Annual Report 2006
Adding values with energy

Financial report

EnBW

EnBW Energie
Baden-Württemberg AG

Brief portrait

With some six million customers, EnBW Energie Baden-Württemberg AG with its headquarters in Karlsruhe is the third largest energy company in Germany. In 2006, EnBW generated annual revenue in excess of € 13 billion with more than 20,000 employees. Our core activities focus on the segments electricity, gas as well as energy and environmental services.

Traditionally, we are firmly rooted in Baden-Württemberg. We also operate throughout Germany and in other markets of central and eastern Europe. We will continue to focus on our core competencies in future and supply our customers reliably and competently with energy and energy-related services. The close proximity to our customers and their loyalty are ideal prerequisites and also an incentive for us to continuously improve our sales structures, to refine our product range in line with the requirements of our customers and to enhance our performance along the whole value added chain.

Following the liberalisation of the electricity market, we quickly positioned ourselves in the competition and were one of the first energy companies to offer electricity throughout Germany. As pioneers and trailblazers on the energy market, we give impetus for scientific research, development and innovation. We champion a broad energy mix for the future combined with enhanced energy efficiency. By developing new concepts and ideas, we play an active part in shaping the energy policy of the future.

In the interest of sustainability, we see ourselves as an economically, socially and ecologically responsible company. We endeavour to do justice to our responsibility for future generations. We want our actions to be characterised by integrity, commitment and consistency at all times.

At a glance

EnBW group[1]		2006	2005	Variance %
Revenue				
Electricity	€ millions	9,642.3	8,125.0	+18.7
Gas	€ millions	2,757.9	2,101.7	+31.2
Energy and environmental services	€ millions	819.2	542.6	+51.0
External revenue, total	**€ millions**	**13,219.4**	**10,769.3**	**+22.8**
EBITDA	€ millions	2,307.8	2,054.3	+12.3
EBIT	€ millions	1,470.2	1,334.5	+10.2
Result of continuing operations	€ millions	990.9	532.4	+86.1
Earnings per share from continuing operations	€	4.06	2.21	+83.7
Cash flow from operating activities	€ millions	1,466.6	1,329.9	+10.3
Free cash flow	€ millions	1,027.1	1,070.6	-4.1
Capital expenditures on intangible assets and property, plant and equipment	€ millions	630.1	547.0	+15.2
Return on capital employed (ROCE)	%	15.9	13.6	+16.9
Weighted average cost of capital (WACC) before tax	%	9.0	9.0	-
Average capital employed	€ millions	10,179.7	9,288.1	+9.6
Value added	€ millions	707.2	429.1	+64.8

Energy sales of the EnBW group		2006	2005	Variance %
Electricity	billions of kWh	119.4	106.7	+11.9
Gas	billions of kWh	83.5	88.6	-5.8

Employees of the EnBW group[2]	2006	2005	Variance %
Employees (annual average)	20,259	17,926	+13.0

[1] The prior-year figures have been adjusted (see the section "Changes in accounting policy" in the financial report, pages 116 - 118).
[2] Number of employees without apprentices/trainees and without inactive employees

Five-year summary

EnBW group[1]		2006	2005	2004	2003	2002
Earnings						
Revenue	€ millions	13,219	10,769	9,124	9,952	8,489
EBITDA	€ millions	2,308	2,054	2,045	1,014	1,141
EBIT	€ millions	1,470	1,335	1,243	-190	394
EBT	€ millions	1,183	1,087	759	-1,094	-134
Earnings after tax	€ millions	1,110	598	410	-1,183	-31
Earnings per share	€	4.11	2.21	1.40	-5.40	-0.19
Balance sheet						
Non-current assets	€ millions	20,849	18,867	18,304	20,732	19,397
Total net assets	€ millions	28,094	24,942	23,928	25,220	24,107
Equity/minority interests	€ millions	4,402	3,068	2,399	1,544	2,392
EnBW share						
Operating cash flow per share	€	6.0	5.5	6.8	4.01	2.2
Distribution	€ millions	279[2]	215	171	–	146
Dividends per share	€	1.14[2]	0.88	0.70	–	0.66
Ratios						
Equity ratio	%	15.7	12.3	10.0	6.1	9.9
EBIT margin	%	11.1	12.4	13.6	-1.9	4.6
EBITDA margin	%	17.5	19.1	22.4	10.2	13.4
Finance and capital expenditures						
Cash flow from operating activities	€ millions	1,467	1,330	1,546	887	517
Amortisation and depreciation	€ millions	838	720	802	1,204	747
Capital expenditures (property, plant and equipment and intangible assets)	€ millions	630	547	418	566	604
Cash and cash equivalents	€ millions	1,517	1,415	1,999	1,089	932
Financial liabilities	€ millions	5,110	4,699	5,938	8,049	7,183
Net financial debt	€ millions	-3,593	-3,284	-3,939	-6,960	-6,251
Energy sales of the EnBW group in its core business in billions of kWh[3]						
Electricity	billions of kWh	119	107	101[4]	95[4]	109
Gas	billions of kWh	84	89	83[4]	78[4]	21
Provision of electricity of the EnBW group in its core business by primary source of energy[5]						
Fossil and other energies (formerly: coal, oil, gas)	%	19	24	23	24	24
Nuclear power	%	34	36	39	42	37
Renewable energies (formerly: water and other renewable energies)	%	16	14	16	15	12
Primary energy of unknown source	%	30	26	22	19	26
Annual average of employees[6]	Number	20,259	17,926	19,881	33,224	36,918

[1] The figures from fiscal year 2005 have been adjusted (see the section „Changes in accounting policy" in the financial report on pages 116-118).
[2] As proposed to the annual general meeting
[3] Net disclosure of electricity and gas trading
[4] Electricity and gas unit sales figures adjusted to the segment structure as of December 31, 2005
[5] The figures from fiscal year 2005 have been adjusted; since 2005, the classification by primary source of energy is disclosed as in Sec. 42 EnWG.
[6] Number of employees without apprentices/trainees and without inactive employees

Mathematical rounding in the sums may give rise to apparent differences throughout the annual report.

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Financial report

Important note

No offer or investment recommendation
This report has been prepared for information purposes only. It does not constitute an offer, an invitation or a recommendation to purchase or sell securities issued by EnBW Energie Baden-Württemberg AG (EnBW), a company of the EnBW group or any other company. This report does not constitute a request, instruction or recommendation to vote or give consent. All descriptions, examples and calculations are included in this report for illustration purposes only.

Future-oriented statements
This report contains future-oriented statements that are based on current assumptions, plans, estimates and forecasts of the management of EnBW. Such future-oriented statements are therefore only valid at the time at which they are published for the first time. Future-oriented statements are indicated by the context, but may also be identified by the use of the words "may", "will", "should", "plans", "intends", "expects", "believes", "assumes", "forecasts", "potentially" or "continued" and similar expressions.

By nature, future-oriented statements are subject to risks and uncertainties that cannot be controlled or accurately predicted by EnBW. Actual events, future results, the financial position, development or performance of EnBW and the companies of the EnBW group may therefore diverge considerably from the future-oriented statements made in this report. Therefore it cannot be guaranteed, nor can any liability be assumed otherwise, that these future-oriented statements will prove complete, correct or precise or that expected and forecast results will actually occur in the future.

No obligation to update the information
EnBW assumes no obligation of any kind to update the information contained in this report or to adjust or update future-oriented statements to match future events or developments. This annual report can also be downloaded from the Internet in German, English or French. In case of doubt the German version shall prevail.

Content

Our vision

We have kept our promise: The targets and strategies derived from our vision have been rapidly, consistently and successfully implemented over the past three years. We have evolved and have optimised our performance and products. Our vision will remain firmly entrenched in our everyday actions.

Visions: We want	What we have achieved	What is still to be done
> 1		
to be the market player in our industry with the strongest regional base and responsibility.	We are firmly rooted in Baden-Württemberg and command the largest market share here. We are highly committed to supporting social causes as well as cultural and sporting events and take our social responsibility seriously. The relationship with our shareholder Zweckverband Oberschwäbische Elektrizitätswerke (OEW) is based on deep trust and constitutes a stable regional pillar.	Further reinforcing our strong position in Baden-Württemberg remains our top priority. We are working together with customers and municipalities to find solutions to future challenges.
> 2		
to develop and expand our position in Germany, to pursue – compared to the competition – the most consistent synergetic multi-brand strategy and to achieve the highest levels of customer satis-faction.	We have stood our ground in the face of competition. Our group brands are excellently positioned in all the important market segments, both nationally and regionally. Our marks for customer satisfaction and customer loyalty are excellent. The positive development of awareness for our group brands has continued.	We want to anticipate as we have done in the past the changing needs of our customers and offer attractive, innovative products.
> 3		
to develop the existing perspectives for central and eastern Europe significantly.	With our portfolio of subsidiaries and locations we are in a position to exploit the strategic future potential in Europe. We increased our investments in EVN and PRE, thus continuing our growth strategy.	We want to make use of opportunities for inorganic growth as they arise. We want to develop our alliances and intensify our involvement, particularly in the growth markets of central and south-eastern Europe.
> 4		
to be the most focused market player in our industry that bundles its strengths most effectively and does the important things the right way.	We have streamlined our portfolio of investments considerably, also reducing its structural complexity in the process. After the successful reorganisation, we regained financial and strategic flexibility. We are now concentrating on our core competencies again.	Operational excellence will be our key focus. Through innovations and growth in new markets, we want to tap further potential and add value.
> 5		
to develop the strategic alliance with EDF into a model and symbol of pan-European collaboration within the America-Europe-Asia triad.	We intensified our cooperation with EDF in many areas. The coordinated management of our investments in central Europe is working well, has been developed further and is benefiting from synergies between the two partners. The strategic alliance and relationships with our shareholders are based on deep trust and constitute a stable foundation in the industry.	We will expand our cooperation in all relevant areas and use additional synergy effects.

Visions: We want	What we have achieved	What is still to be done
> 6		
to become the market player in our industry with the highest relative earnings power.	The third time in a row, we presented a record result for our group in the fiscal year 2006, thus once more exceeding our ambitious earnings targets. We have met the concrete targets we set ourselves. We improved our earnings power, secured the success of our company in the long term and further optimised the value added chain.	Striving for operational excellence will remain our goal. To this end, we will continuously review our performance and benchmark it against the competition and the market. The best practice will be our guideline.
> 7		
to be the number one in terms of our ability to adapt rapidly to a dynamic business environment.	The rate of improvement for our main earnings ratios by far exceeded the industry average in recent years.	We want to get better every day and stay ahead of the competition.
> 8		
to be the market player which does greatest justice to its social and ecological responsibility.	With our TOP FIT cost-cutting programme, we achieved the socially compatible reorganisation of our group without redundancies. We lead the field in Germany with our ratio of trainees to total workforce. We were the first large German energy company to have its own environmental management system accredited under the international standard ISO 14001.	Ecology and social commitment are still two important goals for us. This includes ensuring a reliable supply of energy and generating profit ethically and with integrity. We support sport, art, cultural and community events and science.
> 9		
to participate actively in the development of the future energy-mix and in the future development of energy policy and business in general and to intervene appropriately, clearly and constructively.	We have positioned ourselves ideally both in the world of energy politics and the business world and successfully contributed our own suggestion for an ex-ante incentive regulation. In September 2006 we held the first German climate congress of its kind in Berlin. We have supported innovation, energy efficiency and climate protection in numerous initiatives and projects.	The challenges that we all face are climate change, the upheavals in the energy market and new developments in energy policy. We want to continue our drive to promote knowledge, research and innovation in the energy industry. We will continue to advocate a balanced energy mix.
> 10		
to be the number one in knowledge management to ensure the best possible support for and development of the potential of our people.	We have implemented knowledge management as a central corporate task. The successful introduction of knowledge balance sheets will continue to optimise our potential in the future. Our prominent role in the BDI initiative "Innovation strategies and knowledge management" has been clearly recognised.	We want to gear the existing know-how and potential of our employees to future requirements and thus pave the way at an early stage for sustainable success.

Our targets are also supported by our current project "Operational Excellence". The market and competitive situation compels us to monitor and improve our operating processes continually. With discipline, efficiency and cost-consciousness we want to lead the field and are committed to continuous improvement. After the successful reorganisation of our group we are now in a phase characterised by growth and strategic decisions.

Top issues

January 2006

Cooperation with STEAG
STEAG AG and EnBW agree to collaborate on the construction and operation of thermal power stations. Plans include the construction of an EnBW and a STEAG power station the entities each assuming a minority interest in the other's power station.

Innovation prize of German industry
EnBW sponsors the innovation prize of German industry for start-up companies. The prize is awarded to Cairos technologies AG. EnBW itself reaches the final round of this competition with its project "Group reorganisation as process innovation with EnBW Energie Baden-Württemberg AG as an example". This is the first time in Germany that a reorganisation is acknowledged as a process innovation.

Fuel cell heating technology in Schiltach
With its partners, EnBW puts the first fuel cell heating device of european fuel cell GmbH in Germany into operation at the Schiltach tourist board.

Geothermal energy
EnBW supports the environmentally friendly and innovative use of geothermal heat in the state of Baden-Württemberg with a total of € 3 million. Two thirds go towards completion of the geothermal power station of the Stadtwerke Bruchsal municipal utilities; € 1 million of the EnBW funds is spent on the installation of geothermal heat sensors in connection with heat pumps for heating one and two-family houses.

EnBW at the World Economic Forum
EnBW is represented at the World Economic Forum in Davos. Key topics at the World Economic Forum include climate change and the energy issues of the future.

February 2006

New model franchise agreements
The Association of Municipalities and the Association of the Cities and Towns in Baden-Württemberg, EnBW Regional AG and EnBW Gas GmbH as well as the regional municipal associations Neckarelektrizitäts-Verband, Landeselektrizitätsverband Württemberg and Gemeindeelektrizitätsverband Schwarzwald Donau agree to new model franchise agreements for the supply of electricity and gas. They serve as a basis for the new contracts that are to be concluded by EnBW and municipal authorities.

March 2006

Claassen in EDF's comité exécutif
Electricité de France (EDF) appoints EnBW CEO Prof. Dr. Utz Claassen onto the Comité exécutif (Comex). Claassen is expected to decisively shape the strategy of the EDF group for central and eastern Europe.

Majority in Stadtwerke Düsseldorf AG
The Commission of the European Communities approves the purchase by EnBW of 25.05% of the shares in Stadtwerke Düsseldorf AG. With 54.95%, EnBW is the majority shareholder and will consolidate this company in full in future.

Compressed air energy storage facilities and wave power plants
EnBW launches an innovation campaign for the further development of renewable energies and energy storage. Together, EnBW and the state of Lower Saxony want to build a state-of-the-art compressed air energy storage plant. Together with Voith Siemens Hydro Power Generation GmbH & Co. KG and in alliance with the state of Lower Saxony, EnBW is seeking a suitable location on the German North Sea coast to develop the first German wave power plant.

New collective agreement
Employers and employee representatives of the private energy industry in Baden-Württemberg reach a new collectively bargained agreement for a two-year period. In addition to collective wage increases, it is agreed to extend the employment contracts for trainees after completion of training from six to twelve months and to subsequently hire 20% of the trainees on permanent contracts.

2006

April 2006

Hanover trade fair
Chancellor Merkel and Baden-Württemberg's Prime Minister Oettinger visit the EnBW stand during their tour of the Hanover trade fair. EnBW has been presenting innovative energy concepts and products at the world's largest industrial trade fair for many years. This year, the focus at EnBW is on tailored products for industrial customers and contracting models. The trade fair stand receives the IF Design Award.

Hydro-electric power
EnBW decides to build the Rheinfelden power station and approves planning activities for the construction of a fifth turbine at the Iffezheim power station on the Rhine as well as small hydro-electric power stations on the river Rhine in Kehl and Breisach. A further power station on the Neckar in Esslingen is at the planning stage.

Innovation strategies and knowledge management
Prof. Dr. Utz Claassen, the CEO of EnBW, takes over the chair of the Federation of German Industries (BDI) initiative "Innovation strategies and knowledge management". The purpose of the initiative is to identify forward-looking technology clusters by networking science and business and to elaborate and implement concrete recommendations for action and projects.

May 2006

Gas transmission
The Federal Network Agency decides against E.ON Ruhrgas AG and in favour of EnBW in the abuse proceedings. EnBW had objected that E.ON refused to transmit the gas volumes bought by EnBW in an auction under E.ON's gas release programme.

Natural gas grid in Heckengäu
Work starts to establish a natural gas grid in the Heckengäu region, one of the largest contiguous areas not yet supplied with natural gas in EnBW's catchment area. Over the next four years, six municipalities here with a total of about 27,000 inhabitants will be connected to EnBW's natural gas grid.

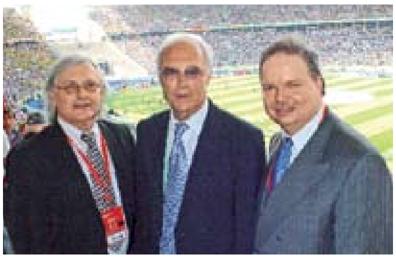
Energy efficiency network
EnBW inaugurates its first "EnBW energy efficiency network" with eleven industrial customers in Weingarten, thus realising one of the lighthouse projects of the federal government's "Partners for Innovation" initiative. In this network, the partners develop methods in a facilitated knowledge management process for rational consumption of energy in their operations.

Yello comes top twice
For top service and fair conditions, Yello Strom GmbH wins the big electricity provider test at Focus Money; in a comparison with the TOP 100 electricity companies by Verivox, Yello comes out top in terms of prices, service and customer friendliness.

June 2006

Investment in the Czech Republic
Adapting the existing shareholders' agreement, the city of Prague and EnBW AG secure their economic control in Pražská energetika Holding a.s. (PRE), in which they hold the majority of the shares between them. PRE supplies some 700,000 customers with electricity in the supply area of the city of Prague.

30% share in Stadtwerke Bad Herrenalb
EnBW Regional AG acquires 30% of the shares in Stadtwerke Bad Herrenalb. In the course of this investment, EnBW contributes its electricity grid as well as its electricity customers in the city districts of Bad Herrenalb to the municipal utilities.



Customer bonding and image building during the 2006 FIFA World Cup™
EnBW makes optimum use of its 2006 FIFA World Cup™ rights as national sponsor for all EnBW brands in terms of customer retention and image building. EnBW puts into practice the motto "The biggest home game of all time" by organising numerous activities.

Award for EnBW image film
EnBW is awarded film prizes for two image films. At the 22nd "Internationale Wirtschaftsfilmtage", an international festival of business films, it is awarded the "Grand Prix Victoria" prize for business films in silver and at the WorldMediaFestival 2006 the "intermedia-globe" prize in gold in the public relations category.

July 2006

User charges for the 380/220 kv transmission network
EnBW Transportnetze AG (TNG) receives notification from the Federal Network Agency of the amount of the approved user charges for the 380/220-kV transmission network. The approved network user charges, which are valid until the end of 2007, are around 8% lower than those applied for. TNG considers the decision to cut the charges to be legally disputable and has filed a complaint against the decision.

31.2% share in EVN
EnBW increases its share in the Austrian EVN AG from 29.7% to 31.2%.

Ground probe tests in Triberg
Making environmentally friendly geothermal heating more cost-effective is the aim pursued by EnBW with a feasibility study. A 300-metre long, innovative new ground probe filled with CO_2 is tested in Triberg/Black Forest.

August 2006

User charges for the high, medium and low voltage network
The Federal Network Agency notifies EnBW Regional AG (REG) of the amount of the approved user charges for the high, medium and low voltage network. The network user charges applied for have been reduced by an average of 14%. The new charges apply until the end of 2007. REG considers the decision to cut the charges to be unjustified and has filed a complaint against the decision.

Fair Company
The "karriere" magazine awards EnBW the title "Fair Company". This award is conferred on companies which stand for a new ethical approach in the working environment and offer interns and graduates fair opportunities in their career start.

2006

September 2006

Climate congress
EnBW holds the international climate congress "Changing Climate – Facts, Impacts, Perspectives" which is attended by some 200 high-profile experts from business, science, politics and society. The "Berlin Declaration" passed by the experts defines a timetable for climate protection in order to limit global warming. A German climate group headed by EnBW is formed in which representatives from the world of politics, business and science will develop a climate-friendly energy policy.

Telematic technology
EnBW invests in the Walldorf-based company InterComponentWare AG, thus securing access to telematic technology which also harbours high potential for the energy industry.

Vocational training
334 young people start their vocational training at EnBW in technical and office jobs as well as in combined courses of study at vocational colleges and universities of applied science. EnBW has 50% more trainees and apprentices than it needs and considerably more than the average for the industry. In this way, it is making an active contribution to combating youth unemployment.

EnBW City
Work on the construction of the new office complex "EnBW City" commences in Stuttgart. The complex to be built at Fasanenhof in Möhringen will house some 2,000 employees and is scheduled for completion in early 2009.

Fuel cell hybrid power station
EnBW and Siemens Power Generation want to co-develop a highly efficient fuel-cell hybrid power station in the megawatt class by 2012. Hybrid technology would then be available a decade sooner than experts predict today. By combining the fuel cell with a gas turbine, the hybrid power station can convert up to 70% of the fuel into electricity.

Energy efficiency network in eastern Germany
Twelve industrial companies from eastern Germany and EnBW found a second "EnBW energy efficiency network". By collaborating in the network, the companies involved want to achieve a sustainable reduction in their energy consumption in the next three years.

Service quality
TÜV SÜD GmbH awards EnBW Vertriebs- und Servicegesellschaft mbH the seal of approval for service quality. The accreditation process confirms, among other things, that the retail customer service is highly reliable, offering professional complaints management and highly qualified staff.

SüdBest customer card
With the SüdBest customer card, the initiator EnBW develops a unique advantage scheme for customers and partner businesses. Following the highly publicised introductory phase, EnBW distributes the loyalty card to all the company's retail customers throughout Baden-Württemberg. More than 3,000 partner businesses participate in the initiative right from the start.

October 2006

Group tendering
EnBW remains the most important electricity supplier for municipalities and associations in Baden-Württemberg. In the group tendering process of the Association of the Municipalities of Baden-Württemberg, it is awarded the contract to supply a total of 724 million kWh of electricity in the years 2007 and 2008. EnBW will supply some 17,000 municipal facilities such as town halls, nursery schools, schools and swimming pools as well as street lighting.

Price guarantee
EnBW Vertriebs- und Servicegesellschaft mbH guarantees stable net prices for its electricity customers with the comfort rate (basic supply) until March 31, 2008. This means that the net prices in the EnBW comfort rate will remain stable for 21 months.

Shareholding in EVN increased
EnBW increases its share in the Austrian EVN AG from 31.2% to 35.7%.

New strategy in Düsseldorf
Stadtwerke Düsseldorf AG (SWD), in which EnBW holds the majority interest, launches its new strategy. SWD's management board presents the corner stones of its acquisition and cooperation strategy for North Rhine-Westphalia.

Bond on capital market
EnBW issues a bond for € 500 million on the capital market. The bond has a term of ten years and is intended to prematurely refinance a bond due in February 2007. The sound reputation of EnBW on the capital market creates such a high demand that the bond is oversubscribed more than two times over after just four hours.

Interim storage for fuel rods
The interim storage locations for spent fuel rods at the Neckarwestheim and Philippsburg power stations are handed over to the operator.

October 2006

Biogas fuel cell
EnBW is instrumental in putting the world's first large biogas fuel cell into operation in Leonberg near Stuttgart. The plant supplements the EnBW field test with natural gas-fired fuel cells and makes this efficient forward-looking technology accessible for renewable energies.

Low temperature fuel cell
A low temperature fuel cell heating device of european fuel cell GmbH goes into operation in a municipal nursery school in Ettenheim. This is the city of Ettenheim's contribution to the state-wide fuel cell programme of EnBW for the supply of households.

Geothermal power in Basle and Soultz-sous-Forêts
In Basle, the first of two 5,000 metre drillings for the geothermal power station of Geopower Basel AG, in which the EnBW subsidiary Energiedienst Holding AG holds an investment, reaches its final depth. The injection of water to create the subterranean heat exchanger commences. EnBW also joins the syndicate of the pioneering geothermal project in the Alsatian town of Soultz-sous-Forêts that plans to erect an aboveground power station by 2008.

Environmental management accredited
EnBW is the first large energy group in Germany to receive the certificate confirming that the environmental management system of the group meets the requirements of ISO 14001.

November 2006

OSART mission in the Philippsburg nuclear power station
The OSART mission ends with a follow-up visit to the Philippsburg nuclear power station. The experts of the International Atomic Energy Association (IAEA) survey the high standard of works management.

Plans for the construction of new brown coal power station under review
The partners Mitteldeutsche Braunkohlengesellschaft mbH and EnBW have the exclusive right to examine the possibility of building a new state-of-the-art brown coal power station in Profen, Saxony-Anhalt, by the end of March 2007.

Fuel cell heating technology in Schwetzingen
A state-of-the-art low temperature fuel cell heating device manufactured by european fuel cell GmbH is commissioned in Schwetzingen. This is a joint project of the city of Schwetzingen, EnBW, MVV Energie AG, Stadtwerke Schwetzingen GmbH & Co. KG and the Lutheran parish.

Norddeutsche Affinerie AG as new customer
EnBW Vertriebs- und Servicegesellschaft mbH wins Norddeutsche Affinerie AG in Hamburg, the largest copper mill in Europe, as electricity customer.

December 2006

Construction of a hard coal power station
EnBW decides to build a new state-of-the-art hard coal power station on the site of the Rheinhafen thermal power station in Karlsruhe (RDK). The cost to complete the project will exceed € 1 billion. Construction is scheduled to commence in the spring of 2008. EnBW is also actively investigating the construction of a gas and steam power station in the RDK.

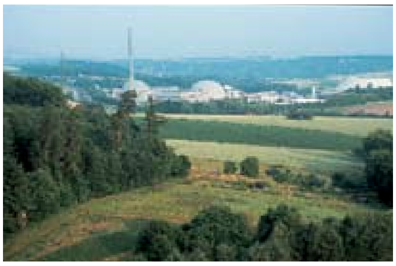
Franchise agreements
In 2006 EnBW Regional AG and EnBW Gas GmbH enter into 191 electricity franchise agreements and 25 gas franchise agreements in Baden-Württemberg. In addition, nine electricity and two gas franchises are contributed to equity investments.

Bidding process in Turkey
EnBW and the leading Turkish industrial conglomerate, the Ciner Group, want to develop the whole value added chain of the Turkish electricity supply in a vertically integrated structure.

Neckarwestheim I in commercial operation for 30 years
The Neckarwestheim nuclear power station commenced commercial operations 30 years ago. Neckarwestheim stands for 30 years of safe, reliable and climate-friendly electricity generation.

2006/07

December 2006



Transfer of residual electricity quantities to Neckarwestheim I
EnBW applies to the Federal Ministry for the Environment to transfer residual electricity quantities to the Neckarwestheim unit I nuclear power station. The application is for the transfer a total of 46.9 TWh from the residual electricity quantity allocated to unit II of the Neckarwestheim power station. With its application, EnBW is making use of the legal possibilities allowed by the German Atomic Power Act to optimise the term of its nuclear power stations and adjust them to operational requirements.

Geothermal power in Basle and Soultz-sous-Forêts
A perceptible earth shock brings work to a halt on the subterranean heat exchanger for the geothermal power station in Basle. In the Alsatian town of Soultz the syndicate decides to place the order for the electricity generating plant.

Virtual slice of a power station
15 public utilities and redistributors from Baden-Württemberg subscribe to a "virtual slice of a power station" of EnBW, thus securing long-term procurement reliability equivalent to that of a real investment in a power station.

Change to Yello
The "Schweinehund" campaign of Yello Strom GmbH that encourages people to change their electricity provider is highly successful measured both in terms of the number of new customers and also brand awareness and popularity.

Corporate philosophy
In the course of 2006 EnBW's core companies commence implementation of the corporate philosophy of EnBW that was developed and approved in 2005. In corporate philosophy dialogues between management and staff, the close correlation between the mission statements and the business objectives and processes is explained. Thanks to this exemplary implementation process, the conditions needed to successfully prepare the company for the challenges for the future have been clearly disseminated at grass-roots level.

January 2007

EnBW Kernkraft GmbH
On January 1, 2007, EnBW Kernkraft GmbH takes over the operation of the nuclear power stations in Neckarwestheim, Philippsburg and Obrigheim. The permits required by the German Atomic Power Act were issued by the Baden-Württemberg Ministry for the Environment at the end of November 2006.

Shares of regional suppliers
EnBW acquires shares in Erdgas Südwest GmbH (ESW), ENSO Energie Sachsen Ost GmbH (ENSO) and GSW Gasversorgung Sachsen Ost Wärmeservice GmbH & Co. KG (GSWK) from Thüga AG. The acquisition increases EnBW's indirect shareholding in ESW from 51% to 79%, in ENSO from 50.4% to 64.8% and in GSWK from 23.5% to 100%.

Rheinfelden run-of-the-river power plant
A small groundbreaking celebration marks the official start of the construction of the powerhouse of the new Rheinfelden run-of-the-river power station. EnBW subsidiary Energiedienst Holding AG is the building principal.

Innovation prize
For the third time, EnBW sponsors the innovation prize of German industry in the start-up segment. Cytonet GmbH & Co. KG wins the prize for its development of a revolutionary drug made from living liver cells, the world's first alternative to a liver transplant. In the "large company" segment, EnBW itself reaches the last round with its "EnBW EnyCity" project for an energy city of the future. In this way it is marked out for the development of a comprehensive, modular planning system for the optimisation of the energy supply.

EnBW attends the World Economic Forum again
For the second time, EnBW takes parts in the World Economic Forum in Davos. In the dialogue with young global leaders of tomorrow, EnBW CEO Prof. Dr. Utz Claassen welcomed His Majesty Håkon Magnus from Norway.

"Our goal: operational excellence in the value added chain."

Prof. Dr. Utz Claassen, CEO

Board of Management and Supervisory Board

Letter to our shareholders

Dear Shareholders,

After presenting the best half-year result mid-year and, then after the third quarter, the best nine-month result in the history of the group as well, I am delighted to be able to announce the logical continuation of the quarterly development: as in the prior year the overall group result for the year 2006 also marks an all-time high at EnBW in terms of the main earnings figures. Having surpassed the billion-euro threshold with our pre-tax profit in 2005 for the first time in the group's history, we have now for the first time exceeded the billion-euro threshold with our group net profit for the year 2006, including non-recurring tax effects. This is highly satisfactory and, once more, makes 2006 our best fiscal year ever. The success story continues.

The current figures for our main earnings indicators have once again clearly exceeded the comparable prior-year figures and also our ambitious earnings targets, despite burdens from the disposal business. In the fiscal year 2006, earnings before interest, taxes, depreciation and amortisation (EBITDA) improved by 12 per cent on the prior year, earnings before interest and taxes (EBIT) by 10 per cent, earnings before taxes (EBT) by 9 per cent and group net profit by as much as 89 per cent. The development in revenue in 2006 was also highly satisfactory with growth of 23 per cent. The excellent development of earnings is due above all to improved operating performance, optimisation of the value added chain, expansion of the consolidated group and the great success of our TOP FIT cost-cutting programme.

Prof. Dr. Utz Claassen
Chief Executive Officer

As of the end of the third quarter of 2006 we had already reached our ambitious target of aggregated cost savings of one billion euro, and we reached it faster and earlier than planned. This was by no means because the market has been kind to us – it was a result of the capabilities and performance of every single EnBW employee. At the time when the TOP FIT cost-cutting programme was launched, the Board of Management, Supervisory Board as well as shareholders, staff, employee representatives and trade union were all in agreement and fully aware that the whole future of our company and its ability to meet future challenges would hinge on the success of the programme. This is all the more reason for us to be happy and satisfied that we have met the TOP FIT targets ahead of time.

Back in 2003 hardly anyone believed that we could do it. I remember well the critical and sceptical voices from outside and some even from within our company on the subject of our cost-saving target of one billion euro, when the target dimension seemed unrealistic or even utopian to some. Nor have I forgotten how the idea of reducing working hours and pay was initially smiled upon as something that may work for the automotive industry, but not by any means in the energy industry. Today, however, we can see that this new development at collective bargaining level has created flexibility and reduced costs without compromising our social commitment and social responsibility. By implementing the TOP FIT programme to the letter, we have successfully built the central pillar of our company's future strategy, value added for our shareholders and secure jobs for our employees.

We have also made significant progress in the field of innovation and are perfectly integrated in various associated activities outside the group. The "Partners for Innovation" brought their work to a successful close. EnBW has made significant contributions to pilot and forward-looking projects such as the energy-efficient school or the model energy city of the future ("EnBW EnyCity"). Through our involvement in the "innovation strategies and knowledge management" initiative of the Federation of German Industries and the "industry and science research union" with Ms. Schavan, Federal Minister of Education and Research, EnBW as an innovative company will remain as active and well-positioned as possible with respect to content, cooperation projects and image. The recent acclaim we received for our innovative power when we were awarded the innovation prize of German industry was not pure chance.

As with innovation, we have been very active when it comes to capital expenditures. After construction approval was given for Stuttgart and Biberach – a major decision for our home state of Baden-Württemberg – we reached an important milestone in terms of power plant capacity: In December the Supervisory Board approved the resolution of the Board of Management to make a large and significant investment in a new state-of-the-art coal power plant at our Karlsruhe location. This is the biggest investment decision in years for Baden-Württemberg where energy is concerned. As announced and according to the timeframe originally envisaged we made this decision before the end of 2006. Other projects for conventional power plant capacity are being analysed and planned, including projects with gas and brown coal as the primary energy sources.

We have also kept our word with respect to nuclear power. Before the year was out, we filed an application, as announced, to transfer residual electricity quantities to unit I of the Neckarwestheim nuclear power station. This was not political tactics on our part after the general elections, which would not have lasted more than a few months or quarters after the following election of parliament, but rather a powerful application of real substance with a clear perspective for the period until 2017. This application is wholly in compliance with the existing law, respecting both the spirit and the letter of the law. Nevertheless, we correctly and truthfully pointed out at the time when we announced the application that if our country is to be supplied with energy in the future in a safe, environmentally compatible and economically feasible manner the nuclear consensus will inevitably need to be updated to allow the power stations a longer life in line with international standards. In addition, as we explained in detail to the federal government concerning synergies resulting from double unit operation, our application serves to enhance not only efficiency, but also safety.

In 2006, EnBW also considerably intensified its efforts and expanded the range of its activities in the field of renewable energies – which, by the way, we no longer consider or refer to as "alternative", but rather "additive" energies. Our current projects range from large-scale hydropower with Germany's largest renewable electricity generation project located in Rheinfelden to pump storage, geothermal energy, biomass and local solar warmth right through to national or global innovations in the field of wave power and compressed air energy storage. These activities are complemented by major efforts in the area of energy efficiency, both in power generation and consumption. The pilot project "Price Signal at the Power Socket", which allows customers an effective and efficient comparison of demand and supply, is just one example.

EnBW also organised a climate congress in September 2006 – the first of its kind to be held in Germany – which was attended by almost all relevant experts from around the world including high-profile speakers like the Australian biologist Tim Flannery, the chief scientific adviser to the British government Sir David King, the climatologists Mojib Latif and Stefan Rahmstorf from the universities of Kiel and Potsdam, the US American economist Jeremy Rifkin and the former US Vice President Al Gore, who joined the conference via video. EnBW has developed a leading and opinion-forming role within the industry, not only in the area of climate protection, but also in other important debates on regulatory and energy policy issues.

And, last but not least, another noteworthy milestone in 2006 was that, adjusted for effects from the consolidated group, EnBW once again created a net balance of jobs in Baden-Württemberg. And this does not even count the additional employment effects for the state which will result from our investment projects in Biberach, Karlsruhe, Rheinfelden or Stuttgart, for example. Our high percentage of trainees and apprentices, who make up 8.3 per cent of our workforce as of year-end 2006, also places us at the top in terms of this important indicator. EnBW has again received numerous awards for its responsibility in the field of personnel management.

All this shows that in the past year the whole EnBW team was again highly successful in all matters that are within our sphere of influence and which we are able to shape ourselves. The Board of Management, management and the whole workforce pulled together, and pulled in the right direction. What we have achieved would not have been possible without the trust placed in us by our shareholders and their active support. Let me use this opportunity to thank you again most sincerely. I would also like to thank our fantastic workforce whose constructive collaboration with the Board of Management and all levels of management and considerable sacrifices were the drivers behind the rapid and significant progress.

However, there are also two problem areas, which have to be mentioned in no uncertain terms: The first problem area concerns the issues relating to U-plus/T-plus/ISKA®. Our operating result, which could otherwise have been even better, reflects these significant effects. The company has once again paid dearly for the over-optimistic technical estimations made in the past and contracts entered into in the past which bind the company in the long term. We believe that we have taken every measure possible to prevent this happening again. As a result of the reallocation of responsibilities for the various elements of the technology area on the Board of Management, I will now personally see to it that the issues are dealt with and solved with lasting effect and as rapidly as possible in the interest of the company and shareholders while respecting our commitments in our relationships with municipalities.

The second important problem area relates to the energy and regulatory debate. Since the relating deliberations of politicians in responsible positions at EU, federal and state level and our own positions have been widely publicised in the press, I will not list all potential critical developments here again. All in all, however, it must be said that individual initiatives, for instance to tighten requirements on emissions trading further, relating to antitrust law or grids and grid connections, may in some cases have a serious impact on earnings, strategic issues and ownership rights. As EnBW, we are heavily involved in the political debate and the discussion in the media. Nevertheless, on our own we cannot help it if the one or other of the participants loses their regulatory sense of direction. Let me assure you that we will do everything in our power to prevent or at least limit any damage for our shareholders, customers and staff.

Let me close my review of the year 2006 with a pleasant topic. It has been quite rightly said many times already: The Football World Cup was a wonderful event and beneficial for our country in many ways. And EnBW's involvement, which has been expressly acknowledged on several occasions including especially by the Prime Minister of the state of Baden-Württemberg, Mr. Günther Oettinger, helped to make it happen. We have every right to be proud of this. Our thanks are due to the many internal and external helpers. According to the data and information gathered by our marketing department, hardly any other national sponsor benefited as much from the World Cup in terms of public awareness of its brands as did EnBW. Top figures were achieved in aided brand awareness.

The whole EnBW team will continue to work hard, putting heart and soul into it, to make sure that the company develops well in the interest of shareholders, customers and the workforce. Imagine living in an economy which does not carelessly jeopardise its central nervous system – energy supply; imagine living in an economic system in which the diligence of the workforce and not the administrative will of an authority determines the amount of profits; imagine living in a legal system in which property is still protected; imagine living in a country in which the energy mix of the future can be discussed based on facts and free from ideology; imagine living in a Europe in which political initiatives do not burden the competitiveness of certain member states in a one-sided manner; and imagine living in a world in which the dramatically increasing hunger for energy is satisfied sensibly and reasonably in harmony with climate protection, safety and efficiency concerns. Working towards these ideals is what we consider to be our prime social obligation, also in our pan-European partnership with EDF.

Yours sincerely,

Prof. Dr. Utz Claassen
Chief Executive Officer

Karlsruhe, February 2007

Board of Management

The Board of Management of EnBW Energie Baden-Württemberg AG at an internal conference in 2006
Standing, from left to right: Prof. Dr.-Ing. Thomas Hartkopf, CEO Prof. Dr. Utz Claassen, Dr. Bernhard Beck, LL.M.
Sitting, from left to right: Dr. Christian Holzherr, Dr. h.c. Detlef Schmidt, Pierre Lederer

Prof. Dr. Utz Claassen
Born 1963 in Hanover
Chairman of the Board of Management
Chief Executive Officer since May 1, 2003
also Chief Financial Officer
from July 4, 2003 to December 31, 2004
Appointed until April 30, 2008
Hanover/Stuttgart

Dr. Bernhard Beck, LL.M.
Born 1954 in Tuttlingen
Member of the Board of Management
Chief Human Resources and Information Officer since October 1, 2002
Appointed until September 30, 2007
Leonberg

Prof. Dr.-Ing. Thomas Hartkopf
Born 1948 in Solingen
Member of the Board of Management
Chief Technical Officer
from November 1, 2002
until February 8, 2007
Leimen

Dr. Christian Holzherr
Born 1963 in Tübingen
Member of the Board of Management
Chief Financial Officer
since January 1, 2005
Appointed until December 31, 2007
Stuttgart

Pierre Lederer
Born 1949 in Paris
Member of the Board of Management
Management board member responsible for customers since June 1, 2000
Chief Operating Officer
since May 1, 2003
Appointed until May 31, 2010
Karlsruhe

Dr. h.c. Detlef Schmidt
Born 1944 in Döbern
Member of the Board of Management
Chief Marketing and Sales Officer
since July 1, 2003
Appointed until June 30, 2008
Gifhorn/Karlsruhe

As of: February 19, 2007

Report of the Supervisory Board

Dr. Claus Dieter Hoffmann
Chairman of the Supervisory Board

Monitoring of management

The Supervisory Board monitored and accompanied the action taken by the Board of Management over the reporting year in accordance with the control and advisory functions imposed on it by law and the articles of incorporation and bylaws. It was involved in all major decisions and kept informed regularly, promptly and comprehensively by the Board of Management of the current development of business, all significant aspects of corporate planning and strategy as well as the economic situation of the group and the risk situation including risk management. Variances between the actual business development and previously formulated plans and targets were explained to the Supervisory Board in detail in each case.

At six ordinary meetings held on February 20, April 27 and 28, July 4, September 27 and December 8, 2006 and one extraordinary meeting on March 2, 2006, the Supervisory Board dealt in depth with oral reports and written draft resolutions of the Board of Management. In addition, the Supervisory Board requested reports from the Board of Management on specific topics. These were rendered immediately and properly in each case. It was not necessary to inspect the books and net assets of the company as there were no issues that needed to be clarified. In the fiscal year 2006, discussions and the resolutions focused on the following issues:

> Regular and detailed reporting of the Board of Management on the revenue and earnings development of the group, its financial position and the progress of the TOP FIT cost-cutting programme

> The financing strategy of EnBW and approval for the individual financing measures, including in particular the placement of a € 500 million bond under the existing EMTN programme

> Approval of the construction of a new central office complex in Stuttgart combining the Stuttgart offices

> Approval of a contract to be awarded for all measures necessary to decommission the 220 kV transmission network and expand the 380 kV network

> Approval of a replacement investment at the Bautzen CHP unit by ENSO Energie Sachsen Ost GmbH

> Approval of the construction of a new hard coal power station on the site of the Karlsruhe thermal power station and planning for the addition of further power station capacity

> Development of the U-plus subgroup, technical and economic difficulties of the ISKA® plants and decision on the best solution

> The strategic development of EnBW in Baden-Württemberg, Germany and central and eastern Europe

> Application by EnBW for the transfer of residual electricity quantities to the GKN I nuclear power station

> The current energy and regulatory debate

> The effects of regulatory measures on the company, in particular the implications of the reduction of network user charges by the Federal Network Agency on the earnings of the group

> Adoption of a new remuneration system for the Board of Management

> Status of the litigation between EnBW and Thermoselect SA

> Activities of EnBW to promote sports and cultural events, science and social projects, including in particular the sponsoring of the 2006 FIFA World Cup™

> The initiatives launched or supported by EnBW in the field of research, innovation and climate protection

> Approval of the 2007 budget and acknowledgement of the PR0709 mid-term planning consisting of income statement, balance sheet, investment planning and the cash flow statement

Between the meetings, the Board of Management produced written reports to inform the members of the Supervisory Board about all business events of particular importance for the company. In addition, the Chairman of the Supervisory Board was in constant contact with the Chairman of the Board of Management to discuss questions relating to the strategic orientation, important individual measures and upcoming decisions.

No member of the Supervisory Board attended fewer than half of the meetings. The large majority of the Supervisory Board members attended all Supervisory Board meetings.

Work of the committees

In order to satisfy its duties as efficiently as possible, the Supervisory Board has created five committees. The members of these committees are presented on page 27. At the Supervisory Board meetings the committee chairs each reported extensively on the work of the committees.

The committee for management board matters met twelve times during the past fiscal year. It dealt in particular with the conception of a new remuneration system for the Board of Management, which in future will include a short-term incentive and a long-term incentive in addition to the fixed annual basic salary. The new remuneration system for the Board of Management is explained in detail in the remuneration report on pages 30 – 33 as part of the corporate governance report.

The finance and investment committee discussed EnBW's financial, liquidity and earnings situation as well as the budget and mid-term planning in detail at its four meetings. In addition, it reviewed current investment plans and prepared decisions on these matters for the Supervisory Board.

At its three meetings, the audit committee primarily considered accounting and also risk management issues. It requested the independence declaration required by No 7.2.1 of the German Corporate Governance Code from the auditor and made sure that the requirements of No 7.2 of the Code for the contractual relationship between the company and the auditor are satisfied. It also decided on the appointment of the auditor and the focal points of the audit and set the audit fees. In the presence of the auditor, the audit committee took an in-depth look at the interim financial statements and analysed the annual and consolidated financial statements in preparation for the meeting of the Supervisory Board to discuss the financial statements.

Since March 2005, the Supervisory Board also has an ad-hoc committee whose task it is to perform a detailed examination of how to proceed when filing liability claims against former members of the Board of Management. The four members, who opted not to elect a committee chairman, met four times during the reporting year.

The mediation committee created in accordance with Sec. 27 (3) German Co-determination Act (MitbestG) did not have to be convened in the fiscal year 2006.

Corporate governance

The actions of the Board of Management and the Supervisory Board are guided by the belief that good corporate governance in the sense of responsible management and supervision geared towards adding value for the company are an important basis for the economic success of EnBW. In the reporting period, the Supervisory Board familiarised itself with the revised version of the German Corporate Governance Code published on June 12, 2006 and refined the company's internal corporate governance principles accordingly. The details are given in the corporate governance report on pages 28 – 37.

In the course of its annual efficiency review, the Supervisory Board was questioned on all key aspects of supervisory board activities in writing at the start of the past fiscal year. The suggestions and general comments for further improving committee work obtained from this survey figured on the Supervisory Board's agenda on February 20 and April 27, 2006.

At its meeting on December 8, 2006, the Supervisory Board issued the declaration of compliance with the German Corporate Governance Code in accordance with Sec. 161 of the German Stock Corporations Act (AktG). The Board of Management had previously passed an identical declaration at its meeting on November 20, 2006. In the fiscal year 2006, EnBW fulfilled the recommendations of the amended Code with just one exception. In future, it will comply with all recommendations without exception.

The current declaration of compliance was made permanently accessible to the shareholders on EnBW's website together with the declarations from prior years. It is reprinted in full in the corporate governance report on page 37.

Explanation of special disclosures in the management report

Since the takeover directive implementation act pursuant to Secs. 289 (4) and 315 (4) HGB came into force, certain disclosures are required in the management report. The Supervisory Board explains these requirements below.

EnBW AG's capital stock amounts to € 640,015,872.00 and is divided into 250,006,200 registered no-par value shares. The no-par value shares each represent an imputed share of € 2.56 of the subscribed capital.

Electricité de France International SA, which is based in Paris (France), and Zweckverband Oberschwäbische Elektrizitätswerke, which is based in Ravensburg, each hold 45.01% of the capital stock of EnBW as of December 31, 2006. The sole shareholder of Electricité de France International SA is the listed Electricité de France SA with registered offices in Paris (France), which in turn is controlled by the Republic of France. Electricité de France SA and the French Republic thus each indirectly hold a 45.01% interest in EnBW via Electricité de France International SA. Zweckverband Oberschwäbische Elektrizitätswerke holds its investment in EnBW in trust for OEW Energie-Beteiligungs GmbH with registered offices in Ulm (in future: Ravensburg), which is the economic owner of the EnBW shares held by Zweckverband Oberschwäbische Elektrizitätswerke. OEW Energie-Beteiligungs GmbH therefore has an indirect holding of 45.01% in the capital stock of EnBW via Zweckverband Oberschwäbische Elektrizitätswerke. The sole shareholder of OEW Energie-Beteiligungs GmbH is Zweckverband Oberschwäbische Elektrizitätswerke. The latter therefore holds its share of 45.01% in EnBW's capital stock not only directly but also indirectly via OEW Energie-Beteiligungs GmbH.

In the reference document issued for the French financial market supervisory authorities when EDF went public in 2005, EDF informed the financial markets of the agreement made between EDF and OEW. In a shareholder agreement dated July 26/November 20, 2002, the two main shareholders EDF and OEW agreed on the ownership of rights and the coordination of their exercise as well as the capability of the shareholders to exercise influence. According to this agreement, EDF and OEW will use the voting rights from their shares uniformly after prior consultation in a shareholders' committee which is to be set up by them. EDF and OEW will, in particular, make suggestions for the election of shareholder representatives on the Supervisory Board and will seek to use their votes to have four members based on the EDF suggestion and three based on the OEW suggestion, including the Chairman of the Supervisory Board. In addition, the parties to the shareholder agreement want to use their influence to appoint a member of the Board of Management based on EDF's suggestion.

In the shareholder agreement, EDF and OEW have also imposed restrictions on the transfer of shares. OEW cannot sell restricted shares (= 25.005% of all shares) without the approval of EDF. In addition, put options and tag-along rights have been agreed mutually between EDF and OEW for the restricted shares. For each planned sale of EnBW shares (restricted and unrestricted shares) EDF and OEW have granted each other pre-emptive rights. The restrictions are in force for the duration of the shareholder agreement, initially until December 31, 2011 and thereafter for as long as EDF and OEW jointly hold a majority interest and each party holds at least 17% of EnBW shares.

Pursuant to Sec. 84 German Stock Corporations Act (AktG), the Supervisory Board is responsible for the appointment and dismissal of members of the Board of Management. These powers are stipulated in Art. 7 (1) Sentence 2 of EnBW AG's articles of incorporation and bylaws. The annual general meeting has the right to amend the articles of incorporation and bylaws in accordance with Sec. 119 (1) No. 5 AktG; the specific rules of procedure are contained in Secs. 179 and 181 AktG. For practical reasons, the right to amend the articles of incorporation and bylaws, relating solely to the wording, was transferred to the Supervisory Board. This legal option pursuant to Sec. 179 (1) Sentence 2 AktG has been incorporated in Art. 18 (3) of the articles of incorporation and by laws.

By resolution of the annual general meeting of April 23, 2002 the Board of Management was authorised for a maximum of five years to increase the capital stock of the company with the approval of the Supervisory Board by issuing new shares, once or several times, in return for a cash contribution or a contribution in cash or in kind by a maximum of 10% each time (authorised capital I and II). These authorisations were laid down in Art. 5 (2) and (3) of the articles of incorporation and bylaws. The amendment of the a rticles of incorporation and bylaws was entered in the commercial register on June 4, 2002. The authorisations are consequently valid until June 4, 2007. The reason behind these authorisations is the designated strategy of EnBW to enhance its competitive position by mergers and acquisitions in order to allow long-term and continuous growth in earnings. The authorised capital I and II is necessary in order to be able to use equity capital to finance such transactions.

Two agreements of EnBW are subject to the condition of a change of control following a takeover offer as defined by Sec. 289 (4) No. 8 German Commercial Code (HGB):

The syndicated facility agreement for a line of credit of € 2.5 billion, which had not been drawn by December 31, 2006 (for details, see page 70), can be terminated by the lenders and fall due for repayment if a third party acquires control. This does not apply if the third party is EDF or OEW or another German public law corporation.

Under the shareholder agreement between EnBW AG and Eni S.p.A., Eni S.p.A. has the right to acquire EnBW AG's 50% share in EnBW Eni Verwaltungsgesellschaft mbH in the event of a change of control. EnBW Eni Verwaltungsgesellschaft mbH holds all shares in Gasversorgung Süddeutschland GmbH. The purchase price that Eni S.p.A. would have to pay for the share held by EnBW AG in EnBW Eni Verwaltungsgesellschaft mbH is based on the market value determined by expert appraisal.

Audit of the financial statements and consolidated financial statements

Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, was appointed auditor by the annual general meeting on April 28, 2006 and received the engagement to audit the separate and consolidated financial statements in writing from the chairman of the audit committee. In accordance with the audit engagement and the audit focus defined by the audit committee, Ernst & Young AG audited the financial statements of EnBW Energie Baden-Württemberg AG as of December 31, 2006 prepared by the Board of Management in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as well as the combined management report. The audits did not give rise to any objections and an unqualified opinion was rendered by the auditor in each case. The audit also covered the monitoring system to be installed by the Board of Management for the early detection of risks. The auditor confirmed that the system that had been installed is adequate for its purpose.

