

Partners in the Network



Company Profile

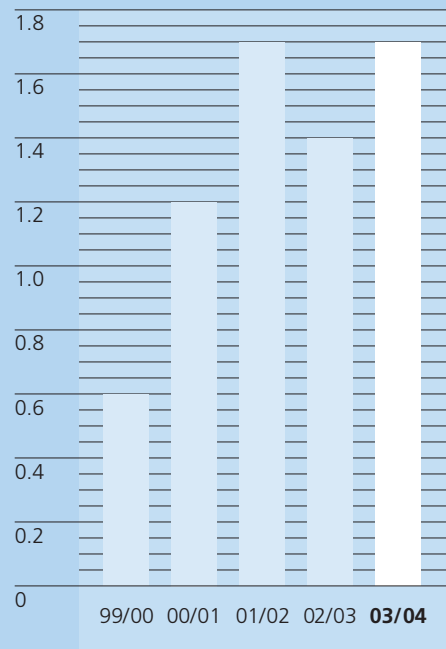
Since its stock market flotation in 1999, MVV Energie AG has developed into a modern and innovative energy distribution and energy-related service company. We combine proven core competencies with innovative solutions, providing our customers with the whole range of services from one source: electricity, district heating, gas, water, non-recyclable waste incineration and value-added services. The MVV Energie Group has around 7000 employees and generated sales of Euro 1.7 billion during the 2003/04 financial year.



The MVV Energie Group is growing—we own shareholdings in distribution and service companies in Germany, Poland and the Czech Republic. We are expanding our network of municipal utility companies and using this as a platform for the further growth of our group of companies. Further high-growth business fields on which we focus include the extraction of energy from non-recyclable waste and biomass, as well as the expansion of our energy services.

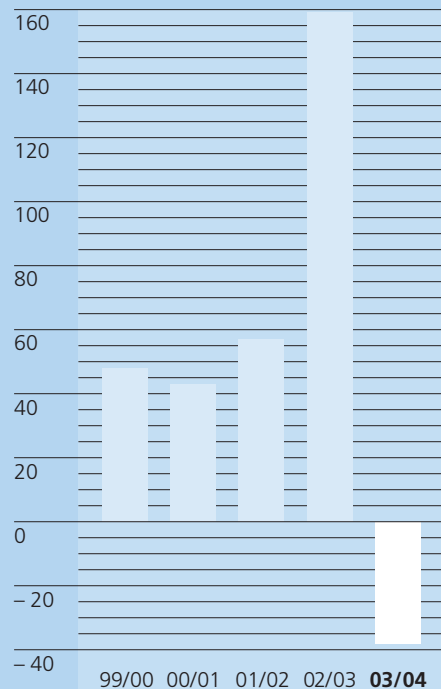
Sales
Euro billion

year under report
1.7 Euro billion



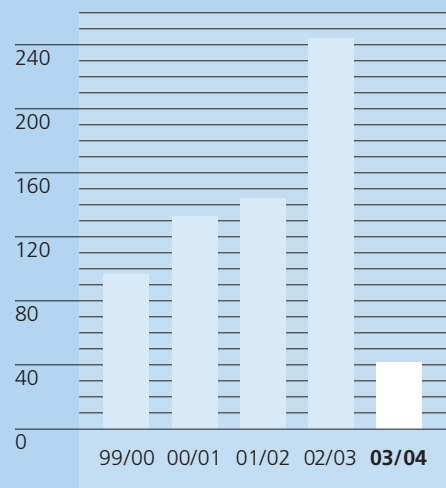
Annual Net Income
Euro million

year under report
- 38 Euro million



EBIT
Euro million

year under report
41 Euro million



Key Figures

MVV Energie Group¹ Euro million	unadjusted 2003/2004	unadjusted 2002/2003	adjusted² 2003/2004	adjusted ³ 2002/2003	adjusted % change
Sales ⁴	1 652	1 438	1 652	1 438	+ 15
EBITDA	209	359 ⁵	236	235 ⁵	—
EBITA	55	257	106	134	– 21
EBIT	41	244	97	121	– 20
EBT	– 23	184	36	61	– 41
Annual net deficit/surplus	– 38	159	19	32	– 41
Annual net deficit/surplus after minority interests	– 44	152	12	25	– 52
Earnings ⁶ per share in Euro	– 0.86	3.01	0.24	0.50	– 52
Cash flow pursuant to DVFA/SG	158	150 ⁷			
Total assets ⁸	2 877	2 348			
Equity	849	806			
Equity ratio ⁹ in %	29.5	34.3			
Capital employed ¹⁰	2 055	1 838			
ROCE ¹¹ in %	2.7	14.0			
WACC ¹² in %	8.0	8.8			
Value spread ¹³ in %	– 5.3	5.2			
Investments	307	181			
Number of employees ¹⁴	6 957	5 727			

¹ in accordance with International Financial Reporting Standards (IFRS)

² in the year under report excluding one-off expenses for streamlining of portfolio and impairment tests

³ in the previous year excluding income from sale of GVS shares, remaining income from GVS shareholding and expenses on measures to raise competitiveness

⁴ energy trading sales reported net, i.e. only at level of gross profit generated and reclassification of release of income subsidies as depreciation (previous year adjusted)

⁵ amended figure due to reclassification of income subsidies (previous year adjusted)

⁶ in accordance with IAS 33

⁷ amended figure due to reclassification of income subsidies (previous year adjusted)

⁸ net reporting of part-payments on consumption invoices and of income subsidies (previous year adjusted)

⁹ equity as a proportion of total assets

¹⁰ equity plus financial liabilities plus provisions for pensions and similar obligations plus cumulative goodwill amortisation (calculation based on annual average)

¹¹ return on capital employed (EBITA as a proportion of capital employed)

¹² weighted average cost of capital

¹³ value spread (ROCE less WACC)

¹⁴ including external personnel at energy from waste plant (MHKW) of MVV Energie AG in Mannheim

Partners in the Network

We sharpened the focus of our group of companies during the 2003/04 financial year and gave it a new strategic orientation. With its energy distribution and service companies in Germany, the Czech Republic and Poland, the MVV Energie Group is now fully **focused** on its core business and **committed** to promising closely-related high-growth business fields. We have emerged from this refocusing process **strengthened** and well-prepared for the future. As **partners in the network**, we will work together on the advancement and expansion of our Group.

The photographs in the 2003/04 Annual Report depict networks. On the one hand, they show technical networks of distribution stations, non-recyclable waste incinerators, waterworks, gas transfer stations and steam culverts. On the other hand, they illustrate personal networks, i.e. the close dialogue and cooperation between partners within the network of municipal utility companies of our Group.

