



enercity
positive energie

Report 2010

Annual Report and
Sustainability Report of
Stadtwerke Hannover AG

Annual Financial Statements
and Key Figures



enercity Report 2010



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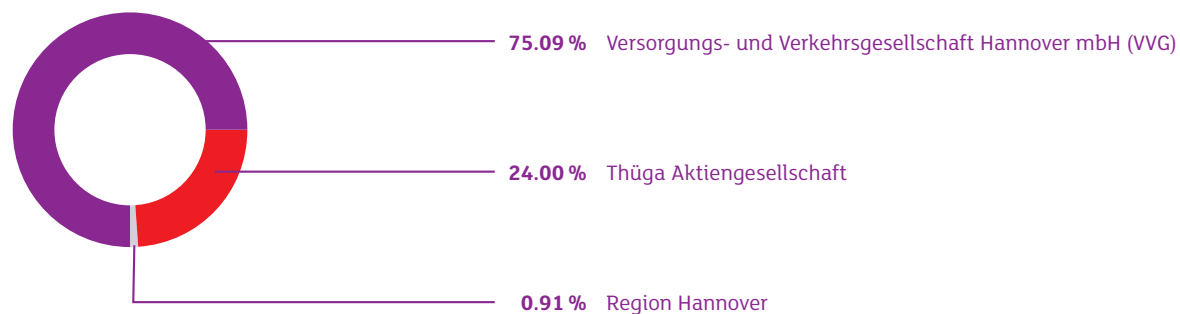
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At a glance

Key figures		2006	2007	2008	2009	2010
Tangible assets and intangible assets	million EUR					
- Residual values		417.1	412.9	420.6	454.6	414.4
- Investments		51.6	59.8	61.0	98.1	83.0
Financial assets	million EUR	349.0	355.4	361.9	602.1	944.5
Capital stock	million EUR	257.3	264.3	270.3	373.2	399.2
Sales revenues	million EUR	1,803.4	2,277.2	2,843.5	2,815.1	2,482.4
Cost of materials	million EUR	1,471.6	1,885.2	2,550.5	2,443.7	2,076.1
Personnel expenses	million EUR	179.0	177.6	183.8	194.5	194.5
Depreciation	million EUR	51.6	55.7	51.5	47.4	46.9
Concession fees	million EUR	46.7	49.0	46.7	44.8	45.7
Transfer of profits	million EUR	98.4	99.8	94.4	112.1	110.5
Allocations to other revenue reserves	million EUR	12.0	7.0	6.0	49.5	26.0
Employees at year-end	number	2,758	2,731	2,741	2,705	2,642
Value created	million EUR	353.7	357.4	351.9	430.8	420.6
Cash earnings as per DVFA/SG	million EUR	161.3	148.1	158.0	192.6	187.2

Stadtwerke Hannover AG shareholders (status: April 2011)



Management Report

Structure and strategy of Stadtwerke Hannover AG

Structure

Stadtwerke Hannover AG

Stadtwerke Hannover AG operates as a communal energy service provider and is the parent company of the Stadtwerke Hannover AG Group. The company is registered in Germany in accordance with the German Stock Corporation Act and pursuant to the German Commercial Code (HGB). It is included in the Group financial statements of the Versorgungs- und Verkehrsgesellschaft Hannover mbH (VVG), Hannover. A management and profit transfer agreement exists with the VVG.

During financial year 2010, the shareholder structure of Stadtwerke Hannover AG remained unchanged. VVG is the main shareholder with 75.09 per cent, the Thüga AG holds 24.0 per cent with the remaining 0.91 per cent owned by Region Hannover.

The object of the company is supplying electricity, gas, water and heat, as well as energy trading and ancillary, auxiliary and complementary activities.

“enercity – positive energie” is the company’s master brand under which it provides energy and services to private and business customers both in Hannover and throughout Germany. The organisation’s sales activities are focused for the most part on domestic markets.

Electricity

The power division encompasses the entire value chain from generation and trading through to distribution, marketing and billing. Power is generated from coal and gas fired stations as well as those making use of renewables energies (for example wind power, biogas, biomass and photovoltaic). In overall terms the majority of power derives from co-generation units (combined heat and power generation).

Gas

The gas business division activities also include all parts of the value chain, from storage and trading over distribution through to marketing and billing. An independent gas storage company operated with a number of partners is used to ensure efficient gas storage facilities. Stadtwerke Hannover AG is vigorously expanding its storage capacities.

Water

Delivering secure water supplies to the population within the concession area is an activity also bundled in a corporate division. Stadtwerke Hannover AG takes active part in all steps, from production through to sales.

Heat

Responsibility for all activities in delivering thermal energy and energy services to customers is borne by the heat division. Activities here relate to the delivery of district heat derived from combined heat and power (CHP) stations to both private and special business accounts.

Services

The services division is engaged in providing services to Group companies as well as to third parties. Services include commercial management, technical and commercial services. This division also provides financial and liquidity management services within the Stadtwerke Hannover AG Group as well as trading activities outside of the direct power and gas sectors.



Stadtwerke Hannover AG Group

Stadtwerke Hannover AG Group ranks as one of the largest communal energy supply and service companies in Germany. Stadtwerke Hannover AG activities are complemented by the following areas of activity undertaken by the Stadtwerke Hannover AG Group:

Network operations

The transmission and distribution networks for electricity, gas, water and heat are operated by independent network enterprises. In accordance with the unbundling specifications of the German Energy Act the network operating enterprises are structured as independent network operations. Responsibility for secure operations and network maintenance is that of the operating enterprise. The network fees paid by network users to the operators are fixed by the German network agency (BNetzA).

Energy generation

The generation of power and district heat is primarily via majority and minority holdings in joint venture power generation plants. The capacities available at these power stations are at the exclusive disposal of the shareholders and are managed and booked by those same organisations. The power station companies are responsible for plant servicing and maintenance.

Contracting

Contracting activities in the heat sector cover all stages of the value chain. The scope covers initial demand analysis over planning, finance and implementation through to management, servicing and maintenance of customer systems. This division also handles the planning, construction and operation of biomass plants.

Changes to shareholding structure and overview of key interests

Changes to shareholding structure

Kraftwerk Mehrum GmbH

The conditions required to complete the indirect acquisition of a 50 per cent holding in the Kraftwerk Mehrum GmbH (Mehrums power station company, KWM), Hannover, were finalised in December 2009 and effective from 1 January 2010. The actual acquisition of the KWM shares was then realised via the acquisition of the “Gesellschaft für die Beteiligung an dem Kraftwerk Mehrum GmbH, Hannover” (GBKM), a vehicle of which Stadtwerke Hannover AG became the direct owner of 100 per cent of all shares with effect from 1 January 2010. Together with the existing direct KWM stake of 33.3 per cent, Stadtwerke Hannover AG holds 83.3 per cent of KWM shares. With retroactive effect to 1 January 2010, the Stadtwerke Hannover AG Supervisory Board passed a resolution in August 2010 to merge the GBKM with the Stadtwerke Hannover AG. In the course of this merger, the KWM shares held by GBKM transferred to Stadtwerke Hannover AG, such that Stadtwerke Hannover AG directly holds 83.3 per cent of KWM shares.

GKH – Gemeinschaftskraftwerk Hannover GmbH

On 23 June 2010 Stadtwerke Hannover AG signed a contract of sale with Continental Reifen Deutschland GmbH, Hannover, to acquire its 10.2 per cent share in the GKH – Gemeinschaftskraftwerk Hannover GmbH, Hannover (GKH – joint power station Hannover). Stadtwerke Hannover AG now directly holds 84.7 per cent of GKH.



GKW Staudinger GmbH & Co. KG and GKW Staudinger Verwaltungs-GmbH

Stadtwerke Hannover AG has also sold its remaining shares in GKW Staudinger GmbH & Co. Kg, Großkrotzenburg, and in the GKW Staudinger Verwaltungs-GmbH, Großkrotzenburg to E.ON Kraftwerke GmbH, Hannover, with effect from December 2010. The holdings sold each represented an interest of 12.6 per cent. The sale means Stadtwerke Hannover AG has withdrawn completely from this project.

WärmeService GmbH

With effect from 2008, Stadtwerke Hannover AG was the sole shareholder of WärmeService GmbH, Hannover (WSG – heat services Hannover), and following the spin off of its contracting division in 2009 into the enercity Contracting GmbH, Hannover (eCG), WSG was merged with effect from 1 January 2010 with eCG, a move intended to intensify contracting activities.

Subsidiaries

Contracting subsidiaries

Key Stadtwerke AG subsidiaries in the heat sector are the companies eCG and Danpower GmbH, Potsdam (Danpower). Danpower is the parent company of the Danpower Group with 13 subsidiaries and one associated company.

Networking companies

Enercity Netzgesellschaft mbH, Hannover (eNG) and Netzgesellschaft Laatzen GmbH & Co. Kg, Laatzen (NGL) operate energy supply networks for power and water distribution in the area of Hannover, in parts of Langenhagen and Laatzen as well as in the outlying municipalities of Ronnenberg, Seelze and Hemmingen.

Power station companies

GKH (Gemeinschaftskraftwerk Hannover GmbH) and GKL (Gemeinschaftskraftwerk Hannover-Linden GmbH) are engaged in the construction, operation and maintenance of power stations for the co-generation of electricity and heat, in each case solely and exclusively for the respective shareholders.

Thüga

The interest in the Thüga Holding GmbH & Co. KGaA, Munich (Thüga) comprising 20.53 per cent, was acquired at the end of 2009 and its profit contribution is first reported in the 2010 annual report. During 2010 activities focused mainly on establishing governance structures and introducing initial beacon projects to develop future synergy potentials between shareholders and the company.

Other key holdings

In addition to its subsidiaries and Thüga, the principal holdings of Stadtwerke Hannover AG comprise the Vertriebsgesellschaft Clevergy GmbH & Co. KG (a company founded jointly with N-ERGIE AG, Nuremberg), the gas storage company GHG – Gasspeicher Hannover GmbH, Ronnenberg, and htp GmbH, Hannover (a telecommunications service provider).



Strategy

The activities of Stadtwerke Hannover AG reflect an approach aligned towards societal and energy-policy developments in particular as a result of the liberalisation of the energy markets and the concomitant increase in competition as well as the requirements stemming from climate protection and energy efficiency. The German government's energy concept creates the overriding framework conditions.

Sustainable competitive ranking as goal

Corporate management goals are oriented towards achieving a sustainable competitive position in the upper third of comparable German competitors with corresponding cost structures and the secondary factor of long-term retention of corporate substance in plant and networks. The priority for investors is to achieve acceptable profits and a reasonable rate of return on capital employed. It is sought to strengthen the use of energy-efficient technologies as well as boost generation based on renewable energies both in terms of demand and supply, in particular by way of customer-beneficial energy services. Such activities are structured to achieve the targets of the "Climate-Alliance Hannover 2020". On the personnel side, strategies target the provision of secure and attractive places of work.

Corporate concept K2020

The K2015 concept and the associated sustainable corporate governance provided the platform for the forward looking growth-oriented K2020 corporate concept, as resolved by the supervisory committees and currently in its implementation phase. The K2020 targets basically represent the continuation and fine-tuning of the strategic alignment outlined in K2015, and indicate the stability of that programme.

Expanding environment-friendly power supplies

By 2020, all customers in the Stadtwerke Hannover AG network area are to be provided with CHP power and renewable energies. The objective is to supply private customers exclusively with renewable energies.

Increasing competition

Future market developments are expected to cause the sales organisation to face increasing challenges. Energy providers without in-house generation are expected in particular to seek to compensate the economic pressures in the network by undertaking additional sales efforts outside of their traditional areas. The years ahead are expected to see harsher competition in particular for small to medium power customers and gas customers as a consequence e.g. of network unbundling, the demand for a higher degree of identification with processes by all sales organisations active in the network and also following the simplification of access to gas market territories. One consequence is expected to be even higher rates of churn and narrower margins. The competition for smaller customers will be oriented towards service quality and process excellence. A special aspect of future market developments is expected to be a heat market shrinking at an even faster rate due to higher levels of thermal insulation and energy-focused building refurbishment.

Brand relaunch to support market positioning

The developments related above mean that the company's previous core market in Hannover and its regions is shrinking and that the positioning of the company in that market is becoming more difficult. As a consequence, future corporate developments will also be located outside of its traditional market area, i.e. throughout Ger-



many. In order to be optimally aligned to market requirements and the company's internal strategy, the corporate brand "enercity – positive energie" was overhauled in 2010 and its positioning updated. The brand's profile was further developed and refined in a cross-departmental collaboration process, in particular to more clearly emphasise the aspect of high customer priority.

Additional objectives

The development potential in those value areas not subject to regulation, such as production and sales/services, is being exploited in terms of revenue and margin optimisation. This contrasts with those parts of the value chain subject to regulation where cost savings are prioritised. The holding in Thüga, the modernisation of the gas and steam turbine plant at the Linden CHP station (HKW Linden), the increased shareholding in the KWM and investments in the contracting division will make direct positive and sustainable contributions from 2010 onwards, or in the case of the gas and steam turbine plant, from 2012. Investments in wind power and gas storage will first deliver positive profit contributions towards the end of the planning horizon.

Review of key events in the financial year

Changes to shareholding structure

In accordance with the corporate strategy, financial year 2010 saw the acquisition and sale of various interests. For details, please refer to the section "Changes to shareholding structure and overview of key interests".

Gas price reduction

The Stadtwerke Hannover AG Supervisory Board decided in February 2010 to reduce gas prices by 3.8 per cent with effect from 1 April 2010. This reduction was passed on to Stadtwerke Hannover AG customers in the form of bonus payments. This was the third gas price reduction within a 12-month period.

Price increase for electricity

In August 2010, the Supervisory Board agreed to increase the electricity price by 5.8 per cent with effect from 1 October 2010. This price increase was forced due to increasing expenses from the promotion of renewable energies as well as cost increases resulting from tighter legal requirements.

Modernisation of Linden CHP station

The decision to modernise and expand the gas and steam plant at the Linden power station was taken at the end of 2008. The intention is to modernise and increase the capacity of the existing plants by some 130 MW_{el} to a total 230 MW_{el} power production with a concurrent increase in district heat capacity from 90 MW_{th} to 180 MW_{th}. The start of the upgraded heat and power plant is scheduled for autumn 2011. Since mid-2010 the modernisation project has been ongoing



under GKL management, in the course of which all plants were transferred to GKL by Stadtwerke Hannover AG. Stadtwerke Hannover AG is providing the GKL with shareholder loans to finance the transfer and upgrade.

Expansion of Empelde gas storage

Stadtwerke Hannover AG has been using the GHG natural gas storage caverns located at Empelde since 1982. Stadtwerke Hannover AG has a 61.75 per cent holding in GHG. In May 2009 it was decided to further expand GHG storage capacities, raising working gas volumes to an anticipated total of max. 700 million m³ gas. The well for a fifth cavern was completed in summer 2010, with solution mining operations commencing in autumn 2010. The entire project is scheduled for completion by 2018.



Sales and procurement

Electricity

Stadtwerke Hannover AG delivers power to end customers both within and outside the concession area and is also active in power trading. During financial year 2010, Stadtwerke Hannover AG experienced a downturn in sales volumes for electricity year-on-year. Electricity sales, driven primarily by energy trading, were down 11.4 per cent to a total of 21,483 GWh. Sales to customers as well as in electricity trading both experienced a downswing. Trading activities of Stadtwerke Hannover AG fell by 11.6 per cent during the financial year compared with the previous year.