The reports of the auditor on the separate and consolidated financial statements were distributed to all members of the Supervisory Board in good time before the closing meeting and incorporated in the discussion and review of the financial statements. At its meeting on February 8, 2007, the audit committee inspected the audit documents and had no objections. The auditor attended the meetings of the audit committee and of the Supervisory Board about the financial statements and the consolidated financial statements of the company. It reported on the main results of its audit and was available to supply further information. The Supervisory Board acknowledged the result of the audit with approval.

The Supervisory Board did not raise any objections based on its own review of the separate and consolidated financial statements as of December 31, 2006 together with the combined management report and the Board of Management's proposal for the appropriation of net profit. The Supervisory Board especially shares the assessment of the Board of Management expressed in the combined management report. In conclusion, the Supervisory Board approved the separate and consolidated financial statements prepared by the Board of Management at its closing meeting on February 19, 2007; the financial statements have thus been ratified. The Supervisory Board was also in agreement with the proposal made by the Board of Management for the appropriation of retained earnings, which provides for the distribution of a dividend of € 1,14.

Ernst & Young AG also reviewed the report on the company's relations with affiliated companies (dependent company report) prepared by the Board of Management pursuant to Sec. 312 AktG. After careful review of this report, the auditor issued the following audit opinion:

"Based on our audit and assessment in accordance with professional standards, we confirm that

> **1.** the actual disclosures contained in the report are correct,

> **2.** the payments made by EnBW Energie Baden-Württemberg AG, Karlsruhe, in the transactions listed in the report were not unreasonably high."

The dependent company report was also presented to the Supervisory Board for review. The auditor attended the Supervisory Board's discussion of this report and reported on any significant audit findings. The Supervisory Board acknowledged the result of the audit with approval and also conducted its own review for completeness and accuracy of the dependent company report presented. Based on the results of its own review, it came to the conclusion that there were no objections to the declaration of the Board of Management made at the end of the report on the relations with affiliated companies.

Personnel changes on the Board of Management and Supervisory Board

There were some personnel changes on the Supervisory Board in the course of the past fiscal year. Peter Schneider, district administrator of the Biberach district, chairman of Zweckverband Oberschwäbische Elektrizitätswerke (OEW) and Chairman of the Supervisory Board of EnBW AG, retired from the Supervisory Board after the annual general meeting on April 28, 2006 to take up the office of President of the savings bank association Sparkassenverband Baden-Württemberg. The Supervisory Board would like to thank Mr. Schneider for his work and the impetus that he gave the company during his term of office. By resolution of the Karlsruhe district court, Kurt Widmaier was appointed member of the company's Supervisory Board effective as of the close of the annual general meeting on April 28, 2006. Mr. Widmaier is district administrator of the Ravensburg district and is Mr. Schneider's successor as chairman of OEW.

The employees of the EnBW group elected their representatives on the Supervisory Board effective as of the close of the annual general meeting on April 28, 2006 at the general assembly on April 24, 2006. Josef Götz, Dietrich Herd, Marianne Kugler-Wendt, Christoph Walther and Alfred Wohlfart were re-elected. Rolf Gillé, Wolfgang Lang, Dietmar Weber and Dr. Bernd-Michael Zinow were elected as employee representatives of the company on the Supervisory Board for the first time, as was Reiner Koch, who represents the ver.di trade union. Volker Stüber did not stand for election again and Franz Watzka was not re-elected.

Gisela Beller, Rolf Koch and Klaus-Michael Weber retired. The Supervisory Board would like to thank all members who have left the Supervisory Board for the constructive working relationship. A special word of thanks goes to those members who have retired after decades of dedicated work for the company and who helped to shape its successful development in many ways.

The Supervisory Board met in its new composition for the first time after the annual general meeting on April 28, 2006. At this meeting Dr. Claus Dieter Hoffmann was elected Supervisory Board Chairman and Dietrich Herd his deputy. The Supervisory Board also re-allocated the seats of the retired Supervisory Board members on the committees.

Bruno Lescoeur, Directeur Général Adjoint Relations Extérieures Internationales at Electricité de France, retired from the Supervisory Board at the close of November 20, 2006. The Board would like to thank him for the constructive working relationship over the past two years. By resolution of the Mannheim district court, Dr.-Ing. Gérard Wolf, Directeur Général Adjoint Filiales et Développement à l'International at Electricité de France, was appointed Supervisory Board member effective as of November 21, 2006.

There were also personnel changes on the Board of Management. Prof. Dr.-Ing. Thomas Hartkopf, who had been in charge of the Technology portfolio on the EnBW Board of Management since November 1, 2002, stepped down from his office at the close of February 8, 2007 and chose to leave the company. The Supervisory Board would like to thank him for the positive impetus he provided with his technical expertise and his in-depth understanding of power station technology and in the area of renewable energies in the course of the successful reorganisation and realignment of EnBW. Until a successor is appointed, CEO Prof. Dr. Utz Claassen assumes responsibility for the research and development area, innovation management and renewable energies as well as group responsibility for the U-plus group. Until further notice, Pierre Lederer, Chief Operating Officer on EnBW's Board of Management, is responsible for managing EnBW Kraftwerke AG and EnBW Kernkraft GmbH, and Dr. h.c. Detlef Schmidt, Chief Marketing and Sales Officer, is in charge of the central procurement function.

The Supervisory Board expresses its gratitude to the Board of Management and all employees of the EnBW group in acknowledgement of their dedicated work in the fiscal year 2006.

Karlsruhe, February 19, 2007
The Supervisory Board

Dr. Claus Dieter Hoffmann
Chairman

Supervisory Board

Dr. Claus Dieter Hoffmann, Stuttgart
Managing partner of H + H
Senior Advisors GmbH
Chairman since April 28, 2006

Dietrich Herd, Philippsburg
Chairman of the central works council
of EnBW Kraftwerke AG
Deputy chairman since April 28, 2006

Joachim Bitterlich, Paris
Directeur des Affaires Internationales
at Veolia Environnement SA

Marc Boudier, Sèvres
Directeur Europe at Electricité de
France SA

Dr. Daniel Camus, Croissy-sur-Seine
Directeur Général Délégué Finances
at Electricité de France SA

Willi Fischer, Meßstetten
District administrator
of the Zollernalb district

Rolf Gillé, Stuttgart
Chairman of the central works council
of U-plus Umweltservice AG
Member since April 28, 2006

Josef Götz, Stuttgart
Chairman of the central works council
of EnBW Regional AG

Reiner Koch, Glienicke/Nordbahn
Responsible for supply and waste
disposal divisions at ver.di head office
Member since April 28, 2006

Marianne Kugler-Wendt, Heilbronn
Regional director at ver.di,
Heilbronn-Neckar-Franconia district

Wolfgang Lang, Karlsruhe
Chairman of the central works council
of EnBW Systeme Infrastruktur
Support GmbH
Member since April 28, 2006

Gérard Roth, Bois d'Arcy
Directeur de la Coordination Allemagne
at Electricité de France SA

Gerhard Stratthaus MdL, Brühl
Finance Minister of the State of
Baden-Württemberg

Siegfried Tann, Friedrichshafen
District administrator
of the Lake Constance district

Christoph Walther, Langebrück
Deputy chairman of the works council
of ENSO Strom AG

Dietmar Weber, Esslingen
Chairman of the central works
council of EnBW Vertriebs- und
Servicegesellschaft mbH
Member since April 28, 2006

Kurt Widmaier, Ravensburg
District administrator
of the Ravensburg district
Member since April 28, 2006

Alfred Wohlfart, Ulm
Deputy district director at ver.di,
Baden-Württemberg district

Dr.-Ing. Gérard Wolf, Paris
Directeur Général Adjoint Filiales
et Développement à l'International
at Electricité de France SA
Member since November 21, 2006

Dr. Bernd-Michael Zinow, Pfinztal
Responsible for regulation
and compliance at EnBW Energie
Baden-Württemberg AG
Member since April 28, 2006

Gisela Beller, Karlsruhe
Former chairwoman of the central
works council of EnBW Systeme
Infrastruktur Support GmbH
Member until April 28, 2006

Rolf Koch, Maselheim
Former full-time works council
member of EnBW Regional AG
Member and deputy chairman
until April 28, 2006

Bruno Lescœur, Paris
Directeur Général Adjoint Relations
Extérieures Internationales
at Electricité de France SA
Member until November 20, 2006

Peter Schneider MdL, Andelfingen
Retired district administrator
of the Biberach district
Member and chairman
until April 28, 2006

Volker Stüber, Schöneiche
Federal collective bargaining secretary
for the ver.di head office
Member until April 28, 2006

Franz Watzka, Neckarwestheim
Chairman of the works council
of EnBW Kernkraft GmbH
Member until April 28, 2006

Klaus-Michael Weber, Ludwigsburg
Formerly lawyer at EnBW
Systeme Infrastruktur Support GmbH
Member until April 28, 2006

As of February 19, 2007

Committees of the Supervisory Board

Committee for management board matters

Dr. Claus Dieter Hoffmann
Member and Chairman since April 28, 2006

Peter Schneider
Member and Chairman until April 28, 2006

Gisela Beller
Member until April 28, 2006

Marc Boudier

Josef Götz
Member since April 28, 2006

Dietrich Herd
Member since April 28, 2006

Rolf Koch
Member until April 28, 2006

Finance and investment committee

Dr. Claus Dieter Hoffmann
Chairman since April 28, 2006

Peter Schneider
Member and Chairman until April 28, 2006

Marc Boudier

Dr. Daniel Camus

Josef Götz
Member since April 28, 2006

Dietrich Herd

Rolf Koch
Member until April 28, 2006

Klaus-Michael Weber
Member until April 28, 2006

Kurt Widmaier
Member since April 28, 2006

Alfred Wohlfart

Dr. Bernd-Michael Zinow
Member since April 28, 2006

Audit committee

Dr. Daniel Camus
Chairman

Gisela Beller
Member until April 28, 2006

Marc Boudier

Willi Fischer

Marianne Kugler-Wendt

Wolfgang Lang
Member since April 28, 2006

Siegfried Tann

Christoph Walther

Franz Watzka
Member until April 28, 2006

Dietmar Weber
Member since April 28, 2006

Ad-hoc committee for the review of board liability claims against former members of the board of management

Joachim Bitterlich

Dietrich Herd
Member since April 28, 2006

Rolf Koch
Member until April 28, 2006

Siegfried Tann

Klaus-Michael Weber
Member until April 28, 2006

Dr. Bernd-Michael Zinow
Member since April 28, 2006

Mediation committee (pursuant to Sec. 27 (3) German Co-determination Act (MitbestG))

Dr. Claus Dieter Hoffmann
Member and Chairman since April 28, 2006

Peter Schneider
Member and Chairman until April 28, 2006

Marc Boudier

Rolf Gillé
Member since April 28, 2006

Josef Götz
Member until April 28, 2006

Dietrich Herd
Member since April 28, 2006

Rolf Koch
Member until April 28, 2006

As of February 19, 2007

Corporate governance report

For EnBW, responsible, transparent corporate governance that is geared towards sustainably generating added value is an important part of corporate culture. The Board of Management and Supervisory Board took the revision of the German Corporate Governance Code on June 12, 2006 as an opportunity to review the internal corporate governance principles thoroughly and adapt them to recent developments. Management identifies with these principles and understands them as a guideline to permanently enjoy the trust of shareholders, customers, employees as well as the public.

The company's corporate governance officer, Board of Management member Dr. Bernhard Beck, monitored compliance with the corporate governance principles at EnBW, as he has done in past years. At their respective meeting of the Board of Management on November 20, 2006 and of the Supervisory Board on December 8, 2006, he gave a detailed report on issues of relevance in the fiscal year 2006. Both boards acknowledged the report and thereupon issued the declaration of compliance for the fiscal year 2006 that is reprinted at the end of this report.

Management and control structure

In accordance with the dual management and control structure prescribed by the German Stock Corporations Act (AktG), the Board of Management is responsible for steering the company and is monitored and advised by the Supervisory Board in its activities. It is a matter of course for the Board of Management and the Supervisory Board of EnBW AG to cooperate closely and in a trusting relationship in the interest of the company. The Board of Management keeps the Supervisory Board informed regularly, promptly and comprehensively of the current development of business, all significant aspects of corporate planning and strategy as well as the economic situation of the group and the risk situation including risk management. The Supervisory Board provides detailed information about the focus of its work and deliberations in the past fiscal year in its report on pages 20 – 25.

Members of the Supervisory Board are elected individually by the annual general meeting. Any motion by the shareholders for court appointment of a Supervisory Board member is limited in time until the next annual general meeting. In accordance with this provision, the Board of Management applied for court appointment of the substitute supervisory board members Kurt Widmaier and Dr.-Ing. Gérard Wolf for a limited period of time only until the end of the company's next annual general meeting to fill the vacant positions after Peter Schneider and Bruno Lescoeur left the Supervisory Board.

EnBW announces the candidates that it proposes for the Supervisory Board chair to its shareholders ahead of the election. After the Chairman of the Supervisory Board at the time, Peter Schneider, announced in March of the reporting period that he would step down, the information that Dr. Claus Dieter Hoffmann had been suggested as candidate for the office of the Supervisory Board Chairman was published on the company's website.

In light of their control and supervisory function, the members of the Supervisory Board consider it vital that they are professionally and personally independent of the company and its Board of Management. In the fiscal year 2006, the Supervisory Board again dealt with the independence criteria of the German Corporate Governance Code and reached the conclusion that it had a sufficient number of independent members. Importantly, EnBW does not have any former members of the Board of Management on the Supervisory Board. In addition, there were no consulting or other service agreements between members of the Supervisory Board and the company in the reporting year.

The Supervisory Board's audit committee is chaired by Dr. Daniel Camus, the CFO of EDF. A renowned finance expert, he possesses specific knowledge and experience with the application of accounting principles and internal control systems.

EnBW has arranged an appropriate deductible for its D&O insurance – three basic monthly salaries for members of the Board of Management and half of the annual remuneration for members of the Supervisory Board.

Prior to the annual general meeting, EnBW publishes the agenda and all reports and documents of relevance for an assessment of the company on its website. These can also be sent to the shareholders on request. Countermotions received before the deadline are also made available on the website together with a statement by management. Our shareholders have the possibility of delegating their rights to proxies appointed by the company if they are not able to attend the annual general meeting in person. Our annual general meeting is broadcast via the internet until the end of the CEO's speech.

Remuneration report

The remuneration report summarises the principles applied for the determination of the remuneration of members of the Board of Management and explains the structure and amount of the board remuneration and the remuneration of the Supervisory Board.

The remuneration report takes account of the recommendations of the German Corporate Governance Code and contains the disclosures required by German commercial law and the supplementary provisions of the German Directors Remuneration Disclosure Act (VorstOG) in the notes to the financial statements in accordance with Sec. 314 HGB and the management report in accordance with Sec. 315 HGB. The remuneration report is included in the management report and is reprinted in the annual report as part of the corporate governance report.

Remuneration of the Board of Management

The remuneration of the members of the Board of Management of EnBW AG is determined by the committee for management board matters. During the fiscal year 2006, the committee reviewed the structure of the remuneration system for the Board of Management and developed a new concept. Based on the recommendations of the committee for management board matters, the Supervisory Board approved a new remuneration system for the Board of Management at its meeting on December 8, 2006. The criteria for determining appropriate remuneration include the responsibilities and performance of the members of the Board of Management, the economic situation, the company's success and its long-term prospects for the future.

The Board of Management's remuneration comprises three main components:

> Fixed remuneration

This is the fixed basic annual salary payable in equal monthly instalments, of which only a part counts towards pension claims, as well as remuneration in kind and lump-sum compensation for committee work in the interest of the group. Any compensation actually paid for committee work is generally transferred to the group. In the fiscal year 2006, it was agreed to reduce the basic annual remuneration by a TOP FIT contribution of 2.6%.

The other remuneration components are based on the full basic annual salary. In addition, the minimum bonus (30% of the fixed basic annual salary) agreed as part of the short-term incentive (STI) is also disclosed as fixed remuneration.

> Variable remuneration

The variable component of the STI is disclosed as variable remuneration. The total amount of the STI depends on the level of target achievement by the group for the fiscal year. Adjusted EBITDA and ROCE are the decisive performance indicators for this component. The STI cannot exceed 200% of the fixed annual basic remuneration.

> Long-term incentive (LTI)

The LTI depends on the relative increase in value of the group. This is determined by reference to the increase in value of net equity. This is determined by comparing the mean averages of net equity for two three-year periods.

The LTI can range between 0% and 85% of a member of the Board of Management's fixed annual basic remuneration and between 0% and 100% for the Chairman of the Board of Management. This is supplemented by a component that measures the relative performance of the group with a peer group of competitors based on the net equity. This can lead to a change of ±20% on the LTI determined by reference to the net equity value.

For the fiscal year 2006, the members of the Board of Management will receive the following remuneration:

Amounts in €	Fixed remuneration		STI	Variable remuneration	Fixed and variable remuneration 2006	Long-term incentive (LTI)[2]	Total 2006
	Basic salary	Remuneration in kind[1]	Minimum bonus				
Prof. Dr. Utz Claassen, Chairman	798,680	74,242	246,000	1,394,000	2,512,922	768,227	**3,281,149**
Dr. Bernhard Beck, LL.M.	341,874	59,588	105,300	596,700	1,103,462	296,426	**1,399,888**
Prof. Dr.-Ing. Thomas Hartkopf	341,874	65,448	105,300	596,700	1,109,322	296,426	**1,405,748**
Dr. Christian Holzherr	341,874	68,595	105,300	596,700	1,112,469	296,426	**1,408,895**
Pierre Lederer	341,874	59,167	105,300	596,700	1,103,041	296,426	**1,399,467**
Dr. h.c. Detlef Schmidt	341,874	75,301	105,300	596,700	1,119,175	296,426	**1,415,601**
Total	**2,508,050**	**402,341**	**772,500**	**4,377,500**	**8,060,391**	**2,250,357**	**10,310,748**

Disclosure for 2005

EnBW disclosed the remuneration of the Board of Management by person for the first time in the 2004 annual report. In the 2005 annual report, it was only possible to report the fixed remuneration of the members of the Board of Management broken down by person, as the committee for management board matters had not decided on the variable management board remuneration at the time the 2005 financial statements were prepared. Therefore, only the amount of the provision was disclosed (€ 8.9 million) and because of its preliminary nature, the provision was not broken down by person. Of the amount of the provision, € 5.5 million was used for the minimum bonus and variable remuneration and € 2.3 million was retained as a provision for the LTI. The exact LTI will be determined and paid out in the spring of 2008. An amount of € 1.1 million was released.

[1] Remuneration in kind includes fringe benefits from company cars of € 56,526 and from expense allowances of € 8,362. In addition, this includes lump-sum compensation for committee work in the interest of the group of € 337,453.
[2] The exact LTI for the fiscal year 2006 is determined and paid out in the spring of 2008. The amount disclosed equals the provision established as of December 31, 2006.

Based on the new remuneration system, the remuneration of the Board of Management breaks down as follows for the fiscal year 2005:

Amounts in €	Fixed remuneration			Variable remuneration	Fixed and variable remuneration 2005	Long-term incentive (LTI)[2]	Total 2005
	Basic salary	Remuneration in kind[1]	Minimum bonus				
Prof. Dr. Utz Claassen, Chairman	647,398	79,720	194,219	1,658,383	2,579,720	768,227	**3,347,947**
Dr. Bernhard Beck, LL.M.	273,899	59,982	82,170	643,931	1,059,982	296,426	**1,356,408**
Prof. Dr.-Ing. Thomas Hartkopf	273,899	62,720	82,170	643,931	1,062,720	296,426	**1,359,146**
Dr. Christian Holzherr	273,899	74,664	82,170	643,931	1,074,664	296,426	**1,371,090**
Pierre Lederer	273,899	58,978	82,170	643,931	1,058,978	296,426	**1,355,404**
Dr. h.c. Detlef Schmidt	273,899	90,636	82,170	643,931	1,090,636	296,426	**1,387,062**
Total	**2,016,893**	**426,700**	**605,069**	**4,878,038**	**7,926,700**	**2,250,357**	**10,177,057**

[1] Remuneration in kind includes fringe benefits from company cars of € 59,728 and from expense allowances of € 10,615, relocation costs of € 18,904 and lump-sum compensation for committee work in the interest of the group of € 337,453.

[2] The old remuneration system was still in use in 2005. A long-term incentive was already agreed for 2005, using a method of calculation approved in the fiscal year 2006. The amount disclosed equals the provision retained as of December 31, 2006.

Compensation agreed with the Board of Management in the event of termination of service

The members of the Board of Management are covered by a comprehensive benefit arrangement. It includes a pension entitlement according to which the board members have a claim for payment upon termination of their employment agreement. The payment amount is based on the percentage reached (maximum 60%) in terms of the share of their pensionable fixed annual basic salary. In the fiscal year 2006, the share of fixed annual basic salary eligible for the pension entitlements was 83% for the Chairman of the Board of Management and 88% for the other members of the Board of Management.

The board members' post-employment benefits rise annually; the rate of increase is generally set such that the maximum post-employment benefit is reached at the same time as the contractually agreed age limit. When the benefit obligations become due for payment, the payments are indexed to the percentage change in remuneration under the collective bargaining agreement.

Post-employment benefits from the statutory pension insurance fund and from company pensions under previous employment contracts are credited if the maximum pension benefit is exceeded.

The post-employment benefits of Prof. Dr. Claassen, Dr. h.c. Schmidt, Mr. Lederer and Dr. Holzherr are already vested. The entitlements of Dr. Beck and Prof. Dr. Hartkopf will vest after the end of their first period of office.

The disclosures for the fiscal year 2006 concerning post-employment benefits are as follows

	Percentage of pensionable basic remuneration acquired in 2006 (%)	Addition to pension provision (€)
Prof. Dr. Utz Claassen, Chairman	0	406,130
Dr. Bernhard Beck, LL.M.	1	209,587[1]
Prof. Dr.-Ing. Thomas Hartkopf	1	400,169
Dr. Christian Holzherr	1	94,131
Pierre Lederer	1	347,388[2]
Dr. h.c. Detlef Schmidt	3	713,593
Total		**2,170,998**

[1] Including an addition to capital for pension benefits of € 15,862 (pension commitment financed by the board members themselves by converting part of their salary)
[2] Including an addition to capital for pension benefits of € 16,061 (pension commitment financed by the board members themselves by converting part of their salary)

The addition to the pension provision includes the service cost as well as interest cost.

There are defined benefit obligations in accordance with IFRS of € 11.3 million for the current members of the Board of Management.

There are no termination benefit obligations in the event of premature termination of service. However, termination benefits may be payable on the basis of a cancellation agreement agreed with the individual.

The employment contracts of the members of the Board of Management provide for survivor's pensions. In the event that a member of the Board of Management dies, the surviving dependants are entitled to continued payment of the remuneration or pension of the deceased for three months. After that period, they receive widows' or orphan's pensions in accordance with the provisions applicable for civil servants in the state of Baden-Württemberg.

The remuneration of former members of the Board of Management and their surviving dependants amounted to € 3.4 million. These pension payments are indexed to the percentage change in remuneration according to the collective bargaining agreement. There are defined benefit obligations to former members of the Board of Management of EnBW AG and their surviving dependants in accordance with IFRS of € 43.1 million.

The employment contracts of the members of the Board of Management do not include change-of-control clauses.

No loans or advances were granted to members of the Board of Management in the fiscal year 2006.

Remuneration of the Supervisory Board

Pursuant to the resolution of the annual general meeting on April 29, 2004, the Supervisory Board members receive fixed remuneration of € 5,000 payable at the end of a fiscal year in addition to reimbursement of their expenses. In addition, for every dividend of € 0.01 per share distributed to the shareholders in excess of a dividend amount of € 0.50 per share for the past fiscal year, they receive a variable remuneration component of € 300. The variable remuneration of the Supervisory Board members currently does not include any components based on the long-term success of the company. The Chairman of the Supervisory Board receives twice the above amounts and the Deputy Chairman receives one and a half times the above amounts. The chairman of a committee also receives one and a half times the amounts and each committee member one and a quarter times the amounts providing the committee met at least once in the fiscal year. If a member of the Supervisory Board holds several offices on the Supervisory Board at the same time, he/she only receives remuneration for the highest office. Remuneration paid to Supervisory Board members who only belong to the Supervisory Board or a committee or acted as chairman for part of the fiscal year is proportionately lower.

Total remuneration may, however, not exceed € 30,000 for the Chairman of the Supervisory Board, € 22,500 for his deputy and the chairman of a committee, € 18,750 for a committee member and € 15,000 for the other Supervisory Board members.

In addition, the Supervisory Board members receive an attendance fee of € 300 for supervisory board meetings and committee meetings. Attendance at preliminary meetings is remunerated with € 150 per meeting; this remuneration is however only paid for one preliminary meeting per supervisory board meeting. To the extent that the Supervisory Board remuneration is subject to VAT, the members of the Supervisory Board are reimbursed for the VAT levied on their remuneration.

Assuming that the annual general meeting approves the proposed dividend, total remuneration of the Supervisory Board members in fiscal 2006 (including attendance fees and remuneration for offices held in subsidiaries) will be as follows:

[1] Pursuant to Secs. 82-88 Civil Service Act (LBG) in conjunction with Sec. 5 Ancillary Activities Ordinance (LNTVO), remuneration is transferred to the district.
[2] The remuneration is transferred to EDF.
[3] In accordance with the regulations of the German Federation of Trade Unions (DGB) on the transfer of supervisory board remuneration, the remuneration is transferred to the Hans-Böckler-Stiftung foundation.
[4] Applying Sec. 5 Ancillary Activities Ordinance (LNTVO) by analogy, remuneration is transferred to the state of Baden-Württemberg.
[5] The variable remuneration for the fiscal year 2006 is not paid out until the annual general meeting has passed a resolution on the dividend amount in fiscal year 2007.

€	Fixed remuneration	Variable remuneration[5]	Board remuneration of subsidiaries	**Total**
Dr. Claus Dieter Hoffmann, Chairman since 28, April 2006	13,598	21,202	0	**34,800**
Peter Schneider[1], Member and Chairman until April 28, 2006	6,233	12,414	0	**18,647**
Dietrich Herd, Deputy Chairman since April 28, 2006	13,549	15,401	12,304	**41,254**
Rolf Koch, Member and Deputy Chairman until April 28, 2006	6,174	9,311	4,200	**19,685**
Gisela Beller, Member until April 28, 2006	5,471	7,759	3,480	**16,710**
Joachim Bitterlich	9,250	12,500	0	**21,750**
Marc Boudier[2]	13,750	12,500	0	**26,250**
Dr. Daniel Camus[2]	10,500	15,000	0	**25,500**
Willi Fischer[1]	8,350	12,500	0	**20,850**
Rolf Gillé, Member since April 28, 2006	5,197	11,603	4,000	**20,800**
Josef Götz	11,099	12,901	7,957	**31,957**
Reiner Koch[3], Member since April 28, 2006	5,047	11,603	0	**16,650**
Marianne Kugler-Wendt[3]	10,000	12,500	7,517	**30,017**
Wolfgang Lang, Member since April 28, 2006	6,347	14,503	7,532	**28,382**
Bruno Lescœur[2], Member until November 20, 2006	5,338	10,562	0	**15,900**
Gérard Roth[2]	7,100	10,000	0	**17,100**
Gerhard Stratthaus[4]	6,800	10,000	0	**16,800**
Volker Stüber[3], Member until April 28, 2006	2,516	6,207	0	**8,723**
Siegfried Tann[1]	9,850	12,500	0	**22,350**
Christoph Walther	10,300	12,500	11,440	**34,240**
Franz Watzka, Member until April 28, 2006	3,671	7,759	8,600	**20,030**
Dietmar Weber, Member since April 28, 2006	6,347	14,503	6,850	**27,700**
Klaus-Michael Weber, Member until April 28, 2006	4,270	7,759	2,422	**14,451**
Kurt Widmaier[1], Member since April 28, 2006	6,347	14,503	2,800	**23,650**
Alfred Wohlfart[3]	9,850	12,500	12,133	**34,483**
Dr.-Ing. Gérard Wolf[2], Member since November 21, 2006	862	2,157	0	**3,019**
Dr. Bernd-Michael Zinow, Member since April 28, 2006	7,547	14,503	0	**22,050**
Total	**205,363**	**317,150**	**91,235**	**613,748**

Attendance fees of the members of the Supervisory Board of € 80,250 and € 11,669 are included in the fixed remuneration and in the board remuneration of subsidiaries respectively.

No other remuneration or benefits for services rendered personally, in particular consulting or mediation services, were paid to members of the Supervisory Board. They did not receive any loans or advances in the reporting year.

Transparency

EnBW ensures that the transparency required by the German Corporate Governance Code is in place at all times and informs its shareholders, the capital market, financial analysts, shareholder associations as well as interested members of the general public promptly and regularly about any major business changes in the company. The internet is used as the preferred means of communication to ensure that all the interested parties are informed equally and on a timely basis.

Information on the company's business development is mainly provided in the quarterly reports, the annual report, at the press briefing on annual results, in telephone conferences in connection with the results for the quarter and for the year as well as at numerous events with analysts. The company's financial calendar, which gives an overview of the dates for all regular publications, is published on EnBW's webpage. The company also made any new circumstances that were announced to financial analysts and comparable addressees available to all shareholders without delay via its website.

If unexpected events arise at EnBW between the regular reporting dates that could potentially have a significant influence on the market price of the EnBW share, such events are announced in ad-hoc reports.

EnBW did not receive any notices on directors' dealings in the fiscal year 2006 from persons in managerial positions and persons closely related to them on transactions with EnBW shares or related financial instruments in accordance with Sec. 15a Securities Trading Act (WpHG). The total EnBW shares held by all members of the Board of Management and the Supervisory Board amount to less than 1% of the company's shares outstanding.

Financial reporting and annual audit

The financial reporting of EnBW is prepared according to International Financial Reporting Standards (IFRS). The audit committee engaged Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, the auditor elected by the annual general meeting for the fiscal year 2006, to audit the separate and consolidated financial statements for the fiscal year ending December 31, 2006, having first satisfied itself that there were not doubts as to the independence of the audit firm being engaged.

It was agreed with the auditor that the chairman of the Supervisory Board and the chairman of the audit committee would be informed without delay of any grounds for disqualification or any factors affecting impartiality if they arise during the audit, unless they are remedied immediately. It was also agreed that the auditor would report without delay on any findings or events material for the tasks of the Supervisory Board and audit committee which arise during the audit. Moreover, the auditor will inform the audit committee and the Supervisory Board and report in the audit report if facts are discovered during the audit which indicate that the declaration of compliance with the Corporate Governance Code issued by the Board of Management and the Supervisory Board is not correct.

There are currently no stock option plans or similar securities-based incentive programmes at EnBW.

Declaration of compliance

The Board of Management and Supervisory Board of EnBW Energie Baden-Württemberg AG declare in accordance with Sec. 161 AktG:

Since its last declaration of compliance on December 8, 2005, EnBW Energie Baden-Württemberg AG has complied with the recommendations made by the government commission on the German Corporate Governance Code as amended from time to time and published in the electronic German Federal Gazette (Bundesanzeiger) with the following exception:

> EnBW reports the fixed and variable components of the members of its Board of Management broken down by person as of the fiscal year 2004 (No 4.2.4 of the Code). In the annual report for the fiscal year 2005, only the fixed remuneration components were broken down by person. The variable remuneration components could only be disclosed at the amount of the provision, as the committee for management board matters had not decided on the variable management board remuneration at the time the financial statements were prepared. However, this omission will be remedied in the 2006 annual report. In future, all remuneration components will be disclosed again by person in the annual report.

EnBW Energie Baden-Württemberg AG will in future comply without exception with the recommendations of the government commission for the German Corporate Governance Code as amended on June 12, 2006.

Comments on the recommendations of the Corporate Governance Code

Pursuant to No. 3.10 of the German Corporate Governance Code, the Board of Management and Supervisory Board declare that EnBW has complied with the recommendations of the Code, with the following exceptions, and will in future comply with them, with the same exceptions:

No. 2.3.4 of the Code: : Transmission of the annual general meeting via modern communication media

EnBW transmits the annual general meeting until the end of the report of the CEO via the internet. Due to the small free float of the EnBW share and the fact that a large number of shareholders are usually present, the high costs involved in broadcasting the entire annual general meeting would not be justified.

No. 5.4.6 of the Code: Election or re-election of Supervisory Board members by the shareholders on different dates and for different terms of office

EnBW has not yet made use of this option because, due to the specific shareholder structure, the shareholder side of the Supervisory Board is largely determined by the two large shareholders Electricité de France SA (EDF) and Zweckverband Oberschwäbische Elektrizitätswerke (OEW). This allows occasional changes in office holders on the shareholder side between the election dates while continuity is ensured beyond the election period by reappointment of some of the shareholder representatives. However, the possibility of introducing a staggered voting system as suggested by the Code is being considered.

No. 5.4.7 of the Code: Components of the remuneration of the Supervisory Board based on the long-term performance of the company

The incentive-based remuneration of the Supervisory Board members currently does not yet include any components based on the long-term performance of the company. Since the remuneration system for the Board of Management was completely revised in 2006, it will now be considered whether a remuneration system should also be developed for the Supervisory Board which would include long-term incentive components.

The listed subsidiary ZEAG Energie AG also implements the German Corporate Governance Code. Deviations from the recommendations of the Code are set forth in ZEAG Energie AG's declaration of compliance, which can be viewed on its website (www.zeag-energie.de).

Karlsruhe, December 8, 2006
EnBW Energie Baden-Württemberg AG

The Board of Management	The Supervisory Board

The full corporate governance principles of EnBW adopted by the Board of Management and the Supervisory Board, the above declaration of compliance and the declarations of prior years as well as other information on the topic corporate governance are available on the internet at www.enbw.com in the "Investors" section. Within Germany, a printed version of the EnBW corporate governance principles can also be ordered via our shareholders' hotline (phone 0800 1020030).

“This company wants to shape the future.”

Prof. Dr. Utz Claassen, CEO

The EnBW share

The EnBW share

> EnBW share up 10%

> Percentage of treasury shares reduced from 2.42% to 2.30%

> Intensive contact with investors and analysts

Development of the DAX

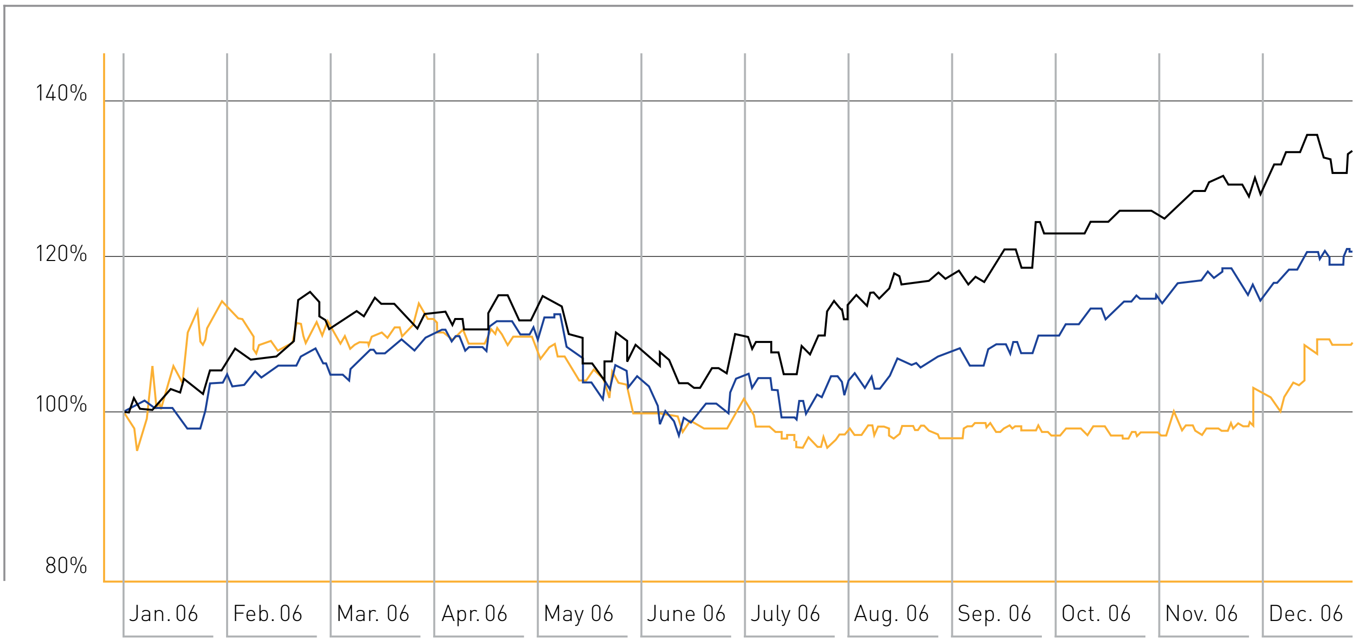
The German stock exchange index (DAX) started out at 5,450 points in early 2006 and closed the year with annual high of 6,592 points. This represents an increase of around 21%. Having lost much of its value by the summer, the DAX picked up in the second half of the year buoyed by the favourable overall economic environment.

Development of the EnBW share

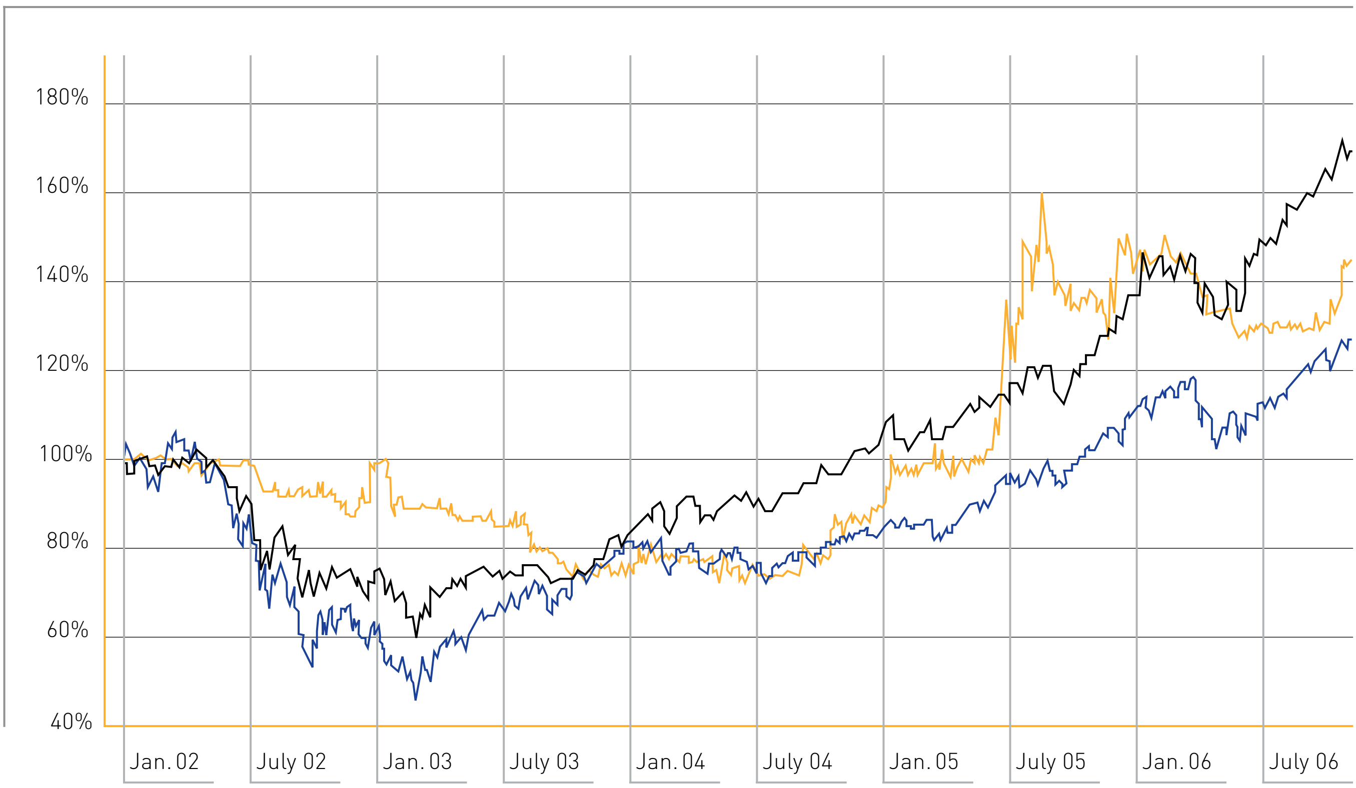
The EnBW share started into the year 2006 at a price of € 45.95, then fell to an annual low of € 43.80, and climbed back to an annual high of € 52.66 before the end of January (Frankfurt floor). In the spring the share remained relatively stable, but at the end of the second quarter it then fell below the opening price, mirroring the performance of the DAX. It then remained at this level with minor fluctuations for most of the third and fourth quarters. At the end of the year, the share price recovered considerably, closing at € 50.55 on December 29, 2006. This is an increase of 10% for the fiscal year 2006. The EnBW share is officially listed on the Frankfurt and the Stuttgart stock exchange.

ISIN	DE0005220008
Securities identification number	522 000
Stock exchange abbreviation	EBK
Stock markets	Official listing on the stock exchanges in Frankfurt a.M. und Stuttgart
Index	CDAX utilities
Number of shares	250,006,200 registered no-par value shares

Performance of the EnBW share in 2006



Performance of the EnBW share
in the past five years



EnBW FFM
DAX
DJESTX-UTIL-Price-Index

EnBW share in figures[1]		2006	2005	2004	2003	2002
Number of shares outstanding as of December 31[2]	million shares	244.257	243.957	231.974	220.711	221.011
Annual high	€	52.66	55.88	30.00	34.44	34.94
Annual low	€	43.80	29.11	24.20	24.96	29.75
Closing price	€	50.55	45.80	29.10	25.15	33.94
Stock exchange trade (total)	shares	566,187	902,000	260,700	113,300	159,700
Stock exchange trade (daily average)	shares	2,220	3,537	1,109	567	791
Dividends per share	€	1.14[3]	0.88	0.70	–	0.66
Earnings per share	€	4.11	2.21[4]	1.40	-5.40	-0.19
Operating cash flow per share	€	6.01	5.52	6.80	4.01	2.23
Distribution	€ millions	278.5[3,5]	214.9	170.8	–	145.7
Distribution quota[6]	%	27.8[3,5]	40.4[4]	53.7	–	–[7]
Number of shares outstanding (weighted average)	million shares	244.232	240.961	227.281	220.711	232.347
Market capitalisation as of December 31[8]	€ billions	12.3	11.2	6.8	5.6	7.5

Notes:
[1] The price information relates to floor trading on the Frankfurt stock exchange.
[2] Total number of shares: 250,006 million
[3] Dividend proposal for the fiscal year 2006, subject to the approval of the annual general meeting on April 26, 2007
[4] Prior-year figures adjusted
[5] Distribution in terms of the shares entitled to dividends as of December 31, 2006
[6] Distribution in proportion to the net earnings of the EnBW group
[7] Net earnings of the EnBW group 2002 negative under IFRS/IAS
[8] Number of shares outstanding at the end of the fiscal year multiplied by the closing price

Shareholder composition

EnBW's shareholder composition remained largely unchanged in the fiscal year 2006. By selling the 300,000 EnBW shares held indirectly via Energiedienst AG, EnBW reduced the percentage of treasury shares from 2.42% (as of December 31, 2005) to 2.30%.

EDF and OEW continue to hold 45.01% of the EnBW shares each, and municipal associations and other municipal shareholders in Baden-Württemberg hold another 5.1%.

In detail, EnBW's shareholder composition as of December 31, 2006 was as follows:

EDF International (EDFI)	45.01%
Zweckverband Oberschwäbische Elektrizitätswerke (OEW)	45.01%
EnBW Energie Baden-Württemberg AG	2.30%
Free float	1.79%
Badische Energieaktionärs-Vereinigung	2.59%
Gemeindeelektrizitätsverband Schwarzwald-Donau	1.29%
Landeselektrizitätsverband Württemberg	0.58%
Neckarelektrizitäts-Verband	0.46%
Other municipal shareholders	0.97%

Investor relations

As part of our investor relations activities in fiscal 2006 we again arranged telephone conferences for analysts and investors on the publication date of the annual report and for each of the interim reports. Chief Executive Officer Prof. Dr. Utz Claassen, Chief Financial Officer Dr. Christian Holzherr, and Senior Vice President Head of Finance/Investor Relations Ingo Peter Voigt presented and explained the current figures and answered questions. In line with our corporate governance principles, these conference calls are broadcast live on the internet without access restrictions. This way, we can simultaneously offer all market participants comprehensive information. A recording of the conference call is then made available free of charge on our website for three months.

Due to the capital structure, EnBW's investor relations activities still focus on debt market investors and analysts. At our annual roadshow, held in the second quarter of 2006, the CEO, the CFO and the Head of Finance/Investor Relations informed investors in Frankfurt, London, Paris, Zurich and Stuttgart. The main topics were the future strategic alignment of EnBW and above all issues relating to the energy market such as the expected structure of the second national allocation plan for the CO_2 allowances, regulation of network user charges by the Federal Network Agency, and the future development of prices on forward markets.

In 2006 EnBW was again represented at all major investor conferences in Germany and abroad and held regular talks with investors and analysts in the course of the year. In addition, we invited investors and analysts to visit EnBW for informative events on current topics and offered tours of generating facilities such as the CHP plant in Altbach/Deizisau, for example.

We will continue to keep our investors and analysts up to date throughout 2007. The dates for publication of our financial reports are given at the back of this annual report on page 192.

“We want to grow, and grow profitably.”

Prof. Dr. Utz Claassen, CEO

Combined management report of the EnBW group and EnBW AG

Corporate strategy

> Regional and national presence of EnBW

> Position expanded in central, eastern and south-eastern Europe

> Power generation geared towards renewable energy sources

Presence in Germany
EnBW is firmly rooted in Baden-Württemberg and has expressly affirmed its allegiance to this location. It is extremely important to EnBW to secure its strong position. That is why it seeks to renew existing franchise agreements before they expire; and will continue to develop the market by investing in public utilities in Baden-Württemberg, also by contributing grids. Beyond the borders of Baden-Württemberg, EnBW is also active in the German states of Saxony and North Rhine-Westphalia, among others. EnBW's expansion efforts in these regions are supported by its investment in Stadtwerke Düsseldorf AG, GESO Beteiligungs- und Beratungs-AG and in ENSO Strom AG. EnBW has also followed the developments concerning Stadtwerke Leipzig GmbH with particular interest.

Commitment in central, eastern and south-eastern Europe
In order to satisfy the demands of its shareholders, EnBW is constantly on the look-out for worthwhile investments in attractive regions. We used the year 2006 for an in-depth study of the growth markets that are opening up and the upcoming privatisations in south-eastern Europe, especially the Balkan States and Turkey. In these areas, the rising demand for energy urgently calls for capital expenditures on power station capacity. Our primary aim, however, is to establish integrated positions, i.e. investments in power generation companies as well as in sales and distribution. Such plans are based on strict investment criteria.

Overall, we successfully optimised our commitment in central and eastern Europe in 2006 and, with regard to the Austrian EVN AG, strengthened our position by acquiring further shares. We want to play an important role in these regions in the future, too, and to enhance our investments.

Future energy supply
In light of the age structure of our power stations and in preparation for the nuclear power phase-out prescribed by the nuclear power agreement from June 2001, we must decide now on the construction of new power stations to replace the nuclear power stations that will be shut down. When taking such decisions, EnBW pays particular attention to ensuring that the energy mix is reliable in the long term, efficient and well-balanced, and that it will not jeopardise international competitiveness, stable electricity prices or climate protection targets. We have increased our commitment in the area of renewable energies and are simultaneously seeking ways of securing access to the primary energy sources. We will continue to make every effort over the next few years to achieve these aims to allow us to reliably supply our customers with energy in the future.

Renewable energies

EnBW organised the first German climate congress "Changing Climate - Facts, Impacts, Perspectives" in 2006. With the Berlin Declaration, which draws attention to the urgency of sustainable, ecologically compatible generation of energy in the interest of us all, the company takes a clear stance on climate protection and renewable energies. EnBW already has an energy mix with an above-average share of energy that is generated emission-free. With our investments in the Rheinfelden run-of-the-river power station and the expansion of the Kops pump storage power station of Illwerke AG in Vorarlberg, we have reinforced the share of hydroelectric power in our power generating portfolio. Projects dealing with innovative technologies are about how we can put renewable energies to use. From our perspective, renewable energies will make an important contribution to the energy mix of the future.

Innovations

Giving impetus for innovation and making it possible to implement innovation – these are the basic prerequisites for an energy supply that is reliable and secure in the long term. The focus on renewable energies in response to the agreed phase-out of nuclear power therefore calls for new ideas for energy storage and the generation of energy. On the basis of these deliberations, EnBW decided in 2006 to build a compressed air energy storage plant and a wave power plant on the German North Sea coast. These plants are designed to generate energy in a climate-friendly way and balance fluctuations in energy output.

Since 2004, EnBW has been involved in the government initiative "Partners for Innovation". It also sponsors the "Innovation Prize of the German Industry" and chairs the Federation of German Industries' initiative "Innovation strategies and knowledge management". To advance innovative institutions in Germany and in Baden-Württemberg in particular, EnBW also joined the "Land of Ideas" initiative. EnBW plans to intensify its involvement in these initiatives over the next few years. With these activities, the company makes a notable contribution to the innovative power of Germany as well as towards creating the badly needed innovative capacity of the energy industry.

"Operational Excellence" project

New rules and laws, the growing competition and the requirements of the capital market are forcing us to continuously review, adapt and improve our operating processes and structures. To coordinate and reinforce the numerous efforts to optimise processes in the core business, we launched the group project "Operational Excellence" at the end of 2006. We will identify suitable measures to improve processes and reinforce EnBW's position in performance benchmarking as one of the leading companies in the industry. By doing so, we are laying the foundation for sustainable success and for growth and profitability of our company, and are putting ourselves in a position to do the important things right.

Company and market environment

Organisation of the group

> EnBW segments: electricity, gas, and energy and environmental services

> All stages of the value added chain covered

> Good working relationship between Board of Management and Supervisory Board

EnBW group
The EnBW core activities focus on the segments electricity, gas as well as energy and environmental services. As a corporate group, we are vertically integrated and cover all stages of the value added chain in the electricity segment: generation, trading, transmission and distribution as well as sales. The gas segment comprises the gas procurement stage including the functions gas import, transmission, storage and trading and the distribution stage including gas grid operation, marketing and sales. The energy and environmental services segment includes the areas thermal and non-thermal disposal, water as well as energy-related and other services. The segment reporting contains separate reports on these business segments.

The EnBW group is headquartered in Karlsruhe. The central administrative buildings are located in Karlsruhe and Stuttgart. The major locations of the group, our power stations, distribution plants, regional and operating centres as well as sales offices and processing centres are spread over the whole of Baden-Württemberg. We also have other sales offices throughout Germany. In addition, EnBW has invested in Dresden and Düsseldorf as well as Switzerland, Austria, Hungary, the Czech Republic and Poland. The main equity investments of EnBW AG are presented in the financial statements.

EnBW AG
As operative holding company, EnBW Energie Baden-Württemberg AG exercises the management function in the EnBW group. Profit and loss transfer agreements are in place with the main subsidiaries of EnBW AG. In addition, EnBW AG provides central treasury management.

As the business development, the economic situation and the opportunities and risks relating to the future development of EnBW AG do not diverge from the business development, economic situation and the opportunities and risks relating to the future development of the EnBW group, we have combined the management report of the EnBW group and that of EnBW AG.

The capital stock of EnBW AG amounts to € 640,015,872.00 and is divided into 250,006,200 registered no-par value shares. The no-par value shares each represent an imputed share of € 2.56/share of the subscribed capital.

