

enercity[®] Report 2005

Executive Summary

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Contents

- 04 The company: Sustainable success based on attractive product range
- 06 Market & opportunities
- 07 Economic status: enercity proves its strengths under new boundary conditions
- 10 Overview of figures
- 12 Balance sheet of Stadtwerke Hannover AG as of 31 December 2005
- 14 Statement of income for fiscal year 2005
- 16 Notes about fiscal year 2005
- 18 Auditor's report
- 19 Key Group figures

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enercity®
positive energie

The company: Sustainable success based on attractive product range

Stadtwerke Hannover has annual sales of more than Euro 1.75 billion, making it one of the largest municipal energy supply utilities in Germany. The company offers energy and services to private and business customers in Hannover and nationwide under its brand: “enercity – positive energy”.

Stadtwerke share capital is owned by the Versorgungs- und Verkehrsgesellschaft Hannover mbH (VVG), with a 75.09 per cent share, and the Thüga AG, headquartered in Munich, with a further 24 per cent. The remaining 0.91 per cent is owned by Hannover Region.

Stadtwerke itself holds several participations in energy utilities in Hannover Region (see participation summary). The operative business of the two major power stations, in Stöcken and Linden, and the Empelde gas storage is the responsibility of Stadtwerke Hannover AG in accordance with operating management contracts. It is for this reason that these operating results are included in this report while their environmental data, together with those of the Stadtwerke plant, are published on the internet under www.enercity.de/umweltdaten.

Within Hannover Region, we supply more than half a million people with electricity, natural gas, district heat and drinking water. Our product range

also includes complementary associated services. In a similar fashion to the customer-oriented enercity power offers (100 per cent natural power or heat/power co-generation) the company has developed a successful product in the very recent competitive market for natural gas – a gas fixed-price product, named “enercity Gas & fix”. This product means we can use our trading skills to effectively smooth price fluctuations to the benefit of our customers.

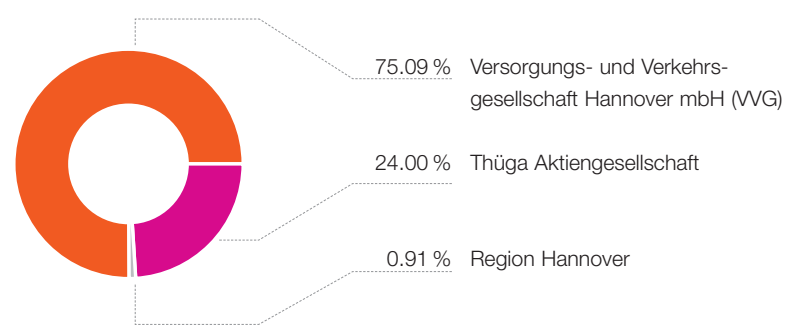
Following the liberalisation of the electricity market, Stadtwerke Hannover has expanded its activities to include major and industrial accounts throughout Germany. Enercity is at the cutting edge of competition in the electricity and gas markets.

Individual solutions, a willingness to meet customer requirements and a full range of associated services: these are key features of enercity offers, with which Stadtwerke successfully covers the entire service spectrum of energy management within the business customer sector – ranging from consultation and training activities over planning and realisation of new buildings and converted buildings through to contracting. Contracting is a service increasingly demanded by business customers, such that the growth curve of this division is rising at a disproportionately high rate.

Within the optimisation of its acquisition activities, Stadtwerke operates its own power stations using efficient heat and power co-generation, such that, overall, 70 per cent of all self-generated power comes from its three inner-city locations (Stöcken, Linden, Herrenhausen). Production is complemented by strategic partnerships, for example via participations in the generating capacities of E.ON Kraftwerke GmbH (at the biomass-fired power station, Landesbergen) and cooperation with Naturstrom AG (natural power).

Further to this, Stadtwerke Hannover has also established its “enercity trade” division for European-wide energy trading, sales and procurement, successfully implementing experience gained in electricity trading on the European natural gas market. enercity trade ultimately helps provide that market and price transparency which enables Stadtwerke to develop

Stadtwerke Hannover AG shareholders (status: March 2006)



