Annual financial statements for 2017

Stadtwerke Leipzig GmbH

Leipziger
Stadtwerke

Ratios at a glance

Stadtwerke Leipzig GmbH

		2017	2016	2015[1]	2014	2013
Employees and trainees (balance-sheet date)[2]		**634**	**598**	**629**	**686**	**695**
Profit and loss statement						
Sales revenues	€k	2,017,857	1,928,709	1,974,110	2,228,275	3,226,333
of which: wholesale energy trading	€k	1,493,155	1,397,592	1,547,418	1,808,209	2,679,585
of which: energy marketing	€k	368,919	366,499	371,065	383,931	488,719
of which: additional sales revenues	€k	155,783	164,618	55,627	36,135	58,029
EBITDA	€k	90,897	118,086	61,979	58,118	78,685
EBITA	€k	45,540	71,102	39,455	36,654	57,446
EBIT	€k	58,437	74,773	65,130	65,464	80,820
EBIT adjusted	€k	57,540	73,795	63,167	64,329	79,649
EBT	€k	54,192	64,069	54,373	54,703	67,190
Setting in the profit reserve	€k	10,535	0	0	0	0
Result before profit transfer	€k	43,657	64,069	54,373	54,703	67,190
EBITDA margin	%	4.5	6.1	3.1	2.6	2.4
EBIT margin	%	2.9	3.9	3.3	2.9	2.5
Balance sheet						
Fixed assets	€k	532,035	550,574	536,269	520,503	531,634
Current assets[3]	€k	173,235	172,715	124,631	150,485	240,586
Balance sheet total	€k	705,270	723,289	660,900	670,988	772,220
Net working capital	€k	–36,330	–51,726	–71,289	–8,213	37,242
Operational assets	€k	495,705	498,848	464,980	512,290	568,876
Equity	€k	260,601	250,066	250,066	250,066	250,060
Equity ratio	%	37.0	34.6	37.8	37.3	32.4
ROCE	%	11.6	14.8	13.6	12.6	14.0
Profitability on equity	%	20.8	25.6	21.8	21.9	26.9
Cash flow statement[4]						
Cash flows from operating activities	€k	75,425	119,111	75,947	67,128	109,300
Cash flows from investing activities	€k	–15,026	–20,236	–7,667	20,239	–14,271
Cash flows from financing activities	€k	–61,133	–66,296	–67,065	–124,726	–91,112
Financing						
Financial debt	€k	146,005	146,406	144,799	153,268	199,483
Net financial debt	€k	144,606	143,877	135,344	143,092	189,191

[1] Reclassification of the extraordinary result pursuant to the Accounting Standards Implementation Act (BilRUG)
[2] From 2015 without employees in parental time and passive semi-retirement
[3] Including prepaid expenses
[4] Beginning 2014, calculated according to GAS 21, up to 2013 according to GAS 2

Definition of ratios

EBITDA	Sales revenues + inventory changes + internally produced and capitalised assets + other operating income – cost of materials – personnel expenses – other operating expenses
EBITA	EBITDA – depreciation of tangible and intangible assets
EBIT	EBITA + result from participations
EBIT adjusted	EBIT – income from the release of special items with an equity portion
EBT (Result after taxes)	EBIT + interest incomes – interest expenses
Result before profit transfer	EBT + extraordinary result (until 2014)
EBITDA margin	EBITDA / sales revenues x 100
EBIT margin	EBIT / sales revenues x 100
Net working capital	Tied-up operational assets (inventories + receivables and other assets + prepaid expenses) – financing through non-interest bearing borrowed capital (short-term provisions + short-term liabilities without banks + deferred income)
Operational assets	Fixed assets + net working capital
Equity ratio	Equity / balance sheet total x 100
ROCE	EBIT adjusted / operational assets
Profitability on equity	EBT / equity x 100
Financial debt	Liabilities to banks + liabilities from shareholder loans
Net financial debt	Financial debt – cash and cash equivalents (securities and cash)

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Report of the supervisory board for the 2017 business year

Stadtwerke Leipzig GmbH

The supervisory board kept itself informed in the 2017 business year, by means of regular and comprehensive reporting by the management board, on the situation and the business development of Stadtwerke Leipzig GmbH and its subsidiaries. In addition, the chairman of the supervisory board also received reports outside of meetings of the management on individual items.

The supervisory board has fully complied with its monitoring and advisory duties to the management board in accordance with the statutory provisions and the social contract. In this context, it has requested reports from the management on essential business transactions and made the relevant decisions.

No changes took place among the board members in 2017.

In the 2017 business year, four ordinary meetings and two extraordinary meetings of the supervisory board took place.

Main topics were:

1. Annual financial statements and consolidated financial statements for 31 December 2016
2. Economic planning for 2018 and the medium term economic planning for 2019 onwards
3. Investment management and risk management
4. Management matters of Stadtwerke Leipzig GmbH and its subsidiaries
5. Investments in decentralised block heat and power units and a wind park

In addition, a closed meeting was held for Stadtwerke's strategic course.

The supervisory board addressed the long-term planning of the Stadtwerke Group and its impact on the long-term economic planning of the LVV Group in an LVV Group closed meeting on the subject of "Services of Public Interest 2030". Its findings were reported during an ordinary supervisory board meeting.

In addition, the personnel committee of the supervisory board held five meetings in the 2017 financial year.

The city of Leipzig has developed principles and standards of company management and corporate management for municipal enterprises in accordance with the German Corporate Governance Code for listed companies and the Public Corporate Governance Code for participation companies of the federal government, as well as the recommendations of the executive committee of the German Association of Cities and Towns. In the Council Decision RBV-1843/13 of 11 December 2013, the city of Leipzig decided on the "Leipzig Corporate Governance Code" (LCGK). Obligations resulting from a shareholders' resolution on the implementation of the LCGK of 17 February 2014 to implement individual regulations were fully met in the financial statements.

The annual financial statements of 31 December 2017 as well as the management report for the 2017 business year have been examined by the auditing company KPMG AG, Leipzig, which was appointed as auditor. The end-of-year audit also extended to the verification of the regularity of the management in accordance with section 53 HGrG.

Subsequent to the audits, an unqualified audit certificate was issued. The supervisory board has examined the annual financial statements and the management report submitted by the management. According to the final results of its examination, there were no objections. The auditor participated in the accounts review meeting of the supervisory board, where it reported on the essential results of its audit and answered questions.

The supervisory board takes note of the report by the auditing firm KPMG AG, Leipzig, on the audit of the annual financial statements for 31 December 2017, as well as the management report for the 2017 business year. The supervisory board recommends that the shareholders meeting establish the annual financial statements for 31 December 2017 and approve the management report for the 2017 business year.

The supervisory board would like to thank all employees and the management for their trusting cooperation and would like to express its explicit appreciation for the successful activities.

Leipzig, 5 April 2018

Uwe Albrecht
Chairman of the supervisory board

Management report for the 2017 business year

Stadtwerke Leipzig GmbH, Leipzig

1 Company principles

1.1 Business model

Stadtwerke Leipzig GmbH, Leipzig (Stadtwerke) is a 100% subsidiary of LVV Leipziger Versorgungs- und Verkehrsgesellschaft mbH, Leipzig (LVV).

Stadtwerke's focus is based on the different requirements of the markets served and, in turn, on the corresponding customer needs. In the end customer markets, market development is divided into the segments of key accounts, housing and real estate industry, and private and commercial customers. The regulated markets include the network business for electricity and gas, the plants for electricity and heat generation, and the services of the Polish subsidiary Gdańskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o., Gdańsk (GPEC). The energy trading activities cover the system market segment.

Due to its efficient and environmentally-friendly electricity and heat generation, Stadtwerke is the market leader in the growing city of Leipzig. Wind power plants are operated for this purpose along with modern power plants based on conventional and renewable energy sources. Supplementing this in the sector of energy trading is the procurement of electricity and gas, the optimisation of use in generation plants, and risk hedging. The product range for end customer markets includes the distribution of electricity, gas, and heating products as well as a customer-oriented spectrum of energy solutions.

Stadtwerke is supported in the provision of services mainly by its Leipzig subsidiaries Netz Leipzig GmbH (Netz Leipzig) and LAS GmbH, (LAS). Netz Leipzig provides and assures the network infrastructure for the supply of electricity, gas and district heating for the city of Leipzig. The network ownership is regulated by leasing models. Netz Leipzig acts as a network operator in the electricity and gas sectors and as the operation manager for the district heating network. In the network area, 248,152 (2016: 250,100) consumption points were connected for electricity, 23,625 (2016: 22,561) for gas and 5,701 (2016: 5,635) for district heating.

LAS provides customer service for Stadtwerke's distribution activities, particularly in the sector of private and commercial customers, as well as billing for key accounts, real estate economy and network customers.

Stadtwerke is also involved in Poland through the GPEC Group, which is active in the sectors of planning, construction, and operation of networks and plants for the distribution, generation, and supply of district heating to end customers. Furthermore, the GPEC Group generates and sells electricity from renewable energies, in particular from hydroelectric power plants, and offers energy services and products. Stadtwerke holds 82.86% of the shares in GPEC, which is the market leader in the supply of heat to the regions around the cities of Gdańsk and Sopot in northern Poland.

1.2 Objectives and strategies

Stadtwerke as energy revolution manager in the city and region – economically successful and regionally anchored

Stadtwerke is an solid component in the composite of the LVV network and is responsible for the energy business area. The strategy of the LVV Group is an essential framework for Stadtwerke's strategy.

At the same time, Stadtwerke is subject to the general conditions of the energy market, which is undergoing a profound upheaval and is being driven by a sustainable paradigm shift. This upheaval is largely being determined by decarbonisation, market penetration of renewable energies, increasing decentralisation, the effects of digitalisation and ultimately the reorganisation of entire value chains.

These structural changes are making the energy business more complex; naturally, this transformation phase is marked by uncertainty.

