,429 |
| +/- Receipts and disbursements for extraordinary items | - | +511 |
| Cash flow from operating activities | +492,975 | +449,381 |
| + Receipts from disposals of items of property, plant and equipment | +4,668 | +3,582 |
| - Disbursements for investments in property, plant and equipment | -266,608 | -269,194 |
| + Receipts from disposals of items of intangible assets | +359 | +15 |
| - Disbursements for investments in intangible assets | -3,676 | -1,119 |
| + Receipts from disposals of financial asset items | +262 | +9,126 |
| - Disbursements for investments in financial assets | -19 | -6,838 |
| - Disbursements from the disposal of consolidated companies | - | -492 |
| Cash flow from investment activity | -265,014 | -264,920 |
| - Disbursements to company owners and minority shareholders | -205,110 | -181,107 |
| + Receipts from the assumption of loans | +227,413 | +302,351 |
| - Disbursements from the repayment of loans | -241,669 | -316,189 |
| Cash flow from financing activity | -219,366 | -194,945 |
| Change in cash and cash equivalents | +8,595 | -10,484 |
| + Cash and cash equivalents at the beginning of the period | +35,233 | +45,938 |
| + Changes in cash and cash equivalents due to exchange rates | -126 | -221 |
| Cash and cash equivalents at the end of the period | +43,702 | +35,233 |

Berliner Wasserbetriebe's credit standing, as the largest borrower, is positively impacted by the guarantor's liability borne by the State of Berlin. Approximately 45% of current loans (prior year: 47%) are to be repaid in a period of greater than five years. €305.3 million of liabilities to banks are becoming due within the upcoming financial year.

The average interest rate during the financial year was 4.43% (prior year: 4.43%).

Cash flow from financing activity was impacted by the excess of repayments over new loan assumptions, as well as distributions to shareholders.

Cash flow from investment and financing activity do not exceed cash flow from operating activities. The decline in cash flow from investment activity stems in the main from lower investment activity on the part of Berliner Wasserbetriebe.

Net assets

FIXED ASSETS

The consolidated balance sheet is characterised by its high level of fixed assets. A total of 99.1% of these fixed assets (prior year: 95.5%) are assets of Berliner Wasserbetriebe. Fixed assets are €5.5 million lower than the previous year in total.

Berlinwasser Group invested €282.2 million during the financial year (prior year: €299 million).

Significant investments at Berliner Wasserbetriebe

During 2007 Berliner Wasserbetriebe invested € 270.7 million (prior year: €274.4 million) in fixed assets. Of this €94.0 million (prior year: €96.5 million) was for water supply and €176.7 million (prior year: €177.9 million) for drainage.

The debt-financed portion of investment was 11.9% or €32.1 million (prior year: €41.0 million or 14.9%). The share for drainage was €28.1 million (prior year: €34.1 million); in the area of water supply €3.9 million (prior year: almost €6.9 million) was customer-financed.

Self-financed investment amounted to € 238.6 million (prior year: € 233.4 million). The reduction in expenses is based primarily on savings potential realised, as well as developments in construction prices. All planned projects were implemented.

Investment will continue to be made for the purpose of quality assurance in the water and treatment plants, as well as for maintenance of the network. Funds from the conduit network budget are used for sewerage of the settlement areas, as dictated by the wastewater elimination plan.

THE FOCUS OF INVESTMENT AT BERLINER WASSERBETRIEBE INCLUDED:

Sludge processing facility and energy optimisation in the Ruhleben wastewater treatment plant. The Ruhleben wastewater treatment plant, the only inner-city treatment plant in Berlin, was improved during 2007 by dint of numerous renovations and rebuilding. Operation of a sludge processing facility in the Ruhleben wastewater treatment plant allows sewage sludge from the other treatment plants of Berliner Wasserbetriebe to be salvaged thermally, thus saving disposal costs. Once the second construction phase of the sludge processing facility was completed in October of 2007, the sludge storage volume was increased to c. 350 m³ and night and weekend operation was assured.

Steam is generated in three lines of sludge combustion. The goal of one energy optimisation project is a technical procedure to separate steam generation from compressed air generation for ventilation of the activated sludge tanks.

Energy consumption can be lowered by uncoupling air generation for the activated sludge tanks. The air supply will therefore be achieved via electric air compressor starting in the fourth quarter of 2007. All the steam generated by sludge combustion will be converted into energy with three turbo generator facilities. The plant received a new connection to the grid at the same time.

Remote-controlled pumping stations. The core of the Wastewater Control and Information System project (Leit- und Informationssystem Abwasser – LISA), unprecedented in terms of complexity, is to assure automation and remote control of all 147 Berlin sewer pumping stations from one central location. Under LISA the 42 pumping stations pumping the largest share of wastewater are being equipped with new automatic pumps. The

Summarised balance sheet

| | 31 Dec. 2007 € 000 | % | 31 Dec. 2006 € 000 | % | Change € 000 |
|---|-----------------------|--------------|-----------------------|--------------|-----------------|
| Assets | | | | | |
| Intangible assets | 915,711 | 11.9 | 923,543 | 12.2 | -7,832 |
| Property, plant and equipment | 5,580,224 | 72.3 | 5,577,591 | 73.8 | +2,633 |
| Financial assets | 44,446 | 0.6 | 44,793 | 0.6 | -347 |
| Fixed assets | 6,540,381 | 84.8 | 6,545,927 | 86.6 | -5,546 |
| Inventory | 18,679 | 0.2 | 16,476 | 0.2 | +2,203 |
| Trade receivables | 750,926 | 9.7 | 744,342 | 9.8 | +6,584 |
| Receivables from associated companies, minority interests and shareholders | 321,426 | 4.2 | 174,266 | 2.3 | +147,160 |
| Other receivables | 32,399 | 0.4 | 37,251 | 0.5 | -4,852 |
| Cash and cash equivalents | 43,702 | 0.6 | 35,233 | 0.5 | +8,469 |
| Current assets | 1,167,132 | 15.1 | 1,007,568 | 13.3 | 159,564 |
| Prepaid expenses | 5,112 | 0.1 | 6,494 | 0.1 | -1,382 |
| | 7,712,625 | 100.0 | 7,559,989 | 100.0 | 152,636 |
| Liabilities | | | | | |
| Equity | 2,840,832 | 36.8 | 2,766,042 | 36.6 | +74,790 |
| Special account for subsidies and construction cost subsidies | 585,756 | 7.6 | 563,048 | 7.4 | +22,708 |
| Debt incl. accrued expenses | | | | | |
| Longterm | | | | | |
| Provisions | 432,790 | 5.6 | 433,015 | 5.7 | -225 |
| Liabilities to banks | 863,646 | 11.2 | 956,218 | 12.6 | -92,572 |
| Liabilities to shareholders | 5,113 | 0.1 | 5,624 | 0.1 | -511 |
| Other liabilities | 190,823 | 2.5 | 132,909 | 1.8 | +57,914 |
| | 1,492,372 | 19.4 | 1,527,766 | 20.2 | -35,394 |
| Medium and short term | | | | | |
| Provisions | 560,297 | 7.3 | 565,816 | 7.5 | -5,519 |
| Liabilities to banks | 1,074,232 | 13.9 | 1,080,973 | 14.3 | -6,741 |
| Advance payments on orders | 732,654 | 9.4 | 697,443 | 9.2 | +35,211 |
| Trade payables | 27,867 | 0.4 | 34,050 | 0.5 | -6,183 |
| Liabilities to associated companies, minority interests and shareholders | 204,422 | 2.7 | 154,601 | 2.0 | +49,821 |
| Other liabilities | 168,664 | 2.2 | 143,286 | 1.9 | +25,378 |
| Prepaid expenses | 25,529 | 0.3 | 26,964 | 0.4 | -1,435 |
| | 2,793,665 | 36.2 | 2,703,133 | 35.8 | +90,532 |
| | 7,712,625 | 100.0 | 7,559,989 | 100.0 | 152,636 |

complex control and regulating technology, developed solely for this purpose, ensures that the inflowing wastewater quantities are transported to the treatment facilities taking into account a number of conditions.

In July of 2007 the Wittenau pumping station group was switched to the primary control unit. The Steglitz pumping station group has been operated from the Kreuzberg group control room since September of 2007. Both groups are to be linked to the LISA central location in the second quarter of 2008, so that after the Spandau group has been connected at the same time, all pumping station groups will be monitored remotely from the control unit. The pumping stations of the Charlottenburg group will be switched to the primary control unit by the end of 2008, with the exception of the main pumping station, which is to be completely renovated.

The primary LISA control unit was put into operation in September of 2007 after a successful trial run.

The sewer pumping stations conveyed c. 212.3 million m³ of wastewater to the purification facilities during 2007. This represents 10.5 million m³ more than the previous year due, in particular, to high levels of precipitation during the summer. Average daily quantities conveyed amounted to 581,732 m³ (prior year: 552,495 m³). The greatest quantity was pumped on 29 May at 1.2 million m³.

Odours in urban areas and corrosion in sewer equipment. The sharp drop in water consumption over the past few years and the associated decline in wastewater have resulted in lengthy retention times in the sewage system and wastewater pressure lines and thus in increased deposits and putrefaction. When wastewater putrefies, sulphur compounds are formed that corrode the cement ducts of the drains, causing unpleasant odours. During 2007 a number of measures to combat odours were undertaken in sewerage operations, specifically in those areas where more intensive sewer cleaning cannot help.

Selective dosing of a nitrate salt solution in the wastewater is a well-known approach for combating odours from sewerage and biogenic sulphuric acid corrosion. Additional products have been tested against odours last year in order to broaden knowledge in this area. In addition to those facilities already operated at Gen-

darmenmarkt or Potsdamer Platz, new dosing stations were put into operation at several drain sections, including Marlene-Dietrich-Platz.

Iron slurry, too, which occurs as a by-product in drinking water treatment in the waterworks, can be utilised to counteract odours in the vicinity of the waterworks. Iron slurry from the Stolpe waterworks, for instance, is used for dosing at Waidmannsluster Damm or slurry from the Wuhlheide waterworks at Rathenauplatz in Köpenick.

Two new retention ground filters purify rainwater. Rainwater treatment is becoming increasingly important. More nutrients and pollutants are entering Berlin's rivers from streets, swept directly from rain drainage or from combined sewer overflow in the event of cloudbursts, than from water treatment plant drains. In order to reduce direct and indirect rainwater inflows into the surface water and to alleviate the sewer system, Berliner Wasserbetriebe has been using trough-trench systems for years.

Retention ground filters, used for purification at the Biesdorf Baggersee since the end of 2004 and on the terrain of the former Adlershof treatment plant since 2005, are a relatively new process for the treatment of rainwater. During 2007 two additional retention ground filters were put into operation, one at Halensee in Wilmersdorf and one in Blankenburg, an area in the Pankow borough. Soiled rainwater from streets is purified both mechanically and subsequently by passing through a mineral substratum planted with reeds.

Halensee was barred from bathing years ago due to the inflow of pollutants from the urban drainage area and from the city expressway due to rain canalisation. In order to clean up the lake, therefore, a retention ground filter was set up on its banks and the existing coarse filter equipment was reconstructed as an upstream rain purification basin. The filter in Blankenburg, in contrast to the other three Berlin facilities, has been equipped with a large, open interim rainwater storage basin with landscaping.

Mitte Berlin IV sewer pumping station to be rebuilt. The Berlin-Mitte IV sewer pumping station erected in 1880 will be discontinued and replaced by a new building on an adjacent piece of land. Reconstruction and full automation of the old plant would have entailed unacceptable costs and risks. The construction plan is part of the new building plan for the former Stadium of World Youth terrain on which the Federal Intelligence Service is erecting its new headquarters. South west of the new pumping station edifice a new rain overflow basin is being planned. The pumping station building, including the upstream separator and inflow structures, will be based on an SCL ground support structure.

Pilot facility BIOXWAND. Due to the decade-long sewage field operation and the accumulation of sewage sludge at the Münchehofe treatment plant until 1990, the groundwater under the Western Krummendammer heath has been polluted and can therefore not be used to reclaim drinking water for the Friedrichshagen waterworks.

After several positive research experiences Berliner Wasserbetriebe began a major technical experiment. Over a 100 metre wide strip of woods, technical oxygen and air is pressed 10 to 50 metres deep into the subsoil at a total of 20 points using four lances. As a result ammonium nitrogen in the groundwater can be oxidised biologically and progressively into nitrites and then nitrate by nitrifying bacteria. Subsequently denitrifying bacteria utilise the oxygen bound in the nitrate. Nitrogen, the major constituent of air, is left over.

In the **biological oxidationswand (wall)** procedure (BIOX-WAND) developed at Berliner Wasserbetriebe approximately 100 tonnes of oxygen and 100,000 Nm³ of air are being injected into the subsoil during the two-year pilot trial phase, purifying 270,000 m³ of groundwater. Once the trial phase has been successfully concluded in 2009, the barrier for the pressured groundwater will be widened from the current 100 metres to a width of 800 metres. A total of €320,000 annually will then be invested for the use of 4 million m³ of groundwater. Berliner Wasserbetriebe is thereby safeguarding a significant portion of the groundwater supply as drinking water for Berlin for the longterm.

DISCLOSURES ON INTANGIBLE ASSETS

In accordance with Section 9 of the Grundbuchbereinigungsgesetz (GBBerG) (Land Register Adjustment Law) and Section 1 of the Sachenrechtsdurchführungsverordnung (SachenRDV) (Property Law Execution Regulation), owners of property in the former supply and drainage area of the VEB Wasserversorgung und Abwasserbehandlung Berlin (VEB Water Supply and Wastewater Treatment Berlin) are obliged to tolerate supply and disposal equipment of Berliner Wasserbetriebe on their land, provided such equipment was in use on 3 October 1990, and was operated by Berliner Wasserbetriebe on 10 January 1995. Furthermore, easements in gross were legally established at the relevant properties in favour of Berliner Wasserbetriebe. Berliner Wasserbetriebe is required to pay a one-time consideration for these rights. The consideration corresponds to the amount that would have been customary for such a right according to the proportional values of 1995. The first half of this amount is to be paid immediately after registration of the limited easement in favour of Berliner Wasserbetriebe or upon request of the property owner. The second half is due on 1 January 2011.

Total financial charges for the acquisition of the easements in gross in accordance with Section 9 of the GBBerG in conjunction with Section 1 of the SachenRDV were re-estimated by Berliner Wasserbetriebe at €860.9 million and fully accounted for in the balance sheet.

Berlinwasser Services GmbH has produced intangible assets for Berliner Wasserbetriebe by the end of the financial year, which have not been capitalised in the Group. This primarily relates to the implementation and optimisation of software in the area of consumption billing for Berliner Wasserbetriebe, for network operation and for the implementation and optimisation of SAP modules.

CURRENT ASSETS

Current assets have risen by a total of €159.6 million. Receivables from associated companies, minority interests and shareholders have increased considerably due to receivables of Berliner Wasserbetriebe from the State of Berlin as shareholder, related to drainage of public streets and squares.