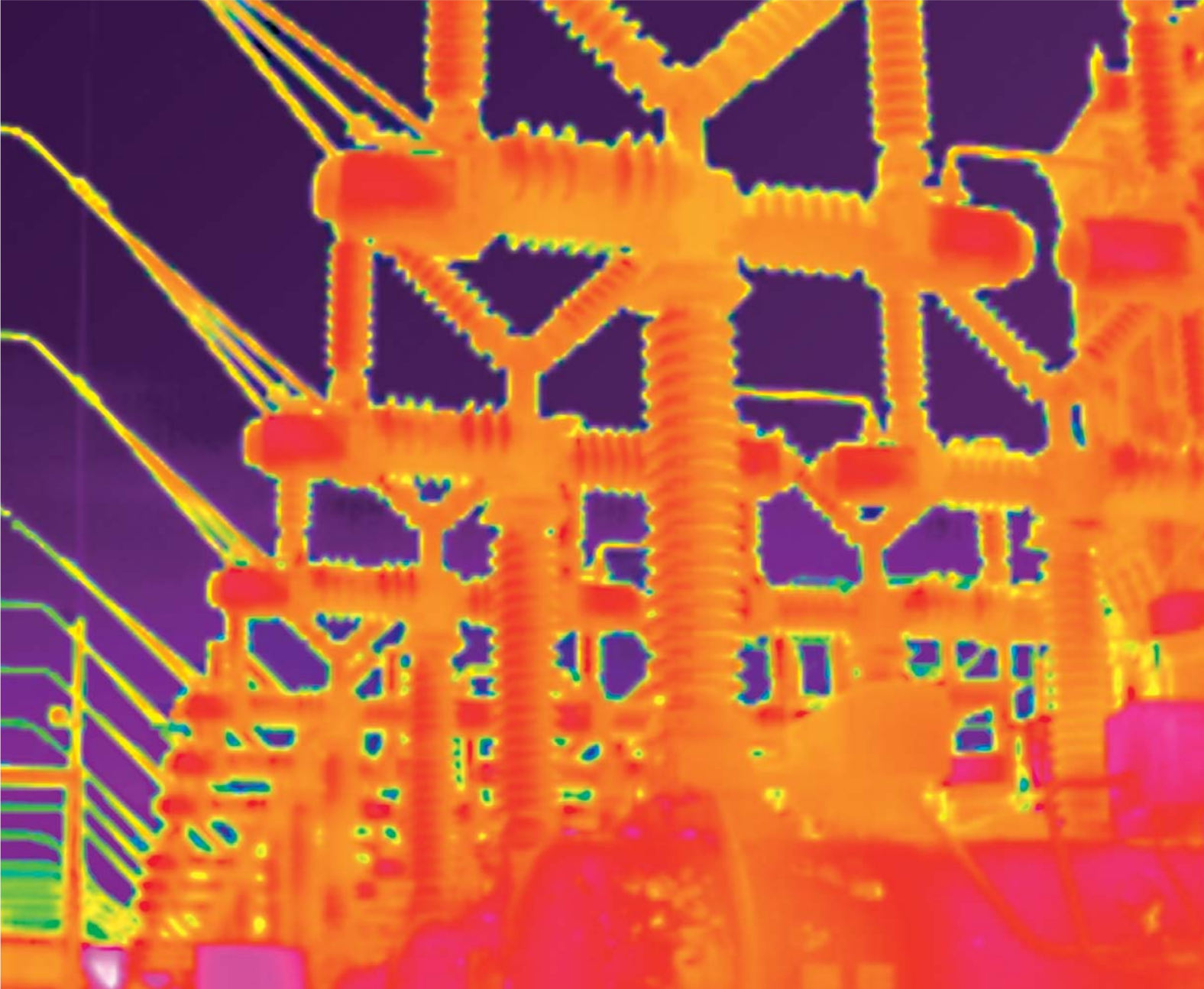
Stadtwerke Hannover AG participations

Generation/procurement	Services	Distribution	Environment
90 % GKL Hannover-Linden GmbH SK 5.11 million EUR	50 % Wärme-Service GmbH SK 0.52 million EUR	34 % GW Wunstorf GmbH & Co KG SK 2 million EUR	approx. 75 % proKlima GbR Volume approx. 4 million EUR
74.5 % GKH Hannover GmbH SK 10.23 million EUR	50 % Metegra GmbH SK 0.25 million EUR	20 % SW Garbsen GmbH SK 17.80 million EUR	12.2 % Klia Hannover gGmbH SK 0.025 million EUR
66.67 % GKW GmbH SK 0.027 million EUR	50 % EPL GmbH Langenhagen SK 0.10 million EUR	2 % HKW Harzwasser Syke GmbH SK 5 million EUR	
61.75 % GHG Hannover GmbH SK 0.10 million EUR	50 % htp GmbH SK 25 million EUR	0.25 % EEX AG SK 40 million EUR	
50 % BioHKW Landesbergen GmbH SK 1 million EUR	10 % Bet.ges. Zukunftsenergien AG SK 18 million EUR		
33.33 % KW Mehrum GmbH SK 10.227 million EUR	1.7 % Hannover Marketing GmbH SK 0.2 million EUR		
16.3 % WKN Windpark Nord GmbH SK 6.12 million EUR	1.1 % VWEW Energieverlag GmbH SK 0.27 million EUR		
10 % Nds. Verfrachtungs-GmbH SK 0.77 million EUR			
7 % Harzwasserwerke GmbH SK 38.5 million EUR			

offers tailored to the market – also for other municipal power utilities: enercity trade offers municipal enterprises without their own trading division the opportunity to benefit from the advantages of energy trading.

Ecologically oriented offers and products are compatible with the corporate philosophy of Stadtwerke Hannover, and are seen as growth markets over the long term. The environment-conserving combination of electricity and heat co-generation in co-generation plants, the use of hydroelectric and biomass power

stations and wind-generated power are signpost activities in the power station sector. The commitment to the environment is also reflected on the sales side with the “natural electricity” offers for private and business customers. proKlima is an enercity fund, which, since it was established in 1998, has received many prizes and awards and demonstrates how a co-operative model can help to promote climate protection with municipal partners – at a local level and in particular on the demand side. \\\



Market & opportunities

Stadtwerke Hannover AG is a modern energy service provider, growing in a diverse social environment from its municipal roots. Our business activities are the result of considered responses to the marketplace, the wishes of our shareholders, our regional economic environment and the public. We have long been aware of our corporate social responsibility for the region of Hannover.