In a development reflecting electricity sales, electricity procurement volumes were also lower than the previous year. The lion's share of procured volumes, amounting to 76.5 per cent (previous year: 79.4 per cent), continues to be that of power trading. In addition, Stadtwerke Hannover AG draws 22.3 per cent (previous year: 13.4 per cent) of its electricity requirement from joint power stations. Including the company's in-house generation capacities, own generation in power stations was up by 46.9 per cent. This significant increase in own generation is in particular due to the additional generating capacity derived from the KWM holding acquisition.

Gas

Further to gas supplies in the urban area of Hannover, Stadtwerke Hannover AG also provides basic gas supplies to other regional communities. Similar to the power sector, the company is also active in the gas trading market. Overall gas sales climbed by a total of 6.6 per cent to 25,011 GWh, again substantially driven by energy trading. Stadtwerke Hannover AG was able during the course of the year to significantly increase both its trading activities as well as gas deliveries to customers. Based on planned customer recruitment outside of the concession area during 2010, this market segment

increased by 283.0 GWh to 368.7 GWh. Gas procurement, in a development reflecting that of sales, increased year-on-year by 6.6 per cent. Again, similar to electricity, procurement via gas trading amounted to 69.0 per cent (previous year: 70.4 per cent) and represented the primary source. Procurement is optimised by storage capacities available via GHG.

Water

Stadtwerke Hannover AG provides water supplies within the Hannover urban area as well as to other regional communities. It also delivers water to a number of regional water associations and urban districts. Water sales rose slightly during the financial year compared to the previous year by 0.4 per cent, equivalent of 0.2 million cubic metres. Total sales to customers amounted to 41.7 million cubic metres. The main slice of sales, 84.5 per cent, is to rate customers. Water procurement takes place primarily via company-owned water works in Hannover Region as well as via strategic interests in water production companies. Own production during the financial year amounted to 40.6 million cubic metres water, remaining at a similar level to the previous year and representing a share of 93.5 per cent of total sourcing. These figures show that external procurement is currently no more than a strategic complement to own production.

Heat

Our client base for heat supplies includes not only industrial organisations but also public institutions, hospitals and customers in residential areas. During the financial year, sales developed very positively overall (up 21.9 per cent). Total sales amounted to 1,389 GWh heat. This positive development is mainly due to district heating, an area in which many new customers were gained.



Heat procurement increased in accordance with higher heat sales, both due to temperature effects as well as the successful realisation of our district heat concentration programme, and was up year-on-year by 21.9 per cent. The heat was sourced to the amount of 91.3 per cent (previous year: 93.9 per cent) almost entirely from heat generated in the jointly owned power stations of Linden and Stöcken and also from other company-owned generation capacities.



Research and development

The focus of research and development work is exclusively on improving the efficiency of existing technologies and the development of new business fields.

Efficiency improvements in power stations

During 2010, the focus of activities was on modernising and upgrading the gas and steam plant at the Linden power station.

Use of biogas as fuel

2010 again saw much positive experience gained in the generation of biogas from renewable resources and the subsequent injection of the gas into the natural gas distribution network. At the end of the year a micro-gas turbine was installed to improve overall efficiency, with the turbine using the waste gas from the gas treatment plant as combustion air, while simultaneously substituting for the boiler to heat the fermenter. Experience gained is to be evaluated in a six-month pilot and demonstration operation such that by mid-2011 the basis will be available for deciding on the process's practical viability.

Introduction of "Workforce management system" (WFM)

In a move to improve deployment efficiency of technicians, Stadtwerke Hannover AG has been phasing in a WFM system since 2008. The concept is for network division technicians to receive work orders directly on their mobile data terminals from a work planning centre. By the end of 2010, some 70 per cent of all staff were working with the system. In April 2011, the "power switch management" and "rectification" processes will start up such that all processes in net operations will then be handled by the WFM system.

Electromobility

The first electric car (EcoCarrier) was taken into commission in 2010. This move towards electrical mobility was complemented by the purchase of five electric bicycles (Pedelects). The Pedelec bikes are available as part of the bicycle pool to all staff members at corporate sites and at the enercity Expo Café. During 2011 electric vehicles are expected to undergo significant market development. Further investments in cars and charging stations are also planned.



Environment

Environmental protection is an integral component of corporate strategy. It targets both protecting the environment and the long-term security of the company's production and business pillars. Its scope covers a broad spectrum of customer-oriented environmental protection measures.

Innovative in production-oriented environmental protection measures

Stadtwerke Hannover AG is currently implementing the "Climate Alliance Hannover 2020" climate protection programme. As its contribution, Stadtwerke Hannover AG entered the commitment to achieve a carbon (CO₂) emission reduction on the supply side (power and heat) of 700,000 tonnes, a level suitable balance sheet reporting, in the period 1990 through 2020. Furthermore, the specific supply side CO₂ emissions are to be further reduced while extending power generation using renewable energies and CHP generation. A catalogue of measures has been defined in a portfolio, the sum of which would satisfy the targets in their entirety. 2010 saw the introduction of monitoring of those measures proposed as part of the Climate Alliance. Activities with high CO₂ savings potentials, such as the gas and steam plant modernisation at HKW Linden and district heat expansion phase 1, are running to schedule, while the expansion of contracting based on renewable energies is actually advancing faster than originally planned. Expansion of renewable power generation has been further prioritised based on the company's K2020 strategic corporate plan. Current forecasts are that the company will achieve the targets as set out in the Climate Alliance.

enercity climate protection fund "proKlima"

In addition to its own efforts, Stadtwerke Hannover AG also promotes the potentials for carbon reductions on the demand side outlined in

the Climate Alliance by way of its proKlima fund. In 2010, some Euro 3.5 million was paid into the enercity proKlima climate protection fund such that this fund is 76.0 per cent funded by Stadtwerke Hannover AG. The remaining 24.0 per cent comprise contributions made by the city of Hannover and the towns of Hemmingen, Laatzen, Langenhagen, Ronnenberg and Seelze, the areas of which make up the proKlima territory. The fund then supports above all energy-related refurbishments of residential buildings – for example in terms of improved thermal insulation or more efficient heating systems. Small to medium-sized enterprises and public institutions also benefit from proKlima. proKlima policy is deliberately aligned to boost innovations and high quality implementations. The overall goal of all proKlima activities is to achieve a drastic reduction in CO₂ emissions. The fund remains a fixed component of the Stadtwerke Hannover AG corporate strategy.

Expansion of wind power

Investments planned up until 2020 to expand power generation from wind turbines have yet to reach the concrete stage. Ultimately projects will be both on and offshore.

Environment-friendly combined heat and power generation

Combined heat and power generation from inner city gas or coal fuelled power stations, i.e. Linden, Herrenhausen (KWH) and GKH, will continue to provide a major fraction of power generation in the future. A key role here is to secure this revenue channel in the generation sector by way of modernisation and upgrades of the gas and steam plant at the Linden station. This involves not only increasing generating capacities but also stands for an unequivocal engagement in combined heat and power generation in Hannover. Following power station modernisation the highly efficient and



resource-conserving generation technologies will then be available to achieve carbon emission savings of over 200,000 tonnes per annum: as a result it represents today's most effective action in the Climate Alliance with the State Capital Hannover.

Energy efficient street lighting

Hannover was one of Germany's first cities to replace all high pressure mercury vapour lamps; street lighting is today provided completely by energy efficient lamps and lighting technologies; in 2010 a similar large-scale project for street lighting refurbishment was realised in Langenhagen as well. Both cities have therefore pre-empted the pan-European ban on this lighting system by no less than five years. In its search for additional energy saving options, Stadtwerke Hannover AG is pushing ahead with LED installation at the Eickenhof project in Langenhagen. This project is the first attempt to control LED street lighting via presence-sensors, the goal being to ultimately achieve an almost 70 per cent reduction in energy consumption without any loss of comfort.

Biomass use

The enercity wood energy centre (HolzenergieCenter) on the grounds of the jointly owned power station at Stöcken makes use of the power station's process heat in an environment-friendly and economic fashion, using it to dry the timber on sale there. A fire in early February 2010 halted production. The modernised and expanded plant recommenced normal operations in November 2010. Sales of chopped wood, wood chips, pellets and briquettes reached almost 2,700 tonnes in 2010, a slight plus of 60 tonnes.

eCG and Danpower will continue to invest significantly in the biomass sector in the years ahead. Overall, Stadtwerke Hannover AG is currently involved in 13 operating biogas projects by way of the

companies eCG, Danpower and Energie-Projektgesellschaft Langenhagen mbH, Langenhagen (EPL). In March 2010, eCG acquired a 51 per cent stake in the Bioenergie Harber GmbH & Co. KG, Hohenhameln. This company plans to have completed the construction of a biogas plant by mid 2011, designed to generate power from biogas in a co-generation unit and also supply the neighbouring school and other customers with heat. During 2010 Danpower brought three more biogas plants on line in Wolgast, Bernsdorf and Saalow. By year-end 2010, the Stadtwerke Hannover AG Group was operating a total of 29 biomass plants, of which 13 are biogas. If the substitute fuel plant in Bitterfeld is included, the power production of these plants totals around 200 GWh, which in turn represents 15 per cent of annual domestic customer demand in the Hannover network area.

Electromobility

During 2010, Stadtwerke Hannover AG took its first steps towards a future of electromobility: September saw a fleet of 10 electric scooters being handed over to enercity private and business customers for a free 10-week trial. During 2011, three more test phases are planned, such that a total of 40 customers will have gained experience in using these innovative, almost silent two-wheeled vehicles. Staff members at all larger administrative centres also have access to electric bicycles (Pedelecs) for business journeys: these vehicles are also available at the enercity Expo Café. Since November, users of electric vehicles have the option of recharging their batteries free of charge with "enercity environmental power" at the first enercity power filling station.

Bio natural gas as fuel

As of June 2010, eCG is the first organisation to offer bio natural gas in Hannover. This natural gas comprises 10 per cent bio natural gas



produced by the biogas plant operated by BiRo GmbH & Co. KG, Ronnenberg, and then treated in the biogas treatment plant operated by Stadtwerke Hannover AG. The result: an up to 30 per cent reduction in carbon pollution. In addition, locally effective pollution emissions, e.g. nitrogen oxides, are reduced by more than 80 per cent. eCG is therefore supporting the current trend to mix bio fuel in fossil fuels and intends to further expand this positive development.

Introduction of integrated management system (IMS)

Following a three-year project phase, IMS was introduced in all areas in 2010. Consequently all pertinent documents containing e.g. rules and regulations, instructions and specifications relating to the subjects of health, safety and environment at work and for maintaining organisational security (in particular also technical safety management – TSM) are held centrally within the company in a standardised system.

“ÖKOPROFIT” – Ecoprofit project

(ÖKOlogisches PROjekt für Integrierte Umwelt-Technik – ecological project for integrated environmental technology)

The action programmes of the various technical departments to realise environmental goals have been bundled together by Stadtwerke Hannover AG into the ÖKOPROFIT framework. In this project, Stadtwerke Hannover AG takes part in the “ÖKOPROFIT” club, the membership of which comprises enterprises in Hannover Region who either dispose over an environment management system or have plans to introduce such. Satisfying a long list of criteria relating to all fields of corporate environmental protection, and in particular the aspects of legal and organisational security, is a precondition for being granted the ÖKOPROFIT mark – awarded to Stadtwerke Hannover AG for the first time in 2007, and again in 2010. The company aspires to receiving the award once more in 2011.



Employees

The instruments available for human resource policies are subject to continuous improvement, with new areas for action, for example that of demographic development, being added as required. It is now necessary to analyse these instruments more closely and develop recommendations for their strategic and operative implementation.

Contract for future and job security II comes into force

Stadtwerke Hannover AG regards one of the most important building blocks to successfully overcome the challenges facing the company in the future as being that of an engaged, qualified and willing workforce. This being the case, an agreement was reached between the works council and the Executive Board in December 2009 to renew the contract which has been in existence since 1999 regulating future and job security. The contract future and job security II, which amongst other things excludes redundancies until 2018, came into effect on 1 January 2010.

Revised staff survey opens new opportunities

The human resources department has adopted a rigorous approach to help achieve the sustainable goal of strengthening key management positions within the company. The revised concept for the staff satisfaction survey reflects this objective. Primary goal of the process was to generate results to provide management staff with robust indications on how to improve their work. In order to achieve that end, it was necessary to formulate more questions. The option of using free text fields also provided for higher levels of individuality. The new questionnaire was developed by a working group in which staff from all corporate sectors was able to input ideas. The result was then approved by the company doctor and the human resources department. The survey then took place in November 2010 whilst maintaining the high levels of data protection as adopted in the previous survey.

Feedback from the staff survey had a response level of 73 per cent, slightly down year-on-year. This is considered to be due to the higher level of effort required on the part of participants. Managers can draw on the expertise and tools available within human resources department when analysing the results and elaborating on consequences.

Trainees – Stadtwerke Hannover AG doubles number of dual places of training in 2011

In the opinion of Stadtwerke Hannover AG, trainees graduating from a dual course of study will enjoy a higher level of demand and better job options. This is the result of personnel planning meetings as took place in 2010. Stadtwerke Hannover AG therefore worked intensively on filling the trainee places of 2011 during the second half-year. Overall, a total of 35 technical and commercial traineeships and places of study were made available, including four trainee places for disadvantaged youths in co-operation with the “pro profession” initiative. In recent years, Stadtwerke Hannover AG has co-operated with the Hannover University of Applied Sciences and the Weserbergland college in Hameln: one result has been the graduation of seven dual course students as Bachelors of Science, focus on electrical engineering, and Bachelors of Arts, focussing on business economics. The number of places of study is to be doubled in 2011. Stadtwerke Hannover AG will then be offering a total of 14 places of study in practically-oriented dual courses.

Stadtwerke Hannover AG scholarships

The “promotion of education” company agreement was revised as of 1 April 2010, with the addition of the “scholarship” item. Students who complete their vocational training with the Stadtwerke Hannover AG with the grade of excellent and who decide not to continue with their employment relationship but choose instead to study, can be

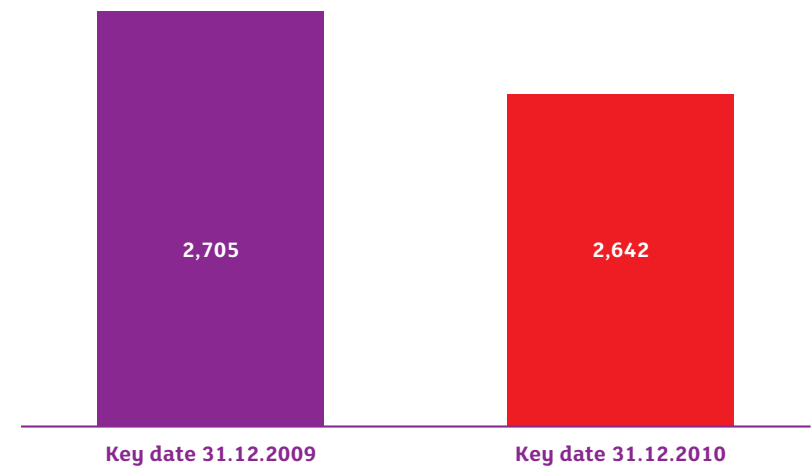


granted a scholarship amounting to a maximum of Euro 500 per semester. Prerequisite for this is the recommendation of a technical department and that graduation in a chosen course of studies would be in the interest of the company. Continuous contact will be maintained with the student during the period of the course to, for example, ensure the student is aware of career prospects at Stadtwerke Hannover AG.