EQUITY

Group equity of €2,841 million is held by Berlinwasser Holding Aktiengesellschaft (€1,338 million) and minority interests €1,503 million). Group equity earned totals €-657 million. It should be noted that based on the dormant partnership agreement of Berlinwasser Holding Aktiengesellschaft with RWE-Veolia Berlinwasser Beteiligungs AG, the share in net income for the year of Berliner Wasserbetriebe (49.9% or €181 million in 2007) is transferred directly to RWE-Veolia Berlinwasser AG after the creation of reserves, where it is reported as an expense related to partial profit transfers. In this process profits and losses from former subsidiary Schwarze Pumpe GmbH i. L. Secondary raw materials/recycling centre in the amount of €-242 million (accumulated as at 31 December 2007) are not deducted in accordance with the agreement. Earned Group equity thus includes only losses from former subsidiary Schwarze Pumpe GmbH i. L. Secondary raw materials/recycling centre for the business division, Berliner Wasserbetriebe, the reserves related to Berlinwasser Holding Aktiengesellschaft from Berliner Wasserbetriebe and the income from other business areas of Berlinwasser Group. Primarily the losses of Berlinwasser Holding Aktiengesellschaft of €-350 million (accumulated as at 31 December 2007) are reflected here.

Positive Group income for the year for financial year 2007 of €150.4 million impacts Group equity. The share of minority interests has risen by €89.1 million. This increase is the result of this year's minority interest share in Group income for the year of €163.8 million, offset by dividend distributions of €74.4 million. In addition the adjustment item from currency translation is €1 million lower than the previous year due to exchange rate changes related to the Chinese subsidiaries. Equity has risen 2.7% vis-à-vis the previous year.

DEBT

Longterm Group debt is €35.4 million less than the previous year. On the one hand this is caused by the reduction of €84.3 million in longterm loan liabilities of Berliner Wasserbetriebe. At the same time longterm other liabilities similar to loans of Berliner Wasserbetriebe have increased by €58.1 million, so that a total reduction in loan liabilities of €26.2 million results.

Short-term and medium-term liabilities are up €90.5 million. Liabilities to associated companies, minority interests and shareholders rose by €49.8 million. This chiefly reflects the partial profit distribution to private shareholders in the amount of €186.5 million. This variance is impacted in particular by the positive effects of the liquidation of provisions against specific debts and of provisions related to the litigation on drainage of public streets and squares, which increased partial profits. Advance payments received are higher by €35.2 million. This can be traced back mainly to the fact that advance customer payments made to Berliner Wasserbetriebe are based on higher quantities in the previous year, which failed to materialise during the financial year. Other Group liabilities similar to loans are up c. €22.4 million.

The Group's net assets and results of operations improved on the whole during the financial year. Net income for the year rose significantly over the previous year, as a result of the one-time effect of the end of the litigation concerning charges for drainage of public streets and squares of Berliner Wasserbetriebe and equity increased by €74.8 million. Liabilities to banks and other liabilities similar to loans were able to be reduced by €8.7 million compared to the previous year. The ratio of equity to total assets is 37% (prior year: 37%).

4. Events of importance after the balance sheet date

No events of special importance occurred after the end of the financial year.

5. Risk report

Berlinwasser Group has implemented the risk management requirements set out in Section 91, paragraph II, of the German Companies Act and instituted a comprehensive risk management system. Based on analyses of risk inventory and changes that took place during 2007, no risks have been identified that might jeopardise the Group's continued existence. Primarily market, environmental and financial risks are evaluated as relevant or significant risks. Appropriate measures have been taken by the company's management in order to counteract or minimise these risks.

Market risks

Berlinwasser International AG in cooperation with Berlinwasser Holding Aktiengesellschaft has developed a business model for a reorientation of its international business. The emphasis is to be on expansion of non-investment business, i.e. by focusing on consulting and operations management services. The new business model has considerably fewer risks than the investment-orientated business conducted hitherto.

Environmental risks

According to information from the Senate administration for health, environment and consumer protection, the water authority approvals applied for during 1996 in relation to the transport of groundwater for all public drinking water supply should be granted by the year 2010. Approval was granted for the Wuhlheide waterworks in December of 2001. A letter from the Senate administration for urban development dated 18 January 2001, extended the deadlines listed in the letter of 4 June 1998, for the distribution of groundwater for supplying drinking water in its previous form (acquiescence without approval) for all other waterworks until further notice, however no later than the provision of a definitive approval for distribution.

Investigations into environmental compatibility with public participation, as well as, if required, flora-fauna-habitat compatibility investigations, are being conducted as part of the approval process. This process has already been initiated for the Spandau, Tegel, Beelitzhof and Kladow waterworks.

A prerequisite for the individual processes is the development of a conceptual water supply design extending through 2040, in which the water requirements of the individual sites, taking into account the effects of climate change and anthropogenic damage, are assessed based on a water requirement forecast. This water supply conceptual design is to be finalised during this year.

Financial risks

In accordance with Section 9 of the Grundbuchbereinigungsgesetz (GBBerG) (Land Register Adjustment Law) and Section 1 of the Sachenrechtsdurchführungsverordnung (SachenRDV) (Property Law Execution Regulation), owners of property in the former supply and drainage area of the VEB WAB (Wasserversorgung und Abwasserbehandlung – VEB Water Supply and Wastewater Treatment) Berlin are obliged to tolerate the supply and disposal equipment of Berliner Wasserbetriebe on their land, provided such equipment was in use on 3 October 1990, and was operated by Berliner Wasserbetriebe on 10 January 1995. Furthermore, easements in gross were legally established at the relevant properties in favour of Berliner Wasserbetriebe. Berliner Wasserbetriebe is required to pay a one-time consideration for these rights. The consideration corresponds to the amount that would have been customary for such a right according to the proportional values of 1995. The first half of this amount is to be paid immediately after registration of the limited easement in favour of Berliner Wasserbetriebe or upon request of the property owner. The second half is due on 1 January 2011.

The level of easements is now valued at €861 million.

Legal risks

Berliner Wasserbetriebe operates in a regulated market and is therefore confronted by special legal risks. Court proceedings on the legitimacy of rates for water supply, wastewater disposal and cost reimbursement for draining public streets and squares should be highlighted, in particular.

In the past few years, Berliner Wasserbetriebe has been both defendant and plaintiff in lawsuits concerning doubts of the fairness of its rates for the rate period starting in 2000, both in the District Court of Berlin and the Superior Court of Justice. All proceedings that have been legally resolved have confirmed that Berliner Wasserbetriebe has determined the rates fairly as interpreted under Section 315 of the German Civil Code and these rates are, therefore, effective.

Berliner Wasserbetriebe has submitted a claim to the Berlin Administrative Court for delinquent receivables related to the drainage of public streets and squares in the amount of €151.2 million. These receivables date from the years 1995 to 2004. On 12 February a legal dispute extending for years between the State of Berlin and Berliner Wasserbetriebe regarding the costs of street rainwater disposal was fully settled in favour of Berliner Wasserbetriebe. The total claim for the years 1995 to 2004 amounted to circa €171 million plus interest. In its session of 11 September 2007, the Senate decided definitively to accept this judgment.

Berliner Wasserbetriebe has reported the investment in Schwarze Pumpe GmbH i.L. secondary raw materials/recycling centre (SVZ GmbH) since the beginning, upon acquisition of the holding in 1995, as an asset as a commercial water supply enterprise (BgA Wasser). As part of the tax audit for the years 1999 to 2001, the question arose as to whether this was admissible or whether the investment in Schwarze Pumpe GmbH i.L. secondary raw materials/recycling centre (SVZ GmbH) should be treated as the institution's own commercial enterprise or possibly as investment management with no tax effect. The topic was thoroughly reviewed during 2007 and explored in detail with the examiners of the Federal Central Tax Office as well as the tax auditors of the Berlin tax authorities responsible. A positive outcome was achieved for Berliner Wasserbetriebe. The examiners have now changed

the opinion they initially put forward that the investment in SVZ GmbH constitutes the company's own commercial enterprise, so that SVZ GmbH can continue to be reported as an investment of BgA Wasser. The question remains, however, whether the partial write-offs on the SVZ GmbH investment undertaken in 1999 and 2001, as well as the write-offs of the loan extended at the time, will be permitted as tax deductions. This matter must still be definitively reviewed and assessed. It is already foreseeable, however, that the examiners do not wish to allow the partial write-off against the SVZ GmbH investment for tax purposes. From today's perspective, though, this would result merely in a shift of taxable profits among periods.

As part of the tax examination of Berlinwasser Holding Aktiengesellschaft for 1999 to 2001, the tax examiners are also dealing with the write-downs of the investment by Berlinwasser Holding Aktiengesellschaft in BerliKomm Telekommunikationsgesellschaft mbH, as well as additional write-downs undertaken in 2001 against investments of Berlinwasser Holding Aktiengesellschaft. In the event that the examiners do not accept these write-downs, there would be a corresponding reduction in the loss carryback from 2000 to 1999, as well as the tax loss carryforwards for future use. Moreover, additional tax payments would have to be made for the period examined. This matter, however, has not been definitively reviewed. In the opinion of Berlinwasser Holding Aktiengesellschaft, the write-downs were appropriate from a tax perspective.

6. Outlook

The restructuring measures implemented in Berlinwasser Group during 2007 form an essential basis for further development and, in part, reorientation of the individual companies. In the upcoming year, the development of the newly established company (Berlinwasser Regional GmbH) and its integration into the Group will be a key focus, in addition to continued improvement of the core business of water supply and wastewater disposal. In the International business division, it is anticipated that Berlinwasser International AG will position itself successfully in new non-investment business areas in the next few years. On the whole continuous sales increases are planned for the companies that are working in competitive businesses. Group sales are expected to rise to c. €1,200 million in 2008 and €1,225 million in 2009. The assumption for 2008 and subsequent years is, on the whole, continued positive business development.

Berliner Wasserbetriebe business division

Berliner Wasserbetriebe plans to sell approximately 195 million m³ of water in 2008. As in the past few years, a continued decline in water usage is anticipated, although the 2007 quantity should not be considered representative due to the wet weather. The drop in water sales reflects a general trend throughout the country, which can be traced back to lower per capita usage in private households and receding sales volumes in industry. Taking into account the cost structure, the overall rate for drinking, drainage and rain water run-off will increase by 1.9% in 2008, while basic prices will not rise above those introduced on 1 July 2007. The required rate adjustments should be below the inflation rate in subsequent years. The effects of sagging water sales and planned rate increases partially offset each other, so that only slightly higher sales revenues are anticipated for the Berliner Wasserbetriebe business division for 2008. Sales revenues in subsequent years are expected to develop as in the quantity and rate projections.

The amendment of the Berlin Companies Act obliges Berliner Wasserbetriebe to undertake a final costing of its rates. Events that the company has not foreseen or that it has assessed differently (e.g. development in energy costs, higher or lower water sales) are accounted for in subsequent periods in a final costing process. The obligation to undertake final costing increases certainty of earnings for Berliner Wasserbetriebe in the planning period, since neither unplanned profits nor unplanned losses are likely to impact the period.

As a result of the judgement that the 34th chamber of the Berlin administrative court handed down in February of 2007 regarding the litigation lasting many years between the Berliner Wasserbetriebe and the State of Berlin over the costs of drainage of public streets and squares, the State of Berlin is required to pay Berliner Wasserbetriebe approximately €300 million. In order to settle these claims the State of Berlin would like to undertake a capital reduction. Since the previous shareholding ratio was 50.1% State of Berlin, and 49.9%, private shareholders, the shareholders RWE and Veolia Wasser will participate in this capital reduction. Execution of the planned capital reduction has been reviewed in depth. Aspects of institutional, fee, tax and commercial legislation were all taken into account. The intention is to finance the capital reduction by taking out a longterm loan. This additional borrowing would lead to higher interest expense and in turn lower profits and thus a reduced dividend payment to shareholders in subsequent years. The capital reduction has no impact from the perspective of fee legislation and therefore does not affect the rates. The capital reduction does not influence the level of funds required for the company and, therefore, does not influence interest payments. Financing of the capital reduction via borrowing does not impact rates.

The investment volume from own resources in 2008 will amount to circa €239 million. A total of €96 million are to be invested in the Water Supply division and €143 million in the Wastewater Disposal division. The greater part of this investment is in the network, in particular the conduits and sewer pressure pipes to the tune of €98 million (e.g. for area-wide clean-up and to im-

plement the wastewater elimination plan), as well as drinking water pipe network renovations in the amount of approximately €48 million. The investment strategy, adapted to a continued slump in water sales and wastewater occurrence, provides for clean-up reconstruction aimed at asset maintenance and the upkeep of operating facilities and networks. Across-the-board refurbishment of the duct network is a key strategic goal.

Operating income before income and taxes (without special effects) is expected to be above the previous year's level in 2008. Operating income will gradually be raised in subsequent years.

International business division

The decision to apply a new business model, which would continue existing investments and concentrate on the non-investment fields of Consulting, Management contracts/operations management and Cooperation with investors, offers an excellent foundation for Berlinwasser International AG's future development. The requisite restructuring was completed in 2007. The company is an attractive partner for international clients, given its reputation from existing international investments and the use of the wide-ranging expertise of the entire Berlinwasser Group.

Successful projects, especially in China and Hungary, provide a good point of departure for continued expansion of business activities in the countries of Central and Eastern Europe, selected developing and emerging countries of Asia and in future also in countries in the Near East and Africa. The acquisition network established in target countries, as well as the top-notch local know-how of Berlin International AG employees, solidly supports this expansion. Furthermore, the market position should be expanded and more firmly established by entering into strategic partnership with companies with complementary orientation.

Berlinwasser International AG, due to cash flow from existing investments, is in a position to build up its non-investment projects on a sustainable basis, while at the same time significantly improving its earnings situation and diminishing its financial liabilities.

Services business division

Berlinwasser Regional GmbH was founded on 1 November 2007, as part of the restructuring of Berlinwasser Group. As of January 2008, the company will take over the previous Berlinwasser Services GmbH business division of Services for Communities and Companies. The new company will combine services in the areas of operations management, house service connection investigations, shaft measurement, clean-up activities and additional individual services to third parties. Target Groups primarily include communities and companies in the Berlin-Brandenburg and Sachsen-Anhalt regions. Planned sales for the new company correspond to the medium-term plan figures included in Berlinwasser Services GmbH for the Services for Communities and Companies business division. The start phase is calculated with low start-up losses; positive earnings are to be achieved starting in 2010.

Due to the fact that the Berlinwasser Services GmbH portfolio has been reduced by the Services for Communities and Companies business division, planned sales for 2008 of €27.5 million fall short of the sales levels achieved in 2007. This is also true for subsequent years. The operating margin, however, remains stable.

pigadi GmbH and p2m berlin GmbH, both investments of Berlinwasser Services GmbH until the end of 2007, have become direct subsidiaries of Berlinwasser Holding Aktiengesellschaft as part of the restructuring of Berlinwasser Group. This is a purely organisational restructuring, which will have no influence on business activity. The profit transfer agreement of the companies with Berlinwasser Holding Aktiengesellschaft will continue to apply. Sales growth is planned exclusively in external markets in the

upcoming years. p2m berlin GmbH has positioned itself successfully here in the past few years. Total sales are expected to rise c. 2% annually. Positive PBT is planned consistently over time.