Living on generated earnings, not from capital – that is how we understand sustainability. Stadtwerke Hannover AG has therefore interpreted a sustainable corporate strategy within this context as being one which must initially underpin and strengthen the economic

future of enercity. Only an economic concept offering success over the long term places us in a position to remain autonomous and generate good results while upholding that achieved, coupled with making a specific and long-term contribution to the development of Hannover Region.

It is undoubtedly an aspiration which represents a major challenge when viewed against the background of European energy market deregulation. Developments during 2005 were, much more so than in the past, dominated by the massive changes resulting from the revised Energy Act.

Economic status: enercity® proves its strengths under new boundary conditions

Stadtwerke Hannover AG is moving into the second phase of the energy market liberalisation in good shape, based on positive results in 2005 and a successful strategy. Enercity intends to assert itself against the pressures of deregulation and competition, maintaining and reinforcing its position by redoubling its efforts in terms of quality and quantity.

Stadtwerke Hannover AG continues along its successful path of development of recent years by again presenting an improved annual profit. The mounting competitive pressure on both procurement as well as sales markets was successfully compensated by the initial implementation of internal efficiency measures in accordance with our Triathlon project, the optimisation of energy procurement – also benefiting from energy trading – and high production capacity working levels.

The annual result 2005 amounting to Euro 99.6 million before profit transfer and dividends on participation certificate capital is consistent with the approach adopted in the 2005 business plan as well as with the development lines depicted in Concept 2007, showing the company's current medium-term growth curve taking core activities into account. The company's longer-term strategic development, based on boosting vertical integration and planned growth in the core areas of all divisions, is outlined in the new "concept 2015", the final draft of which is expected in mid 2006.

It is worth emphasising that the economic success achieved in 2005 was within an energy market dominated by higher competitive intensity with associated pressure on margins with existing accounts. During the report term, prices on the primary energy markets were also subject to substantial increases, continuing a trend commencing in 2004. During 2005, crude oil prices rose by over 40 per cent, undergoing the strongest increase since 2002.

It is a legal requirement in Germany, since 1 July 2005, that all use-of-system charges have to be approved by the Federal Network Agency in Bonn. In response, Stadtwerke has established a central department to deal

with regulation management issues. This department is responsible for maintaining and structuring contacts with the federal agency. A further step taken in 2005 within the implementation of the Energy Act was an equality programme to ensure non-discrimination in the configuration and development of network operations.

The introduction of the revised Energy Act has led to increased regulation pressure on use-of-system charges, associated with an expectation of lower prices. On the other hand, the Energy Act also includes stipulations to ensure that power supplies are as secure and environmentally-compatible as possible, compliance with which is not possible without sustainable investments and maintenance measures. These contradictory expectations herald substantial future risks for power utilities.

In a move to maintain the corporate principles set out in the Concept 2007 paper with respect to sustainability – based on the three pillars of economy, ecology and social responsibility to its employees – Stadtwerke implemented its Triathlon project in mid-2004. The project targets enhanced efficiency in corporate processes and the creation and achieving of profitable growth over the long term as a platform from which enercity can hold its top position amongst comparable energy utilities in terms of competitiveness and independence – even and also under the terms and conditions resulting from the second wave of energy market liberalisation.

1.75 billion Euro

... Stadtwerke Hannover AG sales in fiscal year 2005

87.5 million Euro

... annual profit 2005 transferred to shareholders

48.7 million Euro

... transferred as concession fees to cities in our supply area

Markets, customers and partnerships

Stadtwerke Hannover AG was once again one of the most successful energy service providers in Germany during 2005. This success is documented for example by having the lowest “change of supply” rate compared with its competitors amongst all target groups in the power economy as well as achieving supra-regional sales amongst its accounts and key-accounts.

We were therefore able to successfully defend our network area against penetration attempts by other suppliers, also amongst our private customers. Of the low number of customers who changed supplier in this segment, almost 45 per cent were won back; customer losses were low on an industry comparison, while win-backs were comparatively high.

This level of customer satisfaction within the framework of an attractive cost-performance ratio, demands ongoing optimisation of internal processes. The reorganisation of the major “market” department into the “marketing and distribution” department was accompanied by the optimisation of all internal processing and information processes along the value chain, with concurrent improvements to offers extended to business customers in the form of new power products. The “enercity contact” sector was also strengthened by the introduction of IS-U accounting software, providing additional support functions in terms of customer and relations management.