Workforce development

The number of employees has again fallen year-on-year. This development is the result of the rigorous implementation of the Triathlon project. The objectives of that project were attained. Implementation has been by way of personnel controlling, revised regulations on new staff hiring and adjustments to personnel planning policies within the technical departments.

Development of employee figures 2009 – 2010



Analysis of business performance and current situation

Overall assessment

Stable overall development

Stadtwerke Hannover AG underwent an overall stable development during financial year 2010.

Sales revenues were down 13.3 per cent, including income from power and gas future trades, with contrasting developments in the individual divisions. The lion's share of sales was again from the power and gas sectors. The drop in the cost of materials, down less than sales overall, resulted in gross profit dropping 5 per cent, by an amount of Euro 19,221,000.

EBIT as performance indicator

EBIT (earnings before income tax, interest result and extraordinary result), one of the key internal performance indicators of Stadtwerke Hannover AG, was down by Euro 12,649,000 to Euro 176,239,000 (previous year: Euro 188,888,000). EBIT was therefore 6.7 per cent less than the previous year (which was influenced by special effects) but above the value forecast in the business plan for the financial year. Consequent to the poorer interest result due to the increase in borrowing to finance growth investments, the annual result before profit transfer and dividends on participation certificates was 15.2 per cent down year-on-year.

ROCE as performance indicator

In addition to EBIT, ROCE (return on capital employed) represents a further key performance indicator as applied at Stadtwerke Hannover AG. ROCE is used as a metric to indicate how effective and profitable the company is in the use of its employed capital. ROCE is the quotient of EBIT and the average capital employed in the financial year. The capital employed is derived from the balance sheet total less non-interest-bearing capital. At Stadtwerke Hannover AG, this refers primarily to trade liabilities, other reserves and tax reserves and subsidies received.

The earnings situation during financial year 2010 is reflected in the ROCE figure of 13.8 per cent (previous year: 19.4 per cent). The average capital employed rose due to investment activities to Euro 1,277,270,000 (previous year: 975,876,000).



Financial position

The table presents the financial position in comparison to the previous year:

Financial position (summary) in TEUR	2010	2009	Change in TEUR	Change in %
Sales revenues*	2,576,389	2,970,464	-394,075	-13.3
Cost of materials*	2,210,612	2,585,466	-374,854	-14.5
Gross profit**	365,777	384,998	-19,221	-5.0
Personnel expenses	194,487	194,506	-19	0.0
Concession fees	45,701	44,752	949	2.1
Other operating expenses	125,811	119,638	6,173	5.2
Other operating income	193,994	214,768	-20,774	-9.7
Income from investments and interest income from loans	42,926	-4,623	47,549	>100.0
EBITDA	236,698	236,247	451	0.2
Depreciation (including write-ups)	60,459	47,359	13,100	27.7
EBIT	176,239	188,888	-12,649	-6.7
Interest result	-29,953	-11,335	-18,618	>100.0
Result of ordinary activities	146,286	177,553	-31,267	-17.6
Income tax	4,163	4,162	1	0.0
Non-performance related taxes	1,592	1,487	105	7.1
Extraordinary expenses	0	-6,261	6,261	-100.0
Annual result before profit transfer and dividends on participation certificates	140,531	165,643	-25,112	-15.2
Profit transfer	110,548	112,104	-1,556	-1.4
Dividends on participation certificates	3,983	4,039	-56	-1.4
Allocated to revenue reserves of Stadtwerke Hannover AG	26,000	49,500	-23,500	-47.5
Net income	0	0	0	0.0

* The income (Euro 93,999,000; previous year: Euro 155,370,000) and expenses (Euro 134,512,000; previous year: Euro 141,742,000) from power and gas futures are not reported with other operating income expenses but are included under sales revenues or cost of materials.

** Not including other capitalised services or changes in inventories.



Stadtwerke Hannover AG generated the majority of sales in Germany. The concession area represents the major sales area for end customers. This applies above all for sales achieved in the water and heat divisions and to a large extent also for gas sales. The heat division now only includes district heating activities.

Sales revenues

Sales revenues achieved in financial year 2010 by Stadtwerke Hannover AG amount to Euro 2,576,389,000. This represents a drop compared with the previous year (Euro 2,970,464,000) of Euro 394,075,000. This reflects downturns in revenues from power and gas and also sales to customers as well as from energy trading. In contrast, sales revenues were up both for heat as well as other business.

The development of sales revenues in the individual divisions breaks down as follows:

In the **power division** sales revenues were achieved of Euro 1,545,631,000 (previous year: Euro 1,966,207,000). Power trading contributed Euro 922,338,000 (previous year: Euro 1,213,275,000) to electricity sales revenues. The downturn in trading revenues was due to lower trading volumes and lower prices on the power exchange. In addition to the trading drop, revenues from customers were also down by Euro 56,747,000. This is due on the one hand to a reduction in sales volumes due to customer losses. Furthermore revenues from power futures employed as hedges against commodity risks were also down by Euro 72,895,000. Overall, revenue from electricity fell by 21.4 per cent.

Revenues generated by the **gas division** (Euro 615,125,000: previous year: Euro 624,468,000) are slightly down by 1.5 per cent due to falls in quantity and prices. Gas trading business (Euro 299,984,000;

previous year: 310,377,000) was also down 3.3 per cent in conjunction with an almost unchanged volume. Sales to customers were down as well. Despite increases in quantities due to weather conditions and customer gains outside of the concession area, gas revenues were nonetheless down also due to three gas price reductions introduced during 2009 and 2010.

In the **heat division** sales revenues rose slightly by Euro 2,863,000 to Euro 74,091,000. This was due to increased sales volumes in the district heating sector due to weather conditions, and despite lower prices.

Revenue from **water sales** amounted to Euro 69,154,000 in 2010, therefore reaching a figure of Euro 916,000 below that of the previous year. This result aligns with a long-term trend of falling sales in the water sector, with the exception of the previous year.

Other sales revenues rose by 14.2 per cent to Euro 272,388,000 (previous year: Euro 238,491,000). They are primarily the result of management fees (Euro 87,642,000; previous year: Euro 80,458,000), revenue from coal sales (Euro 73,936,000; previous year: Euro 48,431,000) and power station gas to our power station companies (Euro 27,434,000; previous year: Euro 29,148,000) as well as secondary business activities (Euro 68,440,000; previous year: Euro 66,718,000). The secondary business activities included amongst other things services and employee secondments to subsidiaries. In addition to eNG, this also includes initial business relations to eCG.



Cost of materials

The total cost of materials, which refers primarily to procurement costs for electricity, gas, water and district heat, is down year-on-year by Euro 374,854,000 to Euro 2,210,612,000. Along with the development of revenues in energy trading, the expenses of power trading fell as a result of quantity and price developments by Euro 384,919,000. This contrasts with a slight increase in gas trading expenses. Despite higher trading volumes, the lower prices resulted in gas trading expenses rising only by Euro 642,000 to Euro 299,340,000. In addition, expenses relating to power and gas futures as hedging against commodity risks fell by Euro 7,230,000. Due to the almost total own production, water procurement is only negligible. Other material costs include expenses for coal purchases for reselling, which following the acquisition of the KWM holding and the corresponding rise in generation capacity, rose by Euro 33,613,000 to Euro 80,289,000.

Purchased services

Purchased services include network fees to network operators amounting to Euro 207,243,000 (previous year: Euro 194,938,000). In this regard, fees to eNG for customers supplied in the concession area rose due to higher sales volumes in the gas sector from Euro 160,433,000 to Euro 169,237,000. With regard to customers supplied outside the network areas, higher fees to third party network operators and higher gas sales volumes resulted in higher network fees at an amount of Euro 37,995,000 (previous year: Euro 34,505,000).

Depreciation

Depreciation on intangible fixed assets and tangible assets are only slightly changed at Euro 46,891,000 (previous year: 47,359,000). Depreciation on financial assets is due to write-downs on holdings

amounting to Euro 14,937,000. In the case of the acquisition of shares in KWM, the emission certificates allocated to the acquired KWM holding and the emission certificates due for allocation in future years were reflected at value. As a result of use of these emission certificates for year 2010, this portion was consumed and resulted in a reduction in overall value by Euro 11,706,000.

Personnel expenses

Personnel expenses fell compared with the previous year (Euro 194,506,000) slightly to Euro 194,487,000.

Concession fees

The concession fee payments to towns and municipalities in the Stadtwerke Hannover AG concession area correspond with the sales and turnover developments upon which these obligations are based. They were generated to the full amount and are higher year-on-year due to higher sales of volumes.

Other operating income

The downswing in other operating income by Euro 20,774,000 is primarily due to lower profits from the disposal of fixed assets. These are primarily from normal business developments in the report term compared with the previous year, which was influenced by many extraordinary effects.

Financial result

The financial result improved from –Euro 15,958,000 to Euro 12,973,000, a gain of Euro 28,931,000. This is due primarily to improved income from participations following the first profit transfer by Thüga to shareholders of Euro 47,549,000. In contrast, the interest result deteriorated due to the higher level of borrowing



connected with the investment activities. After dividends on participation certificates amounting to Euro 3,983,000, the profit to be transferred in accordance with the management and profit transfer contract with VVG amounts to Euro 110,548,000. An amount of Euro 26,000,000 was allocated to other revenue reserves in order to strengthen equity.

Financial position

Objectives and principles of financial management

The financial management implemented at Stadtwerke Hannover AG has the objectives of achieving long-term stable corporate financing together with securing corporate solvency at all times in keeping with a robust balance structure. The goals of outstanding reliability and security are to be complemented by maximised flexibility. The provision and management of financial resources creates corporate leeway and maintains the ability to respond as strategic options arise.

In principle, all corporate financing activities are undertaken within and according to specific financial rules. These provide the framework for financial management and comply with the company's organisational and diligence obligations.

Key financial aspects of the past financial year

Financial activities in the past financial year

The investment projects, planned, commenced or already realised in accordance with the corporate strategy for growth, such as the expansion of power station capacities, the enlargement of the gas storage caverns and in particular the Thüga share acquisition finalised in 2009, are financed by way of bilateral bank credits and promissory notes. In 2010, amortisations were made in this regard to the amount of Euro 50 million with new loans amounting to around Euro 185 million, such that the volume of long-term loans as at 31 December 2010 amounted to Euro 759.4 million.



Loans having a variable interest rate based on the 6-month Euribor amounted to Euro 707 million. The financial covenants agreed with creditors were complied with. Some 65 per cent of the new borrowing in 2010 came from promissory notes provided by the Landesbank Berlin and the NORD/LB. This is the second time the company has made use of promissory notes. Following the very successful initial placement of promissory notes in 2009, the success of this form of financing was again repeated in 2010. Reflecting the high level of interest the planned emission volume of initially Euro 55 million was raised to some Euro 120 million. Around 40 lenders were attracted to acquire papers with terms of between five and ten years. The majority of the emission volume is based on variable interest rates, in turn based on the 6-month Euribor.

Interest development

The long-term interest rate hedging for the Stadtwerke Hannover AG's variable interest rate loans makes use of the interest swap instrument. The interest swap contracts entered to hedge interest rates had a contractual volume at year-end 2010 totalling Euro 630 million. The average term is 13.4 years, the average fixed rate 3.24 per cent. Further to the interest swaps, the derivative portfolio also includes interest swap options amounting to around Euro 50 million.

Development of fund investments

The total volume of corporate funds invested in special funds amounts to Euro 91.6 million.

Liquidity management

The company has short-term credit facilities with five banks, with a contract value totalling Euro 140.3 million. In addition, the company disposes of a credit line provided internally by the banks amounting to Euro 80.0 million. The normal liquidity fluctuations were balanced by way of short-term investment and borrowing transactions. As of balance sheet date the company worked with up to 8 banking partners to process these transactions.

Foreign exchange trading

Foreign exchange trading during financial year 2010 was mainly related to the procurement of coal for power stations on international markets. The company has an annual coal input volume which fluctuates within a price-dependent range of between US\$ 100 million and US\$ 150 million. The currency risks relating to this were reduced and actively managed for financial years 2011 through 2013 by way of forward exchange transactions.

Outlook

The task of financial management during the years ahead will be to further develop corporate financial options. Following the focused expansion of the credit volume for various investments in growth in the two previous years, the future focus will primarily be on loan prolongations and follow-up financing to continue to secure company required funds at best terms and conditions.



Liquidity analysis

The break-down of financial requirements and their coverage are summarised as follows:

Break-down and coverage of financial requirements in TEUR	2010	2009
Cash flow from operating activities	158,204	233,808
Of which cash earnings as per DVFA/SG	187,194	192,552
Cash flow from investing activities	-175,115	-476,333
Cash flow from financing activities	39,255	256,266
Changes in funds affecting cash flow	22,344	13,741
Funds on 1 January	38,646	24,905
Funds on 31 December	60,990	38,646
Summary of funds	31.12.2010	31.12.2009
Liquid assets	56,629	31,062
Marketable securities	4,361	7,743
Liabilities due to banks due at any time (-)	0	-159
	60,990	38,646



Financial year 2010 was characterised by a downswing in investment activities, following the extensive investments undertaken during 2009, and a lower result. In contrast, investments continued to be at a level above that of previous years.

The lower investment volumes resulted overall in a drop of payments out of the cash flow from investment activities of Euro 301,218,000. This drop during the report term is above all due to lower investments in financial assets and an increase in the inflow of funds from tangible assets due to the sale to GKL of the gas and steam plant under construction.

Investments in tangible assets (Euro 80,602,000) refer, in addition to standard spare parts investments in tangible assets, also to payouts for the upgrading of the gas and steam plant under construction at the Linden power station. This gas and steam plant under construction was sold to the GKL in the course of financial year 2010. As a consequence inflowing funds from the sale of tangible assets rose by Euro 74,878,000. In order to finance the acquisition, GKL took out a shareholder's loan for Euro 75,000,000 from Stadtwerke Hannover AG. This loan is one component of the overall investments in financial assets which fell to Euro 182,515,000 (previous year: Euro 660,342,000). In addition to the loan, investments in financial assets relate for the most part to the special fund (Euro 91,612,000). Euro 14,799,000 of investments in financial assets were financed from the sale of financial assets.

Investments undertaken were also balanced by funds from financing activities and operative cash flow. The operative cash flow fell in accordance with the lower result. As part of the financial activities, the overall volume of borrowing increased by Euro 135,000,000. These funds were employed mainly to finance investments. Furthermore, dividends paid to shareholders and holders of participation certificates amounted to Euro 104,493,000. Overall, total funds increased by Euro 22,344,000.