EDF International SA, which is based in Paris (France), and Zweckverband Oberschwäbische Elektrizitätswerke, which is based in Ravensburg, each hold 45.01% of the capital stock of EnBW AG as of December 31, 2006.

The sole shareholder of EDF International SA is the listed Electricité de France SA with registered offices in Paris (France), which in turn is controlled by the French Republic. Electricité de France SA and the French Republic thus each hold a 45.01% interest in EnBW AG indirectly via EDF International SA.

Zweckverband Oberschwäbische Elektrizitätswerke holds its investment in EnBW AG in trust for OEW Energie-Beteiligungs GmbH with registered offices in Ulm (in future: Ravensburg), which is the economic owner of the EnBW shares held by Zweckverband Oberschwäbische Elektrizitätswerke. OEW Energie-Beteiligungs GmbH therefore has an indirect holding of 45.01% via Zweckverband Oberschwäbische Elektrizitätswerke in the capital stock of EnBW AG.

The sole shareholder of OEW Energie-Beteiligungs GmbH is Zweckverband Oberschwäbische Elektrizitätswerke. Zweckverband Oberschwäbische Elektrizitätswerke therefore holds 45.01% of the capital stock of EnBW AG both directly and indirectly via OWE Energie-Beteilgungs GmbH.

In the reference document issued for the French financial market supervisory authorities when EDF went public in 2005, EDF informed the financial markets of the agreement made between EDF and OEW. In a shareholder agreement dated July 26, 2000 and November 20, 2002, the two major shareholders EDF and OEW agreed on the shareholder rights and on the way in which these rights are to be exercised as well as the capability of the shareholders to exercise influence. According to this agreement, EDF and OEW will use the voting rights from their shares uniformly after prior consultation in a shareholders' committee which is to be set up by them. EDF and OEW will, among other things, submit proposals for the election of shareholder representatives on the Supervisory Board and seek to use their votes to ensure that four members are voted at EDF's suggestion and three at OEW's suggestion, including the Chairman of the Supervisory Board. In addition, the parties to the shareholder agreement want to use their influence to appoint a member of the Board of Management based on EDF's suggestion.

In the shareholder agreement, EDF and OEW have also imposed restrictions on the transfer of shares. OEW cannot sell restricted shares (= 25.005% of all shares) without the approval of EDF. In addition, put options and tag-along rights have been agreed mutually between EDF and OEW for the restricted shares. For each planned sale of EnBW shares (restricted and unrestricted shares) EDF and OEW have granted each other pre-emptive rights. The restrictions are in force for the duration of the shareholder agreement, initially until December 31, 2011 and thereafter for as long as EDF and OEW jointly hold a majority interest in EnBW and each party holds at least 17% of EnBW shares.

The following main agreements of EnBW AG are subject to a change in control as a result of a takeover bid as defined by Sec. 289 (4) No. 8 HGB:

> Syndicated facility agreement for a line of credit of € 2.5 billion that had not yet been used by December 31, 2006 (for details see page 70), which can be terminated by the lenders if control is acquired by a third party and for which payment can be called unless the third party is EDF or OEW or another German public law corporation.

> Shareholder agreement between EnBW AG and Eni S.p.A.: Eni S.p.A. has the right, in case of a change of control, to acquire the 50% investment held by EnBW AG in EnBW Eni Verwaltungsgesellschaft mbH. EnBW Eni Verwaltungsgesellschaft mbH holds 100% of the shares in Gasversorgung Süddeutschland GmbH. The purchase price which Eni S.p.A. would have to pay for the share of EnBW AG in EnBW Eni Verwaltungsgesellschaft mbH is calculated according to the fair value determined in an expertise.

Board of Management

As of December 31, 2006 the Board of Management of EnBW AG consists of six members who are jointly responsible for the management of the group. In its work, the Board of Management's goal is to increase the business enterprise value in the long term. Besides the responsibilities of the CEO, the tasks of the Board of Management are divided into the portfolios "Finance", "Marketing and Sales", "Operations", "Human Resources, Law and IT" and "Technology". The members of the Board of Management are presented in the financial statements.

> The responsibilities of the CEO primarily include strategic, investor relations, social, political and group-wide issues. Corporate communications, public relations, mergers and acquisitions, internal audit, responsibility for methodology, and target costing and target investment are also allocated to this portfolio.

> The Finance portfolio manages and controls group-wide financing activities. These include not just corporate controlling, accounting and tax, but also treasury and investor relations as well as the management of the TOP FIT cost-cutting programme.

> The Marketing and Sales portfolio is responsible for developing, implementing and monitoring group-wide marketing concepts across all segments, products, brands, sales channels, subsidiaries and equity investments as well as selling energy, energy services and other products and services.

> The Operations portfolio is responsible for management and optimisation of the operating activities and equity investments along the electricity and gas value added chains as well as for management of regulatory aspects concerning the energy industry. It is also responsible for managing the foreign investments of EnBW in central and eastern Europe as well as contracting and associated energy-related services.

> The Human Resources, Law and IT portfolio, to which the function of the Chief Human Resources Officer is allocated, is in charge of these central functions. It also deals with risk management, industrial health, industrial safety, property management and knowledge management as well as legal questions concerning the new regulatory framework, in particular questions relating to the coordination of regulatory management and the compliance office.

> The Technology portfolio includes the technical business segments and tasks in the group. These are first and foremost the issues of power generation (nuclear, fossil and renewable) and disposal. The technical director is responsible for managing the group companies in the technology portfolio. Its field of competence also extends to research and development, innovation management, central crisis management, materials management, technology and operations in the network area as well as environmental protection.

Pursuant to Sec. 84 German Stock Corporations Act (AktG), responsibility for the appointment and dismissal of members of the Board of Management rests with the Supervisory Board. This competence is stipulated in Art. 7 (1) Sentence 2 of the articles of incorporation and bylaws of EnBW AG. The annual general meeting has the right to make changes to the articles of incorporation and bylaws in accordance with Sec. 119 (1) No. 5 AktG; the specific rules of procedure are contained in Sec. 179 and 181 AktG. For practical reasons the authorisation to make changes to the articles of incorporation and bylaws, relating solely to the wording, was transferred to the Supervisory Board in accordance with Sec. 179 (1) Sentence 2 AktG and laid down in Art. 18 (3) of the articles of incorporation and bylaws.

By resolution of the annual general meeting of April 23, 2002 the Board of Management was authorised for a maximum of five years to increase the capital stock of the company with the approval of the Supervisory Board by issuing new shares, once or several times, in return for a cash contribution or a contribution in cash or in kind by a maximum of 10% each time (authorised capital I and II). These authorisations were laid down in Art. 5 (2) and (3) of the articles of incorporation and bylaws. These amendments of the articles were entered in the commercial register on June 4, 2002.

This authorisation will therefore expire on June 4, 2007. The reason behind these authorisations is the designated strategy of EnBW to enhance its competitive position by mergers and acquisitions in order to allow long-term and continuous growth in earnings. Authorised capital I and II is necessary in order to be able to use equity capital for financing purposes.

Supervisory Board
The Supervisory Board at EnBW AG has 20 members with an equal number of members representing shareholders and employees in accordance with the German Co-determination Act (MitbestG). The shareholder representatives are elected by the annual general meeting and the employee representatives by the employees of the EnBW companies with the ver.di trade union nominating three employee representatives.

The Supervisory Board monitors and advises the Board of Management on the conduct of its business. It is consulted on all decisions of fundamental importance for the company. The Supervisory Board's rules of procedure contain a list of transactions and measures subject to approval. The Supervisory Board is above all responsible for appointing and dismissing members of the Board of Management and ratifying the financial statements. At regular intervals, it analyses the business development and planning as well as the corporate strategy with the Board of Management.

To be able to assume its function in the best possible way, the Supervisory Board has a committee for management board matters, a finance and investment committee, an audit committee, an ad-hoc committee for the review of board liability claims against former members of the Board of Management and the mediation committee in accordance with Sec. 27 (3) MitbestG. The members of the Supervisory Board are presented on pages 26 – 27.

Products, market and competition

This section provides information on the electricity and gas segments. As the energy and environmental services segment is highly diversified and not as relevant for the result from operations as the other two segments, the economic development of this segment is commented on in the presentation of the company situation of the EnBW group.

Electricity
EnBW has generation capacities in the areas of nuclear power, conventional power station technology (coal, gas, oil) and renewable energies, including above all hydro-electric power. We cover our electricity sales to a large extent from our own power stations and through long-term delivery agreements. We operate the very high voltage network in Baden-Württemberg and distribution networks in Baden-Württemberg, in parts of Bavaria, North Rhine-Westphalia and Saxony as well as the Czech Republic.

In our home market Baden-Württemberg, we supply electricity and district and local heating to retail consumers, commercial and industrial customers, municipalities and public utilities under the EnBW brand. In the national market outside Baden-Württemberg, we supply retail consumers and commercial customers with electricity under the Yello brand and SMEs as well as chains under the Watt brand. Our industrial customers outside Baden-Württemberg are served by our employees from the national EnBW branches and our key account managers.

In the electricity segment, EnBW faces competition from the three large groups E.ON, RWE, and Vattenfall Europe as well as from regional providers, numerous public utilities and foreign providers.

> Vertical integration in the electricity and gas segments

> Competitive position successfully defended

In the business-to-business sector we improved our competitive position slightly both within Baden-Württemberg and throughout Germany. In the business-to-consumer sector within Baden-Württemberg, we also continued to defend our strong position. The market share in the national retail and commercial customer sector was further increased by Yello.

EnBW is the only German energy provider to pursue a strictly synergetic multiple-brand strategy with clearly defined roles and mission statements for the corporate, retail and industrial customer brand EnBW, the national retail and commercial customer brand Yello, the brand specially tailored to SMEs and chains, for example in the trading area, Watt, and the product brand NaturEnergie for ecologically minded customers throughout Germany.

With highly specialised offers and services that are exactly tailored to customer requirements, EnBW's customer relations have benefited directly from the multiple-brand strategy in all sectors of the energy market.

Gas

Over the last few years, the gas segment has developed into a supporting pillar of the EnBW group. In the gas procurement stage, the EnBW group is involved in the trade/procurement, import, transmission and storage of natural gas while the gas distribution stage, including gas grid operations, marketing and sales, supplies natural gas to redistributors, industrial customers as well as households and commercial customers.

In 1998, the formation of EnBW Gas GmbH marked the consolidation of gas activities in the redistribution area of EnBW. They were expanded further through integration of the activities of Neckarwerke Stuttgart AG in 2000.

By acquiring Gasversorgung Süddeutschland GmbH in association with the Italian company Eni S.p.A. in 2002, EnBW gained access to the grid gas level - a major step towards the vertical integration of the group in the gas segment. In the process, EnBW also extended the range of its gas supply to the state of Baden-Württemberg and adjacent foreign countries.

Following the acquisition of majority holdings in ENSO Erdgas GmbH in eastern Saxony in 2004 and Stadtwerke Düsseldorf AG in North Rhine-Westphalia 2006, EnBW now also has important footholds outside its home market Baden-Württemberg and is well equipped for the continuing opening of the gas market.

Following the amendment of the German Energy Industry Act (EnWG), the German gas market has been confronted with numerous challenges. These include the development and introduction of a new network access model, the calculation and approval of user charges and the decision of the German Antitrust Office to break up long-term contracts with grid gas companies (see also the section "Economic and political environment" from page 53).

Economic and political environment

Overall economic developments

The fiscal year 2006 saw a significant economic recovery. In the euro zone, the real gross domestic product grew by 2.6% in 2006. As the economy grew, the unemployment rate dropped to 7.8% in the euro zone. Economic growth was buoyed by a dynamic development in capital expenditures and an increase in private consumer demand. The inflation rate for consumer prices remains stable at 2.2%. The European Central Bank nevertheless increased its key interest rate several times over the past year. At 3.5% the short-term interest rate reached its highest level for five years at the start of 2007.

In Germany, the economy significantly gained momentum. Compared to the prior year, the real gross domestic product grew by 2.3% in 2006. This upswing was driven not only by rising exports but also greater domestic demand. Capital expenditures also increased significantly and private consumption grew perceptibly again for the first time. The economic upswing was also felt on the labour market where the number of regular jobs subject to social security rose. The inflation rate for consumer prices did not rise as much as in the prior year and at 1.7% is considerably below the average rate in the euro zone again.

The economic recovery has only a limited impact on the business development of the EnBW group. Economic growth is mainly reflected by a growing demand for energy among industrial customers. The energy consumption of households, on the other hand, is mainly influenced by the weather.

Market situation

Electricity market

Consumption
Despite economic growth, the electricity consumption in Germany remained on its prior-year level of 504 TWh due to the moderate weather conditions.

Generation
At around 505 TWh, gross generation from power stations for general electricity supply in Germany roughly matched the prior-year level in 2006. As in 2005, nuclear power and brown coal were the main sources of primary energy for power generation in 2006.

Export
In 2006, German energy companies exported more electricity to neighbouring countries than they imported from there. The power exchange balance with neighbouring countries presented a trade surplus of approximately 19 TWh.

Electricity prices for retail and business customers
As in the prior year, customers of numerous energy suppliers again faced a further increase in energy prices in 2006. Due to the growing demand worldwide for fuels and energy, there was general upward trend in fuel procurement costs and price levels on the wholesale market. The cost allocations under the German Renewable Energies Act (EEG) rose by more than 9%. The reason for this is the increased use of biomass to generate electricity. Feeding electricity from biomass plants into the public grid is more heavily subsidised under the EEG than any other form of renewable energy.

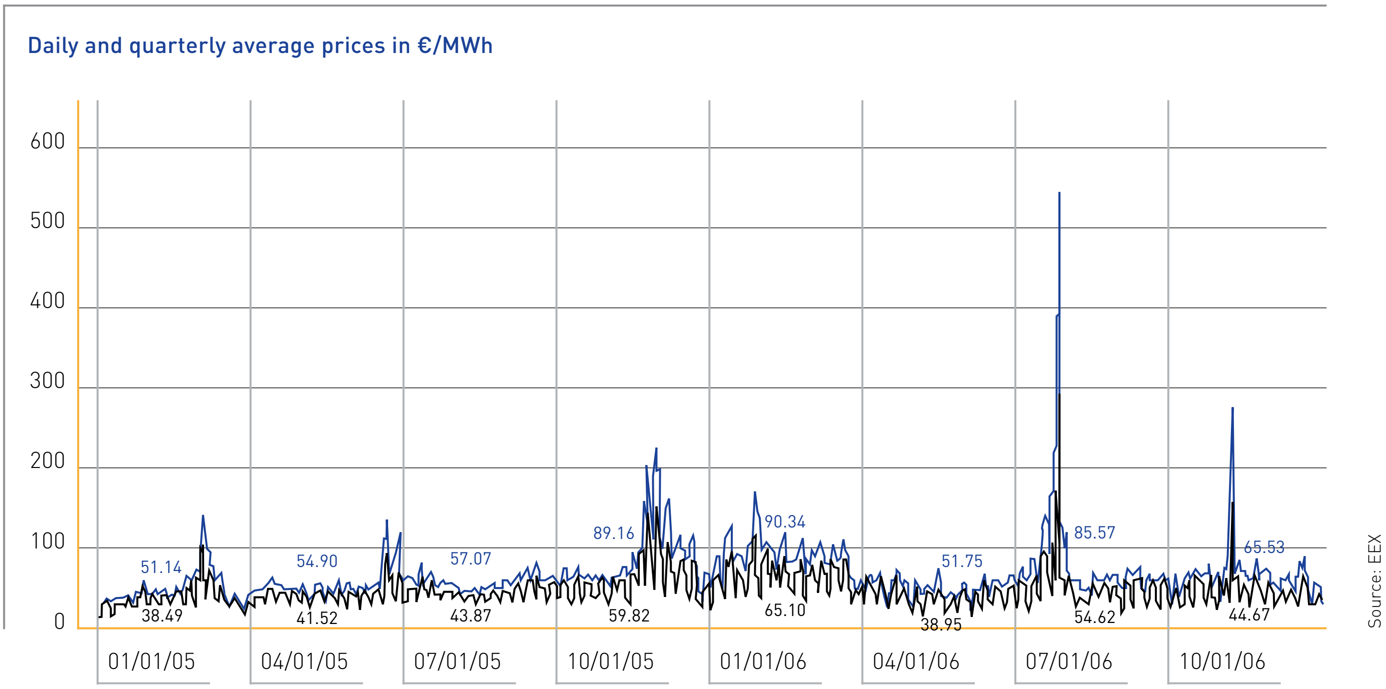
Prices came under pressure in the course of the year as the regulatory measures of the Federal Network Agency began to take effect; however in the long term we still expect prices to rise.

> Economic growth accelerates in 2006

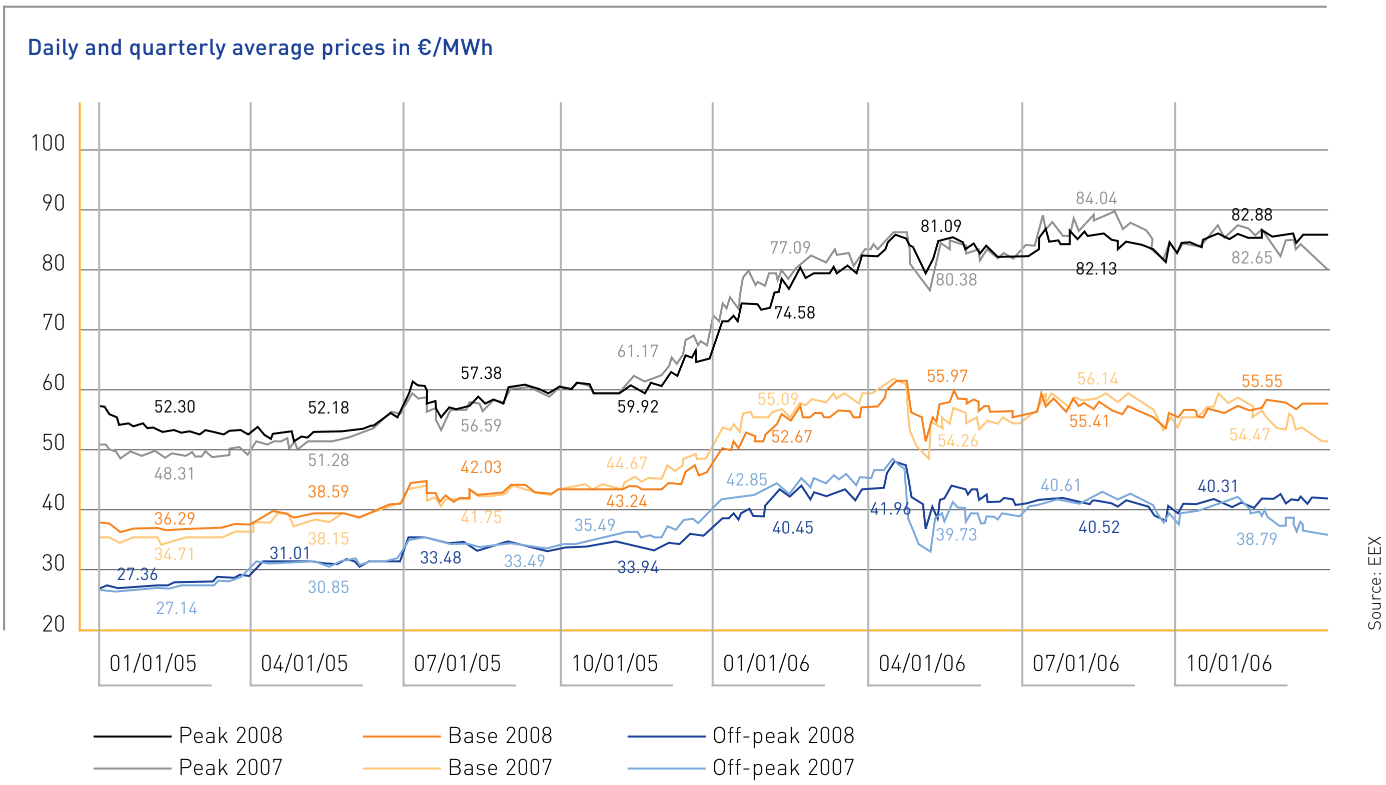
> Electricity prices up for retail and business customers

> Electricity prices up on the wholesale market

Develop of spot market prices for electricity (EEX)



Development of forward market prices for electricity (EEX)



Wholesale electricity market

The spot market for electricity in 2006 was marked by different price phases. In the first quarter, prices initially remained at the higher level experienced at the end of the prior year. This price level reflects both the increase in the price of coal and CO_2 and also the lower output of electricity generated by hydro-electric and wind power. In the second quarter, the seasonally lower electricity load, the higher volume of electricity generated by wind and hydro-electric power and in particular the marked drop in CO_2 prices in May then led to a noticeable drop in spot market prices for electricity.

Record prices in July were the distinguishing feature of the spot market in the third quarter. This was due to a further increase in fuel prices, the lower output of electricity generated by wind power and above all the extreme heat and drought that resulted in production restrictions for run-of-the-river and thermal power stations throughout Europe. As the hot and dry weather came to an end, the spot market prices stabilised again in August and the situation remained largely unchanged in the fourth quarter. To a certain extent, opposite trends had a stabilising effect: One of the factors pushing up prices was a dramatic increase in the net electricity exports, for example towards Scandinavia, where a malfunction at the Forsmark nuclear power station had restricted production. In contrast, the low demand for electricity on account of the very mild temperatures reduced prices. This also meant that the unplanned shutdown of the Biblis nuclear power station in October barely impacted spot market prices.

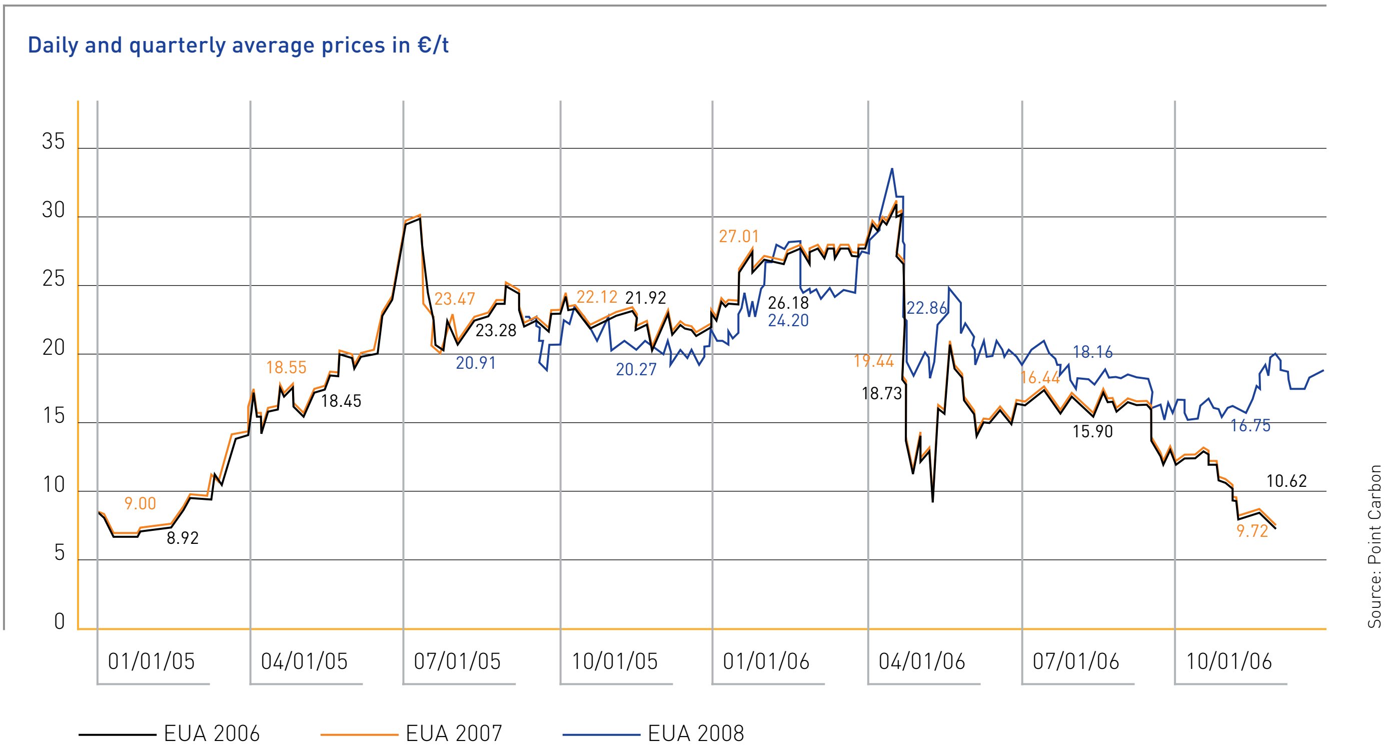
On aggregate, the market influences described above resulted in an annual average spot market price for electricity (base[1]) of € 50.79/MWh. This figure rose by 10% compared to the prior year. The annual average price for peak deliveries[2] increased by approx. 16% to € 73.30/MWh.

On the forward market for electricity, the annual average settlement prices for base deliveries of € 55.01/MWh in 2007 and of € 54.87/MWh in 2008 were around 38% and 37% higher respectively than the comparable prior-year figures. The reason for this was that the forward market prices in 2005 had lagged considerably behind the spot market prices at that time.

Meanwhile, the forward market for electricity is well developed and market mechanisms are working. This is shown by the market-driven reaction of forward market prices to the collapse of the CO_2 prices following the publication of the CO_2 emissions for the year 2005 in May 2006. In the meantime, the settlement price for base deliveries dropped from more than € 60/MWh to less than € 48/MWh. After that, the forward market prices stabilised at between € 52/MWh and € 58/MWh. This development was due, among other things, to the further increase in fuel costs and also to the situation in Scandinavia and its impact on the spot market, which is presumed to have led to bigger buys above all in the third quarter. At year-end, the prices fell again somewhat.

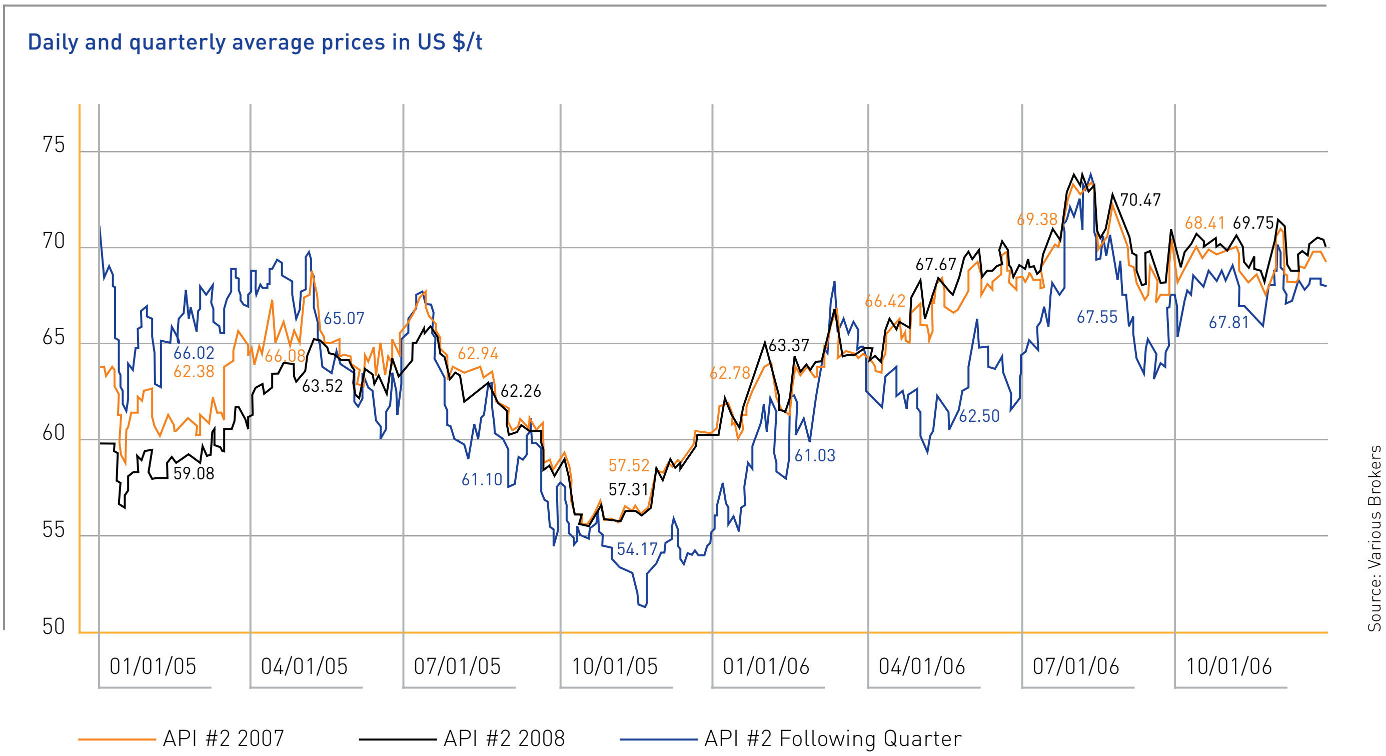
[1] Price for constant purchase/supply throughout the year
[2] Price for purchase/supply Monday to Friday, 8 am to 8 pm

Development of CO_2 prices



EUA = European Union Allowance

Development of coal price



API = All Publications Index

CO_2 market

The price of emission allowances on the European CO_2 market in 2006 was mainly affected by the publication in May 2006 by the EU of the actual 2005 CO_2 emissions.

In early 2006, the expectation prevailed - as it had done in 2005 - that in the first trading period (2005 – 2007) more CO_2 could be emitted than covered by the tradable emission allowances. As a result, the upward trend of 2005 continued into the first quarter, with CO_2 allowance prices rising to more than € 30/t CO_2.

The first country-specific publications on CO_2 monitoring already indicated that emission levels in 2005 had been much lower than expected. As a result, market expectations changed based on the assumption that more allowances would be available in the first trading period than needed. Consequently, the price for CO_2 allowances of the first trading period fell to less than 9 €/t CO_2 ; prices for CO_2 allowances of the second trading period (2008 – 2012) reacted similarly, if not quite as dramatically.

Over time, the prices of the two trading periods initially converged again, stabilising at between € 16/t CO_2 and € 18/t CO_2. However, at the end of the third quarter prices were again under pressure, due among other things to the drop in prices on the British natural gas market. This effect was presumably also the reason why companies sold unused allowances of the first trading period on the market in order to pre-empt a further drop in prices.

The fourth quarter was consequently characterised by constantly falling prices for allowances of the first trading period. By contrast, the prices for allowances of the second trading period rose slightly at the end of the year. The market was influenced by the surprisingly large curtailment of allocation quantities by the EU Commission for the second trading period and the restrictive treatment of banking possibilities between the first and second period in some countries.

Coal market

After the downward trend in 2005 the world market prices for hard coal picked up significantly again in the first half of 2006. In the middle of the third quarter, they peaked at up to US$ 74/t for deliveries to the ARA ports (Amsterdam, Rotterdam, Antwerp).

This development was due in part to the decreasing supply from Russia and an increased demand from India and in particular to the strike in the Columbian mines at the beginning of the year, supply bottlenecks in Poland and uncertainty surrounding the availability of the South African shipping facilities.

In light of falling energy prices and the fairly warm weather, coal prices dropped slightly at the end of the third quarter only to stabilise again in the fourth quarter between US$ 66/t und US$ 71/t.

In 2006 this development led to average prices for coal deliveries due in 2007 and 2008 of US$ 66.74 /t and US$ 67.81/t. This represents an increase of around 7% and 12% respectively compared to the average prices of the prior year.

> Price of CO_2 allowances fluctuates

> Coal prices up

> Increase in natural gas consumption in Germany due to economic developments

> Natural gas most popular energy source on the heating market again

> Natural gas prices continue to rise

Gas

Consumption

In 2006, unit sales of natural gas in Germany increased by slightly more than 1% to 1,005 billion kWh. The commissioning of new plants, above all for combined heat and power, as well as the reduced availability of wind power in the first half year 2006 led to some 4% more natural gas being converted to electric power. With industry booming, the consumption of natural gas by industry was slightly above average compared to the prior year. The effects of the cold weather in the first four months and the unusually mild fourth quarter of 2006 on the demand for domestic heating more or less balanced each other out. As a result, the consumption of natural gas in domestic households and commerce, trade and services matched the prior-year level.

48.0% of the domestic households in Germany were heated with natural gas in 2006, the rest with heating oil, district heating, electricity and coal.

Procurement

To ensure supply reliability as the consumption of natural gas continues to rise in coming years, the natural gas industry in Germany uses various procurement sources.

Some 15% of natural gas consumed in 2006 was extracted from indigenous sources and the remaining 85% from imports of diverse origin. The largest shares come from Russia (35%) and the fields in the Norwegian North Sea (27%). Within the EU, 19% was imported from the Netherlands and 4% each from the UK and Denmark.

Price developments

Due to the competitive situation on the heating market, the price of natural gas follows the development of heating oil prices, and thus indirectly the price of crude oil, whether it rises or falls. There is, however, a certain time lapse and the figures are adjusted to reflect an average price.

This link to the oil prices is an international agreement in the national gas industry between foreign producers and German importers and is an essential component of the existing long-term supply contracts. The link between the gas and oil prices impacts every level of the supply chain and is also used by the German gas industry for its contracts.

To ensure competitiveness in the long term, the gas price in the households and commercial customer segment is guided by the price for light heating oil, while in the industrial sector the prices of heavy heating oil and of coal are also used. In the power plant sector gas and coal compete with one another.

In 2006, the increase in the price of crude oil of the past two years continued on the international commodity markets. The price of WTI crude oil increased in 2006 by an average of 15.93% compared to 2005. This was due to marked increases in consumption – particularly in the emerging countries like China and India – the growing interest shown by investment companies, among others, to purchase oil contracts, the continuing shortage of refinery capacities as well as political tension in many producing countries. It was not until the end of 2006 that the price of crude oil dropped, due to the high US oil stocks, the unusually warm weather and the adjustment of the price level for speculative shares.

Heating structure of domestic households in 2006

Gas	48.0%
Heating oil	30.7%
District heat	12.5%
Electricity	5.8%
Coal	3.0%

Procurement sources of natural gas in 2006

Germany	15.0%
Russia	35.0%
Norway	27.0%
Netherlands	19.0%
UK, Denmark and others	4.0%

Source: BGW

At the trading places along the Rhine – Düsseldorf, Frankfurt am Main, Mannheim/Ludwigshafen – the year-on-year price for light heating oil climbed by 11.63% to over € 49.84/hl in 2006. In the second half of the year, the price dropped to € 46.08/hl in December, slightly up on the prior-year average.

Energy policy

The political environment in 2006 was difficult. Both the EU Commission and also the German government were highly critical of the energy supply companies and initiated various legislative procedures.

CO_2 allowance trading
Since its introduction on January 1, 2005, trading with CO_2 allowances has become an economic factor and looks set to stay that way in the European Union even after the Kyoto Protocol expires in 2012. Emissions trading is thus an important factor influencing decisions not only on the use of power plants but also their construction.

The extent to which this affects companies that are subject to emissions trading depends largely on the regulatory framework. In the first half of 2006 the German federal government dealt in depth with the second national allocation plan (NAP II) for the years 2008 to 2012, the draft of which was passed by the federal cabinet on June 28, 2006. Subsequently, the rules and regulations for the EU trading phase from 2008 to 2012 were presented to the EU Commission. However, at the end of 2006 the EU Commission decided that the German NAP II could only be accepted under strict conditions.

> Difficult political environment in 2006

One of the conditions of the EU Commission refers to the CO_2 allowances allocated to the operators of power plants. It refused to fully equip new power plants with CO_2 allowances free of charge for 14 years. This decision increases the uncertainty of energy generators when making a decision to build new power plants.

> German NAP II with conditions

> EnBW makes suggestions for NAP II

In response to the conditions imposed by the EU Commission, the German government announced that it would convert the NAP II to a benchmark system. This means that the grandfathering system (allocating allowances to existing power plants based on past emissions), which gave preferential treatment to large-scale emitters of the past, no longer forms the basis for the allocation of allowances.

EnBW had lobbied for a change to the benchmark system since the beginning of the debate surrounding the details of the NAP II. In its comments on the original draft of the German NAP II, the EU Commission followed objections already raised by EnBW in connection with the National Allocation Plan for the years 2005 to 2007.

Another disputed topic is the cartel order threatened by the Federal Antitrust Office against RWE AG and E.ON AG for crediting the allowance prices against the electricity prices. Contrary to the view of the Federal Antitrust Office, renowned energy scientists agree that the mechanisms of CO_2 allowance trading are market driven and the policy of including the price of allowances in electricity prices is not an abuse.

> Application for transfer of residual electricity volume to Neckarwestheim I

> Planned amendment to the law disputed

> Unbundling in accordance with legislation continues

> New legislation in progress

Nuclear power agreement

On June 11, 2001 the German federal government and energy supply companies signed the nuclear power agreement, also known as the nuclear consensus. This was put into law by an amendment of the Atomic Power Act in 2002. The Atomic Power Act now prescribes residual electricity volumes for existing nuclear power stations. This is thus a departure from the originally unlimited operating licences. To increase flexibility, electricity volumes can be transferred from one nuclear power station to another. While the transfer from an older to a newer nuclear power station is not subject to any conditions, a transfer may only be made to an older nuclear power station if the Federal Ministry for the Environment approves the transfer with the agreement of the Office of the Federal Chancellor and the Federal Ministry of Economics.

EnBW Kernkraft GmbH made use of the possibility to transfer quantities of electricity on December 21, 2006: It filed an application with the Federal Ministry for the Environment to transfer 46.9 TWh of the residual electricity allowance from unit II to unit I of the nuclear power station Neckarwestheim. The aim is to operate the two nuclear power stations in parallel until 2017. The current structure with a double unit at the Neckarwestheim power station would thus be retained as long as possible to allow the best possible use of the resulting synergies for safety and efficiency throughout all operating phases.

Regardless of the possibility to transfer residual volumes, EnBW is lobbying for a revision of the nuclear consensus. We are convinced that no option should be excluded from the outset when planning the future electricity mix if it is to be reliable, ecologically acceptable and economically feasible. With the help of a qualified adjustment of the life of nuclear power stations, time, money and scientific findings could be gained and put to use to develop new, more climate-friendly and resource-saving, but nevertheless cost-effective generating technologies.

Act against restraints on competition

In the autumn of 2006, the Federal Ministry of Economics tabled an expert bill for the amendment of the act against restraints on competition. A cabinet decision is expected in the first quarter of 2007.

The purpose of tightening the competition legislation in the energy sector is to strengthen competition. From EnBW's perspective, however, there is a risk that such new regulatory intervention will destroy the successes of the liberalisation process to date. The possibilities to intervene in the market for antitrust reasons connected with the planned amendment of the act against restraints on competition mean that the established suppliers will be forced to emulate the lowest prices of their competitors in order to avoid being accused of abuse. This would, however, force new suppliers in particular out of the market because they would be prevented from winning customers through price competition. The Bundesverband Neuer Energieanbieter e. V. has also raised this issue.

The continuation of standard price regulation discussed in the autumn of 2006 also contradicts the idea of competition and liberalisation, meaning that regulatory intervention by the government in specific sectors should be restricted to the natural monopolies.

Successor regulation for the decree on general supply conditions

The existing decrees on general supply conditions for electricity and gas (AVBEltV and AVBGasV) were replaced by decision of the upper house of parliament on September 22, 2006 and of the federal cabinet on October 18 by four new decrees. These are basic supply decrees for electricity and gas which regulate the legal relationship between the supplier for a territory and its household customers. Two further decrees (low-voltage and low-pressure connections) regulate grid connections between grid operators and customers.

The decrees came into force on November 8, 2006 and thus bring the retail business in line with the structures of the regulated energy market while separating its sales and grid activities (unbundling).

The Federal Ministry of Economics is also working on several provisions for the implementation of the German Energy Industry Act from 2005. They include a provision regarding the supply of object and area networks, a provision for the connection of end consumers to higher network levels and a provision regarding the connection of power stations.

The aim of the power station connection provision is to give new energy generators an incentive to invest in power stations, thus encouraging competition. There is, however, a risk that existing energy generators will be at a disadvantage. Due to the priority rulings, power stations would have to give third-party operators that are ready for operation by 2012 preferential treatment offering them a transmission guarantee besides connecting them to the transmission network. Worst case scenario: power stations would not be able to feed quantities of their own energy into the grid on account of bottlenecks.

In the interest of expanding generating capacities in an economically useful and efficient way and creating an efficient and reliable network structure, EnBW is of the opinion that the provision regarding the connection of power plants requires an integrated view of network connection and network use. In particular, it should aim to achieve a well-balanced distribution of load capacities close to the place of consumption taking possible network bottlenecks into account.

Energy summit

The first energy summit of the German government took place on April 3, 2006. As a result, three working groups were entrusted with the development of an integrated overall concept for energy supply. The topics covered were international aspects and external supply reliability (working group 1), national aspects, competition and the construction of new power stations (working group 2) as well as research and energy efficiency (working group 3). In light of problematic and contentious issues such as emissions trading and investments in new power stations, research and development, the Energy Industry Act and the life of the nuclear power stations, the main challenge facing the three working groups was to find common ground.

Although the reports of the working groups were ready in time for the second summit on October 9, 2006, the main disputed points had been excluded. As the working group for national aspects, had failed to reach a consensus, the October summit focused on the international aspects, innovation and energy efficiency. In these areas, the working groups were in agreement that Germany needed to become less dependent on imports and improve energy efficiency in production and operation. The two working groups will continue to work on feasible concepts.

The next energy summit will then deal with the disputed topics covered by working group 2, such as nuclear energy, electricity prices, competition and energy mix. In autumn 2007, the German federal government wants to present an energy concept from the results of the summits.

European energy policy

On March 8, 2006, the EU Commission presented the discussion paper (green paper) "A European Strategy for Sustainable, Competitive and Secure Energy". Parallel to the consultation on the green paper, the sector analysis of the energy markets was continued. The results are reflected in the energy paper presented on January 10, 2007. Although it does not contain any concrete bills yet, it does give a clearer picture of the Commission's ideas on the development of a future energy policy.

Regarding the future shape of the single energy market, the Commission continues to focus on unbundling measures and demands more powers and greater independence for the national regulators. At the European level, the question of responsibility for regulation of cross-border electricity flows is under discussion.

The Commission has defined certain targets for 2020: by then CO_2 emissions should be reduced by at least 20%. At the same time, the share of renewable energies should be increased to 20% of the total energy supply and energy efficiency raised by 20%. The German energy industry could benefit from the objective way nuclear power has been analysed.

> Next energy summit planned for spring 2007

> Green paper on energy efficiency presented

> Sector survey of the energy markets continues

Regulation of the electricity and gas markets

> Appeal proceedings initiated against the notification of user charges

> Introduction of incentive regulation in progress

> Gas grid access simplified

Network user charge proceedings of the Federal Network Agency
In the third quarter of 2006, the Federal Network Agency made its first decisions on the network user charges for electricity and gas. This also affects EnBW network operators.

The Federal Network Agency issued its decision on EnBW Transportnetze AG's (TNG) application concerning the network user charges on July 27, 2006. The approved charges for use of the transmission network are approximately 8% below those applied for. The decision on the network user charges application by EnBW Regional AG (REG) was taken by the Federal Network Agency on August 31. Overall, the network user charges of REG have been reduced by approx. 14% in relation to the network costs originally applied for. TNG and REG do not consider the reductions to be justified and have filed protests against these decisions at the Düsseldorf higher regional court.

EnBW sees the appeal proceedings by TNG as a test case. In agreement with the Federal Network Agency we have suspended the proceedings of REG and other group companies from the electricity and gas segments against other network charges notices that have been issued in the meantime. We will decide how to proceed further after the conclusion of the TNG case. This approach will also be taken for the other network operators of EnBW that fall under the authority of the state regulatory authorities.

Incentive regulation
In future, the principle of cost regulation underlying the decisions on network user charges is to be replaced by an incentive-based system of regulation. EnBW had accompanied the legislative process of the Energy Industry Act (EnWG) with its own proposal for incentive-based ex-ante regulation of network user charges. Important aspects of our suggestion were incorporated in the law. The Federal Network Agency presented a report on the introduction of the incentive-based system of regulation to the federal government on June 30, 2006. As required by the Energy Industry Act, the Federal Ministry of Economics and Technology is currently transforming the model into a draft proposal which will require the approval of the upper house of parliament.

According to the timetable of the Ministry of Economics, a second review of the network user charges is scheduled for 2007 and incentive regulation to start on January 1, 2009. The planned system of incentive regulation is designed to give incentives to improve efficiency by capping revenues from network user charges for the duration of the regulatory period. Using cost benchmarking, the individual network operators will also be given individual efficiency targets for their company based on the figures of most efficient network operator. The incentive regulation decree is expected to take effect in summer 2007. EnBW is also involved in the current development process alongside the German federal states and representatives from the energy industry and science.

New gas grid access system
According to the Energy Industry Act (EnBW), gas grid operators should facilitate access of their gas transmission customers to the gas grid from the beginning of the gas business year 2006/2007. This is to be achieved by means of a single feed-in and a single off-take reservation (two contract model).

The details are regulated in a cooperation agreement of the gas industry which sets forth the rights and obligations of the network operators among themselves and in relations with the grid customers.

Another important element of the cooperation agreement is the division of all grids and subnets into a total of 19 market territories. This division into market territories is necessary to allow for the different gas qualities and the existing transmission bottlenecks. By forming a joint cross-ownership market territory, Gasversorgung Süddeutschland GmbH and ENI Gas & Power S.p.A. have assumed a role model function for the industry, thus counteracting a further fragmentation of the gas market.

The Federal Network Agency has prescribed transitional periods for handling old contracts which were concluded with all the network operators involved on the basis of individual reservations (individual reservation model). Because the system requirements both at network operators and customers alike are not in place – for example missing IT software or because the business processes for a supplier change are not yet working properly – and also in the absence of free quantities of gas that are not bound by contract, it has not yet been possible to stimulate competition across the board in the household market.

Consumer complaints against gas price increases
In the wake of the dramatic increase in gas prices since 2004, in recent months companies in the gas industry have been repeatedly confronted with consumer complaints with reference to Sec. 315 German Civil Code (BGB) or Sec. 307 BGB. The EnBW subsidiary ENSO Erdgas GmbH was also affected. In several cases, gas suppliers were compelled by court rulings to disclose their price calculations. In other cases, the courts subsequently ruled that the gas price increases were invalid. The reasons of the courts for their decisions varied. The disputed issues are therefore subject to a supreme court decision.

Antitrust proceedings on long-term gas supply agreements
In antitrust proceedings against one of our competitors, E.ON Ruhrgas AG, the Federal Antitrust Agency prohibited long-term gas supply agreements on an exclusive basis between grid gas companies and their redistribution customers. Gasversorgung Süddeutschland GmbH, which as a grid gas company is also affected by the orders of the Federal Antitrust Agency, already adjusted the terms of its contracts with redistributors back in 2004. These competitive offers enabled it to keep the large majority of its customers.

Abuse proceedings against E.ON Gastransport on transmission capacities
The conditions imposed by the ministerial permit "Merger of Ruhrgas and E.ON" from the year 2002 require that the energy group E.ON publicly auction off annual gas quantities from the long-term procurement rights of Ruhrgas. EnBW Trading GmbH (ETG) participates regularly in the annual auctions and has already successfully bid for gas volumes several times. This included transmission to the customers in the transmission network of E.ON Gastransport AG & Co. KG, a wholly owned subsidiary of E.ON Ruhrgas AG. In winter 2005/2006, this transmission was discontinued by E.ON Gastransport due to the preferential treatment of old contracts, most of which existed with E.ON Ruhrgas.

ETG objected to the discontinuation of transmission and petitioned the Federal Network Agency to make an abuse order pursuant to Sec. 31 EnWG for refusing network access. The Federal Network Agency allowed the petition and required E.ON Gastransport to give the transmission of auctioned volumes preferential treatment over old rights of E.ON Ruhrgas and to recommence transmission without restriction.

> ENSO Erdgas affected by complaints

> GVS's contract terms already adjusted in 2004

> Federal Network Agency allows petition by ETG

Company situation of the EnBW group

> Higher sales revenue in all segments

Comments on reporting

In accordance with Sec. 315a (1) German Commercial Code (HGB), the financial statements of the EnBW group are prepared according to the International Financial Reporting Standards (IFRS), the adoption of which is mandatory in the EU at the balance sheet date. The figures of the prior year were adjusted to reflect the accounting changes made in fiscal 2006. Detailed explanations are given in the notes.

Revenue and unit sales

In fiscal year 2006, the EnBW group recorded external revenue before deducting electricity and natural gas tax of € 14,414.7 million, 19.6% more than in the prior year. In fiscal year 2006, external revenue after deducting electricity and natural gas tax increased by 22.8% to € 13,219.4 million.

Revenue increased in all segments. Adjusted to eliminate changes in the consolidated companies, revenue rose by € 1,604.0 million or 13.8%.

External revenue of the EnBW group by business segment in € millions[1]	2006	2005	Variance %
Electricity	9,642.3	8,125.0	+18.7
Gas	2,757.9	2,101.7	+31.2
Energy and environmental services	819.2	542.6	+51.0
Total	**13,219.4**	**10,769.3**	**+22.8**

[1]After deducting electricity and natural gas tax

Unit sales of the EnBW group in kWh billions	2006	2005	Variance %
Electricity	119.4	106.7	**+11.9**
Gas	83.5	88.6	**-5.8**

Electricity
The electricity segment generated 72.9% of the EnBW group's revenue in fiscal 2006.

In the same period, unit sales of electricity rose by 11.9%. Adjusted for changes in the consolidated companies, this was an increase of 5.9%. The increase is due above all to higher unit sales in the industrial customer segment.

Revenue rose by 18.7% to € 9,642.3 million. Adjusted to eliminate consolidation effects, electricity revenue increased by € 1,013.5 million or 11.7%. This increase in revenue was attributable to higher unit sales of electricity and also to higher wholesale market prices, which in turn resulted in an increase in electricity prices.

Gas
In fiscal year 2006, the gas segment accounted for 20.9% of the revenue of the EnBW group.

Unit sales of gas fell by 5.8% in fiscal 2006 to 83.5 billion kWh. Adjusted for changes in the consolidated group and accounting effects, unit sales of gas decreased by 3.7%.

Gas revenues increased by 31.2% to € 2,757.9 million. Adjusted for consolidation and accounting effects, this is an increase of € 595.1 million or 27.5%. The reason for this is that the significantly increased gas procurement price was passed on to our customers.

Energy and environmental services
Revenue in the energy and environmental services segment comprises sales revenue from disposal, water supply, and other energy services. It totals € 819.2 million. This represents an increase of 51.0% compared to the fiscal year 2005. Adjusted to eliminate changes in the consolidated group, revenue rose by € 89.5 million or 12.3%. This increase is attributable to higher revenue in the disposal sector.

Earnings and business development

> Further improvement in operating efficiency and earnings power

> Significant growth in total and adjusted EBT, EBIT and EBITDA and also adjusted for consolidation effects

> Group net profit exceeds € 1 billion for the first time

In the fiscal year 2006, both the EBT – Earnings Before Tax – and group net profit exceeded € 1 billion. The reasons for this are the rigorous implementation of our TOP FIT cost-cutting programme, improved results in the competitive area and non-recurring tax income due to the amendment of the German Corporate Income Tax Act. Compared to the prior year, the EBT rose by a total of € 95.8 million or 8.8% to € 1,183.2 million. Without non-operating effects, the adjusted EBT improved by € 246.6 million or 29.6%. Group net profit increased by € 471.9 million to € 1,003.4 million.

Compared with fiscal 2005, the EBITDA – Earnings Before Interest, Taxes and Depreciation and Amortisation – increased by 12.3% or € 253.5 million; adjusted for consolidation effects it increased by 8.1% or € 173.4 million. Without non-operating effects, the adjusted EBITDA improved by 18.8% or € 329.6 million to € 2,078.4 million; adjusted for consolidation effects it improved by 12.7% or € 233.5 million.