The company has placed the emphasis on qualitative growth within, for the most part, stagnating energy and water markets. This focus includes expanding energy services. Stadtwerke Hannover’s contracting division has burgeoned in a market spurred by the rising pressure on costs, not only amongst major industrial accounts but also amongst small businesses, public administrations, hospitals and the housing industry. A further field of growth in the gas supply process chain is that of gas storage. Working together with its partners, Erdgas Münster and E.ON Ruhrgas, the company is currently in the process of expanding its gas storage at Ronnenberg/Empelde by constructing a fourth

cavern. This project is scheduled for completion by 2013. As part of its attempts to assure long-term security of electricity supplies under favourable conditions, Stadtwerke Hannover is also reviewing options for co-operation in the construction of a new power plant. This capacity expansion represents an investment volume with an order of magnitude of around Euro 1 billion, one quarter of which would be covered by enercity.

The harsher competition on the electricity and gas markets has also created options for collaboration with other energy suppliers on the distribution and trading sides. Enercity concluded cooperation agreements to this effect with the Stadtwerke Hameln at the end of 2005.

Outlook

The company’s excellent position, as manifested in an EBIT of over Euro 100 million, can only be sustained by investing further efforts to assure qualitative and quantitative stability of the market. The need to optimise internal processes along with the procurement side, is matched by enercity’s pushing ahead with the corporate goal of developing near-core, asset-supported potentials for growth.

Forward-looking steps were taken in 2005 to consolidate the energy procurement and energy securing areas by entering new or revising existing contracts. The process of maintaining capital assets complies with these goals, although it is subject to critical review against the background of price developments for electricity distribution charges.

A further significant aspect is unbundling and how it actually develops. The loss of tried and tested synergies within the closely interwoven production and network operations of corporate organisations undoubtedly represents a tough challenge for which Stadtwerke Hannover AG is preparing itself by way of its “network organisation” project. This involves the restructuring of the following key areas: network control, power/gas/water network operations and the operation of heat/services and planning/building monitoring.

During 2006 the corporation expects to face a number of substantial organisational challenges. These include the implementation of measures targeting cost and revenue optimisation from the Triathlon project as a way to buffer anticipated dips in earnings from the network sectors.

Based on the company’s current position of strength, the ultimate success of the measures as introduced is strongly expected to consolidate enercity’s continued regional and national market position. As far as the effects of regulation and harsher competition are concerned, Stadtwerke Hannover AG feels well placed to move strongly forward. This being the case, the 2006 business plan envisages profits after tax of around Euro 98.9 million. \\\

Overview of figures

Power supply	2004	2005
Power network input (in GWh)		
Procurement KWM, GKH, GKL and own generation	3,743	3,960
Other sources	17,141	19,894
Power input, total	20,884	23,854

Effective power supply in network area (in GWh)		
Standard customers	990	1,002
Special contract customers	2,186	2,074
Effective supply, total	3,176	3,076
Transit into SWH network	224	316
SWH network area, total	3,400	3,392
Outside SWH area (including trade)	17,509	20,664

Network length (in km)	2004	2005
Network length (in km)	7,739	7,772

Households connected (number)	2004	2005
Households connected (number)	82,827	84,473

Meters in network (number)	2004	2005
Meters in network (number)	383,276	384,668

Water supply	2004	2005
Water input (in million m³)		
Waterworks Elze-Berkhof	21.5	19.8
Waterworks Fuhrberg	19.1	19.5
Waterworks Grasdorf	2.1	2.4
Harz water procurement	2.4	2.8
Network input, total	45.1	44.5

Effective water supply (in million m ³)		
Effective supply, total	43.3	42.7

Network length (in km)	2004	2005
Network length (in km)	2,107	2,111

Households connected (number)	2004	2005
Households connected (number)	87,505	87,771

Meters in network (number)	2004	2005
Meters in network (number)	122,324	130,689

Gas supply	2004	2005
Gas procurement (in GWh)		
Gas procurement, total	11,938	16,582
Gas supply (in GWh)		
Network input (without power stations)	9,731	9,465

Effective gas supply in network area (in GWh)		
Effective supply, total	9,620	9,442
Transit into SWH network	111	23
SWH network area, total	9,731	9,465
Outside SWH network	2,358	7,046

Network length (in km)	2004	2005
Network length (in km)	2,017	2,010

Households connected (number)	2004	2005
Households connected (number)	76,425	76,744

Meters in network (number)	2004	2005
Meters in network (number)	225,011	223,210

Heat supply	2004	2005
District heat customers (number)		
District heat customers (number)	3,035	3,154
HeatService customers (number)		
HeatService customers (number)	316	351

Network input (in GWh)		
Network input, total	1,443	1,488

Effective heat supplied (in GWh)		
Effective supply, total	1,239	1,349

Network length (district heat) (in km)	2004	2005
Network length (district heat) (in km)	283	292

Connection values (in MW)	2004	2005
Connection values (in MW)	1,074	1,078

Meters in network (number)	2004	2005
Meters in network (number)	4,425	4,804



Key figures from the financial statements and employees

	2004	2005
Balance sheet (in million EUR)		
Assets		
Intangible assets	5.8	8.1
Tangible assets	415.9	408.9
Financial assets	178.6	306.5
Current assets	222.8	341.6
Prepaid expenses	2.1	2.3
Balance sheet total	825.2	1,067.4