Financial position

Financial analysis

The annual report of the Stadtwerke Hannover AG was prepared in accordance with the latest HGB (German Commercial Code) in accordance with the Accounting Modernisation Act and the Stock

Corporation Act. Furthermore, the report reflects the regulations of the Energy Act and the Securities Trading Act. The financial position is summarised as follows:

Balance sheet (summary) in TEUR	31.12.2010	31.12.2009	Change in TEUR	Change in %
Fixed assets				
Intangible assets	8,262	7,489	773	10.3
Tangible assets	406,145	447,106	-40,961	-9.2
Financial assets	944,469	602,075	342,394	56.9
Current assets				
Inventories	37,293	33,117	4,176	12.6
Accounts receivable and other assets	398,779	610,614	-211,835	-34.7
Investments and liquid assets	60,990	38,805	22,185	57.2
Prepaid expenses and deferred charges	590	451	139	30.8
Total assets	1,856,528	1,739,657	116,871	6.7
Capital stock	399,227	373,227	26,000	7.0
Subsidies	97,428	99,317	-1,889	-1.9
Reserves	265,509	280,072	-14,563	-5.2
Liabilities	1,092,938	986,519	106,419	10.8
Deferred income	1,426	522	904	>100.0
Total liabilities	1,856,528	1,739,657	116,871	6.7



The balance sheet total of Stadtwerke Hannover AG has therefore risen year-on-year by 6.7 per cent.

Assets

The downturn in tangible assets is above all due to the transfer to GKL of assets for the gas and steam plant modernisation project (Euro 74,594,000). This is countered by investments totalling Euro 80,602,000 with simultaneous write-down on tangible assets amounting to Euro 43,873,000 undertaken mainly within the transmission network. Financial assets increased compared with the previous year by a total of Euro 342,394,000. The clear increase is due in particular to the investments in holdings which became effective in 2010 amounting to Euro 180,990,000, the granting of loans to holdings (in particular GKL) to finance investments to the amount of Euro 85,279,000 and the buy-back of special funds amounting to Euro 91,612,000. This was offset mainly by the drop in book value from the sale of shares in GWK Staudinger GmbH & Co. KG (Euro 3,342,000).

The reduction in accounts receivable and other assets of Euro 211,835,000 is mainly due to the coming into effect of the investment portfolio restructuring (Euro 191,564,000).

The partial dissolution of the investment funds procured to protect against insolvency of semi-retirement obligations and the corresponding debt item led to a reduction in other securities of Euro 3,382,000. This is due to the transition to guarantee-based collateral. In contrast, liquid assets are up in particular due to short-term investments of moneys from the premature take-up of loans for the financing of investments.

The ratio of non-current assets rose clearly during the financial year by 20.6 per cent because on the one hand the investments in financial assets help strengthen non-current assets and on the other hand the current assets were significantly reduced due to the realisation of the acquisition of KWM shares.

Key figures of asset structure analysis

	2010 in %	2009 in %	Change absolute	Veränderung in %
Ratio of non-current assets	73.2	60.7	12.5	20.6
Equity ratio	21.5	21.4	0.1	0.5



Liabilities

Capital stock increased due to allocations to the revenue reserves by Euro 26,000,000 from the 2010 annual result. The clear increase in liabilities by a total of Euro 106,419,000 to Euro 1,092,938,000 is due principally to Euro 134,841,000 from the higher level of liabilities due to banks from the financing of start-up investment projects. The increase in liabilities due to banks is compensated by a dip in liabilities from trade accounts of Euro 22,219,000.

The discontinuation of allocations to revenue reserves had the effect of a slight improvement in the equity ratio to 21.5 per cent.

Overall Stadtwerke Hannover AG has a robust financial and capital structure.

Investments and asset maintenance

Stadtwerke Hannover AG invested a total of Euro 443.6 million during the report term. The investments are spread across financial investments of Euro 360.6 million, tangible assets amounting to Euro 80.6 million and intangible assets of Euro 2.4 million.

Financial assets

Additions to financial assets refer primarily to Euro 179.2 million for shares in affiliated companies, Euro 85.3 million for the granting of loans to holdings and Euro 91.6 million for the acquisition of special funds. The financing of the take-over of the gas and steam plant under construction and the further upgrade by GKL was undertaken by way of shareholder loans by Stadtwerke Hannover AG. During the financial year Euro 75.0 million were extended for the first time. In addition, Euro 91.6 million were invested in the buy-back of the special investment fund.

Tangible assets

Of investments in tangible assets, the majority of Euro 49.8 million is with respect to payments on account and tangible assets under construction. Of this, Stadtwerke Hannover AG invested a further Euro 27.4 million during the report term in the upgrade of the Linden combined heat and power station. Since this modernisation project shall in the future be under GKL management, during the course of the financial year all assets amounting to a total of Euro 74.1 million were transferred from Stadtwerke Hannover AG to GKL. A total of Euro 23.6 million were expended on expansion and renewal of distribution plant. Other investments of Euro 7.2 million are primarily with respect to metering and instrumentation equipment, the procurement of new vehicles, expansion of the telecommunications



network and spare parts procurement for hardware and building equipment.

Supply network

The length of the electricity supply network increased by 22 kilometres from 7,367 to 7,389 kilometres. Further technical network optimisation saw the distribution network for gas shorten by 12 kilometres to 1,942 kilometres. The network for the transport and supply of water, comprising feeder, mains and distribution pipes, had a total length of 2,209 kilometres as of 31 December 2010. The supply network for district heating has a length of 295 kilometres.

Investments in renewables are based on the maintenance concepts, subject to revision on a two-year cycle, for the energy and water networks. These concepts include statements concerning the development of damage, the valuation of substance and the medium-term replacement requirements based on technical lifetime statistics. Based on the current controlled and moderate depletion of substance, a satisfactory overall situation may be assumed with isolated problem areas.

Electricity network

The processing of the 110-kV power connection to Volkswagen is within the technical, financial and time frameworks as agreed with Volkswagen Kraftwerk GmbH (VWK). The third 110-kV cable for supplying the VW plant came on line on schedule during 2010. The VWK-internal load switch-overs to the new 110-kV switchgear will continue until 2012. As part of the modernisation project for the gas and steam plant at the Linden co-generation station, the 110-kV feed concept drafted by eNG (enercity Netzgesellschaft mbH) is being implemented. The concept was developed in conjunction with a planned 110-kV network, which over the medium term will result in

lower 110-kV network substance and reduced redundancies in terms of equipment while achieving a simultaneous increase in transmission capacity within the 110-kV network. The first two 110-kV cables linking the Linden substation and the Bult substation were completed on time. The 110-kV cable between the Bult substation and the Anderten substation and the related load switch-overs in the Anderten, Mehrum and Lahe substations continue to meet time, technical and financial schedules.

During 2010, work on the medium voltage network included grid connections to network customers Reemtsma, E.ON HQ and Henkel, in each case in accordance with the agreed schedules. Work for network customers HDI Direktversicherung AG, Johnson Controls and the renewal of the K4 feed terminal at the former AOK building is in progress in co-ordination with the power customers.

Gas network

The elimination of grey cast pipes of diameter DN 200 from the gas network is scheduled to take place in co-ordination with the Lower Saxony regulator by the end of 2011 (remaining length: six kilometres). The shut-down of all untreated grey cast pipes is set for finalisation by end 2014. The damage levels continue at a low level with some 60 own damage incidents. The demolition of the spherical gas tank at Bauweg in Hannover was achieved on schedule. The number of new connections remains at a low level at around 300. The number of new connections is expected to continue falling, in a reflection of the harsher boundary conditions (law to promote renewable energies in the heat sector, renewable thermal energy act (EEWärmeG, abbreviated as heat act 2009); the ordinance for energy saving, thermal protection and energy saving plant technologies for buildings [energy saving ordinance – EnEV]).



Water network

During the course of 2010 work on the water network focused in particular on the renewal of particularly sensitive unlined grey cast pipes. At the same time, old lead house connections and house connections with galvanised components were also replaced. The building of additional pipe measurement points was also started in a move to improve network monitoring.

In order to avoid hygiene problems and to further improve pressure characteristics, work continued on the refurbishment of the higher level network infrastructure. The focus remains on the northern feed lines (Berghof 2, Fuhrberg 2) as well as on the elevated tanks scheduled for continued use (Lindener Berg, Heisterberg, Bemerode). This programme is to be continued in 2011.

District heating network

The district heating network is the most recently built network of Stadtwerke Hannover AG and is therefore free of any major renewal requirements. It is, however, the case that in the future a moderate but steadily increasing level of renewal will be necessary.

The key area of investment is on the expansion and intensification of the network. During 2010 for example, connections were made to the HDI company locations at Riethorst 2 and 19 and the Scharnhorstkaserne army barracks project, with a connection capacity of 4.6 MW, was completed.

Furthermore the diversion of various district heat pipelines took place during 2010, for example in the area of the Benno-Ohnesorg bridge and Planckstraße. During the course of the year ahead, new connections and pipe construction work is planned having a total investment volume of some Euro 6 million.



Internal control and risk management system

Accounting process

Structure of accounting system

The accounting system of Stadtwerke Hannover AG is subject to central co-ordination and responsibility. Various inputs are provided by other corporate departments, which provide data and information to the central accounting section based on rules and regulations specified in an organisation manual and process descriptions. The annual accounts are prepared in accordance with the calendar agreed by the Executive Board and communicated throughout the organisation. The overall process of accounting is subject to random samples during the course of the year and is monitored and reviewed at the time of the annual report.

Internal control system

The process-independent activities of the auditing department are based on a comprehensive audit programme. The internal auditing system comprises a long-term plan containing a large number of accounting-relevant test areas. The annual audit planning takes place in a risk and process-oriented fashion and is subject to Executive Board approval. In order to determine the auditing relevance of the test areas, the audit planning methodology applied reflects that of the ICS and includes risk management as a weighted test criterion. Audit planning and implementation as performed by the auditing department has a range which also covers the scope and risk content of the activities of all departments and processes as well as all key trade investments. The auditing department has in particular the task of auditing and assessing the functionality and effectiveness of the internal control system and risk management system, of compliance with all valid legal and corporate regulations, the compliance of all operating procedures and precautions to protect assets.

The audit workflow covers primarily the planning and preparation of the auditing contract, audit performance, assessing findings, preparing recommendations, preparing reports and the final briefing. Monitoring of the implementation of agreed measures resulting from audits within departments concludes the auditing process. Relevant personnel development activities relating to audit-specific knowledge and the areas intended for audit are undertaken to ensure that staff in the auditing department dispose over all necessary qualifications for proper implementation of auditing activities. During the report term the audit also includes the review of the handling of energy trading transactions, the use of financial trading software, authorisation rights with respect to billing and the handling of power delivery contracts, selected according to risk aspects. The process-independent auditing of the risk management system takes place on an annual basis.

Risk management system

The monitoring of the accounting procedure is integrated in the corporate risk management system. The focus is on maintaining legal regulations pertaining to the accounting process, for example the German Commercial Code (HGB) following the revisions introduced by the Accounting Modernisation Act and the Public Companies Act as well as the industry-specific regulations of the Energy Act and the German law on budget principles. Furthermore, other complementary regulations and rules as well as announcements issued by the German Auditing Institute (IDW) are reflected. Risk management reviewed the following processes: Finance and main accounts, receivables and collection accounts management, auditing, assets accounting, payments, taxes and finance. The process involves the identification, monitoring and introduction of counteractions for the risks with the responsible main financial and accounting departments.



As part of claims management, risk management is performed in such a manner that the value of claims is reviewed on a regular basis. The creditworthiness of debtors is reviewed in so far as considered necessary, at time of initial delivery using credit agencies with regular follow up reviews. Reviews also take place based on need whenever evidence indicating a change in creditworthiness is received. As far as necessary, appropriate write-downs are undertaken.

Concerning other processes

Internal control system for other processes

The annual auditing programme of the auditing department as approved by the Executive Board covers not only the test areas outlined above in connection with the accounting process but extends across all specialist departments and processes as well as all key trade interests. The auditing department reviews and assesses in particular the functionality and efficiency of the internal control system and the risk management system in all relevant areas. The review process is identical with that described in the preceding. Monitoring of the implementation of agreed measures resulting from audits within departments concludes the auditing process.

Risk management system for other risks

Further to the risk management measures described above for the accounting process, other potential risks such as IT, competition, procurement and risks from energy trading are subjected to systematic review and revision. In this connection, Stadtwerke Hannover AG operates a programme for the ongoing data acquisition, assessment, control and monitoring of risks. This ensures that information on risks and their associated consequences are gathered at an early

date. Simultaneously, opportunities and their related potential are identified and used. The risk management system complies with the requirements set out in the law on control and transparency in the corporate field.

Within the risk management process, specialist departments regularly identify, analyse and assess all relevant risk potentials. Furthermore, the regulations and procedures implemented to control risks are specified per risk. In addition to the determination of unequivocal responsibilities, an early warning system including indicators, limits and monitoring bodies is defined for key risks in accordance with the risk portfolio (clustering based on level of damage and probability of occurrence) as well as for risks of special significance. The early warning system ensures that possible negative impacts on Stadtwerke Hannover AG are identified at an early stage and any counteractions deemed necessary can be commenced.

In order to ensure a regulatory framework for the risk management system, processes and responsibilities are unequivocally regulated and defined in a risk management guideline. The process-independent review of the risk management system is undertaken by the auditing department and also by the auditor during the annual audit.



Subsequent report

There are no further transactions which took place after the end of the financial year which have any significant impact on the business performance of Stadtwerke Hannover AG.



Outlook

Overall economic development

Slow growth

Forecasts by the World Bank indicate slow growth in the years ahead after a strong recovery phase in 2010. The World Bank anticipates that during 2011 the economic upswing will weaken due to the expiry of government funded economic stimulus packages. The estimates assume that the global GDP in 2011 will be 3.3 per cent up and with a further 3.6 per cent growth in 2012. Drivers of global growth continue to be threshold and developing countries. The IMF forecast for the Euro zone is for year-on-year growth of 1.5 per cent with 1.7 per cent in 2012. The German government forecast for Germany is an annual average growth in real GDP of 2.3 per cent.

Development of Stadtwerke Hannover AG

Stadtwerke Hannover AG will continue to orient its activities towards reaching the goal of being one of the key market players in the top two thirds of a ranking of relevant competitors. Policies target retention of long-term customer loyalty based on attractive price/performance ratios.

Strengthening position in the electricity market

The goal of Stadtwerke Hannover AG in the power sector is to strengthen and further expand its market position over the long term. On the sales side, this is to be underpinned by concluding or extending supply contracts with national customers. Economic developments represent a key parameter. A decisive factor will be above all whether German industry continues to expand its production to reflect increasing incoming orders. Following the purchase

of the KWM shares and the resulting higher energy volumes available from power stations in which Stadtwerke Hannover AG has interest, the intention in the years ahead is, subject to the competitive and market situation, to market that extra energy profitably by way of own marketing activities as well as through the company's own energy trading division (enercity trade). The share of own generated energy volumes will continue to grow in the future due to the gas and steam plant upgrade.

Network fee cut

Following the introduction of the efficiency comparison and the associated incentive regulations for the power and gas networks, further cuts in network fees are anticipated in the years ahead. This will also have knock-on effects via eNG on the Stadtwerke Hannover AG result.

Expansion of national gas activities

In the gas sector, intense competitive pressures again made themselves apparent during the report term. It is therefore considered likely that gas sales in the Stadtwerke Hannover AG concession area will fall slightly in the years ahead, also due to the more efficient use of energy. In order to compensate for a possible drop within the supply area, efforts to increase national gas sales to business accounts are to be intensified.