The assumption is that pigadi GmbH will participate in increasing demand in the well service area in the upcoming years. Due to its high performance quality and high technical standards, the company is already a leader in the areas of regeneration, clean-up and old waste deposit clean-up of well facilities. A rise in market share in Germany from the current c. 7% to roughly 10% is planned. Furthermore the sales structures are to be improved, with the regional focus of business activities in North and East Germany. Customer retention is to be promoted in particular by entering into or extending framework agreements. Consistently positive PBT is anticipated and is forecast to be above 10% of sales volume in 2008 and subsequent years.

bluepartner GmbH continues to provide Berliner Wasserbetriebe with its high-quality services, focusing in particular on quality assurance and the permanent improvement of work processes. Synergistic effects between Berliner Wasserbetriebe and third-party business will be exploited. The plan is to raise sales from third-party business from the current 10% of total sales to c. 28% of total sales by 2012. In addition to continued expansion of the secretariat service by addressing customer segments selectively, cooperation with the new competitive company should attract new customers and thus assure the achievement of external sales in third-party business as planned. Furthermore, an additional business division in the area of product consulting on foodstuffs is being launched. Further responsibilities for the service centre will arise from this customer segment as a result of successful support of initial reference customers and appropriate sales measures. The PBT is expected to rise continuously over time.


In 2008 and subsequent years perdie.net GmbH will carry on supporting Berliner Wasserbetriebe in personnel restructuring by short-term deployment of staff. In addition the company provides employees with the goal of placing 40 perdie.net workers in employment situations on an indefinite basis outside Berlinwasser Group before their fixed-term engagement has expired. The practice of seconding employees to third parties will be undertaken, as in the last few years, only as a stepping stone for successful recruitment. Since 2006 the contracts of all Berlinwasser Group trainees have been with perdie.net GmbH. In 2008 more than 100 trainees in 19 professions and five courses of study at the Berlin Berufsakademie will guarantee that the training rate in the company remains high.

Costs and revenues will be at a constant level during the planning period. Planning ensures that revenues and expenses are balanced.

Berlin, 31 January 2008
Berlinwasser Holding Aktiengesellschaft



Frank Bruckmann



Jörg Simon



Dr Ulrich Bammert



Norbert Schmidt

Balance sheet of Berlinwasser Holding Aktiengesellschaft, Berlin as at 31 December 2007

Assets

| | 31 Dec. 2007 € | 31 Dec. 2006 € 000 |
|--|-------------------------|-----------------------|
| A. Fixed assets | | |
| I. Intangible assets | 16,715.87 | - |
| II. Property, plant and equipment | | |
| Furniture and office equipment | 59,736.04 | 85 |
| III. Financial assets | | |
| 1. Shares in associated companies | 69,000,895.26 | 65,662 |
| 2. Loans to associated companies | 8,900,000.00 | 10,900 |
| 3. Dormant companies | 1,559,440,237.64 | 1,559,440 |
| 4. Investments | 6,854,968.97 | 6,836 |
| 5. Loans to companies with which a participating interest exists | 1.00 | - |
| 6. Fixed asset securities | 437.67 | 1 |
| | 1,644,196,540.54 | 1,642,839 |
| B. Current assets | | |
| I. Receivables and other assets | | |
| 1. Receivables from associated companies | 188,018,979.85 | 132,142 |
| 2. Receivables from partners | 30,421.86 | - |
| 3. Receivables from companies with which a participating interest exists | - | 145 |
| 4. Other assets | 460,965.97 | 1,369 |
| | 188,510,367.68 | 133,656 |
| II. Cash and cash equivalents and deposits with banks | 12,215,280.64 | 9,440 |
| | 1,844,998,640.77 | 1,786,020 |

Liabilities

| | 31 Dec. 2007 € | 31 Dec. 2006 € 000 |
|--|-------------------------|-----------------------|
| A. Equity | | |
| I. Subscribed capital | 51,129,188.12 | 51,129 |
| II. RWE-Veolia Berlinwasser Beteiligungs AG contribution | 1,559,440,237.65 | 1,559,440 |
| III. Capital reserves | 385,028,044.36 | 385,028 |
| IV. Revenue reserves | | |
| Statutory reserves | 122,160.39 | 122 |
| V. Net loss for the year | -349,642,604.17 | -356,780 |
| | 1,646,077,026.35 | 1,638,939 |
| B. Provisions | | |
| 1. Pension provisions | 372,013.98 | 438 |
| 2. Provisions for taxes | 4,529,309.00 | 13 |
| 3. Other provisions | 1,457,677.47 | 2,381 |
| | 6,359,000.45 | 2,832 |
| C. Liabilities | | |
| 1. Liabilities to banks | 1,949,857.65 | 2,656 |
| 2. Trade payables | 163,817.55 | 164 |
| 3. Liabilities to associated companies | 996,691.00 | 2,236 |
| 4. Liabilities to partners | 186,539,481.52 | 136,024 |
| 5. Other liabilities | 2,912,766.25 | 3,169 |
| of which from taxes €545,860.48 | | (587) |
| of which from social security €962.17 | | (6) |
| | 192,562,613.97 | 144,249 |
| | 1,844,998,640.77 | 1,786,020 |

Profit and loss statement of Berlinwasser Holding Aktiengesellschaft, Berlin for the period 1 January to 31 December 2007

| | 1 Jan. – 31 Dec. 2007 € | 1 Jan. – 31 Dec. 2006 € 000 |
|--|----------------------------|--------------------------------|
| 1. Other operating revenue | 4,246,704.99 | 5,367 |
| 2. Personnel expenses | | |
| a) Salaries | 1,780,781.53 | 1,837 |
| b) Social security contributions and expenses for company pension of which for company pension €66,381.53 | 257,985.34 | 265 (64) |
| | 2,038,766.87 | 2,102 |
| 3. Amortisation and depreciation of intangible assets and property, plant and equipment | 29,578.87 | 51 |
| 4. Other operating expenses | 3,448,598.32 | 5,508 |
| | 5,516,944.06 | 7,661 |
| 5. Revenues from partial profit transfer agreements | 189,582,222.00 | 134,716 |
| 6. Revenue from profit transfer agreements | 864,460.66 | 1,018 |
| 7. Revenue from holdings | 6,925,375.41 | 1,858 |
| | 197,372,058.07 | 137,592 |
| 8. Revenue from loans classified under financial assets of which from associated companies €594,688.27 | 594,688.27 | 612 (612) |
| 9. Other interest and similar income of which from associated companies €44,525.99 | 499,625.37 | 618 (29) |
| | 1,094,313.64 | 1,230 |
| 10. Write-downs of financial assets | 136,219.23 | 3 |
| 11. Interest and similar expense of which to associated companies €194,309.84 | 555,808.16 | 1,216 (594) |
| | 692,027.39 | 1,219 |
| 12. Income from ordinary operations | 196,504,105.25 | 135,309 |
| 13. Income taxes | 8,316,860.00 | 3,771 |
| 14. Expenses related to partial profit transfers | 181,049,362.00 | 130,729 |
| 15. Net profit for the period | 7,137,883.25 | 809 |
| 16. Loss carry-forward | -356,780,487.42 | -357,589 |
| 17. Net loss for the year | -349,642,604.17 | -356,780 |

Consolidated notes for financial year 1 January 2007 to 31 December 2007

1. General information

The annual financial statements have been prepared based on the commercial accounting, valuation and classification rules. In addition the provisions of the German Companies Act are applied.

The company is considered a small public limited company according to Section 267, paragraph 1, of the German Commercial Code.

The profit and loss statement is prepared in accordance with the cost of production method.

2. Accounting principles

Intangible fixed assets and property, plant and equipment are valued at acquisition or production cost reduced by scheduled depreciation and amortisation. Low-value items as interpreted under Section 6, paragraph 2, of the Income Tax Act are fully expensed in the year of acquisition and reflected as disposals in the statement of changes in fixed assets.

Financial assets are reflected at the lower of acquisition or fair market value.

Receivables and other assets are shown at the lower of the nominal or fair market value.

Receivables, payables and deposits with banks in foreign currency are converted at the less favourable of the purchase rate or the rate at the balance sheet date.

Provisions take into account all identifiable risks and undetermined obligations.

Liabilities are recorded at their repayment amounts.

3. Notes on the balance sheet

Intangible assets, property, plant and equipment and financial assets

The development of fixed assets during financial year 2007 is presented in the statement of changes in fixed assets.

The book investment value of Berli-Hód Mérnöki Kft. in the amount of €760 thousand was written down by €136 thousand during the financial year, since it is assumed that the original book investment value will not be realised in the planned sale.

Financial assets include:

Loans to associated companies

| | in € 000 |
|-------------------------------|----------|
| Berlinwasser International AG | 8,900 |

Fixed asset securities

| | in € 000 |
|---|----------|
| 1 share in Budapest Kanalisationswerke AG | 1 |

Shares in associated companies

| | Location | Share of capital | Currency | Equity | Net income for the period |
|-------------------------------------|--------------------|------------------|----------|----------|---------------------------|
| Berlinwasser Services GmbH | Berlin | 100% | € 000 | 4,502 | 4,092 |
| avida GmbH ³ | Berlin | 100% | € 000 | -26 | -1 |
| Berlinwasser International AG | Berlin | 100% | € 000 | 37,249 | 362 |
| Berlinwasser Regional GmbH | Berlin | 100% | € 000 | 276 | 1 |
| bluepartner GmbH | Berlin | 100% | € 000 | 266 | - |
| perdie.net GmbH | Berlin | 100% | € 000 | 25 | - |
| p2m Berlin GmbH | Berlin | 100% | € 000 | 469 | - |
| pigadi GmbH | Berlin | 100% | € 000 | 175 | - |
| Apa Vie Bercon S.R.L. ² | Constanta, Romania | 51% | ROL 000 | -672,770 | -532,108 |
| Berli-Hód Mérnöki Kft. ³ | Hungary | 100% | HUF 000 | 193,539 | 2,161 |

Investments

| | | | | | |
|---|-------------------|---------------------------|-----------|------------|--------|
| Kompetenzzentrum Wasser Berlin gGmbH ³ | Berlin | 12.5% | € 000 | 854 | 71 |
| Berlin-Baku Infrastrukturentwicklungsgesellschaft mbH ¹ | Baku, Azerbaijan | 50% | Manat 000 | -99 | -48 |
| Csatorna Holding Zrt. ³ | Budapest, Hungary | 15% | HUF 000 | 19,420,000 | - |
| TELO Beteiligungsgesellschaft mbH & Co. Objekt Kläranlage Waßmannsdorf KG ² | Berlin | 1 limited partner's share | € 000 | -105,325 | 20,227 |

Dormant holdings

| | | | | | |
|-----------------------------|--------|-------|-------|-----------|---------|
| Berliner Wasserbetriebe AöR | Berlin | 49.9% | € 000 | 2,593,431 | 177,011 |
|-----------------------------|--------|-------|-------|-----------|---------|

¹ Financial statements as at 31 December 2003 ² Financial statements as at 31 December 2004 ³ Financial statements as at 31 December 2006

Receivables and other assets

Receivables from associated companies consist largely of partial profit transfers from Berliner Wasserbetriebe (€185,452 thousand), sales tax claims from Berlinwasser Services GmbH (€577 thousand) and p2m berlin GmbH (€240 thousand). Furthermore, receivables from profit transfers for financial year 2007 from bluepartner GmbH (€129 thousand), perdie.net GmbH (€101 thousand), p2m berlin GmbH (€459 thousand) and pigadi GmbH (€176 thousand) are reflected here. Other receivables relate to receivables from Group services and inter-Group charges.

Receivables from the shareholder RWE-Veolia Berlinwasser Beteiligungs AG exist in the amount of €30 thousand and result from the assumption of bookkeeping activities.

All receivables have an expected term of up to one year.

Subscribed capital

Berlinwasser Holding Aktiengesellschaft's capital stock totals €51,129 thousand. It consists of 20,000,000 bearer shares. As at the balance sheet date 49.9% of the shares (9,980,000 shares) were held by RWE-Veolia Berlinwasser Beteiligungs AG and 50.1% (10,200,000 shares) by the state of Berlin.

RWE-Veolia Berlinwasser Beteiligungs AG contribution

RWE-Veolia Berlinwasser Beteiligungs AG holds 100% of the dormant companies of Berlinwasser Holding Aktiengesellschaft based on the dormant company contract dated 25 June 1999.

Capital reserves

Based on the contribution agreement of 31 August 1999, Berliner Wasserbetriebe contributed nine companies to Berlinwasser Holding Aktiengesellschaft. They are reported as other payment by partners in accordance with Section 272, paragraph 2, no. 4, of the German Commercial Code in the capital reserves account.

During financial year 2004 the capital reserves were increased by cash contributions of partners in the amount of €180,000 thousand.

Net loss for the year

| | in € 000 |
|------------------------------------|-----------------|
| Balance as 31 December 2006 | -356,781 |
| Net income for 2007 | +7,138 |
| Balance as 31 December 2007 | -349,643 |

Provisions for pension obligations

The provision includes two pension commitments. Provisions are calculated based on the discounted value method in accordance with Section 6a EStG (Income Tax Act) using an interest rate of 6%. They are based on the 2005 G tables of Professor Klaus Heubeck.

Provisions for taxes

Provisions for taxes include trade tax of the current financial year, 2007, (€4,529 thousand) for the dormant company with RWE-Veolia Berlinwasser Beteiligungs Ag.

Other provisions

Other provisions primarily comprise provisions for various consultancy services (€473 thousand), personnel costs (€280 thousand), partial retirement (€276 thousand) and other outstanding invoices.

Liabilities

Total amounts and terms of liabilities can be broken down as follows:

| | Total in € 000 | of which with a remaining term | | |
|---|-----------------------------|--------------------------------|-------------------------------|--------------------------|
| | | up to a year in € 000 | from 1 to 5 years in € 000 | over 5 years in € 000 |
| Liabilities to banks (prior year) | 1,950 (2,656) | 747 (706) | 1,203 (1,950) | – – |
| Trade payables (prior year) | 164 (164) | 164 (164) | – – | – – |
| Liabilities to associated companies (prior year) | 997 (2,236) | 997 (2,236) | – – | – – |
| Liabilities to partners (prior year) | 186,539 (136,024) | 186,539 (136,024) | – – | – – |
| Other liabilities (prior year) | 2,913 (3,170) | 811 (833) | 1,093 (1,030) | 1,009 (1,307) |
| Total (prior year) | 192,563 (144,250) | 189,258 (139,963) | 2,296 (2,980) | 1,009 (1,307) |

Liabilities from associated companies reflect other liabilities in the amount of €997 thousand.

Liabilities to partners exist vis-à-vis the RWE-Veolia Berlinwasser Beteiligungs AG and relate to profit claims for financial year 2007 originating from its contribution to Berlinwasser Holding Aktiengesellschaft in the amount of €180,708 thousand and tax refunds for previous years in the amount of €341 thousand. The offsetting account is reported in the profit and loss statement under the item “Expenses related to partial profit transfers”. In addition a remaining liability (€4,890 thousand) from profit claims in 2003 is shown here.

Other liabilities encompass loans in the amount of €2,337 thousand.

4. Notes on the profit and loss statement

Other operating revenues

Other operating revenue consists chiefly of revenue from service agreements with subsidiaries and investment companies, as well as other cost reimbursements in the amount of €3,594 thousand.

Other operating expenses

Other operating expenses include costs for legal advice, advertising, other third-party services, personnel services and rental expense.

Revenues from partial profit transfer agreements

In accordance with the agreement regarding two dormant companies, the profit from the dormant holdings in Berliner Wasserbetriebe (Company Division Water Supply/Company Division Sewerage) for financial year 2007 is reported here (€189,582 thousand).

Revenue from profit transfer agreements

This concerns the profit transfers from bluepartner GmbH, p2m berlin GmbH, pigadi GmbH and perdie.net GmbH for 2007.

