

enercity® Report 2006

Executive Summary



enercity®
positive energie



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Success in competition
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enercity[®] Report 2006

Executive Summary

The company: Continued success despite harsher competition

With an annual turnover of more than Euro 1.78 billion Stadtwerke Hannover is one of the largest municipal utilities in Germany. The company offers energy and services under its master brand “enercity – positive Energie” to private and business customers in both Hannover and throughout Germany.

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

Stadtwerke has a number of participations in energy providers within the Hannover Region as well as around Germany (see participations summary). In accordance with operating contracts, the two large power plants in Stöcken and Linden and the Empelde gas cavern storage are operated by Stadtwerke Hannover AG. Accordingly, Stadtwerke Hannover AG’s operating results are also presented in this report. Its environmental data, together with the Stadtwerke notes, are available in the internet at www.enercity.de/umweltdaten. With effect from 1 January 2007, the management of the electricity, gas, water and district heating networks transferred to enercity Netzgesellschaft mbH, a wholly owned subsidiary. The electricity and gas networks are leased to this organisation. The operating activities are again undertaken by Stadtwerke Hannover AG in accordance with a contract with the new company. The development of the network business will therefore continue to be a constituent part of this report.

The company supplies more than half a million people in Region Hannover with electricity, natural gas, district heat and potable water. The product range also includes complementary, energy-related services. In a move similar to its customer-oriented enercity power offers (100% natural power and power from heat-power co-generating stations), the company has also developed a successful product in the fledgling natural gas market – “enercity gas & fix” is a fixed price gas offer. This attractive offer demonstrates how our trading competence can be used effectively to help ameliorate

excessive price fluctuations to the benefit of our customers. Following the liberalisation of the power market, Stadtwerke Hannover AG has expanded its key and industrial account activities nation-wide. enercity is one of the front contenders in the competitive power and gas markets.

The provision of individualised solutions, invoices tailored to customer needs and full service offers are key aspects of enercity’s product range. In key accounts, Stadtwerke successfully covers the entire spectrum of energy management – from consulting and training over planning and realisation of new facilities and conversions through to plant operating services (contracting). The latter enjoys a strong demand from business accounts such that this sector is growing at an over-proportional rate.

To further optimise its procurement, Stadtwerke operates its own power plants with efficient heat-power coupling and, seen overall, some 60% of in-house generated power is sourced from three inner-city co-generating plants (Stöcken, Linden and Herrenhausen). These production capacities are complemented by strategic partnerships, for example via participations in the generating capacity of the E.ON Kraftwerke GmbH (as for example at the biomass co-generation plant in Landesbergen) and the Naturstrom AG (natural power).

“enercity trade” is an energy trading division established by Stadtwerke Hannover AG to be active in the European-wide sales and purchase of energy, and is now successfully applying the excellent experience gained in power trading also on the European natural gas market. Last, but not least, enercity trade is able to provide the requisite levels of market and price transparency to enable the Stadtwerke to develop products in response to market needs – also for other municipal utilities: enercity trade offers municipal enterprises without their own trading division the opportunity to benefit from the advantages of energy trading.

Stadtwerke Hannover AG participations

Generation/Procurement/ Distribution	Services	Sales	Environment
100 % enercity Netzgesellschaft mbH* SC 0,025 million EUR	74,9 % Danpower GmbH SC 5,0 million EUR	34 % GW Wunstorf GmbH & Co KG FC 2 million EUR	approx. 75 % proKlima GbR Volume approx. 4 million EUR
90 % GKL Hannover-Linden GmbH SC 5,11 million EUR	50 % Wärme-Service GmbH SC 0,52 million EUR	20 % SW Garbsen GmbH SC 17,80 million EUR	12,2 % Klia Hannover gGmbH SC 0,025 million EUR
74,5 % GKH Hannover GmbH SC 10,23 million EUR	50 % Metegra GmbH SC 0,25 million EUR	2 % HKW Harzwasser Syke GmbH SC 5 million EUR	
66,67 % GKW GmbH SC 0,027 million EUR	50 % EPL GmbH Langenhagen SC 0,10 million EUR	0,25 % EEX AG NC 40 million EUR	
61,75 % GHG Hannover GmbH SC 0,10 million EUR	50 % htp GmbH SC 25 million EUR		
50 % BioHKW Landesbergen GmbH SC 1 million EUR	10 % Bet.ges. Zukunftsenergien AG NC 18 million EUR		
49 % NG Laatzen GmbH & Co. KG* FC 6,1 million EUR	1,7 % Hannover Marketing GmbH SC 0,2 million EUR		
33,33 % KW Mehrum GmbH SC 10,227 million EUR	1,1 % VWEW Energieverlag GmbH SC 0,27 million EUR		
25,2 % GKW Staudinger GmbH & Co.KG i.G. SC 0,025 million EUR			*From 1 January 2007
16,3 % WKN Windpark Nord GmbH SC 6,12 million EUR			SC = Share capital NC = Nominal capital FC = Fixed capital
10 % Nds. Verfrachtungs-GmbH SC 0,77 million EUR			
7 % Harzwasserwerke GmbH SC 38,5 million EUR			