Expansion of district heating sales

As a consequence of the obligations arising from the Climate Alliance and the resulting economic benefits, the use of energy saving and climate-friendly district heat from co-generation is to be raised over the medium term. Efforts to intensify the district heating market are to be proactively followed up with more rigorous unbundling



of the gas and district heating networks to help optimise costs. The adopted approach of moderate increases in sales volumes and connection capacities is to be maintained.

Continued fall in water sales volumes

The downward trend in water sales volumes is expected to continue in the water sector. Stadtwerke Hannover AG will continue to find itself caught between the need for planned refurbishment of the water supply infrastructure and falling revenues.

Intensification of contracting activities

Stadtwerke Hannover AG intends to follow and extend its adopted approach to the contracting sector in the years ahead. The point of focus will be that of the construction and operation of small to medium-sized co-generation units as well as generation of energy from biomass. The further development and expansion of this area of activity will be via the subgroups Danpower and eCG.

Further development of investment portfolio

The importance of proper management of the investment portfolio will increase in the financial years ahead due to the substantial investments in growth in preceding years and the associated substantial growth achieved.

Rising procurement costs

The demand for raw materials on the world energy markets climbed during the report term due to economic developments. Average prices rose year-on-year as a consequence. Only limited forecasts as to our future procurement prices are possible, because fuel needs are also very much dependent on the degree of power station utilisation.

Consolidating results

The overall expectation is that harsher competition within and outside our net area for both power and gas and the ever stricter terms and conditions as a result of regulation and climate protection consequences will affect our future corporate results. In the next two years, in accordance with the plans specified in the 2011 business plan and the K2020 corporate concept, the expectation is for the annual result to stabilise on the basis of the results of ordinary business activities at a level of Euro 122.3 million in financial year 2011 and at a level of Euro 119.0 million in 2012. The intention is that growth projects will compensate downward pressures on the result. It is, however, to be borne in mind that the overall economic framework makes the forecasting of actual future developments difficult.



Stadtwerke Hannover AG balance sheet as of 31 December 2010

Assets			31.12.2010	31.12.2009	Liabilities			31.12.2010	31.12.2009
	EUR	EUR	EUR	TEUR		EUR	EUR	EUR	TEUR
A. Fixed assets					A. Capital stock				
I. Intangible assets					I. Subscribed capital	86,000,000.00			86,000
Concessions, industrial property rights and similar rights and values			8,261,864.00	7,489	II. Capital reserve	78,534,977.83			78,535
II. Tangible assets					III. Revenue reserves				
1. Land and leasehold rights and buildings, including buildings on third party land	40,131,871.87			42,439	Other revenue reserves	229,578,720.58			203,579
2. Generation, production and procurement plant	10,976,926.00			11,411	IV. Participation certificate capital	5,112,918.81			5,113
3. Distribution facilities	272,488,093.13			265,308		399,226,617.22			373,227
4. Plant and machinery	40,360,731.00			39,380					
5. Other fixtures and fittings, tools and equipment	9,812,985.00			8,776					
6. Payment on account and tangible assets under construction	32,374,637.32			79,792	B. Special item for investment subsidies		11,998,396.00		13,075
			406,145,244.32	447,106					
III. Financial assets									
1. Shares in affiliated undertakings	239,735,269.40			64,367	C. Building subsidies received		85,430,003.00		86,242
2. Loans to affiliated undertakings	80,600,000.00			1,300					
3. Investments	510,677,936.93			521,970					
4. Loans to undertakings, with which the company is linked by virtue of participating interests	16,038,599.00			10,768					
5. Investments held as fixed assets	94,365,637.74			0	D. Provisions				
6. Other loans	3,052,008.59			3,670	1. Provisions for pensions and similar obligations	48,046,108.00			49,737
			944,469,451.66	602,075	2. Tax provisions	7,247,804.27			1,240
			1,358,876,559.98	1,056,670	3. Other provisions	210,215,667.75			229,095
B. Current assets						265,509,580.02			280,072
I. Inventories									
1. Raw materials and supplies	28,226,595.83			20,850	E. Liabilities				
2. Work in progress	1,323,390.50			2,402	1. Liabilities due to banks	759,358,926.74			624,518
3. Merchandise for resale	7,743,408.06			9,864	2. Trade accounts payable	186,467,609.31			208,687
			37,293,394.39	33,116	3. Due to affiliated companies	93,831,422.81			98,985
II. Accounts receivable and other assets					4. Due to undertakings with which the company is linked by virtue of participating interest	11,991,448.78			12,716
1. Accounts receivable (trade debtors)	499,340,996.16			457,698	5. Other liabilities	41,288,655.99			41,613
less advances received	-204,279,027.37	295,061,968.79		-176,754					
2. Due from affiliated companies	31,542,040.86			19,587	Of which tax:				
3. Due from undertakings with which the company is linked by virtue of participating interests	15,745,810.27			27,471	EUR 9,563,898.50 (previous year: TEUR 11,894)				
4. Other assets	56,429,192.87			282,613					
			398,779,012.79	610,615	Of which due to social security:				
III. Investments					EUR 5,148.25 (previous year: TEUR 5)				
1. Own participation certificates	3,587,292.58			3,587		1,092,938,063.63			986,519
2. Other investments	773,725.96			4,156					
			4,361,018.54	7,743					
IV. Cash on hand, and deposits with Deutsche Bundesbank, cheques and cash in other banking accounts			56,628,516.74	31,062					
			497,061,942.46	682,536					
C. Prepaid expenses and deferred charges			589,879.76	451	F. Deferred income		1,425,722.33		522
			1,856,528,382.20	1,739,657			1,856,528,382.20		1,739,657



Statement of income for financial year 2010

	2010	2009
	EUR	TEUR
1. Sales revenue	2,580,394,318.68	2,920,229
2. Energy tax	-98,004,505.90	-105,135
	2,482,389,812.78	2,815,094
3. Changes in inventories of work in progress	-1,078,518.73	818
4. Other work capitalised	5,430,096.30	6,130
5. Other operating income	283,931,698.45	363,189
	2,770,673,088.80	3,185,231
6. Cost of materials		
a) Cost of raw materials and supplies and of purchased merchandise	1,825,092,177.65	2,192,502
b) Cost of purchased services	251,007,448.04	251,222
	2,076,099,625.69	2,443,724
7. Staff cost		
a) wages and salaries	155,390,024.05	155,831
b) social security, pensions and other benefit costs	39,096,972.45	38,675
	194,486,996.50	194,506
8. Depreciation and amortisation expenses	46,890,535.84	47,359
9. Other operating expenses		
a) Concession fees	45,701,130.00	44,752
b) Other	259,244,516.88	261,380
	304,945,646.88	306,132
	2,622,422,804.91	2,991,721
	148,250,283.89	193,510
10. Income from participations	47,083,385.82	4,028
of which affiliated companies: EUR 2,754,036.03 (previous year: TEUR 1,997)		
11. Profits from profit transfer agreements	11,525,278.14	5,846
of which dividends to outside shareholders: EUR -198,790.28 (previous year: TEUR -282)		
12. Income from other securities and loans	1,999,588.72	4,315
of which from affiliated companies: EUR 639,461.66 (previous year: TEUR 1)		
13. Other interest and similar income	4,136,581.80	8,944
of which from affiliated companies: EUR 658,056.49 (previous year: TEUR 1,128)		
14. Depreciation of financial assets	14,936,984.00	0
15. Expenditure from assumption of losses	17,682,623.08	18,811
16. Interest and similar expenses	34,089,318.93	20,279
of which to affiliated companies: EUR 121,607.99 (previous year: TEUR 141)		
	-1,964,091.53	-15,957
17. Profit from ordinary operations	146,286,192.36	177,553
18. Extraordinary expenses	0.00	6,261
19. Income tax expense	4,163,030.15	4,162
20. Other taxes	1,592,068.52	1,487
21. Profit transfer in accordance with a profit transfer agreement	110,548,129.94	112,104
22. Net income before dividends on participation certificate capital	29,982,963.75	53,539
23. Dividends on participation certificate capital	3,982,963.75	4,039
24. Net income	26,000,000.00	49,500
25. Transfer (-) to other retained earnings	-26,000,000.00	-49,500
26. Net profit for the year	0.00	0



Notes about financial year 2010

General information

The annual report has been prepared in accordance with the commercial recognition, measurement and classification regulations. In addition the regulations set out in the German Stock Corporation Act, the Energy Act and the German Securities Trading Act are reflected. The statement of income is structured in accordance with the total cost method.

The balance sheet and the statement of income include industry specific items in accordance with Section 265 para. 5 HGB. Furthermore, other items have been added for reasons of clarity and transparency for which the law does not require a separate item. Investments and building subsidies received are reported as liabilities and designated accordingly. Wherever comments refer to items on the balance sheet or statement of income, these are described in the notes.

Included in the balance sheet and the statement of income are the data arising from the merger as of balance sheet date 1 January 2010 of the “Gesellschaft für die Beteiligung an dem Kraftwerk Mehrum mbh”, Hannover with Stadtwerke Hannover AG. This comprised primarily the take-over of shares in the Kraftwerk Mehrum GmbH in a 50 per cent holding and the take-over of taxation provisions for the assessment period 2009.

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. 3 HGB. Production costs for own performance are included together with individual costs in accordance with Section 255 para. 2 p. 2 HGB together with reasonable overhead charges. Loans are not reported as part of the production costs.

Scheduled depreciation is in accordance with the useful life, or in accordance with the useful life as specified in tax depreciation tables or for new plant up to 31 December 2007 following 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 after 1 January 2008 is written off linearly and according to the pro rata temporis principle. From 2009, movable assets are depreciated digressively in accordance with their loss of value. This has had no significant impacts on the assets and earnings situation.



The following depreciation periods per annum are assumed for asset items:

Equipment class	Depreciation per annum
Technical equipment and machines	10 to 25 %
Distribution equipment	6.25 to 12.50 %
Generating plant	10 to 25 %
Tools and equipment	25 %

Additions to the distribution plant are valued according to the collective item method.

Minor daily assets costing up to Euro 150 are written down in full in the year of acquisition; minor value assets costing between Euro 150 and Euro 1,000.00 are valued based on the collective item method and depreciated using the straight line method over five years. Minor value assets costing between Euro 150 and Euro 410 are written down in full from year of acquisition 2010.

Of the **financial assets**, participations and securities are stated at cost of procurement in so far as no lower value was applicable at closing date. Interest loans are included at the nominal rate. Low interest loans included in other loans, i.e. those to employees, are accounted at the normal rate (repayment amount). All other low interest loans are reported at cash value.

Inventories of operating **supplies** and **merchandise** are stated at average purchase prices (weighted average price) or lower spot prices. The turnover frequency of stocks is accounted for by flat rate write-downs on purchase or production costs. Subsidies granted are reported accordingly. Work in progress is evaluated in accordance

with self-constructed assets. Emission rights allocated without charge are reported at the promem figure: emission certificates purchased are evaluated either at the purchase price or at the lower spot price.

Accounts receivable and other assets are evaluated taking all identifiable individual risks and a general risk into account. The evaluation of individual participation certificates and other securities is reported at purchase price. Accounts outstanding in foreign currencies are valued at their acquisition cost or at the lower European central bank fixing on balance sheet date. For reasons of clarity, accounts receivable and liabilities eligible for offsets are netted out as in the previous year.

Any expenditure prior to the balance sheet date which represents expenditure for a specific period after that key date are reported as **prepaid expenses and deferred charges**. Income prior to the balance sheet date which represents income for a specific period after said date is reported as deferred income.

Subsidies received for the acquisition of fixed assets are reported as a special item for investment subsidies and returned to other operating income.

The **subsidies for building costs** received prior to 31 December 2002 are amortised at 5 per cent per annum, additions from 1 January 2003 are booked as a liability upon collection and included as sales revenues on balance sheet date similar to the useful life of the corresponding assets.

Provisions for pensions and similar obligations are based on actuarial principles. Pension provisions are evaluated using the Projected Unit Credit Method (PUCM) with an interest rate of 5.15 per cent and a forecast income and pension increase of 3.00 per cent per annum, or 2.00 per cent p.a. The obligations are based on the G 2005 tables issued by Dr. Heubeck. Provisions included here for semi-retirement



obligations are reported at their fulfilment amount. Obligations for semi-retirement are calculated based on actuarial principles. The obligations from semi-retirement similarly use the 2005 G tables issued by Dr. Heubeck. The evaluation of obligations from semiretirement assumes a 3.00 per cent p.a. increase in income. The obligations from semi-retirement are subject to a 3.90 per cent interest rate.

Other provisions include existing legal and 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. The other provisions are set aside to those amounts considered necessary based on reasonable judgement. The evaluation of the fulfilment amount assumes an increase in costs of 3.0 per cent. Other provisions with a term of more than one year are discounted at adequate interest rates as published by the German Bundesbank. The discount of provisions assumes interest rates for 2010 of between 3.75 per cent and 5.26 per cent. All liabilities shown are at their redemption value. All foreign currency obligations are valued at the European central bank fixing rate on balance sheet date.

Derivative evaluation recognises hedging relationships.

Notes on the balance sheet and statement of income

Notes on the balance sheet

Fixed assets

The development of the individual fixed assets items are itemised together with details of the depreciations during the financial year in the assets analysis in the appendix to the notes. Asset disposals in the tangible assets under construction balance sheet item amounting to Euro 74,080,000 are due to the transfer of investments in the upgrading of the gas and steam plant in Linden to the GKL Gemeinschaftskraftwerk Hannover-Linden GmbH, Hannover.

The rise in shares in affiliated undertakings is primarily due to the acquisition of further shares with effect from 1 January 2010 in Kraftwerk Mehrum.

The increase in investments refers to the acquisition of further "Kommanditeinlagen" (registered limited partner contributions) in the Clevergy GmbH & Co. KG, Leipzig (Euro 1,775,000). Disposals refer primarily to the sale of the holding in the GWK Staudinger GmbH & Co. KG, Großkrotzenburg having a book value of Euro 3,342,000 and the sale of the GWK Staudinger Verwaltungs GmbH, Großkrotzenburg, with a book value of Euro 3,000.

Investments held as fixed assets increased by Euro 94,366,000 due to the reverse purchase agreement for a security-pension transaction and the acquisition of securities to protect against insolvency of time credits. Other loans fell due to the repayment of employee loans by Euro 618,000.



Inventories

The growth in raw materials and supplies refers mainly to an increase in emission certificates of Euro 7,445,000.

The fall in merchandise for resale from Euro 9,864,000 to Euro 7,743,000 is due to lower procurement costs and the lower volume of gas stored at the Empelde gas storage.

Accounts receivable and other assets

Accounts receivable and other assets include the deferred consumption between meter reading date and balance sheet date. The deducted prepayments refer primarily to instalments received for energy and water consumption not yet read on the meters. Of accounts receivable (trade debtors), Euro 19,721,000 (previous year: Euro 15,572,000) have a remaining term of more than one year. Of other assets, Euro 121,000 (previous year: Euro 134,000) have a remaining term of more than one year.