Liabilities		
Shareholders' equity and similar	310.2	317.4
Long term outside capital	74.0	185.2
Short and medium term outside capital	441.0	564.8
Balance sheet total	825.2	1,067.4
Investments in tangible assets	54.7	44.4

	2004	2005
Statement of income (in million EUR)		
Sales, net	1,363.8	1,753.7
Of which, from sale of:		
Electricity	853.0	1,097.5
Heat	59.9	69.1
Gas	326.8	450.3
Water	67.3	71.2
Other business	56.8	65.6
Other earnings	129.1	208.9

Cost of materials	1,019.8	1,468.8
Personnel expenses	178.6	180.3
Depreciation on tangibles	52.8	49.3
Concession fees	47.3	48.7
Other expense	182.6	203.3
Annual profit	11.8	12.2

Value added	2004	2005
Value added	321.5	338.2

Employees (number)	2004	2005
Employees (number)	2,941	2,814

Balance sheet of Stadtwerke Hannover AG

as of 31 December 2005

Assets	EUR	EUR	31.12.2005 EUR	31.12.2004 kEUR
A. Intangible assets				
I. Intangible assets				
Concessions, industrial property rights and similar rights and values			8,055,238.00	5,779
II. Tangible assets				
1. Land and leasehold rights and buildings, including buildings on third party land	44,318,403.68			46,105
2. Generating, production and importing plant	22,340,131.00			23,529
3. Distribution plant	267,826,766.00			277,760
4. Technical equipment and machinery	30,070,628.00			31,997
5. Other equipment, factory and office equipment	11,401,235.00			11,680
6. Pre-payments and construction in progress	32,923,508.95			24,837
			408,880,672.63	415,908
III. Financial assets				
1. Shares in affiliated companies	16,109,436.44			16,109
2. Loans to affiliated companies	28,000,000.00			29,021
3. Investments	44,648,785.43			47,816
4. Due to undertakings with which the company is linked by virtue of participating interests	19,055,595.58			2,500
5. Investments held as fixed assets	192,634,499.75			76,533
6. Other loans	6,029,040.83			6,605
			306,477,358.03	178,584
			723,413,268.66	600,271
B. Current assets				
I. Inventories				
1. Raw materials and supplies	5,383,654.56			2,745
2. Work in progress	2,350,412.56			1,811
3. Finished goods	14,338,099.53			9,313
			22,072,166.65	13,869
II. Accounts receivable and other assets				
1. Trade accounts receivable less prepayments	386,544,738.54			322,595
	-163,542,463.80			-191,923
	223,002,274.74			130,672
2. Due from affiliated companies	8,166,363.68			8,031
3. Due from undertakings with which the company is linked by virtue of participating interests	24,886,504.02			23,807
4. Other assets	35,624,337.52			37,777
			291,679,479.96	200,287
III. Investments				
1. Own participation certificates	3,578,086.13			3,578
2. Other investments	1,845,523.50			137
			5,423,609.63	3,715
IV. Cash on hand and on deposit with Deutsche Bundesbank Cash in other banking accounts			22,467,659.47	4,965
			341,642,915.71	222,836
C. Prepaid expenses			2,326,890.37	2,099
			1,067,383,074.74	825,206

Liabilities	EUR	EUR	31.12.2005 EUR	31.12.2004 kEUR
A. Shareholders' equity				
I. Share capital	86,000,000.00			86,000
II. Additional paid in capital	78,534,977.83			78,535
III. Earnings reserves				
Other earnings reserves	75,676,237.69			66,676
IV. Participation certificate capital	5,112,918.81			5,113
			245,324,134.33	236,324
B. Special item for investment subsidies			20,866,631.62	21,484
C. Building subsidies received			97,157,545.00	99,590
D. Provisions				
1. Provisions for pensions and similar obligations	44,523,627.30			47,572
2. Tax provisions	1,918,436.92			1,830
3. Other provisions	206,105,559.52			178,811
			252,547,623.74	228,213
E. Liabilities				
1. Liabilities due to banks	101,156,542.18			23,716
2. Trade accounts payable	110,568,586.43			99,673
3. Due to affiliated companies	70,345,189.58			54,398
4. Due to undertakings with which the company is linked by virtue of participating interests	10,179,897.91			10,585
6. Other liabilities	81,264,592.91			51,218
Of which tax: EUR 24,513,968.05 (previous year: kEUR 16,104)				
Of which due to social security: EUR 3,591,893.88 (previous year: kEUR 3,612)				
			373,514,809.01	239,590
F. Deferred income			77,972,331.04	5
			1,067,383,074.74	825,206