Stadtwerke is also pursuing ambitious company objectives pertaining to this fundamental change. These are:

- supply certainty and economic success
- attractive employer for experts and agile workers

Stadtwerke meets these ongoing market changes with a rolling strategy process and continuous further development in the triad of strategy, organisation and culture. The strategy's focus lies on the following priorities:

- the safeguarding of long-term results in the business fields of district heating and networks, the recovery of market shares in the urban area,
- increased efficiency for more earning power, and
- growth on the basis of digitalisation, on the operation of intelligent networks, and on renewable energies.

Stadtwerke aims to be the premiere energy revolution manager for customers in Leipzig and the region; the city is thus an important partner.

2 Economic report

2.1 General economic climate and industry-specific conditions

According to calculations by the Federal Statistical Office, on average the price-adjusted gross domestic product for 2017 is 2.2% higher than in the previous year. The economic situation in Germany was thus also characterised by strong economic growth in 2017.

2017, in addition to the election to the 19th German Bundestag, was marked by legislative changes in energy policy. In regulated power generation, the steadily growing share of renewable energies is controlled by auction procedures within defined expansion corridors. The energy policy objective is to determine the competitive investigation of delivery height for electricity in the sectors of onshore wind energy and open space photovoltaics. The same principle was taken into account in the amended version of the Cogeneration Act (KWKG), which came into force at the beginning of the year. Against this background, the determination of the future amounts of subsidies,depending on the size and category of the plant, is generally based on depreciation.

In the sector of regulated system markets, the revenue position of the avoided network charges for controllable decentralised cogeneration plants (CHP) was maintained within the framework of the Network Charges Modernisation Act.

In addition to energy-policy impulses for a successive transformation of the heating market depending on the political constellation at the federal level, basic, fundamental discussions are to be expected in 2018 about on the change options of reform objects in the sector energy. This would affect corresponding positions in the area of emissions trading, the future of the charges levied on the basis of the Renewable Energy Sources Act (EEG levy), and tax reform, including energy tax reform.

The comprehensive legislative package published by the European Commission in summer 2017 (also known as the 'Winter Package' or 'Clean Energy Package') was discussed in the European Parliament and the Council of the European Union and is expected to be adopted in 2018. The Winter Package is intended to complete the implementation of the Energy Union and the climate and energy framework by 2030. Among other things, it contains proposals for better coordination of national energy policies, for reform of the directives for energy efficiency and the market-oriented promotion of renewable energies, and for electricity market design.

2.2 Business development

The performance-related key figures for the business development are as follows:

Ratios in €m

	2017	2016	Change absolute	Forecast 2017
Sales revenues	2,017.9	1,928.7	89.2	1,666.9
Operating result (EBIT)	58.4	74.8	–16.4	45.4
Result after taxes	54.2	64.1	–9.9	40.7
Setting in the profit reserve	10.5	0	10.5	0
Result before profit transfer	43.7	64.1	–20.4	40.7
Investments	30.7	32.7	–2.0	83.1

The result after taxes achieved in the 2017 business year has increased, relative to the forecast of €40.7m for 2017 in the economic plan, by €13.5m. This development is due, among other things, to higher avoided network charges, higher revenues from the KWK credit due to higher amount of use of the gas and steam turbine plant in Leipzig (CHP plant Leipzig) and to effects from other periods.

The increase in sales revenues compared to the previous year and the forecast is mainly from development in energy trading and in the end customer markets.

Result after taxes was 15.4% lower than in the comparable period of the previous year, which was characterised by special effect.

In the operating business year, the number of degree days is 3,235, 2.4% below the previous year's figure. Nevertheless, the cold weather, especially at the beginning of the year, had a positive effect on earnings performance. Due to the temperature development, there were more sales of the weather-dependent media of gas and district heating, which had a positive impact on the development of sales revenues in the gas and district heating consumer markets. The price trend in district heating led to a decline in sales despite higher sales volumes. In the less weather-dependent medium of electricity, sales volumes and revenues increased due to the acquisition of new customers in the key accounts segment.

The Leipzig CHP's result were also characterised in 2017 by developments in the gas market. With ongoing low electricity prices, the plant benefitted from the lowering of gas prices and could optimise operating times and improve the operational result of the current business year. Electricity generation at the Bischofferode biomass power station in 2017 was higher than in the previous year, due to the stabilisation of plant operations and lower fuel prices. The best result since commissioning was achieved with a gross generation of just under 163 GWh. Due to the required extension of steam turbine revision at the Piesteritz biomass heating power station, gross electricity generation in 2017 was approximately 19 GWh below the previous year's figure. Wind power plants have increased compared to 2017 as a result of high wind volumes.

Of the €30.2m in investments in the current year, €28.8m were for investments in tangible fixed assets. These included in particular, the construction of decentralised block heat and power units (BHKW), the expansion of the district heating network, and replacement investments. The investment sum for the concession acquisition gas, which was designated in the forecast for 2017, was deferred to 2019. In addition, investments were made in intangible fixed assets of €1.4m, mainly relating to further development of existing IT systems and investments from the 'fit' project for the further automation of business processes. The acquisition or development of wind projects planned under financial assets was postponed until 2018.

2.3 Income situation

In the 2017 financial year, Stadtwerke achieved a result after taxes of €54.2m. Of this amount, €10.5m was transferred to profit reserves.

Income situation in €m

	2017	2016	Change absolute
Operating sales revenues	2,016.9	1,928.6	88.3
Inventory changes	0	–0.1	0.1
Internally produced and capitalised assets	0.1	0.1	0
Operating cost of materials	–1,810.4	–1,696.9	–113.5
Operating income	0.6	0.8	–0.2
Operating personnel expenses	–44.0	–40.9	–3.1
Operating expenses	–79.6	–79.0	–0.6
Scheduled depreciation	–32.4	–39.1	6.7
Operating result	51.2	**73.5**	**–22.3**
Financial result	8.6	–7.0	15.6
Non-operating result	–5.6	–2.4	–3.2
Result after taxes	**54.2**	**64.1**	**–9.9**
Expenses from a profit transfer agreement	–43.7	–64.1	20.4
Result after profit transfer	**10.5**	**0**	**10.5**
Settings in other profit reserves	–10.5	0	–10.5
Balance sheet profit/loss	0	0	0

The operating result is influenced by the development of operating sales revenues, which mainly related to the close to market business fields of energy trading and end customer markets. In the 2017 financial year, these are developing disproportionately low to the cost of materials. This is largely due to price-related lower district heating revenues and lower leasing income for the electricity and gas network. The conclusion of business transaction disputes also had a positive effect in the 2016 business year.

The financial result is influenced significantly by the profit and loss transfer agreements concluded with the subsidiaries. Netz Leipzig ended the 2017 business year with an expenditure from loss assumption of €3.5m (2016: €8.3m). The decrease from the previous year resulted partially from regulatory effects in the form of higher revenue caps for electricity and gas, as well as reduced expenses for purchased goods and third-party services. LAS achieved a result before profit transfer of €6.2m (2016: €1.9m). The positive development is mainly due to higher sales revenues as a result of the transition of services from Stadtwerke and Netz Leipzig to LAS, as well as to reduced expenses for restructuring measures.

Stadtwerke furthermore collected income from participations of €9.7m (2016: €9.5m), which were predominantly generated through GPEC.

The improvement to the interest result by €6.5m is largely based on the creation of a provision for anticipated losses in 2016 for swap transactions. Utilisation of these funds will relieve interest expenses in the operating business year.

The non-operating earnings of €–5.6m includes income from the release of provision of €13.8m (2016: €9.0m) and other income relating to other periods of €10.0m (2016: €4.9m) and income from credit entries for the previous year expense of €0.4m (2016: €22.4m). This was offset by non-operating expenses for valuation adjustments and written-off uncollectable receivables of €6.5m (2016: €3.7m), remuneration for electricity and gas for other periods of €5.6m (2016: €9.2m), the transfer of provisions of €5.5m (2016: €16.9m) and other expenses relating to the other periods of €1.1m (2016: €2.1m). Also included are expenses from extraordinary depreciations of €13.0m (2016: €7.9m) and income from the release of special items of €1.9m (2016: €1.0m).

2.4 Financial position

Financial resources of €71.4m were posted in the cash flow statement for 2017. This was a €0.8m decrease in comparison to the beginning of the year.

Financial position — in €m

	2017	2016	Change absolute
Net cash from company activities	81.4	124.4	–43.0
Change in the working capital	–6.0	–5.3	–0.7
Cash flows from operating activities	**75.4**	**119.1**	**–43.7**
Cash flows from investing activities	**–15.0**	**–20.2**	**5.2**
Cash flows from financing activities	**–61.2**	**–66.3**	**5.1**
Cash change in financial resources	**–0.8**	**32.6**	**–33.4**
Financial resources at beginning of period	72.2	45.0	27.2
Non-cash changes in financial resources as a result of the merger	0	–5.4	5.4
Financial resources at end of period	**71.4**	**72.2**	**–0.8**

The cash flow statement shows a cash flow from operating activities of €75.4m, a €43.7m increase compared to the previous year. The development of cash flow from operating activities results mainly from the decrease in result before profit transfer, long-term and short-term provisions and interest expenses. The change in the result before profit transfer is significantly influenced by the positive special effect shown in the 2016 financial year and the profit reserve allocated in 2017.

The cash flow from investing activities includes investments in fixed assets, particularly for investments in networks, for the construction of block heat and power units and for contracting, interest received and profits transferred from subsidiaries, and receipts from the disposal of fixed assets.

In the cash flow from financing activities, the distribution to the shareholders, interest paid and repayments of loans and liquidity-effective loss compensation for a subsidiary are predominantly taken into account.

Liquidity was assured throughout the business year. The financing took place via the operating business activity, shareholder loans and the integration into the cash pool of the shareholder.

2.5 Net worth position

The balance sheet total of €705.3m saw a €18.0m change in comparison to 31 December 2016. The asset structure is primarily characterised by long-term assets, mainly fixed assets and financial assets, as well as equity.