The relationship of accounts receivable due from affiliated companies and linked undertakings with other items is summarised as follows:

	Affiliated companies in TEUR	Linked undertakings in TEUR
Accounts receivable from		
Trade debtors	-288	6,352
From finance movements	20,500	9,000
Shareholdings	0	394
Affiliation agreements	11,330	0
	31,542	15,746

Investments

Other investments refers to investments in investment funds to protect against insolvency of semi-retirement obligations (pledge model) comprising a block model; the fund units are not planned assets. The fund units are evaluated at procurement costs. The fall from Euro 4,156,000 to Euro 774,000 is primarily due to the departure of employees reaching retirement age and the depletion of time credits.

Subscribed capital

The share capital of the company remains unchanged at 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.



Capital reserve

The capital reserve remains unchanged at Euro 78,535,000 and refers primarily to shareholder contributions and the legal reserve fund, unchanged at Euro 11,353,000.

Revenue reserves

Other revenue reserves grew by the allocation of net income to the amount of Euro 26,000,000.

Participation certificates

Participation certificates were issued in an overall nominal amount of Euro 5,112,918.81 and are made out to the bearer. The division is into 511,291,881 certificates each with a nominal value of Euro 0.01. The term of the participation certificates is unlimited and bearers are only entitled to cancel for the first time effective 31 December 2015.

Special item for investment subsidies

The special item for investment subsidies comprises subsidies for the procurement of capital goods; the write-back amounting to Euro 1,297,000 is reported in other operating income.

Building subsidies received

The item for building cost subsidies received had additions during the financial year of Euro 8,687,000. The dissolution amounts of Euro 9,498,000 are included in sales revenues.

Other provisions

Other provisions include the following:

	2010 in TEUR	2009 in TEUR
Rehabilitation of networks and other plants	28,829	30,607
Personnel provisions	36,288	33,970
Social plan obligations due to reorganisation	2,000	14,400
Outstanding purchase bills	22,292	13,344
Legacy remediation	16,304	16,161
Sales risks due from clients	19,845	20,495
Decommissioning obligations	11,653	10,069
Billing obligations	7,721	7,124
Accounting obligations for business incidents in the previous year	4,968	6,175
Others	60,316	76,750
	210,216	229,095

Liabilities

The following residual maturities apply to liabilities:

Liabilities in TEUR	Total	of which with a remaining term	
		of up to 1 year	over 5 years
Liabilities due to banks	759,359	25,160	399,496
Accounts payable	186,468	186,468	0
Due to affiliated companies	93,831	93,831	0
Due to undertakings with which the company is linked by virtue of participating interests	11,991	11,991	0
Other liabilities	41,289	41,289	0
	1,092,938	358,739	399,496

The rise in liabilities due to banks of Euro 134,841,000 is due to the uptake of loans to finance tangible assets and financial assets and due to short-term liquidity management.

The relationship of liabilities to affiliated companies and linked undertakings with other items is summarised as follows:

	Affiliated companies in TEUR	Linked undertakings in TEUR
Liabilities due from		
Accounts payable	18,151	729
Financial movements	-25,650	11,670
Shareholdings	0	-408
Affiliation agreements	101,330	0
	93,831	11,991

Hedging relationships

Stadtwerke Hannover AG makes use of derivative financial instruments to hedge future cash flows from loans and merchandise procurement (underlying transactions). To this end hedging instruments such as interest swaps and forward exchange transactions are entered. The risk of an individual underlying transaction is secured by way of hedges. Micro hedges are used to secure goods purchases. Portfolio hedges are formed to secure loans. Transactions considered as being highly probable were covered by way of loan prolongations to the amount of Euro 180,000,000. The micro and portfolio hedges are reported in the balance sheet using the net hedge presentation method.

During the report term loans amounting to Euro 300,000,000 were hedged using payer swaps and grouped in hedging relationships. The interest risks resulting from the variable interest payments on the



loans are eliminated by the variable interest payments generated from the payer swaps. The fair value of the payer swaps is – Euro 3,589,000. the provision for contingent losses avoided by forming the valuation units amounts to Euro 6,682,000. The variable interest rate loans are hedged for periods of up to 29 years. The determination of the prospective effectiveness is based on the sensitivity method. Determining the retrospective effectiveness is undertaken using the hypothetical derivative method.

Furthermore, commodities futures for the purchase of coal amounting to Euro 122,663,000 were hedged using forward exchange transactions. The forward exchange transactions compensate the currency risks concomitant with the commodities futures. The fair value of the currency forwards is Euro 3,830,000. The provision of contingent losses avoided by creating valuation units for US\$ currency risks amounts to Euro 1,224,000. The currency forwards have a term of up to three years. The determination of the prospective (and retrospective) effectiveness is based on the critical term match method.

Notes on the statement of income

Sales revenues

Sales revenues (without energy tax) are as follows for the divisions:

Sales revenues in TEUR	2010	2009
Power supply	1,465,537	1,813,218
Gas supply	601,220	622,097
Water supply	69,154	70,070
Heat supply	74,091	71,228
Other	272,388	238,481
	2,482,390	2,815,094

The sales revenues are achieved primarily in Germany.



Other operating income

Other operating income in TEUR	2010	2009
Income from financial power futures	93,999	155,370
Income from rental and leases	86,110	79,981
Income from fixed asset disposal	996	31,478
Income from release of provisions	38,762	25,878
Income from the reversal of provisions	32,144	23,427
Income from reimbursements by third parties	10,159	14,962
Income from the liquidation of investment subsidies	1,297	1,747
Remaining other income	20,465	30,346
	283,932	363,189

Other operating income includes amongst other things write-ups from the holding in Metegra GmbH, Laatzen, and the holding in WKN Windpark Krempdorf GmbH & Co. KG, Krempdorf, amounting to Euro 1,369,000.

The item also includes income from currency conversion amounting to Euro 1,920,000 (previous year: Euro 788,000).

Cost of materials

Costs for raw materials, consumables and supplies include in particular expenditure for the procurement of energy and water amounting to Euro 1,701,925,000 (previous year: Euro 2,092,240,000).

The costs for purchased services include Euro 207,996,000 (previous year: Euro 206,177,000) for network fees.

Personnel expenses

Expenses for pensions during the financial year amounted to Euro 12,072,000 (previous year: Euro 11,045,000).

Other operating expenses

Other operating expenses break down as follows:

Other operating expenses in TEUR	2010	2009
Expenses from power futures	134,512	141,742
Appropriations to reserves	37,186	37,770
Services and external services	18,717	27,499
Charges, rents and leases	10,037	10,093
Value adjustments on trade receivables	9,641	7,531
Costs for advertising, ads and grants	4,614	4,647
Donations to proKlima GbR, Hannover	3,470	3,504
Remaining other expenses	86,769	73,346
	304,946	306,132



Other operating expenses include costs for currency conversions to the amount of Euro 2,738,000 (previous year: Euro 1,655,000).

Other interest and similar income

The other interest and similar income item includes Euro 1,170,000 (previous year: Euro 4,767,000) income from the discounting of provisions.

Interest and similar expenses

This item includes Euro 5,974,000 (previous year: Euro 3,652,000) expenses from the compounding of provisions.

Expenses from assumption of losses

This item refers to the assumption of losses from financial year 2010 of the enercity Netzgesellschaft mbH, Hannover, amounting to Euro 17,683,000 (previous year: Euro 18,811,000).

Extraordinary expenses

As a result of the adoption for the first time of the revised commercial code based on the Accounting Modernisation Act one-off extraordinary expenses arose in the previous year of Euro 6,261,000 (report year: Euro 0).

Reports in accordance with Section 10 para. 2 Energy Act

Stadtwerke Hannover AG undertakes major business transactions with the following affiliated companies and associated companies in the sense of Section 271 para. 2 HGB and Section 311 HGB:

- eNG – enercity Netzgesellschaft Hannover mbH, Hannover
- NGL – Netzgesellschaft Laatzen GmbH & Co. KG, Laatzen
- GKH – Gemeinschaftskraftwerk Hannover GmbH, Hannover
- GKL – Gemeinschaftskraftwerk Linden GmbH, Hannover
- KWM – Kraftwerk Mehrum GmbH, Hannover

The eNG provides the electricity and gas networks required to supply customers in the Stadtwerke Hannover AG concession area in return for the payment of network fees. The electricity network for the network area of the city of Laatzen is leased from the NGL and made available to the eNG for network operations in return for fees.

The companies GKH, GKL and KWM supply electricity to Stadtwerke Hannover AG based on corresponding agreements; the respective expenses are reported in the cost of materials.

Stadtwerke Hannover AG and the power station organisations GKH and GKL as well as eNG and NGL have management and leasing agreements; the respective charges are reported in the sales revenues and in other operating incomes.



The expenses and incomes are summarised in the following:

Services rendered by Stadtwerke Hannover AG	2010 in TEUR	2009 in TEUR
eNG	217,900	205,926
GKH	14,654	15,759
GKL	121,170	31,824
KWM	80,340	49,997
NGL	1,479	1,186
	435,543	304,692

Services received by Stadtwerke Hannover AG	2010 in TEUR	2009 in TEUR
eNG	189,366	200,001
GKH	62,371	59,375
GKL	37,022	41,704
KWM	115,746	58,414
NGL	3,493	3,538
	407,998	363,032

Derivative financial instruments

Commodity derivatives

In order to hedge and optimise its power and gas transactions (price risk management) and to market its own power station capacities (power station optimisation) the company makes use of **power and gas forwards**, and trades **gas and power futures** on the German EEX (European Energy Exchange). The use of these derivative financial instruments is regulated in internal regulations.

Nominal and market values of pending transactions as of 31 December 2010 were as follows:

	Market value in TEUR	Nominal value in TEUR
Power forwards		
Procurement	-14,780	1,173,074
Sale	42,893	1,105,504
Power futures		
Procurement	-26,636	510,539
Sale	27,508	475,870
Gas forwards		
Procurement	38,374	290,036
Sale	-29,612	198,229
Gas futures		
Procurement	543	9,292
Sale	-900	5,655



The market values of the power futures was determined by contracting parties based on standard evaluation methods taking the official EEX closing prices into account. Positive and negative market values in power futures compare with corresponding market volumes in the underlying transactions.

In order to hedge the margins for special agreements in the gas sector, oil swaps were applied; nominal and market values as of 31 December 2010 were as follows:

Oil swaps in TEUR	Market value	Nominal value
Procurement	2,989	71,609
Sale	-1,017	27,092

Interest derivatives

Stadtwerke Hannover AG makes use of interest swaps to hedge its interest risks. In connection with the hedging of loans for investment finance, the company entered swap contracts with various banks amounting to a total volume of Euro 630,000,000.

On balance sheet date, the following interest rate derivatives existed:

Interest rate derivative in TEUR	Market value	Nominal value
Payer-Swap	-8,258	630,000
Receiver-Swap-Options	-2,656	50,000

The market value of interest swaps is determined by discounting the anticipated future cash values over the remaining term of the contract based on current market interest rates and the interest yield curve. Market values of the hedging transactions are matched by corresponding market values in the underlying transactions. For interest swaps not covered by hedges, provisions were formed with a value of Euro 7,522,000 and for interest swap options provisions were formed with a value of Euro 1,457,000.

Foreign currency derivatives

The foreign currency risk, mainly related to the purchase of coal, was managed by entering forward exchange transactions. The market value of forward exchange transactions is based on the forward exchange rate valid on balance sheet date for the respective residual term of the contract compared with the contracted forward rate.

The following currency hedges existed on balance sheet date:

Currency hedges in TEUR	Market value	Nominal value
Foreign currency purchases	3,115	185,763
Foreign currency sales	-256	9,099

On balance sheet date, provisions amounted to Euro 512,000.



Derivatives on emission certificates

In order to optimise the procurement of emission certificates (not for own consumption), swap and forward transactions were concluded. The swaps were forwarded in the same phase and under the same terms and conditions to the power station interests. The market value of emission certificate forward transactions is calculated based on the valid emission certificate forward rates on the balance sheet date for the respective residual term of the contract compared with the contracted emission certificate forward rate.

The following emission certificate forward transactions were open on balance sheet date:

Emission certificate forward transactions in TEUR	Market value	Nominal value
Emission certificate purchases	-2,683	22,689
Emission certificate sales	12	169
Swap EUA/CER	1,058	3,680
Swap CER/EUA	-1,058	3,680

Provisions for emission certificate forward transactions were formed to the value of Euro 2,609,000.

Details of annual result

Stadtwerke Hannover AG, in accordance with the management and profit transfer agreement, transferred Euro 110,548,000 (previous year: Euro 112,104,000) to VVG. This amount included Euro 22,012,000 (previous year: Euro 22,354,000) minimum dividends to outside shareholders. A dividend payment was made of Euro 3,982,000 (previous year: Euro 4,039,000); the remaining annual profit of Euro 26,000,000 (previous year: Euro 49,500,000) was appropriated to other revenue reserves.



Other details

Composition of governing bodies, expenditures for governing bodies and governing body credits

The composition of the governing bodies is presented on page 11 (Executive Board) and page 12 (Supervisory Board).

The Executive Board was remunerated to the amount of Euro 1,847,000; of which Euro 947,000 was fixed remuneration (salaries, subsidies for insurance policies, benefits in kind) and Euro 900,000 of variable components. Former members of the Executive Board and their surviving dependants received Euro 592,000. Provisions for pensions for former members of the Executive Board and their surviving dependants amounted to Euro 7,018,000.

The Supervisory Board received Euro 82,000 and the Advisory Board received Euro 4,000.

Employees

The average number of employees during 2010 was 2,657. Of these 793 are wage earners, 1,745 salaried and 119 trainees.

Transactions not reported in the balance sheet

In connection with the take-over of the energy supplies to a customer, leasing obligations amounting to Euro 4,816,000 were open on balance sheet date.

An open purchase commitment to the amount of Euro 187,244,000 existed for an open order obligation.

As a consequence of the long-term rental agreement for the administration building at Ihmeplatz 2, Hannover, obligations exist from the rental contract having a residual term of up to 10 years totalling Euro 24,777,000.

Furthermore on balance sheet date obligations arising from a leasing contract with a residual term of 16 years for the electricity and water network exist with the Netzgesellschaft Laatzen. During financial year 2010 expenses of Euro 2,334,000 were incurred.

A purchase obligation to the value of up to Euro 40,000,000 was entered into with a bank for a loan to Danpower GmbH, Potsdam (affiliated company) until loan repayment. The purchase obligation to the bank is not reported as a liability since the obligations arising from the pertinent loans can be satisfied by Danpower GmbH and therefore no avilment is anticipated. A loan promise granted to an associated company, GKL (Gemeinschaftskraftwerk Hannover-Linden) and GHG Gasspeicher Hannover represents obligations of Euro 157,253,000.