Stadtwerke Hannover AG's corporate philosophy is best expressed in its ecologically-oriented offers and products, which are regarded as long-term growth markets. The environmentally-conserving combination of heat and power generation in combined head and power plants, the use of hydroelectric and biomass power plants and wind power generation confirm this alignment on the power station side. 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

As a modern energy service provider with strong communal roots, Stadtwerke Hannover AG is active within a diverse societal environment. Our business activities follow the rules of the marketplace while at the same time responding to satisfy the wishes of shareholders, the regional business community and the public. Our awareness and acceptance of our corporate

social responsibility for Region Hannover is expressed in the achievements and accomplishments of a track record reaching back over many tens of years.

Live on the interest, not on the capital – that is a crucial facet of sustainability. Stadtwerke Hannover AG has configured its strategy to realise sustainable corporate activities accordingly and therefore follows



goals intended to strengthen the economic future of energy. Only a successful long-term business concept can ultimately provide solid foundations for autonomy, good results and the continuing existence of the company while also building a platform for generating a specific and ongoing contribution to the development of Region Hannover.

When considered in the light of a liberalised European energy market, these aspirations represent a major challenge. More so than in the preceding years, 2006 saw us dealing with significant changes as a result of the provisions to the revised German Energiewirtschaftsgesetz (Energy Act).

Economic situation: enercity® strengthens its position in a harsher competitive climate

Increasing competition, primary energy prices at a high level and the first effects of the revised energy Act dominated financial year 2006. Despite these developments, Stadtwerke was able to present an excellent result and to position itself ready to face the challenges of the future.

With results once again up year-on-year, Stadtwerke Hannover AG was able to consolidate its market position. This development is based on its rigorous implementation of internal process optimisation and successful trading activities in its core business, above all in the gas market. enercity has also benefited from Germany's overall economic upswing.

The annual result 2006 amounting to Euro 114 million before profit transfer and dividends on participation certificate capital is consistent with the approach adopted in the 2006 business plan and is 14.4% higher than the previous year's result. Transnational gas trading made a significant contribution, with revenue rising by 82%. It is pointed out that this success is achieved in a year marked by increasing competition, sharp increases in prices on the primary energy markets and the negative economic knock-on effects of the new network regulations.

A robust economic platform enabled Stadtwerke Hannover AG to render shareholders with a good rate of capital interest in 2006. In financial year 2006 alone, the budget of the state capital of Hannover was again strengthened to the tune of Euro 81 million (previous year: Euro 72 million). In addition to the proportional balance sheet profits, Stadtwerke Hannover AG also paid out concession fees amounting to approximately Euro 47 million (previous year: approximately Euro 49 million) to the municipalities in its supply area.

Stadtwerke Hannover AG was able to defend its strong economic position in Lower Saxony's business community: based on a recent analysis, ranking Lower Saxony's 30 largest business enterprises according to value added, Stadtwerke comes in at 18th place.

During 2006, German power and gas utilities had for the first time to have their use-of-system charges, as invoiced to traders for the use of their transmission networks, approved by the Federal Network Agency. Following this review, Stadtwerke Hannover AG was ordered to reduce its fees for electricity and gas by 9.1% and 11.4%, respectively.

The gas market is subject to new regulations since 1 October 2006, according to which private households and industrial clients are enabled to change their gas provider. It remains to be seen how the change rate develops under the influence of the reduced use-of-system charges.

In response to the revised energy act and the prescribed unbundling, i.e. separation, of electricity and gas network operations from production and distribution, Stadtwerke established the enercity Netzgesellschaft mbH as a 100% subsidiary responsible for networks. This company has been responsible since 1 January 2007 for all tasks relating to network operations in the electricity and gas divisions.