Revenue from holdings

Revenue from holdings consist in the main of distributions from Berlinwasser Services GmbH (€1,598 thousand) for financial year 2006, an advance distribution for 2007 (€3,450 thousand), as well as a distribution from Csatorna Holding Zrt. for 2006 (€1,868 thousand).

Interest and similar expenses

Interest and similar expenses includes a pro-rated share of interest from 2007 related to provisions for pensions and partial retirement in the amount of €34 thousand.

Income taxes

Income taxes relate to income from the dormant company with RWE-Veolia Berlinwasser Beteiligungs AG.

5. Other financial obligations

Bank guarantees amounting to €3.8 million on behalf of subsidiaries, issued in foreign currency, exist. Internally Berlinwasser International AG carries €2.0 million of this, since it holds 35% of shares in Csatorna Holding Zrt.

6. Other disclosures

Average number of employees during the year

The company engaged 24 employees during financial year 2007.

Executive bodies of the company

THE EXECUTIVE BOARD CONSISTED OF THE FOLLOWING MEMBERS DURING THE FINANCIAL YEAR:

Dipl-Kfm Frank Bruckmann
Chairman

Dipl-Ing Dipl-Wirtsch-Ing Jörg Simon
National participation

Norbert Schmidt
Personnel

Dr-Ing Ulrich Bammert
Technology
until 31 January 2008

THE SUPERVISORY BOARD CONSISTED OF THE FOLLOWING MEMBERS DURING THE FINANCIAL YEAR:

Shareholder representatives

Harald Wolf
Chairman of the Supervisory Board
Senator for Business, Technology and Women
for the State of Berlin

Dr Hans-Jürgen Ahlbrecht
Real estate consultant, international real estate consultancy

Werner Böttcher
Managing Director Sietz and Partner Ltd. & Co. KG
until 28 February 2008

Berthold A. Bonekamp
Chairman of the Board of RWE Energy AG
and member of the Executive Board of RWE AG

Christophe Hug
Chairman of the Board of Veolia Wasser GmbH

Monika Kuban
Deputy Director and Head of Finance Department
of the German Association of Cities

Dr Lore Maria Peschel-Gutzeit
Senator for Justice of the State of Berlin, retired,
Senator for Justice of the State of Hamburg (retired),
attorney

Cyril Roger-Lacan
Executive Europa Veolia Water

Dr Anna Elisabeth Birgit Roos
Member of the Executive Board
of the Berlin Investment Bank

Dr Thilo Sarrazin
Senator for Financial Affairs for the State of Berlin

Ralf Zimmermann
Member of the Board of RWE Energy AG
since 30 March 2007

Employee representatives

Susanne Stumpfenhusen
Deputy Chairperson of the Supervisory Board
District Manager of ver.di,
Berlin/Brandenburg district

Oliver Behm
Expert on Customer Management,
Berliner Wasserbetriebe

Wolfgang Börner
Chief of Legal Affairs, Berliner Wasserbetriebe

Dieter Eckholz
Network Administrator, Berlinwasser Services GmbH

Jürgen Humernik
Chief of Facility Management, Berliner Wasserbetriebe

Friedrich Huntemann
Internal Consultant, Berliner Wasserbetriebe

Mathias Ladstätter
National Section Leader for Water Management
of ver.di, National Administration

Manfred Pritzel
Chief Safety Engineer, Berliner Wasserbetriebe

Beate Schuh
Union lawyer of ver.di,
Berlin/Brandenburg district

Steffen Siebenhüner
Crew foreman, Berliner Wasserbetriebe

Costs of executive bodies

Breakdown of remuneration to Executive Board members in 2007 according to Section 18, paragraph 6, of BerlBG (Berlin Companies Act):

| Disclosures in | Simon, Jörg, in € | Bruckmann, Frank, in € | Dr Bammert, Ulrich, in € | Schmidt, Norbert, in € | Total in € |
|---|-------------------------|------------------------------|--------------------------------|------------------------------|----------------------|
| Salaries (fixed annual income) | 18,278.00 | 51,512.00 | 30,000.00 | 33,000.00 | 132,790.00 |
| (Variable performance-related bonuses based on target agreements) | 23,130.00 | 40,376.00 | 36,800.00 | 30,080.00 | 130,386.00 |
| Profit participation | – | – | – | – | – |
| Cost reimbursement | – | – | – | – | – |
| Insurance fees | – | – | 6,316.88 | – | 6,316.88 |
| Commissions and fringe benefits | – | – | 4,800.00 | – | 4,800.00 |
| Total | 41,408.00 | 91,888.00 | 66,800.00 | 74,196.88 | 274,292.88 |

Other remuneration

| | in € 000 |
|--|----------|
| Pension provision for former member of Executive Board | 87 |
| Compensation for activities of Supervisory Board members | 114 |

Berlinwasser Holding Aktiengesellschaft is a subsidiary of RWE-Veolia Berlinwasser Beteiligungs AG. The consolidated financial statements of Berlinwasser Holding Aktiengesellschaft are included in the consolidated financial statements of RWE-Veolia Berlinwasser Beteiligungs AG, Berlin. This is the largest company Group. The smallest company Group is represented by the consolidated financial statements of Berlinwasser Holding Aktiengesellschaft. Both sets of consolidated accounts are published in the electronic Federal Gazette.

Declaration of the Executive Board and Supervisory Board of Berlinwasser Holding Aktiengesellschaft on the recommendations of the Corporate Governance Code

The Executive Board and Supervisory Board have submitted a declaration based on the Corporate Governance Code of Berlinwasser Holding Aktiengesellschaft under the application of Section 161 of the German Companies Act; this declaration is permanently available on the Internet.

Berlin, 31 January 2008
Berlinwasser Holding Aktiengesellschaft



Frank Bruckmann



Jörg Simon



Dr Ulrich Bammert



Norbert Schmidt

Statement of changes in fixed assets of Berlinwasser Holding Aktiengesellschaft as at 31 December 2007

Acquisition and production costs

| Fixed asset accounts | Beginning balance as at 1 Jan. 2007 | Additions + | Disposals - | Balance as at 31 Dec. 2007 |
|--|--|---------------------|----------------------|-------------------------------|
| I. Intangible assets | | | | |
| Concessions, industrial property rights and similar rights as well as licences to use such rights | 88,664.40 | 19,411.98 | - | 108,076.38 |
| II. Property, plant and equipment | | | | |
| Furniture and office equipment | 377,012.72 | 7,320.93 | 45,994.98 | 338,338.67 |
| Total property, plant and equipment | 377,012.72 | 26,732.91 | 45,994.98 | 338,338.67 |
| III. Financial assets | | | | |
| 1. Shares in associated companies | 80,883,018.92 | 4,075,000.00 | 600,000.00 | 84,358,018.92 |
| 2. Loans to associated companies | 19,100,098.15 | - | 10,190,098.15 | 8,910,000.00 |
| 3. Dormant companies | 1,559,440,237.64 | - | - | 1,559,440,237.64 |
| 4. Holdings | 6,880,654.86 | 19,191.73 | - | 6,899,846.59 |
| 5. Loans to companies with which a participating interest exists | 47,712.00 | - | - | 47,712.00 |
| 6. Fixed asset securities | 437.67 | - | - | 437.67 |
| Total financial assets | 1,666,352,159.24 | 4,094,191.73 | 10,790,098.15 | 1,659,656,252.82 |
| Total fixed assets | 1,666,817,836.36 | 4,120,924.64 | 10,836,093.13 | 1,660,102,667.87 |

Amortisation and depreciation

| Fixed asset accounts | Beginning balance as at 1 Jan. 2007 | Additions + | Disposals - | Balance as at 31 Dec. 2007 |
|--|--|-------------------|---------------------|-------------------------------|
| I. Intangible assets | | | | |
| Concessions, industrial property rights and similar rights as well as licences to use such rights | 88,664.40 | 2,696.11 | - | 91,360.51 |
| II. Property, plant and equipment | | | | |
| Furniture and office equipment | 291,682.09 | 26,882.76 | 39,962.22 | 278,602.63 |
| Total property, plant and equipment | 291,682.09 | 26,882.76 | 39,962.22 | 278,602.63 |
| III. Financial assets | | | | |
| 1. Shares in associated companies | 15,220,904.43 | 136,219.23 | - | 15,357,123.66 |
| 2. Loans to associated companies | 8,200,098.15 | - | 8,190,098.15 | 10,000.00 |
| 3. Dormant companies | - | - | - | - |
| 4. Holdings | 44,877.62 | - | - | 44,877.62 |
| 5. Loans to companies with which a participating interest exists | 47,711.00 | - | - | 47,711.00 |
| 6. Fixed asset securities | - | - | - | - |
| Total financial assets | 23,513,591.20 | 136,219.23 | 8,190,098.15 | 15,459,712.28 |
| Total fixed assets | 23,893,937.69 | 165,798.10 | 8,230,060.37 | 15,829,675.42 |

Residual book value

Attachment to the notes
in €

| Fixed asset accounts | Balance as at 31 Dec. 2007 | at the end of preceding financial year |
|--|-------------------------------|--|
| I. Intangible assets | | |
| Concessions, industrial property rights and similar rights as well as licences to use such rights | 16,715.87 | – |
| II. Property, plant and equipment | | |
| Furniture and office equipment | 59,736.04 | 85,330.63 |
| Total property, plant and equipment | 59,736.04 | 85,330.63 |
| III. Financial assets | | |
| 1. Shares in associated companies | 69,000,895.26 | 65,662,114.49 |
| 2. Loans to associated companies | 8,900,000.00 | 10,900,000.00 |
| 3. Dormant companies | 1,559,440,237.64 | 1,559,440,237.64 |
| 4. Holdings | 6,854,968.97 | 6,835,777.24 |
| 5. Loans to companies with which a participating interest exists | 1.00 | 1.00 |
| 6. Fixed asset securities | 437.67 | 437.67 |
| Total financial assets | 1,644,196,540.54 | 1,642,838,568.04 |
| Total fixed assets | 1,644,272,992.45 | 1,642,923,898.67 |

Audit certificate

We have issued an unrestricted audit certificate as follows:

“Audit certificate

To Berlinwasser Holding Aktiengesellschaft, Berlin

We audited the annual financial statements – consisting of the balance sheet, profit and loss statement and the notes – and the accounts of Berlinwasser Holding Aktiengesellschaft, Berlin, and its management report on the company and the Group (joint management report) for the financial year from 1 January through 31 December 2007. Under German commercial law the company's Executive Board bears the responsibility for its bookkeeping and the preparation of the annual financial statements and the joint management report. It is our responsibility to issue an assessment of the annual financial statements, including the bookkeeping, and the joint management report based on our audit.

We have conducted our audit in accordance with Section 317 of the German Commercial Code, taking into account standards of proper auditing as established by the Institut der Wirtschaftsprüfer (IDW) (German Institute of Auditors). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and the joint management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related in-

ternal control system, as well as evidence supporting disclosures in the books of account, the annual financial statements and the joint management report, are examined primarily as part of the audit primarily on the basis of random samples. The audit includes an assessment of the accounting principles used and the significant estimates made by the Executive Board, as well as an evaluation of the overall presentation of the annual financial statements and the joint management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any reservations.

In our opinion based on our audit findings the annual financial statements are in accordance with statutory regulations and provide a true and fair view of the net assets, financial position and results of operations of Berlinwasser Holding Aktiengesellschaft taking into account German principles of proper accounting. The joint management report is in line with the annual financial statements, presents an accurate view of the company's position and appropriately presents the opportunities and risks of future development.”

Berlin, 31 January 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft (auditing company)

| | |
|---------|-----------|
| Geisler | Sternberg |
| Auditor | Auditor |

Consolidated balance sheet of Berlinwasser Holding Aktiengesellschaft, Berlin as at 31 December 2007

Assets

| | 31 Dec. 2007 € | 31 Dec. 2006 € 000 |
|---|-------------------------|-----------------------|
| A. Fixed assets | | |
| I. Intangible assets, concessions, industrial property rights and similar rights as well as licences for the use of such rights | 915,711,285.92 | 923,543 |
| II. Property, plant and equipment | | |
| 1. Real property, equivalent property rights and buildings including buildings on leased land | 720,864,091.75 | 772,141 |
| 2. Technical equipment and machinery | 4,507,651,674.39 | 4,422,994 |
| 3. Other equipment, furniture and office equipment | 36,239,071.80 | 32,402 |
| 4. Advance payments made and facilities under construction | 315,468,716.22 | 350,054 |
| | 5,580,223,554.16 | 5,577,591 |
| III. Financial assets | | |
| 1. Shares in associated companies | 627,622.23 | 805 |
| 2. Loans to associated companies | – | 29 |
| 3. Holdings in affiliated companies | 37,448,358.11 | 37,343 |
| 4. Other holdings | 79,767.67 | 63 |
| 5. Loans to other holdings | 1.00 | – |
| 6. Memberships in special-purpose associations | 3,304,402.23 | 3,305 |
| 7. Fixed asset securities | 1,915.30 | 2 |
| 8. Other loans | 2,984,138.80 | 3,246 |
| | 44,446,205.34 | 44,793 |
| | 6,540,381,045.42 | 6,545,927 |
| B. Current assets | | |
| I. Inventory | | |
| 1. Raw materials and supplies | 9,698,334.16 | 9,463 |
| 2. Work in progress | 8,900,426.81 | 6,947 |
| 3. Advance payments made | 80,081.97 | 65 |
| | 18,678,842.94 | 16,475 |
| II. Receivables and other assets | | |
| 1. Trade receivables of which with a remaining term of more than one year €281,319.33 | 750,926,435.54 | 744,342 (282) |
| 2. Receivables from associated companies of which with a remaining term of more than one year €0.00 | 108,914.60 | 111 (–) |
| 3. Receivables from companies with participating interests of which with a remaining term of more than one year €0.00 | 62,026.81 | 625 (–) |
| 4. Receivables from partners of which with a remaining term of more than one year €0.00 | 321,254,586.91 | 173,530 (–) |
| 5. Other assets of which with a remaining term of more than one year €3,340,577.70 | 32,399,195.37 | 37,251 (3,038) |
| | 1,104,751,159.23 | 955,859 |
| III. Cheques, cash, deposits with banks | 43,702,359.64 | 35,233 |
| | 1,167,132,361.81 | 1,007,567 |
| C. Prepaid expenses | | |
| 1. Other prepaid expenses | 1,579,291.32 | 2,215 |
| 2. Deferred tax assets | 3,532,592.55 | 4,279 |
| | 5,111,883.87 | 6,494 |
| | 7,712,625,291.10 | 7,559,988 |