Key holdings of Stadtwerke Hannover AG

Name and domicile of company	Share of capital in %	Equity in TEUR	Result in TEUR	Financial year
Direct holdings				
Associated companies				
enercity Contracting GmbH, Hannover	100.00	22,430	0 ¹	2010
enercity Netzgesellschaft mbH, Hannover	100.00	250	0 ¹	2010
GKL – Gemeinschaftskraftwerk Hannover-Linden GmbH, Hannover	90.00	9,203	0 ¹	2010
Kraftwerk Mehrum GmbH, Hannover	83.33	23,520	0 ¹	2009
Danpower GmbH, Potsdam	74.90	16,400	4,719	2009
GKH – Gemeinschaftskraftwerk Hannover GmbH, Hannover	74.50	10,226	0 ¹	2010
Gemeinschaftskraftwerk Hannover-Braunschweig GmbH & Co. KG, Hannover	66.67	1,087	-1,423	2009
GHG – Gasspeicher Hannover GmbH, Hannover	61.75	102	0 ¹	2010
GKW Beteiligungs-GmbH, Hannover	66.67	28	0	2009
Shareholdings				
Thüga Holding GmbH & Co. KGaA, München	20.53	2,273,300	400 ²⁺³	2009
Energie-Projektgesellschaft Langenhagen mbH, Langenhagen	50.00	1,907	37	2009
htp GmbH, Hannover	50.00	18,504	2,826	2009
Metegra GmbH, Laatzen	50.00	1,918	96	2009
Cleverty GmbH & Co.KG, Leipzig	50.00	302	-11,445	2009
Netzgesellschaft Laatzen GmbH & Co. KG, Laatzen	49.00	6,100	833	2009
Netzverwaltungsgesellschaft Laatzen mbH, Laatzen	49.00	26	1	2009
Stadtwerke Wunstorf GmbH & Co. KG, Wunstorf	34.00	7,559	2,095	2009
Stadtwerke Garbsen GmbH, Garbsen	20.00	-5,348	2,029 ³	2009
8KU Renewables GmbH	12.50	508	309	2009

¹ The results of this company transfer proportionately to Stadtwerke Hannover AG based on profit transfer agreements.

² The financial statements of the company refer to a short financial year.

³ Details refer to the company's consolidated financial statements.



Key holdings of Stadtwerke Hannover AG

Name and domicile of company	Share of capital in %	Equity in TEUR	Result in TEUR	Financial year
Direct holdings				
Affiliated undertakings				
Projektmanagement und Engineering GmbH, Leipzig	100.00	50	92	2009
BGA Biogas Energy Bitterfeld 1 GmbH, Bitterfeld	100.00	25	0	2009
BGA Biogas Energy Bitterfeld 2 GmbH, Bitterfeld	100.00	25	0	2009
BGA Biogas Energy Bitterfeld 3 GmbH, Bitterfeld	100.00	25	0	2008
IEW GmbH, Wolgast	74.90	50	312	2009
IEW Biogas 1 GmbH, Wolgast	75.20	-38	178	2009
IEW Biogas 2 GmbH, Wolgast	75.20	-73	160	2009
IEW Biogas 3 GmbH, Wolgast	75.20	50	208	2009
IEW Biogas 4 GmbH, Wolgast	75.20	43	-1	2009
EKT Energie und Kommunal-Technologie GmbH, Potsdam	100.00	10,588	5,806	2009
Bitterfelder Fernwärme GmbH, Bitterfeld	100.00	1,728	1,543	2009
WVG Wärmeversorgung Wolgast GmbH, Wolgast	51.00	2,014	564	2009
Bioenergie Giesen GmbH, Giesen	51.00	2,000	0	2010
Bioenergie Harber GmbH & Co. KG, Hohenhameln	51.00	1,300	0	2010
Shareholdings				
PD Energy GmbH, Bitterfeld	50.00	12.113	223	2009



Group relationships

VVG has advised that it is entitled to 75.09 per cent of the voting rights in Stadtwerke Hannover AG. Similarly, VVG has advised that State Capital Hannover disposes over 75.09 per cent of voting rights in Stadtwerke Hannover AG consequent to the allocation of voting rights held by VVG in accordance with Section 16 para. 4 Stock Corporation Act.

Stadtwerke Hannover AG is the parent company of the Group, the financial statements of which also consolidate the results of minor group companies in accordance with international financial reporting standards (IFRS), as they are applied in the EU. 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 provisions of the German Commercial Code into which the Stadtwerke Hannover AG is consolidated. The Group financial statements and the management reports of the VVG and Stadtwerke AG are also submitted electronically to and published in the electronic federal gazette (Elektronischer Bundesanzeiger) in accordance with Section 325 HGB.

Hannover, 22 February 2011

Stadtwerke Hannover Aktiengesellschaft
The Executive Board

Feist

Noske

Westerholz



Appendix to notes

	Acquisition and production costs					Additions/Disposals					Book Values		
	01.01.2010	Additions	Disposals	Restoring	31.12.2010	01.01.2010	Additions	Disposals	Restoring	Write-ups	31.12.2010	31.12.2010	31.12.2009
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	TEUR
A. Fixed assets													
I. Intangible assets													
Concessions, industrial property rights and similar rights and values	35,623,668.43	2,378,535.08	289.00	1,411,597.94	39,413,512.45	28,134,584.43	3,017,353.02	289.00	0.00	0.00	31,151,648.45	8,261,864.00	7,489
II. Tangible assets													
1. Land and leasehold rights and buildings including buildings on third party land	144,243,879.99	115,389.73	144,095.65	200,826.81	144,416,000.88	101,804,858.70	2,560,635.44	81,365.13	0.00	0.00	104,284,129.01	40,131,871.87	42,439
2. Production and procurement plant	163,733,297.41	441,018.47	1,463,153.07	1,442,505.12	164,153,667.93	152,322,710.41	1,933,286.59	1,079,255.07	0.00	0.00	153,176,741.93	10,976,926.00	11,411
3. Distribution facilities	1,303,847,891.10	23,595,133.92	13,441,690.80	14,212,245.32	1,328,213,579.54	1,038,539,970.01	29,063,503.69	11,877,875.67	-111.62	0.00	1,055,725,486.41	272,488,093.13	265,308
4. Plant and machinery	200,289,460.83	2,729,127.81	3,497,934.07	4,489,142.48	204,009,797.05	160,909,515.83	6,157,698.17	3,417,528.77	-619.18	0.00	163,649,066.05	40,360,731.00	39,380
5. Other fixtures and fittings, tools and equipment	60,009,539.45	3,956,133.55	2,492,732.64	1,346,152.02	62,819,092.38	51,233,424.45	4,158,058.93	2,386,106.80	730.80	0.00	53,006,107.38	9,812,985.00	8,776
6. Payments on account and tangible assets under construction	79,792,373.02	49,765,055.54	74,080,321.55	-23,102,469.69	32,374,637.32	0.00	0.00	0.00	0.00	0.00	0.00	32,374,637.32	79,792
	1,951,916,441.80	80,601,859.02	95,119,927.78	-1,411,597.94	1,935,986,775.10	1,504,810,479.40	43,873,182.82	18,842,131.44	0.00	0.00	1,529,841,530.78	406,145,244.32	447,106
III. Financial assets													
1. Shares in affiliated undertakings	64,367,420.68	179,214,637.67	0.00	7,859,319.05	251,441,377.40	0.00	11,706,108.00	0.00	0.00	0.00	11,706,108.00	239,735,269.40	64,367
2. Loans to affiliated companies	1,300,000.00	79,300,000.00	0.00	0.00	80,600,000.00	0.00	0.00	0.00	0.00	0.00	0.00	80,600,000.00	1,300
3. Investments	526,098,431.98	1,775,000.00	3,345,300.00	-7,859,319.05	516,668,812.93	4,128,683.11	3,230,876.00	0.00	0.00	1,368,683.11	5,990,876.00	510,677,936.93	521,970
4. Loans to undertakings with which the company is linked by virtue of participating interests	10,768,410.27	5,979,149.00	708,960.27	0.00	16,038,599.00	0.00	0.00	0.00	0.00	0.00	0.00	16,038,599.00	10,768
5. Investments held as fixed assets	1,022,583.76	94,365,636.74	0.00	0.00	95,388,220.50	1,022,582.76	0.00	0.00	0.00	0.00	1,022,582.76	94,365,637.74	0
6. Other loans	3,690,424.29	0.00	618,492.88	0.00	3,071,931.41	20,574.66	0.00	0.00	0.00	651.84	19,922.82	3,052,008.59	3,670
	607,247,270.98	360,634,423.41	4,672,753.15	0.00	963,208,941.24	5,171,840.53	14,936,984.00	0.00	0.00	1,369,334.95	18,739,489.58	944,469,451.66	602,075
	2,594,787,381.21	443,614,817.51	99,792,969.93	0.00	2,938,609,228.79	1,538,116,904.36	61,827,519.84	18,842,420.44	0.00	1,369,334.95	1,579,732,668.81	1,358,876,559.98	1,056,670



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 2010. 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 the German commercial code regulations and the supplementary regulations of corporate governance and the compliance with the obligations pursuant to 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 as well as the 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, 22 February 2011
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

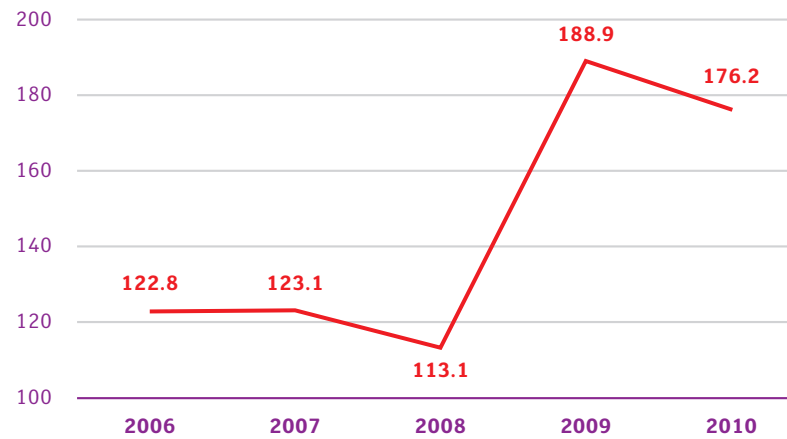
(Norbert Versen)
Certified public accountant

(ppa. Stefan Schulze zur Wiesch)
Certified public accountant



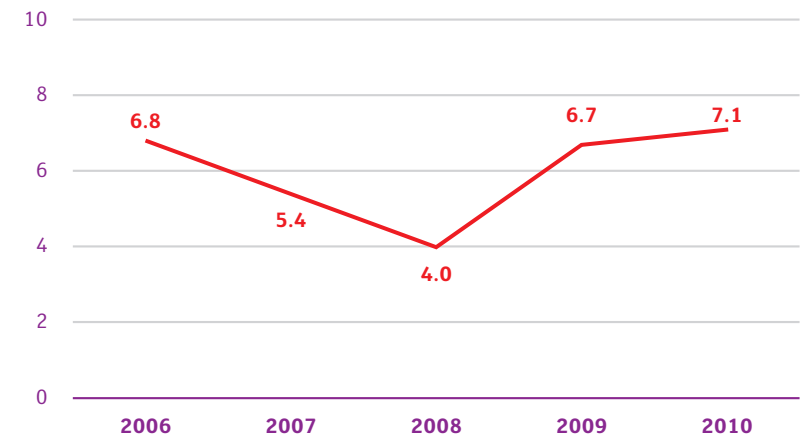
Selected operating key figures

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



Result before interest and taxes

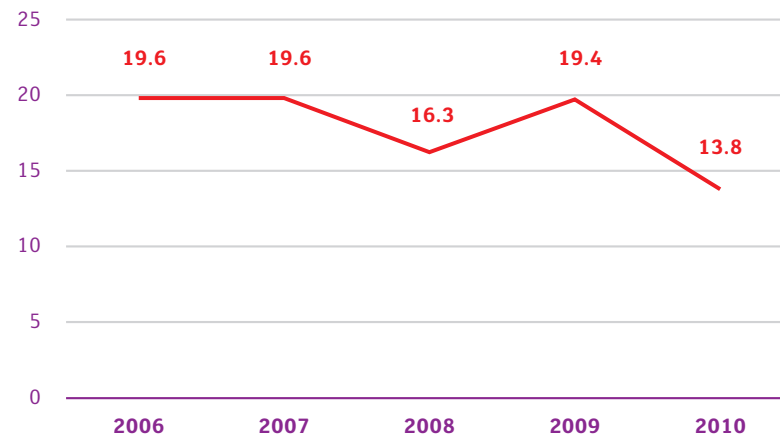
EBIT ratio to sales (in per cent)



$\frac{\text{EBIT}}{\text{Umsatz}} \times 100$

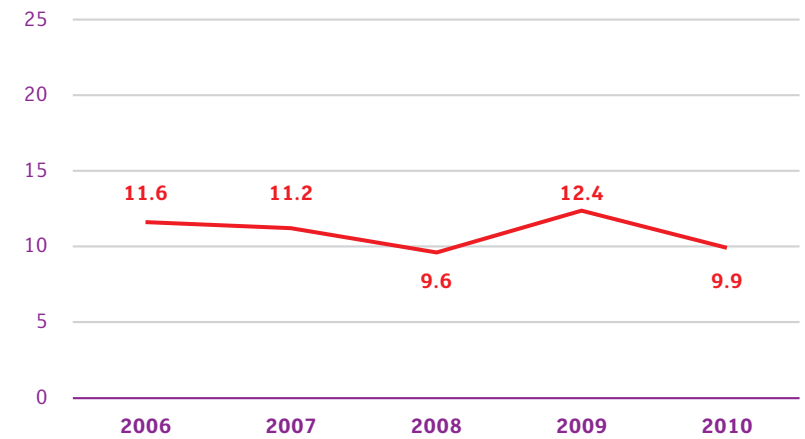


ROCE/Return on capital employed (in per cent)



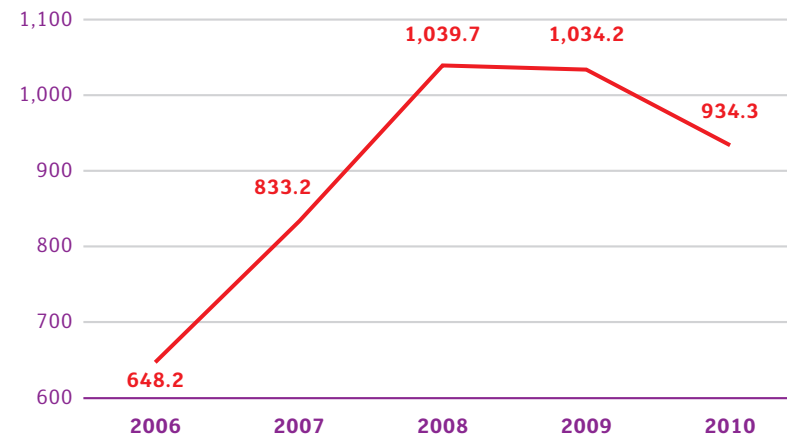
$$\frac{\text{EBIT}}{\text{Capital employed}} \times 100$$

Total capital interest (in per cent)

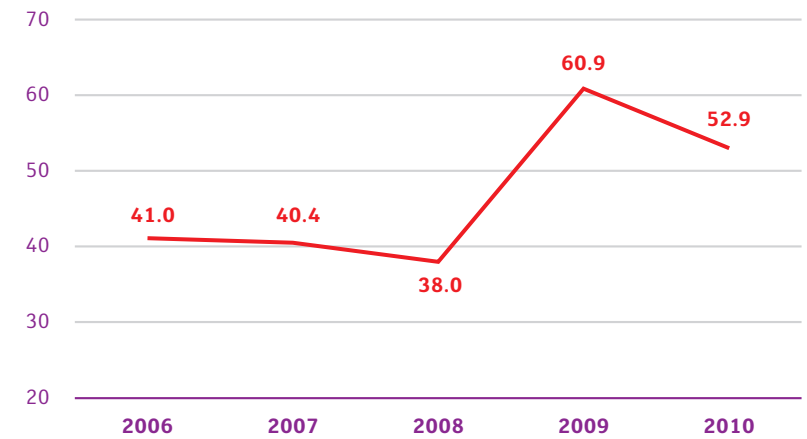


$$\frac{\text{Profit + outside capital interest}}{\text{Balance sheet total}} \times 100$$