MVV Energie AG

Annual Report 2003/2004



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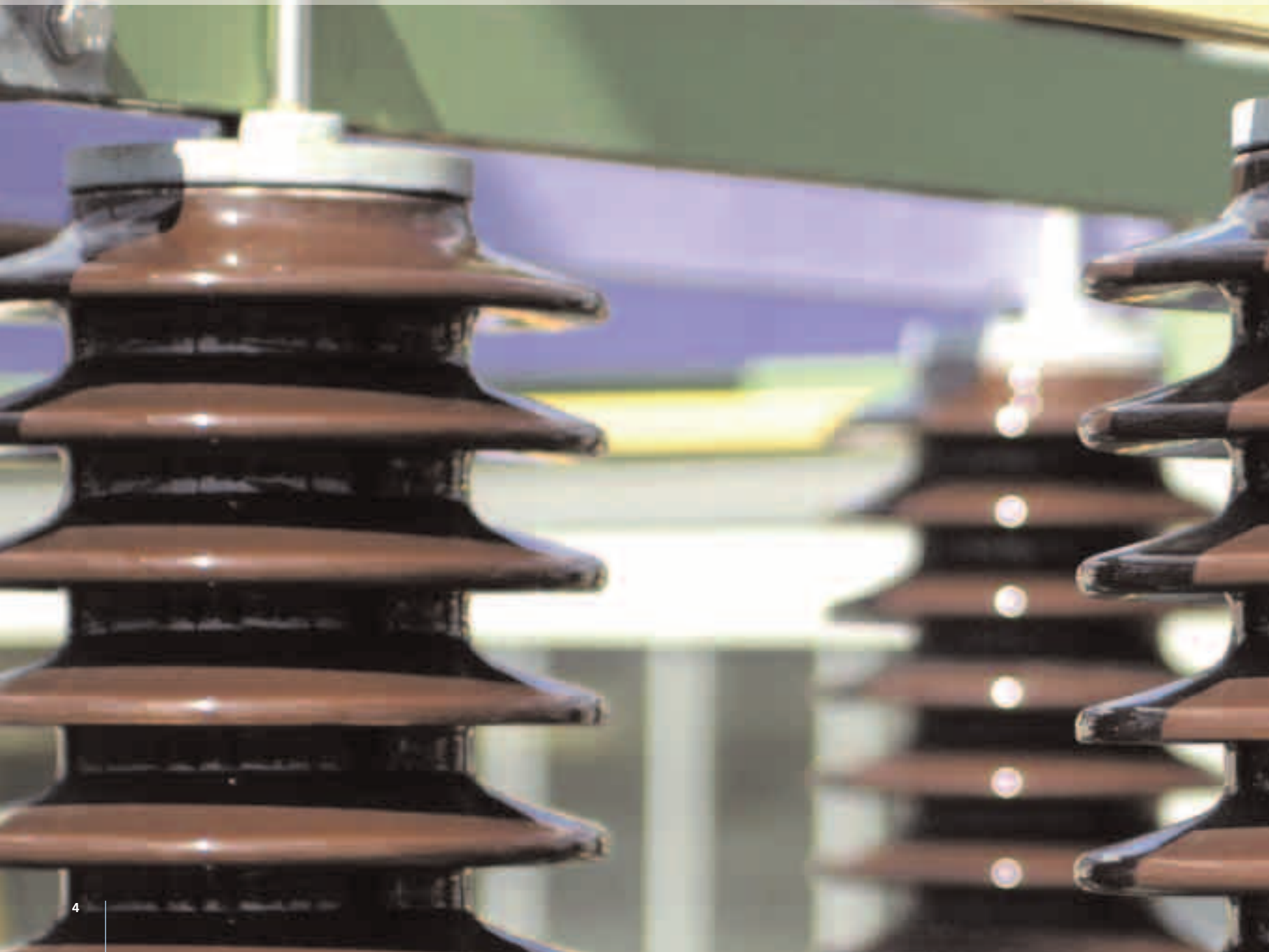
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Financial Calendar
Imprint

Electricity Distribution Station

The transmission and distribution of electrical energy is undertaken via several levels of voltage. At our distribution stations, the incoming electricity from high-voltage cables is transformed and subsequently distributed to the network stations and to our customers. ►►



To Our Shareholders

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Dr. Rudolf Schulten, ►
CEO of MVV Energie AG



Letter from the Executive Board

Dear Shareholders and Friends of MVV Energie,

The MVV Energie Group can look back on an extraordinary year characterised by major changes and important strategic decisions. During the 2003/04 financial year we laid the foundations necessary for the MVV Energie Group to maintain its successful development and to generate stable economic success for its shareholders in the long term.

At the beginning of the year under report we subjected our group of companies to a very thorough review. In March 2004, having thoroughly examined our strategy and business portfolio, we resolved together with the Supervisory Board to focus the Group's portfolio of shareholdings on its profitable core business and to modernise the Group's organisational structure in line with its strategic realignment. By the end of 2003/04 financial year, these measures had been consistently implemented.

Following the rapid broad-based growth on which we had focused since the liberalisation of the electricity market and our stock market flotation, the MVV Energie Group is now channelling all of its energies into its core business, the distribution of electricity, district heating, gas and water. In addition to these segments, we will continue to invest in the high-growth fields of energy services and environmental energy involving the incineration and extraction of energy from waste and biomass. We are already well positioned across Germany in these fields, which are closely related to our core business.

We are now according the highest priority to increasing our efficiency and profitability and thus to strengthening our earnings and capital power. The process of focusing on our core business and streamlining our portfolio of shareholdings on the one hand and the realignment of the Group's organisational structure on the other mean that we have laid the foundations required for this next step. We will exploit the strengths available within our group of companies to achieve sustainable success in this respect.

We consider our network of municipal utility companies to be an important pillar for our growth. Following our successful acquisitions in Offenbach, Ingolstadt and Solingen in previous years, during the 2003/04 financial year we acquired a further attractive and profitable 51% shareholding in Stadtwerke Kiel AG. The core business of this company is just as solid and cash-rich as that of MVV Energie AG and its other shareholdings in municipal utility companies.

The effects of the strategic realignment and restructuring of our Group have inevitably left their mark on the annual financial statements for the 2003/04 financial year. As expected and previously announced, these one-off effects mean that the MVV Energie Group has reported negative annual net income for the financial year under report. This is in contrast to the one-off positive item reported in the previous year as a result of the sale of our shares in Gasversorgung Süddeutschland GmbH (GVS). These major one-off items have been accounted for in the respective earnings comparisons.

Our income statement shows unadjusted operating earnings (EBIT) of Euro 41 million for the 2003/04 financial year (previous year: Euro 244 million).

The deduction of interest, taxes and minority interests results in an annual net deficit of Euro 44 million (previous year: annual net surplus of Euro 152 million). Following adjustment for the one-off expenses of Euro 56 million incurred by the streamlining of our portfolio and the write-downs undertaken on the book values of our shareholdings in the context of the impairment tests, the EBIT amounted to Euro 97 million for the year under report (adjusted figure for previous year: Euro 121 million) and the annual net surplus after minority interests amounted to Euro 12 million (adjusted figure for previous year: Euro 25 million).

Which factors resulted in adjusted operating earnings (EBIT) showing a greater decline than had been expected? This development was principally attributable to additional expenses accounted for upon the compilation of the annual financial statements for 2003/04.

The restructuring of the Group was necessary. The Executive Board attached great importance to ensuring that the reorganisation of the Group had also been completed in financial terms during the 2003/04 financial year. The impact on our balance sheet of the one-off charges resulting from focusing our portfolio of shareholdings on our profitable core business can be covered by the earnings retained from the sale of shares in Gasversorgung Süddeutschland GmbH in the previous year (Euro 148 million). As in the previous year, therefore, the Executive Board of MVV Energie AG will propose the payment of an attractive dividend of Euro 0.75 per share for approval by the Annual General Meeting on 4 March 2005.

We will already begin to harvest the fruits of our labours in the current 2004/05 financial year. The Executive Board of MVV Energie AG anticipates that it will be possible to achieve significant sales and earnings growth in the current financial year. Our sales are expected to rise to Euro 2 billion and our EBIT to Euro 150 million. A significant contribution to this improvement is expected to be generated by our new shareholding in Kiel. We aim to achieve further growth and to expand our network of municipal utility companies as soon as an attractive opportunity arises. Moreover, we stand by our plan of issuing further shares in MVV Energie AG on the stock market in order to obtain fresh equity, provided that the conditions on the capital market are suitable. To ensure that we can react rapidly in this respect, we aim to obtain approval for a capital increase of 30% from the Annual General Meeting in March 2005.

The MVV Energie Group is well equipped for the future. We can therefore look forward with confidence, in spite of the further intensification expected in the level of competition and of the new requirements resulting from the regulatory authority. Our confidence is based to a significant degree on the high level of competence and performance demonstrated by our employees, particularly during the difficult period of restructuring. I should like to extend my heartfelt thanks to all employees of the company both on my own behalf and on that of my colleagues in the Executive Board. Let us continue to pool our energies and channel them into the successful development of our group of companies.