Liabilities

| | 31 Dec. 2007 € | 31 Dec. 2007 € | 31 Dec. 2006 € 000 |
|--|-------------------|-------------------------|------------------------|
| A. Equity | | | |
| I. Subscribed capital | | 51,129,188.12 | 51,129 |
| II. Contribution of dormant partners | | 1,559,440,237.65 | 1,559,440 |
| III. Capital reserves | | 385,028,044.36 | 385,028 |
| IV. Revenue reserves | | | |
| 1. Statutory reserves | 122,160.39 | | 122 |
| 2. Other revenue reserves | 54,865,803.65 | 54,987,964.04 | 40,813 |
| V. Net loss for the year | | -712,243,067.10 | -684,864 |
| VI. Share of minority interests | | 1,503,482,765.31 | 1,414,385 |
| VII. Adjustment item from currency translation | | -992,723.43 | -11 |
| | | 2,840,832,408.95 | 2,766,042 |
| B. Special account for subsidies and grants | | | |
| 1. Special account for investment grants | | 311,246.00 | 481 |
| 2. Special account for other subsidies | | 442,024,224.77 | 424,114 |
| | | 442,335,470.77 | 424,595 |
| C. Subsidies for construction costs | | 143,420,040.57 | 138,453 |
| D. Provisions | | | |
| 1. Provisions for pensions and similar obligations | | 5,881,904.09 | 5,767 |
| 2. Tax provisions | | 9,487,151.00 | 9,700 |
| 3. Other provisions | | 977,717,672.44 | 983,364 |
| | | 993,086,727.53 | 998,831 |
| E. Liabilities | | | |
| 1. Liabilities to banks of which with a remaining term up to one year €305,294,898.54 | | 1,937,878,795.58 | 2,037,191 (271,316) |
| 2. Advance payments on orders of which with a remaining term up to one year €732,653,925.76 | | 732,653,925.76 | 697,443 (697,443) |
| 3. Trade payables of which with a remaining term up to one year €27,791,086.57 | | 27,866,524.26 | 34,050 (33,894) |
| 4. Liabilities to companies with participating interests of which with a remaining term up to one year €473,419.73 | | 473,419.73 | 60 (60) |
| 5. Liabilities to partners of which with a remaining term up to one year €201,756,558.60 | | 209,061,654.43 | 160,165 (152,496) |
| 6. Other liabilities | | 359,487,027.49 | 276,195 |
| a) from taxes €12,508,908.48 | | | (19,439) |
| b) in the context of social security €32,366.85 | | | (2) |
| c) with a remaining term up to one year €89,878,313.49 | | | (81,792) |
| | | 3,267,421,347.25 | 3,205,104 |
| F. Accrued expenses | | 25,529,296.03 | 26,963 |
| | | 7,712,625,291.10 | 7,559,988 |

Consolidated profit and loss statement of Berlinwasser Holding Aktiengesellschaft, Berlin for the financial year 1 January through 31 December 2007

| | 1 Jan. – 31 Dec. 2007 € | 1 Jan. – 31 Dec. 2006 € 000 |
|---|----------------------------|--------------------------------|
| 1. Sales revenues | 1,138,700,149.94 | 1,146,969 |
| 2. Increase in work in progress inventory | 2,055,516.68 | 1,257 |
| 3. Other own work capitalised | 62,029,244.88 | 61,714 |
| 4. Other operating revenue | 144,770,387.76 | 74,759 |
| | 1,347,555,299.26 | 1,284,699 |
| 5. Cost of materials | | |
| a) Expenses for raw materials and supplies and for purchased goods | 60,373,109.37 | 62,558 |
| b) Expenses for purchased services | 169,577,736.21 | 162,723 |
| c) Groundwater withdrawal fees and wastewater charges | 63,333,686.73 | 69,175 |
| | 293,284,532.31 | 294,456 |
| 6. Personnel expenses | | |
| a) Salaries and wages | 223,676,878.91 | 223,061 |
| b) Social security contributions and expenses related to company pension and benefits of which for company pension €17,540,611.80 | 63,555,539.80 | 62,432 (14,201) |
| | 287,232,418.71 | 285,493 |
| 7. Depreciation and amortisation on intangible fixed assets and property, plant and equipment of which per Sect. 253 para. 2 sentence 3 of the German Commercial Code €30,903,904.59 | 277,203,109.02 | 250,359 (12,112) |
| 8. Other operating expenses | 90,881,664.85 | 102,944 |
| | 948,601,724.89 | 933,252 |
| 9. Revenue from holdings | 8,697.42 | 1 |
| 10. Income from affiliated companies | 6,378,351.54 | 4,306 |
| 11. Income from other securities and loans classified under financial assets of which from associated companies €1,774.06 | 229,541.83 | 4,916 (2) |
| 12. Other interest and similar income of which from associated companies €0.00 | 83,128,449.89 | 1,470 (-) |
| | 89,745,040.68 | 10,693 |
| 13. Write-downs of financial assets | 209,065.32 | 6 |
| 14. Interest and similar expenses of which to associated companies €194,309.84 | 105,372,627.84 | 105,665 (139) |
| | 105,581,693.16 | 105,671 |
| 15. Income from ordinary operations | 383,116,921.89 | 256,469 |
| 16. Extraordinary income | - | 3,068 |
| 17. Income taxes | 44,450,769.86 | 33,749 |
| 18. Other taxes | 7,168,489.73 | 5,643 |
| 19. Expenses related to partial profit transfers | 181,049,362.00 | 130,729 |
| 20. Consolidated net income for the year | 150,448,300.30 | 89,416 |
| 21. Loss carry-forward | -684,864,086.75 | -675,539 |
| 22. Consolidated net profit due to minority interests | -163,774,386.76 | -86,687 |
| 23. Creation of revenue reserve | 14,052,893.89 | 12,208 |
| 24. Withdrawal from revenue reserve | - | 154 |
| 25. Net loss for the year | -712,243,067.10 | -684,864 |

Consolidated cash flow statement of Berlinwasser Holding Aktiengesellschaft, Berlin for the financial year 1 January through 31 December 2007

| | 2007 € 000 | 2006 € 000 |
|--|-----------------|-----------------|
| +/- Net income for the period before extraordinary items | +150,448 | +86,349 |
| +/- Depreciation/write-ups of fixed asset items | +277,339 | +250,365 |
| +/- Increase/decrease in provisions | -5,739 | -16,014 |
| +/- Other non-cash expenses and revenues | -318 | -6,081 |
| -/+ Profit/loss from the disposal of fixed assets | +2,259 | +3,143 |
| -/+ Increase/decrease in inventories, receivables and other assets, including assets that cannot be allocated to investment or financing activities | -149,835 | -53,321 |
| +/- Increase/decrease in liabilities including liabilities that cannot be allocated to investment or financing activities | +218,821 | +184,429 |
| +/- Receipts and disbursements for extraordinary items | - | +511 |
| Cash flow from operating activities | +492,975 | +449,381 |
| + Receipts from disposals of items of property, plant and equipment | +4,668 | +3,582 |
| - Disbursements for investments in property, plant and equipment | -266,608 | -269,194 |
| + Receipts from disposals of items of intangible assets | +359 | +15 |
| - Disbursements for investments in intangible assets | -3,676 | -1,119 |
| + Receipts from disposals of financial asset items | +262 | +9,126 |
| - Disbursements for investments in financial assets | -19 | -6,838 |
| - Disbursements from the disposal of consolidated companies | - | -492 |
| Cash flow from investment activity | -265,014 | -264,920 |
| + Receipts from allocations to equity | - | - |
| - Disbursements to company owners and minority shareholders | -205,110 | -181,107 |
| + Receipts from the assumption of loans | +227,413 | +302,351 |
| - Disbursements from the repayment of loans | -241,669 | -316,189 |
| Cash flow from financing activity | -219,366 | -194,945 |
| Change in cash and cash equivalents | +8,595 | -10,484 |
| + Cash and cash equivalents at the beginning of the period | +35,233 | +45,938 |
| + Changes in cash and cash equivalents due to exchange rates | -126 | -221 |
| Cash and cash equivalents at the end of the period | +43,702 | +35,233 |

Consolidated statement of changes in equity of Berlinwasser Holding Aktiengesellschaft, Berlin for the period 1 January – 31 December 2006

Parent companies

in € 000

| | Subscribed capital | Capital reserve | Contribution of dormant partners | Earned consolidated equity | Accumulated other consolidated income | | Equity |
|---|--------------------|-----------------|----------------------------------|----------------------------|---|-----------------------------|------------------|
| | | | | | Adjustment item from currency translation | Other non-cash transactions | |
| Status as at 31 December 2005 | 51,129 | 385,028 | 1,559,440 | -646,658 | 1,667 | - | 1,350,606 |
| Dividends paid | - | - | - | - | - | - | - |
| Change in scope of consolidation | - | - | - | - | - | - | - |
| Consolidated net income/loss for the year | - | - | - | 2,729 | - | - | 2,729 |
| Other consolidated income | - | - | - | - | -1,678 | - | -1,678 |
| Total consolidated income | - | - | - | 2,729 | -1,678 | - | 1,051 |
| Status as at 31 December 2006 | 51,129 | 385,028 | 1,559,440 | -643,929 | -11 | - | 1,351,657 |

Minority shareholders/consolidated equity

in € 000

| | Minority shareholders | | | Equity | Consolidated equity |
|---|-----------------------|---|-----------------------------|------------------|---------------------|
| | Minority capital | Accumulated other consolidated income | | | |
| | | Adjustment item from currency translation | Other non-cash transactions | | |
| Status as at 31 December 2005 | 1,385,206 | 482 | 696 | 1,386,384 | 2,736,990 |
| Dividends paid | -58,241 | - | - | -58,241 | -58,241 |
| Change in scope of consolidation | 54 | - | - | 54 | 54 |
| Consolidated net income/loss for the year | 86,687 | - | - | 86,687 | 89,416 |
| Other consolidated income | - | -499 | - | -499 | -2,177 |
| Total consolidated income | - | - | - | 86,188 | 87,239 |
| Status as at 31 December 2006 | 1,413,706 | -17 | 696 | 1,414,385 | 2,766,042 |

Consolidated statement of changes in equity of Berlinwasser Holding Aktiengesellschaft, Berlin for the period 1 January – 31 December 2007

Parent companies

in € 000

| | Subscribed capital | Capital reserve | Contribution of dormant partners | Earned consolidated equity | Accumulated other consolidated income | | Equity |
|---|--------------------|-----------------|----------------------------------|----------------------------|---|-----------------------------|------------------|
| | | | | | Adjustment item from currency translation | Other non-cash transactions | |
| Status as at 31 December 2006 | 51,129 | 385,028 | 1,559,440 | -643,929 | -11 | - | 1,351,657 |
| Dividends paid | - | - | - | - | - | - | - |
| Consolidated net income/loss for the year | - | - | - | -13,326 | - | - | -13,326 |
| Other consolidated income | - | - | - | - | -982 | - | -982 |
| Total consolidated income | - | - | - | -13,326 | -982 | - | -14,308 |
| Status as at 31 December 2007 | 51,129 | 385,028 | 1,559,440 | -657,255 | -993 | - | 1,337,349 |

Minority shareholders/consolidated equity

in € 000

| | Minority shareholders | | | Equity | Consolidated equity |
|---|-----------------------|---------------------------------------|---|------------------|---------------------|
| | Minority capital | Accumulated other consolidated income | Adjustment item from currency translation | | |
| Status as at 31 December 2006 | 1,413,706 | -17 | 696 | 1,414,385 | 2,766,042 |
| Dividends paid | -74,382 | - | - | -74,382 | -74,382 |
| Consolidated net income/loss for the year | 163,774 | - | - | 163,774 | 150,448 |
| Other consolidated income | - | -294 | - | -294 | -1,276 |
| Total consolidated income | 163,774 | -294 | - | 163,480 | 149,173 |
| Status as at 31 December 2007 | 1,503,098 | -311 | 696 | 1,503,483 | 2,840,832 |

Consolidated notes for the financial year 1 January 2007 through 31 December 2007

1. General information

The consolidated financial statements of Berlinwasser Holding Aktiengesellschaft are prepared according to the rules of the German Commercial Code and the German Companies Act. The mandated structure of the financial statements has been modified by the insertion of individual items due to the special structure of Berlinwasser Holding Aktiengesellschaft Group. The profit and loss statement is prepared in accordance with the cost of production method.

2. Scope of consolidation

Associated companies

| | Direct share in capital % | Indirect share in capital % | Scope of consolidation |
|--|---------------------------------|-----------------------------------|---------------------------|
| Berliner Wasserbetriebe AöR, Berlin ¹ | 49.9 | | §294 HGB |
| Berlinwasser Services GmbH, Berlin | 100 | | §294 HGB |
| pigadi GmbH, Berlin | 100 | | §294 HGB |
| p2m berlin GmbH, Berlin | 100 | | §294 HGB |
| bluepartner GmbH, Berlin | 100 | | §294 HGB |
| perdie.net GmbH, Berlin | 100 | | §294 HGB |
| Berlinwasser International AG, Berlin | 100 | | §294 HGB |
| Berlinwasser Regional GmbH, Berlin ² | 100 | | §294 HGB |
| Nanchang Qingshanhu Project Co. Ltd., Nanchang, China | | 80 | §294 HGB |
| Hefei Wang Xiao Ying Sewage Treatment & Co. Ltd., Hefei, China | | 80 | §294 HGB |

Affiliated companies

| | | | |
|---|--|----|-------------------|
| Klärwerk Wansdorf GmbH, Wansdorf | | 49 | §§311 et seq. HGB |
| Wasser Nord GmbH & Co. KG, Hohen Neuendorf | | 49 | §§311 et seq. HGB |
| Csatorna Holding Zrt., Budapest, Hungary | | 50 | §§311 et seq. HGB |
| Wasser Nord Verwaltungs GmbH, Hohen Neuendorf | | 49 | §§311 et seq. HGB |

¹ Share of assets as dormant investments

² Initial consolidation as at 1 November 2007

The inclusion of Berliner Wasserbetriebe was due to uniform management undertaken by the parent company, which was based on the partial privatisation contract.

Berlinwasser Regional GmbH was consolidated for the first time as at 1 November 2007. Comparability of the balance sheet and the profit and loss statement to the previous year's statements were not significantly impacted due to the first-time consolidation in the year under review.

3. Principles of consolidation

Capital consolidation is undertaken according to the book value method by offsetting the acquisition cost of the investment against the share of equity at the time of acquisition or at the time of the first-time inclusion in consolidation. Any difference that may result is transferred to assets at actual value. Any difference that still remains is reported as goodwill.

The balance sheet date of all fully consolidated companies is 31 December 2007.

Investment in affiliated companies is recorded at book value (Section 312, paragraph 1 no. 1 of the German Commercial Code). The principles detailed for full consolidation also apply to the treatment of differences arising from the first-time consolidation. Differences under liabilities are not recorded.

Adjustment of the annual financial statements of affiliated companies to conform to uniform Group accounting principles in accordance with Section 312, paragraph 5, of the German Commercial Code has not taken place. Inclusion occurs in accordance with the national rules applicable to the preparation of financial statements.

The balance sheet for affiliated companies includes goodwill totalling €384 thousand. A difference on the liability side of €4,572 thousand arose from the first-time consolidation of 15% of the shares in Csatorna Holding Zrt.

Sales, expenses and revenues, as well as receivables and payables, between the companies included in consolidation are eliminated; interim profits and differences arising from debt consolidation are offset and taken to income.

Tax accruals are undertaken for the consolidation processes that impact income, provided that the difference in tax expense is offset in later financial years.

4. Accounting principles

Financial statements of the consolidated companies are essentially prepared in accordance with uniform accounting principles.

Intangible assets are valued at acquisition costs reduced by scheduled depreciation. Easements in gross (easements) capitalised at Berliner Wasserbetriebe in accordance with Section 9 of the Grundbuchbereinigungsgesetz (Land Register Adjustment Law) are valued according to technical and commercial assessment of the level of the anticipated compensation payments. Intangible assets comprise the Groups: easements, other asset-like rights, concessions and other intangible assets. The useful life of easements is indefinite, the asset-like rights have terms of useful life of 24 years, concessions have terms of useful life of up to 23 years and other intangible assets have terms of useful life of up to 10 years. The useful life of asset-like rights and concessions is based on the terms of the corresponding contracts.