In the electricity segment, we have improved earnings power once again. Compared with fiscal 2005, EBITDA rose by 16.7% or € 294.8 million. The adjusted EBITDA rose by 15.1% or € 231.3 million to € 1,765.5 million. The increase in adjusted EBITDA is largely a result of our TOP FIT cost-cutting programme, improved earnings in the competitive area and the enlargement of our consolidated group. In the network area, adjusted EBITDA fell due to the reduction in network user charges by the Federal Network Agency. The regulatory measures only partially impact fiscal 2006 because the final notices of the Federal Network Agency were not issued until the second half of 2006 and, based on our interpretation of the law, only take effect in the future.

In the gas segment, the EBITDA grew by 40.9% to € 309.5 million compared to the period January to December 2005. The adjusted EBITDA in the gas segment rose by 23.7% or € 49.2 million to € 256.9 million. The main reasons for this rise in the adjusted EBITDA are improved results at transmission level and the enlargement of the consolidated group.

The EBITDA in the energy and environmental services segment dropped by 62.9% to € 58.7 million. This decline is attributable to the fact that the EBITDA recorded in fiscal 2005 was raised by income from the disposal of retail properties of the former Salamander AG. Risk provisioning in the disposal area also had a negative impact on the EBITDA in fiscal 2006. The adjusted EBITDA in the energy and environmental services segment increased by 58.5% or € 67.9 million to € 184.0 million. This is attributable to the enlargement of our consolidated group.

Compared with fiscal 2005, the EBIT – Earnings Before Interest and Tax – increased by € 135.7 million to € 1,470.2 million; adjusted for consolidation effects EBIT rose by 9.5% or € 127.6 million. Without non-operating effects, the adjusted EBIT improved by 23.3% or € 252.9 million to € 1,337.6 million; adjusted for consolidation effects it rose by 20.6% or € 228.6 million.

Compared to the prior year, the EBT rose by a total of € 95.8 million to € 1,183.2 million. Adjusted to eliminate changes in the consolidated group, the EBT rose by € 43.9 million or 3.9%. The adjusted EBT rose by 29.6% or € 246.6 million to € 1,080.7 million and adjusted to eliminate changes in the consolidated group by 23.4% or € 204.7 million.

Due to non-recurring tax income, income taxes came to just € 73.4 million. After deducting income taxes and minority interests of € 118.9 million, the result of continuing operations for fiscal 2006 comes to € 990.9 million. The result of discontinued operations amounts to € 12.5 million. Group net profit rose by 88.8% or € 471.9 million to € 1,003.4 million and, adjusted to eliminate changes in the consolidated group, by 71.0% or € 416.5 million.

The value added of the EnBW group increased by € 278.1 million to € 707.2 million. This is a year-on-year increase of 64.8%. In the fiscal year 2006 all the segments made a positive contribution to value added, although the electricity segment was mainly responsible for the increase.

EBITDA of the EnBW group by business segment in € millions[1]	2006	2005	Variance %
Electricity	2,056.6	1,761.8	+16.7
Gas	309.5	219.6	+40.9
Energy and environmental services	58.7	158.1	-62.9
Other activities/Holding	-117.0	-85.2	–
Total	**2,307.8**	**2,054.3**	**+12.3**

EBIT of the EnBW group by business segment in € millions[1]	2006	2005	Variance %
Electricity	1,496.8	1.205.1	+24.2
Gas	223.3	129.7	+72.2
Energy and environmental services	-132.9	84.9	–
Other activities/Holding	-117.0	-85.2	–
Total	**1,470.2**	**1,334.5**	**+10.2**

Earnings ratios of the EnBW group in € millions[1]	2006	2005	Variance %
EBITDA	2,307.8	2.054.3	+12.3
EBIT	1,470.2	1.334.5	+10.2
EBT	1,183.2	1.087.4	+8.8
Earnings after tax	1,109.8	598.4	+85.5
Minority interests	-118.9	-66.0	–
Results of continuing operations	**990.9**	**532.4**	**+86.1**
Result of discontinued operations	12.5	-0.9	–
Group net profit	**1,003.4**	**531.5**	**+88.8**

Value added of the EnBW group by business segment in € millions[1]	2006	2005	Variance %
Electricity	768.8	561.1	+37.0
Gas	49.5	10.8	–
Energy and environmental services	0.8	-28.1	–
Other activities/Holding	–	–	–
Total	**707.2**	**429.1**	**+64.8**

[1]The prior-year figures have been adjusted.

Management report

Non-operating and adjusted earnings

> Non-operating result down

> Adjusted earnings up

The non-operating result of the EnBW group comprises extraordinary results and results relating to other periods. The positive non-operating result at EBITDA level is due above all to gains on sale and reversals of provisions which outweigh burdens due to provisions in the disposal area. The burdens in the disposal area were caused by decisions taken in the past and relate to the mechanical-biological treatment plants and related disposal contracts.

Non-operating results included in the earnings ratios EBITDA, EBIT and EBT have been deducted from the earnings ratios adjusted EBITDA, adjusted EBIT and adjusted EBT.

Non-operating result of the EnBW group in € millions[1]	**2006**	2005	**Variance %**
Adjusted EBITDA	229.4	305.5	-24.9
Adjusted EBIT	132.6	249.8	-46.9
Adjusted EBT	102.5	253.3	-59.5

Adjusted earnings of the EnBW group in € millions[1]	**2006**	2005	**Variance %**
Adjusted EBITDA	2,078.4	1,748.8	+18.8
Adjusted EBIT	1,337.6	1,084.7	+23.3
Adjusted EBT	1,080.7	834.1	+29.6

[1]The prior-year figures have been adjusted.

Capital expenditures of the EnBW group on intangible assets and property, plant and equipment by business segment in € million	**2006**	2005	**Variance %**
Electricity	403.4	356.3	+13.2
Gas	71.4	54.5	+31.0
Energy and environmental services	155.3	136.2	+14.0
Total	**630.1**	**547.0**	**+15.2**

TOP FIT cost-cutting programme

The target we set ourselves for our TOP FIT programme was to cut costs permanently by € 1 billion by 2006. By rigorously implementing all our cost-cutting measures since the programme was launched in 2003, we have achieved this target by the end of 2006 by saving around € 1,056 million in total. Indeed we exceeded our goal and have thus successfully concluded our programme.

Besides numerous optimisation measures to raise efficiency and effectiveness in our individual companies in the years 2004 and 2005, we also realised a series of cross-company measures. For example, by continuously improving our purchasing processes and terms and conditions, bundling needs across the group, adjusting specifications and consistently issuing invitations for tender for various contracts, our procurement department made a significant contribution to our TOP FIT target. Other factors that contributed to the success of our TOP FIT programme included reducing the complexity of the group, focusing on our core business, optimising our value added chain and, last but not least, the merger of our customer service company and our sales company to form the combined sales and service company.

Capital expenditures and acquisitions

Capital expenditures on intangible assets and property, plant and equipment amounted to € 630.1 million in the fiscal year 2006. This is € 83.1 million or 15.2% more than in the prior year.

Some 64.0% of capital expenditures were made in the electricity segment. Spending here focused on the expansion of the power stations and distribution plants.

In March 2006, we acquired a 25.05% share in Stadtwerke Düsseldorf AG and became majority shareholder in these municipal utilities. Stadtwerke Düsseldorf AG is included in full in the EnBW consolidated financial statements as of March 31, 2006.

We increased our share in EVN AG from around 30% to just under 36% in the fiscal year 2006. After NÖ Landes-Beteiligungsholding GmbH, which holds 51% of the shares in EVN, EnBW is the company's second largest shareholder and from January 2006 has a seat on the supervisory board of EVN.

> TOP FIT successfully concluded in 2006

> Total investments increased

> Investments focus on electricity segment

Financing

> Financing needs covered

> Syndicated line of credit prolonged

> € 500 million bond favourably placed

> A-category rating unchanged

Asset management
Since the end of 2005, we have bundled the majority of our financial assets in four master funds. At the end of fiscal 2006 our investment volume had a market value of around € 5.26 billion in a total of ten asset classes. The assets already cover a large part of our nuclear power and pension provisions of € 8.4 billion, which were recognised on the basis of official expert appraisals. In 2006 we used four master funds to strictly pursue our investment goals:

> Achieve long-term target return on financial assets of 5.5%
> Minimise risks
> Minimise the effect on the balance sheet and income statement
> Broad diversification of asset classes
> Simplify administration and cut costs

Financing requirements
In addition to the group's own funds and internal financing power, the EnBW group continues to use the following four instruments to cover its total financing needs:

> Euro Medium Term Note programme (EMTN programme)
> Syndicated loan
> Commercial Paper programme (CP programme)
> Offering of special products and measures to strengthen equity

The aim of EnBW is to use these instruments to the best possible advantage. EnBW therefore stepped up the EMTN programme from € 3 billion to € 5 billion. This gives us the flexibility to ensure financing at all times, regardless of the conditions prevailing on the international capital markets at any given time.

Syndicated line of credit
In May 2006, prolongation options were exercised for the first time for the syndicated line of credit. This € 2.5 billion line of credit had been agreed with a syndicate of banks in May 2005 and consists of two tranches. Each participating bank can decide about whether to prolong the line of credit. With one exception, all the banks agreed to the prolongation, which is proof of the good relations EnBW maintains to its key banks.

The first tranche with a volume of € 1 billion was prolonged by another year until May 2007. € 1.442 billion of the second tranche was also prolonged by another year until May 2011. A further € 58 million of the second tranche remains available until May 2010.

The entire syndicated line of credit remained unused in the reporting period.

EnBW bond
On October 11, 2006 we issued a bond for € 500 million on the capital market via our subsidiary EnBW International B.V. This bond has a term of ten years and is intended to prematurely refinance the bond of € 750 million issued in February 2002 that matures in February 2007.

The bond was placed without an accompanying roadshow. In May 2006, the EnBW Board of Management had provided comprehensive information about the company at the annual deal-independent roadshow. Due to the great demand, bookbuilding could be closed after just four hours. The bond was heavily oversubscribed. With a credit spread of just 33 basis points and a coupon of 4.25%, we were able to issue the bond at attractive conditions. EnBW thus took advantage of the capital market environment to convert existing liabilities into a new bond. Credit Suisse and Royal Bank of Scotland carried out the transaction as joint bookrunners.

The bonds in figures

Issuer	EnBW International Finance B.V.
Underwriter	EnBW Energie Baden-Württemberg AG
Volume	€ 500 million
Issue date	10/19/2006
Bullet maturity	10/19/2016
Coupon	4.25%
Offering price	99.036%
Securities identification number	XS0271757832
Bookrunners	Crédit Suisse, Royal Bank of Scotland
Stock exchange	Luxembourg

Interest and currency management

In the course of business operations we are exposed to interest risks which are secured on a case-by-case basis within the treasury function. At present, the interest rates for the financial liabilities are contractually fixed to a large extent. A change in interest rates thus only affects the interest result of EnBW for new borrowing and impending refinancing.

The currency items resulting from operations are closed by appropriate forward exchange contracts. Currency fluctuation therefore does not have any major effect on the result of EnBW.

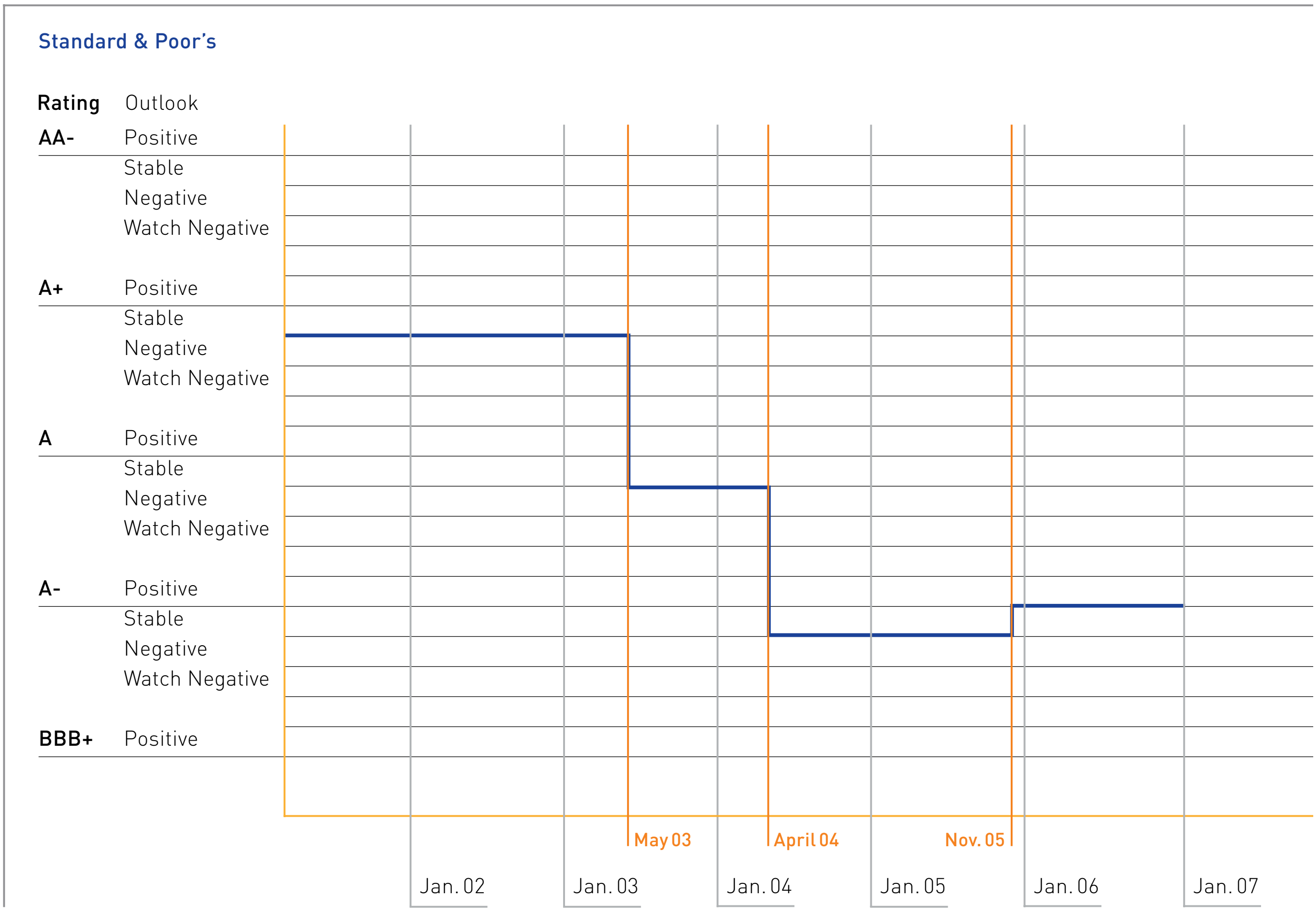
Ratings

Since the two rating agencies Standard & Poor's and Moody's rated the credit standing of EnBW for the first time in 2000 and 2002 respectively, we have always achieved our goal of keeping an A-category rating in the medium term. This is, among other things, thanks to the rigorous implementation of the TOP FIT programme in the past three years and the € 1 billion saved in this way, the significant reduction in the level of debt and the constant improvement of our credit standing indicators.

Since November 9, 2005 the long-term and short-term rating of Standard & Poor's has remained unchanged at A- or A-2 with a positive outlook. The ratings take special account of the strong regional market position of EnBW in Baden-Württemberg, the high standard and competitive business processes and the implementation of the successfully completed TOP FIT cost-cutting programme. Standard & Poor's bases this positive outlook on the company's ongoing strong operating performance. If we succeed in further reinforcing our financial profile even after the focus shifts from consolidation to growth, an improved rating is to be expected.

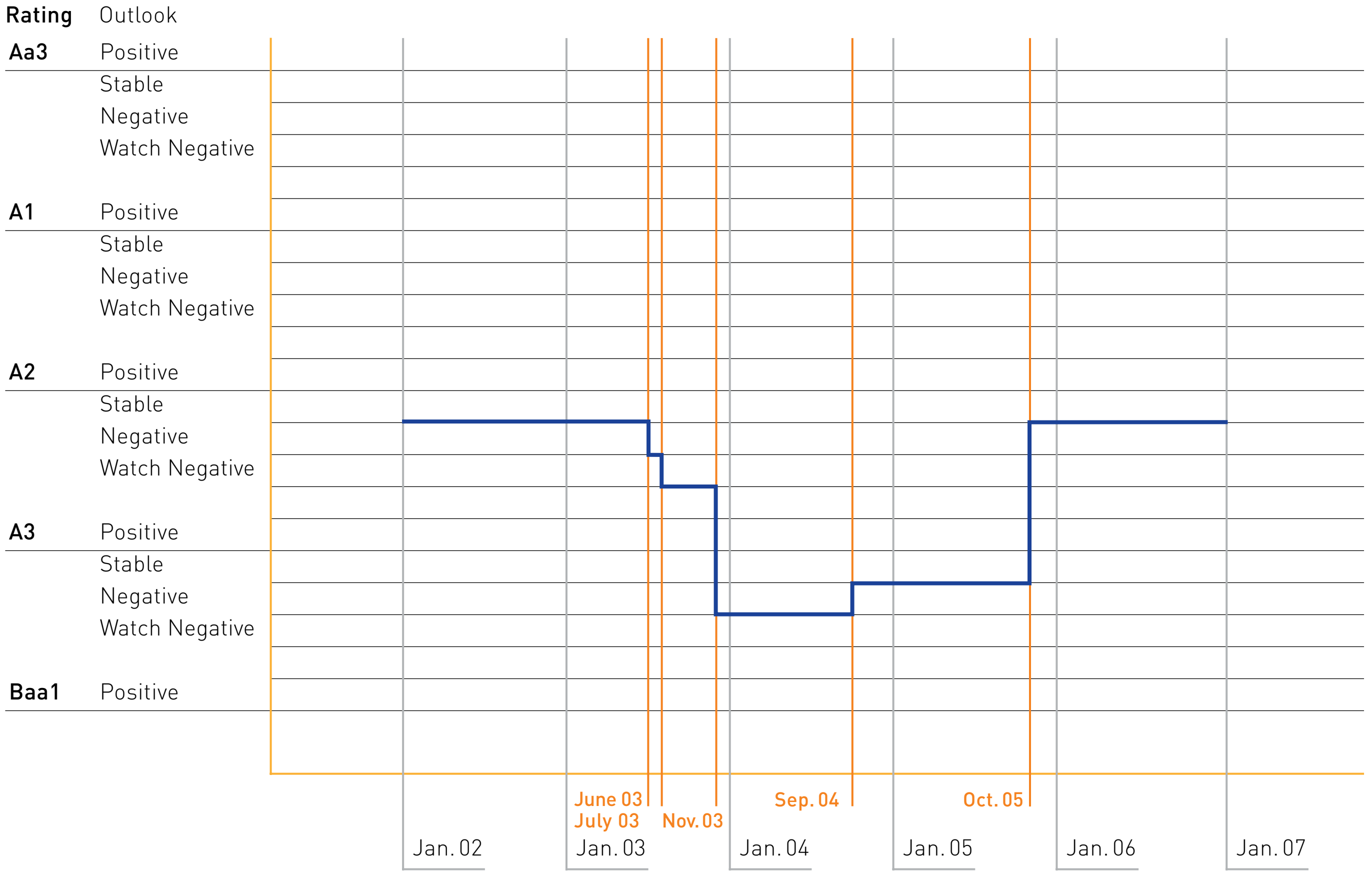
Moody's has not changed the A2 long-term rating and the Prime 1 short-term rating with stable outlook since October 2005 either. The stable outlook is based on our sound risk profile, the positive rating above all of the fundamental improvements to our company and finance profile, the focus on our core business energy, our good market position in Baden-Württemberg and the integrated value added chain.

The rating development over the past years



As of December 31, 2006

Moody's



As of December 31, 2006

Management report

Composition of the balance sheet of the EnBW group

> Total net assets increased

> Equity ratio climbs to 15.7%

Compared with December 31, 2005, the total net assets of the group rose by € 3,152.9 million or 12.6%.

The non-current assets – accounting for 77.0% of total net assets – rose by 11.5% to € 21,627.1 million. This increase is due above all to the increase in property, plant and equipment as a result of consolidation.

Current assets increased by 17.3% to € 6,428.8 million.

Non-current assets held for sale and assets of discontinued operations dropped by 43.5% to € 38.5 million.

The equity ratio in the group, including minority interests, rose from 12.3% (as of December 31, 2005, adjusted) to 15.7%. The positive result was the main reason for the increase in the equity ratio.

Non-current liabilities increased by 1.8% to € 16,871.4 million. They comprise non-current provisions, deferred tax liabilities and non-current liabilities. The non-current provisions mainly contain the provisions relating to the closure and decommissioning of our nuclear power plants and the pension provisions. The non-current liabilities mainly consist of financial liabilities and construction cost subsidies.

Current liabilities increased by 28.1% to € 6,718.5 million. This was due above all to the enlargement of the consolidated group.

Overall, financial liabilities increased by 8.8% to € 5,110.1 million.

The liabilities of non-current assets held for sale and discontinued operations increased by 77.6% to € 103.0 million.

Condensed balance sheet of the EnBW group in € millions[1]	12/31/2006	12/31/2005	Variance %
Assets			
Non-current assets	21,627.1	19,393.7	+11.5
Current assets	6,428.8	5,479.6	+17.3
Non-current assets held for sale and assets of discontinued operations	38.5	68.2	-43.5
	28,094.4	24,941.5	**+12.6**
Equity and liabilities			
Equity	4,401.5	3,067.7	+43.5
Non-current liabilities	16,871.4	16,570.2	+1.8
Current liabilities	6,718.5	5,245.6	+28.1
Liabilities of non-current assets held for sale and of discontinued operations	103.0	58.0	+77.6
	28,094.4	24,941.5	**+12.6**

[1]The prior-year figures have been adjusted.

Company situation of EnBW AG

As operative holding company, EnBW Energie Baden-Württemberg AG (EnBW AG) exercises the management function in the EnBW group. The economic situation of EnBW AG hinges on the economic situation of the group.

The detailed financial statements of EnBW, on which an unqualified opinion was rendered by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart, are published in the electronic Federal Gazette (Bundesanzeiger). The full financial statements of EnBW AG are available for downloading at www.EnBW.com.

The financial statements of EnBW AG are prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporations Act (AktG).

Net assets of EnBW AG

The net assets of EnBW AG depend heavily on its equity investments and the central treasury management. The central treasury management affects financial assets as well as receivables from and liabilities to affiliated entities.

The pension obligations of the main subsidiaries are bundled at EnBW AG. The annual expenses for post-employment benefits are paid by the subsidiaries concerned in each case.

> Economic situation of EnBW AG hinges on the economic situation of the group

> Net assets of EnBW AG heavily dependent on its equity investments and central treasury management

Condensed balance sheet of EnBW AG in € millions[1]	12/31/2006	12/31/2005	Variance %
Assets			
Non-current assets			
Intangible assets	5.1	3.5	+45.7
Property, plant, and equipment	6.0	5.0	+20.0
Financial assets	11,122.8	10,254.6	+8.5
	11,133.9	**10,263.1**	**+8.5**
Current assets			
Receivables from affiliated entities	2,693.8	1,892.1	+42.4
Other receivables and other assets	387.7	292.0	+32.8
Securities, cash and cash equivalents	1,023.1	1,248.0	-18.0
	4,104.6	**3,432.1**	**+19.6**
Prepaid expenses	74.9	69.1	+8.4
	15,313.4	**13,764.3**	**+11.3**
Equity and liabilities			
Equity	1,499.3	1,200.4	+24.9
Provisions	3,360.1	3,201.6	+5.0
Liabilities to affiliated entities	10,129.3	8,950.4	+13.2
Other liabilities	303.2	388.1	-21.9
Deferred income	21.5	23.8	-9.7
	15,313.4	**13,764.3**	**+11.3**

[1] In accordance with German commercial law

Management report

Net profit of EnBW AG and dividend

> Retained earnings of € 279.9 million recorded

> Rise in operating cash flow

> Significant increase in capital expenditures

> Solvency of the group secured for the future

> Net financial debt up slightly

At € 513.8 million, EnBW AG's net profit for the year is € 179.1 million higher than in the prior year owing to the positive development of the group. Retained earnings amount to € 279.9 million. This figure takes into account the profit brought forward of € 30.3 million as well as the addition to the legal reserve of € 14.6 million and of € 249.6 million to other revenue reserves.

On April 26, 2007, the Board of Management will propose to the annual general meeting that a dividend of € 1.14 per share be distributed from the retained earnings of EnBW AG. As of December 31, 2006, a total of 244,256,523 shares were entitled to dividends. If the AGM approves this proposal, the amount distributed by EnBW AG for fiscal 2006 will total € 278.5 million.

The cash and cash equivalents of the EnBW group rose by € 505.9 million to € 1,932.3 million on account of the development described above and taking into account changes in currency rates of € -1.3 million.

The € 43.5 million drop in free cash flow compared to the fiscal year 2005 is due primarily to the higher spending on intangible assets and items of property, plant and equipment and lower cash receipts from the sale of intangible assets and items of property, plant and equipment.

EnBW's solvency is secured for the future by the positive free cash flow and free lines of credit of € 2.76 billion.

Cash flow statement

In fiscal 2006, the cash flow from operating activities increased by € 136.7 million to € 1,466.6 million.

The cash flow from investing activities fell from € -452.8 million to € -560.4 million. The decrease is primarily attributable to the acquisition of the 25.05% share in Stadtwerke Düsseldorf AG and the acquisition of further shares in EVN AG.

The cash flow from financing activities rose by € 986.3 million on the prior year to € -399.0 million.

Net financial debt

The increase in financial liabilities between January and December 2006 is due above all to the issue of a € 500 million bond to refinance a bond that matures on February 28, 2007 and also to the enlargement of the consolidated group.

Net financial debt went up by € 308.9 million to € 3,592.8 million in fiscal 2006. Without the enlargement of the consolidated group, the net financial debt would have decreased.

Condensed income statement of EnBW AG in € millions[1]	2006	2005	Variance %
Investment result	1,187.6	1,215.6	-2.3
Interest result	-372.1	-310.6	–
Personnel expenses	-170.5	-141.3	–
Other income and expenses	-190.6	-146.9	–
Result from ordinary activities	**454.4**	616.8	**-26.3**
Taxes	59.4	-282.1	–
Net profit for the year	**513.8**	334.7	**+53.5**

[1] In accordance with German commercial law

Cash flow statement in € millions[1]	2006	2005	Variance %
Cash flow from operating activities	1,466.6	1,329.9	+10.3
Cash flow from investing activities	-560.4	-452.8	–
Cash flow from financing activities	-399.0	-1,385.3	–
Net change in cash and cash equivalents	507.2	-508.2	–
Exchange rate changes in cash and cash equivalents	-1.3	0.5	–
Changes in cash and cash equivalents	**505.9**	**-507.7**	–
Free cash flow			
Cash flow from operating activities	1,466.6	1,329.9	+10.3
Capital expenditures	-630.1	-547.0	–
Cash received from disposals of intangible assets and property, plant and equipment	105.2	206.2	-49.0
Cash received from construction cost and investment subsidies	85.4	81.5	+4.8
Free cash flow	**1,027.1**	**1,070.6**	**-4.1**

[1] The prior-year figures have been adjusted.

Net financial debt in € millions	12/31/2006	12/31/2005	Variance %
Cash[1]	1,367.7	1,204.5	+13.5
Short-term investments[1]	149.6	210.4	-28.9
Cash and cash equivalents	**1,517.3**	**1,414.9**	**+7.2**
Bonds	3,258.1	2,860.6	+13.9
Liabilities to banks	853.9	965.6	-11.6
Other financial liabilities	998.1	872.6	+14.4
Financial liabilities	**5,110.1**	**4,698.8**	**+8.8**
Net financial debt and cash equivalents	**3,592.8**	**3,283.9**	**+9.4**

[1] Without cash and cash equivalents of the special-purpose funds

Dependent company declaration

Pursuant to Sec. 312 AktG, the Board of Management of EnBW AG prepared a dependent company report for fiscal year 2006. This details relationships with affiliated companies, and closes with the following declaration: "In the legal transactions listed in the dependent company report, and according to the circumstances that were known to us when those legal transactions were performed, our company received an appropriate consideration in each legal transaction and was not placed at a disadvantage. There were no actions at the instigation or in the interest of the controlling companies on which we would be obliged to report."

Subsequent events

Prof. Dr.-Ing. Thomas Hartkopf, who had been in charge of the Technology portfolio on the EnBW Board of Management since November 1, 2002, stepped down from his office at the close of February 8, 2007 and chose to leave the company. He provided positive impetus with his technical expertise and his in-depth understanding of power station technology and in the area of renewable energies in the course of the successful reorganisation and realignment of EnBW. Until a successor is appointed, CEO Prof. Dr. Utz Claassen assumes responsibility for the research and development area, innovation management and renewable energies as well as group responsibility for the U-plus group. Until further notice, Pierre Lederer, Chief Operating Officer on EnBW's Board of Management, is responsible for managing EnBW Kraftwerke AG and EnBW Kernkraft GmbH, and Dr. h.c. Detlef Schmidt, Chief Marketing and Sales Officer, is in charge of the central procurement function.

EnBW and Abfallwirtschaftsgesellschaft des Neckar-Odenwald-Kreises mbH (AWN)agreed together with the town of Buchen to close the Buchen mechanical-biological plant before the end of 2007. It was no longer economically feasible to refurbish the plant.

Remuneration report

The remuneration report contained on pages 30 – 37 of the corporate governance report is an integral part of the management report. The remuneration report summarises the principles applied for the determination of the remuneration of members of the Board of Management and explains the structure and amount of the remuneration of the Board of Management and of the Supervisory Board.

Value-based management system

Our entrepreneurial actions taken with a view to reaching our strategic targets are guided by the principle of value. This is particularly important to us in light of the current challenges facing us in the form of substantial expenditures for growth and renewal, regulatory uncertainties, growth through acquisitions and the leveraging of potential for efficiency. We have developed an instrument for this purpose which does not just calculate net profit for bookkeeping purposes, but also provides an objective measure for our economic success. According to these parameters, we generate value if we generate more than our cost of capital.

The focus for every entrepreneurial decision is on the efficient use of capital, guided by the requirements of the capital market. Not only our shareholders and investors, but also our customers benefit from competitive products and our employees from secure jobs.

Value added concept

We have established a uniform measuring system and, on that basis, a management system for the entire group. This system is transparent for both internal management decisions and external communication and is in place throughout the group.

Value added is calculated as an earnings ratio (adjusted EBIT including adjusted investment result) less cost of capital. The latter is capital employed multiplied by the cost of capital rate. The value added is also the difference between ROCE and the cost of capital rate multiplied by capital employed. We ensure consistency and transparency of our management system by deriving the earnings ratio and capital employed from the financial statements. The cost of capital rate is determined using the WACC model (weighted average cost of capital).

Weighted average cost of capital (WACC)

The cost of capital rate represents the minimum rate of return of equity and debt capital sources weighted with our target composition of equity and liabilities. The weighting takes into account the different return requirements for equity and debt capital. The target composition of equity and liabilities is derived from the optimisation of group financing and ensures the financial flexibility needed to implement strategic goals while at the same time maintaining a robust financial position. The cost of debt capital rate can be derived from our financing terms and conditions. It is included in the WACC considering the tax deductibility of debt capital interest (tax shield). The cost of equity rate reflects the individual risk from a capital market perspective of an investment in EnBW. A beta factor is used as a measure of risk, calculated from empirical stock exchange data using actuarial methods.

> Value is the guiding principle for our actions

> Value added and ROCE are key indicators

> Value-based indicators again improve considerably

Value added = ROCE – weighted average cost of capital x capital employed

$$\text{and ROCE} = \frac{\text{adjusted EBIT including investment result}}{\text{capital employed}}$$

Calculation of the weighted average cost of capital	2006
Risk-free interest rate (r_F)	5.1%
Market risk premium (MRP)	5.0%
Beta factor (ß)	0.8
Cost of equity rate after tax	**9.1%**
Interest rate on borrowing cost before tax (r_{FK})	5.7%
Tax shield of interest on borrowed capital	-2.0%
Cost of debt capital rate after tax	**3.7%**
Equity share (E)	40%
Debt capital share (DC)	60%
Cost of capital rate after tax	**5.8%**
Tax rate (s)	35%
Cost of capital rate before tax (group)	**9.0%**

$$\text{WACC} = (r_F + ß \times \text{MRP}) \times \frac{E}{E + DC} \times \frac{1}{(1 - s)} + r_{FK} \times \frac{DC}{E + DC}$$

In order to reflect the various risks of our activities along the value added chain, we break down the capital costs into their components. The yield requirements in the regulated electricity network are lower, for example, than those for the generation of electricity. At segment level, we have calculated weighted average figures.

ROCE

The ROCE is the return on capital employed. We have defined our earnings ratio as adjusted EBIT including the investment result, which measures EnBW's operating and sustainable performance. Our equity investments are added, as these belong to our core business and are consequently an integral part of our business model. The investment result is converted to a pre-tax figure to be consistent with EBIT, which is also a pre-tax figure. Non-operating effects are eliminated. Capital employed includes all assets from the operating business. Equity and liabilities without the minimum rate of return are also eliminated. In order to present the cut-off date-related parameter capital employed congruently to the period-related adjusted EBIT including the investment result, we apply the average of opening and closing figures.

Operationalisation of the value-based management system

By analytically breaking down the key figure "value added" into its individual components, we render the effects and interdependence of our actions transparent. Through our management system, we gear all activities towards generating value added. This system has been established consistently across all levels – from the group level to our segments and subsidiaries and our employees.

The group companies are incorporated in the management system by their responsibility for their earnings and via operating and company-specific key indicators. The key indicators are selected business-specific figures that measure the operating performance as well as the company's future potential, and thus have a significant influence on our creation of value added. A value-based portfolio approach is used to manage equity investments.

Adjusted EBIT including investment result in € millions[1]	2006	2005
EBIT	1,470.2	1,334.5
Non-operating EBIT	-132.6	-249.8
Investment result	182.7	137.6
Non-operating investment result	3.1	-20.2
Tax adjustment of investment result[2]	100.0	63.2
Adjusted EBIT including investment result	**1,623.4**	**1,265.3**
Average capital employed in € millions[1]		
Intangible assets	1,810.4	1,427.5
Property, plant, and equipment	11,336.1	10,160.2
Investment properties	115.1	138.2
Equity investments	2,239.8	2,113.7
Inventories	612.3	578.2
Current trade receivables[3]	2,236.6	1,810.2
Other assets	2,189.6	1,984.5
Non-interest bearing provisions	-1,780.0	-1,623.2
Non-interest bearing liabilities[4]	-4,085.5	-3,752.5
Other (deferred taxes, subsidies, liabilities of non-current assets held for sale)	-3,773.6	-3,378.2
Capital employed	**10,900.8**	**9,458.6**
Average capital employed	**10,179.7**	**9,288.1[5]**

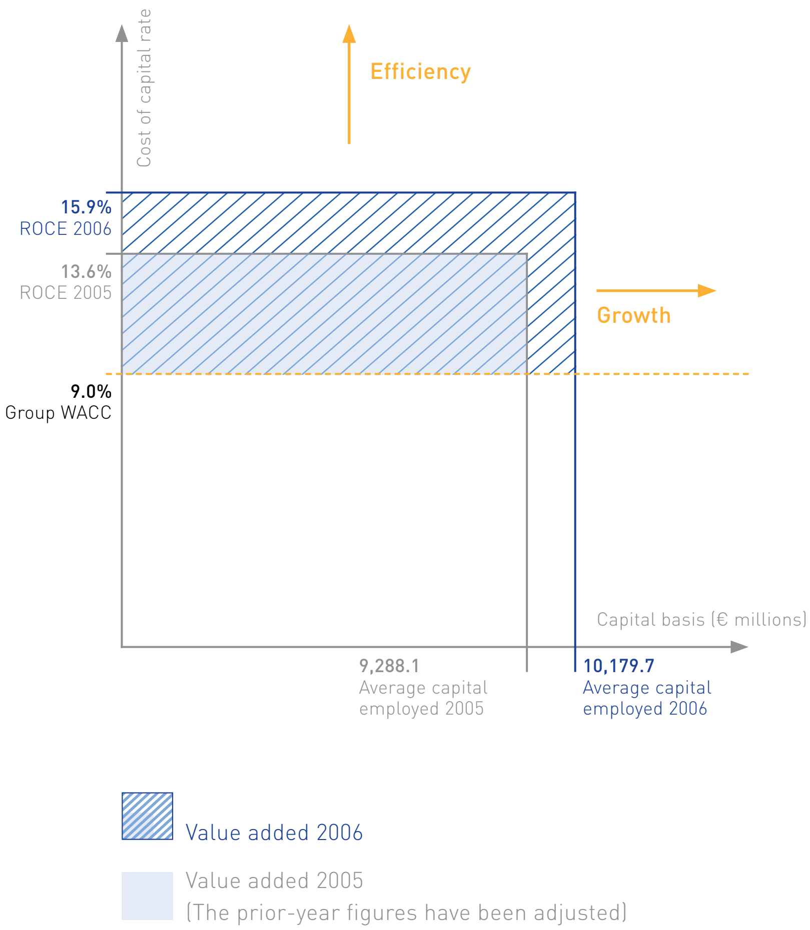
[1] The prior-year figures have been adjusted.
[2] Operating investment result / 0.65 – operating investment result (0.65 = 1 – tax rate of 35%)
[3] Without affiliated entities
[4] Without affiliated entities without potential purchase price obligations from put options
[5] Capital employed 2004: € 9,117.6 million

Value orientation is an integral part of our investment management. On account of tying up funds for the long term and requiring high amounts of capital, investments are decisive for the value added in our industry. This is why we include yield requirements from the value orientation when assessing the profitability of a specific investment and analyse the effects of investment decisions on the value added and ROCE of the company as a whole. Value orientation is expressed, for instance, in the target investment process which ensures the capital productivity of our investments.

Profit participation by our employees is closely linked with the achievement of our value-based management ratios. Deeply rooting this value orientation in the group provides a broad basis for them and guarantees the active support of all our employees.

Value added by segment[1]	Electricity		Gas		Energy and environmental services		Other activities/ Holding		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Adjusted EBIT including investment result (€ millions)	1,483.7	1,192.2	175.4	132.2	92.4	50.2	-128.1	-109.3	**1,623.4**	1,265.3
Average capital employed (€ millions)	7,943.1	7,009.0	1,480.3	1,427.8	963.3	824.6	-207.0	26.7	**10,179.7**	9,288.1
ROCE (%)	**18.7**	17.0	**11.8**	9.3	**9.6**	6.1	**–**	–	**15.9**	13.6
WACC (%)	9.0	9.0	8.5	8.5	9.5	9.5	–	–	**9.0**	9.0
Value added (€ millions)	**768.8**	561.1	**49.5**	10.8	**0.8**	-28.1	**–**	–	**707.2**	429.1

[1]The prior-year figures have been adjusted.



Development of value added in the fiscal year 2006

In fiscal 2006, our adjusted EBIT including the investment result by far exceeded our cost of capital, which meant that we were able to generate a positive value added of € 707.2 million. This corresponds to growth of € 278.1 million compared to 2005 (+64.8%). Growth was achieved and efficiency enhanced both at group level and also in all operating business segments. The main driver of the positive development is the successful implementation of the TOP FIT cost-cutting programme. The full consolidation of Stadtwerke Düsseldorf AG in 2006 was the main reason for the increase in capital employed.

All business segments contributed to the favourable development of the group. Compared to 2005, all indicators have improved significantly. As in the prior year, most value was created by the electricity segment. At € 49.5 million, the gas segment's contribution to value added was also significant. The positive development in operating results in the energy and environmental services segment made a small contribution to value added again in 2006.

Employees

Employees in the EnBW group[1]	12/31/2006	12/31/2005[2]	Variance %
Electricity	11,754	11,030	+6.6
Gas	1,105	883	+25.1
Energy and environmental services	7,742	5,364	+44.3
Holding	547	487	+12.3
Continuing operations	**21,148**	17,764	**+19.0**
Discontinued operations	0	1	–
Total	**21,148**	17,765	**+19.0**
In full-time equivalents[3]	**20,282**	17,166	**+18.2**

[1] Number of employees without apprentices/trainees and without inactive employees
[2] Adjusted to the segment structure as of December 31, 2006. Companies which operate in several business segments are no longer allocated according to the materiality principle to one segment but precisely to the respective business segments; as a result a direct comparison with the figures from the 2005 annual report is not possible.
[3] Translated into full-time equivalents

> Headcount up 19%

> TOP FIT targets achieved

> Measures implemented to safeguard competence

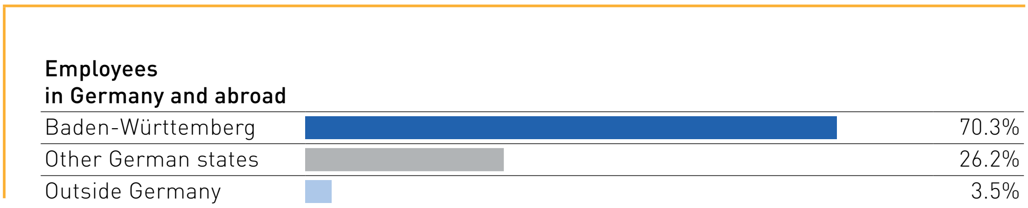
> EnBW confirmed as top employer

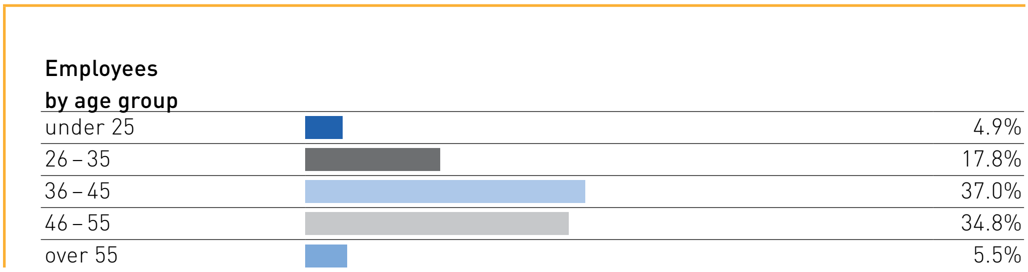
Headcount development
As of December 31, 2006, the EnBW group had 21,148 employees, that is 3,383 or 19.0% more than in the prior year. The main reason for this growth is the first-time consolidation of Stadtwerke Düsseldorf AG and Awista GmbH. Of the Stadtwerke Düsseldorf AG employees, 831 were allocated to the electricity segment, 143 to the gas segment and 1,594 to the energy and environmental services segment. The 936 Awista GmbH employees are also included in the energy and environmental services segment.

In the holding company, the headcount rose by 60 employees or 12.3% as a result of transfers within the group, new hires and a new trainee programme. The discontinued operations did not have any employees as of December 31, 2006.

Personnel composition
The proportion of female employees in the total workforce came to 23.0% as of December 31, 2006 (prior year: 24.3%). Of the total of 1,949 part-time employees (9.2%), 1,157 are women (59.4%). The proportion of part-time employees, including all employees under the phased retirement scheme, rose year-on-year by 1.4 percentage points. The average length of services is 15.4 years, and the average age 42.4 years. 70.3% of our employees work in our home state Baden-Württemberg, 26.2% in other German states and 3.5% abroad.

17% of the employees have a degree (from a university, university of applied sciences or vocational college), 72% did an apprenticeship or training programme at a technical college and 11% have school-leaving certificates without further formal training.





Personnel expenses

In 2006, personnel expenses rose by € 211.7 million or 17.3% to € 1,433.9 million (prior year: € 1,222.2 million). On the one hand, personnel expenses were reduced by the TOP FIT programme, and on the other they increased due to non-recurring effects, full consolidation of Stadtwerke Düsseldorf AG and Awista GmbH, additional staff hired and a 3.4% collectively bargained pay increase as of March 1, 2006.

Collective wage agreements

Employers and employee representatives of the private energy industry in Baden-Württemberg reached an agreement on a 3.4% pay rise from March 2006 and of another 1.8% from March 2007, plus a one-off payment of € 1,500 in 2007.

The monthly compensation of apprentices and trainees was also adjusted by 3.4% as of March 1, 2006. In a second step, the basic monthly salaries will also be increased by a lump sum of € 100 as of March 1, 2007.

TOP FIT targets

In the human resources area, we had already reached all TOP FIT targets by the end of 2005. The socially compatible personnel cuts affecting a total of 2,140 employees agreed by individual contracts were completed in 2006. But even during this phase of consolidation, EnBW has created some 1,200 additional jobs with new responsibilities in the main energy companies since July 2003.

Management development

In 2006 we started implementing systematic, multi-phase succession planning for our key functions as an important tool for management development and to reduce risks.

We made further progress towards our aim of optimum development and distribution of management resources in the group thanks to the further optimised selection processes for executives. In the reporting year, we organised more than 70 individual assessment centres, and derived development measures for the participants on that basis.

We introduced a new remuneration scheme as of the start of 2006 to harmonise employment agreements for upper and top management. Towards the end of 2006, we then also applied this system to middle management. This means that the salaries of all our main energy companies' executives as of 2007 will include variable salary components in line with market rates, the amount of which will depend both on the success of the group and on the performance of the individual. The consistent remuneration scheme forms the basis for a transparent, market and performance-based remuneration policy besides guaranteeing an equitable classification of jobs in our company.

Continuous training

Targeted training and employee qualification are a critical success factor for companies and, therefore, a prime concern of knowledge and competence management in the EnBW group. By actively promoting training and qualification measures, we support the company's competitiveness, secure employment and jobs for our employees and enhance the group's image as an attractive employer. The costs for training measures required by the company are borne in full by EnBW; for private classes attended in the interest of the company, it will refund up to 80% of the fees.

Vocational training

As in the past, EnBW again invested heavily in training young people in 2006. As of December 31, 2006, trainees accounted for 8.3% of the headcount at the main energy companies; this figure is thus still far higher than the number of employees trained in those areas needed by the company and it remains at the high level of prior years.

It was negotiated by collective agreement that, between March 1, 2006 and February 29, 2008, every apprentice or trainee will be offered a limited employment contract for twelve months after completion of their apprenticeship or training. In addition, during the term of the collective agreement, an average of 20% of these apprentices and trainees will be offered a permanent position. In times of an increasing shortage of specialists in Germany, EnBW is thus making an active contribution to reducing youth unemployment and training up young people to assume the positions that will be needed in the future. For motivated young people, EnBW therefore is and will remain an interesting employer.

Promoting students/Energy Career Programme

We are aware of our special responsibility as a company towards young people: In 2006, some 700 students were given the opportunity to put their theoretical knowledge into practice in the main energy companies and gain practical experience, either as work experience placements or as casual workers or as part of their dissertation project.

Particularly motivated and qualified students can be selected for our "Energy Career Programme" (ECP). Around 60 students, most of them from business and economics, engineering or computer science courses, are currently participating in this programme and benefiting from the range of development measures it offers.

Trainee programme

As part of the development measures for young people, the group has offered qualified university graduates a trainee programme for many years. For the 2006/2007 group trainee programme we were looking in particular for business and economics graduates and engineers.

The twelve-month programme encompasses three practical periods of eight weeks during which the trainees gain an insight into the core business while making a contribution to the company's success by working on specific projects. During their time split between various group companies, they get to know the procedures within individual departments as well as the interfaces in the EnBW group. The aim is to give trainees an overall picture of the company while at the same time enabling them to set up a network of their own.

A 'hands on' phase at the plants as well as a period abroad are an integral part of the training. This way, the trainees can gain experience in the operating area of the core business and broaden their horizons professionally and interculturally. In this respect, the current programme focuses especially on collaboration with affiliated companies in central and eastern Europe.

Apart from additional seminars and events, fireside chats with members of the EnBW Board of Management and other executives provide a special opportunity for the exchange of information and experiences.

Safeguarding competence

By hiring external specialists in the area of engineering and for special commercial functions, we created the conditions in 2006 for safeguarding competence within EnBW. This way, we can prevent a loss of know-how that could arise if employees were to leave the company.

Internal employment exchange

Employees seeking to change within the group can use our internal job market to look for a new position. To assist them, the EnBW Jobpilot, a special database on the intranet, allows a quick comparison of the candidate's profile with the qualifications required.

With the help of our internal employment exchange, we were able to make speedy and efficient progress with the necessary personnel restructuring under the TOP FIT cost-cutting programme.

Placements were made in close cooperation with TDL Gesellschaft für anlagentechnische Dienste und kaufmännische Leistungen mbH. This subsidiary of EnBW acts as a contact partner for short-term, and possibly temporary, staffing needs.

Company ranking

In the "Top employers in Germany 2006" company ranking, EnBW again achieved good or excellent rankings in all categories. The criteria assessed included development possibilities, job security, remuneration and corporate culture. More than 50 companies from a wide range of industries took part in the study conducted by "karriere" career and business magazine in collaboration with the Corporate Research Foundation and the Munich-based geva-institut.

Fair company

EnBW offers young people on work experience placements and graduates fair opportunities when embarking on their careers and has now also been officially recognised as a "fair company". This title is conferred by "karriere" magazine on companies which stand for the following ethical approach in the world of business:

Fair companies
- do not fill full-time positions with interns, etc.,
- do not offer university graduates who have applied for a permanent position an internship as a consolation prize,
- do not lure interns with vague promises of possible full-time employment afterwards,
- offer internships mainly to help students with making their career choice,
- pay interns reasonable compensation.

Ideas management and continuous improvement process

Thanks to the use of new tools, we were able to fine-tune EnBW's already successful ideas management scheme. 582 suggestions were submitted for ideas management and 1,200 for the continuous improvement process in 2006. They helped to realise the average savings potential of € 1.3 million per year, calculated on the basis of the last five years.

The ideas management team holds regular events to inform the workforce; the aim is to provide assistance and impetus and to develop the innovative power of executives and staff.

Corporate philosophy

Our newly defined corporate philosophy complements the EnBW brand philosophy. Together, they give us an identity, internally and externally. The success of our company depends on our acting according to these guiding principles.

800 members of staff helped to develop this philosophy in 2005. In 2006, employees across all companies and hierarchy levels reviewed these guiding principles, discussed them and derived concrete measures for their day-to-day work from them. And we will continue to raise awareness for this topic over the next few years.

Our guiding principles are:

- **We satisfy our customers' requirements better than the competition.**
- **We achieve excellent performance through commitment and competence.**
- **We are consistent and reliable in our actions. We are as good as our word.**
- **We think beyond our sphere of responsibility. Fairness, respect and trust are the basis for cooperation.**
- **We offer our employees challenges and support. Managers lead the employees to success in a clear and purposeful manner.**
- **We share our knowledge and advance through continuous learning.**
- **We always act efficiently and increase the value of our company.**
- **We are thought leaders and pave the way for innovative action in our industry.**
- **We see change as an opportunity and promote change with conviction.**
- **We act with foresight, conscious at all times of our special responsibility for the environment and society.**

Research and development

> Active participation in three geothermal electricity generating projects

> Fuel cells with biogas: energy efficiency technology bridges gap to renewable energy

> Research project launched for a fuel cell hybrid power plant with record 70% degree of efficiency

> EnBW successful with energy efficiency technology for commercial and municipal customers

Preparing tomorrow's energy supply

With its activities in the field of research and development (R&D), EnBW aims to continue to supply its customers in future with safe, economical, reliable and environmentally-compatible energy. Climate protection is extremely important in this context. That is why we are trying to make energy technology for fossil fuels increasingly more efficient and lower in CO_2 both in the production of electricity and heat in our power plants and also in use at our customers. We are, however, also firmly committed to efficiently tapping new – above all renewable – sources of energy. That we are on the right track is confirmed by the growing realisation in society that the energy supply of the future can only succeed if improved conventional generating technology is combined with new sources of energy. In future, storage technology will play an even more important role in this context as it can uncouple irregular output from renewable energies in time and place from the energy demand.

In 2006, spending on research and development totalled € 20.6 million, which is slightly less than in 2005 (€ 22.3 million). Renewable energies were a special focus of our research work: we extended our involvement in geothermal electricity generation by investing in promising projects in Basle and Soultz-sous-Forêts in Alsace. In the area of fuel cell technology, EnBW was instrumental in putting the world's first large biogas fuel cell into operation. In collaboration with Siemens Power Generation we would like to build the first fuel cell hybrid power plant capable of converting 70% of fuel into electricity. Preparatory work has commenced at research institutes in Stuttgart. Our ongoing measures to raise the efficiency and economic performance of our conventional power stations are unabated; this now also includes research into the separation and storage of CO_2.