Statement of income for fiscal year 2005

		EUR	2005 EUR	2004 KEUR
1. Sales	1.	1,831,375,339.41		1,431,291
2. Electricity tax	2.	<u>-77,645,811.02</u>		-67,506
			1,753,729,528.39	1,363,785
3. Changes in inventories of work in progress	3.		539,103.09	504
4. Other work capitalised	4.		7,748,416.83	8,851
5. Other operating income	5.		191,663,689.21	111,722
6. Cost of materials	6.			
a) Cost of raw materials and supplies and of purchased merchandise	a)	1,366,784,191.93		950,738
b) Cost of purchased services	b)	<u>102,004,681.73</u>		69,070
			1,468,788,873.66	1,019,808
7. Staff costs	7.			
a) Wages and salaries	a)	141,889,610.12		139,847
b) Social security, pensions and other benefit costs	b)	<u>38,395,416.82</u>		38,769
			180,285,026.94	178,616
8. Depreciation and amortisation expense	8.		49,279,235.03	52,778
9. Other operating expenses	9.			
a) Concession fees	a)	48,725,770.00		47,295
b) Other	b)	<u>103,081,632.95</u>		98,643
			151,807,402.95	145,938
10. Income from participations	10.		2,292,538.30	1,266
Of which affiliated companies: EUR 7,720.38 (previous year: kEUR 8)				
11. Profits from profit transfer agreements	11.	1,687,399.08		2,523
Dividends to outside shareholders		<u>-282,233.12</u>		-282
			1,405,165.96	2,241
12. Income from other securities and loans	12.		1,796,380.19	1,762
of which from affiliated companies: EUR 659,732.89 (Previous year: kEUR 668)				
13. Other interest and similar income	13.		3,443,467.00	2,708
of which from affiliated companies: EUR 973,362.91 (Previous year: kEUR 962)				
14. Write-downs on financial assets	14.		3,128,684.11	0
15. Expenditure from assumption of losses	15.		236,339.70	105
16. Interest and similar expenses	16.		<u>2,857,569.26</u>	917
Of which to affiliated companies: EUR 551,482.97 (Previous year: kEUR 259)				
17. Profit from ordinary operations			106,235,157.32	94,677
18. Income tax expense	18.		5,395,241.86	4,632
19. Other taxes	19.		1,203,834.70	1,688
20. Profit transferred in accordance with a profit transfer agreement	20.		<u>87,481,409.85</u>	76,596
21. Net income before dividends on participating certificate capital	21.		12,154,670.91	11,761
22. Dividends on participating certificate capital	22.		<u>3,154,670.91</u>	2,761
23. Net income	23.		9,000,000.00	9,000
24. Transfer (minus) to other retained earnings	24.		<u>-9,000,000.00</u>	-9,000
25. Net profit for the year	25.		<u>0.00</u>	0

Notes about fiscal year 2005

Details and reasons for the balance sheet and statement of income presentation layouts

The net income has been prepared in accordance with accounting regulations governed by German commercial law and provisions of the German Stock Corporation Act and the Energy Act.

The income statement is drawn up in accordance with the total expenditure method. In the interest of clarity and comprehension the items on the asset side of the balance sheet have been expanded to include "Generating, production and importing plant" and "Distribution plant" and on the liabilities side by the "Special item for investment subsidies" and "Building subsidies received".

During the report term, for reasons of clarity the prepayments received are clearly distinguished from trade accounts receivable, with the values of the previous year adapted accordingly.

The other details of the balance sheet and the income statement are as presented last year.

Insofar as explanations are pertinent with respect to balance sheet items or statement income items, such details are presented in the notes.

Balance sheet and evaluation methods

The intangible assets and property plant and equipment are accounted for at the cost of procurement or production, less depreciation as pursuant to Section 253 para. 2 HGB. Reasonable overhead charges are deducted from goods and services for own account.

Scheduled depreciation is in accordance with the useful life, assessed according to fiscal regulations, whereby new plant principally follows the declining balance method of depreciation where tax permissible.

Minor value assets are written down in full in the year of acquisition.

Of the financial assets, the shares in affiliated companies, the participations, the loans and securities of the fixed assets are stated at cost insofar as no lower value was applicable.

The low interest loans to staff included in the other loans are accounted at the normal rate (repayment amount) in accordance with the BFH judgement dated 30.11.1988. All other low interest loans are accounted at cash value.

Stocks of operating supplies and merchandise are stated at average purchase prices or lower spot prices. Subsidies granted are reported accordingly. Work in process is evaluated in accordance with self-constructed assets.

Emission rights allocated without charge are reported at the pro mem figure; emission certificates purchased are evaluated at the purchase price or at the lower spot price.

Accounts receivable and other assets are evaluated bearing all identifiable individual risks and general risk into account. The evaluation of individual participating certificates is based on the balanced average including incidental charges; other securities are reported at purchase price. Accounts outstanding in foreign currencies are valued at acquisition cost or the lower exchange rate on balance sheet date.

Subsidies received (in accordance with R 34 EStR) for the acquisition of fixed assets are reported as a special item for investment subsidies.

The building cost subsidies received as of 31.12.2002 are amortised at five per cent per annum, additions from 01.01.2003 are booked in accordance with BMF statement dated 27.05.2003 as expenditure similar to the useful life of the corresponding assets.

Provisions for pensions and similar obligations are based on actuarial principles. The evaluation is in accordance with tax regulations (Section 6a EStG). Provisions for pensions are based on the 2005 G tables issued by Dr. Heubeck. The provisions for early retirement obligations are reported at their fulfilment amount; the obligations for semi-retirement are calculated on actuarial principles. The obligations from semi-retirement used the 2005 G tables issued by Dr. Heubeck. All other provisions have been set aside to reasonably reflect all recognisable risks.