2006 also saw a continued trend towards the construction of new power plants following many years of relatively low investment activity. With respect to the age structure of the existing power plant park, there is a definite need in the medium term to make substantial investments in the construction of new power plants as well as in the modernisation of existing plants. In May 2006, Stadtwerke resolved to participate in the new construction of a high-efficiency coal burning power plant. The planned joint power plant known as "Staudinger 6", a joint venture of E.ON Kraftwerke GmbH and Stadtwerke Hannover AG on a site near Hanau, at Grosskrotzenburg, is scheduled to go online in 2012. The power plant will have a net power output of over 1000 MWel. Stadtwerke Hannover AG has a share of 25.2% and will autonomously operate a slice of the

total capacity with a size of around 270 MWel. This step demonstrates how Stadtwerke Hannover AG is contributing to the urgent process of renewing Germany's power station landscape while concurrently improving efficiencies and reducing CO₂ emissions by a factor of 20% (compared with local plant).

With effect from April, Stadtwerke Hannover AG holds a 74.9% participation in the Danpower GmbH in Potsdam, a contracting company primarily active in Germany's new federal states in the installation and operation of heat generating plants and heat-power co-generation plants, in particular using biomass as fuel. The heat generated is used above all by municipal housing organisations.

In autumn of this year, Stadtwerke Hannover AG acquired a 49% shareholding in the network company Netzgesellschaft Laatzen. Co-shareholder is the city of Laatzen, with a 51% share. Netzgesellschaft Laatzen has acquired the electricity network in Laatzen and the water network in Laatzen-South. In accordance with contracts concluded, Stadtwerke Hannover AG took over the operation of the power network and the water supply network with effect from 1 January 2007.

The "Triathlon" project started in 2004 by Stadtwerke is a benchmark-oriented project aiming to develop greater efficiencies in corporate processes and external growth potential. It is currently in progress and will have been successfully finalised by 2010. A genuine milestone was reached with the signing of what is now the 6th interest reconciliation and welfare plan for the implementation of the Triathlon project agreed between the management board and the works council in 2006. The plan specifies a number of structural changes together with a reduction in the workforce of 336 FTEs. The realisation of these changes in personnel will be achieved without the need for redundancies.

Concept 2015 was resolved in 2006 and sets out

1.787 billion Euro

... Stadtwerke Hannover AG sales in financial year 2006

98.4 million Euro

... annual profit 2006 transferred to shareholders

46.7 million Euro

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

the strategic framework for the corporation's long and medium-term alignment whilst defining key cornerposts in the anticipated corporate development. The emphasis is again placed on customer-oriented supply quality, profitability, environmental protection and corporate social responsibility.

Stadtwerke is closely related through long-standing traditions with the state capital Hannover and its citizens. Stadtwerke's commitment goes beyond the supply of electricity, gas, heat and water. "proKlima", a fund established by enercity, is a tool with which the company is successfully collaborating with municipal partners to promote climate protection in the region and improve the quality of life for people in the area by way of sponsoring. Stadtwerke Hannover AG also provides for attractive places of work and training. The many and diverse orders placed with the local business community emphasise the significant role played by Stadtwerke Hannover AG within the city and the region.

Way forward

Stadtwerke Hannover AG fully intends during 2007 to continue to move towards its goal of being a key market player amongst the other multi-utility organisations based on its robust local position. Concurrently, activities within the Triathlon project will further reduce specific cost blocks. Total savings amounting to Euro 35 million achieved by 2010 will help the company withstand the increasing cost pressures within the industry. Overall, business policies focus on achieving long-term customer loyalty on the basis of continuing to provide an attractive cost-performance ratio. Despite the influence of the regulator, Stadtwerke looks forward to its 2007 annual profits being in line with those of the previous year.

The European Union has put forward a number of far reaching suggestions in keeping with its overall goal of further lifting the level of competition in energy supplies while promoting the protection of the climate.

These proposals include the intention of unbundling the transmission supply networks, not only corporately but also in terms of ownership. The EU Commission proposals will be the subject of intense discussions amongst EU member states during 2007.

The German government shares the overall goals of the European Union, but has adopted a sceptical stance with respect to the proposed measures. This being the case, Germany is planning to introduce real measures to strengthen competition in the form of greater regulation through incentives, while the federal ministry of economics intends to introduce stricter supervision to avoid misuse of energy pricing. It is therefore presumed that, as a consequence of the EU proposals and those of the federal ministry of economics, the regulatory framework will become tighter.

Irrespective of these effects, Stadtwerke Hannover AG will continue to work towards achieving long-term consolidation of its market position together with organic growth. In the power sector, supply contracts will continue to be concluded with national key accounts. Examples of these activities include the acquisition of Industriepark Troisdorf GmbH and Vodafone Information Systems as new key accounts. Further to this, Stadtwerke will continue to provide all national locations of the Deutsche Post AG and CDP Bharat Forge during 2007 and beyond.