The research concept of EnBW is based on a strategic department of 16 employees in the holding company, mainly engineers; these are supported by more than 50 employees in the companies who carry out research and development projects in the course of their operative work. Thanks to the thus ensured application proximity, we avoid transfer problems, and developments can be strictly tailored to customer needs. Partnerships with scientists and manufacturers at an early stage are gaining more and more importance within this concept.

The energy supply of the future needs a broad technology base. EnBW gave clear impetus in all areas during 2006.

Geothermal energy

In the reporting year, we continued to expand our involvement in the use of deep geothermal energy. With considerable backing from EnBW, the Bruchsal geothermal project was continued; the project was launched back in 1983 as a joint project of the European Union, the federal government, the state of Baden-Württemberg and Energie- und Wasserversorgung Bruchsal GmbH. Two drillings to a depth of 2,000 and 2,500 metres have already been made in Bruchsal. The conditions for using the deep geothermal energy are particularly good in Bruchsal because large quantities of 120°C geothermal water have been found here. EnBW has invested in the construction of the above-ground power plant. After its completion at the end of 2007 the plant is expected to generate approx. 400 kW of electrical output and thus electricity for more than 500 households. In October, the first of three 5,000 metre drillings for the geothermal CHP plant in Basle was completed. Water was then injected (stimulation) to commence the creation of the subterranean heat exchanger. Following a seismic shock in December work on the projekt temporaily suspended. In cooperation with the authorities, the reasons are being investigated. A decision as to the future of the project will be made on the basis of the result.

Since October 2006, we have been involved in the pioneering project for geothermal power in the Alsatian town of Soultz-sous-Forêts. The research project, which has been financed for many years by France, Germany and the EU, has three deep drillings of more than 5,000 metres. In the syndicate consisting of EDF, Electricité de Strasbourg, STEAG Saar Energie AG and Pfalzwerke AG, EnBW is involved in the planning and construction of the above-ground power station that is scheduled to go online in 2008. Further projects relating to the geothermal generation of electricity are being prepared.

Fuel cells

We have successfully continued our fuel cell programme. Since the beginning of the programme until the end of 2006, a total of 20 energy supply systems for buildings have been installed at EnBW customers and partners. The systems were manufactured by Hexis AG, Vaillant GmbH and european fuel cell GmbH (efc). In January 2006 we installed the first efc system in Germany, another two followed during the year. Our range of natural gas-fired fuel cells was extended to include a system which is specially designed for operation with biogenic gases: with major backing from EnBW, the world's first biogas fuel cell system was commissioned in Leonberg near Stuttgart in October. It uses compost gas from the district fermentation plants. In this way, the highly efficient, clean fuel cell technology has bridged the gap to the renewable energies.

Conventional power plants

The initiative "Power plants of the 21st century" of the states of Bavaria and Baden-Württemberg, which EnBW was instrumental in initiating, investigates ways in which fossil-fired power plants can be made more climate-friendly, efficient and above all more cost-effective. The EnBW sites Altbach and Karlsruhe will directly reap the benefits of the developments. Collaboration with scientific institutes in the fields of fuel optimisation and process improvements in coal-fired power plants as well as in the ignition behaviour of gas turbines should provide numerous new findings. EnBW is also involved in the important nationwide initiative to develop a 700° power plant and in the development of the European conditions for emission-free power stations and CO_2 storage. The separation of CO_2 using nano-structured ceramic membranes is one of several possibilities which EnBW is already investigating with partners.

Price signal at the power socket

With its "Price Signal at the Power Socket" initiative, EnBW has presented an innovative approach to optimise the energy system, which will help to make the generation and, in the long term, the distribution of electricity more efficient and reliable. From 2007 onwards customers selected for the pilot test in Baden-Württemberg will be informed during the day of the current publicly traded electricity price and can reduce their energy costs by only using their equipment when the electricity price is at its lowest. The market mechanism can then help to spread the load in the energy system. With "Price Signal at the Power Socket" EnBW has put into practice a lighthouse project which it had contributed to the "Impulskreis Energie" as part of the government's "Partners for Innovation" initiative at the end of 2004.

Two other lighthouse projects have been successfully completed: refinancing the measures by using the energy saved, EnBW has modernised three schools in Baden-Württemberg as showpieces from an energy efficiency perspective. At the same time, this project offered an opportunity to integrate climate protection in lessons. EnBW founded an energy efficiency network in Ravensburg-Weingarten and another one in Leipzig. The networks give selected business customers of EnBW the opportunity to tap potential to enhance efficiency for their businesses in a facilitated knowledge management process.

Geothermal heating system

Almost 40% of energy consumed in Germany is used to heat houses. Energy efficiency measures are therefore particularly effective here. In 2006 EnBW developed an innovative way of supplying a new estate in the town of March (Kaiserstuhl). Every house will have a heat pump which takes geothermal heat from the ground water. The ground water is channelled from a central well system to the houses and back into the earth.

In collaboration with the European Institute for Energy Research (EIfER) of EDF at the University of Karlsruhe, EnBW is testing an innovative new 300 metre ground probe filled with CO_2 in Triberg in the Black Forest. This is the longest CO_2 ground probe in Europe and it is to be used to develop low price geothermal heating for regions in which the conventional ground probes are not allowed for water protection reasons.

Cooperation with scientists

In order to refine the possibilities of climate-friendly energy generation, we also supported some of our scientific partners in building their competence during 2006. In this context, EnBW and Voith-Siemens Hydro Power Generation jointly endowed foundation chairs in the field of hydro-electric power at the University of Stuttgart and in the field of geothermal energy at the University of Karlsruhe.

Biogas

Together with the EnBW subsidiary Erdgas Südwest GmbH, the research and development department tackled a forward-looking demonstration project to feed purified biogas into the natural gas network. The aim is to show how biogas can be fed into the grid and heat and electricity can be provided from biogas in a cost-effective and sustainable manner. Close cooperation between generators and distributors benefits all those involved and also the environment.

Nuclear power

Via VGB PowerTech, the association of large-scale power plant operators, EnBW's nuclear power plants make an important contribution to German research in the field of nuclear technology. There were some 130 projects in 2006 at leading national and international institutes and facilities focusing on materials studies as well as electrotechnical and control components. The aim is to develop durable materials that are optimised for the conditions they are to be used in and also to make control systems with the highest safety standards available for use in the plants. EnBW also funds eight grants for doctorates with a wide range of topics at university institutes.

Risk report

For many years, EnBW has had a groupwide risk management system. We continuously work to improve it and to bring it into line with changing legal and operational requirements. We not only identify and monitor risks, we also pursue opportunities as they arise. Strategic opportunities are considered when developing our corporate strategy.

We use state-of-the-art, forward-looking IT support in the risk management in order to provide our decision-makers with all the necessary information. In 2006 we upheld our high quality standards by upgrading our internally developed risk management software. In this way, we can also continue to efficiently implement methodical and content developments.

The level of expertise of our risk managers in the group companies and at the level of the holding company is very high. This high level is maintained by providing training courses, internal and external exchange of experience and regular knowledge sharing. In addition, the risk management system is networked with other group management systems, particularly with planning and accounting, crisis management, group security and the group internal audit. This way we make sure that there is an interdisciplinary exchange of information.

In 2006 we intensified the successful cooperation with Stadtwerke Düsseldorf AG. After we had assumed the majority shareholding in the latter, we expanded our risk assessment to include this company, mainly by implementing uniform standards.

Overall economic risks

Mid-year the federal government presented the National Allocation Plan for CO_2 allowances for the second trading period 2008–2012 (NAP II) and filed it with the EU Commission for review within the allowed period. The federal cabinet has not yet passed the expert bill of the Federal Ministry for the Environment for the 2012 Allocation Act of October 16, 2006.

The NAP II contains not only the areas affected by emissions trading, it also covers sectors which are not subject to emissions trading such as private households, transportation, trade/commerce/service providers as well as those plants in the energy industry and other industries which are not subject to emissions trading. The NAP II updates the National Climate Protection Programme of the federal government from July 13, 2005 which provides for a reduction in the emission of greenhouse gases by 2012 by 21% compared to 1990. It also implements the targets contained in the coalition agreement from November 11, 2005. In this coalition agreement, the political parties CDU and SPD agreed to draw up an allocation plan 2008–2012 based on the objectives of the 2005–2007 Allocation Act which aims to make emissions trading ecologically and economically more efficient.

For the second trading period, the federal government demands that the plant operators participating in emissions trading emit 15 million tonnes CO_2 per year less than on average in the years 2000 to 2002. This would allow Germany to achieve its climate protection targets from the Kyoto Protocol. According to the first version of the NAP II submitted to the EU, the plant operators are to receive allowances for 482 million tonnes of CO_2 per year from 2008 to 2012. This was already significantly less than the federal government had announced in early 2006. However, the EU rejected this first version and is currently demanding that the emission threshold be reduced to around 453 million tonnes of CO_2. We expect the upper limit to be finalised in the first quarter of 2007.

> Risk management system refined

> Risk management software upgraded

> Risk management closely interlinked with other group management systems

> Cooperation with Stadtwerke Düsseldorf AG intensified

> Allocation of CO_2 allowances for the trading period 2008–2012 presented

The NAP II treats industrial and energy plants differently for the first time. While the federal government only requires industry in general to reduce their emissions slightly, it expects the energy industry to make a much more substantial reduction in CO_2 emissions. In addition, the federal government is still considering auctioning off 10% of the CO_2 allowances designated for energy plants.

Industry risks

> Higher regulatory risks in the electricity and gas segments

> Antitrust law to be tightened

> Nuclear power provisions still under discussion

> Decision taken on construction of new EnBW power plant

Regulation of network user charges
Due to the regulation of network user charges for electricity and gas, the results of the EnBW group are exposed to significant risks. In the third quarter of 2006, the Federal Network Agency issued its first decisions on the network user charges for electricity and gas.

Effective August 1 and September 1, 2006, the Federal Network Agency approved the network user charges of the two largest electricity grid operators of the group – EnBW Transportnetze AG (TNG) and EnBW Regional AG (REG) – until year-end 2007. The approval is based on the recognised cost principle. The notices of the Federal Network Agency are regulatory interventions which enforce a reduction in the charges by 8% (TNG) and 14% (REG) on average compared to what was originally applied for. The risk of network user charges has thus become reality for both network operators. The other electricity grid operators of the EnBW group – with the exception of Energiedienst AG and Energiedienst Netze GmbH – had also received network user charge notices from the Federal Network Agency by December 31, 2006.

At group level, the approved user charges will have a negative effect on the earnings situation in 2007. We also expect reductions in user charges at Energiedienst AG and Energiedienst Netze GmbH, which will have a negative impact on the group profit for 2007.

Some time later, the Federal Network Agency issued its first network user charge notices for gas grid operators. As of the balance sheet date, notices have been received for three group companies. The Federal Network Agency reduced user charges here as well. We are concerned that the outstanding notices will impose further reductions, which will in turn have a negative impact on the future earnings situation of the group.

From 2009 onwards the incentive regulation will change the system underlying the network user charges. Until then, a further round of cost-based user charge approvals will be carried out. At present, we cannot reliably assess how the future regulation will affect our profits. Based on recent experience, we can however expect further burdens. We are trying to limit the economic effects of the reductions in user charges which have already occurred and those which are still expected by means of strict cost management.

Absorption of surplus revenues
The regulatory authorities had announced that in the next calculation period they would deduct the difference between the approved network revenues and the revenues actually recorded from November 1, 2005 to February 1, 2006 until the network user charges have been approved (retroactive surplus revenues absorption).

The legitimacy of this retroactive surplus revenues absorption is currently being clarified in court. Based on the judgments handed down to date, the risk of claims being enforced against EnBW is considered to be low.

Act against restraints on competition

German antitrust law is to be tightened by the amendment of the act against restraints on competition, and abuse monitoring by the antitrust authorities is to be intensified. The aim is to reduce the margin of the energy supply companies in order to bring down end user prices.

This is achieved by specifying the details of the comparable market principle, among other things by eliminating the materiality surcharge. The prices of the companies concerned are compared with those of other energy supply companies or companies operating in comparable markets. An abuse is deemed to have been made even if prices only vary slightly. An energy supplier can exculpate itself of an accusation of abuse if it can provide objective justification for the variance. In future it should also be possible to check the components of the charges.

Renewal of municipal franchise agreements

In the network territory of EnBW a large number of electricity franchises will have to be renegotiated in the next few years. At EnBW Regional AG (REG) alone, some 500 franchise agreements will expire by 2012. The loss of a franchise territory is a risk because it is associated with a loss of profits. REG has implemented various measures to prepare for the renegotiation of the municipal franchise agreements. The new model franchise agreement has proved to be particularly useful in this respect. It was developed with the Association of Municipalities in Baden-Württemberg and the Association of the Cities and Towns in Baden-Württemberg, EnBW Regional AG and EnBW Gas GmbH as well as the regional municipal associations Neckarelektrizitäts-Verband, Landeselektrizitätsverband Württemberg and Gemeindeelektrizitätsverband Schwarzwald Donau and gives the municipalities legal certainty and a fair partnership.

In 2006, 200 existing franchise agreements of REG were renegotiated. Despite keen competition from public utilities, the EnBW group was able to secure practically all the franchises. We cannot forecast to what extent the regulation of network user charges will impact the upcoming franchise negotiations.

Recommendation of the European Commission on nuclear power provisions

In proceedings that have been going on for some time, various German public utilities are trying to obtain a court ruling on the question whether nuclear power provisions for the disposal and decommissioning constitute prohibited government assistance along the lines of a subsidy. In a ruling on January 26, 2006, the European Court of First Instance rejected the suit of the public utilities against the European Commission.

With this ruling, the court has not only confirmed the legal interpretation of the European Commission, but also our own. The German nuclear power station operators entered this legal dispute as interveners of the European Commission. The appeal proceedings at the European Court of Justice is limited to legal questions; points of substance can therefore no longer be raised. The public utilities have filed an appeal against the ruling within the period allowed.

> High standards of technical security and cautious risk management ensure supply reliability

> Regular operation of plants for mechanical-biological waste treatment may not be achievable in the long term

> IT risks minimised by a package of measures

The issue of recording provisions for nuclear energy is still being discussed at European level. The European Commission recommends, among other things, harmonising the recognition, management and use of disposal provisions throughout the EU so that adequate funds can be provided by the operators if the need arises. For the new nuclear power stations, the Commission suggests setting up separate funds subject to appropriate controls on the use of financial resources. From the perspective of the European Commission, this recommendation fulfils the subsidarity principle in the area of nuclear safety. Responsibility for nuclear safety rests with the operating companies; these in turn are monitored by the national authorities. Attending to the subsidiarity principle, the Commission recommends creating national offices which are independent and not managed by the operator. The purpose of these offices is to manage the use of funds for disposal issues. They are to prepare annual reports. The European Commission published these recommendations on October 24, 2006.

Decision taken on construction of new power plant

At the end of 2006, the EnBW Board of Management and the EnBW Supervisory Board made their decision on the construction of a new state-of-the-art hard coal power plant unit on the premises of the existing power plant in Karlsruhe. This power plant will be used, among other things, to replace our nuclear power stations as they are gradually decommissioned as decided by the federal government and the energy supply companies in the 2001 nuclear power agreement.

We completed the site appraisal in mid-2006. In this way, we reduced the site-related risks, especially logistics risks of such vital operational importance. In the course of planning, we carefully identified the economic parameters underlying the capital expenditures and evaluated them. Over the long life of a power plant, it is not possible to forecast the decisive parameters precisely (for example raw material, CO_2 and electricity sales prices). Moreover, it is still not clear to what extent the ruling for the allocation of CO_2 allowances to new plants that go online until 2012 will be upheld in the implementation of the NAP II. The future cost-effectiveness and the long-term profitability of the expenditures on power plants remains subject to risk.

During the approval and construction phase of the power station, medium-term risks may occur in the course of implementation. Delays and cost overruns are particularly relevant here.

Power station restoration on schedule

The site restoration of large nuclear plants is an area in which little experience has been gathered to date. We cannot categorically rule out risks in the restoration phase of our Obrigheim nuclear power station. These risks are being countered by means of careful planning and ongoing monitoring of timetables. As know-how is acquired, it is entered into the knowledge management system to ensure that this information is available for future restoration projects. The site restoration of the Obrigheim nuclear power station is currently on schedule. There is currently no indication of any delay.

Operating risks

Technical risks in the electricity and gas segments

Our production processes along our value added chain require complex and highly specialised technical equipment. We make every effort to avoid damage to our plants. Moreover, we try to minimise unplanned downtimes of our plants, in particular unplanned downtimes of our power plants and parts of plants as well as our electricity, gas and district heat supply network. To this end, we use cutting-edge technology, maintain our plants properly and train our staff. Risks resulting from force majeure like weather factors cannot be wholly avoided, despite our high security standards.

One way we counter negative economic effects from operational risks is to take out insurance. Every year, we analyse the effectiveness of our insurance cover and any additional requirements. This ensures that we are adequately insured against any damage to property that may occur, in each case with an appropriate deductible.

Depending on how long they take, business interruptions which we are not insured against because it does not make economic sense may significantly impact the operations of the group.

Technical and economic risks from mechanical-biological waste disposal plants
In our energy and environmental services segment we are responsible for waste disposal at the Heilbronn and Buchen locations. This responsibility is assumed to a certain extent via our disposal subsidiary T-plus GmbH that operates a new plant for mechanical-biological waste treatment at each of the locations. In an environmentally friendly fashion, these plants dispose of domestic waste and comparable commercial waste in a natural biological decomposition process.

The planned regular operation and thus the anticipated cost-effectiveness has not yet been achieved. Independent experts have therefore analysed and evaluated the technical risks and the various options for the future. We cannot currently assess whether regular operation over the planned useful life can be ensured at all. EnBW has therefore decided to close the mechanical-biological waste treatment plant in Heilbronn and to operate the plant in Buchen at reduced output for the time being. On the other hand, there are the disposal obligations from long-term agreements with municipalities and districts. We will fulfil these obligations.

In the 2006 financial statements we have therefore written off the mechanical-biological waste treatment plants in full and recorded provisions for potential losses for the long-term disposal agreements. Potential further risks which could arise from the continuing operation of the plant and which could burden our results in future cannot be ruled out. We will monitor these risks carefully.

IT risks
We use state-of-the-art information and communication technology to carry out our production and business processes efficiently and cost-effectively. The complex production processes of our power stations, electricity and gas grids as well as district heat and water networks are controlled by ultra-modern control technology.

It is therefore of utmost importance that our IT network and our IT applications are highly available. The EnBW group principles to ensure the security of the information and communication technology (EKSIT@) are binding throughout the group for the use of our information and communication systems from an IT security, data protection and data security perspective.

High security standards, state-of-the-art technology and qualified employees guarantee that our IT risks are minimised. In the past fiscal year we acted with the care needed to avoid major economic losses from IT risks.

Legal risks

> EnBW group involved in various court cases from ordinary operations

In the course of our business activities we are of course exposed to legal risks and involved in various legal disputes, court cases and arbitration proceedings. Legal risks result on the one hand from company restructuring, for instance from the merging of companies, and in connection with the conclusion of corporate agreements. We are also exposed to legal risks in connection with the processing of business acquisitions. There are also risks from legal disputes in the operating business, particularly from the regulation of network user charges in the electricity and gas segments (see the section "Industry risks" on page 92).

Overall, legal risks or risks from the regulatory environment increased considerably during the reporting period. Where necessary, we made adequate provisioning. We expect that the residual risks will not have a material negative effect on our financial position, net assets and results of operations.

Market, credit and liquidity risks

> Distribution, generation and trading subject to risk of market price fluctuation

> Physical and financial transactions effected on the basis of master agreements

> Asset management strategically realigned

> Interest and currency risks hedged on a case-by-case basis

> Good liquidity and financial position achieved

Energy market

Market risks

In the selling, generation and trading functions, our group companies are affected by market price fluctuations. The core business of our trading company EnBW Trading GmbH (ETG) is marketing existing assets via the sales companies or the wholesale market. In recent years, trading on forward markets has grown; thorough use has been made of the possibilities it offers to hedge and manage risks.

One of our main targets is to reduce risks from price fluctuations on the energy markets by means of hedges. We also use energy derivatives. Group net profit is secured by means of a hedge concept which also contains the use of opportunities. The central body of our risk management is a risk management committee in which various group companies along the value added chain and the group holding are integrated.

The provision of energy quantities that our sales function has sold is a key component of our risk management. We include planned quantities and signed agreements in the position management at an early stage the same as offers according to the likelihood of the contracts being awarded. The second important element of the risk management system is the electricity generation of our power plants. We hedge the generation against falling electricity prices and rising raw material and CO_2 prices. Some fuels are generally listed in US dollars. We always hedge the foreign currency positions which arise from trade with these fuels. After the hedging phase, we use the flexibility of the power plants to add value by continuously improving their use based on a multi-commodity approach.

The residual risks are continually monitored; the risk controlling function of our trading company ETG measures and reports on the energy-related and financial risk position. We use the market access and market expertise of our traders to manage market price fluctuation risks not just from the group activities generation and distribution, but also trading for own account. Within defined limits, ETG can specifically choose to enter and hold items to generate additional income.

As of December 31, 2006, the nominal value of all energy derivatives totalled € 11,122.2 million. The market value of all energy derivatives as of the same date was € 59.1 million.

Credit risks

Our trading company generally enters into trading transactions on the basis of master agreements, for example those published by the European Federation of Energy Traders (EFET), the International Swaps and Derivatives Association (ISDA) or the International Emissions Trading Association (IETA). Exceptions from this business policy can only be made in the case of special business interests, for instance to develop new markets. These master agreements for trading with the commodities electricity, CO_2, gas and the related derivatives comply with market standards. In addition, ETG has developed its own master agreement for physical coal transactions which we conclude with our suppliers. ETG trades several commodities with many trading partners (cross-commodity trading); in order to harmonise the various clauses relating to credit risks which are contained in the individual master agreements, ETG and its partners enter into the cross-product master agreements offered by EFET.

Financial market

Asset management

The strategic realignment of the asset management in 2005 has stood the test of time. In 2006, EnBW only made minor adjustments to this concept. Risks were further reduced and diversified by taking into account additional asset classes. The value at risk was determined on a case-by-case basis. On this basis, the value at risk as of the balance sheet date is € 56 million (95%/10 days). We receive additional risk-related data from the investments in mutual funds. When selecting the securities, we always attach particular importance to high marketability and good credit rating.

Interest and currency risks

The interest and currency risks from business operations are hedged in our treasury function with derivatives on a case-by-case basis.

As of December 31, 2006, the nominal values of all interest and currency derivatives totalled € 1,769.8 million; the market value of all financial derivatives amounted to € -5.4 million.

Liquidity/financing

EnBW can cover its fund requirements at all times. This is ensured by the existing cash and cash equivalents and the free lines of credit that have been granted. Thanks to our stable ratings we can also obtain refinancing on the capital markets at any time.

Overall assessment

In fiscal 2006, the EnBW group made thorough use of all the opportunities that arose from the market circumstances. However, in 2006 EnBW was exposed to significantly higher risks than in 2005. We therefore made extensive provisioning for technical risks relating to the mechanical-biological waste treatment plants in Buchen and Heilbronn and adequate provisions for the existing legal risks. In 2006, there were no discernable risks to the continued existence of the company either from individual risks or from the overall risk position of the EnBW group.

Losses from the current network user charge regulations until the end of 2007 as well as possible further reductions which could be enforced by the regulators in the course of the system change to incentive regulation have been considered in our planning. The occurrence of the risks that exist from 2008 would have a permanent negative effect on the future financial position, net assets and results of operations of the EnBW group.

Risk management system

In 2006, we informed the EnBW Board of Management and the management of the group companies and other consolidated entities of the risk situation in detailed quarterly reports and monthly risk change reports. In the case of unforeseen risks, decision-makers were provided with additional ad-hoc reports.

In quarterly reports, the EnBW Board of Management provided the EnBW Supervisory Board with in-depth information about the group's current risk situation. The audit committee of the Supervisory Board also dealt with risks which have a significant influence on the financial position, net assets and results of operations of the group.

The risk management system is one of the areas reviewed annually by the group's internal audit. In 2006, the focal point of the internal audit was the review of the organisation and processes of risk management in our group companies. In addition, the auditors assessed our risk management system in the course of the annual audit. They examined it both in terms of compliance with legal requirements and also in terms of the way it works and how effective it is. The group internal audit and the independent auditors confirmed the suitability of our early warning system for the detection of risk and the risk management system to recognise major risks and attested it a high quality standard.

> EnBW makes use of all the opportunities that arise

> Risk situation heightened by technical and legal risks

> EnBW's risk management system is attested a high quality standard

Forecast report

> Expansion, sustainable energy mix and access to the customer

> Further economic growth expected in Germany

> Long-term stable hard coal prices expected

Future-oriented statements
This report contains statements relating to the future that are based on current assumptions and projections of the management of EnBW. Such statements are subject to risks and uncertainties. These and other factors mean that the actual results, financial position, development or performance of the company may diverge materially from the estimates made here. EnBW assumes no obligation of any kind to update future-oriented statements or to adjust them to reflect future events or developments.

In this forecast report we take an in-depth look at the expected future development of our company and the environment we work in for the next two fiscal years. Particular attention is paid to opportunities which may arise for EnBW. For us, opportunities for the future development of our company are positive development possibilities in the short term which, under certain conditions, are considered to be feasible. For a presentation of the risks inherent in the future development of our company, we refer to our risk report.

The prerequisite for the forecasts we publish on the development of our company and the environment we work in actually occurring is for the company to grow on the planned scale due to external and organic factors. The basis for this is a positive development in the financial position, net assets and earnings ratios on the forecast scale, i.e. among other things, an improvement in the operating performance and a corresponding development of the economic and political conditions relating to the energy industry. However, there is a risk that operating problems as well as other currently unforeseeable factors could have a negative influence on earnings.

Future corporate strategy

Having recorded excellent figures recently, EnBW will make capital expenditures it's top priority.

On the one hand, this means that we will continue to secure our strong position on the home market Baden-Württemberg and press ahead with the targeted expansion in Germany. We would, however, also like to pursue a consistent growth strategy in central and eastern Europe as well as in Turkey and make use of the opportunities offered by the increasingly liberalised energy markets of the new EU countries and accession candidates.

In the next two years, we also want to focus our group strategy on the expansion of renewable energies and align the generation mix to the requirements of the future, in particular long-term climate protection. The needs of our customers remain an important concern, which is why we want to improve the access to our customers and make better use of customer contacts.

Anticipated economic development

In 2007 and 2008, we expect the German economy to remain on course for growth. We only expect the negative effects on private consumption accompanying the increase in VAT to have a short-term impact on economic growth. However, further increases in interest rates by the European Central Bank could slow the economic upswing.

Anticipated development of the coal market

Following the record revenues of recent years, there is currently some indication of capacity increases in Columbia, Russia and Indonesia. These could lead to a slight supply surplus in the next few years and as a result to a drop in prices on the world markets for hard coal.

At the same time, the planned commissioning of new coal power plants in Asia in the course of 2008 is expected to cause a growing shortage which could possibly offset future capacity increases on the supply side.

In the longer term, stable hard coal prices are more likely. This expectation is also reflected on the forward markets for hard coal where a slight increase in prices along the time axis can be observed.

Anticipated development of the CO_2 market

The development of CO_2 allowance prices at the end of 2006 reflects the expectation of market participants that more CO_2 allowances will be available in the first trading period 2005 – 2007 than needed. If this estimation is corroborated in May 2007 when the emissions balance sheets are published for 2006, allowances for the first trading period are likely to drop further in value and also in importance.

It can therefore be presumed that the focus of CO_2 trade will shift to the second trading period 2008 – 2012. Again, a high degree of uncertainty is expected, above all in relation to the total number of allowances available on the market. A final decision on the total number of European CO_2 allowances (EUA) will not be taken until the first half of 2007 when all the countries have submitted their national allocation plans. On the other hand, a large number of allowance credits from developing/emerging countries (CER/ERU) is expected for the second trading period; their actual availability is, however, highly uncertain. It is not possible to reliably forecast either the CO_2 volume produced worldwide or the demand of governments and/or non-European companies (for example from Japan).

This uncertainty is largely a political issue. Add to this numerous external factors, such as the weather, and the development of electricity and fuel prices that are also difficult to forecast, and CO_2 allowance prices can be expected to remain highly volatile.

Anticipated development of the electricity market and our electricity business

Based on the prices on the forward market for electricity which reflect the expectation of market participants for the spot market prices in the next few years, the following conclusions can be drawn:

Due to falling CO_2 prices for the first trading period forward prices for electricity deliveries in 2007 dropped in the fourth quarter of 2006; they are currently roughly on the level of the average spot market prices for 2006. If CO_2 prices for the first trading period continue to fall or if there is a drop in fuel prices, a further decline in the short-term price level cannot be ruled out. The impact of opposite effects such as the rise in net electricity exports during 2006 is just as difficult to estimate as the influence of the weather or technical and political parameters.

Deliveries of electricity due in the following years are currently being traded at an increased price of € 3 – 4 per MWh. This reflects the expectation that CO_2 prices will be significantly higher in the second emissions trading period. Moderately rising prices along the time axis from 2009 show that prevailing market opinion is that prices will stabilise in the longer term.

Substantial price swings cannot be ruled out, particularly if political decisions are made which have a direct or indirect impact on fuel, CO_2 and electricity markets.

> CO_2 prices expected to remain highly volatile

> Substantial price swings cannot be ruled out

> Innovative products and services promise growth potential for EnBW

In the retail customer business this development may lead to fiercer competition; in the industrial customer business it can be assumed that the keen competition that already exists will continue. With its synergetic multi-brand strategy and its highly differentiated, segment-specific marketing, EnBW is well prepared for this situation.

Progress has also been made with the liberalisation of meter reading and measuring. Thanks to the competition in this environment, the customer will be able to choose between a variety of products and services, among other things to increase energy efficiency. However, the liberalisation of measuring requires further legal guidelines.

The moderate economic growth in Germany will not result in any major changes in electricity consumption or the potential for electricity sales. Growth potential for EnBW will arise, among other things, from innovative electricity products and related services. In the years 2007 and 2008 we expect EnBW to enjoy moderate organic growth.

Anticipated development of the gas market and our gas business

> Focus on customer gains and developing new territories

> Keener gas-to-gas competition expected

> ESG well positioned in the market

The competitive environment has been dominated by competition with heating oil and other fossil fuels, with natural gas being used as preferred fuel for new connections and renovation work, even if oil prices are high. One focus of our sales activities are measures to consolidate our traditional supply territories and also to develop areas that do not yet have gas. The development of six municipalities in the Heckengäu region commenced in 2006 will continue.

In the coming months and years we also expect fiercer gas-to-gas competition, initially mainly affecting the redistributor and business-to-business customer segments. This development is due in large part to the conditions for network access by third parties changed by the German Energy Industry Act (EnWG) that apply since October 2006. Transmission capacities are no longer tied to a fixed transmission channel; instead feed-in and offtake capacity has to be freely allocable within the initial 19 market territories that have been designated (two-contract model). An alternative individual contract model which was provided for in the original version of the cooperation agreement of the network operators will finally expire at the end of the 2006/2007 gas business year after a transitional period.

In the grid area, measures to implement the legal unbundling required by the EnWG will be carried out within the period allowed. They should be completed by July 1, 2007 or earlier if required.

Anticipated development of our energy and environmental services business

The U-plus group is expecting the exceptionally positive development in the electronic waste recycling segment to continue in 2007. Building on the improvements in results already achieved by the Primus optimisation programme, the processes specific to disposal are to be improved by continuing this programme in 2007, continually optimising materials flow management and sales in particular. U-plus will press ahead with portfolio grooming and restructuring and refocus its attention on its core business: collecting, sorting, recycling and disposing of household and commercial waste. This will strengthen the market position of the U-plus group in the long term.

Due to the low level of market penetration, the contracting market is currently attested great potential for growth. Areas for growth of EnBW Energy Solutions GmbH (ESG) include solutions in the field of local generation as a partner to industry. The current development of energy prices has heightened the demand among industrial customers for alternative fuel concepts.

In the industrial segment, ESG is one of the leading contracting companies in Germany and, thanks to the experience gathered in complex projects and seven biomass plants, it is well positioned in the competitive environment. A further increase in revenues and income is therefore expected in fiscal 2007 and 2008.

In the next few years, the political call for modernisation of the German water industry will confront municipalities with special challenges. Thanks to its special competencies, EnBW Regional AG and its subsidiary RBS wave GmbH, which provides engineering services, are ideally positioned to support the municipalities with this. We therefore plan to expand our range of services in the water area and to offer new products tailored the needs of the municipalities.

Future development of the regulatory framework

In the first quarter of 2007, the federal cabinet is expected to pass the amendment of the law against restraints on competition (GWB) which is intended to boost competition. The Federal Ministry of Economics plans to prohibit monopolistic companies from demanding prices that are "unreasonably" higher than the costs or prices in a comparable market. Moreover, the Federal Antitrust Office is to be given the possibility to check individual price components against these standards for abuse. As the cost definition used in the bill is just as imprecise as the definition of "unreasonable", EnBW fears that the pricing mechanism on the electricity exchange on the basis of incremental costs could be circumvented. In the long term this would damage the way the electricity market works. A cost-based federal price supervision at the wholesale level and the imposition of the lowest comparative price by the Federal Antitrust Office cannot be ruled out. The latter would deprive companies interested in entering the market of the possibility of using price as a competitive parameter and impede competition at the wholesale level. This renewed intervention by the regulatory authorities threatens to vitiate the success of the liberalisation policy to date.

In future, the principle of cost regulation underlying the decisions on network user charges is to be replaced by an incentive-based system of regulation. EnBW had accompanied the legislative process of the German Energy Industry Act (EnWG) with its own proposal of an incentive-based ex-ante regulation of network user charges. Important aspects of our suggestion were incorporated in the law. The Federal Network Agency presented a report on the introduction of the incentive-based system of regulation to the German federal government on June 30, 2006. As required by the Energy Industry Act, the Federal Ministry of Economics and Technology is currently transforming the model into a decree which will require the approval of the upper house of parliament. It is planned to carry out a second review of the network user charges in 2007 and to start with the incentive regulation on January 1, 2009.

> Energy policy on German and EU level in a state of flux

> Amendment to laws and new decrees in progress

The planned system of incentive regulation is designed to give incentives to improve efficiency by fixing upper limits for the profits from network user charges for the duration of the regulation period. By benchmarking costs, the individual network operators will also be given individual efficiency targets for their company based on the figures of the most efficient network operator. The incentive regulation is expected to take effect in summer 2007. Alongside the German federal states and representatives from the energy industry and science, EnBW is accompanying the ongoing development process of the new regulation.

The Energy Industry Act contains both implementation orders that have already come into force as well as other authorisations to issue. Further regulations are therefore expected to be put forward in 2007:

By February 2007, the Federal Ministry of Economics wants to present an expert bill for the regulation to introduce the incentive system. EnBW welcomes the introduction of incentive regulation and basically favours the concepts presented by the Federal Network Agency and the Federal Ministry of Economics. When implementing the incentive regulation, the main aim must be to ensure that an appropriate risk-adjusted return can be generated under realistic conditions by the network operators. Attention has to be paid here to achieving a regulatory balance in terms of the overall effects of the individual regulatory parameters and the use of robust methods by the Federal Network Agency.

In addition, the Federal Ministry of Economics is expected to present expert bills for regulations of the connection of object and area networks and of end users to higher network levels. These regulations are also expected to be passed by the upper house of parliament and to take effect in the course of the year.

In the first quarter of 2007, an expert bill is to be tabled for a regulation on the connection of power plants. The cornerstones were stipulated by the Federal Ministry of Economics. The aim is to boost competition and capital expenditures, in particular by new providers on the supplier side. The regulation deals in particular with the duty of each transmission system operator to connect new power stations. New power stations that go on line by 2012 are to be given a transmission guarantee. EnBW champions the non-discriminatory connection of new power plants. However, if grid bottlenecks arise, the transmission guarantee does discriminate against existing plants. The Federal Ministry of Economics has not made any suggestion as to how the problem of constructing new power station capacities on suitable locations could be solved.

The coalition agreement of the CDU, CSU and SPD federal government will also have an effect on German energy policy in the coming years. "An overall concept for energy policy which contains a precautionary strategy in light of the worldwide diminishing resources" is being called for. According to the coalition agreement efficient energy will move to the centre stage of political deliberations and energy research is to be expanded.

The basic structure of the Renewable Energies Act (EEG) is embedded in the coalition agreement. In 2007 the economic efficiency of the different types of compensation is to be reexamined. In this context, the compensation rates, economies of scale and subsidised periods are to be adjusted to the development stages of the various renewable energies and, where necessary, the focus will be changed (offshore wind power). The subsidisation of large-scale hydropower will be the focus after 2012.

The grand coalition is discussing a possible amendment of the German Combined Heat and Power Act (KWKG) from 2002 in line with the objective of the coalition agreement to increase energy efficiency, for example by reviewing the subsidisation system of the KWKG. The main cornerstones are the scheduled phase-out of the subsidisation of existing plants and modernised plants within the legally prescribed period, subsidisation of the construction of new CHP plants in accordance with the efficiency criteria of the relevant EU Directive, subsidisation of the modernisation according to the criteria efficiency and investment costs as well as keeping the burden on the consumer constant by capping the annual mark-ups at the current level.

It is expected that emissions trading will be changed to the benchmark system in the coming years and grandfathering based on historical emission will be abolished. In this way, the aspiration that the system should be "continued as an important instrument of climate protection" while being made more economically and ecologically efficient can be pursued more effectively.

At present it would seem that the envisaged free-of-charge allocation of emission allowances will be upheld in the National Allocation Plan of the second trading period (2008 – 2012). However, politicians are currently discussing whether the auctioning of part of the total allowance volume (cap) should be included in the allocation legislation. The EU Emissions Trading Directive allows up to 10% of the cap to be auctioned off.

In order to enhance international efficiency, effectiveness and liquidity in the allowance market, conditions for the use of the flexible joint implementation and clean development mechanisms are to be improved. The federal government has raised the limit for these reduction projects from 12% to 20%.

The general conditions for climate protection policies after 2012, the year in which the Kyoto Protocol expires, are still unclear. In an energy package presented in early 2007, the European Commission has proposed an EU-wide reduction by 30% compared to CO_2 emissions in 1990. If, however, an obligation to fulfil ambitious climate protection targets is not agreed at an international level, the EU will only seek to achieve a 20% reduction.

In Brussels the plans of the European Commission are becoming more specific. Following an in-depth consultation on the "green paper for a safe, competitive and sustainable energy policy" and the conclusion of the sector analysis of the European energy market in 2006, on January 10, 2007 the Commission presented its ideas for the future shape of European energy policy. It is quite possible that the Commission will present a legislative initiative before the end of 2007.

The focus of attention is the competition on the European single energy market. Under discussion are unbundling measures relating to network operators, the powers of the regulators and the cooperation of transmission system operators in cross-border electricity grids. A directive proposal for more transparency has already been announced.

The Commission wants to use binding targets to increase the share of renewable energies in the supply of energy to 20% by 2020. In the same period, energy consumption is to be reduced by means of improved energy efficiency; the EU member states are to reduce their CO_2 emissions by 20% as well.

The EU is also showing a great interest in the CO_2-free generation of electricity from coal and gas. This is a focal point of energy research. It is to be supplemented by the development of legal conditions for the storage and transmission of CO_2.

The year 2007 will show to what extent the standards set by Brussels will affect the German energy industry. Currently, this cannot be predicted with certainty.

Anticipated development of significant acquisitions

> Shares of Thüga taken over in 2007

In early 2007, EnBW and E.ON agreed to eliminate existing reciprocal investments in energy suppliers. For EnBW this means increasing its investment in ENSO Energie Sachsen Ost GmbH, an electricity and gas supplier in Saxony, and in Erdgas Südwest GmbH, a gas supplier in Baden-Württemberg. For consolidation purposes, the larger investment in ENSO will only impact the minority interests, while the additional shares in Erdgas Südwest will allow the full consolidation of this subsidiary.

> Organic growth of the main key performance indicators targeted

In subsequent years, this will have a positive impact on revenue and sales figures as well as the performance indicators EBITDA and EBIT in the gas segment of the EnBW group. The inclusion of the figures of Stadtwerke Düsseldorf AG (SWD) for the whole year will produce positive consolidation effects. Any other opportunities for acquisitions in Germany or in central and eastern Europe offering a chance to further improve the EnBW group's key performance indicators are subject to a high degree of uncertainty. The forecast below is therefore restricted to the development of the operative earnings power of the existing EnBW group.

Anticipated development of capital employed[1]

For the external and internal control of the group and the segments we also use the concept of value-based planning. The main ratios or components for value added and ROCE are capital employed and adjusted EBIT.

In the next two years we expect the capital employed to rise slightly. This is due to the fact that depreciation exceeds net investments, despite the continued focus on receivables management. The implementation of the targeted generation strategy will take effect from 2008.

[1] Adjusted for changes in the consolidated companies

Anticipated revenue and sales development[1]

The anticipated revenue development in the electricity and gas segments in the next two years is marked by planning uncertainty in three areas:

> **1.** The amount of revenue and sales of our trading company depends on the future market development.

> **2.** In the gas segment, the link of the gas price to the oil price causes additional planning uncertainty.

> **3.** The extent of the regulatory measures for 2008 is still open. The basis of this is to be the costs of the year 2006. The declared objective of the Federal Network Agency is to reduce network user charges. On the other hand, the costs of the network companies and transmission system operators rose significantly in 2006 compared to the prior years due to

- **a.** higher electricity prices for loss and balancing energy;
- **b.** higher expenses in connection with the law to promote renewable energies and
- **c.** higher feed-in charges for local power producers and operators of CHP plants.

In the electricity segment we assume that sales in the retail and industrial customer sectors will rise moderately in 2007 and 2008, while trading quantities are expected to drop on the same scale. With relatively stable prices in all customer segments, revenue will therefore remain on prior-year level.

In the gas segment, we expect our consolidation strategy, combined with a colder fourth quarter in 2007 and 2008 compared to the fourth quarter of 2006, to lead to higher units sales of gas in the retail customer segment. On the other hand, losses are expected on account of the liberalisation of the redistributor segment. Due to a probably higher price level on annual average and higher specific prices in the retail customer segment compared to the redistributor segment, we are anticipating rising revenues.

In the energy and environmental services segment revenues are expected to rise continually. This is attributable to growth options in the disposal business and growth potential in the contracting market in which EnBW Energy Solutions GmbH (ESG) is one of Germany's leading companies.

[1] Adjusted for changes in the consolidated companies

> Organic growth of the main operating financial ratios targeted

Development of external revenue in 2007 in a year-on-year comparison

Electricity segment including trading	stable
Gas segment	rising
Energy and environmental services segment	rising
Consolidation (Stadtwerke Düsseldorf AG; January to March)	rising
Group revenue	**rising**

Management report

> Despite significantly lower network user charges, operating earnings in 2007 in the electricity and gas segments are expected to match prior-year level

> Higher dividend targeted

> Spending focuses on power plant capacities, distribution networks and extra-high voltage networks

Anticipated earnings development[1]

In the electricity segment we strive to keep the prior-year level. Having completed the last stage of our TOP FIT cost-cutting programme in 2006, we are confident that supplementary continuous improvement programmes, a focus on profitable customer segments when concluding new contracts and an improved generating position will help to offset negative influences on profits arising from the notices of the regulatory authorities.

In the gas segment, we expect the regulatory activities to cause a moderate drop in profits.

As regards the energy and environmental services segment we assume that the activities of the U-plus group and of ESG will lead to a continual rise in profits. Due to the planned commissioning of two further waste boilers of EnBW at the Stuttgart-Münster location, the expensive substitute disposal arrangement at the U-plus group will cease in 2007.

Development of earnings 2007 (Adjusted EBIT) in a year-on-year comparison to the prior year

Electricity segment including trade	stable
Gas segment	falling
Energy and environmental services segment	rising
Consolidation (Stadtwerke Düsseldorf AG; January to March)	rising
Adjusted EBIT, group	**rising slightly**

Expected dividend

A dividend of € 1.14 per share is planned for the fiscal year 2006. We are aiming for a further positive development for fiscal year 2007. The condition for this is a positive development in earnings ratios on the planned scale, i.e. an improvement in the operating performance, a corresponding development of the economic and political conditions relating to the energy industry and of prices for retail and industry customers. However, there is also a risk that operating problems as well as other currently unforeseeable factors could have a negative influence on earnings.

Planned capital expenditures[1]

Capital expenditures on property, plant and equipment of € 3.2 billion are planned for the period from 2007–2009. The prerequisite for the capital expenditures to be realised is their profitability and approval by the bodies responsible. Approximately 70% of the capital expenditures is accounted for by the electricity segment while 10% is spent on the gas segment. The remainder is mainly allocated to the energy and environmental services segment.

Capital expenditures in the electricity segment focus on renewal of the distribution grids, restructuring of the extra-high voltage networks (380 kV and 220 kV) and the replacement of power station capacities in Baden-Württemberg, which refers mainly the construction of a hard coal power plant in Karlsruhe. EnBW is also investing in renewable energies, focusing on the run-of-the-river power plant in Rheinfelden and biomass power plants. In order to bundle our activities in Stuttgart, we have started building a new office complex.

[1] Adjusted for changes in the consolidated companies

Future financing

In 2007 and 2008 new loans and the pending refinancing will again be flexibly secured using the existing financing instruments.

As of December 31, 2006, the syndicated loan (€ 2.5 billion) and the Commercial Paper programme (€ 2 billion) were wholly untouched. If necessary, EnBW also has access to the capital market via the Euro Medium Term Note programme that has been increased to € 5 billion. Based on the current stable A rating, EnBW is thus able to refinance its debts at favourable terms on the capital markets and make use of any opportunities that arise.

Planned developments in human resources and welfare

What sets our group apart is our pronounced change ability. In future, human resources will therefore continue to ensure the change ability and willingness of our employees and thus of the group.

We also have to respond to social change. Competition on the employment market is hotting up, not least due to demographic developments. It is therefore all the more important to offer employees and applicants an attractive and creative workplace. We will therefore continue to work on the continuous improvement of our personnel management instruments – remuneration system, working time models, personnel exchange programmes, staff and management development programmes, employee surveys etc. We are also looking for ways in which our people can combine job and private life even better in future. In light of the high level of youth unemployment, we want to continue offering high quality apprenticeships far in excess of our needs. In 2007, we will again offer 334 positions for apprentices and students from vocational colleges and universities of applied science.

We will continue to give our apprentices and trainees a twelve-month employment guarantee and offer on average of 20% of our apprentices and trainees permanent positions. This collectively bargained promise applies until 2008.

We assume that the number of employees – adjusted for changes in the consolidated group – will stay largely stable over the next two years.

From 2007, we will work intensively on our new business model for human resources. Our aim is to make processes more efficient and raise customer satisfaction still further.

Future research and development

A slight increase in research and development expenses compared to 2006 is expected. The focus remains on refining climate-friendly technologies to generate and use electricity and heat and also to make the use of renewable energy sources economically feasible.

In 2007, our fuel cell programme is to be expanded to include another medium-sized plant for biogenic fuels in the form of the sewage gas fuel cell in Stuttgart. In the years 2007 to 2009, EnBW will install a growing number of fuel cell heating devices of various proven and new manufacturers in order to accelerate the development and market launch. The planned geothermal power plants in Bruchsal and in Soultz-sous-Forêts are scheduled to go into operation at the end of 2007 and the first half of 2008 respectively.

It is planned to feed processed biogas into the natural gas grid before the end of this year.

The field test for the "Price Signal at the Power Socket" project is scheduled to start in the first half of 2007 and show in the course of 2008 to what extent efficiency and load balancing in the electricity network can be achieved by consumers organising their consumption.

> Financial flexibility ensured

> Change ability of employees encouraged

> Headcount expected to remain stable

> Focus on fuel cells, geothermal energy and energy efficiency

“We welcome competition.”