I would very much hope that our shareholders feel able to continue to place their trust in the MVV Energie Group in future. We will do our utmost to justify this trust.

Regards,



*Dr. Rudolf Schulten
Chief Executive Officer*

The Executive Board of MVV Energie AG

Dr. Rudolf Schulten, front
Dr. Werner Dub, left
Hans-Jürgen Farrenkopf, centre
Karl-Heinz Trautmann, right
in the Mannheim-Rheinau waterworks



The Share of MVV Energie AG

With a 50 % share of sales and a 34 % share of adjusted operating earnings, electricity is one of our most important business segments. We act as an independent electricity trading partner in the energy trading business. In doing so, we exploit the bundled purchasing power of our network of municipal utility companies. ►►



Development of share price influenced by strategic realignment

The share of MVV Energie AG started the 2003/04 financial year on a positive note, rising to reach its annual high of Euro 17.25 on 9 March 2004 shortly before the Annual General Meeting. Following the Annual General Meeting, the share price initially declined on account of the dividend payment and subsequently came further under pressure as a result of the restructuring expenses expected to be incurred in the course of the company's strategic realignment. Speculation in the summer as to the need for possible write-downs on our shareholdings had a further negative impact on our share price. The share declined to Euro 11.70, its lowest closing price in the 2003/04 financial year, on 20 July 2004.

In order to provide clarity at as early a stage as possible as to the ongoing value of the shareholdings and goodwill of MVV Energie AG, the Executive Board brought forward the impairment tests usually undertaken upon the compilation of the annual financial statements. The publication of a lower level of required write-downs than had generally been expected, coupled with the successful completion of the restructuring programme, resulted in the share price increasing to Euro 14.55 (24 September 2004). At the end of the financial year on 30 September 2004, the share price amounted to Euro 14.50 and was thus 4.9 % down on the closing price for the previous year.

Our comparative indices, the *SDAX* and *Prime Utilities*, rose during the financial year by 17.3 % and 53.9 % respectively. For the first time since the 1999/2000 financial year, the performance of both indices was therefore better than that shown by the share of MVV Energie AG, which had long withstood the downward trend on the stock markets.

In terms of its free float market capitalisation, the MVV Energie AG share occupied the 85th position in the *SDAX* at the end of the financial year and the 100th position in terms of its stock market turnover.

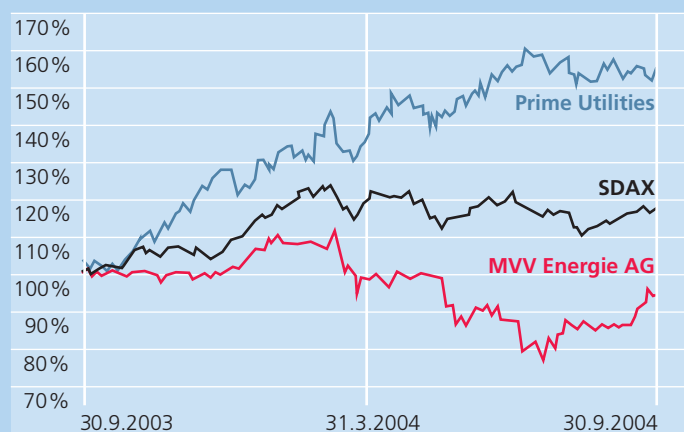
Pleasing developments were seen in the volume of stock market turnover involving our share. This virtually doubled once more to reach around Euro 42 million. Rising trading volumes facilitate the tradability of a share and thus make it more attractive, especially to institutional investors. In order to increase the turnover of our share even further, we are testing the *GateM* offer on the *Stuttgart Stock Exchange*, whose features include the guarantee of a lower margin between purchasing and selling prices.

Shareholder structure

There were no significant changes in our shareholder structure in the past year. The 15.05 % shareholding in MVV Energie AG previously held by RGE Holding GmbH was transferred within the E.ON Group to Thüga Aktiengesellschaft. Minor transfers between individual funds were also observed in the free float, which includes around 12.2 % of the company's shares and was worth Euro 90 million on the stock market at the end of the financial year. Those funds which have been dissolved or which have reduced their equity investments have been replaced by other, mainly dividend-oriented funds. Overall, the shareholder base of MVV Energie AG broadened slightly in the course of the financial year.

We made no use of the option of buying back shares in the past financial year, given that this would have led to a reduction in the number of freely tradable shares in our company. In 2005, we will review the possibility of introducing a share option programme for our employees and management.

Share of MVV Energie AG (ISIN DE0007255903)



¹ pending approval by the Annual General Meeting on 4 March 2005

² based on closing price in Frankfurt/Main on 30 September

³ excluding minority interests

Key Figures per Share

	2003/2004	2002/2003
Earnings (IAS 33) (Euro)	– 0.86	3.01
Price/earnings ratio (IAS 33)	—	5.1
Dividend (Euro)	0.75 ¹	0.75
Dividend yield ² (%)	5.2	4.9
Equity ³ (Euro)	12.02	13.76

Dividend

MVV Energie AG remains committed to upholding its shareholder-friendly dividend policy. We will therefore propose an attractive dividend of Euro 0.75 per share once again to the Annual General Meeting. This is equivalent to a return of 5.2 % in terms of the year-end closing price. In view of the fact that we had carried forward the net book profit generated from the sale of our shareholding in Gasversorgung Süddeutschland GmbH, we are in a position to distribute this level of dividend in spite of the restructuring expenses incurred in the 2003/04 financial year. This net book profit exceeds the one-off restructuring expenses and the reduction in the book value of our shareholdings by a significant margin.

Successful investor relations activities

Nine research institutes published analyses of MVV Energie AG during the year under report. Some of these institutes even provide ongoing commentaries on the development of our group of companies. The Executive Board and the Investor Relations department presented the development of the company to institutional and private investors at numerous analysts' conferences, roadshows, investors' meetings and in telephone conferences. Particularly noteworthy in this respect were the 2nd *Mannheim Capital Market Forum*, held on 16 September 2004, and the *Baden-Württemberg Small Caps event (BWSC-Börsentag)*, held in Stuttgart on 7 July 2004. Our homepage at www.mvv-investor.de provides a wide range of up-to-date information of relevance to the capital markets.

We once again achieved superb results in the "Best Investor Relations in Germany" prize awarded by the magazine *Börse Online*, reaching third position in the SDAX index (out of 50). This confirms us in our commitment to continuing to provide our investors with transparent, up-to-date and open information. Our Investor Relations activities aim to contribute to an appropriate evaluation of our share in future.

Outlook

As a result of the completion of the restructuring programme, among other factors, we expect the coming financial year to see an improvement in our earnings position and thus to have a positive impact on the price of the MVV Energie share.

In view of the fact that we intend to expand our network of municipal utility companies further, and will require fresh equity capital to do so, we remain committed to executing a capital increase. The timing of this move depends on the state of the capital markets, however, and has therefore not yet been determined.

Dr. Rudolf Schulten (right), CEO of MVV Energie AG
in conversation with Dr. Christian Becker, Managing
Director of Stadtwerke Solingen GmbH



Corporate Governance

Corporate governance encompasses all aspects of responsible corporate management and supervision. In addition to internal and external controlling mechanisms, this includes the company's organisational structure and business principles and guidelines. By applying the principles of good corporate governance, companies are able to raise the level of trust placed in them by investors, financial markets, business partners, employees and the general public.

The *Corporate Governance Code* published by the *Government Commission on the German Corporate Governance Code* aims to render the principles of corporate management and supervision transparent and comprehensible. It is largely based on the legal regulations governing corporate management and supervision. Moreover, the Code includes recommendations which go beyond the legal regulations, from which companies, however, may deviate. The executive and supervisory boards of publicly listed companies are required to submit an annual Statement of Compliance pursuant to Section 161 of the *German Stock Corporation Act (AktG)* outlining the extent to which they have complied with or deviated from these recommendations. Furthermore, the Code also provides suggestions from which companies may deviate without being required to disclose their reasons for doing so.