Power sales to business customers are very much influenced by overall economic developments. Today's figures for orders placed and investments indicate a positive economic upswing. The effects of the increase in value added tax in Germany on overall economic development remain to be seen and a close watch will be kept on how developments in the primary energy markets affect prices. At the present time, forecasts for 2007 indicate that the German GDP will grow by an average of 1.2% during 2007.



Reflecting the growth in competition on the local gas market, Stadtwerke expects to see a slight dip in sales in its own network area in the next few years. Having said this, the company is in a strong position in order to continue to foster customer loyalty. In the private customer segment there are – as in previous years – a number of well tried and successful fixed price offers available. The Stadtwerke will continue to optimise its procurement activities by taking part in trading on the floors in the Netherlands while implementing full risk control. The company also intends to register at the EEX in Leipzig. In line with its new gas purchasing strategy based on a structured portfolio and an increase in storage capacities, enercity looks forward to expanding its business beyond its present regional borders.

One of the consequences of the reduced volume of gas sales as a result of lower consumption rates is the associated effect of falling energy densities in some city districts, in turn raising questions as to the economic viability over the medium term of operating parallel infrastructures. One response to this is the plan to push ahead with the implementation of

CO₂ efficient district heating alternatives. Within the district heating market, activities are continuing to further raise network density. In terms of water sales, the steady downward trend experienced in recent years is expected to continue. Stadtwerke Hannover AG therefore continues to be caught between on the one hand reduced revenues and on the other the fulfilment of scheduled renovation projects at both waterworks and in the supply network. On the contracting side, Stadtwerke will continue and further expand its existing strategy. The focus here is on the installation and operation of block power stations, in particular those fired using renewable resources.

Stadtwerke Hannover AG offers its customers a comprehensive concept for power generation using biomass. This is reflected in its intention to further develop this area of activities via the Danpower GmbH. \\

Overview of figures

Power supply	2005	2006
Power network input (in GWh)		
Procurement KWM, GKH, GKL	3.765	3.755
Own generation	195	181
Other sources	19.894	15.134
Power input, total	23.854	19.070
Effective power supply in network area (in GWh)		
Standard customers	1.002	995
Special contract customers	2.074	1.719
Effective supply, total	3.076	2.714
Transit into SWH network	316	691
SWH network area, total	3.392	3.405
Outside SWH area (including trade)	20.664	16.245
Network length (in km)	7.772	7.786
Households connected (number)	84.473	86.499
Meters in network (number)	384.668	385.228

Water supply	2005	2006
Water input (in million m ³)		
Waterworks Elze-Berkhof	19,8	20,7
Waterworks Fuhrberg	19,5	19,8
Waterworks Grasdorf	2,4	1,9
Harz water procurement	2,8	2,7
Network input, total	44,5	45,1
Effective water supply (in million m ³)		
Effective supply, total	42,7	43,3
Network length (in km)	2.111	2.172
Households connected (number)	87.771	90.690
Meters in network (number)	130.689	133.733

Gas supply	2005	2006
Gas procurement (in GWh)		
Gas procurement, total	16.582	17.546
Effective gas supply in network area (in GWh)		
Effective supply, total	9.442	9.238
Transit into SWH network	23	0
SWH network area, total	9.465	9.238
Outside SWH network	7.046	8.181
Network length (in km)	2.010	2.001
Households connected (number)	76.744	77.115
Meters in network (number)	222.692	221.002

Heat supply	2005	2006
District heat customers (number)	3.154	3.249
HeatService customers (number)	351	434
Network input (in GWh)		
Network input, total	1.488	1.488
Effective heat supplied (in GWh)		
Effective supply, total	1.349	1.350
Network length (district heat) (in km)	278	276
Connection values (in MW)	1.078	1.095
Meters in network (number)	4.804	5.189



Key figures from the financial statements and employees

	2005	2006
Balance sheet (in million EUR)		
Assets		
Intangible assets	8,1	6,6
Tangible assets	408,9	410,5
Financial assets	306,5	349,0
Current assets	341,6	361,2
Prepaid expenses	2,3	1,8
Balance sheet total	1.067,4	1.129,1
Liabilities		
Shareholders' equity and similar	317,4	327,2
Long term outside capital	185,2	290,5
Short and medium term outside capital	564,8	511,4
Balance sheet total	1.067,4	1.129,1
Investments in tangible assets	44,4	51,0