Prof. Dr. Utz Claassen, CEO

Financial statements of the EnBW group

Income statement of the EnBW group from January 1 to December 31, 2006

€ millions[1]	Note	2006	2005
Revenue		14,414.7	12,056.8
Electricity and natural gas tax		-1,195.3	-1,287.5
Revenue without electricity and natural gas tax	(1)	**13,219.4**	**10,769.3**
Changes in inventories		11.8	4.7
Own work capitalised		41.8	33.7
Other operating income	(2)	1,060.6	848.1
Cost of materials	(3)	-9,363.9	-7,460.9
Personnel expenses	(4)	-1,433.9	-1,222.2
Amortisation and depreciation	(5)	-837.6	-719.8
of which goodwill from capital consolidation		(0.0)	(-14.0)
Other operating expenses	(6)	-1,228.0	-918.4
Result from operating activities		**1,470.2**	**1,334.5**
Financial result[2]	(7)	-287.0	-247.1
Earnings before tax		**1,183.2**	**1,087.4**
Income tax	(8)	-73.4	-489.0
Earnings after tax		**1,109.8**	**598.4**
Minority interests		-118.9	-66.0
Result of continuing operations		**990.9**	**532.4**
Result of discontinued operations	(20)	12.5	-0.9
Group net profit for the year		**1,003.4**	**531.5**
Shares outstanding (million), weighted average		**244.232**	**240.961**
Earnings per share from continuing operations (€)		**4.06**	**2.21**
Earnings per share from group net profit (€)		**4.11**	**2.21**

Footnotes to the income statement

[1] Prior-year figures adjusted

[2] Of which result from entities accounted for using the equity method: € 134.4 million (prior year: € 87.5 million), of which finance costs: € 276.3 million (prior year: € 293.4 million)

Footnotes to the balance sheet

[1] Prior-year figures adjusted

[2] Of which total current and non-current provisions for income taxes: € 339.4 million (prior year: € 387.4 million)

Balance sheet of the EnBW group as of December 31, 2006

€ millions[1]	Note	12/31/2006	12/31/2005
Assets			
Non-current assets			
Intangible assets	(9)	1,810.4	1,427.5
Property, plant and equipment	(10)	11,336.1	10,160.2
Entities accounted for using the equity method	(11)	1,327.6	1,336.4
Other financial assets	(12)	6,259.6	5,804.7
Investment properties	(13)	115.1	138.2
Other non-current assets	(14)	739.4	483.5
Deferred taxes	(18)	38.9	43.2
		21,627.1	**19,393.7**
Current assets	(15)		
Inventories		612.3	578.2
Financial assets		274.0	257.8
Trade receivables		2,245.7	1,821.3
Income tax refund claims		186.0	235.0
Other current assets		1,178.5	1,160.9
Cash and cash equivalents		1,932.3	1,426.4
		6,428.8	**5,479.6**
Non-current assets held for sale and assets of discontinued operations	(20)	38.5	68.2
		6,467.3	**5,547.8**
		28,094.4	**24,941.5**
Equity and liabilities			
Equity	(16)		
Group shares			
Subscribed capital		640.0	640.0
Capital reserve		22.2	22.2
Revenue reserves		2,611.2	1,818.5
Revaluation reserve in accordance with IFRS 3		7.3	0.0
Treasury shares		-204.1	-214.3
Total net income recognised in equity		395.4	154.2
		3,472.0	**2,420.6**
Minority interests		929.5	647.1
		4,401.5	**3,067.7**
Non-current liabilities			
Provisions[2]	(17)	8,865.8	8,534.0
Deferred taxes	(18)	1,995.8	1,596.6
Financial liabilities	(19)	3,883.8	4,320.0
Other liabilities and subsidies	(19)	2,126.0	2,119.6
		16,871.4	**16,570.2**
Current liabilities			
Provisions[2]	(17)	1,306.3	1,286.9
Financial liabilities	(19)	1,226.3	378.8
Trade payables	(19)	2,164.6	1,756.8
Income tax liabilities	(19)	126.8	18.5
Other liabilities and subsidies	(19)	1,894.5	1,804.6
		6,718.5	**5,245.6**
Liabilities of discontinued operations	(20)	103.0	58.0
		6,821.5	**5,303.6**
		28,094.4	**24,941.5**

Financial statements

Cash flow statement of the EnBW group

€ millions [1,2]

	2006	2005
1. Operating activities		
EBITDA	2,307.8	2,054.3
EBITDA of discontinued operations	14.9	7.8
Changes in non-current provisions	-303.5	-192.5
Gain/loss on disposal of non-current assets	-51.1	-45.5
Other non-cash expenses/income	-69.1	-110.6
Funds from operations (FFO) before taxes and financing	**1,899.0**	**1,713.5**
Change in working capital and current provisions	-245.4	-135.1
Income taxes paid	-187.0	-248.5
Cash flow from operating activities	**1,466.6**	**1,329.9**
of which discontinued operations	(12.5)	(-15.5)
2. Investing activities		
Capital expenditures	-630.1	-547.0
Cash received from disposals of intangible assets and property, plant and equipment	105.2	206.2
Cash received from construction cost and investment subsidies	85.4	81.5
Cash paid for the acquisition of fully and proportionately consolidated entities and entities accounted for using the equity method	-387.0	-430.8
Cash received from the sale of fully and proportionately consolidated entities and entities accounted for using the equity method	50.5	55.0
Cash paid for investments in other financial assets	-594.1	-485.8
Cash received from the sale of other financial assets	458.1	177.0
Cash received/paid for investments in connection with short-term finance planning	-30.4	117.0
Interest and dividends received	382.0	374.1
Cash flow from investing activities	**-560.4**	**-452.8**
of which discontinued operations	(49.6)	(0.0)

[1] For further explanations see pages 168–169.
[2] Prior-year figures adjusted

€ millions[1]

	2006	2005
3. Financing activities		
Interest paid	-291.0	-288.6
Dividends paid	-285.9	-210.9
Cash received from the sale of treasury shares	14.4	375.1
Cash paid to minority interests from capital reductions	-5.1	0.0
Borrowing	604.4	74.0
Repayment of financial liabilities	-435.8	-1,334.9
Cash flow from financing activities	**-399.0**	**-1,385.3**
of which discontinued operations	(0.0)	(-0.2)
Net change in cash and cash equivalents	**507.2**	**-508.2**
Net foreign exchange difference	-1.3	0.5
Change in cash and cash equivalents	**505.9**	**-507.7**
Cash and cash equivalents at the beginning of the period	1,426.4	1,934.1
Cash and cash equivalents at the end of the period	**1,932.3**	**1,426.4**

[1] Prior-year figures adjusted

Statement of changes in equity of the EnBW group

€ millions[1]

	Subscribed capital	Capital reserve	Revenue reserves	Revaluation reserve in accordance with IFRS 3	Treasury shares
As of December 31, 2004	**640.0**	**22.2**	**1,483.9**	**0.0**	**-510.7**
Change in accounting policy			-163.9		
As of December 31, 2004 after change in accounting policy	**640.0**	**22.2**	**1,320.0**	**0.0**	**-510.7**
Offsetting of negative differences pursuant to IFRS 3			59.1		
Sale of treasury shares			78.7		296.4
Dividends paid			-170.8		
Total net income recognised in equity/other					
Earnings after tax			532.4		
Result of discontinued operations			-0.9		
As of December 31, 2005	**640.0**	**22.2**	**1,818.5**	**0.0**	**-214.3**
Sale of treasury shares			4.2		10.2
Dividends paid			-214.9		
Total net income recognised in equity/other				7.3	
Earnings after tax			990.9		
Result of discontinued operations			12.5		
As of December 31, 2006	**640.0**	**22.2**	**2,611.2**	**7.3**	**-204.1**

[1] Prior-year figures adjusted

Total net income recognised in equity						
Revaluation of intangible assets	Difference from currency translation	Cash flow hedge	Marketable securities and investments	Group shares	Minority interests	Total
-51.7	**5.5**	**5.6**	**122.5**	**1,717.3**	**681.2**	**2,398.5**
51.7				-112.2	-88.8	-201.0
0.0	**5.5**	**5.6**	**122.5**	**1,605.1**	**592.4**	**2,197.5**
				59.1		59.1
				375.1		375.1
				-170.8	-40.1	-210.9
	1.9	-109.0	127.7	20.6	28.8	49.4
				532.4	66.0	598.4
				-0.9		-0.9
0.0	**7.4**	**-103.4**	**250.2**	**2,420.6**	**647.1**	**3,067.7**
				14.4		14.4
				-214.9	-71.0	-285.9
	12.2	19.8	209.2	248.5	234.5	483.0
				990.9	118.9	1,109.8
				12.5		12.5
0.0	**19.6**	**-83.6**	**459.4**	**3,472.0**	**929.5**	**4,401.5**

Notes to the 2006 financial statements of the EnBW group
General principles and basis of consolidation

General principles

In accordance with Sec. 315a (1) German Commercial Code (HGB), the consolidated financial statements of EnBW Energie Baden-Württemberg AG (EnBW) are prepared according to the International Financial Reporting Standards (IFRS) the adoption of which is mandatory in the European Union at the balance sheet date. IFRSs whose application is not yet mandatory are not yet adopted. In addition, the interpretations of the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC) are observed. The consolidated financial statements of EnBW comply in all respects with the IFRSs and the IFRIC interpretations.

The consolidated financial statements are presented in millions of euro. In addition to the income statement and balance sheet, a cash flow statement and statement of changes in equity of the EnBW group are presented separately.

In the interest of clarity, items have been combined in the income statement and in the balance sheet and disclosed separately and also explained in the notes.

The income statement has been prepared using the method of total costs.

The consolidated financial statements are prepared as of the balance sheet date of the parent company's financial statements. The parent company's fiscal year is the calendar year.

Changes in accounting policies

The International Accounting Standards Board (IASB) and the IFRIC have amended various standards and interpretations and issued new ones, the adoption of which is mandatory for the fiscal year 2006:

> IAS 19 "Employee Benefits": The amendments of IAS 19 primarily require additional disclosures in the notes and have created the option to recognise actuarial gains and losses directly in equity.

> IAS 21 "The Effects of Changes in Foreign Exchange Rates": The amendment mainly concerns the treatment of net investments in foreign operations.

> IAS 39 "Financial Instruments: Recognition and Measurement": The amendments of IAS 39 limit the option to classify financial instruments as "financial assets or financial liabilities at fair value through profit or loss". They also pertain to the options for accounting for cash flow hedges of foreign currency risks inherent in future transactions that are highly likely to occur within the group and for accounting for financial guarantees issued.

> IFRS 4 "Insurance Contracts": The amendment of IFRS 4 affects the accounting at EnBW for financial guarantees issued.

- IFRS 6 “Exploration for and Evaluation of Mineral Resources”: This standard governs the accounting treatment of expenditures incurred in connection with the exploration for and evaluation of minerals, oil, natural gas and similar non-regenerative resources before the technical feasibility and commercial viability of extracting the resource are demonstrable.

- IFRIC 4 “Determining whether an Arrangement contains a Lease”: This interpretation extends the scope of IAS 17 “Leases” to contractual arrangements that do not take the legal form of a rent or lease agreement (concealed leases).

- IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”: This interpretation governs accounting for rights and obligations arising from funds established for the purpose of decommissioning plant and similar obligations.

- IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”: This interpretation governs accounting for provisions for waste disposal obligations resulting from the EU Directive on Waste Electrical and Electronic Equipment.

First-time adoption of the standards and interpretations listed above did not have any significant effects on the EnBW consolidated financial statements.

In light of the development of international accounting practices, EnBW changed its accounting for put options of minority interests of entities that have already been fully consolidated. To date, these put options were generally disclosed as financial commitments in the notes to the financial statements and, if their market value was negative, they were recognised as a liability. The assets attributable to the minority interests with put options were still recognised in the item minority interests in the consolidated financial statements. The minority interests’ share in profit or loss was also recognised under minority interests.

In the financial statements as of December 31, 2006 the minority interests concerned are no longer recognised as minority interests. Changes in value of the put options are treated as contingent considerations, applying the rules for business combinations pursuant to IFRS 3 by analogy. Any resulting difference between the purchase price obligation and the carrying amount of the minority interests is disclosed as goodwill. The potential purchase price obligations are classified as a current or non-current liability. The share in profit or loss is recognised in the financial result in the income statement.

The prior-year figures were adjusted retroactively. The effects on the consolidated financial statements as of December 31, 2005 are as follows:

Balance sheet	Changes in € millions
Goodwill	+62.0
Revenue reserves	-5.5
Minority interests	-90.2
Non-current liabilities	+33.6
Current liabilities	+124.1

Income statement	Changes in € millions
Financial result	-9.4
Minority interests	+9.4

Due to the fact that the electricity markets have become much more volatile, EnBW decided in the fiscal year 2006 to discontinue use of the revaluation method for the electricity procurement rights disclosed as intangible assets. This change in accounting policy increases in particular the comparability of the net assets and results of operations thus providing more relevant information.

The prior-year figures have been adjusted accordingly. The effect of the retroactive change on the consolidated financial statements as of December 31, 2005 is presented below:

Balance sheet	Changes in € millions
Intangible assets	-239.6
Revenue reserves	-148.5
Deferred tax liabilities	-91.1

Income statement	Changes in € millions
Amortisation and depreciation	+16.0
Income taxes	-6.1
Group net profit for the year	+9.9

The change in accounting policy increased earnings per share from group net profit in 2005 by € 0.05 to € 2.21 and reduced the equity ratio as of December 31, 2005 from 13.2% to 12.3%.

Effects of new accounting standards that are not yet mandatory

The following standards and interpretations have already been published by the IASB and incorporated in EU legislation, but their adoption is not yet mandatory for 2006:

> IAS 1 "Presentation of Financial Statements": The amendment of IAS 1 requires information to be disclosed in the financial statements that enables users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. The amendments of IAS 1 are mandatory for the first time for fiscal years beginning on or after January 1, 2007.

- IFRS 7 “Financial Instruments: Disclosures”: The changes due to this new standard are mainly intended to summarise, revise and extend the previous disclosure requirements for accounting for financial instruments. IFRS 7 is mandatory for fiscal years beginning on or after January 1, 2007.

- IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyper-inflationary Economies”: This interpretation addresses questions relating to IAS 29 when hyperinflation is identified in the economy of the reporting entity’s functional currency for the first time. The interpretation is mandatory for the first time for fiscal years beginning on or after March 1, 2006.

- IFRIC 8 “Scope of IFRS 2”: In IFRIC 8 the IASB comments on the scope of IFRS 2 “Share-based Payment”, which is applicable for transactions under which a company receives goods or services as compensation for a share-based payment. IFRIC 8 is mandatory for the first time for fiscal years beginning on or after May 1, 2006.

- IFRIC 9 “Reassessment of Embedded Derivatives”: IFRIC 9 addresses the question whether a contract needs to be analysed only when it is entered into or also during its entire term to determine whether it contains an embedded derivative that should be separated in accordance with IAS 39. This interpretation is applicable for the first time for fiscal years beginning on or after June 1, 2006.

The group does not expect any significant effect on net assets, financial position and results of operations from first-time adoption of the above standards or interpretations in the future.

Changes in presentation

To improve the presentation of results of operations, we made changes to the disclosures in the income statement in the fiscal year 2006. The franchise fee and water charge are disclosed as cost of materials instead of as other operating expenses. The prior-year figures were adjusted accordingly.

To improve the presentation of net assets, income tax refund claims, income taxes payable and financial liabilities are disclosed separately in the balance sheet. The prior-year figures were adjusted accordingly.

The cash and cash equivalents entry in the cash flow statement no longer includes the change in short-term bonds and mortgage bonds. This is shown under cash flow from investing activities. The prior-year figures were adjusted accordingly. The cash flow from investing activities for 2005 dropped by € 13.2 million from € -439.6 million to € -452.8 million as a result of the change.

Consolidated companies

Under the full-consolidation method, all subsidiaries are included on whose financial and business policy influence can be exercised as defined by the control concept. In this case, the assets and liabilities of a subsidiary are included in full in the consolidated financial statements.

The assets and liabilities of the subsidiary are only considered in the consolidated financial statements in proportion to the investment of the parent company.

The equity method is used when a significant influence may be exercised on the business policy of the associate, but the criteria to qualify as a subsidiary or a joint venture are not in place. When measuring shares this means that only the pro rata equity of the entity is included in consolidated financial statements, and not its assets and liabilities.

Shares in subsidiaries and joint ventures which are immaterial from the group's perspective are accounted for according to IAS 39. This relates in particular to subsidiaries without primary operations or with a lower business volume. They represent only an immaterial share of the total group assets and of the group profit/loss. Associates which either do not meet the IFRS reporting requirements or are immaterial are not accounted for using the equity method.

The list of shareholdings of the EnBW group is given in a separate list in accordance with Sec. 313 (4) HGB, that will be published in the electronic German Federal Gazette (Bundesanzeiger) together with the financial statements.

There are no cross-holdings as defined by Sec. 19 (1) German Stock Corporations Act (AktG) in the EnBW group.

The companies have been consolidated as follows:

Type of consolidation

Number	12/31/2006	12/31/2005
Full consolidation	100	102
Proportionate consolidation (joint ventures)	10	8
Entities accounted for using the equity method	21	20

Changes in the consolidated group

Of the companies fully consolidated in the consolidated financial statements, five (prior year: three) German companies were consolidated for the first time in the reporting year. Five (prior year: 17) companies were deconsolidated; another two (prior year: six) companies were merged. Of the deconsolidated companies, one (prior year: 15) was a German company and four (prior year: two) were foreign companies.

Of the joint ventures, our share of which was included in the consolidated financial statements, zero (prior year: one) German companies were deconsolidated and two (prior year: zero) German companies were consolidated for the first time in the reporting year.

Of the entities accounted for using the equity method, two (prior year: three) foreign companies were consolidated for the first time in the reporting year. One (prior year: 40) German and zero (prior year: two) foreign companies were deconsolidated.

Full consolidation of Stadtwerke Düsseldorf AG

In the past, Stadtwerke Düsseldorf AG was recognised as an associate (shareholding of 29.9%) in the consolidated financial statements according to the equity method. Effective March 31, 2006, EnBW purchased a further share of 25.05% in Stadtwerke Düsseldorf AG. The purchase price for that share was € 360.8 million. This brought the legal shareholding up to 54.95%. Stadtwerke Düsseldorf AG was fully consolidated as of March 31, 2006 on account of the control now exercised. Due to the existence of a put option held by the city of Düsseldorf for 25.05%, the consolidation of Stadtwerke Düsseldorf AG is based on a shareholding of 80%.

The value of the put option, which is disclosed under other liabilities, amounted to € 278.5 million as of March 31, 2006. The first-time full consolidation of Stadtwerke Düsseldorf AG is treated as a business combination achieved in stages. Step-by-step comparison of the cost of the individual investments with the interest in the fair value gave rise to goodwill for Stadtwerke Düsseldorf AG of € 185.0 million for the 50.1% share newly consolidated in 2006. The goodwill from measurement using the equity method amounted to € 205.6 million and has been written off in full. The change in equity since first-time measurement under the equity method, which is attributable to the former share of 29.9%, totals € 7.3 million and is recognised directly in equity.

After the purchase price allocation, Stadtwerke Düsseldorf AG and its subsidiaries contributed € 1.4 million to the earnings after tax. If the business combination had already been effected as of January 1, 2006, revenue without electricity and natural gas tax of the EnBW group would have increased to € 13,647.4 million and earnings after tax without considering finance costs to € 1,114.7 million.

The fair values of the identifiable assets and liabilities of Stadtwerke Düsseldorf AG (subgroup) were as follows as of the date of acquisition:

€ millions	Carrying amount under IFRS	Recognised on acquisition
Intangible assets	19.6	285.3
Property, plant and equipment	980.0	1,239.8
Other financial assets	84.1	84.1
Other non-current assets	19.7	19.7
Current assets	428.6	443.9
Total assets	**1,532.0**	**2,072.8**
Non-current liabilities	627.6	790.0
Current liabilities	325.5	376.0
Total liabilities	**953.1**	**1,166.0**
Net assets	**578.9**	**906.8**
EnBW's interest in net assets 50.1%		**454.3**
Cost		**639.3**
of which purchase price		(360.8)
of which put option		(278.5)
Goodwill		**185.0**

Increase of share held in EVN AG

In the fiscal year 2005, we increased our share in EVN Energie-Versorgung Niederösterreich AG (EVN) to 29.74%. As of fiscal 2005, EVN is an associate accounted for using the equity method. The carrying amount of the investment was written up in 2006 with effect on income by € 12.7 million.

In the reporting period, we increased our share in EVN by 5.98% to 35.72%. The risk provision of € 12.0 million which had been set up for the acquisition of the 5.98% was released to income. We completed acquisition accounting in 2006. This resulted in negative goodwill of € 14.8 million, which was recognised in the investment result with effect on profit or loss.

Pro forma calculation
Adjusted to eliminate the changes in the consolidation group, the prior-year balance sheet and income statement would be as follows (pro forma prior year):

Balance sheet € millions	12/31/2006	Pro forma 12/31/2005
Non-current assets	21,627.1	21,028.9
Current assets	6,428.8	5,467.6
Non-current assets held for sale and assets of discontinued operations	38.5	62.2
Non-current liabilities	16,871.4	17,361.3
Current liabilities	6,718.5	5,895.9
Liabilities of non-current assets held for sale and of discontinued operations	103.0	54,7

Income statement € millions	2006	Pro forma 2005
Revenue	**13,219.4**	**11,615.4**
Changes in inventories	11.8	6.3
Own work capitalised	41.8	37.6
Other operating income	1,060.6	987.3
Cost of materials	-9,363.9	-8,022.5
Personnel expenses	-1,433.9	-1,396.1
Amortisation and depreciation	-837.6	-791.8
Other operating expenses	-1,228.0	-1,093.6
Result from operating activities	**1,470.2**	**1,342.6**
Financial result	-287.0	-203.3
Earnings before tax	**1,183.2**	**1,139.3**
Income tax	-73.4	-483.7
Earnings after tax	**1,109.8**	**655.6**
Minority interests	-118.9	-67.8
Result of continuing operations	**990.9**	**587.8**
Result of discontinued operations	12.5	-0.9
Group net profit for the year	**1,003.4**	**586.9**

Joint ventures

The share of joint ventures in the consolidated balance sheet and the consolidated income statement breaks down as follows:

Joint ventures

€ millions Balance sheet	12/31/2006	12/31/2005
Non-current assets	399.5	290.0
Current assets	166.2	94.8
Non-current liabilities	155.3	131.3
Current liabilities	153.6	87.2

€ millions Income statement	2006	2005
Revenue	356.4	226.2
Cost of materials	-247.6	-163.1
Result from operating activities	56.3	34.3
Financial result	0.6	0.1
Earnings before tax	56.9	34.4
Income tax	-14.3	-8.4
Earnings after tax	42.6	26.0

Basis of consolidation

The financial statements of the domestic and foreign subsidiaries and joint ventures included in consolidation were prepared in accordance with the accounting policies of EnBW.

Capital consolidation is performed according to the purchase method, by offsetting the cost of acquisition against the proportionate revalued equity of the subsidiaries at the date of acquisition. Assets and liabilities are carried at fair value. Any remaining positive differences are recognised as goodwill. Negative differences are immediately recognised in profit or loss following a review of their calculation.

Receivables, liabilities and provisions between the consolidated companies are netted. Intercompany income is offset against the corresponding expenses. Intercompany profits are eliminated, unless they are immaterial. Deferred taxes are recorded.

Joint ventures are consolidated according to the same principles as subsidiaries.

The same accounting policies also apply to entities accounted for using the equity method. Goodwill is recognised in the inclusion of the shareholding. Impairment losses on goodwill are disclosed in the investment income. Negative differences are recognised in profit or loss via investment income.

Currency conversion

The reporting currency of EnBW is the euro (€). The financial statements of the group companies are converted to euro. Currency conversion is performed in accordance with IAS 21 (The Effects of Changes in Foreign Exchange Rates) using the functional currency method. Under this method, the assets and liabilities of companies that do not report in euro are converted at the mean rate prevailing on the balance sheet date, while expenses and income are converted at the average annual rate. The companies concerned are foreign entities. Conversion differences are recorded directly in equity within total net income recognised in equity.

The companies of the EnBW group mainly operate in the euro area.

Currency conversion was based on the following exchange rates, among others:

	Closing rate		Average rate	
€ 1	**2006**	2005	**2006**	2005
Swiss francs	1.61	1.56	1.57	1.55
Pound sterling	0.67	0.69	0.68	0.68
US dollar	1.32	1.18	1.26	1.24
Hungarian forint	251.77	252.87	264.13	248.06

Significant accounting policies

Intangible assets
Intangible assets are carried at amortised cost and, except for goodwill, are amortised using the straight-line method over their useful life. The amortisation period of intangible assets – without goodwill – ranges from three to twenty years.

In accordance with the provisions of IFRS 3 (Business Combinations), goodwill from capital consolidation is not amortised, but tested for impairment at least once a year or whenever there is any indication that the recoverable amount may be lower than the carrying amount.

Property, plant and equipment
Items of property, plant and equipment that are subject to wear and tear are recognised at amortised cost. As a rule, the straight-line method of depreciation is used. Borrowing costs are not capitalised as a component of cost. Depreciation is recorded pro rata temporis in the year of addition.

Maintenance and repair costs are recorded as expenses. Renewal or maintenance expenses which lead to future benefits of an asset are capitalised.

Investment grants or subsidies are not deducted from the cost of the asset concerned. Pursuant to IAS 20, they are disclosed as subsidies.

The nuclear power generating plants also contain the present value net of depreciation of the cost of the closure and dismantling of the contaminated plants estimated at the time of commissioning.

Depreciation on our major items of property, plant and equipment is computed using the following useful lives which are standardised throughout the group:

	Years
Buildings	25 – 50
Power plants	15 – 50
Electricity distribution plants	25 – 45
Gas distribution plants	15 – 55
Water distribution plants	20 – 40
Other equipment, furniture and fixtures	5 – 14

Leases

Property, plant and equipment under finance leases, which transfer all the risks and rewards incidental to ownership to the EnBW group, are recognised at the inception of the lease at market value or at the lower present value of the lease instalments. Depreciation is charged systematically over the economic useful life.

Lease payments and instalments from operating leases are recognised immediately as an expense in the income statement.

Finance leases, which transfer all risks and rewards incidental to ownership to the leasee, are recognised as a receivable at the amount of the net investment.

Investment properties

Investment properties include land and buildings held to earn rentals or for capital appreciation and not used by EnBW itself. Investment properties that are subject to wear and tear are measured at amortised cost and depreciated over a term of 25 to 50 years. The market value is determined using internationally recognised methods such as the discounted cash flow or mark-to-market method and is disclosed in the notes to the financial statements.

Depreciation

The carrying amounts of intangible assets, property, plant and equipment, and investment properties are tested for impairment at each balance sheet date. If there is any indication that the asset may be impaired, the recoverable amount of the asset concerned is determined as part of the impairment test. It is the higher of the fair values minus disposal costs and the value in use.

The fair value is determined on the basis of a business valuation model and reflects the best estimate of the amount at which a third party would acquire the asset. The value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit (smallest identifiable group of assets).

If it is not possible to determine the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset can be allocated.

Goodwill resulting from business combinations is allocated to the cash-generating units. The recoverable amount of these cash-generating units is tested for impairment at least once a year and also whenever there is any indication that the asset or unit may be impaired.

If the recoverable amount of an asset falls short of its carrying amount, an impairment loss is recognised on the asset with effect on profit or loss. In the event of impairment losses on cash-generating units to which goodwill has been allocated, the goodwill is reduced first. If the impairment loss exceeds the carrying amount of the goodwill, the difference is allocated proportionally to the remaining non-current assets of the cash-generating unit.

If the reason for a previously recognised impairment loss no longer exists at a later date, the impairment loss is reversed. However, the carrying amount increased thus must not exceed amortised cost. Impairment losses on goodwill must not be reversed.

Entities accounted for using the equity method

The investments in associates accounted for using the equity method are initially recognised at cost and subsequently recognised according to the amortised interest in net assets. The carrying amounts are increased or reduced each year by the share in profit, dividend distribution or other changes in equity. Goodwill is recognised in the carrying amount of the investment.

Financial assets

Shares in non-consolidated affiliated companies, in associates not accounted for using the equity method and in other equity investments as well as some of the long-term investments are allocated to the "available for sale" category. They are measured at fair value if it can be determined reliably. Unrealised gains and losses are recorded directly in equity. In the event of a permanent impairment in value, they are amortized. The unrealised gains or losses previously recorded directly in equity are recognised in profit or loss upon sale.

Long-term investments that are classified as “held to maturity” are measured at amortised cost.

The fair value of the publicly traded securities, derivatives and other financial investments is based on the market values published as of the balance sheet date.

Loans are accounted for at amortised cost. Loans subject to customary market interest rates are recognised at nominal value, and low-interest or interest-free loans at present value.

The securities recognised as current financial assets are measured at fair value with effect on profit or loss. They are measured at fair value. Changes in market value are recognised immediately in profit or loss.

Inventories
Inventories are stated at costs of purchase or costs of conversion. As a rule, they are measured at average prices. Pursuant to IAS 2, costs of conversion contain the direct costs and an appropriate portion of the necessary materials and production overheads including depreciation. Costs of conversion are determined on the basis of normal employment. Borrowing costs are not capitalised as a component of costs of conversion. Appropriate allowance is made for risks relating to slow-moving goods. Where necessary, the lower net realisable value compared to the carrying amount is recognised. Write-ups on inventories are deducted from the cost of materials.

The nuclear fuel rods disclosed in the inventories are measured at amortised cost. Depreciation is determined in accordance with consumption.

Emission allowances
Emission allowances are recognised under inventories. Emission allowances acquired without consideration in the current fiscal year are recognised at their nominal value, while those acquired for a consideration to cover anticipated consumption are recognised at cost. Emission allowances acquired for trading purposes, however, are recognised as other assets at fair value with effect on profit or loss, and any fluctuation in fair value is recognised directly in profit or loss.

Receivables
Trade receivables and other receivables are accounted for at cost less necessary valuation allowances based on the actual bad debt risk. Low-interest or interest-free receivables are stated at present value.

Provisions for pensions and similar obligations
Provisions for pensions and similar obligations are determined using the projected unit credit method in accordance with IAS 19. This method considers current and future pension benefits known at the balance sheet date as well as future anticipated salary and pension increases. Actuarial gains and losses outside the 10% corridor are distributed over the remaining working lives of the employees. Assets of funds established to cover the pension obligations are deducted from the provision. The service cost is disclosed in personnel expenses, while the interest portion of an increase in the provision is recognised in the financial result.

Other provisions
Other provisions take account of all legal or constructive obligations towards third parties resulting from past events that are identifiable at the balance sheet date and which are uncertain in terms of amount and/or date of occurrence. The provisions are recognised at their settlement amount. They are measured at the estimated future amount or the amount most likely to be incurred.

The non-current provisions are stated at the future amount needed to settle the obligation discounted to the balance sheet date. This does not apply to provisions for pensions and similar obligations. They are subject to special rules in accordance with IAS 19.

Deferred taxes
Deferred taxes are recorded in accordance with the temporary concept (IAS 12) on all timing differences between the tax accounts and the IFRS balance sheet of the individual entities. Deferred taxes from consolidation entries are recognised separately. Deferred tax assets are recognised on unused tax losses if it is reasonably certain that they will be utilised. Deferred taxes are calculated on the basis of the tax rates that apply or that are expected to apply in the individual countries at the time of utilisation. A tax rate of 38% is applied for German group companies. Tax credits and tax liabilities are offset against each other if the conditions to do so have been satisfied.

Liabilities
Liabilities are recognised at the amount repayable. Liabilities from finance leases are measured at the lower of fair value and present value of the minimum lease payments at the date when the leased asset is recognised.

The construction cost subsidies recorded as liabilities are released to other operating income in accordance with the use of the subsidised property, plant and equipment. As a rule, the period of release for construction cost subsidies is between 40 and 45 years. Investment subsidies and grants are released over the depreciation period of the subsidised assets. The amount released is offset against depreciation on the face of the balance sheet.

Contingent liabilities are possible or present obligations which arise from past events and which are not likely to result in an outflow of resources. They are not recorded on the face of the balance sheet, but are disclosed separately in the notes to the financial statements.

Non-current assets held for sale and discontinued operations
Non-current assets held for sale and discontinued operations are individual non-current assets, groups of assets or operations which can be sold in their present condition, whose sale is highly probable and which satisfy all the criteria defined in IFRS 5. The item liabilities of assets held for sale and of discontinued operations includes liabilities that are part of a discontinued operation or that are intended to be sold together with a group of assets.

Assets that meet the criteria to be classified as non-current assets held for sale are measured at the lower of carrying amount and fair value minus disposal costs, and depreciation on such assets ceases.

Gains or losses from measuring individual assets held for sale and groups of assets are disclosed as result of continuing operations until they are finally sold.

Income and expenses from the operation of discontinued operations as well as gains and losses from their measurement to fair value minus disposal costs are disclosed as they result from discontinued operations. Gains and losses on the sale of discontinued operations are also recognised in this item.

Derivative financial instruments

Derivative financial instruments are measured at fair value (market value) in accordance with IAS 39. They are recognised under assets and liabilities. The market values are derived from market prices or using generally accepted valuation methods.

If they are contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements ("own use"), they are not recognised as derivative financial instruments under IAS 39, but as pending contracts in accordance with IAS 37.

Changes in the market values of derivative financial instruments entered into for trading purposes are recognised in profit or loss.

For derivative financial instruments used in a hedge, the accounting treatment of changes in fair value depends on the nature of the hedge.

In the case of changes in the fair value of cash flow hedges which are used to offset future cash flow risks arising from existing underlyings or planned transactions, the unrealised gains and losses are initially recognised directly in equity (total net income recognised in equity) in the amount of the underlying covered. Amounts are reclassified to the income statement when the hedged transaction is recognised in profit or loss.

In the case of a fair value hedge used to hedge the fair value of assets or liabilities, the gains or losses from the measurement of derivative financial instruments and the hedged transactions at fair value are recognised in profit or loss.

Foreign currency risks from investments with a foreign functional currency are secured by hedges of a net investment in a foreign operation. Unrealised exchange differences are initially recognised in equity and reclassified to profit or loss when the foreign operation is sold.

Key judgements and estimates

The exercise of judgements when applying the accounting policies did not have any significant effect on the carrying amounts of the assets and liabilities reported in the financial statements.

Uncertain future events need to be estimated as of the balance sheet date in order to determine the carrying amounts of certain assets and liabilities. These estimates are based on assumptions and forecasts and are thus subject to risks and uncertainty. The key future-oriented assumptions and other sources of uncertainty as of the balance sheet date concerning estimates which have given rise to a considerable risk that material adjustments of carrying amounts of assets and liabilities may be required in the next fiscal year are explained below.

Goodwill: Goodwill is subject to an annual impairment test. The impairment test involves estimates above all concerning the future cash inflows. Changes in the overall economic, industry or company situation in the future may reduce cash inflows and lead to an impairment of goodwill.

Property, plant and equipment: Technical progress, deterioration in the market situation or damage could lead to an impairment of property, plant and equipment.

Pension provisions: When calculating pension provisions, the choice of underlying assumptions such as the imputed interest rate or trend assumptions as well as the application, of demographic probabilities using the 2005 G mortality tables and accepted approximation methods when determining the pension from the statutory pension insurance fund may lead to differences compared to the actual obligations incurred over time.

Nuclear power provisions: The provisions for closure and disposal relating to nuclear power are based on external appraisals that are updated annually. These appraisals are based on cost estimates of the settlement value for each commitment. The uncertainty inherent in the estimates is primarily due to changes in the scope of insurance, departures from the assumed cost development and changes in payment dates. Changes in the discount rate could also lead to an adjustment of the nuclear power provisions.

Provisions for onerous contracts: Provisions for onerous contracts are generally set up for onerous procurement and sales agreements. Future changes in market prices on the procurement or sales side may lead to an adjustment of the provisions for onerous contracts.

Discontinued operations: Provisions have been set up on the basis of external appraisals for risks from the settlement of operations already sold. The amount provided for equals the best estimate of the expected settlement amount. New developments could lead to a change in the amount of the obligation and to an adjustment of the provisions.

Acquisition accounting: For acquisition accounting purposes, all identifiable assets and liabilities as well as contingent liabilities acquired in a share purchase are recognised at fair value as of the date of acquisition. Estimates are used to calculate the fair value of these assets and liabilities as of the date of acquisition. Land, buildings and other equipment, furniture and fixtures are generally valued by reference to independent appraisals. Marketable securities are recognised at market price. The measurement of intangible assets is based on the nature of the intangible asset as well as the complexity of determining fair value. Fair value is therefore determined on the basis of independent appraisals from external valuation experts.

Income taxes: Estimates are needed to set up tax provisions and to assess the recoverability of deferred tax assets on unused tax losses. The assessment of recoverability of deferred tax assets is subject to uncertainty in terms of the interpretation of complex tax regulations and the amount and timing of future taxable income.

Notes to the income statement and the balance sheet

(1) Revenue

Revenue is recognised when the risk has been transferred to the customer. The electricity and natural gas tax paid by the companies is deducted from revenue on the face of the income statement.

Income and expenses from energy trading are disclosed net. The net disclosure means that revenue from energy trading is reported net of the related cost of materials.

Gas trading was disclosed net in the fiscal year 2006 for the first time due to the increased liquidity of the markets. In the prior year gas trading revenue amounted to € 94.1 million.

For the fiscal year 2006, the net energy trading revenue came to € 2,353.8 million (prior year: € 1,346.5 million).

The segment reporting contains a breakdown of revenue by business segment and geographical segment.

(2) Other operating income

€ millions	2006	2005
Rent and lease income	40.6	34.1
Bad debt allowances	14.6	42.2
Disposals of assets	55.2	67.6
Exchange rate gains	7.7	1.1
Reversal of provisions	274.7	221.0
Release of construction cost subsidies and other deferred income	89.9	90.2
Income from derivative financial instruments	255.8	118.9
Sundry	322.1	273.0
Total	**1,060.6**	**848.1**

Disposals of assets contain income of € 6.7 million from the disposal of property held for sale.

Sundry other operating income includes income relating to other periods and extraordinary income of € 153.1 million.

In the reporting year, write-ups came to € 8.4 million (prior year: € 12.7 million).

(3) Cost of materials

€ millions[1]	2006	2005
Cost of materials and supplies and of purchased merchandise	7,221.3	5,558.4
Cost of purchased services	2,142.6	1,902.5
Total	**9,363.9**	**7,460.9**

[1] Prior-year figures adjusted

Cost of raw materials and supplies and of purchased merchandise comprises in particular gas and electricity procurement costs, the necessary increases in provisions – other than that due to the passage of time – for the decommissioning of nuclear power stations, costs for the disposal of irradiated fuel rods and radioactive waste as well as the consumption of nuclear fuel rods, of nuclear fuels and of the fuels of conventional power stations.

Cost of purchased services mainly contains expenses for network use, services purchased for the operation and maintenance of the plants as well as the cost of waste disposal and contract production. In addition, other expenses directly attributable to services rendered are shown under this heading.

(4) Personnel expenses

€ millions	2006	2005
Wages and salaries	1,043.9	916.4
Social security and other pension costs	390.0	305.8
of which for post-employment benefits	(190.0)	(131.1)
Total	**1,433.9**	**1,222.2**

Average headcount of continuing operations during the year[1]	2006	2005
Electricity	11,494	11,147
Gas	1,074	873
Energy and environmental services	7,164	5,449
Other activities/Holding	527	449
Employees of continuing operations	**20,259**	**17,918**
Apprentices and trainees in the group	1,205	1,137

[1] Adjusted to the segment structure as of December 31, 2006

Expenses for post-employment benefits from the increase in the provision for pensions amount to € 76.1 million (prior year: € 62.2 million). The other expenses for post-employment benefits mainly contain other social benefits that can be provided for and contributions to the pension guarantee association.

For companies included on a proportionate basis, 723 employees (prior year: 637) have been included in the total figure according to the EnBW share. The average headcount of discontinued operations during the year 2006 was 0 (prior year: 8).

(5) Depreciation and amortisation

€ millions[1]	2006	2005
Amortisation of intangible assets	80.8	80.1
of which goodwill from capital consolidation	(0.0)	(14.0)
Depreciation of property, plant and equipment	756.4	627.1
Depreciation of investment properties	7.1	22.2
Release of investment cost subsidies	-6.7	-9.6
Total	**837.6**	**719.8**

[1] Prior-year figures adjusted

In the reporting year there were no impairment losses on goodwill from capital consolidation (prior year: € 14.0 million). The impairment losses on other intangible assets, property, plant and equipment, and investment properties amounted to € 96.8 million (prior year: € 41.8 million).

(6) Other operating expenses

€ millions[1]	2006	2005
Rent and lease expenses	76.2	60.9
Bad debt allowances	38.4	34.5
Disposals of assets	22.4	22.1
Exchange rate losses	13.4	2.2
Other personnel expenses	52.6	45.6
Advertising expenses	131.9	107.5
Administrative and selling expenses	121.6	113.1
Audit, legal and consulting fees	100.8	59.6
Expenses from derivative financial instruments	213.3	154.5
Insurance	40.7	46.6
Dues and levies	8.5	7.9
Other taxes	9.4	3.9
Sundry	398.8	260.0
Total	**1,228.0**	**918.4**

[1] Prior-year figures adjusted

Sundry other operating expenses include expenses relating to other periods and extraordinary expenses of € 161.8 million.

(7) Financial result

€ millions[1]	2006	2005
Investment income	191.6	154.3
of which non-consolidated affiliated entities	(2.8)	(2.7)
of which entities accounted for using the equity method	(119.6)	(94.3)
Write-downs of investments	-23.5	-18.8
of which non-consolidated affiliated entities	(-4.7)	(0.0)
of which entities accounted for using the equity method	(0.0)	(-6.8)
Write-ups of investments	0.0	2.4
of which entities accounted for using the equity method	(0.0)	(0.0)
Reversal of negative difference at entities accounted for using the equity method	14.8	0.0
Other	-0.2	-0.3
Investment result	**182.7**	**137.6**
Interest and similar income	255.4	280.2
Interest and similar expenses	-356.1	-380.2
of which non-consolidated affiliated entities	(-0.2)	(-0.3)
of which finance cost	(-286.9)	(-293.4)
Interest portion of increases in provisions	-448.1	-439.3
of which personnel-related provisions	(-201.2)	(-213.1)
of which provisions relating to nuclear power	(-240.0)	(-221.2)
of which other non-current provisions	(-6.9)	(-5.0)
Other finance revenue	126.2	191.0
Other finance costs	-47.1	-36.4
Interest result	**-469.7**	**-384.7**
Financial result	**-287.0**	**-247.1**

[1] Prior-year figures adjusted

The contribution to the investment result made by entities accounted for using the equity method came to € 134.4 million (prior year: € 87.5 million). This total includes income of € 14.8 million (prior year: € 0.0 million) from the reversal of negative differences and of € 12.0 million (prior year: € 0.0 million) from the reversal of provisions for the potential acquisition of associates. Write-downs include impairment losses on other investments of € 18.8 million (prior year: € 12.0 million) and impairment losses on shares in affiliated entities of € 4.7 million (prior year: € 0.0 million). In the reporting year, there were no impairment losses on goodwill from entities accounted for using the equity method (prior year: € 6.8 million). The line item “other” contains, among other items, allocations to provisions for potential losses from writer obligations for the potential acquisition of investments of € 4.8 million (prior year: € 1.5 million).

Interest and similar income contains interest income from interest-bearing securities and loans, dividends and other profit shares.

Interest and similar expenses mainly consist of expenses for bank interest and bonds of € 194.8 million (prior year: € 206.8 million), interest on back taxes of € 28.1 million (prior year: € 68.2 million) as well as the interest portion for finance lease costs of € 60.9 million (prior year: € 68.1 million), other financing interest of € 31.2 million (prior year: € 18.5 million), and interest on put options of minority interests of entities that have already been fully consolidated amounting to € 20.6 million (prior year: € 9.4 million).

The interest portions from the increase in provisions relate to the annual increase of the non-current provisions due to the passage of time.

Other finance revenue/finance costs contain write-ups/write-downs of securities, reversals of the provisions for potential losses from writer obligations and realised exchange rate gains/losses from sales of securities. In the reporting year write-downs on current and non-current financial assets totalled € 4.4 million (prior year: € 1.9 million), while write-ups came to € 14.4 million (prior year: € 25.5 million). The reversals of provisions for potential losses from writer obligations for the potential acquisition of securities amounted to € 0.0 million in fiscal 2006 (prior year: € 20.0 million).

(8) Income taxes

€ millions[1]	2006	2005
Current income taxes	56.0	339.6
Deferred taxes	17.4	149.4
Income taxes (-income/+expense)	**73.4**	**489.0**

[1] Prior-year figures adjusted

Current income taxes contain net income of € 279.6 million (prior year: expense of € 54.7 million) that relates to prior periods. The net tax income relating to prior periods is due, on the one hand, to the fact that corporate income tax credits were recognised as an asset for the first time as a result of transition to the half-income method pursuant to the German Tax Reduction Act (StSenkG) from October 23, 2000 on the basis of the revised act on tax measures accompanying the introduction of the European company and the amendment of other tax law provisions (SEStEG) from December 7, 2006 and, on the other, to the corporate income tax credit for the 2006 dividend.

Deferred taxes are computed using an unchanged tax rate of 38%. This consists of corporate income tax, the solidarity surcharge and the average trade tax.

In 2006, the deferred tax expense was reduced by € 24.5 million (prior year: € 7.6 million) by recognising previously unused tax losses and increased by a € 3.6 million write-down of a deferred tax asset (prior year: € 0.0 million). In addition, the deferred tax expense increased by € 5.7 million (prior year: € 6.3 million) on account of losses incurred in 2006 which were not considered.

The reconciliation from the theoretical income tax expense to the current income tax expense is presented below:

€ millions[1]	2006	%	2005	%
Earnings before tax	**1,183.2**		1,087.4	
Theoretical tax rate		38.0		38.0
Theoretical income tax expense	**449.6**		413.2	
Tax effects				
Differences foreign tax rates and tax rate differences	5.9	0.5	-10.4	-1.0
Tax-free income	-67.4	-5.7	-88.3	-8.1
Non-deductible expenses	48.9	4.1	63.1	5.8
Addbacks and reductions for trade tax purposes	9.7	0.8	7.6	0.7
Amortisation of goodwill from capital and equity consolidation	0.0	0.0	7.9	0.7
Measurement of associates using the equity method	-43.0	-3.6	-15.0	-1.4
Change in considered unused losses	-15.2	-1.3	-0.2	0.0
Zero-rated sales of investments	-9.0	-0.8	-3.6	-0.3
Taxes relating to other periods	-314.0	-26.5	116.8	10.7
Other	7.9	0.7	-2.1	-0.2
Current income tax expense	**73.4**		489.0	
Current tax rate		**6.2**		44.9

[1] Prior-year figures adjusted

(9) Intangible assets

€ millions[1]	Franchises, industrial rights, licences and similar rights	Internally generated intangible assets	Goodwill	Other	Total
Cost					
As of January 1, 2006	1,213.7	43.2	583.0	12.5	1,852.4
Increase/decrease due to changes in the consolidated companies	286.4	0.0	184.8	0.3	471.5
Additions	19.9	1.2	0.0	13.2	34.3
Reclassifications	10.2	3.2	0.0	-8.1	5.3
Exchange differences	-9.4	0.0	0.0	0.0	-9.4
Disposals	29.7	0.0	12.5	0.6	42.8
As of December 31, 2006	1,491.1	47.6	755.3	17.3	2,311.3
Accumulated amortisation					
As of January 1, 2006	403.9	7.0	14.0	0.0	424.9
Decrease due to changes in the consolidated companies	0.3	0.0	0.0	0.0	0.3
Additions	75.8	5.0	0.0	0.0	80.8
Reclassifications	0.0	0.0	0.0	0.0	0.0
Exchange differences	-0.7	0.0	0.0	0.0	-0.7
Disposals	3.8	0.0	0.0	0.0	3.8
Reversal of impairment losses	0.0	0.0	0.0	0.0	0.0
As of December 31, 2006	474.9	12.0	14.0	0.0	500.9
Carrying amounts					
As of December 31, 2006	1,016.2	35.6	741.3	17.3	1,810.4

Cost					
As of January 1, 2005	1,215.4	23.6	561.7	26.4	1,827.1
Increase/decrease due to changes in the consolidated companies	-0.7	0.0	-19.1	0.0	-19.8
Additions	15.3	1.7	0.0	9.7	26.7
Reclassifications	-1.0	17.9	0.0	-17.0	-0.1
Exchange differences	-2.7	0.0	-0.7	0.0	-3.4
Disposals	12.6	0.0	-41.1	6.6	-21.9
As of December 31, 2005	1,213.7	43.2	583.0	12.5	1,852.4
Accumulated amortisation					
As of January 1, 2005	356.2	2.4	0.0	0.0	358.6
Decrease due to changes in the consolidated companies	2.0	0.0	0.0	0.0	2.0
Additions	62.5	3.6	14.0	0.0	80.1
Reclassifications	-1.1	1.0	0.0	0.0	-0.1
Exchange differences	0.0	0.0	0.0	0.0	0.0
Disposals	11.7	0.0	0.0	0.0	11.7
Reversal of impairment losses	0.0	0.0	0.0	0.0	0.0
As of December 31, 2005	403.9	7.0	14.0	0.0	424.9
Carrying amounts					
As of December 31, 2005	809.8	36.2	569.0	12.5	1,427.5

[1]Prior-year figures adjusted

Of the carrying amount of **intangible assets,** an amount of € 281.8 million (prior year: € 314.0 million) relates to an electricity procurement right that qualifies as a finance lease. The contract expires in the year 2015.

In 2006, a total of € 20.6 million (prior year: € 22.3 million) was spent on **research and development.** The recognition criteria required under IFRS were not satisfied.

Changes in value of the put options of minority interests of entities that have already been fully consolidated of € 12.5 million were offset against the associated goodwill without effect on profit or loss.

Seven cash-generating units were identified in the EnBW group, six of which have goodwill. The impairment test for goodwill was performed for each cash-generating unit at entity level or a lower level. No impairment losses were recognised on goodwill in 2006.

Goodwill totalled € 741.3 million as of December 31, 2006. Of this figure, 78.4% is attributable to the cash-generating units electricity distribution and electricity generation and trading as presented in the table below:

Cash-generating unit	Carrying amount of the goodwill allocated to the cash-generating unit in € millions
Electricity distribution	322.3
Electricity generation and trading	259.0

The goodwill that is allocated to the other cash-generating units accounted for less than 10% of total goodwill. It amounted to a total of € 160.0 million.

The recoverable amount of the cash-generating unit is determined on the basis of fair value less costs to sell. Using a business valuation model, fair value is derived from the cash flow planning, based on the mid-term planning approved by the Board of Management for a period of three years and valid as of the date of the impairment test. The planning is based on past experience and on estimates concerning the future market development.

The discount rates applied to the cash flows are determined on the basis of market data and range from 7.2% to 11.3% after tax (prior year: 8.0% to 13.5% after tax).

A constant growth rate of 1.5% is used to extrapolate the cash flows beyond the detailed planning period taking into account the expected price- and volume-related growth.

Goodwill by segment developed as follows:

€ millions	Electricity	Gas	Energy and environ-mental services	Total
Carrying amounts as of January 1, 2006	468.8	61.9	38.3	569.0
Increase/decrease due to changes in the consolidated companies	185.0	0.0	-0.2	184.8
Other changes	-8.4	-4.1	0.0	-12.5
Carrying amounts as of December 31, 2006	645.4	57.8	38.1	741.3
Carrying amounts as of January 1, 2005	465.9	58.2	37.6	561.7
Increase/decrease due to changes in the consolidated companies	-18.5	-0.8	0.2	-19.1
Impairment	14.0	0.0	0.0	14.0
Other changes	35.4	4.5	0.5	40.4
Carrying amounts as of December 31, 2005	468.8	61.9	38.3	569.0

(10) Property, plant and equipment

€ millions	Land and buildings	Technical equipment and machines	Distri-bution plants	Other equipment	Assets under construction	Total
Cost						
As of January 1, 2006	3,240.9	11,191.6	13,371.9	1,175.4	345.2	29,325.0
Increase/decrease due to changes in the consolidated companies	310.8	337.6	484.4	57.4	19.5	1,209.7
Additions	31.1	213.8	239.7	67.2	205.1	756.9
Reclassifications	24.0	69.3	63.9	18.3	-163.6	11.9
Exchange differences	3.7	-6.1	5.9	-0.4	0.0	3.1
Disposals	32.5	30.6	83.6	62.5	15.2	224.4
As of December 31, 2006	3,578.0	11,775.6	14,082.2	1,255.4	391.0	31,082.2
Accumulated depreciation						
As of January 1, 2006	1,229.0	9,263.3	7,793.0	872.2	7.3	19,164.8
Decrease due to changes in the consolidated companies	1.3	1.6	0.0	3.9	0.3	7.1
Additions	100.2	284.3	292.4	79.5	0.0	756.4
Reclassifications	2.9	-4.5	7.2	0.3	0.0	5.9
Exchange differences	0.1	-4.1	2.0	-0.4	0.0	-2.4
Disposals	14.4	25.2	66.2	58.3	0.0	164.1
Reversal of impairment losses	3.2	4.2	0.0	0.0	0.0	7.4
As of December 31, 2006	1,313.3	9,508.0	8,028.4	889.4	7.0	19,746.1
Carrying amounts						
As of December 31, 2006	2,264.7	2,267.6	6,053.8	366.0	384.0	11,336.1

€ millions	Land and buildings	Technical equipment and machines	Distri-bution plants	Other equipment	Assets under construction	Total
Cost						
As of January 1, 2005	3,247.4	11,094.9	13,299.0	1,188.4	262.8	29,092.5
Increase/decrease due to changes in the consolidated companies	-1.0	-6.2	-30.9	-7.2	-0.5	-45.8
Additions	26.6	147.7	155.6	52.3	197.1	579.3
Reclassifications	24.7	30.5	50.1	4.3	-102.9	6.7
Exchange differences	1.1	-1.7	3.9	0.0	0.2	3.5
Disposals	57.9	73.6	105.8	62.4	11.5	311.2
As of December 31, 2005	3,240.9	11,191.6	13,371.9	1,175.4	345.2	29,325.0
Accumulated depreciation						
As of January 1, 2005	1,185.9	9,107.3	7,622.9	870.1	7.0	18,793.2
Decrease due to changes in the consolidated companies	1.3	4.8	22.6	5.9	0.0	34.6
Additions	64.4	220.6	273.1	69.0	0.0	627.1
Reclassifications	2.6	7.6	8.3	-1.8	0.2	16.9
Exchange differences	0.0	-1.0	1.4	0.0	0.1	0.5
Disposals	22.6	55.1	90.1	59.2	0.0	227.0
Reversal of impairment losses	0.0	11.3	0.0	0.0	0.0	11.3
As of December 31, 2005	1,229.0	9,263.3	7,793.0	872.2	7.3	19,164.8
Carrying amounts						
As of December 31, 2005	2,011.9	1,928.3	5,578.9	303.2	337.9	10,160.2

Items of **property, plant and equipment** are encumbered by property liens totalling € 22.2 million (prior year: € 52.3 million).

Land and buildings also include land rights and buildings on third-party land. Technical equipment and machinery primarily comprise generating facilities and gas transfer stations. Other equipment includes furniture and fixtures.

Finance leases account for € 168.0 million (prior year: € 175.3 million) of the carrying amount of property, plant and equipment. The finance leases pertain in particular to the powerhouse of the Rheinhafen thermal power station in Karlsruhe and a gas grid in Saxony. It is highly likely that EnBW will exercise its option to purchase the powerhouse when the contract expires in 2015.