The MVV Energie Group is committed to responsible value-based corporate management. Within the framework of this objective, we provide our shareholders and the general public with up-to-date, comprehensive, open and prompt information about our current and planned course of business. In this respect, we have made particular use of our company's website (www.mvv-investor.de). The information published on this site includes the financial calendar, which sets out the most significant reporting dates of MVV Energie AG.

Our accounting practices are also based on national and international standards. The consolidated financial statements of MVV Energie AG are compiled in accordance with *International Financial Reporting Standards (IFRS)*, while the annual financial statements of MVV Energie AG are based on the principles of the *German Commercial Code (HGB)*.

Statement of Compliance:

The Executive and Supervisory Boards hereby confirm that the company has complied with and continues to comply with the recommendations made by the *Government Commission on the German Corporate Governance Code* in the version dated 21 May 2003 published by the *Federal Ministry of Justice* in the official section of the electronic Federal Official Gazette. The Executive and Supervisory Boards also intend to comply with the recommendations of the *Corporate Governance Code* in future. Only the following recommendations have not been complied with by the company:

Retention for D&O insurance (Directors & Officers): Point 3.8 (2): “In the event of the company taking out D&O insurance for its executive and supervisory boards, a commensurate level of retention should be agreed.”

The D&O insurance policy concluded by MVV Energie AG, which protects the insured parties against possible claims for damages, does not provide insurance cover for intentional wrongdoing or wilful negligence on the part of the members of the Executive and Supervisory Boards, neither does it cover against their knowingly committing any dereliction of duty. The issue of retention therefore only applies to negligent behaviour. We remain convinced that our efforts to attract outstanding individuals to assume responsibility on our Executive and Supervisory Boards would be impeded if such individuals also had to bear the risk of liability claims in the event of negligent behaviour.

Performance-related remuneration for the supervisory board: Point 5.4.5 (2) Sentence 1: “The members of the supervisory board should receive both fixed and performance-related remuneration.”

The articles of incorporation of MVV Energie AG currently only provide for the fixed remuneration of its Supervisory Board. However, this does not exclude the possibility of MVV Energie AG also including performance-related components in its remuneration of the members of its Supervisory

Board in future. In this respect, we had already commented in the past that we were not convinced by the performance-related models based on partially linking Supervisory Board remuneration to the level of the dividend or to the share price. Our reservations have been underlined by the most recent ruling of the Federal High Court in respect of the admissibility of share option programmes for supervisory board members. Before introducing any performance-related components into the remuneration of the members of our Supervisory Board, we therefore intend to analyse subsequent developments in this area.

Although the following recommendation has not been applied to date, from now on it will be partially implemented as follows:

Remuneration of the members of the executive board: Point 4.2.4: “The disclosure of remuneration should be undertaken on an individual basis”.

The remuneration of the members of the Executive Board has been and continues to be disclosed broken down into its fixed and variable components, as well as components of a long-term incentive nature. Such disclosure is of great relevance to any assessment as to whether the breakdown of the remuneration into guaranteed and performance-related components is appropriate and as to whether the remuneration structure provides the intended incentive effect. The Executive Board is a collective body, which means that the incentive effect of the remuneration for the overall body is of key importance. The Chairman of the Executive Board (CEO) nevertheless fulfils a more prominent function within the overall body and his remuneration attracts a greater level of public interest. In view of this, the remuneration of the CEO will now be disclosed on an individual basis. In the 2003/04 financial year, his remuneration amounted to Euro 222 thousand. The remuneration of the overall Executive Board, including its retired members, amounted to Euro 1 444 thousand. Further details can be found on Page 114 of this annual report.

Non-Recyclable Waste Incineration

Our non-recyclable waste incineration facilities in Mannheim and Offenbach, which are equipped with modern, high-performance flue gas scrubbing facilities, contribute to the avoidance of backlogs of waste and thus to the protection of the environment. ►►



Business Model

16 Corporate Strategy

20 Focus:
The Network of
Municipal Utility Companies
of the MVV Energie Group

Corporate Strategy

The energy market is in a period of dynamic change. As a modern, innovative energy distributor and service provider, we began preparing ourselves for the forthcoming changes at an early stage and have adapted our strategic alignment accordingly. In recent years the MVV Energie Group has pursued a successful growth strategy and has now built up a stable core business. We have more than trebled our sales since our stock market flotation in 1999 and have significantly strengthened our position in our core German market. Moreover, we have succeeded in establishing promising initial positions in important market segments expected to produce far-reaching changes in the energy sector. These are the high-growth areas of energy services, environmental energy (this high-growth segment includes non-recyclable waste incineration and renewable energies) and the sale of electricity across the whole of Germany. Our declared aim for the coming years is to consolidate our successes to date and to use these strengths as a springboard for further growth.

During the year under report, we reviewed and realigned the strategy and business portfolio of the MVV Energie Group. We are replacing the broad-based expansion strategy of the past with a growth strategy focused on our core business and primarily aimed at strengthening our network.

The incineration is based on the resource-saving cogeneration process, which enables the energy potential of the non-recyclable waste and rubbish to be optimally exploited. In Mannheim, we generate steam and electricity, while our Offenbach plant generates district heating and electricity. Our biomass power plants in Mannheim (20 MW), Königs Wusterhausen (20 MW) and Flörsheim-Wicker (15 MW) generate electricity from old and scrap wood. ►►



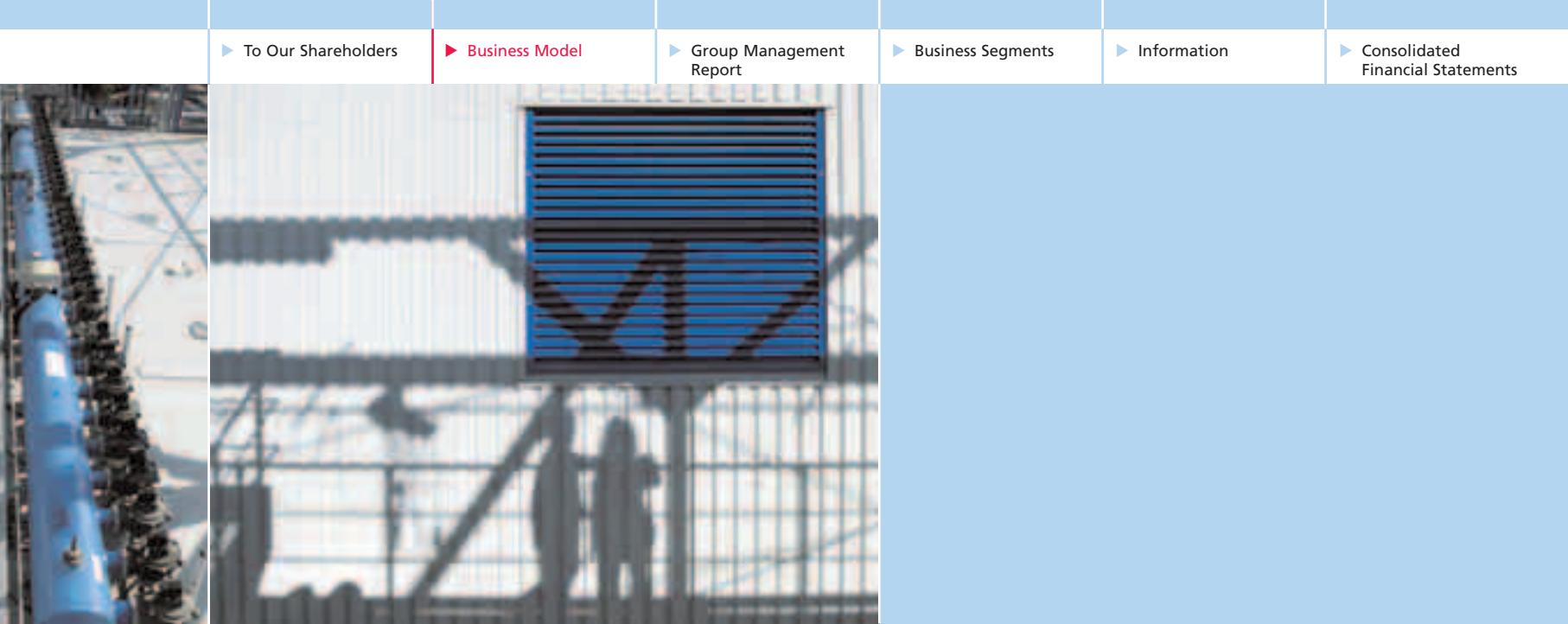
The companies of the MVV Energie Group are now focused on:

Our stable core business:

- We are successfully established in Germany, Poland and the Czech Republic in the distribution of electricity, district heating, gas and water, as well as in non-recyclable waste incineration and the use of biomass for energy purposes.
- We own our networks and have longstanding and close customer relationships which we have carefully built up by means of active customer care measures.
- We generate solid earnings in our network of municipal utility companies and enjoy numerous synergies in various cooperation projects.

Our growth potential:

- We aim to acquire further shareholdings to enable us to access new regional markets in Germany and other countries.
- We aim to develop our energy services in order to expand existing customer relationships and to acquire new customers.
- We intend to further expand our environmental energy segment.



Efficiency as our guiding principle

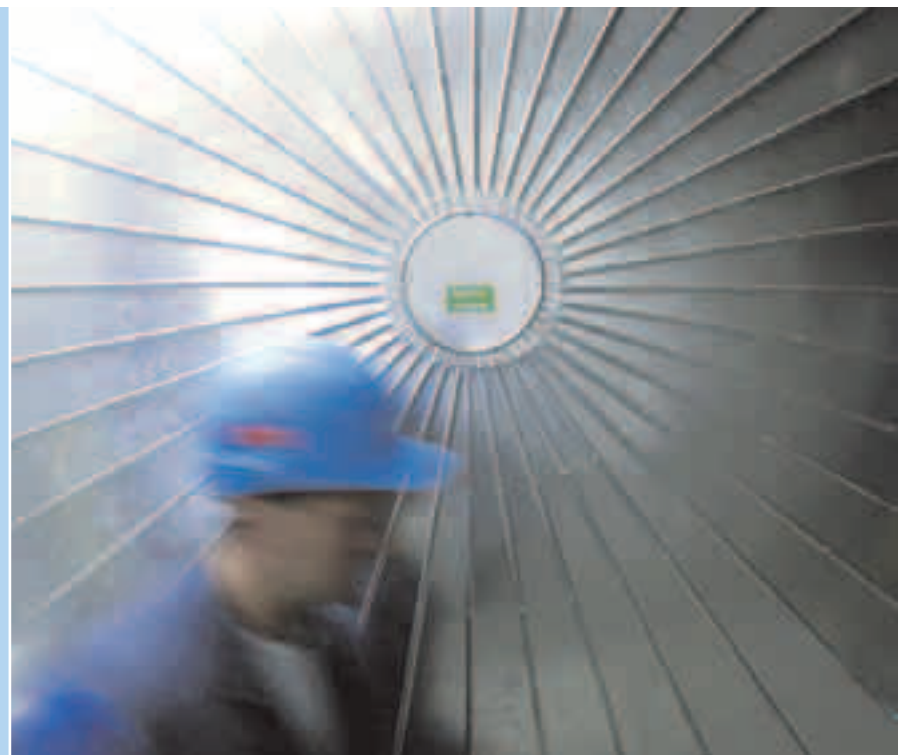
Our success is based on a solid core business managed on the basis of stringent efficiency criteria. We use modern business management and control systems to support the ongoing improvement of the Group's performance. Our cooperation in this respect is based on jointly agreed and measurable targets. We identify superior solutions in terms of best practice and implement them across the Group. The prime example of this is the standardisation of our technology—this enables us to optimally implement a uniform investment and maintenance strategy across the Group, to exploit procurement synergies and to structure various processes, including system support services, more efficiently. By including our partners on an operational level and allocating them responsibility on equal terms, we live the network idea and benefit from our mutual expertise.

Expansion of the network of municipal utility companies

The acquisition of shareholdings in municipal utility companies has facilitated the rapid expansion of the MVV Energie Group in recent years. It now encompasses seven municipal utility companies in Germany and eleven district heating providers in Poland and the Czech Republic. One of our main tasks involves networking these partners, learning from each other and further exploiting synergy and efficiency potential within the Group.

The expansion of the existing network of municipal utility companies constitutes one of the focal points of the further growth of the MVV Energie Group. However, our growth should not only be based on the acquisition of further subsidiaries, such as the shareholding most recently acquired in Stadtwerke Kiel. Our focus is increasingly also on other forms of partnership, such as collaboration or cooperation on specific projects involving operating units outside the existing network. In this respect, the expansion of our network does not only involve our core business, but also includes partnerships relating to our core business or which have the potential to generate synergies.

The incineration of non-recyclable waste and the disposal of biomass are a high-growth area: a law coming into effect in Germany on 1 June 2005 stipulates that only waste which has been subject to thermal or biological pre-treatment may be disposed of at rubbish dumps. While the estimated annual volume of non-recyclable waste amounts to 25 to 30 million tonnes, the current incineration capacity available across Germany amounts to 17 million tonnes per year. The level of waste disposal capacities required will therefore rise sharply. The Renewable Energy Act (EEG) forms the basis for securing investments in renewable energy technologies, such as electricity generation using biomass, in the long term. ►►



Growth based on innovative products

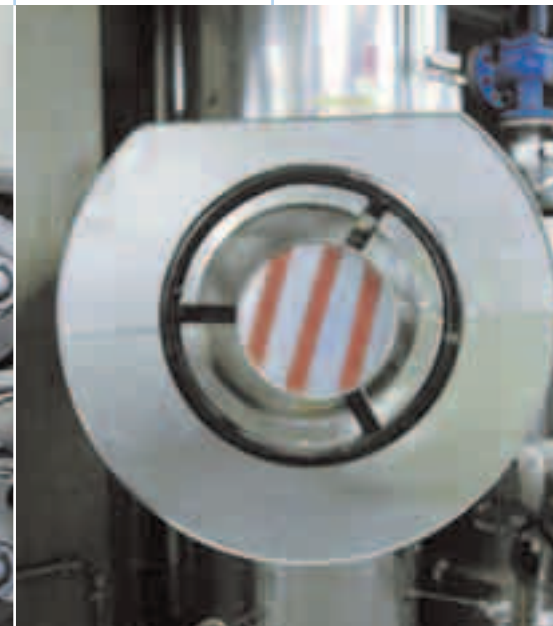
Following a phase of offering a wide range of products in the fields of energy services and environmental energy at the beginning of the liberalisation of the energy market, the MVV Group will in future focus on the following product groups: energy services for municipalities and industry, environmentally friendly non-recyclable waste incineration and the use of biomass as a source of renewable energy, as well as the sale of electricity products to industrial customers and redistributors across the whole of Germany. In this respect, we are consolidating our resources to enable us to be one of the largest providers in our respective markets.

We set ourselves apart from our competition by means of our customer-oriented specialist products. In this, we draw on the strengths of MVV Energie AG and its network—experience, openness to innovation, flexibility, proximity to our regional customers and rapid response.