	2005	2006
Statement of income (in million EUR)		
Sales, net (ohne Energiesteuer)	1.753,7	1.786,8
Of which, from sale of:		
Electricity	1.097,5	1.009,3
Heat	69,1	75,9
Gas	450,3	576,2
Water	71,2	70,4
Other business	65,6	55,0
Other earnings	208,9	224,9
Cost of materials	1.468,8	1.471,6
Personnel expenses	180,3	179,0
Depreciation on tangibles	49,3	49,6
Concession fees	48,7	46,7
Other expense	203,3	249,3
Annual profit	12,2	15,5
Value added	338,2	353,7
Employees (number)	2.814	2.758

Balance sheet of Stadtwerke Hannover AG

as of 31 December 2006

Assets	EUR	EUR	31.12.2006 EUR	31.12.2005 kEUR
A. Intangible assets				
I. Intangible assets				
Concessions, industrial property rights and similar rights and values			6.575.336,00	8.055
II. Tangible assets				
1. Land and leasehold rights and buildings, including buildings on third party land	43.695.122,51			44.318
2. Generating, production and importing plant	20.737.896,00			22.340
3. Distribution plant	268.376.279,00			267.827
4. Technical equipment and machinery	37.182.553,00			30.071
5. Other equipment, factory and office equipment	10.456.607,00			11.401
6. Pre-payments and construction in progress	30.098.604,77			32.924
			410.547.062,28	408.881
III. Financial assets				
1. Shares in affiliated companies	34.457.578,06			16.109
2. Loans to affiliated companies	0,00			28.000
3. Investments	49.474.044,81			44.649
4. Due to undertakings with which the company is linked by virtue of participating interests	18.080.951,58			19.056
5. Investments held as fixed assets	206.611.646,31			192.634
6. Other loans	40.355.975,82			6.029
			348.980.196,58	306.477
			766.102.594,86	723.413
B. Current assets				
I. Inventories				
1. Raw materials and supplies	14.768.386,08			5.384
2. Work in progress	730.342,73			2.350
3. Finished goods	19.923.591,61			14.338
			35.422.320,42	22.072
II. Accounts receivable and other assets				
1. Trade accounts receivable less prepayments	415.346.867,17	-181.393.474,66		386.545
			233.953.392,51	
2. Due from affiliated companies	1.892.751,86			2.974
3. Due from undertakings with which the company is linked by virtue of participating interests	25.086.875,37			30.078
4. Other assets	43.592.004,34			35.624
			304.525.024,08	291.679
III. Investments				
1. Own participation certificates	3.586.356,74			3.578
2. Other investments	6.255.561,81			1.846
			9.841.918,55	5.424
IV. Cash on hand and on deposit with Deutsche Bundesbank				
Cash in other banking accounts			11.459.265,39	22.468
			361.248.528,44	341.643
C. Prepaid expenses				
			1.767.144,30	2.327
			1.129.118.267,60	1.067.383

Liabilities	EUR	31.12.2006 EUR	31.12.2005 k EUR
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	87.676.237,69		75.676
IV. Participation certificate capital	5.112.918,81		5.113
		257.324.134,33	245.324
B. Special item for investment subsidies		19.999.092,09	20.867
C. Building subsidies received		94.462.558,00	97.157
D. Provisions			
1. Provisions for pensions and similar obligations	54.612.828,30		44.524
2. Tax provisions	765.772,20		1.918
3. Other provisions	262.101.841,21		206.106
		317.480.441,71	252.548
E. Liabilities			
1. Liabilities due to banks	200.282.107,12		101.156
2. Trade accounts payable	130.181.691,71		110.569
3. Due to affiliated companies	36.329.110,02		70.345
4. Due to undertakings with which the company is linked by virtue of participating interests	14.045.604,03		10.180
5. Other liabilities	59.004.709,35		159.165
Of which tax: EUR 7.352.077,39 (previous year: kEUR 24.514)			
Of which due to social security: EUR 4.979,63 (previous year: kEUR 3.592)			
		439.843.222,23	451.415
F. Deferred income			72
		8.819,24	1.067.383
		1.129.118.267,60	