The carrying amounts of the finance leases recognised as non-current assets are summarised below:

€ millions[1]	12/31/2006	12/31/2005
Franchises, industrial rights and similar rights and assets	281.8	314.0
Land, land rights and buildings including buildings on third-party land	26.2	29.8
Technical equipment and machines	141.8	145.5
Total	**449.8**	**489.3**

[1]Prior-year figures adjusted

Group capital expenditures on intangible assets and property, plant and equipment of € 630.1 million are derived as follows from the statement of changes in non-current assets:

€ millions[1]	12/31/2006	12/31/2005
Additions to property, plant, equipment, and intangible assets according to the statement of changes in non-current assets	791.2	606.0
Additions to the provision recognised for the decommissioning and dismantling of nuclear power generating plants	-161.1	-59.0
Capital expenditures	**630.1**	**547.0**

[1]Prior-year figures adjusted

(11) Entities accounted for using the equity method

€ millions	
Cost	
As of January 1, 2006	1,374.1
Increase/decrease due to changes in the consolidated companies	-308.8
Increase/decrease due to profits/losses	107.6
Offsetting of negative differences with effect on profit or loss	14.8
Increase/decrease due to amounts recognised directly in equity	72.1
Reclassifications	27.9
Exchange differences	-1.9
Decrease due to dividend distributions	50.8
Other additions/disposals	99.4
As of December 31, 2006	1,334.4
Accumulated impairment	
As of January 1, 2006	37.7
Decrease due to changes in the consolidated companies	30.9
Additions	0.0
Reclassifications	0.0
As of December 31, 2006	6.8
Carrying amount	
As of December 31, 2006	1,327.6

Cost	
As of January 1, 2005	1,175.4
Increase/decrease due to changes in the consolidated companies	323.6
Increase/decrease due to profits/losses	94.3
Offsetting of negative differences with effect on profit or loss	0.0
Increase/decrease due to amounts recognised directly in equity	18.0
Reclassifications	-181.7
Exchange differences	-5.9
Decrease due to dividend distributions	47.1
Other additions/disposals	-2.5
As of December 31, 2005	1,374.1
Accumulated impairment	
As of January 1, 2005	35.8
Decrease due to changes in the consolidated companies	0.0
Additions	6.8
Reclassifications	-4.9
As of December 31, 2005	37.7
Carrying amount	
As of December 31, 2005	1,336.4

The goodwill disclosed from equity consolidation came to € 121.2 million (prior year: € 103.9 million).

The table below shows the key items of the income statements and balance sheets of the entities accounted for using the equity method:

Earnings figures of the entities accounted for using the equity method

€ millions	2006	2005
Revenue	4,538.6	3,199.4
Profit for the year	383.9	198.7
Adjustment to EnBW investment and equity measurement	-249.5	-111.2
Share in profit of the entities accounted for using the equity method	134.4	87.5

Balance sheet figures of the entities accounted for using the equity method

€ millions	12/31/2006	12/31/2005
Assets	8,035.9	8,536.2
Liabilities	4,301.3	4,243.3
Equity	3,734.6	4,292.9
Adjustment to EnBW investment and equity measurement	-2,407.0	-2,956.5
Carrying amount of the investments in entities accounted for using the equity method	1,327.6	1,336.4

The fair value of those investments for which there are published price quotations amounts to € 1,571.9 million (prior year: € 1,090.2 million). The carrying amount of these investments is € 1,060.1 million (prior year: € 776.9 million).

The following entities accounted for using the equity method have a different balance sheet date and are consolidated with the figures from their financial statements as of September 30, 2006:

> Elektrizitätswerk Rheinau AG, Rheinau/Switzerland
> DIW Deutsche Industriewartung AG, Stuttgart
> EVN AG, Maria Enzersdorf/Austria

As of the balance sheet date, EnBW AG holds a share of 20% or more, directly or via its subsidiaries, in 109 (prior year: 102) other entities. However, these are not accounted for using the equity method, either because they do not meet the IFRS reporting requirements or because they are immaterial.

(12) Other financial assets

The **shares in affiliated entities** disclosed in the financial assets are companies that are not included in the consolidated financial statements due to immateriality.

The **long-term investments** are mainly fixed-interest securities as well as listed shares. To a large extent, the long-term investments are held in special funds. For consolidation purposes, the individual securities in the special funds are shown separately in the consolidated balance sheet by type of investment.

Unrealised exchange gains totalled € 428.5 million (prior year: € 293.4 million), while unrealised exchange losses came to € 41.0 million (prior year: € 17.7 million).

Investments in the 'held-to-maturity' category amount to € 938.5 million (prior year: € 264.2 million) as of December 31, 2006. The fair value amounts to € 919.6 million as of the cut-off date (prior year: € 263.1 million).

Loans comprise loans to affiliated entities of € 0.3 million (prior year: € 0.3 million), loans to entities in which investments are held of € 23.5 million (prior year: € 17.4 million) and other loans of € 110.7 million (prior year: € 77.1 million).

€ millions	Shares in affiliated entities	Other invest-ments[1]	Long-term invest-ments[2]	Loans	Total
Cost					
As of January 1, 2006	54.6	850.1	4,963.7	161.6	6,030.0
Increase/decrease due to changes in the consolidated companies	0.0	25.0	-456.9	49.0	-382.9
Additions	1.2	136.3	3,258.5	40.0	3,436.0
Reclassifications	8.4	68.4	-51.0	-16.4	9.4
Exchange differences	0.0	-0.9	0.0	-2.8	-3.7
Disposals	0.1	76.3	2,484.6	43.5	2,604.5
As of December 31, 2006	64.1	1,002.6	5,229.7	187.9	6,484.3
Accumulated impairment					
As of January 1, 2006	10.6	116.8	31.1	66.8	225.3
Decrease due to changes in the consolidated companies	0.0	0.0	0.0	0.0	0.0
Additions	4.7	18.8	0.0	2.2	25.7
Reclassifications	0.0	14.3	-14.3	0.0	0.0
Exchange differences	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	10.7	0.0	4.5	15.2
Reversal of impairment losses	0.0	0.0	0.0	11.1	11.1
As of December 31, 2006	15.3	139.2	16.8	53.4	224.7
Carrying amounts					
As of December 31, 2006	48.8	863.4	5,212.9	134.5	6,259.6

Cost					
As of January 1, 2005	11.2	395.6	4,681.2	284.8	5,372.8
Increase/decrease due to changes in the consolidated companies	42.6	3.3	0.0	-0.1	45.8
Additions	0.9	76.6	4,587.1	46.6	4,711.2
Reclassifications	0.0	389.2	-95.1	-135.8	158.3
Exchange differences	0.0	0.0	0.0	-0.1	-0.1
Disposals	0.1	14.6	4,209.5	33.8	4,258.0
As of December 31, 2005	54.6	850.1	4,963.7	161.6	6,030.0
Accumulated impairment					
As of January 1, 2005	4.7	132.0	32.1	66.9	235.7
Increase due to changes in the consolidated companies	5.9	0.0	0.0	0.0	5.9
Additions	0.0	12.0	0.0	0.5	12.5
Reclassifications	0.0	-22.4	0.0	0.0	-22.4
Exchange differences	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	2.4	0.0	-0.1	2.3
Reversal of impairment losses	0.0	2.4	1.0	0.7	4.1
As of December 31, 2005	10.6	116.8	31.1	66.8	225.3
Carrying amounts					
As of December 31, 2005	44.0	733.3	4,932.6	94.8	5,804.7

[1] Of the additions, € 68.5 million stems from measurement at market value.
[2] Of the additions, € 167.3 million stems from market valuation, of the disposals € 70.2 million.

(13) Investment properties

€ millions	
Cost	
As of January 1, 2006	229.0
Increase/decrease due to changes in the consolidated companies	0.0
Additions	1.7
Reclassifications	-26.1
Exchange differences	0.0
Disposals	4.2
As of December 31, 2006	200.4
Accumulated depreciation	
As of January 1, 2006	90.8
Decrease due to changes in the consolidated companies	0.0
Additions	7.1
Reclassifications	-10.0
Exchange differences	0.0
Disposals	1.6
Reversal of impairment losses	1.0
As of December 31, 2006	85.3
Carrying amount	
As of December 31, 2006	115.1

Cost	
As of January 1, 2005	237.9
Increase/decrease due to changes in the consolidated companies	0.0
Additions	0.2
Reclassifications	-6.5
Exchange differences	0.0
Disposals	2.6
As of December 31, 2005	229.0
Accumulated depreciation	
As of January 1, 2005	88.5
Decrease due to changes in the consolidated companies	0.0
Additions	22.2
Reclassifications	-16.8
Exchange differences	0.0
Disposals	1.7
Reversal of impairment losses	1.4
As of December 31, 2005	90.8
Carrying amount	
As of December 31, 2005	138.2

As of the balance sheet date, the market value of the real estate that is classified as **investment properties** was € 128.2 million (prior year: € 144.0 million). The market value was determined either using the discounted cash flow method or from current market prices. The valuation was performed by internal and external valuers. About half of the investment properties were valued by external valuers. Rent income totalled € 14.1 million (prior year: € 13.6 million). The directly allocable operating expenses amounted to € 0.9 million (prior year: € 1.0 million). Operating expenses that was not offset by rent income totalled € 0.4 million (prior year: € 0.6 million).

The impairment losses on investment properties amounted to € 5.2 million (prior year: € 19.9 million). There are no obligations to purchase investment properties.

(14) Other non-current assets

Other non-current assets mainly consist of non-current receivables of € 334.3 million (prior year: € 326.5 million), tax refund claims of € 256.6 million (prior year: € 12.9 million), deferred lease instalments on an electricity procurement right of € 38.4 million (prior year: € 48.1 million), payments on account of € 29.2 million (prior year: € 28.0 million) and derivative financial instruments of € 11.1 million (prior year: € 24.8 million). Long-term tax refund claims are discounted at 4.5%.

The **finance lease receivables**, which mainly result from energy supply contracts, have the following parameters and terms to maturity:

€ millions	12/31/2006	12/31/2005
Total lease instalments	77.8	0.0
Interest portion of outstanding lease instalments	23.0	0.0
Present value of outstanding lease instalments	**54.8**	**0.0**

The terms to maturity of the nominal value of the outstanding lease instalments are as follows:

€ millions	12/31/2006	12/31/2005
Due within 1 year	11.1	0.0
Due in 1 to 5 years	43.8	0.0
Due in more than 5 years	22.9	0.0
Total	**77.8**	**0.0**

The present value of the outstanding lease instalments can be broken down as follows:

€ millions	12/31/2006	12/31/2005
Due within 1 year	10.6	0.0
Due in 1 to 5 years	31.3	0.0
Due in more than 5 years	12.9	0.0
Total	**54.8**	**0.0**

Bad debt allowances of € 7.3 million have been recognised for outstanding finance lease receivables.

(15) Current assets

Inventories

€ millions	12/31/2006	12/31/2005
Materials and supplies	246.1	221.5
Nuclear fuel rods (incl. payments on account)	285.0	307.1
Work in progress	31.0	18.4
Finished goods and merchandise	34.5	19.7
Payments on account	15.7	11.5
Total	**612.3**	**578.2**

There are no restrictions on titles to assets or other encumbrances. There are no significant long-term construction contracts which would require accounting for as long-term construction contracts.

In the reporting year, write-downs of € 9.2 million (prior year: € 6.2 million) were recorded on inventories.

Financial assets

Current financial assets mainly include profit participation certificates as well as fixed-interest securities. Other current financial assets principally relate to loans issued. Due to the measurement at market value, write-ups came to € 3.3 million in the fiscal year (prior year: € 23.8 million) and write-downs to € 2.2 million (prior year: € 1.4 million).

€ millions	12/31/2006	12/31/2005
Profit participation rights, funds and shares	204.8	210.4
Other current financial assets	69.2	47.4
Total	**274.0**	**257.8**

Trade receivables

Trade receivables from affiliated entities amounted to € 9.1 million (prior year: € 11.1 million). Trade receivables from entities in which equity investments are held amounted to € 108.0 million (prior year: € 71.5 million).

Valuation allowances on receivables and other assets increased by € 23.8 million affecting net income (prior year: reduced by € 7.7 million).

Income tax refund claims

Income tax refund claims principally relate to deductible tax on investment income and deductible withholding tax on interest from prior years and the current year.

Other current assets

€ millions	12/31/2006	12/31/2005
Derivative financial instruments	524.7	698.3
Payments on account for electricity procurement agreements	113.6	63.8
Sundry assets	540.2	398.8
Total	**1,178.5**	**1,160.9**

The sundry assets mainly contain payments on account and accrued interest.

Cash and cash equivalents

Cash and cash equivalents relate almost exclusively to bank balances, largely in the form of time and call deposits.

(16) Equity

The development of equity and profit for the year is presented separately in the statement of changes in equity.

Subscribed capital

The capital stock of EnBW AG amounts to € 640,015,872.00 and is divided into 250,006,200 registered no-par-value shares. The no-par-value shares each represent an imputed share of € 2.56/share of the subscribed capital.

Electricité de France International SA (EDFI) and Zweckverband Oberschwäbische Elektrizitätswerke (OEW) each directly hold 45.01% of the capital stock of EnBW AG as of December 31, 2006.

The Board of Management of EnBW AG is entitled, with the approval of the Supervisory Board, to increase the capital stock by June 4, 2007:

- by up to € 64,001,587 by issuing new shares in exchange for a cash contribution (authorised capital I).

- by up to € 64,001,587 by issuing new shares in exchange for a cash contribution or contribution in kind (authorised capital II).

Capital reserve

The capital reserve contains the amounts received from the issue of shares of EnBW AG which exceed the calculated value of the shares.

Revenue reserves

The revenue reserves contain the pro rata revenue reserves of the parent company and the other companies included in the consolidation after the date of initial consolidation.

Revaluation reserve in accordance with IFRS 3

The revaluation reserve in accordance with IFRS 3 was set up in relation to the acquisition of Stadtwerke Düsseldorf AG, which was carried out in stages. It is determined on the basis of the changes in fair value of assets and liabilities occurring between the dates of acquisition in proportion to the share held prior to full consolidation.

Treasury shares

As of December 31, 2006, EnBW AG holds 5,749,677 treasury shares that are valued at € 35.79 in the separate financial statements of EnBW AG. They account for 2.3% of the capital stock. The 300,000 treasury shares previously held indirectly by the subsidiary Energiedienst Holding AG were sold in the reporting period. The cash inflow from the sale came to € 14.4 million.

The company has no rights, in particular dividend entitlements, from the directly or indirectly held treasury shares. In accordance with the rulings of IFRS, the treasury shares are not recognised as securities but offset against the revenue reserves on the face of the balance sheet.

Retained earnings of EnBW AG

Taking account of the profit carryforward of € 30.3 million and after transferring € 14.6 million to the legal reserve and € 249.6 million to the revenue reserves, retained earnings come to € 279.9 million. On April 26, 2007, the Board of Management will propose to the annual general meeting that a dividend of € 1.14 per share be distributed from the retained earnings of EnBW AG. As of December 31, 2006, a total of 244,256,523 shares were entitled to dividends. If the annual general meeting approves this proposal, the amount distributed by EnBW AG for fiscal year 2006 will total € 278.5 million.

The carrying amounts recognised by EnBW AG pursuant to German commercial law for subscribed capital and the capital reserve were included in the statement of group equity pursuant to IFRS. The retained earnings of EnBW AG are disclosed under revenue reserves.

Total net income recognised in equity

Total net income recognised in equity comprises changes in the market value of marketable securities and investments, changes in the market value of cash flow hedges as well as currency conversion differences from the conversion of financial statements of foreign entities. The reserve for marking negotiable securities and investments to market also includes the equity measurement amounts recognised directly in equity.

In the reporting year, expenses of € 33.3 million (prior year: income of € 39.3 million) were recognised in the income statement from the reversal of the reserve set up in the prior year to mark the financial instruments to market.

Minority interests

Minority interests relate to shares in group companies held by third parties. The minority interests relate in particular to ENSO Strom AG, ENSO Erdgas GmbH, the Energiedienst group, Stadtwerke Düsseldorf AG and Gasversorgung Süddeutschland GmbH.

(17) Provisions

The provisions disclosed separately by maturity in the balance sheet are combined for the explanations of the items in the notes to the financial statements.

€ millions	≤1 year	>1 year	12/31/2006	≤1 year	>1 year	12/31/2005
Provisions for pensions and similar obligations	191.4	3,667.2	3,858.6	184.8	3,583.5	3,768.3
Tax provisions	319.0	34.3	353.3	348.2	60.9	409.1
Provisions relating to nuclear power	128.4	4,405.1	4,533.5	125.2	4,304.2	4,429.4
Other provisions	667.5	759.2	1,426.7	628.7	585.4	1,214.1
Other electricity provisions	188.2	30.5	218.7	245.4	40.4	285.8
Personnel provisions	107.7	304.7	412.4	108.5	259.5	368.0
Provisions for potential losses from pending transactions	92.1	328.9	421.0	66.1	237.7	303.8
Sundry provisions	279.5	95.1	374.6	208.7	47.8	256.5
Total	**1,306.3**	**8,865.8**	**10,172.1**	**1,286.9**	**8,534.0**	**9,820.9**

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations are recorded on the basis of the existing commitments for future and current post-employment benefits to current and former employees with a pension entitlement as well as their surviving dependants. Most of them are defined benefit plans. The commitments are measured above all on the basis of the length of service and remuneration of the employees.

The provision amount corresponds to the present value of the expected future obligations adjusted for unrecognised actuarial gains and losses. The provisions are calculated using actuarial methods. Plan assets were created in accordance with IAS 19.7 and will be used exclusively to cover pension obligations. They were deducted from the pension obligations.

The main parameters (averages) of the calculation of the defined benefit plans for the domestic companies are presented below:

	12/31/2006	12/31/2005
Discount rate	4.50%	4.25%
Future expected wage and salary increases	3.00%	2.85%
Future expected pension increase	2.25%	2.20%
Staff turnover	2.00%	2.00%
Expected return on plan assets	5.50%	6.00%

The calculations are based on the 2005 G mortality tables of Prof. Dr. Klaus Heubeck.

The expense for pensions and similar obligations is comprised as follows:

€ millions	12/31/2006	12/31/2005
Personnel expenses		
Current service cost	63.4	59.4
Past service cost	0.1	0.3
Expected return on plan assets	-5.2	-0.3
Actuarial gains/losses	17.8	2.8
	76.1	**62.2**
Interest result		
Interest cost	189.0	197.2
Total	**265.1**	**259.4**

The carrying amount of the pension and similar benefit obligations can be reconciled to the present value of the benefit obligations as follows:

€ millions	12/31/2006	12/31/2005
Projected benefit obligation	4,452.3	4,529.9
of which internally financed benefits	(4,232.6)	(4,305.0)
of which externally financed benefits	(219.7)	(224.9)
Fair value of plan assets	-105.6	-101.2
Plan surplus	11.5	8.7
Unrecognised actuarial gains/losses	-499.5	-668.9
Unrecognised past service cost	-0.1	-0.2
Provisions for pensions and similar obligations	**3,858.6**	**3,768.3**

Statement of changes in plan assets

€ millions	2006	2005
Fair value of plan assets at the beginning of the fiscal year	101.2	12.2
Expected return on plan assets	5.2	0.3
Transfer of assets	8.8	89.5
Benefits paid	-7.0	-1.1
Actuarial gains and losses	-1.8	0.1
Other changes	-0.8	0.2
Fair value of plan assets at the end of the fiscal year	**105.6**	**101.2**

The actual return on plan assets amounted to € 3.4 million (prior year: € 0.4 million).

The difference between actuarial assumptions and the actual development of plan assets amounted to € 1.8 million (prior year: € 0.1 million).

Composition of plan assets

%[1]	12/31/2006	12/31/2005
Shares	23.5	12.0
Fixed-interest securities	61.5	88.0
Other assets	15.0	0.0
	100.0	**100.0**

[1] Prior-year figures adjusted

The investment objective for the external plan assets is to cover benefit obligations with a similar term. Plan assets do not include any shares of EnBW group companies. The investment strategy takes into consideration the maturity structure and volume of benefit obligations as well as minimum requirements on plan assets as well as any other relevant factors. The average return was 3.4% (prior year: 3.3%). The expected return was 5.5% (prior year: 6.0%).

Development of the present value of the defined benefit obligation

€ millions	2006	2005
Projected benefit obligation of all obligations at the beginning of the fiscal year	4,529.9	4,006.0
Current service cost	63.4	59.4
Interest cost	189.0	197.2
Benefits paid	-195.3	-187.2
Actuarial gains and losses	-153.8	454.3
of which from changes in headcount	(22.7)	(-29.6)
Past service cost	-0.1	-0.3
Changes in the consolidated companies and currency adjustments	17.3	-1.0
Reclassifications	1.9	1.5
Present value of the defined benefit obligation at the end of the fiscal year	**4,452.3**	**4,529.9**

€ millions	12/31/2006	12/31/2005
Benefits covered by assets	219.7	224.9
Full coverage	91.8	93.5
Partial coverage	127.9	131.4
Benefits not covered by assets	4,232.6	4,305.0

€ millions	12/31/2006	12/31/2005
Present value of benefit obligations	4,452.3	4,529.9
Fair value of plan assets	-105.6	-101.2
Plan surplus or deficit	4,346.7	4,428.7

Statement of changes in provisions

€ millions[1]	As of 1/1/2006	Increases	Reversals
Provisions for pensions and similar obligations	3,768.3	76.1	0.0
Tax provisions	409.1	182.4	58.4
Provisions relating to nuclear power	4,429.4	148.1	195.9
Other provisions	1,214.1	492.0	92.4
Other electricity provisions	285.8	78.3	23.0
Personnel provisions	368.0	98.5	9.9
Provisions for onerous contracts from pending transactions	303.8	182.9	12.7
Sundry provisions	256.5	132.3	46.8
Total	**9,820.9**	**898.6**	**346.7**

The average residual term of the provisions for pensions and similar obligations as well as of the provisions relating to nuclear power is more than ten years.

Tax provisions
The tax provisions contain provisions for income taxes like corporate income tax including solidarity surcharge as well as trade tax on income.

Provisions relating to nuclear power
The provisions relating to nuclear power have been recorded for the disposal of irradiated fuel rods and radioactive waste as well as for the decommissioning and restoration of contaminated plants. They are based on public law obligations and requirements in the operating licences.

€ millions	12/31/2006	12/31/2005
Decommissioning and restoration	2,688.7	2,394.0
Disposal of spent fuel rods	1,710.4	1,920.5
Waste	134.4	114.9
Total	**4,533.5**	**4,429.4**

The provisions for the decommissioning and restoration of contaminated plants are recognised at the discounted settlement amount at the time of commissioning. This is disclosed accordingly under the generating facilities and depreciated systematically. The provisions are increased annually to reflect the passage of time.

Increase arising from the passage of time	Changes recognised directly in equity	Changes in consolidated companies, currency adjustments, reclassifications	Utilisations	As of 12/31/2006
189.0	-3.5	17.0	188.3	3,858.6
0.0	0.0	-91.4	88.4	353.3
240.0	161.1	-2.0	247.2	4,533.5
19.1	-55.3	154.0	304.8	1,426.7
0.0	-32.2	-0.9	89.3	218.7
12.2	-0.7	33.6	89.3	412.4
6.0	0.0	-3.4	55.6	421.0
0.9	-22.4	124.7	70.6	374.6
448.1	**102.3**	**77.6**	**828.7**	**10,172.1**

Changes in estimates due to changes in assumptions concerning the future development of costs were recognised without effect on profit or loss by adjusting the appropriate balance sheet item.

The provisions for the disposal of irradiated fuel rods and radioactive waste mainly contain the costs of reprocessing including the cost of the disposal of reprocessing waste as well as the cost of ultimate storage. The provisions are set up in an amount equivalent to the present value of the future expected obligations.

The provisions are increased annually to reflect the passage of time.

The estimated costs are determined on the basis of external appraisals or based on the contractual arrangements. Decommissioning costs are calculated on the basis of the scenario that assumes that the plants will be removed immediately. The interim and ultimate storage costs are calculated according to the "Scheibenmodell" generally applied in the industry.

The discount rate for the calculation of the provisions relating to nuclear power is unchanged at 5.5%. The part of the provision for the decommissioning and removal of the plants recognised under the generating facilities amounts to € 262.7 million (prior year: € 128.6 million).

The payments on account taken into account in the provisions relating to nuclear power amount to € 430.6 million (prior year: € 425.0 million).

Other provisions

Other electricity provisions relate to obligations from CO_2 emission allowances, the German Renewable Energies Act (EEG), the German Combined Heat and Power Act and the conventional procurement of electricity and fuels.

Personnel provisions concern above all obligations from early retirement arrangements, long service awards and energy price reductions promised for retirement age.

Other provisions are discounted using an interest rate of 4.50% on average (prior year: 4.25%).

(18) Deferred taxes

The measurement differences of continuing operations from the tax accounts on which deferred taxes have been recognised break down as follows:

€ millions	12/31/2006 Deferred tax assets[1]	12/31/2006 Deferred tax liabilities[1]	12/31/2005 Deferred tax assets[1]	12/31/2005 Deferred tax liabilities[1,2]
Non-current assets	98.2	3,401.2	13.0	2,753.3
Current assets and non-current assets held for sale	1,146.0	382.8	238.4	522.6
Non-current liabilities	1,882.2	2,127.3	1,368.9	653.1
Current liabilities and non-current liabilities held for sale	746.3	64.0	507.1	40.1
Unused tax losses	145.7		288.3	
Subtotal	**4,018.4**	**5,975.3**	**2,415.7**	**3,969.1**
Offsetting	-3,979.5	-3,979.5	-2,372.5	-2,372.5
Total	**38.9**	**1,995.8**	**43.2**	**1,596.6**

[1] Deferred tax assets and liabilities prior to offsetting
[2] Prior-year figures adjusted

Deferred tax assets are recognised on unused tax losses only to the extent that it is probable that taxable profit will be available against which the temporary difference can be used. Unused tax losses reduced the current tax burden in the reporting period by € 180.1 million (prior year: € 232.3 million). Unused tax losses amounted to € 76.5 million for corporate income tax and € 223.3 million for trade tax (prior year: € 91.3 million for CIT and € 106.3 million for trade tax). The existing unused tax losses can be carried forward for an indefinite period. According to the law to reduce tax benefits, from 2004 onwards only 60% of the current tax income which exceeds € 1 million can be offset against unused tax losses.

The deferred taxes on unused tax losses break down as follows:

€ millions	12/31/2006	12/31/2005
Corporate income tax (or comparable foreign tax)	120.2	208.3
Trade tax	25.5	80.0
Total	**145.7**	**288.3**

Deferred tax assets of € 3,979.5 million (prior year: € 2,372.5 million) were offset against deferred tax liabilities in 2006.

Deferred tax assets totalling € 0.4 million (prior year: liabilities of € 2.6 million) were credited directly to equity under total net income recognised in equity.

(19) Liabilities and subsidies

The liabilities and subsidies disclosed separately by maturity in the balance sheet are combined for the explanations of the items in the notes to the financial statements.

€ millions[1]	12/31/2006	12/31/2005
Non-current liabilities	4,311.5	4,750.9
Current liabilities	5,332.7	3,865.9
Liabilities	**9,644.2**	**8,616.8**
Non-current subsidies	1,698.3	1,688.7
Current subsidies	79.5	92.8
Subsidies	**1,777.8**	**1,781.5**
Non-current liabilities and subsidies	6,009.8	6,439.6
Current liabilities and subsidies	5,412.2	3,958.7
Liabilities and subsidies	**11,422.0**	**10,398.3**

[1] Prior-year figures adjusted

Financial statements

Liabilities	12/31/2006		of which due in		12/31/2005
€ millions[1]		< 1 year	1–5 years	> 5 years	
Bonds	3,258.1	749.8	460.5	2,047.8	2,860.6
Liabilities to banks	853.9	403.5	374.7	75.7	965.6
Other financial liabilities	998.1	73.0	324.3	600.8	872.6
Financial liabilities	**5,110.1**	**1,226.3**	**1,159.5**	**2,724.3**	**4,698.8**
Payments received on account of orders	120.7	75.9	0.3	44.5	121.6
Trade payables	2,170.7	2,164.6	6.1	0.0	1,762.8
of which liabilities to affiliated entities	(10.5)	(10.5)	(0.0)	(0.0)	(7.8)
of which liabilities to entities in which investments are held	(162.9)	(158.8)	(4.1)	(0.0)	(119.8)
of which liabilities to entities accounted for using the equity method	(0.9)	(0.9)	(0.0)	(0.0)	(1.6)
Other deferred income	230.7	61.6	169.1	0.0	184.6
Liabilities from derivatives	482.1	479.2	2.9	0.0	838.8
Other liabilities	1,529.9	1,325.1	14.0	190.8	1,010.2
of which from income taxes	(126.8)	(126.8)	(0.0)	(0.0)	(18.5)
of which from other taxes	(272.8)	(272.8)	(0.0)	(0.0)	(221.8)
of which relating to social security	(36.2)	(21.7)	(5.7)	(8.8)	(57.2)
Total	**9,644.2**	**5,332.7**	**1,351.9**	**2,959.6**	**8,616.8**

[1] Prior-year figures adjusted

Financial liabilities rose by € 411.3 million in the fiscal year 2006.

With respect to the liabilities for bonds, a long-term bond of € 500 million was issued in October 2006 via EnBW International Finance B.V. to refinance a bond of EnBW International Finance B.V. of € 750 million on the capital market that matures on February 28, 2007. A bond of EnBW International Finance B.V. of € 65 million which matured on May 5, 2006 was repaid as scheduled.

Liabilities to banks were reduced in the course of the year by scheduled repayments.

The rise in other financial liabilities is attributable to the first-time consolidation of Stadtwerke Düsseldorf AG. This item includes mainly long-term finance leases that were repaid as scheduled during the year.

The maturity structure of our financial liabilities is as follows:

€ millions	Due in 2007	Due in 2008	Due in 2009	Due in 2010
Bonds	749.8	248.6	0.0	211.9
Liabilities to banks	403.5	89.8	202.6	45.3
Other financial liabilities	73.0	98.7	70.3	75.1
Financial liabilities	**1,226.3**	**437.1**	**272.9**	**332.3**

€ millions	Due in 2011	Due after 2011	Total
Bonds	0.0	2,047.8	3,258.1
Liabilities to banks	37.0	75.7	853.9
Other financial liabilities	80.2	600.8	998.1
Financial liabilities	**117.2**	**2,724.3**	**5,110.1**

The structure of the main bonds is as follows:

Issuer	Issue volume	Carrying amounts	Coupon	Maturity
EnBW International Finance B.V.	750 mio. €	749.8 mio. €	5.125 %	02/28/2007
EnBW International Finance B.V.	400 mio. CHF	248.6 mio. €	2.250 %	02/25/2008
EnBW International Finance B.V.	150 mio. €	149.7 mio. €	5.000 %	09/06/2010
EnBW International Finance B.V.	1,000 mio. €	996.1 mio. €	5.875 %	02/28/2012
EnBW International Finance B.V.	500 mio. €	494.0 mio. €	4.250 %	10/19/2016
EnBW International Finance B.V.	500 mio. €	494.7 mio. €	4.875 %	01/16/2025
Various		125.2 mio. €		
Total bonds		**3,258.1 mio. €**		

The fair market value of the bonds as of December 31, 2006 was € 3,362.1 million, while the fair market value of the liabilities to banks came to € 865.9 million.

The majority of the liabilities to banks are bilateral loan agreements.

As of December 31, 2006, EnBW AG had a fully unused contractually agreed syndicated line of credit of € 2.5 billion. In addition, the group had further free lines of credit of € 259 million at its disposal.

The average interest on financial liabilities developed as follows as of December 31, 2006:

Average interest (%)	12/31/2006	12/31/2005
Liabilities to banks	4.7	4.6
Bonds	4.8	4.7
Commercial papers	–	–
Other financial liabilities	4.7	4.8
Total financial liabilities	**4.8**	**4.7**

The average interest on financial liabilities changed only marginally in 2006. The large majority of financial liabilities are still subject to long-term fixed interest agreements.

Of the liabilities to banks, € 22.2 million (prior year: € 52.3 million) is secured by property liens.

In fiscal 2006, other financial liabilities primarily include liabilities from finance leases. The minimum payments from such leases have the following maturities:

€ millions	Nominal value	Present value
Due within 1 year	119.2	113.8
Due in 1 to 5 years	474.3	376.3
Due in more than 5 years	543.3	320.8

Liabilities to affiliated entities relate to non-consolidated affiliated entities. Trade payables include accruals for outstanding invoices amounting to € 1,065.1 million (prior year: € 783.1 million). Other liabilities mainly consist of the potential purchase obligations from put options of minority interests of entities that have already been fully consolidated of € 438.1 million (prior year: € 157.7 million), liabilities from taxes of € 399.6 million (prior year: € 240.3 million) and interest obligations from bonds of € 115.9 million (prior year: € 115.8 million).

Subsidies
Subsidies include investment grants, construction cost and investment cost subsidies.

€ millions	12/31/2006	12/31/2005
Investment grants	18.9	22.0
Investment subsidies	36.4	39.5
Construction cost subsidies	1,722.5	1,720.0
Total	**1,777.8**	**1,781.5**

The investment grants were awarded in accordance with Sec. 4a German Investment Grant Act (InvZuIG).

The construction cost subsidies which have not yet been recognised in profit and loss were largely used for capital expenditures in the electricity and gas segments; title to the subsidised assets is retained by the EnBW group companies.

Of the total amount of subsidies, € 1,698.3 million (prior year: € 1,688.7 million) will be recognised in profit and loss in more than one year.

(20) Non-current assets held for sale and assets of discontinued operations

Non-current assets held for sale concern land and buildings. The discontinued operations mainly consist of the Thermoselect activities and the winding up of operations already sold.

Cash of € 48.8 million was received in the fiscal year 2006 from the sale of fully consolidated entities. The cash receipts pertained to the sale of Ceskomorávská plynárenska a.s., Prague/Czech Republic in the first quarter of 2006 and payments from a cash earn-out & vendor note in connection with the sale of APCOA Parking AG in 2004.

The assets and liabilities disclosed net in the consolidated balance sheet break down as follows:

€ millions	12/31/2006	12/31/2005
Non-current assets held for sale	7.4	33.6
Assets of discontinued operations	31.1	34.6
	38.5	**68.2**
Liabilities of discontinued operations	103.0	58.0
	103.0	**58.0**

The result of discontinued operations that is reported separately in the income statement breaks down as follows:

€ millions	2006	2005
Income statement of discontinued operations		
Revenue	46.6	47.9
Expenses	-53.9	-40.9
Financial result	1.0	1.5
Profit or loss from measurement at fair value and from the disposal of assets	22.1	-0.2
Earnings before tax	15.8	8.3
Income tax	-3.3	-9.2
Earnings after tax	12.5	-0.9
Result of discontinued operations	12.5	-0.9

Other disclosures

Earnings per share		2006	2005
Result of continuing operations	€ millions[1]	990.9	532.4
Group net profit for the year	€ millions[1]	1,003.4	531.5
Number of shares outstanding (weighted average)	thousand shares	244,232	240,961
Earnings per share from continuing operations	€[1]	4.06	2.21
Earnings per share from continuing operations before amortisation of goodwill from capital consolidation	€[1]	4.06	2.27
Earnings per share from group net profit	€[1]	4.11	2.21
Dividends per share for fiscal year 2005 of EnBW AG	€	–	0.88
Proposed dividends per share for fiscal year 2006 of EnBW AG	€	1.14	–

[1] Prior-year figures adjusted

Earnings per share is determined by dividing the earnings by the average number of shares outstanding. The indicator may be diluted by potential shares on account of share options or convertible bonds. As EnBW does not have any potential shares, the basic earnings per share is identical to the diluted earnings per share.

Accounting for financial instruments
Financial instruments include primary and derivative financial instruments.

On the assets side the primary financial instruments mainly consist of financial assets, receivables and cash and cash equivalents. On the liabilities side, they consist of liabilities. The primary financial instruments are shown in the balance sheet; the amount of the primary financial instruments indicates the maximum credit risk. Valuation allowances are recorded for any discernable credit risks.

In the course of its operating activities, investments and financing transactions, the EnBW group is exposed to financial price risks in the currency, interest and commodity area. It is company policy to eliminate or limit these risks by systematic risk management. For this purpose, EnBW uses derivatives in accordance with the comprehensive risk management guidelines.

In the context of our energy trading activities, energy trading contracts are entered into for the purpose of price risk management, optimisation of power stations, burden equalisation and optimisation of margins. Trading for own account is only permitted within narrow, clearly defined boundaries.

The derivative financial instruments used to hedge against financial risks are subject to the assessment criteria such as value-at-risk ratios and position limit and loss limit defined in the risk management guidelines. The segregation of duties between trading and back-office processing and control are a further key element of our risk management.

Both physical and financial options and forward transactions are entered into to hedge risks in the commodity area, while forward transactions are used almost exclusively in the foreign exchange area.

All derivative financial instruments which are held for trading are accounted for as assets or liabilities. Derivative financial instruments are measured at market value. The market values are derived from market prices or using generally accepted valuation methods.

Changes in the fair value of derivatives which are neither intended for own use nor qualify as cash flow hedges are recorded in the income statement.

Hedge accounting in accordance with IAS 39 is applied in the finance area mainly for currency hedges for investments with a foreign functional currency and for interest rate hedges for non-current liabilities. In the commodity area, fluctuations of future cash flows from planned procurement and sales transactions are hedged.

Cash flow hedges
Cash flow hedges have been entered into in particular in the commodity area to cover price risks from future sales and procurement transactions as well as to limit the risk of interest rate fluctuation of variable-interest liabilities.

Changes in fair value of the hedges used – above all forward contracts and futures – are thus effectively recorded directly in total net income recognised in equity (measurement of financial instruments at market value) until termination of the hedge.

As of December 31, 2006, unrealised losses from derivatives came to € 79.1 million (prior year: € 123.3 million). The ineffective portion of cash flow hedges resulted in expenses of € 0.3 million as of December 31, 2006 (prior year: € 3.1 million) and reclassifications from total net income recognised in equity resulted in expenses of € 77.9 million (prior year: income of € 4.2 million).

An amount of € 11.9 million was reclassified from total net income recognised in equity for the increase in costs of purchase of inventories.

As of December 31, 2006, existing underlying transactions are covered by cash flow hedges for foreign currencies and interest hedges with terms of up to 3 years (prior year: up to 3 years and 4 years respectively). In the commodity area, the terms of planned underlying transactions are no more than 3 years (prior year: up to 3 years).

For optimisation purposes, hedging relationships are redesignated and dedesignated as is customary in the industry.

Fair value hedges

Fair value hedges are entered into above all to hedge fixed-interest liabilities against market price risks. Interest swaps are used as hedging instruments. With a fair value hedge, both the hedged item and the hedge for an exposure are measured at fair value with effect on income.

Hedges of net investments in foreign entities

Primary foreign currency bonds are used to hedge against foreign exchange risks from investments with a foreign functional currency. As of December 31, 2006, € 11.1 million (prior year: € 2.0 million) stemming from exchange rate changes in the hedges is disclosed in the currency translation item under equity.

Contracts that have been concluded to meet the company's expected usage requirements are not recorded in the balance sheet pursuant to the provisions of IAS 39.

Purchases and sales are generally accounted for as of the settlement date.

Purchases and sales of fuels are made in euros, US dollars or pounds sterling.

The nominal volume of the derivatives presented below is stated net. It represents the sum of all purchase and sale amounts underlying the transactions. The amount of the nominal volume allows conclusions to be drawn about the extent to which derivatives have been used. However, it does not reflect the risk of the group as the derivative transactions are counterbalanced by underlyings with risks that run counter to that of the derivative. Collateral is provided or obtained for derivatives that are traded on stock exchanges.

Counterparty risks are assessed taking into account the term of the current replacement and selling risk. In addition, these risks are analysed with reference to the current rating by the rating agency Moody's. Trading partners that do not have such an external rating are subjected to an internal rating procedure.

The counterparty risk is based on replacement and selling risks resulting from the market value of the item in question with the individual trading partner as of the balance sheet date. Netting options agreed in master agreements concluded with the trading partner are also taken into account when determining the counterparty risk. If there is a netting agreement, positive and negative market values are netted for each trading partner. Otherwise, only positive market values are taken into consideration.

As part of the credit risk management, bilateral margin agreements have been concluded with individual trading partners. Margin payments based on such agreements are considered in the assessment of the counterparty risk.

€ millions[1]	Hedged derivatives			
	Nominal volume		Market value	
	12/31/2006	12/31/2005	12/31/2006	12/31/2005
Forward exchange transactions				
< 1 year	188.1	86.9	-0.1	3.7
1 – 5 years	266.6	138.3	-5.3	12.7
Electricity options and futures				
< 1 year	1,122.8	934.9	-12.3	13.1
1 – 5 years	1,589.7	338.5	-11.4	-56.2
Forward electricity transactions				
< 1 year	47.2		-3.1	
1 – 5 years				
Forward gas transactions and swaps				
< 1 year				
1 – 5 years				
Forward coal transactions and swaps				
< 1 year	349.6	256.3	20.4	-15.6
1 – 5 years	263.6	198.4	8.5	-9.0
Derivatives for emission allowances				
< 1 year				
1 – 5 years				
Interest swaps				
Fixed interest paying				
< 1 year	87.4	79.8	2.2	0.1
> 1 year	172.6	227.9	4.5	0.6
Fixed interest bearing				
< 1 year	14.9	14.9	0.1	1.2
> 1 year	285.1	285.1	1.7	23.3
Other forward transactions and derivatives				
< 1 year				
1 – 5 years				
Total	**4,387.6**	**2,561.0**	**5.2**	**-26.1**

[1] Prior-year figures adjusted

Non-hedged derivatives				Total derivatives			
Nominal volume		Market value		Nominal volume		Market value	
12/31/2006	12/31/2005	12/31/2006	12/31/2005	12/31/2006	12/31/2005	12/31/2006	12/31/2005
605.9	600.4	-6.4	3.2	794.0	687.3	-6.5	6,9
65.6	159.8	-1.0	3.3	332.2	298.1	-6.3	16.0
824.4	521.7	4.9	13.9	1,947.2	1,456.6	-7.4	27.0
63.4	376.3	4.6	-54.2	1,653.1	714.8	-6.8	-110.4
4,233.2	4,124.3	60.8	-97.6	4,280.4	4,124.3	57.7	-97.6
1,362.5	934.8	3.8	20.9	1,362.5	934.8	3.8	20.9
164.4		-2.1		164.4		-2.1	
60.8		-2.2		60.8		-2.2	
531.9	295.1	2.1	2.8	881.5	551.4	22.5	-12.8
91.3	62.7	0.8	-0.1	354.9	261.1	9.3	-9.1
222.9	117.4	-18.2	0.9	222.9	117.4	-18.2	0.9
40.9	31.8	-1.0	0.6	40.9	31.8	-1.0	0.6
10.4		-0.2		97.8	79.8	2.0	0.1
33.7		-1.0		206.3	227.9	3.5	0.6
1.7		-0.1		16.6	14.9	0.0	1.2
37.8		0.2		322.9	285.1	1.9	23.3
132.9	184.1	3.8	12.4	132.9	184.1	3.8	12.4
20.7	56.0	-0.3	4.3	20.7	56.0	-0.3	4.3
8,504.4	**7,464.4**	**48.5**	**-89.6**	**12,892.0**	**10,025.4**	**53.7**	**-115.7**

Contingent liabilities and financial commitments

The disclosures on contingent liabilities and financial commitments relate to the nominal values.

After the amended German Atomic Power Act (AtG) and the amended Directive on the Coverage Provisions in the Nuclear Power Industry (AtDeckV) came into force on April 27, 2002, the German nuclear power plant operators are required to provide evidence of coverage provision up to a maximum amount of € 2.5 billion per case of damage. Of this provision, € 255.6 million is covered by uniform third party liability insurance. Nuklear Haftpflicht GbR is now restricted to a solidarity agreement to cover claims in connection with evacuation measures ordered by the authorities of between € 0.5 million and € 15 million. In proportion to their shares in nuclear power stations, group companies have undertaken to equip their operating companies with sufficient resources so that they can meet their obligations from the membership in Nuklear Haftpflicht GbR at all times.

To fulfil the subsequent coverage provision of € 2,244.4 million per case of damage, EnBW Energie Baden-Württemberg AG and the other ultimate parent companies of the German nuclear power plant operators agreed by contract dated July 11/July 27/August 21/August 28, 2001 to provide financial assistance to the liable nuclear power plant operator in case of damage after exhausting its own possibilities and those of its parent company – so that it can meet its payment obligations (solidarity agreement). According to the agreement, EnBW Energie Baden-Württemberg AG has to bear a 24.948% share of the liability as of December 31, 2006 and 24.921% as of January 1, 2007 plus 5% for loss settlement costs. Sufficient liquidity has been provided for in the liquidity plan.

Financial commitments from rent, lease and leasing agreements are as follows:

€ millions	12/31/2006	12/31/2005
Due within 1 year	69.4	62.6
Due in 1 to 5 years	165.7	195.9
Due in more than 5 years	67.8	47.8
Total	**302.9**	**306.3**

Financial commitments from rent agreements and leases mainly relate to warehouse and administrative buildings as well as electricity-generating facilities.

The EnBW group has long-term purchase commitments for natural gas, coal and other fossil fuels as well as electricity. In addition, there are commitments from long-term agreements for the purchase, conversion, enrichment, production and disposal of uranium. The energy and environmental services segment also has long-term commitments under disposal agreements.

The expected payments to settle these commitments are as follows:

€ millions	12/31/2006	of which due in < 1 year	1 – 5 years	> 5 years
Electricity	9,823.3	2,319.6	2,256.4	5,247.3
Natural gas	2,822.8	653.4	2,169.4	0.0
Brown coal and other fossil fuels	1,257.5	1.2	192.3	1,064.0
Hard coal	364.8	243.0	121.8	0.0
Other	2,326.3	199.2	835.6	1,291.5
Total	**16,594.7**	**3,416.4**	**5,575.5**	**7,602.8**

The obligations from the provision of guarantees and collateral total € 236.9 million (prior year: € 138.0 million). Other financial commitments amount to € 143.0 million (prior year: € 107.2 million). The potential financial commitments from guarantees and warranties for third-party services in connection with the long-term obligations explained above total € 141.5 million (prior year: € 102.8 million).

As of the balance sheet date there is a purchase obligation totalling € 318.6 million (prior year: € 1,489.2 million).

In the group there are capital commitments of € 308.0 million (prior year: € 86.1 million).

The acquisition of equity investments may give rise to financial commitments of up to € 393.4 million (prior year: € 813.3 million).

Pending litigation against group companies for which no provisions were set up on account of the unlikeliness of the counterparty winning the case could lead to potential financial commitments of up to € 154.1 million from EnBW's perspective. In addition, various court cases, investigations by authorities or proceedings and other claims are pending against group companies. These are not, however, expected to be successful and are therefore not reported under contingent liabilities and financial commitments.

Audit fees

The group audit fees recorded as an expense break down as follows:

€ thousands	2006
Statutory audit	2,398.9
Other attest services	591.2
Tax advisory services	909.6
Other services	994.4
Total	**4,894.1**

Exemption pursuant to Sec. 264 (3) HGB and Sec. 264 b HGB

The following German subsidiaries made use of the exemption provisions of Sec. 264 (3) HGB or Sec. 264 b HGB in 2006 with respect to the publication of financial statements:

Exemption pursuant to Sec. 264 (3) HGB

Bautrans Umweltservice GmbH, Karlsruhe
EnBW Akademie Gesellschaft für Personal und Managemententwicklung mbH, Stuttgart
EnBW Enhol Beteiligungsgesellschaft mbH, Karlsruhe
EnBW Gas GmbH, Stuttgart
EnBW Kernkraft GmbH, Obrigheim
EnBW Kraftwerk Lippendorf Beteiligungsgesellschaft mbH, Stuttgart
EnBW Kraftwerke AG, Stuttgart
EnBW REG Beteiligungsgesellschaft mbH, Stuttgart
EnBW Regional AG, Stuttgart
EnBW Systeme Infrastruktur Support GmbH, Karlsruhe
EnBW Telekommunikation GmbH, Stuttgart
EnBW Trading GmbH, Karlsruhe
EnBW Transportnetze AG, Stuttgart
EnBW Vertriebs- und Servicegesellschaft mbH, Stuttgart
GEBA GmbH, Ettlingen
Kernkraftwerk Obrigheim GmbH, Obrigheim
Max Schrägle GmbH, Dunningen
MSE Mobile Schlammentwässerungs GmbH, Karlsbad-Ittersbach
Neckarwerke Stuttgart GmbH, Stuttgart
NWS Energiehandel GmbH, Stuttgart
NWS REG Beteiligungsgesellschaft mbH, Stuttgart
Objektschutzdienst Schäfer GmbH, Karlsruhe
Reisswolf Akten- und Datenvernichtungs GmbH, Waiblingen
S-plus Umweltservice GmbH, Waiblingen
TDL Gesellschaft für anlagentechnische Dienste und kaufmännische Leistungen mbH, Karlsruhe
TEWERATIO GmbH, Stuttgart
Thermoselect Südwest GmbH Thermische Abfallbehandlungsanlagen, Karlsruhe
T-plus GmbH, Karlsruhe
TWS Kernkraft GmbH, Gemmrigheim
U-plus Umweltservice AG, Karlsruhe
Yello Strom GmbH, Cologne
Yello Strom Verwaltungs-GmbH, Karlsruhe

Exemption pursuant to Sec. 264 b HGB

Alb Windkraft GmbH & Co. KG, Geislingen/Steige
EnBW City GmbH & Co. KG, Stuttgart
EnBW Grundstücks- und Gebäudemanagement GmbH & Co. KG Karlsruhe, Karlsruhe
EnBW Grundstücks- und Gebäudemanagement GmbH & Co. KG Stuttgart, Stuttgart
EnSüdWest Energiebeteiligungen AG & Co. KG, Karlsruhe
EVGA Grundstücks- und Gebäudemanagement GmbH & Co. KG, Stuttgart
Facilma Grundbesitzmanagement und -service GmbH & Co. Besitz KG, Karlsruhe
Jürgen Stiefel GmbH & Co. KG, Dettingen
KMS Kraftwerke Grundbesitzmanagement und -service GmbH & Co. Besitz KG, Karlsruhe
Koch Entsorgung GmbH & Co. KG, Metzingen
MB-plus Umweltservice GmbH & Co. KG, Bad Saulgau
NWS Grundstücksmanagement GmbH & Co. KG, Stuttgart
Salamander Marken GmbH & Co. KG, Kornwestheim
Zehner GmbH & Co. KG, Heilbronn

Declaration of Compliance with the German Corporate Governance Code

The Board of Management and Supervisory Board of EnBW Energie Baden-Württemberg AG issued the declaration of compliance with the German Corporate Governance Code required by Sec. 161 German Stock Corporation Act (AktG) on December 8, 2006 and made it permanently available to the shareholders in the Internet at www.enbw.com/declarationofcompliance.

The declaration of compliance of the listed subsidiary ZEAG Energie AG is available on the Internet at www.zeag.de.

Remuneration of the Board of Management

Total remuneration paid to the Board of Management for the fiscal year 2006 amounted to € 10.3 million (prior year: € 10.2 million). This amount includes short-term benefits of € 8.0 million (prior year: € 7.9 million). The long-term benefits amount to € 2.3 million (prior year: € 2.3 million).

The addition to the pension obligations for this group of persons came to € 2.2 million in the fiscal year 2006 (prior year: € 2.0 million) including service and interest cost. There are pension obligations in accordance with IFRS of € 11.3 million (prior year: € 7.4 million) for the current members of the Board of Management (defined benefit obligation).

Former members of the Board of Management and their surviving dependants received € 3.4 million. There are pension obligations (defined benefit obligation) to former members of the Board of Management and their surviving dependants under IFRS for € 43.1 million.

Share deals and shareholdings of persons with managerial responsibilities

The company did not receive any notices in the fiscal year 2006 on transactions with EnBW shares or related financial instruments of persons in managerial positions and persons closely related to them in accordance with Sec. 15 a Securities Trading Act (Wertpapierhandelsgesetz). The total EnBW shares held by all members of the Board of Management and the Supervisory Board amount to less than 1% of the company's shares outstanding.

Remuneration of the Supervisory Board

Based on the proposed dividend of € 1.14 per share, the members of the Supervisory Board will receive total remuneration of € 0.6 million (prior year: € 0.5 million) including attendance fees for the fiscal year 2006.