Net worth position

in €m

	31.12.2017	31.12.2016	Change absolute
Assets			
Fixed assets	532.0	550.6	–18.6
Long-term assets	**532.0**	**550.6**	**–18.6**
Inventories	7.4	10.2	–2.8
Receivables from deliveries and services	50.1	56.9	–6.8
Receivables from affiliated companies	102.7	92.9	9.8
of which: cash pool	83.5	75.2	8.3
Receivables from companies in which a participating interest is held	0	0.6	–0.6
Other short-term assets	9.9	7.7	2.2
Cash and cash equivalents	1.4	2.5	–1.1
Short-term assets	**171.5**	**170.8**	**0.7**
Prepaid expenses	**1.8**	**1.9**	**–0.1**
	705.3	**723.3**	**–18.0**
Liabilities			
Equity	**260.6**	**250.1**	**10.5**
Special items	**44.4**	**45.5**	**–1.1**
Long-term provisions	63.3	66.3	–3.0
Long-term liabilities to banks	15.8	19.4	–3.6
Long-term liabilities to affiliated companies	109.2	116.4	–7.2
Long-term provisions and liabilities	**188.3**	**202.1**	**–13.8**
Short-term provisions	92.8	108.4	–15.6
Short-term liabilities to banks	3.8	3.6	0.2
Payments received on account of orders	2.0	1.2	0.8
Liabilities from deliveries and services	48.3	52.8	–4.5
Short-term liabilities to affiliated companies	56.9	49.7	7.2
of which: cash pool	13.5	5.6	7.9
Other short-term liabilities	7.0	9.6	–2.6
Short-term provisions and liabilities	**210.8**	**225.3**	**–14.5**
Deferred income	**1.2**	**0.3**	**0.9**
	705.3	**723.3**	**–18.0**

As common in the industry, the long-term items on the asset-side of the balance sheet show a large share of fixed assets mainly representing the electricity, gas, and district heating networks. In a year-on-year comparison, the share of fixed assets in the balance sheet total decreased by 0.7 percentage points to 75.4%. This is due to the development of tangible fixed assets, which decreased by €19.5m. Investments in tangible fixed assets in the 2017 business year were below depreciation. Intangible assets accounted for €2.0m as at 31 December 2017 (2016: €1.4m).

The short-term assets, predominantly relating to current assets, increased in accordance with the development of the cash pool by 0.4%. Receivables from deliveries and services decreased by €6.8m, essentially due to higher district heating part payments.

The liabilities side includes primarily equity as well as short-term and long-term provisions and liabilities. Due to the €9.9m lower result after taxes and the increase in equity, the profitability of equity amounts to 20.8% (2016: 25.6%). In addition, the equity ratio increased as a result of the decrease in the balance sheet total to 37.0% (2016: 34.6%).

Both the long-term liabilities to banks and affiliated companies are characterised by scheduled repayments.

Provisions include, in particular, provisions for anticipated losses, personnel-related provisions and provisions for outstanding invoices.

2.6 Employees and employment policy

On 31 December 2017, Stadtwerke had 616 employees and 18 apprentices, young skilled workers, and trainees.

In 2017 the average length of service of employees was 19 years. The degree of fluctuation rate adjusted for age-related departures and temporary employees was 0.7%.

The participatory involvement of employees in the reorganisation of the entire company is an important aspect of the Stadtwerke Group. Long-term personnel development is made possible in the Stadtwerke company group by the indentification and recording of required professional and interdisciplinary competences up to 2020. Qualified junior staff are being recruited through offers of industrial-technical training occupations. The development of special digital competence is becoming a focus of attention, in anticipation of the company's strategic direction.

The consistent compliance with state and professional association requirements to the ergonomic design of workplaces and equipment is monitored with the instrument of risk assessment. A targeted use of further education and active knowledge transfer is employed for the conservation and continuous improvement of the safety level achieved.

2.7 Activity statements

With the activity statements on 31 December 2017, Stadtwerke fulfils the reporting obligation pursuant to section 6b of the Energy Industry Act (EnWG). The business fields cover the activities of electricity and gas distribution and other activities inside and outside the electricity and gas sector.

Additional activity-related account assignments, which are added to all entries, form the basis for assignment of all bookings to the activities.

Compared to the company's total turnover of €2,017,857k, the activity fields of electricity distribution (€40,438k) and gas distribution (€14,254k) generated a relatively low turnover in the year under review.

The result from Stadtwerke's electricity-distribution activities was dominated by the revenues from the lease of the electricity network to Netz Leipzig. These revenues and the other operating income from the on-charging of concession fees was offset by other operating expenses (mainly the concession fee) and depreciation on tangible assets. Electricity distribution generated a result after tax of €6,743k for the year under review (2016: €10,333k). The profits generated by Stadtwerke as a whole were used to invest €10,535k in the expansion of the electricity network for subsequent years. The balance sheet total of the electricity-distribution activity field amounted to €112,798k (2016: €118,384k). This corresponds to 16.0% (2016: 16.4%) of Stadtwerke's balance sheet total. Tangible fixed assets fell compared to the balance-sheet date of the previous year by €7,027k to €111,090k. The inventory of receivables and other assets increased by €1,481k to €1,686k. Within liabilities, equity increased from €57,387k to €61,294k. This was counteracted by the reduction of liabilities from €32,798k to €25,075k.

The sales revenues from the leasing of the gas network to Netz Leipzig as well as the revenues from the lease of land required for the operation of the gas network are included in the result of the gas distribution activities. Furthermore, other operating income is generated by on-charging the concession fees to Netz Leipzig. These items are essentially offset by depreciation to tangible assets, expenses incurred in connection with concession fees, and contributions to the connection costs in the other operating expenses. In the reporting year, the field of activity of gas distribution realised a result after taxes of €6,289k (2016: €6,002k). The balance sheet total of the gas distribution activity, at €127,510k (2016: €132,268k), contributes a share of 18.1% (2016: 18.3%) to the balance sheet total of Stadtwerke. Tangible fixed assets fell compared to the balance-sheet date of the previous year by €3,191k to €127,096k. Within liabilities, equity decreased from €85,210k to €78,769k. This was counteracted by the increase in liabilities from €37,876k to €39,145k.

3 Risk report, opportunity report, forecast report

3.1 Risk report

3.1.1 Risk-management system

For continuous identification, analysis and evaluation of company-wide risks and their control, Stadtwerke has integrated risk management into its operational processes and implemented these right through to management.

Risk reporting is prepared in company-wide risk management and is an essential component of the company group's defined risk management structures and processes. It involves all relevant risks that could have a significant influence on the continued existence or the economic result of the Stadtwerke Group. Proceeding from the risk managers, the information is reported to Stadtwerke management and to the LVV in aggregated form. The subject matter and frequency of the report are based on the analytical requirements of the risk portfolio.

The company group risk portfolio undergoes review and updating, including the classification of the defined risks on the basis of the potential level of damage – taking risk-control measures into account and weighting them with the probability of occurrence – and consideration of the type of risk limitation to be used on the basis of uniformly prescribed investigatory steps for deriving risk-specific early-warning indicators and measurement methods.

The large volumes of settlement data generated in energy trading along the value chain open up special possibilities for risk-oriented management, which are used by Risk Controlling using specific methods for controlling, monitoring and limiting trading and portfolio management activities.

Stadtwerke has installed committees for risk control which meet regularly. The Stadtwerke Group's risk committee for company-wide risk management meets at least once a year. Its task is to pass resolutions and make decisions on the structure of the company group's risk management system and on content and issues that affect the majority of the organisational areas, particularly also the preparation and focus of the annual risk inventory.

The task of the risk committee as an instrument of the Market Control division, is to ensure the implementation of the specified strategy and risk policy in energy trading and in the value chain.

The basic handling of risks has been documented in a handbook as a guideline for risk steering.

3.1.2 Regulatory risks

Regulatory risks are seen in the requirements of the Energy Industry Act (EnWG), the ordinances, especially the Incentive Regulation Ordinance (ARegV) and the network charges ordinances, in the determinations and decisions of the regulatory authorities (administrative) decisions and the resulting lowering of the revenue caps for network charges. Moreover, further risks can stem from new tasks that were not known about at the time of the base years for the remuneration approvals – and from the costs related to these tasks.

3.1.3 Environment and industry risks

Environment and industry risks are primarily to be found in the assessment of changes in the economic, political, and legal environment, and in reactions to them. These risks are counteracted by systematically observing both the market and the competition.

After an unusually long phase of exploration and negotiation following the federal elections of 24 September 2017, the CDU, CSU and SPD presented a coalition agreement on 18 February 2018 to form a joint government for the 19th legislative period. The new government intends to establish a commission to draw up a timetable and the conditions for a gradual phase-out of coal-fired electricity. This will also affect the Lippendorf power plant, from which Stadtwerke obtains a substantial share of its district heating sales. It may be assumed that the plant's relatively short operating life and high efficiency mean that it cannot be expected to be shut down in the short and medium term. For the medium to long term, the "transformation heat market" project is working on the future provision of district heating.

3.1.4 Performance-economic risks

In wholesale energy trading, volatile market price changes, particularly for electricity, gas, and CO_2, are leading to general market-price risks from trading transactions. Furthermore, the high systemic requirements for balancing group management must be taken into account. This is where the influence of renewable energies in pricing comes into play.

The ongoing market-price risk caused by falling spreads for conventional generation plants is counteracted by the rolling optimisation of plants deployment as well as by marketing on the futures market and of system services. For the biomass and wind-energy power plants, risks may arise from rising fuel prices or from insufficient wind level.

The operation of complex generation plants includes the risk of operational disturbances, production losses and supply interruptions. These risks are limited through regular maintenance and insurance for significant consequences of potential damage claims; they are therefore considered to be low.

In the end customer markets, persistently intense competition is resulting in sustained price pressure, which is being driven forward by marketing-effective best positioning in comparison portals, among other things.

There is furthermore a cost-margin risk which is developing particularly against the background that rising costs of levies, apportionments and taxes cannot be passed on in full to customers due to high price pressure and the associated customer sensitivity to price.

In addition, there are volume risks from customers who choose other utilities and competitors from outside the industry. The increasing competitive pressure is due, among other things, to progressing digitalisation. Another volume risk is the lower purchase volume due to the use of energy-efficient equipment.