All liabilities are shown at their redemption value. All foreign currency obligations are valued at either acquisition rate, at the hedged future rate or at the higher selling rate on balance sheet date.

Notes on the annual profit

In accordance with a management and profit transfer agreement, Stadtwerke Hannover AG has transferred profits amounting to Euro 87.481 million to its parent company, the Versorgungs- und Verkehrsgesellschaft Hannover mbH (VVG). This amount includes the sum of Euro 15.342 million as minimum dividend for external shareholders. A dividend of Euro 3.155 million goes to participation certificate capital; the remaining annual profit of Euro 9.0 million is appropriated to other earnings reserves.

Group financial statements

This year marks the first report year in which Stadtwerke Hannover AG has prepared its Group financial statements in accordance with the International Finance Reporting Standards (IFRS). They are deposited with the district court of Hannover.

Share capital

The share capital of the company after the conversion is Euro 80,000,000.00 and is divided up into 17,200,000 shares with a nominal value of Euro 5.00 per share, of which the Versorgungs- und Verkehrsgesellschaft Hannover mbH, Hannover, holds 12,914,742 shares.

Group parent company

Versorgungs- und Verkehrsgesellschaft Hannover mbH (VVG), Hannover, is the parent company and as such prepares group financial statements and a group management report in which the Stadtwerke Hannover AG is consolidated. The company is registered in the Hannover commercial register, in Section B under the number 6692. The group financial statements are available at Ihmeplatz 2, 30449 Hannover.

Stadtwerke Hannover Aktiengesellschaft
The Management Board

Auditor's report

The annual financial statements and the management report have been given the following unqualified auditor's report:

"We have audited the annual financial statements – consisting of the balance sheet, the statement of income and notes – with due consideration of the accounting and the management report of the Stadtwerke Hannover Aktiengesellschaft, Hannover for the financial year from 1 January to 31 December 2005. The accounting and the preparation of the financial statements in accordance with German Commercial Code regulations and supplementary regulations of corporate governance are the responsibility of the Board of Managing Directors of the company. Our responsibility is to express an opinion based on our audit of the financial statements, the accounting and the management report.

We conducted our audit of the financial statements in accordance with Section 317 HGB in compliance with the generally accepted standards for the audit of financial statements adopted by the German Auditing Institute (IDW Institut der Wirtschaftsprüfer in Deutschland). These standards require that we plan and implement the audit taking into consideration the accepted accounting standards to obtain reasonable assurance that any misrepresentations and violations which have a significant impact on the picture given of the asset, financial and profit situation presented in the financial statements and the management report can be properly identified. Knowledge of the business activities and the economic and legal environment of the company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the accounting, the financial statements and the management report, and the effectivity of the accounting-related internal control systems, is primarily assessed on the basis of random sampling. The audit includes assessing the accounting principles applied and significant estimates made by the Board of Managing Directors, as well as appraising the over-

all presentation of the financial statements and the management report. We believe that our audit provides a sound basis for our opinion.

Our audit has not led to any reservations.

In our opinion, on the basis of the information acquired during the audit, the financial statements comply with the German Commercial Code regulations and the supplementary regulations of corporate governance, and through compliance with these regulations and accepted accounting standards provide a true and fair view of the asset, financial and profit situation of the company. The management report is compatible with the financial statements and presents an accurate picture overall of the state of the company, and suitably presents the risks and opportunities of future developments."

Hannover, 28 February 2006

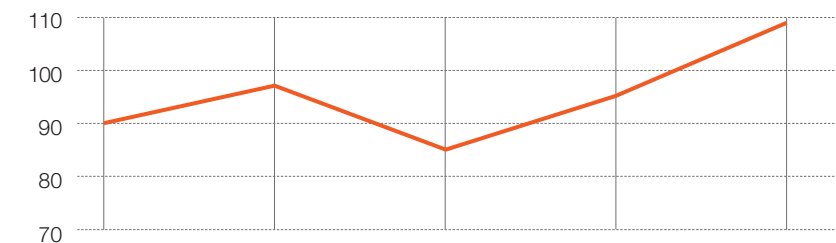
PricewaterhouseCoopers AG
Wirtschaftsprüfungsgesellschaft

(Versen)
Certified public accountant

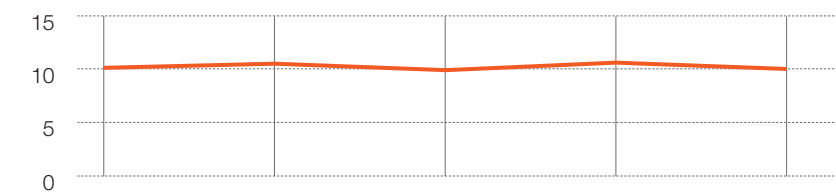
(ppa. Möllers)
Certified public accountant

Key Group figures

EBIT/Earnings before Interest and Taxes (in million EUR)