Cash flow statement

The cash flow statement is split up into cash flows from operating, investing and financing activities. The balance of the cash flow statement represents the change in cash and cash equivalents during the fiscal year 2006 of € 507.2 million (prior year: € -508.2 million).

Effects of changes in the consolidation group have been eliminated from the respective items of the three areas of activity.

Additions, reversals and the utilisation of provisions for pensions and similar obligations as well as of the provisions relating to nuclear energy are disclosed as changes in non-current provisions in the cash flow statement.

The cash flows of discontinued operations are contained in the cash flows from operating, investing and financing activities pursuant to IFRS 5.33c and disclosed separately.

In the fiscal year 2006, the cash flow from operating activities was € 1,466.6 million (prior year: € 1,329.9 million).

In the fiscal year 2006, € 71.0 million were distributed to minority interests of group companies (adjusted prior year: € 40.1 million).

Purchase prices for the acquisition of fully and proportionately consolidated entities and entities accounted for using the equity method totalled € 471.2 million in the reporting year (prior year: € 430.8 million). In the reporting year, cash and cash equivalents of € 84.2 million were acquired in the course of share purchases (prior year: € 0.0 million). The purchase prices were paid in cash in most cases and are primarily attributable to the increase of our share in Stadtwerke Düsseldorf AG and in EVN AG.

Cash received from the sale of fully and proportionately consolidated entities and entities accounted for using the equity method relates above all to discontinued operations.

Funds from operations (FFO)

Funds from operations before taxes and financing improved in the year under review by € 185.5 million to € 1,899.0 million (prior year: € 1,713.5 million). The reason for this is the increase in earnings power in the group. FFO after taxes and financing increased by 16.3% to € 1,803.0 million (prior year: € 1,550.5 million).

Funds from operations (FFO)

€ millions	2006	2005
Funds from operations before taxes and financing	**1,899.0**	**1,713.5**
Income taxes paid	-187.0	-248.5
Interest and dividends received	382.0	374.1
Interest paid	-291.0	-288.6
Funds from operations after taxes and financing	**1,803.0**	**1,550.5**

Cash and cash equivalents

Of the cash and cash equivalents, € 48.7 million (prior year: € 15.4 million) is attributable to entities consolidated on a proportionate basis.

The group's total net financial debt splits up as follows:

Net financial debt

€ millions	12/31/2006	12/31/2005
Cash[1]	1,367.7	1,204.5
Short-term investments[1]	149.6	210.4
Cash and cash equivalents	**1,517.3**	**1,414.9**
Bonds	3,258.1	2,860.6
Liabilities to banks	853.9	965.6
Other financial liabilities	998.1	872.6
Financial liabilities	**5,110.1**	**4,698.8**
Net financial debt	**3,592.8**	**3,283.9**

[1] Without cash and cash equivalents of the special purpose funds

Segment reporting

by business segment	Electricity		Gas	
€ millions[1]	**2006**	2005	**2006**	2005
External revenue	9,642.3	8,125.0	2,757.9	2,101.7
Internal revenue	174.8	79.5	80.8	81.5
Total revenue	9,817.1	8,204.5	2,838.7	2,183.2
EBITDA	2,056.6	1,761.8	309.5	219.6
EBIT	1,496.8	1,205.1	223.3	129.7
Share in profit or loss from entities accounted for using the equity method	127.8	73.8	0.0	0.0
Amortisation and depreciation	-547.6	-520.6	-85.2	-77.3
Impairment losses	-12.2	-36.1	-1.0	-12.6
Other significant non-cash expenses	-163.0	-152.6	-7.4	-31.5
Capital expenditures	403.4	356.3	71.4	54.5
Segment assets	12,677.1	11,742.2	2,779.1	2,583.0
Segment liabilities	9,651.6	9,642.3	703.9	663.8
Carrying amount of entities accounted for using the equity method	1,242.6	1,249.6	0.0	0.0
Goodwill	645.4	468.8	57.8	61.9
Number of employees as of December 31	11,754	11,030	1,105	883

[1] Prior-year figures adjusted

The objective of the segment reporting is to provide information about the main business operations of the group. At the same time, it is designed to give an insight into the risk and opportunity structure of a diversified group. The segmentation of the business areas and regions in the EnBW group follows the internal reporting. The structure and content of the internal reporting also provides a fair view of the risk and opportunity structure of the various business segments.

The segment figures have been determined in accordance with the accounting policies used in the consolidated financial statements.

The segment reporting comprises the segments electricity, gas as well as energy and environmental services.

The electricity segment comprises the value added stages generation, trading, transmission/distribution and sales. The gas segment consists of the procurement, transmission, distribution and sale of gas. The energy and environmental services segment includes the areas thermal and non-thermal disposal, water and other services.

Energy and environmental services 2006	Energy and environmental services 2005	Holding/ Consolidation 2006	Holding/ Consolidation 2005	Total 2006	Total 2005
819.2	542.6	0.0	0.0	13,219.4	10,769.3
411.6	324.8	-667.2	-485.8	0.0	0.0
1,230.8	867.4	-667.2	-485.8	13,219.4	10,769.3
58.7	158.1	-117.0	-85.2	2,307.8	2,054.3
-132.9	84.9	-117.0	-85.2	1,470.2	1,334.5
6.6	13.7	0.0	0.0	134.4	87.5
-108.0	-66.1	0.0	0.0	-740.8	-664.0
-83.6	-7.1	0.0	0.0	-96.8	-55.8
-143.9	-22.0	-7.7	-15.5	-322.0	-221.6
155.3	136.2	0.0	0.0	630.1	547.0
2,108.3	1,236.3	200.5	214.7	17,765.0	15,776.2
1,098.0	594.4	4,115.7	4,045.3	15,569.2	14,945.8
85.0	86.8	0.0	0.0	1,327.6	1,336.4
38.1	38.3	0.0	0.0	741.3	569.0
7,742	5,364	547	487	21,148	17,764

The holding/consolidation segment contains consolidation effects, EnBW AG as well as other activities not allocable to the other segments. Internal revenue shows the level of sales between group companies. Intersegment sales were made at market prices. The segmentation of capital expenditures, assets and gross liabilities was performed within the EnBW group itself. Reconciliation of the segment assets and segment liabilities to gross assets and gross liabilities is as follows:

€ millions[1]	12/31/2006	12/31/2006
Gross assets pursuant to the balance sheet	**28,094.4**	**24,941.5**
Non-current financial assets (without investment properties)	-7,587.2	-7,141.1
Non-current receivables from affiliated entities	-14.2	-14.2
Deferred taxes	-38.9	-43.2
Current financial assets	-274.0	-257.8
Current receivables from affiliated entities	-9.1	-11.1
Income tax refund claims	-442.6	-236.9
Cash and cash equivalents	-1,932.3	-1,426.4
Assets of discontinued operations	-31,1	-34.6
Segment assets	**17,765.0**	**15,776.2**

Gross liabilities pursuant to the balance sheet	**23,692.9**	**21,873.8**
Non-current financial liabilities	-3,883.8	-4,320.0
Potential purchase price commitments from put options	-438.1	-157.7
Deferred taxes	-1,995.8	-1,596.6
Current financial liabilities	-1,226.3	-378.8
Current liabilities to affiliated entities	-10.5	-7.8
Income tax provisions/liabilities	-466.2	-409.1
Liabilities of discontinued operations	-103.0	-58.0
Segment liabilities	**15,569.2**	**14,945.8**

[1] Prior-year figures adjusted

In accordance with the risk and opportunities structure, the segment reporting by region comprises the regions Germany, European Economic and Monetary Union without Germany, rest of Europe and rest of world.

By region **€ millions**	**2006**	**2005**
External revenue		
Germany	12,335.9	10,149.9
Economic and Monetary Union without Germany	493.1	302.4
Rest of Europe	388.5	316.0
Rest of world	1.9	1.0
	13,219.4	**10,769.3**
Segment assets		
Germany	16,134.7	14,161.0
Economic and Monetary Union without Germany	0.0	2.2
Rest of Europe	1,630.3	1,613.0
	17,765.0	**15,776.2**
Capital expenditures		
Germany	569.7	491.9
Economic and Monetary Union without Germany	0.0	0.1
Rest of Europe	60.4	55.0
	630.1	**547.0**

Related parties

Related parties include Electricité de France (EDF) and Zweckverband Oberschwäbische Elektrizitätswerke (OEW). The financial statements of EnBW AG are included in the consolidated financial statements of EDF on a proportionate basis.

The business transacted with EDF during the reporting year had the following impact on the consolidated financial statements of EnBW:

€ millions	2006	2005
Income statement		
Revenue	786.0	312.5
Cost of materials	881.6	334.6

€ millions	12/31/2006	12/31/2005
Balance sheet		
Other loans	0.0	3.1
Receivables	116.0	63.6
Payments on account made	34.4	32.2
Liabilities	72.0	71.1
Payments on account received	50.0	55.8

The revenue and cost of materials mainly result from electricity supply and electricity procurement agreements. All business relations with EDF are at arm's length.

Relationships also exist with municipal entities (public utilities in particular) accounted for using the equity method. The exchange of services and supplies with these organisations took place at customary market terms.

The EnBW group has not entered into any significant transactions with related persons.

Disclosures concerning franchises

Franchise agreements in the areas electricity, gas, district heating and water are in place between the individual companies in the EnBW group and the municipalities. The term of the majority of the franchise agreements is 20 years. There are obligations governed by law to connect to the supply networks. Under the franchise agreements, the EnBW group is obliged to provide and maintain the facilities required to satisfy the general supply needs. In addition, it is required to pay a franchise fee to the municipalities. Upon expiry of a franchise agreement, the facilities must be returned or transferred to the municipalities or the subsequent network operator in return for reasonable compensation unless the franchise agreement is extended.

Absorption of surplus revenues

EnBW received the first approvals for the network user charges for electricity and gas in the third quarter of 2006. The regulatory authorities had announced that in the next calculation period they would deduct from the charges applied for the difference between the approved network revenues and the revenues actually obtained from November 1, 2005 or February 1, 2006 until the network user charges were approved (retroactive absorption of surplus revenues).

The legitimacy of this retroactive absorption of surplus revenues is currently being clarified by the courts. Based on the court rulings issued to date, the risk of claims against EnBW is considered to be extremely low. Accordingly, no provisions were recognised in the balance sheet.

Subsequent events

Prof. Dr.-Ing. Thomas Hartkopf, who had been in charge of the Technology portfolio on the EnBW Board of Management since November 1, 2002, stepped down from his office at the close of February 8, 2007 and chose to leave the company. He provided positive impetus with his technical expertise and his in-depth understanding of power station technology and in the area of renewable energies in the course of the successful reorganisation and realignment of EnBW. Until a successor is appointed, CEO Prof. Dr. Utz Claassen assumes responsibility for the research and development area, innovation management and renewable energies as well as group responsibility for the U-plus group. Until further notice, Pierre Lederer, Chief Operating Officer on EnBW's Board of Management, is responsible for managing EnBW Kraftwerke AG and EnBW Kernkraft GmbH, and Dr. h.c. Detlef Schmidt, Chief Marketing and Sales Officer, is in charge of the central procurement function.

EnBW and Abfallwirtschaftsgesellschaft des Neckar-Odenwald-Kreises mbH (AWN)agreed together with the town of Buchen to close the Buchen mechanical-biological plant before the end of 2007. It was no longer economically feasible to refurbish the plant.

Future-oriented statements: This report contains statements relating to the future that are based on current assumptions and projections of the management of EnBW. Such statements are subject to risks and uncertainties. These and other factors mean that the actual events, financial position, development or performance of the company may diverge materially from the estimates made here. EnBW assumes no obligation of any kind to update future-oriented statements or to adjust them to reflect future events or developments.

Declaration of the Board of Management

The Board of Management of EnBW Energie Baden-Württemberg AG is responsible for the preparation, completeness and correctness of the consolidated financial statements and the group management report as well as other information provided in the annual report. The consolidated financial statements and the management report are prepared according to the International Financial Reporting Standards (IFRS), the adoption of which is mandatory in the EU as of the balance sheet date, and the additional requirements of German commercial law pursuant to Sec. 315 a (1) HGB. The figures for the prior year have been calculated according to the same principles.

An effective internal control and management system, the use of uniform instructions and continuous staff training ensure the reliability of the data contained in the consolidated financial statements and the group management report. Adherence to legal provisions and uniform group accounting instructions as well as the internal control and management system are subject to constant monitoring.

The risk management system satisfies the legal requirements. It is designed to allow the Board of Management to recognise risks in good time and to implement countermeasures if necessary.

Karlsruhe, February 19, 2007

Prof. Dr. Claassen Dr. Beck Dr. Holzherr

Lederer Dr. h.c. Schmidt

Audit opinion

We have audited the consolidated financial statements prepared by EnBW Energie Baden-Württemberg AG, Karlsruhe, comprising the income statement, the balance sheet, the cash flow statement, the statement of changes in equity as well as the notes to the financial statements, together with the group management report which has been combined with the management report of the company, for the fiscal year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) as well as the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Stuttgart, February 8/19, 2007
Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Wollmert

Prof. Dr. Wollmert
Wirtschaftsprüfer
(German Public Auditor)

Benzenhöfer

Benzenhöfer
Wirtschaftsprüferin
(German Public Auditor)

Additional information to the financial statements of the EnBW- Group

Parent company

EnBW Energie Baden-Württemberg AG
Durlacher Allee 93
76131 Karlsruhe
Germany
www.enbw.com

Offices held by members of the Board of Management*

Prof. Dr. Utz Claassen
(1) EnBW Beteiligungen AG (Chairman)
Stadtwerke Düsseldorf AG
(Chairman since May 30, 2006)
(2) Otto Bock Holding GmbH & Co. KG, advisory board

Dr. Bernhard Beck, LL. M.
(1) DREWAG – Stadtwerke Dresden GmbH
EnBW Beteiligungen AG
EnBW Kraftwerke AG
EnBW Systeme Infrastruktur Support GmbH (Chairman)
EnBW Vertriebs- und Servicegesellschaft mbH
Energiedienst AG
ENSO Strom AG
GESO Beteiligungs- und Beratungs-AG
SOMENTEC Software AG (Chairman)
Stadtwerke Düsseldorf AG (since May 30, 2006)
(2) BKK VerbundPlus, Körperschaft des öffentlichen Rechts, formerly: BKK Energieverbund (Chairman)
EnBW Akademie Gesellschaft für Personal- und Managemententwicklung mbH (Chairman)
Energiedienst Holding AG
ENSO Energie Sachsen Ost GmbH
Gasversorgung Süddeutschland GmbH
Skandinavisk Kraftmegling AS i.L.
TDL Gesellschaft für anlagentechnische Dienste und kaufmännische Leistungen mbH (Chairman)
Teweratio GmbH (Chairman)

Prof. Dr.-Ing. Thomas Hartkopf
(1) EnBW Kernkraft GmbH (Chairman)
EnBW Kraftwerke AG (Chairman)
EnBW Transportnetze AG
Energiedienst AG (until February, 13 2007)
Grosskraftwerk Mannheim AG (until February, 13 2007)
Schluchseewerk AG (Chairman, until February, 13 2007)
U-plus Umweltservice AG (Chairman, until February, 13 2007)
(2) EnAlpin AG (President, until February, 13 2007)
EnBW Trading GmbH
Energiedienst Holding AG (until February, 13 2007)
Kernkraftwerk Obrigheim GmbH
Vorarlberger Illwerke AG (until February, 13 2007)

Dr. Christian Holzherr
(1) EnBW Vertriebs- und Servicegesellschaft mbH
(2) EnBW Trading GmbH

Pierre Lederer
(1) Deutsche Steinkohle AG
EnBW Kraftwerke AG
EnBW Regional AG (Chairman)
EnBW Transportnetze AG (Chairman)
EnBW Vertriebs- und Servicegesellschaft mbH
Energiedienst AG
STEAG Aktiengesellschaft
(from March 20, 2006 to December 31, 2006)
(2) EnBW Gas GmbH (Chairman)
EnBW Trading GmbH (Chairman)
Energiedienst Holding AG
Gasversorgung Süddeutschland GmbH (Chairman)
Skandinavisk Kraftmegling AS i.L.

Dr. h.c. Detlef Schmidt
(1) EnBW Regional AG
EnBW Vertriebs- und Servicegesellschaft mbH (Chairman)
ENSO Strom AG (Chairman)
GESO Beteiligungs- und Beratungs-AG (Chairman)
Stadtwerke Düsseldorf AG
(2) EnBW Trading GmbH
ENSO Energie Sachsen Ost GmbH (Chairman)
ENSO Erdgas GmbH
SüdBest GmbH (Chairman, since December 19, 2006)
VfB Stuttgart 1893 e.V. (since October 30, 2006)

* (1) Membership in statutory supervisory boards
(2) Membership in comparable domestic and foreign control bodies of business organisations

Disclosures pursuant to Sec. 285 Sentence 1 No. 10 HGB, as of February 19, 2007

Financial statements

Other offices held by the Supervisory Board members*

Dr. Claus Dieter Hoffmann
(Chairman)
(1) Bauerfeind AG
Jowat AG
(2) ING Group NV

Dietrich Herd
(Deputy Chairman)
(1) EnBW Kernkraft GmbH
EnBW Kraftwerke AG
(2) BKK VerbundPlus, Körperschaft des öffentlichen Rechts, formerly BKK Energieverbund
TDL Gesellschaft für anlagentechnische Dienste und kaufmännische Leistungen mbH (until September 12, 2006)
Teweratio GmbH (until September 12, 2006)

Joachim Bitterlich
(2) DEKRA e.V. (since June 9, 2006)
Veolia Propreté SA
Veolia Transport SA

Marc Boudier
(2) Aare Tessin SA d'Electricité
EDF Belgium SA (Chairman)
EDF International SA
EDF Peninsula Ibérica SLU (Chairman)
Edison spa
ESTAG Energie Steiermark Holding AG
Motor-Columbus AG
Transalpina di Energia SRL

Dr. Daniel Camus
(1) Morphosys AG
(2) Dalkia Holding SA
EDF Energy plc (Chairman)
EDF International SA (Chairman)
Edison spa
Transalpina di Energia SRL
Valeo SA (since May 17, 2006)

Willi Fischer
(1) Hohenzollerische Landesbahn AG
(2) Sparkasse Zollernalb, Anstalt des öffentlichen Rechts (Chairman)
Verkehrsverbund Neckar-Donau (Naldo) GmbH (Chairman)
Wirtschaftsförderungsgesellschaft für den Zollernalbkreis GmbH (Chairman)
Zollernalb Klinikum gGmbH (Chairman)
Zweckverband Oberschwäbische Elektrizitätswerke

Rolf Gillé
(1) U-plus Umweltservice AG
(2) EnBW Akademie Gesellschaft für Personal- und Managemententwicklung mbH

Josef Götz
(1) EnBW Regional AG
(2) Zweckverband Bodensee-Wasserversorgung

Reiner Koch
None

Marianne Kugler-Wendt
(1) EnBW Kernkraft GmbH (since July 20, 2006)
EnBW Kraftwerke AG
SLK-Kliniken Heilbronn GmbH
(2) Heilbronner Versorgungs GmbH
Kreissparkasse Heilbronn, Anstalt des öffentlichen Rechts (deputy member)
Stadtwerke Heilbronn GmbH

Wolfgang Lang
(1) EnBW Systeme Infrastruktur Support GmbH
(2) EnBW Akademie Gesellschaft für Personal- und Managemententwicklung mbH
TDL Gesellschaft für anlagentechnische Dienste und kaufmännische Leistungen mbH (since October 1, 2006)
Teweratio GmbH (since October 1, 2006)

Gérard Roth
None

Gerhard Stratthaus
(1) Badische Staatsbrauerei Rothaus AG (Chairman)
(2) Landesbank Baden-Württemberg, Anstalt des öffentlichen Rechts
Landeskreditbank Baden-Württemberg – Förderbank, Anstalt des öffentlichen Rechts (Chairman since June 1, 2006)
Landesstiftung Baden-Württemberg gGmbH
Zentrum für Europäische Wirtschaftsförderung GmbH (Chairman)

Siegfried Tann
(2) ABK-Abfallwirtschaftsgesellschaft mbH des Bodenseekreises und des Kreises Konstanz (Chairman)
Bodensee-Oberschwaben Verkehrsverbundgesellschaft mbH
Landesbausparkasse Baden-Württemberg, Anstalt des öffentlichen Rechts
Sparkasse Bodensee, Anstalt des öffentlichen Rechts (Chairman)
Zweckverband Oberschwäbische Elektrizitätswerke

Christoph Walther
(1) ENSO Strom AG
ENSO Energie Sachsen Ost GmbH

Dietmar Weber
(1) EnBW Vertriebs- und Servicegesellschaft mbH (since April 20, 2006)
(2) EnBW Akademie Gesellschaft für Personal- und Managemententwicklung mbH (since April 26, 2006)

Kurt Widmaier
(1) EnBW Regional AG (until June 27, 2006)
(2) Bodensee-Oberschwaben-Bahn GmbH & Co. KG
Bodensee-Oberschwaben Verkehrsverbundgesellschaft mbH (Chairman since January 1, 2006)
Kreissparkasse Ravensburg (Chairman)
Landesbank Baden-Württemberg, Anstalt des öffentlichen Rechts
Oberschwaben Klinik gGmbH (Chairman)
Ravensburger Entsorgungsanlagen GmbH (Chairman)
WIR-Wirtschafts- und Innovationsförderungsgesellschaft Landkreis Ravensburg GmbH (Chairman)
Zentrum für Psychiatrie Weissenau, Anstalt des öffentlichen Rechts
Zweckverband Oberschwäbische Elektrizitätswerke (Chairman since May 1, 2006)
Zweckverband Tierkörperbeseitigung Warthausen

Alfred Wohlfart
(1) EnBW Kraftwerke AG
EnBW Regional AG

Dr.-Ing. Gérard Wolf
(2) Dalkia International SA (since September 28, 2006)
EDF International SA (since January 9, 2007)
Edison spa
Transalpina di Energia SRL

Dr. Bernd-Michael Zinow
None

Gisela Beller
(1) EnBW Systeme Infrastruktur Support GmbH (until May 31, 2006)
(2) TDL Gesellschaft für anlagentechnische Dienste und kaufmännische Leistungen mbH (until August 21, 2006)
Teweratio GmbH (until August 21, 2006)

Rolf Koch
(1) EnBW Regional AG (until April 30, 2006)
(2) BKK VerbundPlus, Körperschaft des öffentlichen Rechts, formerly BKK Energieverbund
TDL Gesellschaft für anlagentechnische Dienste und kaufmännische Leistungen mbH (until August 21, 2006)
Teweratio GmbH (until August 21, 2006)

Bruno Lescœur
(2) Dalkia International SA (until September 28, 2006)
EDF International SA
EDF Trading SA
Light Serviços de Electricidade SA (until August 10, 2006)

Peter Schneider
(1) LEG Landesentwicklungsgesellschaft Baden-Württemberg mbH
Öchsle-Bahn AG (Chairman)
(2) Kliniken Landkreis Biberach GmbH (Chairman, until April 30, 2006)
Kreissparkasse Biberach, Anstalt des öffentlichen Rechts (Chairman, until April 30, 2006)
Zweckverband Oberschwäbische Elektrizitätswerke (Chairman, until April 30, 2006)

Volker Stüber
None

Franz Watzka
(1) EnBW Kernkraft GmbH
EnBW Kraftwerke AG (since January 1, 2006)

Klaus-Michael Weber
None

* (1) Membership in other statutory supervisory boards
(2) Membership in comparable domestic and foreign control bodies of business organisations

Disclosures pursuant to Sec. 285 Sentence 1 No. 10 HGB, as of February 19, 2007

Advisory Board

Dr. Wolfgang Schürle
Former chairman of the Supervisory Board of EnBW, former district administrator of the Ulm district
Chairman

Dr.-Ing. e.h. Heinz Dürr
Chairman of the supervisory board of Dürr AG, Berlin
Deputy Chairman

Jean-Pierre Benqué
Directeur Général Adjoint Commerce
at Electricité de France SA, Paris

Marc Boudier
Directeur Europe
at Electricité de France SA, Paris

Dr. rer. nat. Joachim Dreyer
Former chairman of the management board of debitel AG, Stuttgart

Joachim Erwin
Lord Mayor of Düsseldorf

Dr. Andreas Fabritius
Lawyer at Freshfields Bruckhaus Deringer, Frankfurt

Walter Frey
Chairman of the management board of Emil Frey AG, Zurich

Dr. Monika Gommolla
Chairwoman of the supervisory board of Maritim Hotelgesellschaft mbH, Bad Salzuflen

Dipl.-Ing. Karl Haase
Chairman of the management board of Edelstahlwerke Südwestfalen GmbH, Siegen

Dr. Franz Wilhelm Hopp
Former member of the management board of ERGO Versicherungsgruppe AG, Düsseldorf

Dr. Klaus Kinkel
Former Vice Chancellor, St. Augustin

Dr. Rolf Linkohr
Special advisor of the EU Commissioner for Energy, Stuttgart

Roland Mack
Managing partner of Europa-Park, Rust

Dr. Klaus Mangold
Executive advisor to the chairman of DaimlerChrysler AG, Stuttgart

Gerhard Mayer-Vorfelder
Former Finance Minister of the State of Baden-Württemberg, Stuttgart

Dr.-Ing. e.h. Hartmut Mehdorn
Chairman of the management board of Deutsche Bahn AG, Berlin

Dr.-Ing. e.h. Peter Mihatsch
Former member of the management board of Mannesmann AG, Sindelfingen

Jean-Pierre Mustier
Chief Executive Officer of Société Générale Corporate & Investment Banking, Paris
Member since September 1, 2006

Thomas Oppermann
Member of the German parliament, Göttingen

Dr. Wolf Hartmut Prellwitz
Honorary chairman of the supervisory board of IWKA AG, Karlsruhe

Urs B. Rinderknecht
General director of UBS AG, Zurich

Dr. Sieghardt Rometsch
Chairman of the supervisory board of HSBC Trinkaus & Burkhardt KGaA, Düsseldorf

Hans-Joerg Rudloff
Chairman of the executive committee of Barclays Capital, London

Hans Dietmar Sauer
Former chairman of the management board of Landesbank Baden-Württemberg, Karlsruhe

Rezzo Schlauch
Former parliamentary state secretary, lawyer, Stuttgart

Dr. Wolfgang Schuster
Lord Mayor of Stuttgart

Prof. Dr. Dr. h.c. Bernhard Servatius
Lawyer at Treubesitz GmbH, Hamburg

Karl Starzacher
Counsel at White & Case, Düsseldorf

Erwin Staudt
President of VfB Stuttgart 1893 e.V., Stuttgart

Dr. Willi Steul
Deputy director of the radio station SWR, regional broadcasting director for Baden-Württemberg, Stuttgart
Member since March 15, 2006

Prof. Dr. Dr. e.h. mult. Rita Süssmuth
Former president of the German parliament, Berlin

Willem G. van Agtmael
Managing partner of E. Breuninger GmbH & Co., Stuttgart

Dr. Theo Waigel
Former government minister, lawyer at GSK-Gassner Stockmann und Kollegen, Munich

Prof. Dr.-Ing. Hartmut Weule
Professor at the University of Karlsruhe, Institute of Machine Tools and Production Science, Karlsruhe

Matthias Wissmann
Former government minister, member of the German parliament, chairman of the committee for European Union affairs, Berlin

As of: February 19, 2007

Major shareholdings of EnBW Energie Baden-Württemberg AG (EnBW AG)

Holding

		Footnote	Registered office	Capital share[1] (%)	Equity[2] (€ thousands)	Earnings[2] (€ thousands)	Revenue[2] (€ thousands)
	EnBW Energie Baden-Württemberg AG		Karlsruhe		1,499,282	513,780	0
	Neckarwerke Stuttgart GmbH		Stuttgart	100.00	793,034	166,291	0

Electricity segment

Fully consolidated companies

		Footnote	Registered office	Capital share[1] (%)	Equity[2] (€ thousands)	Earnings[2] (€ thousands)	Revenue[2] (€ thousands)
1	EnAlpin AG		Visp/Switzerland	100.00	121,094	10,619	81,971
2	EnBW Kraftwerk Lippendorf Beteiligungsgesellschaft mbH		Stuttgart	100.00	297,640	–[4]	72,990
3	EnBW Kraftwerke AG		Stuttgart	100.00	1,063,141	–[4]	2,089,300
4	EnBW Regional AG		Stuttgart	100.00	1,409,126	–[4]	2,111,811
5	EnBW Trading GmbH		Karlsruhe	100.00	2,560	–[4]	7,044,678
6	EnBW Transportnetze AG		Stuttgart	100.00	177,791	–[4]	1,605,801
7	EnBW Vertriebs- und Servicegesellschaft mbH		Stuttgart	100.00	15,164	–[4]	4,392,116
8	EVGA Grundstücks- und Gebäudemanagement GmbH & Co. KG		Stuttgart	100.00	86,335	13,356	34,208
9	Facilma Grundbesitzmanagement und -service GmbH & Co. Besitz KG		Karlsruhe	100.00	123,977	5,702	13,341
10	GESO Beteiligungs- und Beratungs-AG		Dresden	100.00	112,484	–[4]	1,261
11	Kernkraftwerk Obrigheim GmbH		Obrigheim	100.00	51,129	–[4]	0
12	KMS Kraftwerke Grundbesitzmanagement und -service GmbH & Co. Besitz KG		Karlsruhe	100.00	236,884	4,329	10,109
13	NWS Grundstücksmanagement GmbH & Co. KG		Stuttgart	100.00	300,998	35,011	56,311
14	TWS Kernkraft GmbH		Gemmrigheim	100.00	149,297	–[4]	280,104
15	Watt Deutschland GmbH		Frankfurt am Main	100.00	3,805	309	223,869
16	Yello Strom GmbH		Cologne	100.00	500	–[4]	734,562
17	EnBW Kernkraft GmbH		Obrigheim	99.80	10,950	950	565,266
18	EnBW Ostwürttemberg DonauRies AG		Ellwangen	99.72	105,442	24[4]	360,611
19	ZEAG Energie AG		Heilbronn	98.26	102,938	9,036	94,864
20	Energiedienst Holding AG	3	Laufenburg/Switzerland	75.97[9]	539,116	61,569	510,441
21	ENSO Strom AG		Dresden	68.91	280,457	51,787	778,818
22	Kraftwerk Bexbach Verwaltungsgesellschaft mbH		Bexbach an der Saar	66.66	24,161	1,151	7,708
23	Stadtwerke Düsseldorf AG	6	Düsseldorf	54.95	354,904	45,732	1,205,919

Proportionately consolidated companies

		Footnote	Registered office	Capital share[1] (%)	Equity[2] (€ thousands)	Earnings[2] (€ thousands)	Revenue[2] (€ thousands)
24	Energotrans a.s.	6	Prague/Czech Republic	100.00	130,287	19,767	93,171
25	Prazská energetiká a.s.	6	Prague/Czech Republic	50.93	335,360	41,799	407,572
26	Fernwärme Ulm GmbH	5	Ulm	50.00	22,253	2,575	46,170
27	Prazská teplárenská a.s.	6	Prague/Czech Republic	48.45	235,231	33,667	166,671

Companies consolidated using the equity method	Footnote	Registered office	Capital share[1] (%)	Equity[2] (€ thousands)	Earnings[2] (€ thousands)	Revenue[2] (€ thousands)
28 EVN AG	5	Maria Enzersdorf/ Austria	35.72	1,136,941	137,285	438,765
29 Budapesti Elektromos Müvek Nyrt. (ELMÜ)	6	Budapest/Hungary	27.25	281,386	66,570	792,779
30 Eszak-Magyarországi Áramszolgáltató Nyrt. (EMASZ)	6	Miskolc/Hungary	26.83	137,652	10,588	318,896
31 Elektrownia Rybnik S.A.	6	Rybnik/Poland	26.26	173,530	11,816	324,304
32 Mátrai Erömü ZRt. (MATRA)	6	Visonta/Hungary	21.71	175,723	34,336	238,369

Equity investments

33 e.wa.riss GmbH & Co. KG	6	Biberach	50.00	11,239	5,506	43,546
34 Schluchseewerk Aktiengesellschaft	6	Freiburg	50.00	59,339	2,809	69,346
35 Stadtwerke Esslingen am Neckar GmbH & Co. KG	6	Esslingen am Neckar	49.98	55,052	4,812	64,966
36 Energie- und Wasserwerke Bautzen GmbH	6	Bautzen	49.00	16,630	–[10]	38,732
37 Stadtwerke Weinheim GmbH	6	Weinheim	39.72	25,675	2,985	46,508
38 Kraftwerk Ryburg-Schwörstadt AG	5	Rheinfelden/Switzerland	38.00	24,046	1,163	9,358
39 DREWAG-Stadtwerke Dresden GmbH	6	Dresden	35.00	301,902	–[10]	591,598
40 Elektrizitätswerk Mittelbaden AG & Co. KG	6	Lahr	34.74	46,627	18,792	157,808
41 Grosskraftwerk Mannheim AG	6	Mannheim	32.00	114,142	6,647	404,021
42 Stadtwerke Elbtal GmbH	6	Coswig	30.00	7,417	–[10]	42,579
43 Albwerk GmbH & Co. KG	6	Geislingen an der Steige	25.10	14,179	9,490	57,455
44 Energie- und Wasserversorgung Bruchsal GmbH	6	Bruchsal	25.10	21,993	3,511	41,095
45 ENRW Energieversorgung Rottweil GmbH & Co. KG	6	Rottweil	25.10	20,900	6,720	63,707
46 Stadtwerke Schwäbisch Gmünd GmbH	6	Schwäbisch Gmünd	25.10	22,701	3,385	60,600
47 Stadtwerke Sindelfingen GmbH	6	Sindelfingen	25.10	24,914	4,438	56,184
48 Technische Werke Schussental GmbH & Co. KG	6	Ravensburg	25.10	22,924	4,909	58,380
49 Stadtwerke Nürtingen GmbH	6	Nürtingen	25.00	20,563	3,384	34,748
50 FairEnergie GmbH	6	Reutlingen	24.90	90,766	23,781	240,700
51 Stadtwerke Karlsruhe GmbH	6	Karlsruhe	20.00	165,710	22,247	442,383
52 Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A.		Wroclaw/Poland	15.59	139,515	14,294	102,692
53 MVV Energie AG	5,6	Mannheim	15.07	457,345	53,532	943,541

Financial statements

Major shareholdings of EnBW Energie Baden-Württemberg AG (EnBW AG)

Gas segment

Fully consolidated companies	Footnote	Registered office	Capital share[1] (%)	Equity[2] (€ thousands)	Earnings[2] (€ thousands)	Revenue[2] (€ thousands)
54 EnBW Gas GmbH		Stuttgart	100.00	133,970	109 [4]	779,998
55 ENSO Erdgas GmbH		Dresden	100.00	44,490	– [4]	372,046
56 Gasversorgung Süddeutschland GmbH	7	Stuttgart	100.00	76,694	– [4]	2,325,047

Proportionately consolidated companies

57 Erdgas Südwest GmbH	8	Karlsruhe	51.00	37,611	7,217	167,992

Equity investments

58 Heilbronner Versorgungs GmbH	6	Heilbronn	25.10	36,375	4,877	92,495
59 GSW Gasversorgung Sachsen Ost Wärmeservice GmbH & Co. KG	6	Dresden	23.50	1,278	1,388	18,678

Energy and environmental services segment

Fully consolidated companies

60 EnBW Beteiligungen AG (formerly: Salamander AG)		Kornwestheim	100.00	-50,170	36,105	0
61 EnBW City GmbH & Co. KG (formerly: STAIR Stuttgart Airpark GmbH)		Stuttgart	100.00	46,553	14	0
62 EnBW Energy Solutions GmbH		Stuttgart	100.00	32,590	5,368	67,016
63 EnBW Grundstücks- und Gebäudemanagement GmbH & Co. KG Karlsruhe		Karlsruhe	100.00	137,390	219	13,190
64 EnBW Grundstücks- und Gebäudemanagement GmbH & Co. KG Stuttgart		Stuttgart	100.00	46,090	1,476	5,751
65 EnBW Systeme Infrastruktur Support GmbH		Karlsruhe	100.00	16,500	– [4]	276,671
66 T-plus GmbH		Karlsruhe	100.00	15,000	– [4]	55,817
67 U-plus Umweltservice AG	3	Karlsruhe	100.00	32,916	-8,128	305,651
68 AWISTA Gesellschaft für Abfallwirtschaft und Stadtreinigung mbH		Düsseldorf	51.00	37,063	6,478	152,599

Proportionately consolidated companies		Footnote	Registered office	Capital share[1] (%)	Equity[2] (€ thousands)	Earnings[2] (€ thousands)	Revenue[2] (€ thousands)
69	Industriekraftwerk Baienfurt OHG		Baienfurt	50.00	9,644	5,992	35,387

Companies consolidated using the equity method

70	Gegenbauer Holding SA & Co. KG (formerly: Gegenbauer Holding GmbH & Co. KG)		Berlin	49.00	19,641	9,823	17,827
71	DIW Deutsche Industriewartung AG	5	Stuttgart	45.20	101,374	4,228	498

Equity investments

72	Zweckverband Bodensee-Wasserversorgung	6	Stuttgart	33.33	194,459	-1,389	50,379
73	Zweckverband Landeswasserversorgung	6	Stuttgart	33.33	148,664	-148	39,048

Other activities

Fully consolidated companies

74	Thermoselect Südwest GmbH Thermische Abfallbehandlungsanlagen		Karlsruhe	100.00	1,534	–[4]	0

[1] Shares of the respective parent company calculated pursuant to Sec. 313 (2) HGB (as of December 31, 2006)
[2] In the case of separate entities, the figures stem from financial statements prepared pursuant to local principles and do not show the contributions of each company to the consolidated financial statements. For financial statements in foreign currency, equity is translated at the mean rate on the balance sheet date, while earnings and revenue are translated at annual average rates.
[3] Disclosures for sub-group pursuant to IFRS
[4] Profit and loss transfer and domination agreement
[5] Diverging fiscal year
[6] Prior-year figures
[7] Held via EnBW Eni Verwaltungsgesellschaft mbH, Karlsruhe (EnBW shareholding: 50%), which is fully consolidated by virtue of the "casting vote" regulation.
[8] Proportionate consolidation by statute
[9] Before taking treasury shares of the company into account
[10] Profit and loss transfer agreement with third parties

Financial statements

"A CO_2-free world of energy is the future."

Prof. Dr. Utz Claassen, CEO

About this report

Glossary

Beta factor
A measure of risk that is included in the calculation of the cost of equity. The beta factor indicates the volatility of a share in relation to general market changes.

Borrowing costs
Interest and other costs incurred by a company when borrowing debt capital.

Cash flow
Inflows and outflows of cash and cash equivalents.

Clean development mechanism
The clean development mechanism, defined in Article 12 of the Kyoto Protocol, assists industrialised countries and developing countries in implementing joint climate protection projects in developing countries which do not have their own climate protection commitments from the Kyoto Protocol. The project (e.g. building a wind power plant) is financed by the industrialised country. During the commitment period, the industrialised country can then either emit as additional emissions the emissions avoided in the developing country as a result of the project, or obtain emission credits.

CO_2
Chemical nomenclature for carbon dioxide.

Combined heat and power [CHP]
The waste heat of a power plant can be used as process heat or to heat buildings in the surrounding area. In this case, additional output of energy is obtained with the same amount of fuel. A power plant that generates both electricity and heat from a single source is called a CHP station.

Commercial paper programme
Financing platform via which unsecured bonds with maturities of one day to 364 days can be issued in a standardised form on the euro capital market.

Corporate governance
Principles and rules geared to the interests of the shareholders on organisation, behaviour and transparency which, while preserving the decision-making ability and efficiency of the management, aim to achieve a balance of management and control at the top level of the company.

Credit rating
Creditworthiness of a company.

D&O insurance
Directors and officers liability, third-party liability insurance for company boards.

Derivative financial instruments
Financial instruments, such as financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. Derivative instruments do not result in a transfer of the underlying primary financial instrument on inception of the contract and such a transfer does not necessarily take place on maturity of the contract.

EBIT
Earnings before interest and taxes. The EBIT performance indicator is the net income for the year before the financial result/interest and income taxes. Eliminating these balance sheet items allows for a more objective comparison of the operating results of different companies. The EBIT indicator is not only earnings before interest and taxes, but also the result of operations before the financial result. Earnings before taxes can thus still be affected considerably if, for instance, there is additional income from financing activities.

EBIT margin
The EBIT margin (EBIT return on sales) is an operating ratio calculated by dividing the EBIT by sales. It is used to compare the EBIT earnings power of different companies.

EBITDA
Earnings before interest, taxes, depreciation and amortisation. This performance indicator, which was developed in the USA, and which is now used worldwide in business valuations, is also relevant for the analysis of financial statements. The result from ordinary activities (operating result) – which is not identical to net income/loss for the year reported on the balance sheet – is adjusted here for certain factors. In simple terms, the EBITDA is determined as follows: Result from ordinary activities + Net interest + Taxes + Depreciation and amortisation

The EBITDA indicator can be used to determine to what extent a company generates net income from its result from ordinary activities (operating result). This indicator primarily serves to improve the comparability of listed companies.

EBITDA margin
The EBITDA margin (EBITDA return on sales) is an operating ratio calculated by dividing the EBITDA by sales. It serves to compare the EBITDA earnings power of different companies and provides information on the relation between depreciation and amortisation and the operating profit.

EBT
Earnings before taxes. The EBT performance indicator is used to compare the earnings power of companies at an international level. Income taxes are not included in the calculation. Financing costs, by contrast, are included in this indicator, as is income from the disposal of assets, i.e. factors that are subject to national tax law. This means that the indicator is indirectly affected by taxation, which limits comparability on an international scale. The ratio of the EBT to sales is the pre-tax margin.

EEG
Erneuerbare-Energien-Gesetz (German Renewable Energy Act). The aim of the law is to significantly increase the share of renewable energies in the supply of electricity and to double their share in energy consumption in Germany by the year 2010. Specifically, it promotes the generation of electricity from hydropower (for the first time more than 5 MW), wind power, solar energy, geothermal energy, landfill gas, sewage gas, pit gas and biomass.

Emissions trading
Emissions trading is an abbreviated term for trade with emission allowances and constitutes an environmental policy instrument with the aim of climate protection. In the Kyoto Protocol, the industrialised countries agreed on worldwide reduction of greenhouse gas emissions (CO_2 in particular) by 5.2% compared to 1990; Europe has a declared target of reducing greenhouse gas emissions by around 8% (approx. 0.35 billion metric tons). This target reduction is distributed differently among the individual member states of the European Community. Germany bears the main burden of about 75% of the European target and has to reduce its greenhouse gas emissions by 21%. As it is a question of distributing the reduction of gases impacting the climate in the most efficient way – defined in quantitative terms – the allowance for the total emissions allocated to one country is split – similar to the splitting of business capital in shares – into what is referred to as emission allowances that permit emission of certain quantities of gases impacting the climate. They are issued to the companies based on the previous emissions pursuant to the “National Allocation Plan”. Companies requiring more allowances must purchase these from companies that require fewer allowances because they have already largely met their reduction commitments. Every market participant is free to purchase an emission allowance or, alternatively, use environmentally friendly technologies. The decision will be based on the market prices at which the allowances are traded.

EMTN programme
Euro Medium Term Note programme. A standardised documentation platform for the issue of medium to long-term bonds on the euro capital market.

EnWG
Energiewirtschaftsgesetz (German Energy Industry Act). The EnWG, which came into force in July 2003, has introduced a regulatory regime for electricity and gas supply. The cornerstones of the act are the definitions of network operator duties, rules for network access and network charges as well as monitoring by the Federal Network Agency or the state regulatory authorities.

Equity method
A method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor’s share of net assets of the investee. For companies acquired prior to March 31, 2004 amortisation of goodwill is additionally taken into account. The equity method is used when a significant influence is exercised on the business policy of the associate, but the criteria to qualify as a subsidiary or a joint venture are not in place.

Equity ratio
The equity ratio is determined as a percentage derived from the ratio of equity to total assets of a company and provides information on its economic and financial stability. A higher equity ratio is generally considered positive in terms of safeguarding against insolvency. The higher the equity ratio, the higher the possibility that any losses incurred can principally be offset.

Ex-ante regulation
With ex-ante regulation, the regulator defines the framework conditions for competition in the network in advance. One example is price limits.

Franchise agreement
Agreement between a municipality and an energy supply company. It grants the energy supply company the right to lay and operate lines on public roads in order to supply end consumers in the district directly. In return, the municipality receives a franchise fee. Upon expiry of a franchise agreement, the municipalities have the right to buy the network and grant franchises to other energy suppliers.

Fuel cell
A fuel cell is an electrochemical converter based on the principle of inverse electrolysis which generates electrical current and heat. The products of the chemical reaction are water and, depending on the energy carrier used, also carbon dioxide.

Funds from operations
The funds from operations (FFO) before interest and tax are a key indicator of the operating performance. The FFO is the cash flow from operating activities before changes in net working capital, income tax paid and net interest paid.

GbR
Gesellschaft bürgerlichen Rechts (civil law partnership).

Geothermal energy
Power harnessed by means of heat from the interior of the earth. In Germany, temperatures at depths of several thousand metres reach more than 100°C which can be used for the generation of electricity. To heat buildings, geothermal energy can be extracted using probes that only need to reach a depth of about 100 metres.

Gross domestic product (GDP)
The total economic output of an economy within a certain period of time. Measurement of the value of economic performance resulting from domestic production.

Hedge transaction
A hedge serves to secure a transaction against risks such as exchange rate fluctuations or changes in the price of raw materials. To do so, the company wishing to hedge a transaction enters into a further transaction that is linked to the underlying transaction.

HGB
Handelsgesetzbuch (German Commercial Code).

IFRIC / SIC
International Financial Reporting Interpretations Committee (formerly: Standing Interpretations Committee). Its task is to interpret and specify the standards promulgated by the International Accounting Standards Board (IASB). The London-based IASB, which is organised and financed under private law, has been in existence since 2001.

IFRS
International Financial Reporting Standards (formerly: International Accounting Standards). They are issued by the International Accounting Standards Board (IASB).

Investment properties
Real estate held as financial assets.

Joint implementation
The mechanism of joint implementation, defined in Article 6 of the Kyoto Protocol, offers industrialised countries and companies in these countries the possibility of purchasing emission credits with projects in other industrialised countries and crediting these against their own commitments. The emission reductions achieved in this way are called emission reduction units (ERU) and can be traded.

kWh
Kilowatt-hour. Unit of measure for power. If the power remains constant, it is the product of power and time: 1 kW x 1 h = 1 kWh.

Limit
To restrict the risk of price fluctuation when buying or selling shares, investors can set limits. When buying shares, the price high is set as the limit. If the market price exceeds this, the transaction is not carried out. When selling, the limit fixes the maximum price at which the investor is still prepared to sell.

MWh
Megawatt-hour. Unit of measure for power. 1 MWh = 1 million watt-hours = 1,000 kWh = 3.6 billion joules.

No-par shares
Shares without a par value which embody a certain share of the capital stock of a company.

Option
Right to buy (call) or sell (put) the underlying option asset (for example securities or foreign currency) at a predetermined price (strike price) at a certain point in time or within a certain period of time from/to the contracting party (writer of option).

Performance
Development of the value of a financial asset over a certain period of time.

Rating
Independent rating agencies use ratings to appraise the ability of a company to settle its contractual obligations. Classification in a certain credit rating category helps investors to evaluate the creditworthiness of a company. A rating is not, however, a recommendation to buy or sell securities. Nor is it a guarantee, as the rating is based on data provided by the company to the rating agency.

ROCE
Return on capital employed. This business ratio sets the adjusted EBIT including investment result in relation with the average capital employed.

Syndicated loan facility
Fixed line of credit granted by a syndicate of banks for a certain period.

Target costing / target investment
Target investment is a cost management process based on target costing. In target costing, market research results are used to determine a price realisable on the market for a certain product and derive the maximum benefit. In the target investment approach, the maximum permissible investment volume is derived taking into account the customer/market requirements and the economic targets of a company. The special aspects of major capital expenditure are considered, such as the unique character of an investment or irreversibility of the investment decision. This approach can help to secure/increase return on capital, thus helping the company as a whole to preserve its competitiveness.

TWh
Terawatt-hour. Unit of measure for power. One TWh equals 1,000 gigawatt-hours or one million megawatt-hours or one billion kilowatt-hours.

Unbundling
The separate accounting required by the electricity market law for the areas generation, transmission and distribution and any other activities of a vertically integrated company. This includes in particular the duties of separate accounting, organisational segregation, confidentiality duties and in future also legal separations.

Value at risk
The market risk of the trading book is calculated using the value at risk indicator which determines the loss potential with a certain probability and holding period.

Vertical integration
Companies with activities both on the network side (transmission and distribution) and on the market side (generation, procurement and sales) are referred to as vertically integrated.

WACC
Weighted average cost of capital. This cost of capital rate constitutes the rate of return required by the providers of equity and debt capital weighted against the target capital structure. This weighting accounts for the different expectations in relation to return due to the different risks of equity and debt capital.

Financial calendar

February 20, 2007
Press briefing on annual results
Publication of the 2006 annual report

April 26, 2007
Annual general meeting
at Kongresszentrum Karlsruhe

May 10, 2007
Publication interim report
January to March 2007

August 8, 2007
Publication interim report
January to June 2007

November 9, 2007
Publication interim report
January to September 2007

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Group publications
Upon request, we would be pleased to send you additional complimentary copies of this annual report and other group publications such as the innovation report and sustainability report. These reports are available in German and English; the annual report is also available in French. In case of doubt the German version shall prevail. Please place your orders with our Shareholder Hotline.

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Top issues
Page 4 Innovation prize 2005: Uli Deck, Karlsruhe
Page 4 World Economic Forum 2006: Marcel Giger, Davos Platz
Page 4 Model franchise agreements: Bernd Eidenmüller, Stuttgart
Page 4 Stadtwerke Düsseldorf AG: Bernd Franck, Düsseldorf
Page 5 Hanover trade fair: Heiko Preller, Hannover
Page 5 BDI initiative: Uli Deck, Karlsruhe
Page 5 Natural gas grid in Heckengäu: EnBW
Page 5 Energy efficiency network: EnBW
Page 6 2006 FIFA World Cup™: Wolfgang List, Ludwigsburg
Page 6 High-voltage network: Peter Stumpf, Düsseldorf
Page 7 Climate congress: Frank Ossenbrink, Bonn/Berlin
Page 7 Trainees at EnBW: EnBW
Page 7 Energy efficiency network in eastern Germany: Thomas Kreil, Zeitz
Page 7 Interim storage for fuel rods in Neckarwestheim: Martin Schäuble, Neulingen-Bauschlott
Page 8 Low-temperature fuel cell: EnBW
Page 8 Geothermal energy in Basle: Uli Deck, Karlsruhe
Page 8 Phillipsburg nuclear power station: Bernd Franck, Düsseldorf
Page 8 Hard coal power station: Bernd Franck, Düsseldorf
Page 9 Neckarwestheim nuclear power station: Bernd Franck, Düsseldorf
Page 9 Ground breaking ceremony for contribution of the powerhouse in Rheinfelden: Benjamin Doerr, Denzlingen
Page 9 Innovation prize 2006: Uli Deck, Karlsruhe
Page 9 World Economic Forum 2007: HBM Marcom

Photos of the members of the Board of Management and Supervisory Board
Page 12 Amin Akhtar, Berlin
Pages 18, 20 Catrin Moritz, Essen

Index

Financial report

About this publication

Published by
EnBW Energie Baden-Württemberg AG
Durlacher Allee 93
76131 Karlsruhe
www.enbw.com

Coordination and editor
Corporate Communication,
Karlsruhe

Layout and design
Büro Franck
Visuelle Kommunikation,
Düsseldorf

Lithography
digit!
Digitale Medienproduktion GmbH,
Düsseldorf

Printed by
Kraft Druck und Verlag GmbH,
Ettlingen

Paper
PhoeniXmotion Xenon,
Content 135 g/m^2,
Cover 250 g/m^2

ISBA: B.1215.0702

Publication EnBW Annual Report 2006:
February 20, 2007

**EnBW Energie
Baden-Württemberg AG**

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76131 Karlsruhe
www.enbw.com