Risk in the grid area may occur in connection with supply interruptions and malfunctions of the technical equipment. These risks are countered by regular maintenance measures and investments in networks and equipments.

3.1.5 Financial risks

Financial risks exist primarily with regard to financing cost risk. The risk of Stadtwerke's limited availability of credit funds is countered by the taking up of shareholder loans exclusively. There is thus a close connection between the development of creditworthiness and the financing capability of the shareholder LVV and Stadtwerke. Stadtwerke's risk monitoring takes this into account by using various monitoring instruments.

Stadtwerke's financing portfolio is mainly characterised by shareholder loans from LVV, which are on a fixed-interest basis and are therefore not subject to any interest-change risk. In addition there are off-balance-sheet obligations at variable interest rates that are not hedged against interest-change risks.

Stadtwerke's existing interest rate hedging transactions have a remaining term of one year. An adequate provision for anticipated losses was formed for the market values of interest rate hedging transactions.

In order to limit the counterparty risk, a credit-rating analysis is carried out on principle on all trading partners and key accounts before agreement negotiations begin and before submitting a binding offer. Risk management uses external and internal rating analyses in this context.

Exchange-rate risks that involve the annual dividend payments of the GPEC are handled by Stadtwerke with continuous observation of the development of the exchange rate between the euro and the zloty. If the value and time of payout is known, the protection basically takes place by means of a forward exchange transaction.

Financial derivatives with positive market values may involve corresponding risks of non-payment by the contracting party. For this reason, Stadtwerke shall only enter into financial derivatives with selected European financial institutions for which the consolidated financing has issued a corresponding recommendation. Selection is based on uniform diversification and creditworthiness criteria throughout the company group.

3.1.6 Other risks

Other risks include those from IT system failure, such as system non-availability, unauthorised use of data, and the vulnerability of systems from outside. The consequences of this are reflected in negative effects on earnings and liquidity, for example in the case of delayed accounting and non-closable trading positions. Negative consequences may also occur if technical equipment cannot be controlled or can only be controlled to a limited extent.

For the preservation and development of high standards of IT security, safety analyses and emergency exercises are to be carried out as well as penetration tests to determine the possibility of attack to IT systems from the outside.

In addiction, Netz Leipzig introduced an information security management system (ISMS) in 2017 and had this certified in the validity of network management electricity and gas according to the IT security catalog of the Federal Network Agency. Netz Leipzig thus ensures appropriate protection against threats to telecommunications and electronic data processing systems which are necessary for secure network operation, and thus fulfils its obligations in accordance with section 11 subsection 1a of the Energy Industry Act (EnWG). The certificate was submitted to the regulation authorities in a timely manner by 31 January 2018.

In the case of events with great damage, Stadtwerke relies on the implemented crisis management system, which is tested annually to make sure it is up to date and to see if it needs any additions, and is adjusted accordingly.

3.1.7 Total risks

No risks have been found that could prejudice Stadtwerke's continued existence.

3.2 Opportunities report

3.2.1 Regulatory opportunities

The Incentive Regulation Ordinance (ARegV) initially created relatively stable framework conditions on the revenue side for Netz Leipzig. Accordingly, the revenue reduction path is known and countermeasures can be planned in the medium to long term. In the second efficiency comparison, Netz Leipzig achieved values for the medium of electricity in the order of magnitude above the national average, so that relatively constant revenues can be generated beyond the second regulatory period. Moreover, with the new ARegV, returns from investments made after the third regulatory period are taken into account without delay.

Regulatory authorities shall continue to aim to reduce the charges levied by the network operators. The decoupling of revenues and costs is creating both opportunities and risks as regards the rapid development of efficiency potential.

3.2.2 Environment and industry opportunities

The coalition agreement presented by the CDU/CSU and SPD is characterised by moderate energy and climate policy. The contract is shaped by the objectives of increased expansion of renewable energies, increased sector coupling, and the transformation of the heat energy market, each of which offers opportunities for Stadtwerke's business and the Leipzig area.

3.2.3 Performance-economic opportunities

With the adjustment of Stadtwerke's strategic orientation, energy trading is focussed on proprietary trading competence in the commodities electricity, gas and CO_2. The required increase of transparency about electricity market data allows the energy trade to respond better and faster to price fluctuations.

Market and utilisation opportunities can be found in energy market design and in contractual and regulatory market developments. Increasing the flexibility of the CHP plant, Leipzig allows for medium opportunities with a rising electricity/gas/CO_2 spread in electricity generation.

For the biomass plants, there are medium opportunities from falling wood prices compared to the forecast. For wind power, higher actual wind volume may provide a chance of slightly higher revenues. The weather-dependent heating business can be influenced equally in both directions by temperature fluctuations.

Additional opportunities are represented in the planned expansion of the cogeneration and renewable-energy portfolio.

In the end customer market, opportunities can be found in stronger-than-expected sales success and in the faster realisation of efficiency potentials.

3.2.4 Financial opportunities

Due to the low interest level, it is possible to take out shareholder loans from LVV at conditions below the planned interest level. This allows for the opportunity to reduce planned interest expenses.

In order to achieve planning security, the conclusion of a currency forward exchange transaction takes place annually, after notification of the time and amount of GPEC's dividend payment. In advance, the development of the EUR/PLN exchange rate is monitored throughout the year. Exchange rate hedging can be carried out at an exchange rate that deviates from the rate assumed in the planning.

3.2.5 Other opportunities

With digitalisation being viewed as an important strategic basis for continuous growth within the company, new conditions are constantly being created that will spur on ideas and innovative technologies within the company. Creative solutions, suggestions and improvements are implemented successfully and in a targeted manner through the establishment of a newly conceived approach to the development of an integrated idea and innovation management. This approach offers access to optimal resources and methods and supports decision-making processes.

These conditions create the possibility to react in a faster and more target-oriented way to changes and developments on the energy market, and to establish the company's own developments accordingly.

3.3 Forecast report

Based on the economic planning for the business year, Stadtwerke predicts a result before profit transfer of €45.8m in 2018. The decline of the result compared to actual figures for 2017 is predominantly attributable to the reduction of other operating income, other operating expenses and depreciation. An increase in result is expected for the following year, partly due to the implementation of the 'fit' project.

Revenues in the coming year are expected to reach €2,132.1m, in consideration of the political-regulatory and competitive framework conditions which mainly have a strong impact on the energy trading and end-customer markets.

Essential factors are a significantly growing volatility of generation on the one hand and greater possibilities of consumption control on the other. The basic elements are the focus of energy policy of successive decarbonisation, the increasing decentralisation of generation and digitalisation.

Even if the price of electricity on the wholesale market has increased slightly in comparison to the previous year and gas prices remain low, the negative difference between the price of electricity and the applied fuel costs (spark spread) continue to exist in the Leipzig CHP plant. The operating results of the biomass plants are showing positive development due to expected stabilisation of plant operation as well as declining wood prices. Rising result contributions are expected in connection with the implementation of the project-related expansion strategy in the medium term, particularly in the case of wind energy plants.

The gas and electricity cost audits carried out in 2016 and 2017 and their findings form the basis of the revenue development at Netz Leipzig in the third regulatory period (gas from 2018, electricity from 2019).

Next year, the amendment to the Renewable Energy Directive and the draft regulation on crisis preparedness in the electricity sector will be of particular importance to Netz Leipzig. The intention to create an Agency for the Cooperation of Energy Regulators (ACER) has a strategic character and illustrates the European Union's ambition to establish a European energy market.

As a consequence of rising oil and gas prices, heating costs will rise by 3.3% in 2018 for most district heating consumers in Leipzig. After the price reductions of the last two years, the district heating product Leipziger wärme.komfort still remains the cheapest district heating product, with a price advantage of up to 10% compared to its predecessor products. Gas prices for primary and basic care will also increase by an average of 5.1% in 2018. The reason for this is the increase in gas network charges and gas prices on the stock exchange. Stadtwerke was able to use its procurement strategy to partially cushion the effects for its gas customers. Electricity prices for basic-care customers have remained virtually stable.

On-balance-sheet investments in fixed assets totalling €61.9m are planned for 2018. €52.8m of this is attributable to investments in tangible fixed assets, mainly characterised by the planned expansion of decentralised block heat and power units and the district heating network as well as the modernisation of the CHP plant in Leipzig. Moreover, replacement and expansion investments in existing facilities as well as investments in contracting and local district heating plants are taken into account. The investments in financial assets involve the acquisition and development of wind power plants.

4 Declaration on corporate governance

Due to legal regulations on the equal participation of women and men in executive positions in the private and public service, sections 36 and 52 GmbHG, companies that are subject to statutory legal codetermination must set self-determined targets for the number of women in management positions.

The committees responsible at Stadtwerke set new target figures in the 2017 business year. The following objectives are to be met by 31 December 2019:

- The target figure set for the percentage of women on Stadtwerke's supervisory board is 30%.
- The target quota for women within the management of Stadtwerke is for at least 30%.
- Furthermore, a target figure for Stadtwerke's upper management level was set at 30%. A target of 34.8% was set for middle management level.

Leipzig, 28 February 2018

Management

Dr Johannes Kleinsorg Karsten Rogall

Annex to the management report

Stadtwerke Leipzig GmbH, Leipzig

Report on the law on the promotion of pay transparency between women and men (Pay Transparency Act – EntgTranspG)

This report on equality and equal pay, which is attached to the management report in accordance with section 22 subsection 4 EntgTranspG, is not subject to the Audit.

Stadtwerke, as employer, acts in a family-friendly, flexible and eye-to-eye manner.

Working at Stadtwerke means

- solving challenging tasks in creative teams,
- an innovative working environment,
- continuous further development – professionally, personally and within the organisation,
- flexible working conditions and
- compatibility of family and career.

Stadtwerke's personnel strategy strives to ensure that the various work assignments and vacancies are filled with suitable specialists and managers, regardless of gender. As a matter of principle, care is taken to create good conditions for reconciling work and family life.