Statement of income for fiscal year 2006

1. Sales
2. Energy tax
3. Changes in inventories of work in progress
4. Other work capitalised
5. Other operating income
6. Cost of materials
a) Cost of raw materials and supplies and of purchased merchandise
b) Cost of purchased services
7. Staff costs
a) Wages and salaries
b) Social security, pensions and other benefit costs
8. Depreciation and amortisation expense
9. Other operating expenses
a) Concession fees
b) Other
10. Income from participations
Of which affiliated companies: EUR 7.720,38 (previous year: kEUR 8)
11. Profits from profit transfer agreements
Dividends to outside shareholders
12. Income from other securities and loans
of which from affiliated companies: EUR 831.522,22 (previous year: kEUR 660)
13. Other interest and similar income
of which from affiliated companies: EUR 1.413.457,73 (previous year: kEUR 973)
14. Write-downs on financial assets
15. Expenditure from assumption of losses
16. Interest and similar expenses
of which from affiliated companies: EUR 1.064.032,45 (previous year: kEUR 551)
17. Profit from ordinary operations
18. Income tax expense
19. Other taxes
20. Profit transferred in accordance with a profit transfer agreement
21. Net income before dividends on participating certificate capital
22. Dividends on participating certificate capital
23. Net income
24. Transfer (minus) to other retained earnings
25. Net profit for the year

	EUR	2006 EUR	2005 kEUR
1.	1.864.915.084,72		1.831.376
2.	-78.070.740,76		-77.646
		1.786.844.343,96	1.753.730
3.		-1.620.069,83	539
4.		7.833.072,23	7.748
5.		207.063.456,45	191.664
6.			
a)	1.377.952.741,58		1.366.784
b)	93.637.890,71		102.005
		1.471.590.632,29	1.468.789
7.			
a)	141.640.479,74		141.889
b)	37.406.569,07		38.396
		179.047.048,81	180.285
8.		49.603.575,81	49.279
9.			
a)	46.660.617,00		48.726
b)	134.807.435,43		103.082
		181.468.052,43	151.808
10.		2.176.541,22	2.293
11.	1.681.349,08		1.687
	-282.233,12		-282
		1.399.115,96	1.405
12.		2.861.068,79	1.796
13.		5.205.158,71	3.444
14.		2.022.581,76	3.129
15.		14.500,00	236
16.		7.032.012,03	2.858
17.		120.984.284,36	106.235
18.		6.161.011,20	5.395
19.		865.774,22	1.204
20.		98.409.133,29	87.481
21.		15.548.365,65	12.155
22.		3.548.365,65	3.155
23.		12.000.000,00	9.000
24.		-12.000.000,00	-9.000
25.		0,00	0

Notes about fiscal year 2006

Detailed reasons for the balance sheet and statement of income presentation and 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 assets side of the balance sheet had been expanded to include in tangible assets “Generating, production and importing plant“ and “Distribution plant” and on the liabilities side by the “Special item for investment subsidies“ and “Buildings subsidies received”.

During the report term, for reasons of clarity, and based on latest information, the revenues for future periods from power futures have been allocated to the “other liabilities” instead of in deferred income, with the values of the previous year adapted accordingly.

The Energie-Projektgesellschaft Langenhagen mbH, Langenhagen, has been relocated from balance sheet item “shares in affiliated companies“ into balance sheet item “participations“; payables to the Energie-Projektgesellschaft Langenhagen mbH have been readjusted accordingly. The figures for the previous year have also been adjusted accordingly.

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

Balance sheet and evaluation methods

Intangible assets acquired are accounted for at cost of procurement and depreciated using the straight line method in accordance with forecast useful lives.

Fixed assets are accounted for at cost of procurement or production, less depreciation pursuant to Section 253 para. 2 HGB. The production costs for own performance are included together with the individual costs in accordance with Section 255 para. 2 part 2 HGB together with reasonable overhead charges in accordance with Section 255 para. 2 part 3 HGB.

Loans are not itemised as part of the production costs.

Scheduled depreciation is in accordance with the useful life assessed based on fiscal regulations where by new plant principally follows the declining balance method of depreciation where permissible under tax law. The straight line method is adopted as soon as this results in a higher depreciation rate. New plant is written off in principle pro rata temporis. Additions to distribution plants are valued based on the collective item method.

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

Of the **financial assets**, the participations, and securities are stated at cost in so far as no lower value was applicable at closing date. Interest loans are included at the nominal rate. The low interest loans included in other loans, i.e. those to employees, 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 in operating supplies and merchandise are stated at average purchase prices or lower spot prices. The turnover frequency of stocks is accounted for by flat rate write downs on the purchase or production costs. Subsidies granted are reported accordingly. Work in progress is evaluated in accordance with the self-constructed assets. Emission rights allocated without charge are reported at the pro mem figure. Emission certificates purchased are evaluated either 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 and other securities is reported at purchase price. Accounts outstanding in foreign currencies are valued at the acquisition cost or the lower exchange rate on balance key date.