New organisational structure at MVV Energie AG

A new organisational structure was designed for MVV Energie AG in line with its strategic orientation. All the stages of its implementation were undertaken on the basis of close cooperation between the Executive Board, the Works Council, the management and the respective internal organisational units. In terms of the development of our future organisational structure, we have cooperated in order to:

- improve the balance between the individual areas of Executive Board responsibility
- redefine and redesign tasks
- clearly define responsibilities
- centralise tasks where necessary
- eliminate inefficiencies/duplications
- redefine and redesign processes



Within the organisational structure of MVV Energie AG, the organisational units are subdivided into group departments, service divisions and business fields on the basis of their respective tasks, orientation and impact. The **group departments** primarily fulfil regulatory and initiatory functions, such as compliance with underlying legal requirements or the setting of strategies and guidelines. The principal role of the **service divisions** involves supporting the business fields by providing services and facilitating the exploitation of effects of scale and the bundling of expertise. Within the framework of the new organisational structure, the municipal utility subsidiaries in particular will in future receive additional support from the group departments and the service divisions. The **business fields** are responsible for the actual creation of value within MVV Energie AG. They generate the majority of our sales and earnings.

The new business fields of MVV Energie AG are **Network, Sales, Trading, Energy Services** and the **Environmental Energy**. One factor underlying the choice of this structure was the mandatory organisational severance of the fields of generation, networks and sales expected to be required upon the new Energy Act coming into force and the corporate separation of the fields of generation, networks and sales required as of 1 July 2007

(so-called unbundling). The organisational unbundling of integrated energy supply companies makes it necessary to provide the networks division with autonomy in respect of its decisions and actions and to safeguard the independence of the management of this division. Furthermore, the new Energy Act will, in all probability, require the definition of an equal treatment programme and the appointment of an equal treatment manager in order to safeguard the equal treatment of all network users. The organisational, accounting and information requirements relating to this unbundling have been accounted for in the implementation of our new organisational structure and will be implemented on schedule upon their entering force. We will thereby achieve a clear separation of responsibilities between the network management and the technical divisions responsible for engineering and plant management.

The new organisational structure enables us to implement our corporate strategy efficiently and supports the target and earnings-driven management of our business fields and shareholdings. At the same time, it facilitates the integration of possible further horizontal cooperations. Moreover, it will produce an ongoing increase in the levels of transparency and cost awareness within the MVV Energie Group.

Focus: The Network of Municipal Utility Companies of the MVV Energie Group

Since its stock market flotation in 1999, MVV Energie AG has opted for the strategy of becoming an independent regional energy distribution and energy-related service company with a national and international presence. In contrast to the energy generation business, distribution does not involve any unadulterated benefits of scale in view of the fact that it is a regional business. Over the past five years we have therefore built up a network of municipal utility companies. Apart from MVV Energie AG, the German network comprises the energy suppliers and/or municipal utility companies in Offenbach, Ingolstadt, Solingen, Kiel, Köthen and Buchen. Our group of companies also includes three district heating companies in Poland and eight district heating companies in the Czech Republic.

The horizontal integration and networking of multi-utility companies means that our strategy differs from that pursued by the large German energy generators, which focus on vertical integration in the German energy market. They integrate companies from generation through to distribution.

Executive Board members and Managing Directors of the MVV Energie Group (from left to right)

Wolfgang Thureau, Köthen Energie GmbH
Dr. Werner Dub, MVV Energie AG
Dirk Fieml, Stadtwerke Ingolstadt Beteiligungen GmbH
Dr. Rudolf Schulten, MVV Energie AG
Stefan Grützmacher, Stadtwerke Kiel AG
Hans-Jürgen Farrenkopf, MVV Energie AG, seated
Arthur Bächle, Stadtwerke Kiel AG
Matthias Brückmann, Energieversorgung Offenbach AG
Karl-Heinz Trautmann, MVV Energie AG, seated
Dr. Kurt Hunsänger, Energieversorgung Offenbach AG

Further Executive Board members and Managing Directors of our network of municipal utility companies

Matthias Gruber, Management Stadtwerke Buchen GmbH
Kurt Hemberger, Management Stadtwerke Buchen GmbH
Joachim Kistenmacher, Stadtwerke Kiel AG
Dr. Christian Becker, Stadtwerke Solingen GmbH
Conrad Troullier, Stadtwerke Solingen GmbH
Ivo Slavotinek, MVV Energie CZ s.r.o.
Beata Glaba, MVV Polska Sp. z o.o.
Daniel Heiler, MVV Polska Sp. z o.o.
Thomas Stepputat, MVV Polska Sp. z o.o.

We see the horizontal integration of multi-utility companies in our network of municipal utility companies as having the following benefits:

- multiplication of successful business models and processes as examples of best practice in economically interesting regional markets
- expanding the customer base and accessing new customers
- new locations as a platform for marketing energy services and innovative product ideas which have proven to be successful
- exploitation of synergies in energy trading, technology, IT and procurement

We aim to expand our network of municipal utility companies further, to strengthen the links and raise the level of cooperation between the individual



Economic significance of our shareholdings

companies even further. We consider the prospects for acquiring further shareholdings to be good in view of the fact that prices for municipal utility companies have fallen sharply as a result of anti-trust restrictions on large German energy generators. However, we will only acquire shareholdings in those companies whose core business fits in with ours and which are profitable.

During the year under report, we initiated a joint project with our shareholdings in Offenbach, Ingolstadt and Solingen aimed at standardising all processes, procedures and organisational structures. Our shareholdings in Offenbach, Ingolstadt and Köthen have executed an SAP implementation project enabling them to use a uniform software platform with the MVV Energie AG parent company.

Of the overall sales of our group of companies for the year under report (Euro 1 652 million), a total of Euro 544 million (33 %) was generated by our domestic fully and proportionately consolidated municipal utility company shareholdings in Offenbach, Ingolstadt, Solingen, Köthen and for the first time also in Kiel (five months). Their economic significance is even more apparent in the operating earnings figures: with operating earnings (EBIT) of Euro 49 million, our five domestic municipal utility company shareholdings generated half of the overall adjusted EBIT of the MVV Energie Group (Euro 97 million) during the year under report.

Our Polish and Czech subgroups generated sales of Euro 128 million and operating earnings (EBIT) of Euro 12 million during the year under report.

Dr. Rudolf Schulten (left), CEO of MVV Energie AG in conversation with ►
Dirk Fieml, Managing Director of the Stadtwerke Ingolstadt Beteiligungen
GmbH, Matthias Brückmann, Executive Board member of Energiever-
sorgung Offenbach AG, and Stefan Grützmaier, Executive Board member
of Stadtwerke Kiel AG



Energieversorgung Offenbach AG (49.0 % shareholding)

Energieversorgung Offenbach (EVO) supplies around 256 000 customers (including residential units). With numerous shareholdings of its own, it is one of the largest energy supply and service companies in the Rhine-Main region, one of the strongest economic regions in Germany.

During the year under report, EVO increased its sales by 7 % on the previous year to Euro 285 million and further improved its position in its regional market. The company won back a number of electricity customers in its prime catchment area who had previously switched to other suppliers. Moreover, it also succeeded in expanding its business outside its own network region. The primary effects of this sales success will only become apparent in the current 2004/05 financial year. At Euro 29 million, the operating earnings of EVO for the year under report were at the same level as in the previous year.

The year under report at EVO was also characterised by strategic alignment and organisational changes. Analogous to its parent company, MVV Energie AG, EVO will be focusing in future on its core businesses of electricity, district heating, gas, water and non-recyclable waste incineration. These will be complemented by select energy-related services, such as contracting and technical facility management. The unbundling requirements expected to be included in the amended Energy Act were also implemented within the framework of the reorganisation of the company.