In this context, the proportion of women in upper and middle management has been fixed to at least 30%, and the following considerations are being made to increase the proportion of female specialists and managers and to improve Stadtwerke's attractiveness as an employer in the Leipzig area:

- percentage stipulation of the proportion of women in the initiation of development programs,
- monitoring and individual personnel development opportunities for female graduates of dual degree programs, female participants in development programs, and female executives,
- heightened recruitment of female trainees also for industrial-technical training courses and dual students,
- examination of family-friendly, modern working models, also for first-level executives, which support the compatibility of work and family (part-time, work from home, job sharing, family time-out, working life).

Relevant for the remuneration is the exercise and qualification for a task/jobs, not the gender.

Stadtwerke has, like all reportable personnel-leading companies of the LVV Group, a collective agreement. This collective agreement regulates the principles of job evaluation and is to be applied accordingly.

All company positions are rated or grouped. The remuneration is dependent on the evaluation of the position and not on the gender of the job holder.

Every job is allocated into a remuneration group. The compensation collective agreement provides an overview of the task contents and qualification requirements for the respective remuneration group. The employee – male or female – corresponding to a job profile receives remuneration corresponding to this remuneration group, provided that all requirements are met, regardless of gender.

Company reporting period 2017

	Women	Men	Total number	Women's share
Employees*	**267**	**335**	**602**	**44.4%**
of which: full-time	206	313	519	39.7%
of which: part-time	61	22	83	73.5%

Company reporting period 2016

	Women	Men	Total number	Women's share
Employees*	**261**	**304**	**565**	**46.2%**
of which: full-time	211	283	494	42.7%
of which: part-time	50	21	71	70.4%

* Pursuant to section 267, subsection 5 of the HGB

Balance sheet at 31 December 2017

Stadtwerke Leipzig GmbH, Leipzig

Assets

in €k

	31.12.2017	31.12.2016
A. Fixed assets		
I. Intangible assets		
1. Purchased concessions, industrial property rights and similar rights and values as well as licenses to such rights and values	1,353	1,264
2. Payments on account	691	133
	2,044	**1,397**
II. Tangible assets		
1. Lands, leasehold rights and buildings including buildings on leased land	45,375	49,328
2. Technical equipment and machines	363,925	379,653
3. Other equipment, factory and office equipment	2,782	2,462
4. Payments on account and assets under construction	4,912	5,099
	416,994	**436,542**
III. Financial assets		
1. Shares in affiliated companies	104,043	103,903
2. Participations	2,929	2,632
3. Loans to companies in which a participating interest is held	4,469	4,469
4. Other loans	1,556	1,631
	112,997	**112,635**
	532,035	**550,574**
B. Current assets		
I. Inventories		
1. Raw materials and supplies	7,304	9,892
2. Unfinished services	65	75
3. Payments on account on inventories	0	208
	7,369	**10,175**
II. Receivables and other assets		
1. Receivables from deliveries and services	50,115	56,908
2. Receivables from affiliated companies	102,728	92,941
3. Receivables from companies in which a participating interest is held	0	563
4. Other assets	9,846	7,654
	162,689	**158,066**
III. Cash in hand, bank balances and cheques	**1,399**	**2,529**
	171,457	**170,770**
C. Prepaid expenses	**1,778**	**1,945**
	705,270	**723,289**

Liabilities

in €k

	31.12.2017	31.12.2016
A. Equity		
I. Subscribed capital	**22,000**	**22,000**
II. Capital reserve	**184,411**	**184,411**
III. Profit reserves	**54,190**	**43,655**
Other profit reserves	54,190	43,655
	260,601	**250,066**
B. Special items		
1. Special item with an equity portion	3,793	4,691
2. Special item for investment subsidies for fixed assets	4,051	4,184
3. Special items for building-cost subsidies	36,509	36,663
	44,353	**45,538**
C. Provisions		
1. Provisions for pensions and similar obligations	19,272	19,645
2. Provisions for taxation	290	119
3. Other provisions	136,521	154,936
	156,083	**174,700**
D. Liabilities		
1. Liabilities to banks	19,588	22,994
2. Payments received	2,012	1,159
3. Liabilities from deliveries and services	48,290	52,772
4. Liabilities to affiliated companies	166,108	166,115
5. Other liabilities of which from taxes: €4,134k (2016: €7,193k)	7,045	9,649
	243,043	**252,689**
E. Deferred income	**1,190**	**296**
	705,270	**723,289**

Profit and loss statement
for the financial year from 1 January until 31 December 2017

Stadtwerke Leipzig GmbH, Leipzig

in €k

	2017	2016
1. Sales revenues	2,017,857	1,928,709
2. Increase or decrease in inventory of unfinished services	–10	–41
3. Other internally produced and capitalised assets	149	150
4. Other operating income of which expenses from currency translation: €6k (2016: €0k)	25,694	38,017
5. Cost of materials		
a) Cost of raw materials and supplies and purchased goods	–1,770,657	–1,664,457
b) Cost of purchased services	–45,434	–41,682
	–1,816,091	–1,706,139
6. Personnel expenses		
a) Wages and salaries	–36,406	–34,633
b) Social contributions and expenses for pension schemes and support of which for pensions: €1,107k (2016: €792k)	–7,587	–6,716
	–43,993	–41,349
7. Depreciation and amortisation	–45,357	–46,984
8. Other operating expenses of which expenses from currency translation: €0k (2016: €4k)	–92,709	–101,261
9. Income from participations of which from affiliated companies: €9,616k (2016: €9,548k)	9,709	9,549
10. Income from profit transfer agreements of which from affiliated companies: €6,157k (2016: €1,859k)	6,157	1,859
11. Income from loans from financial assets of which from affiliated companies: €0k (2016: €0k)	526	535
12. Other interest and similar income of which from affiliated companies: €63k (2016: €70k)	85	135
13. Interest and similar expenses of which to affiliated companies: €2,333k (2016: €2,754k)	–4,330	–10,839
14. Expenses from loss assumption	–3,495	–8,272
15. Result after taxes	**54,192**	**64,069**
16. Expenses from a profit transfer agreement	–43,657	–64,069
17. Result after profit transfer	**10,535**	**0**
18. Settings in other profit reserves	–10,535	0
19. Balance sheet profit/loss	**0**	**0**

Notes to the financial statements for the 2017 business year

Stadtwerke Leipzig GmbH, Leipzig

1 Information on the form and presentation of the balance sheet and the profit and loss statement

The Stadtwerke Leipzig GmbH, Leipzig (Stadtwerke) has its head office in Leipzig. It is registered in the commercial register of the District Court of Leipzig under the commercial registration number HRB 3058.

The present annual financial statements of Stadtwerke applied the provisions of the German Commercial Code (HGB), the Deutsche Mark Balance Sheet Act (DMBilG), as well as the relevant provisions of the German Limited Liability Companies Act (GmbHG).

The layout of the balance sheet accorded with the provisions in section 266 and the following of the HGB. The provisions of the Energy Industry Act were also taken into account. The profit and loss statement was drawn up in accordance with the total cost accounting method as per section 275, subsection 2 of the HGB.

2 Information on the items of the balance sheet and the profit and loss statement in terms of posting, accounting and valuation

2.1 Accounting and valuation methods

The following accounting and valuation methods were authoritative in the preparation of the annual financial statements.

2.1.1 Fixed assets

Purchased intangible assets and tangible fixed assets are valued at acquisition or production cost minus scheduled and non-scheduled depreciation. The production costs of tangible assets constructed by the company for its own use take into account not only direct costs but also appropriate parts of the overhead costs.

Land additions within the meaning of the Assets Allocation Act (Vermögenszuordnungsgesetz) are shown on the balance sheet at a flat-rate land value. Fixed assets taken over free of charge are reported at their fair market value on the date of transfer.

Scheduled depreciation is carried out on a straight-line basis over the asset's useful life.

Low-value assets with acquisition and production costs of up to €150 are always written off with effect on expenses in the year of acquisition. Stadtwerke Leipzig took the option of immediately writing off low-value assets with acquisition costs of between €150 and €410 in the year of acquisition.

Financial assets are stated at acquisition cost. Loans were based on the nominal value.

Where necessary, items were depreciated at the lower fair value on the balance-sheet date pursuant to section 253, subsection 3, sentence 5 of the HGB where a permanent impairment of value was expected.

2.1.2 Current assets

All raw materials and supplies are reported at average cost prices, applying the lowest value principle.

Emission certificates allocated free of charge are posted under inventories at their memo value. Purchased emission certificates are also shown on the balance sheet at acquisition cost under inventories. Where necessary, devaluation was written at the lower fair value on the balance-sheet date.

Unfinished services are valued loss-free at production cost.

Receivables and other assets are valued at their nominal value. Recognizable risks have been taken into account by making appropriate value adjustments. Itemised general individual value adjustment were made according to the age structure of the receivables to cover general non-payment risks; a general value adjustment of 1% was made to cover general credit risks. Under receivables from electricity, gas and district heating supplies, received payments on account are set off against Stadtwerke customers' deferred consumption that has not yet been metered.

Receivables and liabilities have been netted out where netting contracts have been agreed with wholesale trading partners.

In cases where the other assets are special-purpose assets funds held for semi-retirement obligations, they are netted against the provisions for semi-retirement obligations pursuant to section 246, subsection 2, sentence 2 of the HGB.

Cash resources (cash in hand, cash at banks and cheques) are shown at their nominal value.

2.1.3 Equity

The subscribed capital is valued at its nominal amount.

2.1.4 Special items

The retention and continuation option pursuant to Article 67, subsection 3, sentence 1 of the Introductory Act to the German Commercial Code (EGHGB) was taken for the special item with an equity portion.

The special item with an equity portion, formed for special depreciation under section 4 of the Development Area Act, is released to income according to plan. The special item is always released to income at the end of each preferential period on a straight-line basis, either for the remaining useful life of the fixed asset or on the retirement of the subsidised tangible assets.

Investment grants are shown on the liabilities side as a special item for fixed assets and fully liquidated over the useful life of the fixed asset.