Property, plant and equipment are carried at acquisition or production cost minus straight-line depreciation. Appropriate overhead costs are included in production costs. Valuation in the area of facilities construction is at full cost. Debt interest from Berliner Wasserbetriebe and the Nanchang Qingshanhu Project Co. Ltd is capitalised in accordance with Section 255, paragraph 3, of the German Commercial Code.

If longterm impairment of asset objects is anticipated, extraordinary write-offs to the lower fair market value are undertaken.

The useful life of capital assets and the resulting depreciation is determined based on the depreciation tables issued by the Federal Ministry of Finance while taking into account internal company differences. If necessary, write-offs to lower fair market value are undertaken.

Financial assets are carried at the lower of acquisition costs plus ancillary costs or fair market value.

Raw materials and supplies are valued at average cost; lower fair market values are taken into account at the balance sheet date in accordance with statutory regulations.

Work in progress and finished goods are recorded at production costs including the appropriate share of overhead costs or, if necessary, at the lower fair market value.

Receivables and other assets are reflected at nominal value; allowances for doubtful accounts are created for identifiable risks. Uncollectible receivables are written off.

Tax deferrals are created in principle for all temporary differences existing on the balance sheet date between the value of an asset or liability in the consolidated balance sheet and the value reflected for tax purposes. Deferred tax assets were not created for tax loss carry-forwards.

Special accounts for grants and subsidies have also been created according to the principles of commercial law. Special accounts for investment grants and subsidies are liquidated on a straight-line basis in accordance with the useful life of the subsidised asset objects.

Construction cost subsidies received from customers are recorded as liabilities and taken to income at 5% per year. Additions during the financial year are subject to liquidation at the rate of 2.5%.

Pension provisions are created based on actuarial calculations at discounted value in accordance with Section 6a EStG (Income Tax Act) using an interest rate of 6%. Valuation is based on the 2005 G tables of Professor Klaus Heubeck.

Tax and other provisions are created for all identifiable risks and undetermined obligations based on sound business judgment.

Liabilities are recorded at the repayment amount.

The functional currency of Berlinwasser Holding Aktiengesellschaft is the euro. Receivables, payables and deposits with banks in foreign currency are converted at the less favourable of the purchase rate or the rate at the balance sheet date. Currency translation in the consolidated financial statements is undertaken in accordance with the modified closing date method.

5. Notes on the balance sheet

Intangible assets, property, plant and equipment and financial assets

Fixed assets are shown in the statement of changes in fixed assets.

Shares in affiliated companies

| | Share in capital | | Currency | Equity | Net income for the period |
|---|------------------|------------|-----------|----------|---------------------------|
| | direct % | indirect % | | | |
| Apa Vie Bercon S.R.L., Bucharest, Romania ² | 51 | 49 | ROL 000 | -672,770 | -532,108 |
| avida GmbH, Berlin ¹ | 100 | | € 000 | -26 | 1 |
| BERLI-HÓD Mérnöki Tanácsadó és Ingatlanhasznosítási Kft., Hódmezővásárhely Hungary ¹ | | 100 | HUF 000 | 193,539 | 2,161 |
| Durlin Water Sh.p.k., Tirana, Albania ¹ | | 100 | LEK 000 | -2,666 | 0 |
| Hume Rohr GmbH, Doberlug-Kirchhain ³ | | 90 | € 000 | 3,947 | -852 |
| Wassergesellschaft Imishli JV mbH, Imishli, Azerbaijan ¹ | | 75 | Manat 000 | 19 | 20 |
| Bodenreinigung Westhafen GmbH Thermische Bodenreinigung Berlin i.L., Berlin ⁴ | | 51 | € 000 | 23 | 9,022 |

¹Financial statements as at 31 December 2006

²Financial statements as at 31 December 2004

³Interim statements as at 31 October 2005

⁴Final liquidation balance sheet as at 4 December 2002

These companies were not included in the consolidated financial statements, since both individually and as a whole they are of minor significance in the presentation of the Group's net assets, financial position and results of operations. The district court of Cottbus ordered provisional insolvency administration on the assets of Hume Rohr GmbH based on a decision dated 21 October 2005. Hume Rohr was consequently deconsolidated as at 31 October 2005. Insolvency proceedings on the assets of Hume Rohr GmbH were opened on 22 December 2005.

Investments

| | Share in capital | | Currency | Equity | Net income for the period |
|---|------------------|------------|-----------|--------|---------------------------|
| | direct % | indirect % | | | |
| KWB Kompetenzzentrum Wasser Berlin gemeinnützige GmbH, Berlin ¹ | 12.5 | 12.2 | € 000 | 854 | 71 |
| Windhoek Operating Goreangab Company Ltd., Windhoek, Namibia ¹ | | 35 | NAD 000 | 6,312 | 2,141 |
| Berlin-Baku Infrastrukturentwicklungsgesellschaft JV, Baku, Azerbaijan ² | 50 | | Manat 000 | -99 | -48 |

¹Financial statements as at 31 December 2006

²Financial statements as at 31 December 2003

Inclusion of the investments as affiliated companies in the consolidated financial statements was waived, since they are of minor significance in providing a view of the actual situation of the net assets, financial position and results of operations of the Group.

Other investments

| | Share in capital | | Currency | Equity | Net income for the period |
|--|---------------------------|------------|----------|----------|---------------------------|
| | direct % | indirect % | | | |
| GWZ Gas- und Wasserwirtschaftszentrum GmbH & Co. KG, Bonn ¹ | | 0.7 | € 000 | -48 | -29 |
| aquabench GmbH, Hamburg ¹ | | 8.0 | € 000 | 102 | 18 |
| Sonderabfallgesellschaft Berlin/Brandenburg Abfallerzeuger GbR, Berlin ¹ | | 6.9 | € 000 | 368 | 0 |
| TELO Beteiligungsgesellschaft mbH & Co. Objekt Kläranlage Waßmannsdorf KG, Berlin ² | 1 limited partner's share | | € 000 | -105,325 | 20,227 |

¹ Financial statements as at 31 December 2006

² Financial statements as at 31 December 2004

Trade receivables

Trade receivables primarily include receivables from sales of water and from drainage services. The receivables include water sales and sewerage services not yet invoiced. The advance payment amounts received from the customers, but not yet invoiced, are shown as advance payments received.

Receivables from associated companies

This account chiefly includes trade receivables.

Receivables from companies with which a participating interest exists

This primarily reflects other receivables.

Receivables from partners

Receivables from partners consist to a great extent of receivables from the drainage of public streets and squares.

Equity

Berlinwasser Holding Aktiengesellschaft's capital stock totals €51,129 thousand (DM100,000 thousand). It consists of 20,000,000 bearer shares. As at the balance sheet date 49.9% of the shares (9,980,000 shares) were held by RWE-Veolia Berlinwasser Beteiligungs AG and 50.1% (10,200,000 shares) by the State of Berlin.

Contribution of dormant partners

RWE-Veolia Berlinwasser Beteiligungs AG holds 100% of the dormant companies of Berlinwasser Holding Aktiengesellschaft based on the dormant company contract dated 25 June 1999.

Capital reserves

Based on the contribution agreement of 31 August 1999, Berliner Wasserbetriebe contributed nine companies to Berlinwasser Holding Aktiengesellschaft totalling €205,028 thousand. They are reported as other payment by partners in accordance with Section 272, paragraph 2, no. 4, of the German Commercial Code in the capital reserves account. During financial year 2004 the capital reserves were increased by cash contributions of partners in the amount of €180,000 thousand.

Creation of other revenue reserves

During financial year 2007 Berliner Wasserbetriebe transferred an amount of €28,162 thousand into the revenue reserve. In the fifth amendment agreement of the consortium contract the creation of a revenue reserve was agreed among the shareholders; the reserve arises from the difference between depreciation based on historical acquisition value and depreciation based on replacement fair market value that has been used in rate calculation. The revenue reserve is created in reference to anticipated tax deductions using a flat 60% of the assessment basis. The portion applicable to minority interests, of €14,109 thousand, was reclassified in the consolidated financial statements as share of minority interests.

Share of minority interests

The share of minority interests in capital and consolidated net income for the year is reported here.

| | Minority share % | Share of minority interests in total € 000 | Of which: Share in 2007 net income in € 000 |
|--|---------------------|---|--|
| Berliner Wasserbetriebe AöR | 50.1 | 1,498,110 | 163,163 |
| Nanchang Qingshanhu Project Co. Ltd. | 20.0 | 2,159 | 322 |
| Hefei Wang Xiao Ying Sewage Treatment & Co. Ltd. | 20.0 | 3,214 | 289 |
| Total | | 1,503,483 | 163,774 |

Adjustment item from currency translation

There were no translation differences during the year under review that impacted income. Cumulative translation differences in the amount of €–993 thousand arose and were recorded against equity. The change during the reporting period, with no impact on income, is €–982 thousand.

Provisions for pension obligations

A non-funded portion of €14,060 thousand (prior year: €16,771 thousand) remains for amounts not included in the Berliner Wasserbetriebe provisions for pension obligations, since Berliner Wasserbetriebe exercised their option in accordance with Article 28, paragraph 1, clause 1 of the EGHGB (Introductory Act to the German Commercial Code).

Other provisions

This account primarily comprises €853,817 thousand in provisions for compensation for easements, €40,060 thousand for partial retirement and pre-retirement, €16,354 thousand for wastewater charges, €16,178 thousand for personnel costs, €10,846 for goods and services not yet invoiced and €6,903 thousand for operation management of the Waßmannsdorf treatment plant.

Liabilities

Total amounts and terms of liabilities can be broken down as follows:

| | Total in € 000 | of which with a remaining term | | |
|---|--------------------------|--------------------------------|-------------------------------|--------------------------|
| | | up to a year in € 000 | from 1 to 5 years in € 000 | over 5 years in € 000 |
| Liabilities to banks (prior year) | 1,937,879 (2,037,191) | 305,295 (271,316) | 768,939 (809,657) | 863,645 (956,218) |
| Advance payments on orders (prior year) | 732,654 (697,443) | 732,654 (697,443) | – – | – – |
| Trade payables (prior year) | 27,866 (34,050) | 27,791 (33,894) | 75 (156) | – – |
| Liabilities to companies with which a participating interest exists (prior year) | 473 (60) | 473 (60) | – – | – – |
| Liabilities to partners (prior year) | 209,062 (160,165) | 201,757 (152,496) | 2,192 (2,045) | 5,113 (5,624) |
| Other liabilities (prior year) | 359,487 (276,195) | 89,878 (81,792) | 78,785 (61,494) | 190,824 (132,909) |
| Total | 3,267,421 | 1,357,848 | 849,991 | 1,059,582 |
| (prior year) | (3,205,104) | (1,237,001) | (873,352) | (1,094,751) |

Loan obligations to banks in the amount of €35.9 million are collateralised by assignment of security of receivables or intangible assets and property, plant and equipment of Nanchang Qing-shanhu Project Co. Ltd. and Hefei Wang Xiao Ying Sewage Treatment & Co. Ltd.

Liabilities to partners

Liabilities to partners chiefly reflect other liabilities, primarily from partial profit transfers.

Other financial obligations and contingent liabilities

The Group has recourse liabilities vis-à-vis banks in connection with guarantees issued in the amount of €3.8 million.

| | in € 000 |
|--|----------|
| Lease agreements | 5,847 |
| Consortium financing Wansdorf GmbH, Wansdorf treatment plant | 8,093 |
| Open purchase orders for investments | 129,419 |
| Rental agreements | 293,604 |
| Fund financing Waßmannsdorf treatment plant | 543,322 |

6. Notes on the profit and loss statement

Sales revenues

| | Domestic in € 000 | Foreign in € 000 | Total in € 000 |
|---|----------------------|---------------------|-------------------|
| Berliner Wasserbetriebe business division | 1,117,184 | – | 1,117,184 |
| International business division | 66 | 16,771 | 16,837 |
| Services business division | 4,637 | 42 | 4,679 |
| Total | 1,121,887 | 16,813 | 1,138,700 |

Other operating revenue

Other operating revenue in the main consists of revenues from operations management fees (€29,313 thousand), liquidation of special accounts for grants and subsidies (€11,995 thousand), revenues from rents and leases (€8,706 thousand), revenues from

other operating services (€7,421 thousand) and revenues from disposals of assets (€2,765 thousand).

Revenues from other periods due to the liquidation of specific debt allowances (€61,606 thousand) and the liquidation of provisions (€14,463 thousand) are included. Revenues from other periods result primarily from the liquidation of the specific debt

allowances and provisions for anticipated losses from pending transactions for 2007 and 2008, as well as for court costs arising from the litigation on drainage of public streets and squares. Once the State of Berlin had waived an appeal in the court proceedings and signalled payment of the outstanding claims to Berliner Wasserbetriebe, the effects were taken into account in the consolidated financial statements.

Amortisation and depreciation

| | in € 000 |
|---|----------------|
| In accordance with Section 253 (2), clause 1 and 2, of the German Commercial Code | 246,299 |
| In accordance with Section 253 (2), clause 3, of the German Commercial Code | 30,904 |
| Total | 277,203 |

Depreciation in accordance with Section 253 (2), clause 3, of the German Commercial Code relates to extraordinary write-offs on land and buildings.

Interest income

Income from prior periods in the amount of €60,534 thousand is included under interest income. It relates to receivables from drainage of public streets and squares for the years 1997 – 2006.

Income taxes

| | in € 000 |
|----------------|---------------|
| Corporate tax | 11,753 |
| Trade tax | 31,951 |
| Deferred taxes | 746 |
| Total | 44,451 |

The change in deferred taxes based on the tax reform of 2008 is €–839 thousand.

7. Notes on the consolidated cash flow statement

Cash and cash equivalents are reflected in the balance sheet account “Cheques, cash and deposits with banks”.

A total of €108.5 million in interest and €56.7 million in income tax was paid during the financial year.

The revenues from the liquidation of provisions formed and the related reserves for anticipated losses from pending transactions for 2007 and 2008, as well as for court costs arising from litigation concerning the drainage of public streets and squares, in the amount of €67.6 million, and interest claims on the part of Berliner Wasserbetriebe against the State of Berlin from receivables for the drainage of public streets and squares in the amount of €76.5 million represent a significant non-cash business event.

During the financial year pipes were manufactured by third parties in the amount of €11.6 million and transferred to the property of Berliner Wasserbetriebe free of charge.

Disbursements of the parent company to its shareholders are also shown under the item “Disbursements to company owners and minority shareholders”.