Stadtwerke Kiel AG (51.0 % shareholding)

Our acquisition of a majority shareholding in Stadtwerke Kiel AG (SWK) during the year under report enabled us to expand the existing network of municipal utility companies with an important base in the North of Germany. In the consolidated financial statements of the MVV Energie Group, the Kiel shareholding has only been fully included for a period of five months (May to September 2004). In view of the traditional weakness of this period as a result of the seasons involved, the company's sales amounted to Euro 92 million and its operating earnings (EBIT) to Euro –2 million. For the current 2004/05 financial year, we expect the company to generate sales of Euro 332 million and operating earnings (EBIT) of around Euro 30 million. SWK supplies around 320 000 customers (including residential units) in the state capital of Kiel and the surrounding areas with electricity, district heating, gas and water.

Two new business fields have been successfully established in the market in the form of the consistent further development of energy trading activities and the expansion of energy contracting. One important highlight during the year under report was the awarding of the contract for supplying public sector facilities in the state of Schleswig-Holstein, for which tenders had been invited from across Europe. On an internal level, the optimisation of investments and maintenance expenses played a key role within the framework of asset management.



We have combined our waste disposal and biomass power plant businesses to form our new business field of Environmental Energy. This will enable us to make even better use of the longstanding engineering experience acquired in the field of non-recyclable waste incineration, for example in the construction and operation of bioenergy facilities. Moreover, this measure will simplify the management of the Group and enable synergies to be exploited. ▶▶

Stadtwerke Solingen GmbH (49.9% shareholding)

Our shareholding in Stadtwerke Solingen (SWS) means that our group of companies has an important location in Nordrhein-Westfalen. SWS supplies around 214 000 customers (including residential units) within and outside its network region with electricity, gas and water.

The positive developments seen in recent years continued during the 2003/04 financial year. During the year under report, SWS, which is proportionately consolidated, increased its sales from Euro 77 million to Euro 83 million and its operating earnings (EBIT) from Euro 10 million to Euro 12 million. The implementation of the "Fit for Future" and "Standardisation of Technology" projects within the MVV Energie Group resulted in cost savings. The improved competitiveness has laid the foundations for a continuation of the successful development of the company. The company's investments focused on energy and water supply distribution facilities. Following the construction of a further gas feeder station, SWS now has ten gas feeder stations across the whole of Solingen and is equipped to meet the supply requirements of the coming decades. The successful conclusion of the electricity supply agreement with the municipal utility company in Hilden will have a positive impact on business in the 2004/05 financial year. The joint value-added services subsidiary ENSERVA GmbH was able to acquire new orders in the fields of contracting and land improvement and development.

Stadtwerke Ingolstadt Beteiligungen GmbH (48.4% shareholding)

Stadtwerke Ingolstadt Beteiligungen GmbH (SWI) is an important regional network node for the Bavarian economic region. Around 96 000 customers (including residential units) are supplied with electricity, district heating and gas by SWI in Ingolstadt. SWI has taken over the extraction of water and the operation, construction and maintenance of the distribution network on behalf of the independent water supply business of the municipal utility company in Ingolstadt. Its reginova GmbH subsidiary offers the whole range of energy services.

The sales of SWI, which is proportionately consolidated, declined from Euro 77 million to 73 million during the 2003/04 financial year. This decline is primarily attributable to a downturn in the electricity business with customers with customised agreements as a result of mounting competition. This could not be compensated for by the growth of the gas and district heating businesses. The district heating business succeeded in acquiring a large industrial client, which relinquished its own gas-powered heating system in December 2003 and has since been supplied with district heating by SWI. A further sales success involved the conclusion of two gas supply concession agreements with the municipalities of Gaimersheim and Wettstetten, both of which have a term of 20 years.

The operating earnings (EBIT) of SWI rose from Euro 9 million in the previous year to Euro 12 million. This improvement was partly attributable to one-off items resulting from the sale of facilities, the release of provisions and non-period income.

We are already one of the market leaders in Germany in the field of biomass power plants. Once our non-recyclable waste incineration facility in Leuna has commenced operations, we will have an incineration capacity totalling around 1 million tonnes, making us the third-largest operator in Germany of incineration and energy extraction facilities in the fields of non-recyclable waste and biomass.

Köthen Energie GmbH (100% shareholding)

As a regional distribution company, Köthen Energie GmbH is active in the fields of gas, district heating and energy services and supplies around 10 300 customers (including residential units). During the year under report, Köthen Energie generated sales of Euro 11 million (previous year: Euro 11 million) and operating earnings (EBIT) of Euro 2 million (Euro 1 million). Seven new contracting projects with a sales volume of around Euro 1 million were acquired in the field of energy services. Important maintenance measures were undertaken in the gas division. A high-pressure gas pipeline (1.4 km), which will act as a new feeder pipe for the local grid in Köthen, was laid using the horizontal drill and flush method. Numerous new house connections were laid during the year under report, which in some cases form part of a land improvement and development project.

Stadtwerke Buchen GmbH & Co. KG (25.1% shareholding)

Our Stadtwerke Buchen (SWB) subsidiary is included in the consolidated financial statements of the MVV Energie Group as an associated company with its annual financial statements as of 31 December 2003 valued at equity. SWB supplies more than 15 900 customers (including residential units) with electricity, gas and water. During the 2003 financial year, SWB generated sales of Euro 16 million (previous year: Euro 14 million) and an annual net surplus of Euro 1.6 million, as in the previous year. With a 45% share of sales, the supply of gas is the business division with the highest sales volume. In the short to medium term, SWB intends to significantly expand its operations in the supply of tap water by taking over technical plant management for surrounding municipalities.



Foreign shareholdings in Poland and the Czech Republic

We expect the expansion of the European Union and the resultant economic stimuli and increasing legal security to lead to improved market opportunities in our foreign target markets of the Czech Republic and Poland, particularly in the business fields of district heating and value-added services.

Czech Republic: MVV Energie CZ s.r.o., Prague

Our eight Czech shareholdings, which were combined during the year under report to form MVV Energie CZ s.r.o., Prague, supplied around 106 000 customers (including residential units) and reported district heating turnover of 1.9 billion kWh (previous year: 2.0 billion kWh), and thus contributed sales of Euro 92 million (previous year: Euro 95 million) and operating earnings (EBIT) of Euro 11 million (previous year: Euro 12 million) to the business performance of the MVV Energie Group.

The renewal, modernisation and maintenance measures commenced in 2003 at the power plants and in the district heating distribution grids, particularly in Opava and Jablonec, were successfully completed during the year under report. Moreover, we further strengthened the contracting division and thus maintained the positive trend seen in the previous year.



On account of the looming sale of the company in Brno, the original plan of merging the individual district heating companies was not implemented. During the year under report, we began to generate more significant cost reductions potential by means of outsourcing. Our operations and maintenance personnel were also merged at MVV enservis s.r.o.

At the beginning of the 2004/05 financial year, MVV Energie AG sold the shares it had acquired in the municipal district heating company Teplárny Brno a.s. in 2001 back to the city of Brno. Following this sale, MVV Energie AG will nevertheless maintain its focus on the Czech district heating market. As well as providing our customers with a high-quality heating supply, our main priority will involve increasing our earnings power and profitability.

Poland: MVV Polska Sp. z o.o., Warsaw

Our shareholdings in three district heating companies in Bydgoszcz, Szczecin and Skarzysko-Kamienna and four value-added service companies are combined at our subsidiary MVV Polska Sp. z o.o. in Warsaw.

Our Polish group of companies, which supplies around 192 000 customers (including residential units), reported districting heating turnover of 1.1 billion kWh (previous year: 1.3 billion kWh), sales of Euro 36 million (previous year: Euro 40 million) and operating earnings (EBIT) of Euro 1 million (previous year: Euro 2 million) during the 2003/04 financial year. The decline in sales and earnings is primarily attributable to weather and currency considerations.