The annual release of the special item for building-cost subsidies amounts to 5% for building-cost subsidies received up to 31 December 2002. After 1 January 2003, the item is released dissolution to income over the useful life of the subsidised assets. The rights shown under the special item for emission rights issued free of charge were posted on the balance sheet at their memo value.

2.1.5 Provisions

Wherever possible, the retention and continuation options pursuant to Article 67, subsections 1 and 3 of the EGHGB were used for provisions existing since 1 January 2010.

Selected provisions for personnel as well as provisions for pensions and similar obligations are formed on the basis of actuarial expert opinions according to the 2005 G guideline tables compiled by Prof. Dr Klaus Heubeck using the projected unit credit method. The underlying actuarial interest for the discounting of provisions for pension obligations amounts to 3.68% and in the case of other provisions to 2.80% as per section 253, subsection 2, sentences 1 and 2 of the HGB of 31 December 2017. From the discounting of provisions for pension obligations with the average market interest rate over the last ten years in comparison to the discount with the average market interest rate over the last seven years, there is a resulting differential amount of €1,280k.

The annual financial statements have been prepared in application of the wording of the law without taking into account the transfer lock of the resulting differential amount.

The provision for retired and other former employees corresponds to the present value of the obligation.

The provisions for pensions and similar obligations were based on assumed increases in salaries and pensions (or increases in expenditure) of up to 5%.

Obligations from semi-retirement obligations are secured by a reinsurance policy from Allianz AG. The receivables from this time-accounts reinsurance policy were netted against the obligations pursuant to section 246, subsection 2, sentence 2 of the HGB.

In other provisions, emission certificates allocated free of charge are recognised at the fair value and purchased emissions certificates at the book value in order to meet the return obligation.

A rate of cost increases of between 2% and 3% was taken into account when valuing other provisions. Other provisions with a term of more than one year are discounted at interest rates that are in line with the respective time span and have been announced by the German Bundesbank. The interest rates for discounting the provisions are between 1.26% to 3.35% for 2017, depending on the remaining term.

Recognisable risks and uncertain liabilities are taken into account in the determination of the other provisions. The evaluation is to be carried out on the settlement amount.

2.1.6 Liabilities

The liabilities passivated with their settlement amount.

2.2 Notes to the balance sheet

2.2.1 Fixed assets

The development of fixed assets is presented in the overview on the development of fixed assets of Stadtwerke, which is included in this appendix, alongside amortisations in the business year.

2.2.2 Inventories

The inventories on the balance-sheet date include returnable emission rights issued free of charge for the emission of CO_2; they were posted at a memo value of €1.00 per plant (market value on 31 December 2017: €1,090k).

2.2.3 Receivables and other assets

The receivables from affiliated companies include receivables from deliveries and services in the amount of €11,359k (2016: €13,746k) as well as other receivables of €91,369k (2016: €79,195k).

The receivables from affiliated companies include receivables from the stockholder LVV Leipziger Versorgungs- und Verkehrsgesellschaft mbH Leipzig (LVV), of €88,377k (2016: €77,643k).

Other assets include receivables relating to tax prepayments not yet deducted amounting to €2,298k (deferred items).

All receivables and other assets in the current business year are due in the short term.

2.2.4 Equity

Revenue reserves include the special-purpose reserve pursuant to section 27, subsection 2 of the DMBilG.

In accordance with the provisions of section 1, subsection 3 of the profit and loss transfer agreement with LVV, part of the result after taxes of €10,535k has been retained and transferred to profit reserves.

2.2.5 Special items

The special item for capital investment grants was dissolved on an unscheduled basis on 31 December 2017 in the amount of €977k.

2.2.6 Provisions

Claims from the reinsurance policy are netted against semi-retirement obligations pursuant to section 246, subsection 2, sentence 2 of the HGB. The fair value of the netted asset, which corresponds to the acquisition cost, is €1,401k. The settlement amount of the debts is €3,906k. The interest expense as a result of the semi-retirement obligation (€35k) has been netted with the interest income from the reinsurance policy (€2k).

The other provisions include especially provisions for anticipated losses (€47,158k), personnel-related provisions (€25.297k) and provisions for outstanding invoices (€14,500k).

In the other provisions, provisions for expenses of €9,559k are shown for which the right of retention under Article 67, subsection 3, sentence 1 of the EGHGB was used.

The amount of surplus coverage pursuant to Article 67, subsection 1, sentence 4 of the EGHGB amounts to €23k for provisions retained pursuant to Article 67, subsection 1, sentence 2 of the EGHGB.

2.2.7 Liabilities

The following table shows the remaining terms of the liabilities:

Liabilities

in €k

	Remaining term			Total
	up to one year (2016)	from one to five years (2016)	over five years (2016)	31.12.2017 (2016)
1. Liabilities to banks	3,829 (3,561)	13,105 (15,453)	2,654 (3,980)	19,588 (22,994)
2. Payments received on account of orders	2,012 (1,159)	0 (0)	0 (0)	2,012 (1,159)
3. Liabilities from deliveries and services	48,290 (52,772)	0 (0)	0 (0)	48,290 (52,772)
4. Liabilities to affiliated companies	56,879 (49,698)	67,307 (98,754)	41,922 (17,663)	166,108 (166,115)
of which: to the shareholder	38,704 (40,747)	67,307 (98,754)	41,922 (17,663)	147,933 (157,164)
5. Other liabilities	7,045 (9,649)	0 (0)	0 (0)	7,045 (9,649)
	118,055 **(116,839)**	**80,412** **(114,207)**	**44,576** **(21,643)**	**243,043** **(252,689)**

For liabilities to banks of €9,287k (2016: €10,614k), negative declarations were issued.

The liabilities to affiliated companies represent deliveries and services at €3,151k (2016: €1,699k) as well as other liabilities, at €162,957k (2016: €164,416k).

The €126,417k shareholder loans contained in the liabilities to affiliated companies had negative declarations attached.

2.3 Notes to the profit and loss statement

2.3.1 Sales revenues

Sales revenues of €2,017,857, which were generated exclusively in Germany, are as follows:

Sales revenues

in €k

	2017	2016
Electricity marketing (gross)	225,761	214,784
Electricity tax	−19,665	−19,539
Electricity marketing (net)	206,096	195,245
Gas marketing (gross)	53,328	52,099
Natural-gas tax	−6,482	−5,667
Gas marketing (net)	46,846	46,432
District-heating marketing	115,977	124,822
Energy marketing	**368,919**	**366,499**
Wholesale electricity trading (gross)	1,344,405	1,310,876
Electricity tax	−115	−434
Wholesale electricity trading (net)	1,344,290	1,310,442
Wholesale gas trading (gross)	148,865	87,186
Natural-gas tax	0	−36
Wholesale gas trading (net)	148,865	87,150
Wholesale energy trading	**1,493,155**	**1,397,592**
Additional sales revenues	**155,783**	**164,618**
	2,017,857	**1,928,709**

The additional sales revenues include sales revenues relating to other periods to €1,006k (2016: €51k). These relate in particular to the correction of the previous year due to the rolling consumption billing of estimated sales and leasing income.

2.3.2 Other operating income

Other operating income includes income from the release of special items with an equity portion (€897k) as well as income relating to other periods of €23,094k (2016: €35,695k). The income relating to other periods essentially relates to income from the release of provisions (€13,834k).

2.3.3 Cost of materials

The cost of raw materials and supplies and purchased goods includes cost of materials that relates to other periods totalling €5,636k (2016: €9,193k).

2.3.4 Depreciation and amortisation

In the 2017 business year, non-scheduled depreciation to the exceptional amount of €13,004k (2016: €7,867k) was made to the fixed assets. These essentially included technical equipment and machines.

2.3.5 Other operating expenses

The other operating expenses contain expenses relating to other periods, amounting to €1,082k (2016: €2,054k), in particular for losses from disposals of fixed assets and concession fees in other periods.

2.3.6 Interest result

In the interest result, as under section 277, subsection 5 of the HGB, income (€8k, 2016: €41k) and expenses (€803k, 2016: €921k) as a result of the compounding and discounting of provisions.

2.3.7 Profit reserve

€10,535m was allocated to profit reserve for subsequent years for expansion investments in the electricity network of the growing city of Leipzig.

3 Information on the annual result

A profit/loss transfer agreement has existed since 1 January 2001 between Stadtwerke and the LVV, which was concluded for five years. It is extended by a further year respectively unless terminated six months prior to expiry.

4 Other information

The annual financial statements of Stadtwerke are included in the exempting consolidated financial statements of LVV. (smallest and largest consolidated companies). This conclusion is published in the electronic Federal Gazette.

4.1 Other financial obligations and transactions not included in the balance sheet

On 31 December 2017, there were obligations from operating leases worth €88,548k. Three signed leasing agreements involve obligations up until 2021, 2022 and 2024 respectively. In the case of two leasing agreements, future payments include a variable interest component which is calculated on the basis of the three-month EURIBOR. Interest components are not shown in the posted obligations from operating leases for of the three agreements. The operating leasing relates to the two biomass (heating) power stations and the gas and steam turbine power plant in Leipzig. The benefits of these transactions are essentially in the financing by the lessor, the risks resulting from long-term expenses and the lack of ownership position.

In addition, other financial obligations amounting to €75,490k result from rental and lease agreements as well as from investments.

There are additional financial obligations arising from the granting of loans or guarantees from not yet required capital contributions as well as not yet required capital contribitions relating to GmbH shares and from possible obligations of existing profit and loss transfer agreements in the amount of €7,708k, thereof to affiliated companies in the amount of €5,311k.

With respect to the obligations relating to energy procurement, reference is made to the bullet point 4.2.

4.2 Derivative financial instruments

Interest-rate and currency derivatives transactions shall be conducted to limit interest-rate and currency risks. Hedging against energy-price risks shall be conducted through commodity derivatives.

On the balance-sheet date the nominal volumes, fair values and book values of the posted financial derivatives are as follows:

Financial and commodity derivatives

in €k

	31.12.2017			
	Nominal volume	Fair value	Book value	
			Assets	Liabilities
Interest-rate derivatives (interest rate swaps)	130,000	6,014	0	6,014
Commodity derivatives[1]	744,159	767	0	136[2]

[1] Underlying and hedging instruments in valuation units
[2] Ineffective part of the hedging relationship

Interest-rate derivatives: As hedging instruments, the payer swaps were part of a valuation unit (portfolio hedge) that was formed to hedge against interest-rate risks with a hedging horizon up to 31 December 2018.