8. Other disclosures

Average number of employees during the year

| | 2007 |
|-----------------|-------|
| Employees | 5,591 |
| of which female | 1,678 |
| of which male | 3,913 |

Executive bodies of the company

EXECUTIVE BOARD

Dipl-Kfm Frank Bruckmann
Chairman

Dipl-Ing Dipl-Wirtsch-Ing Jörg Simon
National participation

Norbert Schmidt
Personnel

Dr-Ing Ulrich Bammert
Technology
until 31 January 2008

SUPERVISORY BOARD

Shareholder representatives

Harald Wolf
Chairman of the Supervisory Board
Senator for Business, Technology and Women
for the State of Berlin

Dr Hans-Jürgen Ahlbrecht
Real estate consultant,
international real estate consultancy

Werner Böttcher
Managing Director Sietz and Partner Ltd. Co. KG
until 28 February 2008

Berthold A. Bonekamp
Chairman of the Board of RWE Energy AG and
member of the Executive Board of RWE AG

Christophe Hug
Chairman of the Board of Veolia Wasser GmbH

Monika Kuban
Deputy Director and Head of Finance Department
of German Association of Cities

Dr Lore Maria Peschel-Gutzeit
Senator for Justice of the State of Berlin, retired,
Senator for Justice of the State of Hamburg (retired),
attorney

Cyril Roger-Lacan
Executive Europa Veolia Water

Dr Anna Elisabeth Birgit Roos
Member of the Executive Board
of the Berlin Investment Bank

Dr Thilo Sarrazin
Senator for Financial Affairs for the State of Berlin

Ralf Zimmermann
Member of the Board of RWE Energy AG
since 30 March 2007

Employee representatives

Susanne Stumpfenhusen
Deputy Chairperson of the Supervisory Board,
District Manager of ver.di,
district of Berlin/Brandenburg

Oliver Behm
Expert on customer management,
Berliner Wasserbetriebe

Wolfgang Börner
Chief of Legal Affairs, Berliner Wasserbetriebe

Dieter Eckholz
Network Administrator, Berlinwasser Services GmbH

Jürgen Humernik
Chief of Facility Management, Berliner Wasserbetriebe

Friedrich Huntemann
Internal consultant, Berliner Wasserbetriebe

Mathias Ladstätter
National Section Leader for water management
of ver.di,
National Administration

Manfred Pritzel
Chief Safety Engineer, Berliner Wasserbetriebe

Beate Schuh
Union lawyer of ver.di,
Berlin/Brandenburg district

Steffen Siebenhüner
Crew foreman, Berliner Wasserbetriebe

Costs of executive bodies

Other remuneration

| | in € 000 |
|--|----------|
| Pension provision for former member of Executive Board | 87 |
| Compensation for activities of Supervisory Board members | 114 |

Breakdown of payments to Executive Board members in 2007 in accordance with Section 18, paragraph 6, of the Berlin Companies Act

| Disclosures in | Simon, Jörg, in € | Bruckmann, Frank, in € | Dr Bammert, Ulrich, in € | Schmidt, Norbert, in € | Total in € |
|--|-------------------------|------------------------------|--------------------------------|------------------------------|----------------------|
| Salaries (fixed annual income) | 201,065.00 | 201,065.00 | 175,000.00 | 183,000.00 | 760,130.00 |
| (Variable performance-related bonuses based on target agreements) | 118,601.00 | 119,294.00 | 113,600.00 | 107,680.00 | 459,175.00 |
| Profit participation | - | - | - | - | - |
| Cost reimbursement | - | - | - | - | - |
| Insurance fees | 6,168.78 | 6,860.29 | 69,154.20 | 6,316.88 | 88,500.15 |
| Commissions and fringe benefits | 7,397.01 | 8,520.00 | 13,651.17 | 4,800.00 | 34,368.18 |
| Total | 333,231.79 | 335,739.29 | 371,405.37 | 301,796.88 | 1,342,173.33 |

Declaration of the Executive Board and Supervisory Board of Berlinwasser Holding Aktiengesellschaft on the recommendations of the Corporate Governance Code

The Executive Board and Supervisory Board have submitted a declaration based on the Corporate Governance Code of Berlinwasser Holding Aktiengesellschaft under application of Section 161 of the German Companies Act; this declaration is permanently available on the Internet.

Consolidation accounting

Berlinwasser Holding Aktiengesellschaft is a subsidiary of RWE-Veolia Berlinwasser Beteiligungs AG. The consolidated financial statements of Berlinwasser Holding Aktiengesellschaft are included in the consolidated financial statements of RWE-Veolia Berlinwasser Beteiligungs AG, Berlin. This is the largest company Group. The smallest company Group is represented by the consolidated financial statements of Berlinwasser Holding Aktiengesellschaft. Both sets of consolidated accounts are published in the electronic Federal Gazette.

Berlin, 31 January 2008


Berlinwasser Holding Aktiengesellschaft



Frank Bruckmann



Jörg Simon



Dr Ulrich Bammert



Norbert Schmidt

Consolidated statement of changes in fixed assets of Berlinwasser Holding Aktiengesellschaft, Berlin as at 31 December 2007

Acquisition and production costs

in €

| Fixed asset accounts | Beginning balance as at 1 Jan. 2007 | Exchange rate difference, beginning of the period | Additions | Disposals | Reclassifications | Ending balance as at 31 Dec. 2007 |
|---|---|--|-----------------------|----------------------|----------------------|---|
| | | + | + | - | +/- | |
| I. Intangible assets: | | | | | | |
| Concessions, industrial property rights and similar rights as well as licences for the use of such rights | | | | | | |
| Easements | 860,911,051.68 | - | - | - | - | 860,911,051.68 |
| Rights similar to assets | 36,813,015.45 | - | - | - | - | 36,813,015.45 |
| Concessions | 24,614,587.50 | -1,182,881.06 | 348.93 | - | - | 23,432,055.36 |
| Other intangible assets | 55,453,388.03 | - | 2,761,791.54 | 2,930,372.35 | -784,802.61 | 54,500,004.62 |
| Advance payments made | 2,511,155.67 | - | 914,285.89 | - | -1,023,224.65 | 2,402,216.91 |
| | 980,303,198.33 | -1,182,881.06 | 3,676,426.36 | 2,930,372.35 | -1,808,027.26 | 978,058,344.02 |
| II. Property, plant and equipment | | | | | | |
| 1. Real property, equivalent property rights and buildings including buildings on leased land | 1,445,003,864.32 | -1,468,960.35 | 3,273,409.23 | 7,640,243.84 | 9,984,830.38 | 1,449,152,899.74 |
| 2. Technical equipment and machinery | 8,062,264,874.45 | -763,090.92 | 86,884,056.90 | 26,265,683.07 | 200,078,233.45 | 8,322,198,390.81 |
| 3. Other equipment, furniture and office equipment | 138,585,888.42 | -25,990.76 | 8,243,208.05 | 12,159,277.58 | 5,498,056.69 | 140,141,884.82 |
| 4. Advance payments made and facilities under construction | 350,357,609.00 | - | 179,962,935.92 | 686,317.12 | -213,753,093.26 | 315,881,134.54 |
| | 9,996,212,236.19 | -2,258,042.03 | 278,363,610.10 | 46,751,521.61 | 1,808,027.26 | 10,227,374,309.91 |
| III. Financial assets | | | | | | |
| 1. Shares in associated companies | 1,580,105.19 | - | - | - | - | 1,580,105.19 |
| 2. Loans to associated companies | 2,141,845.76 | - | - | 14,564.32 | - | 2,127,281.44 |
| 3. Holdings in affiliated companies | 37,746,526.21 | - | 105,469.21 | - | - | 37,851,995.42 |
| 4. Other holdings | 263,818.50 | - | 19,191.73 | - | - | 283,010.23 |
| 5. Loans to other holdings | 47,712.00 | - | - | - | - | 47,712.00 |
| 6. Memberships in special-purpose associations | 3,304,402.23 | - | - | - | - | 3,304,402.23 |
| 7. Fixed asset securities | 1,915.30 | - | - | - | - | 1,915.30 |
| 8. Other loans | 4,494,942.53 | - | - | 262,215.91 | - | 4,232,726.62 |
| | 49,581,267.72 | - | 124,660.94 | 276,780.23 | - | 49,429,148.43 |
| Total | 11,026,096,702.24 | -3,440,923.09 | 282,164,697.40 | 49,958,674.19 | - | 11,254,861,802.36 |

Amortisation and depreciation

in €

| Fixed asset accounts | Beginning balance as at 1 Jan. 2007 | Exchange rate difference, beginning of the period | Amortisation and depreciation in financial year | Amortisation and deprecia- tion exchange rate effect | Write-ups in financial year | Collected amortisation and depreciation on disposals | Reclassifi- cations | Ending balance as at 31 Dec. 2007 |
|---|---|--|---|---|-----------------------------------|---|------------------------|---|
| | + | + | + | - | - | - | +/- | |
| I. Intangible assets: | | | | | | | | |
| Concessions, industrial property rights and similar rights as well as licences for the use of such rights | | | | | | | | |
| Easements | - | - | - | - | - | - | - | - |
| Rights similar to assets | 13,804,917.58 | - | 1,533,875.64 | - | - | - | - | 15,338,793.22 |
| Concessions | 2,312,937.48 | -111,150.76 | 1,078,693.66 | -44,800.87 | - | - | - | 3,235,679.51 |
| Other intangible assets | 40,642,415.08 | -68.59 | 5,810,472.69 | - | - | 2,570,877.29 | -109,356.52 | 43,772,585.37 |
| Advance payments made | - | - | - | - | - | - | - | - |
| | 56,760,270.14 | -111,219.35 | 8,423,041.99 | -44,800.87 | - | 2,570,877.29 | -109,356.52 | 62,347,058.10 |
| II. Property, plant and equipment | | | | | | | | |
| 1. Real property, equivalent property rights and buildings including buildings on leased land | 672,863,404.95 | -146,869.31 | 61,007,047.97 | -61,610.17 | 63,825.05 | 4,969,197.65 | -340,142.75 | 728,288,807.99 |
| 2. Technical equipment and machinery | 3,639,270,954.73 | -172,634.82 | 198,949,386.15 | -68,405.27 | 9,456.10 | 23,648,139.89 | 225,011.62 | 3,814,546,716.42 |
| 3. Other equipment, furniture and office equipment | 106,184,131.84 | -9,986.00 | 8,823,632.91 | -3,176.49 | - | 11,206,922.39 | 115,133.15 | 103,902,813.02 |
| 4. Advance payments made and facilities under construction | 303,116.06 | - | - | - | - | 52.24 | 109,354.50 | 412,418.32 |
| | 4,418,621,607.58 | -329,490.13 | 268,780,067.03 | -133,191.93 | 73,281.15 | 39,824,312.17 | 109,356.52 | 4,647,150,755.75 |
| III. Financial assets | | | | | | | | |
| 1. Shares in associated companies | 775,431.96 | - | 177,051.00 | - | - | - | - | 952,482.96 |
| 2. Loans to associated companies | 2,112,281.44 | - | 29,564.32 | - | - | 14,564.32 | - | 2,127,281.44 |
| 3. Holdings in affiliated companies | 403,637.31 | - | - | - | - | - | - | 403,637.31 |
| 4. Other holdings | 200,792.56 | - | 2,450.00 | - | - | - | - | 203,242.56 |
| 5. Loans to other holdings | 47,711.00 | - | - | - | - | - | - | 47,711.00 |
| 6. Memberships in special-purpose associations | - | - | - | - | - | - | - | - |
| 7. Fixed asset securities | - | - | - | - | - | - | - | - |
| 8. Other loans | 1,248,587.82 | - | - | - | - | - | - | 1,248,587.82 |
| | 4,788,442.09 | - | 209,065.32 | - | - | 14,564.32 | - | 4,982,943.09 |
| Total | 4,480,170,319.81 | -440,709.48 | 277,412,174.34 | -177,992.80 | 73,281.15 | 42,409,753.78 | - | 4,714,480,756.94 |

Residual book value

Attachment to the notes
in €

| Fixed asset accounts | at the end of financial year 31 Dec. 2007 | at the end of preceding financial year 31 Dec. 2006 |
|---|---|--|
| I. Intangible assets: | | |
| Concessions, industrial property rights and similar rights as well as licences for the use of such rights | | |
| Easements | 860,911,051.68 | 860,911,051.68 |
| Rights similar to assets | 21,474,222.23 | 23,008,097.87 |
| Concessions | 20,196,375.85 | 22,301,650.02 |
| Other intangible assets | 10,727,419.25 | 14,810,972.95 |
| Advance payments made | 2,402,216.91 | 2,511,155.67 |
| | 915,711,285.92 | 923,542,928.19 |
| II. Property, plant and equipment | | |
| 1. Real property, equivalent property rights and buildings including buildings on leased land | 720,864,091.75 | 772,140,459.37 |
| 2. Technical equipment and machinery | 4,507,651,674.39 | 4,422,993,919.72 |
| 3. Other equipment, furniture and office equipment | 36,239,071.80 | 32,401,756.58 |
| 4. Advance payments made and facilities under construction | 315,468,716.22 | 350,054,492.94 |
| | 5,580,223,554.16 | 5,577,590,628.61 |
| III. Financial assets | | |
| 1. Shares in associated companies | 627,622.23 | 804,673.23 |
| 2. Loans to associated companies | - | 29,564.32 |
| 3. Holdings in affiliated companies | 37,448,358.11 | 37,342,888.90 |
| 4. Other holdings | 79,767.67 | 63,025.94 |
| 5. Loans to other holdings | 1.00 | 1.00 |
| 6. Memberships in special-purpose associations | 3,304,402.23 | 3,304,402.23 |
| 7. Fixed asset securities | 1,915.30 | 1,915.30 |
| 8. Other loans | 2,984,138.80 | 3,246,354.71 |
| | 44,446,205.34 | 44,792,825.63 |
| Total | 6,540,381,045.42 | 6,545,926,382.43 |

Audit certificate

We have issued an unrestricted audit certificate as follows:

“Audit certificate

To Berlinwasser Holding Aktiengesellschaft, Berlin

We have audited the consolidated financial statements – consisting of the consolidated balance sheet, consolidated profit and loss statement, consolidated notes, consolidated cash flow statement and consolidated statement of changes in equity – and the joint company and Group management report prepared by Berlinwasser Holding Aktiengesellschaft, Berlin, for the financial year from 1 January to 31 December 2007. Under German commercial law the company’s Executive Board is responsible for the preparation of the consolidated financial statements and Group management report. It is our responsibility to issue an assessment of the consolidated financial statements and the Group management report based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code, taking into account standards of proper auditing as established by the Institut der Wirtschaftsprüfer (IDW) (German Institute of Auditors). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and the joint management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control sys-

tem, as well as evidence supporting disclosures in the books of account, the consolidated financial statements and the Group management report, are examined primarily on the basis of random samples as part of the audit. The audit includes an assessment of the annual financial statements of the companies included in the consolidated financial statements, the definition of the scope of consolidation, the accounting and consolidation principles applied and the significant estimates of the Group’s legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any reservations.

In our opinion based on our audit findings the annual financial statements are in accordance with statutory regulations and provide a true and fair view of the net assets, financial position and results of operations of the Group taking into account German principles of proper accounting. The Group management report is in line with the annual financial statements, presents an accurate view of the Group’s position and appropriately presents the opportunities and risks of future development.”

Berlin, 31 January 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft (auditing company)

Geisler
Auditor

Sternberg
Auditor

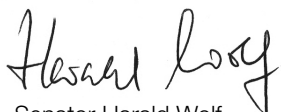
Declaration of compliance

Statement of the Supervisory Board of Berlinwasser Holding Aktiengesellschaft on the recommendations of the Corporate Governance Code according to Sect. 161 AktG for financial year 2007

The Supervisory Board of Berlinwasser Holding AG declares, that the recommendations of the Corporate Governance Code of Berlinwasser Holding Aktiengesellschaft of 1 January 2005, adopted and made public on the corporate website, have been complied with in its currently valid version from 28 February 2007.

Berlin, 21 December 2007

For the Supervisory Board



Senator Harald Wolf
Chairman
of the Supervisory Board

Statement of the Executive Board of Berlinwasser Holding Aktiengesellschaft on the recommendations of the Corporate Governance Code according to Sect. 161 AktG for financial year 2007

The Executive Board of Berlinwasser Holding AG declares, that the recommendations of the Corporate Governance Code of Berlinwasser Holding Aktiengesellschaft of 1 January 2005, adopted by the Supervisory Board of the company and made public on the corporate website, have been complied with in its currently valid version from 28 February 2007.