Subsidies received (in accordance with R 6.5 income tax law) 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 5% per annum, additions from 01.01.2003 are booked in accordance with the 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 the tax regulations (Section 6 a income tax law), with a base interest rate of 6%. The provisions for pensions are based on the 2005 G table issued by Dr. Heubeck. The provisions for early retirement obligations reported here are reported at their fulfilment amount; the obligations for semi retirement are calculated on actuarial principles. The obligations for early retirements are calculated based on the 2005 G tables issued by Dr. Heubeck. From financial year 2006 onwards the obligations from early retirement are subject to a 5.5 percentage interest rate; this results in a one-off amount of Euro 6,984,000. The other provisions cover all existing legal or factual obligations to third parties on balance sheet date subject to past events, which in the future can be expected to result in expenditure of resources and which can be reliably estimated. Provisions are calculated to their expected fulfilment amount, and are not netted out with reimbursement claims. Provision based upon a large number of similar events are reported at their anticipated value.

All **liabilities** are shown at their redemption value. All foreign currency obligations are valued at either acquisition rate or at the selling rate or at the higher medium rate at balance sheet date.

Notes on the annual result

In accordance with the control and profit management agreement, the Stadtwerke Hannover AG has transferred the profit of Euro 98,409,000 (previous year: Euro 87,481,000) to the Versorgungs- und Verkehrsgesellschaft Hannover mbH (VVG) as parent company. This amount includes Euro 17,519,000 (previous year: Euro 15,342,000) as minimum dividend to outside shareholders. A payout of Euro 3,548,000 (previous year: 3,155,000) was made on the participating certificate capital; the remaining profit of Euro 12,000,000 (previous year: Euro 9,000,000) was allocated to other profit reserves.

Share capital

The share capital of the company is Euro 86,000,000.00 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 relationships

Stadtwerke Hannover AG is the parent company, the group financial statements of which also consolidate the results of minor group companies. The partial group financial statements are held at the Amtsgericht Hannover (Hannover district court) in accordance with the IFRS.

The parent company for the major consolidation companies is the majority shareholder, the Versorgungs- und Verkehrsgesellschaft Hannover mbH, Hannover. This company prepares group financial statements and a group management report in accordance with the German commercial code (HGB) into which the Stadtwerke Hannover AG is consolidated.

The company is registered in the Hannover company register, section B, under the number 6692. The group financial statements are available at Ihmeplatz 2, 30449 Hannover.

Stadtwerke Hannover AG
The board of management

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 2006. Pursuant to Section 10 para 4 EnWG (Energy Act), the audit also reviewed compliance with the obligation to unbundle internal accounting in accordance with Section 10 para 3 EnWG. The accounting and the preparation of the financial statements in accordance with German Commercial Code regulations and supplementary regulations of corporate governance and the unbundling in accordance with Section 10 para 3 EnWG 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 and the unbundling of internal accounting in accordance with Section 10 para 3 EnWG.

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 (Institut der Wirtschaftsprüfer in Deutschland (IDW)). 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 view given of the asset, financial and profit situation presented in the financial statements and the management report can be properly identified and to have reasonable assurance to assess compliance with obligations pursuant to Section 10 para 3 EnWG in all significant aspects. 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, the internal accounting relating to Section 10 para 3 EnWG and the effectiveness 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 together with the allocation of accounts in the internal accounting in accordance with Section 10 para 3 EnWG, as well as appraising the overall presentation of the financial statements and the management report. We believe that our audit provides a sound basis for our opinion.

Our audit of the annual financial statements with due consideration of accounting and the management report 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 view overall of the state of the company, and suitably presents the risks and opportunities of future developments.

Our audit into compliance of internal accounting with obligations pursuant to Section 10 para 3 EnWG has not led to any reservations.“