As of the valuation date, the market values of the interest-rate derivatives were determined on the basis of the interest structure curve and by means of a multi-curve-approach. The utilised market curves were provided by Thomson Reuters LLC. After the utilisation of €6.2m of a provision for anticipated losses formed in 2016, a provision for anticipated losses of €6.0m remains for the remaining term of the existing derivatives.

Commodity derivatives: We hedge against energy-price risks with commodity derivatives in the form of options, forwards and futures.

Financial instruments acquired via regulated markets (stock markets) or financial institutions (derivatives, emission certificates) are disclosed in the appendix as commodity derivatives in accordance with section 1, subsection 11 of the Banking Act (KWG). The nominal volume corresponds to the additive value of all agreed purchase (€368.2m) and selling (€367.8m) agreements for future delivery periods up to and including 2020. The purchase and selling contracts concluded for trading purposes were pooled into separate portfolios according to delivery periods and commodities and valued pursuant to section 254 of the HGB. The fair values were determined at market prices on the balance sheet date based on externally recognised sources, e.g. the official closing prices on the European Energy Exchange AG, Leipzig (EEX).

As at 31 December 2017, provisions from valuation units of €136k were created for the proprietary trading portfolios of electricity, gas and CO_2.

In the area of energy marketing, contract portfolios were first formed according to the IDW 'Special features of accounting for energy procurement and energy sales contracts in commercial law contracts of energy supply companies' (IDW RS ÖFA 3) for electricity and gas. The portfolios currently comprise the completed or expected selling and procurement transaction for each of the years 2018, 2019 and 2020. The sales transactions include binding sales contracts with customers and still highly probable customer sales. These are offset by procurement transactions on the basis of the contribution margin (DB) IV, which include contracted stock market or OTC procurement transactions. As at December 31, 2017, (discounted) provisions for anticipated losses were formed amounting to €4.3m.

Furthermore, portfolios were formed in the area of district heating from district heating procurement and sales, and oil hedging contracts. The portfolios also included the relevant power-generation capacities for district heating generation. The sales transactions involve largely binding contracts with customers up to 2018, some of which are dependent on the price of oil. These price risks are hedged by financial transactions. As at 31 December 2017, the market value of these gas-oil swap transactions was €–0.6m and the nominal volume was €8.2m.

In the accounting of the valuation units, the freezing method was applied respectively.

4.3 Information pursuant to section 6b, subsection 2 of the Energy Industry Act (EnWG)

In the business year, the following reportable transactions of a larger scope were conducted with Netz Leipzig GmbH, Leipzig:

- income from the leasing of the electricity and gas network of €51.9m and from commercial services €19.4m,
- expenses amounting to €18.5m for services based on the district-heating service agreement.

4.4 Information on the executive bodies

The members of management are:

- Dr Johannes Kleinsorg, Management Spokesman, and
- Mr Karsten Rogall, Commercial Director.

Payments made to the current members of management in the 2017 business year:

in €k

	Fixed annual basic salary	Other emoluments	Performance-related remuneration	Total remuneration	Payments at the end of employment (severance payments)	Type of pension scheme[1]	Pension scheme (contribution) expense	Amounts paid in the 2017 business year	
								Total remuneration	of which performance-related remuneration
Dr Johannes Kleinsorg	220[2]	15	100	335	0	A	20	335	100
Karsten Rogall	200	17	60	277	0	A	30	277	60
	420	**32**	**160**	**612**	**0**		**50**	**612**	**160**

[1] A – Pension commitment
[2] Including spokesman allowance

The remuneration of former members of management amounted to €412k. Provisions of €5,330k have been made to cover ongoing pensions for former managers.

The supervisory board is made up of the following members:

Shareholder representatives	
Dr Norbert Menke Chairman of the supervisory board	Management spokesman, LVV Leipziger Versorgungs- und Verkehrsgesellschaft mbH
Reiner Engelmann 2nd Vice-Chair	Pensioner
Karsten Albrecht	Independent production engineer
Uwe Albrecht	Mayor, City of Leipzig
Heiko Bär	Freelance teacher
Oliver Beckel	Business graduate, Hanwah Q Cells GmbH
Ingrid Glöckner	Certified engineer, Deutsche Rentenversicherung Central Germany
Achim Haas	Managing director, SUB GmbH
Tobias Keller	Managing director, SHK plumbing and heating specialist company
Dr Gesine Märtens	Social worker, Frauen für Frauen e. V.
Dr Maximilian Rinck	Graduate physicist, EPEX Spot SE
Ingo Sasama	Managing director of parliamentary group, Bündnis 90/Die Grünen
Frank Tornau	Managing director, Saxonia Network Systems GmbH
Steffen Wehmann	Commercial clerk, Konsumgenossenschaft Leipzig eG

Employee representatives	
Steffen Schmidt 1st Vice-Chair	Works council member, Stadtwerke Leipzig GmbH
Susann Frölich	Works council member, Stadtwerke Leipzig GmbH
Jana Fromm	Office clerk, Netz Leipzig GmbH
Ines Kuche	District manager, ver.di – United Services Union, Region Leipzig – North Saxonia
Peter Kubiak	Office clerk, Netz Leipzig GmbH
Thomas Washeim	Shift supervisor, Stadtwerke Leipzig GmbH
Marissa Zorn	Works council member, Stadtwerke Leipzig GmbH

The members of the supervisory board received the following remuneration for their work in the 2017 business year:

in €k

Shareholder representatives	Total remuneration	Total attendance allowances
Dr Norbert Menke Chairman of the supervisory board	1,000	2,025
Reiner Engelmann 2nd Vice-Chair	1,000	1,250
Karsten Albrecht	1,000	1,500
Uwe Albrecht	1,000	1,125
Heiko Bär	1,000	1,500
Oliver Beckel	1,000	1,000
Ingrid Glöckner	1,000	1,750
Achim Haas	1,000	1,000
Tobias Keller	1,000	1,500
Dr Gesine Märtens	1,000	1,500
Dr Maximilian Rinck	1,000	1,500
Ingo Sasama	1,000	1,250
Frank Tornau	1,000	750
Steffen Wehmann	1,000	1,500
	14,000	**19,150**

in €k

Employee representatives	Total remuneration	Total attendance allowances
Steffen Schmidt 1st Vice-Chair	1,000	2,000
Susann Frölich	1,000	1,000
Jana Fromm	1,000	1,500
Ines Kuche	1,000	2,000
Peter Kubiak	1,000	1,500
Thomas Washeim	1,000	2,000
Marissa Zorn	1,000	1,250
	7,000	**11,250**

4.5 Auditor's fee

Stadtwerke is exempt from the obligation to publish the overall fee charged by the auditor, because this information is incorporated into the consolidated financial statements of the LVV.

4.6 Annual average number of employees

The average number of employees was 602, of which 478 are white-collar workers and 124 are blue-collar workers.

4.7 Share ownership of Stadtwerke Leipzig GmbH, Leipzig, on 31 December 2017 (section 285, subsection 11 of the HGB)

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

Affiliated companies

	Abbreviation	Share in the subscribed capital	Equity	Result
		%	€k	€k
Netz Leipzig GmbH, Leipzig[1]	Netz Leipzig	100.00	30,009	–3,486
LAS GmbH, Leipzig[1]	LAS	100.00	499	6,157
SWL Beteiligungs GmbH, Leipzig[2]	SWL-B	100.00	31	–3
Innvo Innovationsgesellschaft-Management mbH, Leipzig[2]	Innvo mbH	100.00	151	–44
Natur21 GmbH, Leipzig[1]	Natur21	100.00	25	–8
Leipziger Windpark Management GmbH, Leipzig[2]	LWM	100.00	97	–3
ELG Leipzig GmbH, Leipzig	ELG	90.00	42	1
Gdańskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o., Gdańsk, Poland[3]	GPEC	82.86	86,393	15,254
Thüringenwind GmbH & Co. Tüngeda KG, Hörselberg-Hainich[2]	Tüngeda	70.00	1,227	–172

Participations

	Abbreviation	Share in the subscribed capital	Equity	Result
		%	€k	€k
Erdgasversorgung Industriepark Leipzig Nord GmbH, Leipzig	EVIL	50.00	252	2
Meter1 GmbH & Co. KG, Halle[2]	Meter1	33.33	322	615
WEO GmbH & Co. KG, Berlin[2]	WEO	33.33	0[4]	–596

[1] Net income before profit transfer/loss assumption in 2017
[2] Annual financial statements for 2017
[3] The conversion rate on the reporting date was used for the balance sheet; the average conversion rate was used for the profit and loss statement
[4] Limited partners' share of loss not covered by capital contributions: €5,542k

5 Supplementary report

No events of special importance that affected the situation of Stadtwerke took place after the end of the business year.