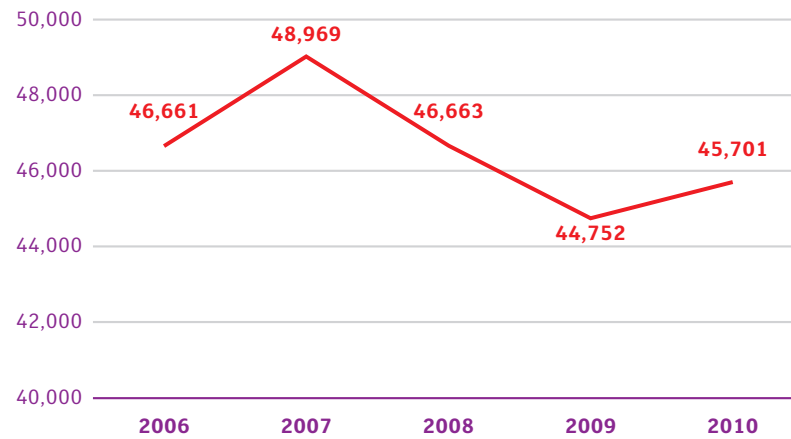
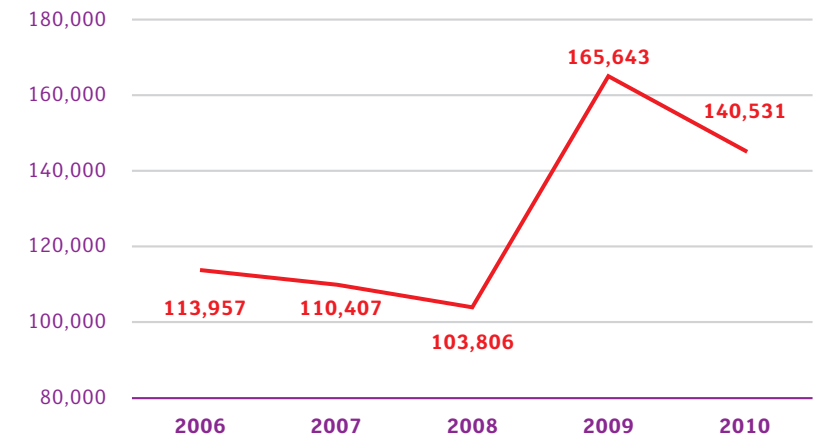
Sales per employee (in TEUR)

Sales revenues
Average number of employees

Profit per employee (in TEUR)

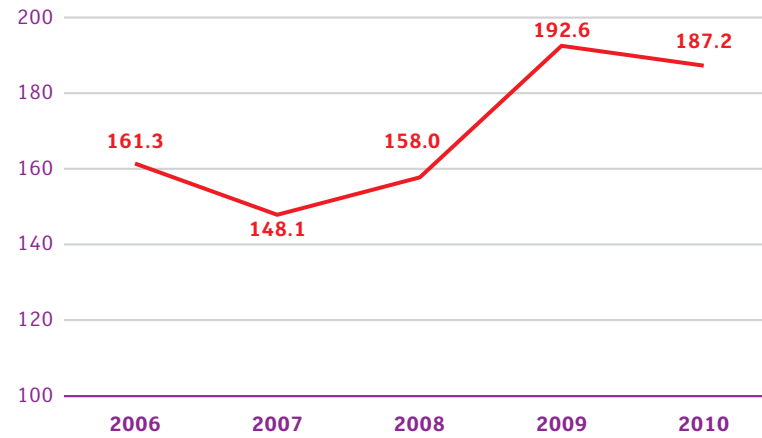
Profit
Average number of employees



Concession fee (in TEUR)**Company result (in TEUR)**

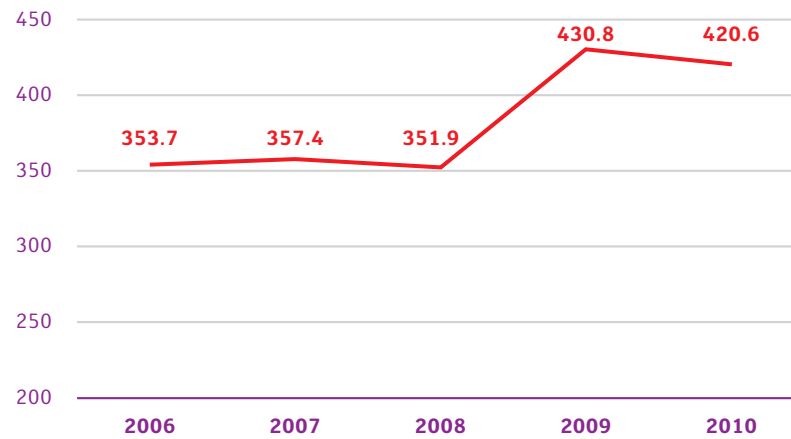
Profit transfer
+ dividends to participation certificate capital
+ allocation to reserves



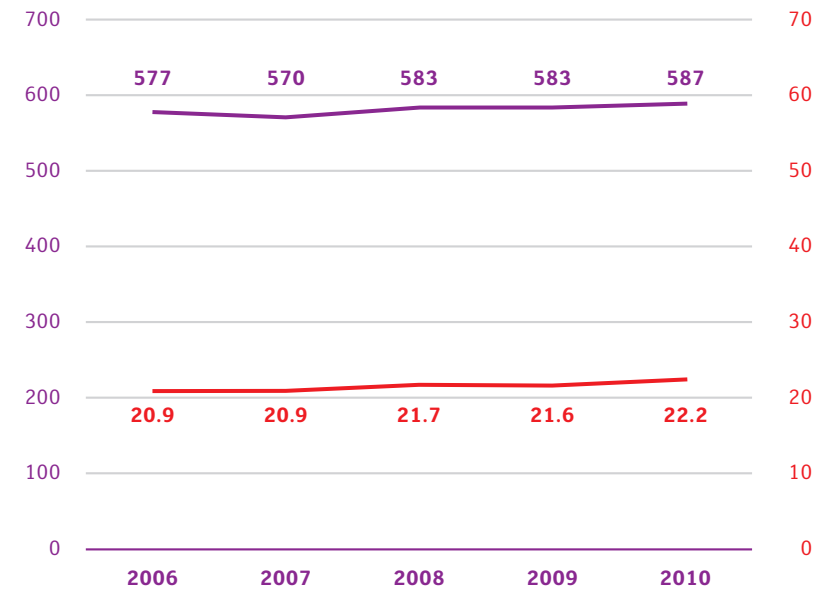
Cash Earnings nach DVFA/SG (in EUR million)

Key figures on social and ecologic development

Value development (in million EUR)



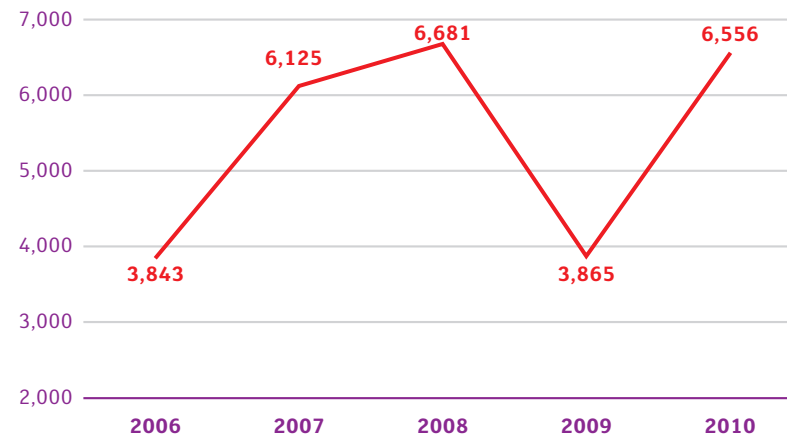
Women employed in the company



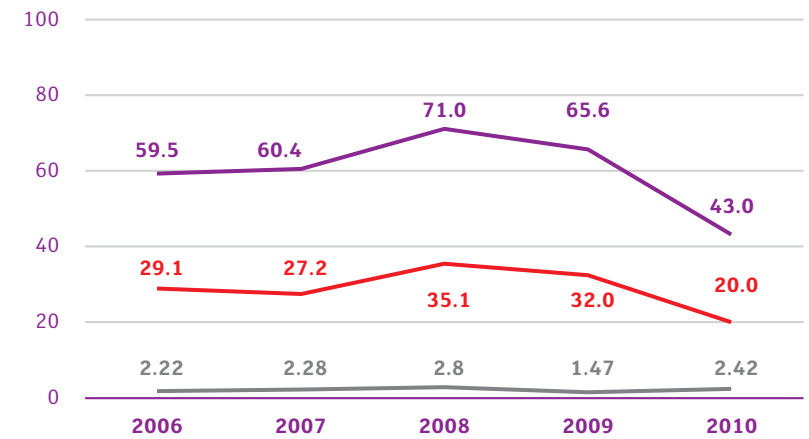
— absolute (number)
— relative (in per cent)



Eco power customers (no.)



Efficient and renewable generation (in per cent)



- Power fraction from SWH-CHP plants (since 2001)
- CHP fraction of own generation as per CHP-modG (counted since 2003)
- Own generation of renewable energy



People & company		2006	2007	2008	2009	2010
Value generated	in EUR million	353.7	357.4	351.9	430.8	420.6
Development of value generated (with respect to ...)	in EUR million					
Employees		179.0	177.6	183.8	194.5	194.5
Participation certificate holders		3.6	3.6	3.4	4.0	4.0
City and surrounding municipalities		46.7	49.0	46.7	44.8	45.7
Creditors		7.0	12.5	12.7	20.3	34.1
Shareholders		98.4	99.8	94.4	112.1	110.5
Public purse		7.0	7.9	4.9	5.6	5.8
Corporations		12.0	7.0	6.0	49.5	26.0
Personnel						
Workforce (at year-end)	persons	2,758	2,731	2,741	2,705	2,642
Personnel expenses	in EUR million	179.0	177.6	183.8	194.5	194.5
Personnel expenses /per staff member	in EUR	64,359	64,984	67,201	71,457	73,198
Women working at enercity, absolute	persons	577	570	583	583	587
Women's share, relative	percentage	20.9	20.9	21.7	21.6	22.2
Trainees, absolute	persons	119	124	126	124	134
Share of disabled employees	percentage	4.27	4.06	4.01	4.44	5.03
Accident rate (overall)	per thousand ¹	43.19	39.24	37.18	36.83	43.68
Accident rate (compulsory registration)	per thousand ¹	23.11	18.85	20.53	15.67	23.22
Accident rate (non-compulsory registration)	per thousand ¹	20.08	20.39	16.65	21.16	20.46
Distance workplaces	persons	20	21	28	39	52
Kindergarten/nursery contingent places	children	3	3	3	3	14
Dialogue and communications						
Visitor tour guide service	number	343	375	439	385	337
Visitor tour guide service	total number of visitors	6,227	8,269	9,227	7,024	6,346
Brand awareness "enercity"	percentage	96	96	92	93	98

¹ The standard 1000 person rate was introduced in 2008 (previous year's values adjusted).



Environment & development²		2006	2007	2008	2009	2010
Raw materials³						
Water production	Mio. m ³	42.4	40.4	40.2	40.4	40.6
Water from the Harz mountains	Mio. m ³	2.2	3.4	2.8	2.9	2.8
Natural gas	Mio. m ³	191	176	220	179	187
Coal	t SKE	662,657	679,586	623,825	647,023	679,003
Heating oil	t	1,115	1,360	1,067	1,300	1,523
Operating supplies						
Chemicals ³	t	20,120	20,405	17,122	21,119	16,921
Power	GWh	48.4	43.5	42.2	45.7	51.2
Heating energy (including waterworks)	MWh	3,792	2,524	2,322	2,937	3,268
Cooling water	Mio. m ³	35.5	36.1	46.7	34.5	39.8
Drinking water	1.000 m ³	49.4*	27.5	29.2	36.9	33.1
Gas	MWh	7,090	7,968	5,558	8,041	8,627
District heat	MWh	5,827	5,284	5,228	5,299	5,858
Efficient and renewable power generation						
Power share from SWH-CHP plants ⁴	percentage	59.5	60.4	71.0	65.6	43.0
CHP share, own production ⁵	percentage	29.1	27.2	35.1 ⁶	32.0	20.0
REG share, own production	percentage	2.22	2.28	2.80	1.47	2.42 ⁷
Eco-power	customer	3,843	6,125	6,681	3,865	6,556
Share REG production in private customer sales	percentage	–	–	–	–	approx. 12.5
Waste and residual materials						
Total amount ⁸	t	85,818	68,952	89,604	106,709	108,845
For disposal	t	1,161	918	1,341	5,759	4,312
For recycling ⁸	t	84,658	68,034	88,263	100,950	104,532
Recycled water (KWH)	Mio. m ³	0.36	0.22	0.25	0.35	0.31
Mobility						
Natural gas, cars, monovalent	number	12	18	38	44	58
Natural gas, cars, bivalent	number	40	41	35	31	28
Natural gas, car	percentage	11.9	13.6	16.0	16.4	17.8
Electro car	–	–	–	–	–	1
Total fleet	absolut	437	433	463	458	458
Pedelecs	–	–	–	–	–	5
Emissions³ (including gas supply for NO_x, CO₂ und SO₂)						
NO _x	t	2,964	2,674	2,580	2,635	2,608
CO	t	185	123	120	124	206
CO ₂	1,000 t	4,103	3,823	3,648	3,801	3,800
SO ₂	t	1,291	1,197	1,148	1,227	1,121
Dust	t	26.1	14.0	22.0	24.0	27.3
Environmental communications						
Environmental events	number	24	20	11	12	10
Environmental events	visitors	2,650 ⁹	1,919 ¹⁰	7,102 ⁹	5,276 ⁹	3,276 ⁹

2 For further details see www.enercity.de/umweltdaten

3 Environmental data for major inner-city power stations GKH, GKL, KWH and waterworks

4 Share of power generated by plant operated based on co-generation (CHP). These plants involve the simultaneous generation of power and heat, therefore optimising efficiency of fuel usage.

5 Share of power actually generated in co-generation. This production share is the basis for CHP subsidies based on the CHP modernisation act and depends primarily on demand for heat.

6 The high CHP share in 2008 is due to the major upgrade at the Mehrum power station (KWM) and the subsequent production restrictions at KWM.

7 From 2010 including REG plant at holdings.

8 Including unpolluted surfaces

9 Including open days at GKH (2006), HEC and GKL (2008), at GKH and HEC (2009) and at KWH (2010).

10 Including open days at waterworks (2007)

* Estimated value (meter at Immeplatz site defective and leakage at Glocksee and Bauweg locations).



Imprint

Publisher

enercity
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Mann + Maus oHG

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