Hannover, 28 February 2007

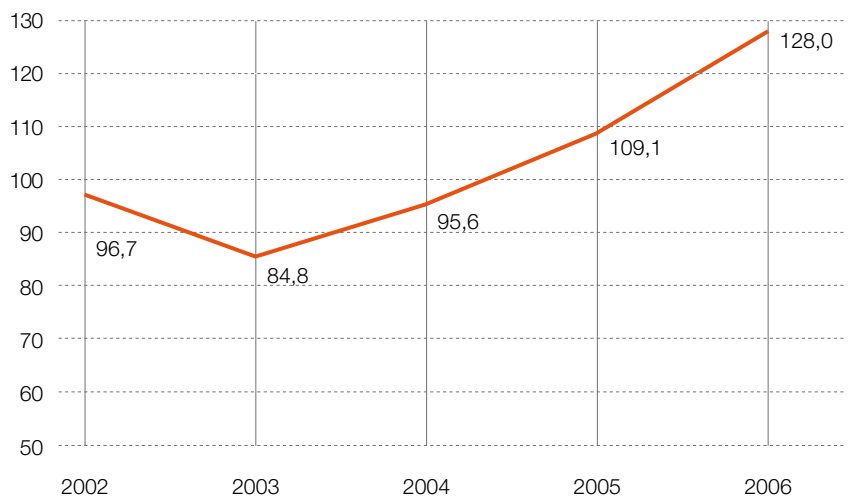
PricewaterhouseCoopers AG
Wirtschaftsprüfungsgesellschaft

(Versen)
Certified public
accountant

(ppa. Krause)
Certified public
accountant

Key Group figures

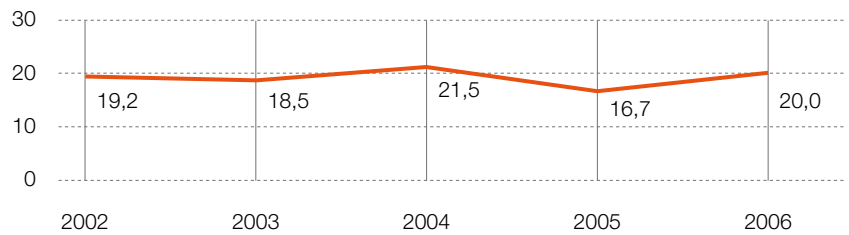
EBIT/Earnings before Interest and Taxes (in million EUR)



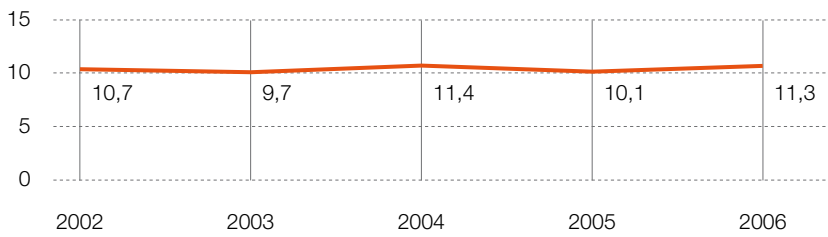
ROCE/Return on Capital Employed (in percent)

ROCE/Return on Capital employed

$$\frac{\text{EBIT}}{\text{Capital employed}} \times 100$$



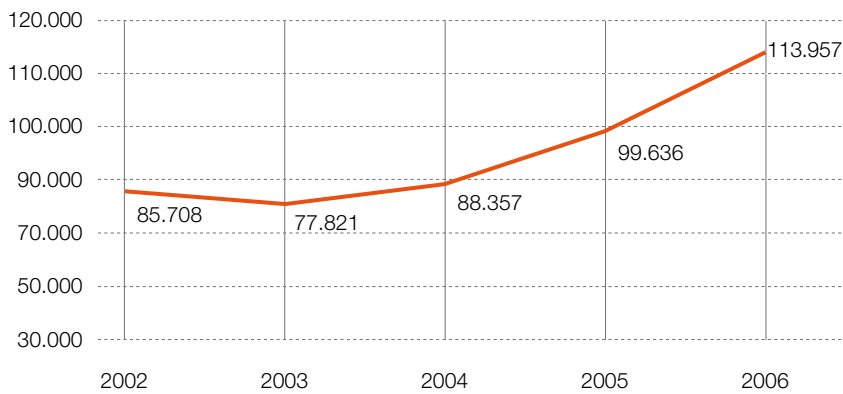
Total capital interest (in percent)



Total capital interest

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

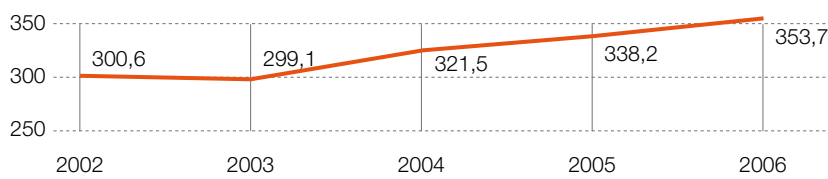
Annual result (in kEUR)



Annual result

$$\begin{aligned} & \text{Profit transfer} \\ & + \text{Dividends on participation} \\ & \quad \text{certificate capital} \\ & + \text{Allocations to reserves} \end{aligned}$$

Changes to value added (in million EUR)





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