Leipzig, 28 February 2018

Management

Dr Johannes Kleinsorg　　　　Karsten Rogall

Development of fixed assets in the 2017 business year

Stadtwerke Leipzig GmbH, Leipzig

	Acquisition and production cost				
	01.01.2017	**Additions**	**Disposals**	**Transfers**	**31.12.2017**
I. Intangible assets					
1. Purchased concessions, industrial property rights and similar rights and values as well as licenses to such rights and values	59,207	720	99	77	59,905
2. Payments on account	133	691	56	–77	691
	59,340	**1,411**	**155**	**0**	**60,596**
II. Tangible assets					
1. Lands, leasehold rights and buildings including buildings on leased land	132,813	20	202	0	132,631
2. Technical equipment and machines	705,726	22,934	3,344	1,784	727,100
3. Other equipment, factory and office equipment	14,563	1,220	248	5	15,540
4. Payments on account and assets under construction	5,099	4,602	3,000	–1,789	4,912
	858,201	**28,776**	**6,794**	**0**	**880,183**
III. Financial assets					
1. Shares in affiliated companies	103,952	140	0	0	104,092
2. Participations	6,407	297	0	0	6,704
3. Loans to companies in which a participating interest is held	6,330	0	0	0	6,330
4. Other loans	1,888	40	115	0	1,813
	118,577	**477**	**115**	**0**	**118,939**
	1,036,118	**30,664**	**7,064**	**0**	**1,059,718**

in €k

Accumulated depreciation				Book values	
01.01.2017	Additions	Disposals	31.12.2017	31.12.2017	31.12.2016
57,943	708	99	58,552	1,353	1,264
0	0	0	0	691	133
57,943	**708**	**99**	**58,552**	**2,044**	**1,397**
83,485	3,786	15	87,256	45,375	49,328
326,073	39,958	2,856	363,175	363,925	379,653
12,101	905	248	12,758	2,782	2,462
0	0	0	0	4,912	5,099
421,659	**44,649**	**3,119**	**463,189**	**416,994**	**436,542**
49	0	0	49	104,043	103,903
3,775	0	0	3,775	2,929	2,632
1,861	0	0	1,861	4,469	4,469
257	0	0	257	1,556	1,631
5,942	**0**	**0**	**5,942**	**112,997**	**112,635**
485,544	**45,357**	**3,218**	**527,683**	**532,035**	**550,574**

Cash flow statement for the financial year from 1 January until 31 December 2017

Stadtwerke Leipzig GmbH, Leipzig

in €k

	2017	2016
Result after taxes	**54,192**	**64,069**
Depreciation (+)/attributions (–) of tangible and intangible assets	45,357	46,760
Increase (+)/decrease (–) in pension provisions	–989	3,508
Increase (+)/decrease (–) in other long-term provisions	–2,918	7,199
Increase (+)/decrease (–) in special items	–4,961	–5,751
Profit (–)/loss (+) from the disposal of fixed assets	–382	1,650
Interest expenses (+)/interest income (–)	3,719	10,170
Interest from operating business activity	–193	–92
Income from participations (–)/loss assumption (+)	–12,372	–3,136
Net cash from company activities	**81,453**	**124,377**
Increase (–)/decrease (+) in inventories including depreciation on current assets	2,806	316
Increase (–)/decrease (+) in receivables from deliveries and services	6,790	–15,962
Increase (–)/decrease (+) in receivables from affiliated companies	3,170	–7,607
Increase (–)/decrease (+) in receivables from companies in which a participating interest is held	562	5
Increase (–)/decrease (+) in other assets	–1,919	–393
Increase (–)/decrease (+) in prepaid expenses	167	483
Increase (+)/decrease (–) in provisions for taxation	–61	–16
Increase (+)/decrease (–) in other short-term provisions	–15,774	15,450
Increase (+)/decrease (–) in liabilities from deliveries and services	–4,482	7,606
Increase (+)/decrease (–) in payments received	852	696
Increase (+)/decrease (–) in liabilities to affiliated companies	3,571	–4,058
Increase (+)/decrease (–) in other liabilities	–2,604	–1,789
Increase (+)/decrease (–) in deferred income	894	3
Change in the working capital	**–6,028**	**–5,266**
Cash flows from operating activities	**75,425**	**119,111**
Receipts from disposals of tangible fixed assets	4,113	542
Payments for investments in tangible fixed assets	–28,775	–28,035
Payments for investments in intangible fixed assets	–1,411	–473
Payments for investments in financial assets (not including loans)	–437	–4,101
Payments for investments in financial assets (only loans)	–40	–70
Receipts from repayment of loans in financial assets	114	112
Interest received	147	156
Dividends received	11,535	10,868
Receipts from disposal of cover assets	482	832
Payments for the acquisition of cover assets	–754	–67
Cash flows from investing activities	**–15,026**	**–20,236**
Distribution to the shareholder	**–57,030**	**–40,607**
Taking-up of shareholder loans	10,000	21,000
Other receipts from transfers, special item for building-cost subsidies and building connection costs	3,776	5,298
Receipts from borrowings and other financing activities	**13,776**	**26,298**
Repayments to banks	–3,543	–3,450
Repayments of shareholder loans	–6,995	–30,446
Interest paid	–3,069	–9,782
Dividends paid	–4,272	–8,309
Payments for loan repayment and other financing activities	**–17,879**	**–51,987**
Cash flows from financing activities	**–61,133**	**–66,296**
Cash change in financial resources	**–733**	**32,579**
Financial resources at beginning of period	72,130	44,966
Non-cash changes in financial resources as a result of the merger	0	–5,415
Cash change in financial resources	–733	32,579
Financial resources at end of period	**71,397**	**72,130**

Independent auditors' opinion

We have examined the annual financial statements – consisting of balance sheet, profit and loss statement and notes to the financial statements – including the accounting and the management report for Stadtwerke Leipzig GmbH, Leipzig, for the business year from 1 January 2017 to 31 December 2017. In accordance with section 6b, subsection 5 of the Energy Industry Act (EnWG), the audit also included compliance with the accounting obligations under section 6b, subsection 3 of the EnWG, whereby separate accounts and activity accounts must be drawn up for the activities under section 6b, subsection 3 of the EnWG. The maintenance of the accounting and preparation of the annual financial statements and management report in accordance with German commercial law and the supplementary provisions of the articles of association, as well as compliance with the duties under section 6b, subsection 3 of the EnWG, are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements including the accounting, on the management report and on compliance with the accounting obligations under section 6b, subsection 3 of the EnWG, based on our audit.

We conducted our audit of the annual financial statement in accordance with section 317 of the German Commercial Code (HGB) and in observation of German generally accepted standards for the audit of annual financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). According to these standards, audits must be planned and carried out in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements and in the management report are detected with reasonable assurance in accordance with German principles of proper accounting, and that one may assess with reasonable assurance whether the obligations to prepare the annual financial statements in accordance with section 6b, subsection 3 of the EnWG are fulfilled in all essential respects. In the determination of the audit procedures, knowledge of the business activities and the economic and legal environment of the company have been taken into account, as were expectations as to possible misstatements. Within the framework of the audit, the effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting, the annual financial statements and the management report, as well as compliance with the accounting obligations pursuant to section 6b, subsection 3 of the EnWG have been examined largely on the basis of random samples. The audit includes assessment of the accounting principles used and significant estimates made by management, as well as evaluation of the overall presentation of the annual financial statements and management report, and assessment of whether the valuations and allocation of accounts were appropriate and comprehensible in accordance with section 6b, subsection 3 of the EnWG and whether the principle of consistency was observed.

Our audit of the annual financial statements, including the accounting, has not led to any reservations.

It is our opinion, based on the findings of our audit, that the annual financial statements complies with the legal requirements and supplementary provisions of the social contract and gives a true and fair view of the net assets, financial position and results of operations of the company in accordance with the principles of proper accounting. The management report is consistent with the annual financial statements, complies with the legal requirements, overall gives a picture of the company's position, and suitably presents the opportunities and risks of future development.

This audit of compliance with the accounting obligations pursuant to section 6b, subsection 3 of the EnWG, according to which separate accounts and activity accounts must be drawn up for the activities under section 6b, subsection 3 of the EnWG, has not led to any objections.

Leipzig, 6 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Strom	Lorenz
(German Public Auditor)	(German Public Auditor)

List of abbreviations

ACER	Agency for the Cooperation of Energy Regulators
AG	Public limited company according to German law (Aktiengesellschaft)
ARegV	Incentive Regulation Ordinance (Anreizregulierungsverordnung)
CHP plant, Leipzig	Gas and steam turbine power plant, Leipzig
DMBilG	Deutsche Mark Balance Sheet Act (Gesetz über die Eröffnungsbilanz in Deutscher Mark und die Kapitalneufestsetzung)
EEG	Renewable Energy Act
e.g.	for example
eG	registered cooperative (eingetragene Genossenschaft)
EGHGB	Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch)
ELG	ELG Leipzig GmbH, Leipzig
EntgTranspG	Law on the promotion of pay transparency between women and men (Entgelttransparenzgesetz)
EnWG	Energy Industry Act (Energiewirtschaftsgesetz)
EURIBOR	European Interbank Offered Rate
e. V.	registered association (eingetragener Verein)
EVIL	Erdgasversorgung Industriepark Leipzig Nord GmbH, Leipzig
GmbH	Limited liability company according to German law (Gesellschaft mit beschränkter Haftung)
GmbHG	German Limited Liability Company Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung)
GPEC	Gdańskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o., Gdańsk, Poland
GPEC group	GPEC, i.e. including all polish subsidiaries
HGB	German Commercial Code (Handelsgesetzbuch)
HRB	Commercial Register Department B (Handelsregister Abteilung B)
IDW	Institute of Auditors e. V. (Institut der Wirtschaftsprüfer e. V.)
Innvo mbH	Innvo Innovationsgesellschaft-Management mbH, Leipzig
ISMS	Information Security Management System
IT	Information technology
KWK	Cogeneration
KWKG	Cogeneration law
LAS	LAS GmbH, Leipzig
LVV	LVV Leipziger Versorgungs- und Verkehrsgesellschaft mbH, Leipzig
LWM	Leipziger Windpark Management GmbH, Leipzig
Meter1	Meter1 GmbH & Co. KG, Halle
Natur21	Natur21 GmbH, Leipzig
Netz Leipzig	Netz Leipzig GmbH, Leipzig
ÖFA	Technical Committee for Public Enterprises and Administrations (Fachausschuss für öffentliche Unternehmen und Verwaltungen)
OTC	Over The Counter (OTC trading)
SHK	Plumbing Heating Climate
Stadtwerke	Stadtwerke Leipzig GmbH, Leipzig
SUB GmbH	SUB Gesellschaft für Kommunal- und Firmenberatung mbH, Leipzig
SWL-B	SWL Beteiligungs GmbH, Leipzig
Tüngeda	Thüringenwind GmbH & Co. Tüngeda KG, Hösel-berg-Hainich
WEO	WEO GmbH & Co. KG, Nuremberg

Credits

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