Berlin, 21 December 2007

For the Executive Board



Frank Bruckmann
Chairman
of the Executive Board



Jörg Simon
Member
of the Executive Board

Appendix to the declaration of compliance for financial year 2007

I. COOPERATION OF EXECUTIVE BOARD AND SUPERVISORY BOARD

I.1 REFERENCE: FIGURE 3.1/3.5 CGK (CORPORATE GOVERNANCE CODE) BWH

■ **Cooperation between the Executive Board and the Supervisory Board.** The Executive Board and the Supervisory Board worked together closely and in a spirit of mutual trust.

■ **Disclosure of all information and knowledge required by the Executive Board to facilitate proper assessment of the course of business.** All company matters and knowledge was disclosed by the Executive Board.

■ **Observance of confidentiality by third parties concerning business matters.** Individuals not members of the company's boards were bound to confidentiality.

I.2 REFERENCE: FIGURE 3.6 CGK BWH

■ **Supervisory Board sessions.** The Supervisory Board in principle held its sessions with the participation of the Executive Board.

As a rule only agenda items concerning personnel matters were handled without the participation of the Executive Board.

I.3 REFERENCE: FIGURE 3.2/3.3/4.1.2 CGK BWH

■ **Development of company's strategic direction in coordination with the Supervisory Board and regular reporting on the part of the Executive Board.** Strategic corporate planning was undertaken in coordination with the Supervisory Board; the Executive Board has complied with its duties to report on the status of implementation on a regular basis in written form.

■ **Handling transactions of fundamental importance to the net assets, financial position and results of operations, including changes in the assessment procedure in the Supervisory Board.** The Executive Board submitted all transactions of fundamental importance to the Supervisory Board for approval.

In addition to the regulations in the statutes, rules of procedure are in operation for the Executive Board; these were sufficient and are not in need of supplementary provisions.

I.4 REFERENCE: FIGURE 3.4 CGK BWH

■ **Report of the Executive Board to the Supervisory Board on all issues related to planning, business development, the risk situation and risk management.**

The Executive Board has complied with the reporting obligations established by the Supervisory Board on a regular basis and in written form.

■ **Presentation of the budget/actual situation and reasons for variances.** Budget to actual figures were compared, variances from plan presented in a plausible and comprehensible fashion; any countermeasures required were proposed in a form capable of being implemented.

I.5 REFERENCE: FIGURE 3.7 CGK BWH

■ **Observance of the rules of correct management and adherence to duty of care as befits a proper and conscientious Executive Board and Supervisory Board.**

The Executive Board and Supervisory Board have fulfilled their duties with respect to proper management; they have exercised the duty of care befitting a proper and conscientious Executive Board and Supervisory Board.

■ **Directors' and officers' insurance for the Executive Board and Supervisory Board.** D&O insurance with excess has been taken out for the Executive Board and Supervisory Board.

I.6 REFERENCE: FIGURE 3.9 CGK BWH

■ **Declaration of compliance of Executive and Supervisory Boards.** The Executive and Supervisory Boards have submitted a declaration for financial year 2006 that is, and will continue to be, in accordance with the recommendations of this code.

II. EXECUTIVE BOARD

II.1 REFERENCE: FIGURE 4.1.1/4.1.3/4.1.4 CGK BWH

■ **Duty to serve the company's interests and to promote a sustainable increase in the company's value.**

The Executive Board has worked solely in the interests of the company and its sustainable value enhancement; no activities detrimental to the company were carried out.

■ **Adherence to statutory requirements.** The Executive Board ensured that statutory requirements were adhered to.

■ **Risk management and risk control in the company.**

The company operated an effective risk management and risk control system.

II.2 REFERENCE: FIGURE 4.2.1 CGK BWH

■ **Allocation of duties and cooperation within the Executive Board.** The allocation of duties and cooperation within the Executive Board are subject to the Board's rules of procedure. A Chairman of the Board was appointed.

II.3 REFERENCE: FIGURE 4.2.2/4.2.3/4.2.4 CGK BWH

■ **Remuneration provisions for members of the Executive Board.** The compensation package for members of the Executive Board is composed of a fixed annual salary and a variable performance-related component.

■ **Agreement on targets for the members of the Executive Board.** Targets are established by the Presiding Committee of the Supervisory Board at the start of the financial year. Variable performance-related pay is determined for the previous financial year by the Presiding Committee of the Supervisory Board once the annual financial statements have been established, in accordance with the extent to which targets have been met and based on overall performance. In undertaking this assessment, the committee keeps in mind the fact that all the members of the Executive Board, in addition to their activities for Berlinwasser Holding AG, are also members of the Executive Board of Berliner Wasserbetriebe and thus exercise a double function. Remuneration is determined based on the duties and performance of the Executive Board members, the current and anticipated financial situation of the com-

pany and taking into consideration the competitive environment. Remuneration of each member of the Executive Board is broken down into fixed salary, performance-related component and longterm incentive component in the notes to the consolidated financial statements and shown individually.

III. SUPERVISORY BOARD

III.1 REFERENCE: FIGURE 5.1.1/5.1.3 CGK BWH

■ **Rights and duties of the Supervisory Board from the company's statutes and the Supervisory Board's rules of procedures; if applicable, other approval obligations.** The Supervisory Board exercised its duties according to the company's statutes and the Supervisory Board's rules of procedure. It was involved in decisions of fundamental importance to the company and did not perceive a need for additional regulations. No further business transactions were made conditional upon its approval. The frequency of sessions and time frames met the company's requirements.

■ **Rules of procedure for the Supervisory Board.** The Supervisory Board has a set of rules of procedure.

III.2 REFERENCE: FIGURE 5.1.2 CGK BWH

■ **Provisions for the appointment and resignation of members of the Executive Board; initial appointment and reappointment; upper age limits; succession planning.** The Supervisory Board appoints and dismisses the members of the Executive Board. Succession planning was not required during financial year 2007. The Supervisory Board has specified an upper age limit at the time of entry of members of the Executive Board of 63; members should not exceed 68 years of age.

■ **Decision-making structures in the Supervisory Board: (i) in plenary sessions after/without preparation by committee; (ii) only in a committee with decision-making authority.** The Presiding Committee of the Supervisory Board prepares the Supervisory Board's resolution on the appointment and dismissal of members of the Executive Board and decides in place of the Supervisory Board on entering into, modifying and terminating contracts with members of the Executive Board.

III.3 REFERENCE: FIGURE 5.2 CGK BWH

■ **Cooperation between the Executive Board/Chairman of the Supervisory Board and briefing on events of importance to the company.** Regular contact occurred between the Chairman of the Supervisory Board and the Executive Board.

■ **Informing the Supervisory Board regarding important matters; convening extraordinary Supervisory Board sessions.** The Supervisory Board is informed on all important matters. There were no important events that called for briefing outside the framework of the Supervisory Board sessions. No extraordinary Supervisory Board sessions have, therefore, taken place.

III.4 REFERENCE: FIGURE 5.2/5.3.1/5.3.2/5.3.4 CGK BWH

■ **Committees of the Supervisory Board; members and decision-making authorities.** The Supervisory Board has the following committees:

- Placement Committee
- Presiding Committee/Audit Committee
- Directives Committee
- Committee for Special Affairs

The Presiding Committee prepares the resolutions of the Supervisory Board:

- Concerning entering into contracts under Section 114 of the German Companies Act
- The appointment and dismissal of members of the Executive Board
- Other resolutions of the Supervisory Board in matters affecting the Executive Board.

It decides in place of the Supervisory Board on

- Entry into, modification and termination of contracts with members of the Executive Board;
- Admission of a member of the Executive Board into the Supervisory Board, Advisory Council or Administrative Council of a company active in commercial enterprise.

The Presiding Committee represents the Supervisory Board vis-à-vis the members of the Executive Board in accordance with Section 112 of the German Companies Act.

The Presiding Committee also fulfils the duties of the Audit Committee. In this connection it acts in a consultative capacity on the

- Review of accounting
- Review of risk management
- Review of the independence of the external auditor
- Issue of the audit assignment to the auditor and specification of audit emphases
- Agreement of fee with the auditor.

The Directives Committee decides in the place of the Supervisory Board on issuing consent regarding directives of Berlinwasser Holding AG to Berliner Wasserbetriebe AöR in accordance with Section 11 of the contract on two dormant companies and to establish uniform management of Berlinwasser Holding AG and Berliner Wasserbetriebe AöR. The Committee for Special Affairs deals with particularly complex financial and business activities in the company as assigned by the Chairman of Supervisory Board or the Supervisory Board for review and advice. The Chairman of the Supervisory Board is the Chairman of the Audit Committee.

The Supervisory Board plenum was briefed by the Chairmen of the committees regarding the content and results of committee consultations.

III.5 REFERENCE: FIGURE 5.4.1/5.4.2/5.4.3/5.4.5 CGK BWH

■ **Number of Supervisory Board seats held by members of the Supervisory Board.** No member of the Supervisory Board has exceeded the maximum of 5 or 10 Supervisory Board seats.

■ **Functions of Supervisory Board members in competitor companies.** Supervisory Board members have not performed executive or advisory functions on behalf of competitor organisations; the companies of the RWE and Veolia Group are not considered competitors in this case.

■ **Remuneration of members of the Supervisory Board.** Remuneration is not broken down into a fixed and variable portion. Total compensation can be found in the notes to the annual financial statements. No special payments were made.

III.6 REFERENCE: FIGURE 5.4.6/5.6 CGK BWH

■ **Participation in the Supervisory Board sessions and efficiency of the Supervisory Board's work.** Two members of the Supervisory Board have participated in less than half the Supervisory Board sessions. Absent Supervisory Board members participated in the resolutions of the Supervisory Board or its committees by submitting their votes in writing.

The Supervisory Board addressed the efficiency of its activities during the last session of financial year 2006. According to its findings no events were noted in which its efficiency appeared to have been restricted.

IV. CONFLICTS OF INTEREST

IV.1 REFERENCE: FIGURE 4.3.1/4.3.2 CGK BWH

■ **Non-competition clause for members of the Executive Board.** Members of the Executive Board observed the rules of the non-competition clause.

■ **Acceptance of benefits or granting of benefits by members of the Executive Board.** Members of the Executive Board neither requested nor accepted such benefits, nor did they grant such benefits to third parties without justification. The Executive Board is not aware of any case of an employee of the company accepting or granting benefits.

IV.2 REFERENCE: FIGURE 4.3.3/5.5.1 CGK BWH

■ **Protecting the company's interests.** ■ **Personal interests.** The Executive and Supervisory Boards have protected the company's interests and not pursued personal interests.

IV.3 REFERENCE: FIGURE 4.3.4/5.5.2/5.5.3 CGK BWH

■ **Occurrence and disclosure of conflicts of interest in the case of members of the Executive or Supervisory Board.** No conflicts of interest arose. Potential conflicts of interest related to similar business interests on the part of the shareholders and the company were taken into consideration in joint consultations and avoided by taking appropriate measures.

IV.4 REFERENCE: FIGURE 4.3.4/5.5.4 CGK BWH

■ **Transactions with the company at the indirect/direct level of the Executive Board.** No transactions with the company on the part of members of the Executive Board or persons or companies associated with them have been submitted to the Supervisory Board for approval; the Supervisory Board has not made use of the exemption clause for transactions with the company.

■ **Transactions with the company at the level of members of the Supervisory Board.** No consulting or service agreements or work or other contracts between Supervisory Board members and the company were submitted to the Supervisory Board for approval.

The Supervisory Board has not issued any rules of procedure related to individual cases for transactions with the company.

IV.5 REFERENCE: FIGURE 4.3.5 CGK BWH

■ **Secondary activities on the part of members of the Executive Board.** Members of the Executive Board have performed secondary activities in connection with their activities as members of the Executive Board of Berlinwasser Holding AG (including seats in Supervisory Boards and Advisory Councils). These secondary activities were submitted to the Chairman of the Supervisory Board for approval. The Chairman of the Supervisory Board has reported on the approval of secondary activities in the Report of the Supervisory Board.

Furthermore an up-to-date overview of all secondary activities of the members of the Executive Board for financial year 2007 was presented to the Supervisory Board on 14 November 2007.

IV.6 REFERENCE: FIGURE 3.8 CGK BWH

■ **In principle loans should not be granted to members of the Executive Board and the Supervisory Board – the latter in their capacity as members of the Supervisory Board.** No loans have been granted to members of the Executive Board or the Supervisory Board or relatives of the board members.

V. TRANSPARENCY

V.1 REFERENCE: FIGURE 6.2 CGK BWH

■ **Circumstances, such as those of the industry and market environment in the company's field of activity, with significant impact on the net assets or financial position or course of business in the context of annual planning or medium and longterm planning.** The Supervisory Board was informed without delay concerning circumstances in the field of activity of the company with significant impact on its net assets or financial position or its course of business.

■ **Information about the company on the Internet.** Company information is also published via the Internet. The Internet presence has been completely overhauled in 2007 and now offers expanded functions and online services.

VI. ACCOUNTING

VI.1 REFERENCE: FIGURE 7.1.1/7.1.2/7.1.3 CGK BWH

■ **Deadlines for the company's annual financial statements (90 days after the end of the financial year) and interim reports (45 days after the end of the reporting period) in accordance with accepted accounting principles stating the company's holdings.** The annual financial statements and interim reports are prepared according to accepted accounting principles and presented to shareholders within the deadlines stipulated (audited financial statements within 90 days of the end of the financial year, interim reports within 45 days of the end of the reporting period). The annual financial statements/interim reports list the company's minority interests.

VII. ANNUAL AUDIT

VII.1 REFERENCE: FIGURE 7.2.1 CGK BWH

■ **Professional, financial or other relationships between the audit firm and its executive bodies and audit**

manager on the one hand, and the company and members of its executive bodies on the other hand.

The Supervisory Board has obtained a declaration from the audit firm that no professional, financial or other obligations exist with the company or members of its executive bodies, including obligations pertaining to the executive bodies of the audit firm; there were no doubts concerning the independence of the audit

■ **Briefing of the Chairman of the Supervisory Board by the auditor in the event of reasons for prejudice that exist or may arise.** The auditor was requested to notify the Chairman of the Supervisory Board immediately in the event of potential reasons for prejudice; the auditor did not present any reasons for prejudice.

VII.2 REFERENCE: FIGURE 7.2.2 CGK BWH

■ **Issue of the audit assignment to the auditor and agreement of fee.** The Supervisory Board issued the audit assignment to the auditor and agreed the fee.

VII.3 REFERENCE: FIGURE 7.2.3 CGK BWH

■ **Briefing of the Supervisory Board by the auditor concerning all significant findings and occurrences during the audit.** The auditor briefed the Supervisory Board regarding all significant findings and occurrences.

■ **Findings on the part of the auditor that would result in a misstatement in the declaration of compliance with the Corporate Governance Code of Berlinwasser Holding Co. submitted by the Executive and Supervisory Boards.** The declaration of compliance with the Corporate Governance Code of Berlinwasser Holding AG was submitted.

VII.4 REFERENCE: FIGURE 7.2.4 CGK BWH

■ **Participation of the auditor in Supervisory Board consultations on the annual financial statements.** The auditor participated in the Supervisory Board's consultations on the annual financial statements of 2006 and will participate in the consultations on the annual financial statements of 2007 as well.