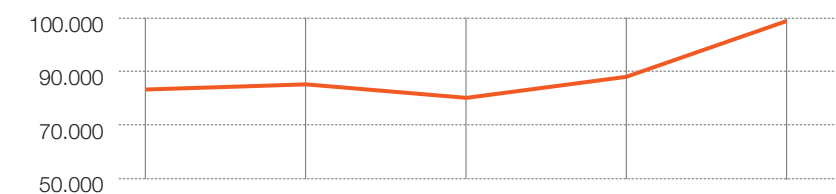
Total capital interest (in per cent)



Total capital interest

$$\frac{\text{Profit} + \text{interest on debt capital}}{\text{balance sheet total}} \times 100$$

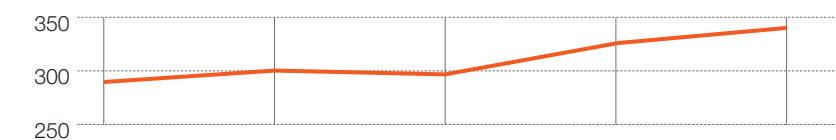
Corporate result (in kEUR)

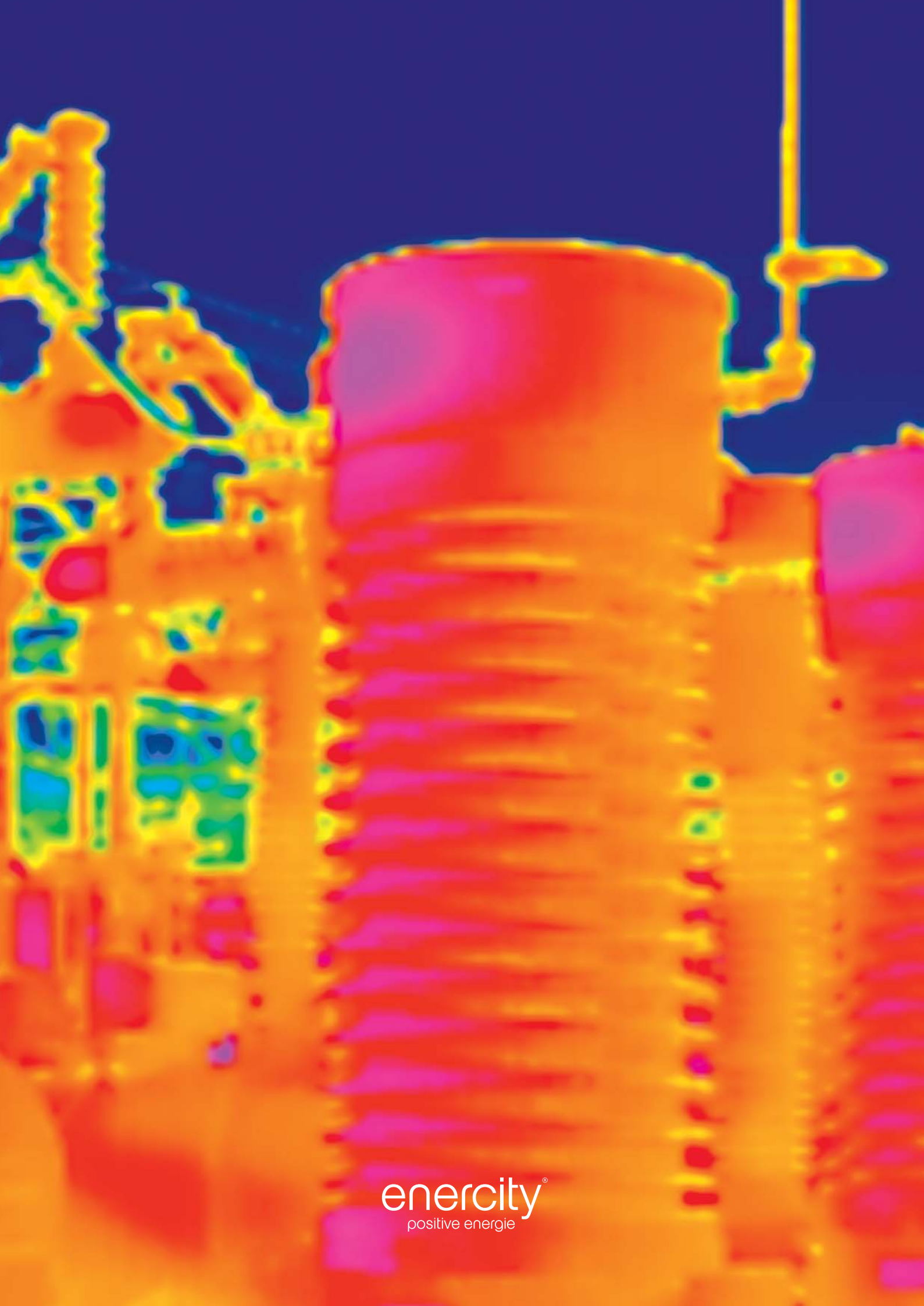


Corporate result

$$\begin{aligned} &\text{Profit transfer} \\ &+ \text{dividend paid out to} \\ &\text{participation certificate capital} \\ &+ \text{reserve appropriations} \end{aligned}$$

Development of value added (in million EUR)





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