The most important projects undertaken during the year under report included the construction of an oil-fired district heating plant in Szczecin. This heating plant will commence trial operations in December 2004 and will start operating as a peak-load heating plant in January 2005. We have restructured our shareholdings in Szczecin and Skarzysko-Kamienna in order to improve their processes. This involved developing the controlling activities and introducing SAP at Szczecin, developing the sales department and introducing a customer/client structure into the technology department.

The merger of MVV EPS Polska S.A. with MVV Polska Sp. z o.o. means that six contracting orders relating to the supply of district heating have been added to the portfolio of MVV Polska Sp. z o.o.

Industrial Energy Plant

Our MVV Industriekraftwerk Ludwigshafen GmbH subsidiary supplies five customers directly on site at the Ludwigshafen South Industrial Park with electricity, gas, steam, compressed air, drinking, untreated, decarbonated and desalinated water. ►►



Group Management Report

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Market Climate

The comprehensive, decentralised supply of energy to industry is just one impressive example of our activities in the high-growth field of energy services. ►►



Economic framework

In the course of the past year, the European Union has witnessed a moderate improvement in its economic situation, a development which has been encouraged by low interest rates. *Eurostat*, the European statistics office, expects the 25 member states to see GDP growth of 2.0 % in 2004. Growth of 2.4 % has been forecast for 2005. The EU Commission is of the opinion that a turnaround has thus been achieved and that an economic revival is now underway in Europe. Exports have risen thanks to the growth in the global economy, but this cannot disguise the fact that domestic demand remains weak. It remains to be seen whether a further increase in primary energy prices will dampen the economic recovery.

The expansion of the European Union to include ten new member states has changed the political and economic environment for the German energy industry. We expect to see improved market opportunities in our foreign target markets of the Czech Republic and Poland on account of the positive economic stimuli and increasing legal security resulting from their accession to the EU. As a result of the ongoing increase in their exports, these countries expect to see GDP growth of between 2.9 % and 4.6 % in 2004. Following its stagnation in the previous year, German GDP is expected to report slight growth for the overall 2004 financial year. According to the Autumn Survey of the six leading German economic research institutes, the German economy is expected to grow by around 1.8 % in 2004.

Regulatory framework for the energy industry

The regulatory framework for the supply of electricity and gas on the German energy market is set to be redefined by the amended *Energy Act (EnWG)*. This takes account of the new EU single market regulations and of the EU Electricity and Gas Directives. The parliamentary discussion surrounding the amendment of the Energy Act in the Federal Parliament, as well as the foreseeable period of negotiations between the lower and upper houses, are expected to last into 2005. Significant points of the new energy law, which in some cases are still the subject of intense discussion, are to be set out in detailed statutes. As soon as the new legislation is passed, the Federal Regulatory Authority for Electricity, Gas, Telecommunications and Postal Services will take up its supervision of the electricity and gas markets.

The MVV Energie Group has developed a comprehensive regulatory concept aimed at increasing the level of competition. In addition to the expected regulation of the networks, this concept also includes those areas in which the networks impact on the level of competition in the fields of generation, trading and sales. We are convinced that such regulation would increase the efficiency of the electricity market and are therefore campaigning to generate support for our concept among politicians and sector associations. The amended *Renewable Energy Act (EEG)* came into force on 1 August 2004. This act lays the foundation for the expansion of renewable energy forms in Germany and constitutes an important basis for securing long-term investments in technologies relating to the supply of renewable energies.

The *Allocations Act (ZuG)* has created the conditions required for trading carbon dioxide (CO₂) emissions. It sets out how the total of around 2 400 existing industrial facilities and power plants are to be allocated free emissions certificates, while stipulating certain obligations to reduce emissions. This will facilitate the creation of a pan-European market for trading in CO₂ emissions certificates at the beginning of 2005. Our Group has largely completed its preparations for trading in emissions certificates and will therefore be able to commence trading at this time.

Market position of the MVV Energie Group

The MVV Energie Group is strategically well positioned as an independent energy distributor and service provider:

- ▶ Based on the ranking compiled for 2003 by the Association of Electricity Companies (VDEW) in Berlin, the MVV Energie Group is the sixth-largest German electricity supplier in terms of the volume of electricity sold to end customers.
- ▶ With heating sales in Germany of 4.5 billion kWh in the 2003/04 financial year, the MVV Energie Group is the fifth-largest German supplier of district heating. With total sales volumes amounting to 7.5 billion kWh, including our Polish and Czech shareholdings, we are one of the five largest heating suppliers in Europe.
- ▶ Our energy services segment generated sales of Euro 117 million during the year under report. This makes us one of the top ten providers in Germany.
- ▶ In the environmental energy segment, our biomass power plants make us one of the market leaders in Germany. Once the non-recyclable waste incineration plant in Leuna has taken up operations (mid 2005), our energy from waste and biomass power plants will have an incineration capacity of around 1 million tonnes, making us the third-largest German operator of incineration facilities (non-recyclable waste and biomass).

Energy markets

In the electricity market, the intense level of competition surrounding major bulk-rate customers has continued, while the willingness of residential and small business customers to change their electricity supplier remains low. There has been no notable change in the volume of electricity consumption in 2004, which is expected to amount to approximately 500 billion kWh. The economic recovery has not yet had any noticeable impact on the level of electricity sales. Following normal weather conditions in the past winter, there were also no unusual temperatures in the summer of 2004.

The rise in fuel procurement prices, as well as in energy-balancing costs, has resulted in a further increase in electricity prices for industrial, commercial and residential customers. In particular, prices have been driven up by the primary energy sources of coal and oil. The average electricity price on the German spot market for supplying base loads rose by 7% during the 2003/04 financial year to Euro 28.89 per MWh (previous year: Euro 27.02 per MWh).

There is a mixed picture with regard to the development of network usage fees. According to the *Association of Network Operators (VDN)*, fees at the low-voltage level (distribution grids) have seen a slight year-on-year decrease of -0.4%, but rose by 2.4% on the maximum and high-voltage levels. In view of the rise in fees announced by the German transmission network operators, further increases can be expected during the 2004/05 financial year.

District heating is in a situation of substitutive competition with competing sources of heating energy, such as fuel oil or gas. The market share of district heating nevertheless remains stable in regional markets across Germany. Around half of the households in the area supplied by MVV Energie AG in Mannheim are heated using district heating. The development in state regulation of the energy markets in Poland and the Czech Republic has not yet had any impact on the district heating markets in those countries.

Significant variations have been seen in the levels of competition in individual customer segments of the German gas market. While major bulk-rate customers are being courted ever more intensively, the intensity of competition in other market segments remains low. An improved network access model and a new fee system are therefore expected to provide significant impulses to create functional competition in the gas market. Gas prices, which are closely linked to the oil price, will rise significantly in 2005 on account of the sharp increase in fuel oil.

Earnings

Sales of the MVV Energie Group by Segment

Euro million	2003/2004	2002/2003	% change
Electricity ^{1, 2}	828	680	+ 22
District heating ²	252	246	+ 2
Gas ^{2, 3}	263	240	+ 10
Water ²	86	73	+ 18
Value-added services	117	103	+ 14
Energy from waste plants	90	93	– 3
Renewable energy	7	2	+ 250
Other	9	1	+ 800
	1652	1438	+ 15

¹ energy trading sales reported net, i.e. only with the gross margin generated (previous year adjusted) and including energy tax of Euro 84 million (previous year: Euro 80 million)

² reallocation of release of income subsidies from sales to depreciation (previous year adjusted)

³ including gas tax of Euro 49 million (previous year: 41 million)

Further increase in sales

The sales of our Group increased by 15 % on the previous year to Euro 1.7 billion in spite of the ongoing difficulties in the market and the weakness of the economy. This increase is the result of sales growth in virtually all segments. Stadtwerke Kiel (SWK), which was fully consolidated for the first time in the final five months of the year (May to September), contributed sales of Euro 92 million to the total sales of the Group in the 2003/04 financial year. Sales growth amounted to 8 % following adjustment for the effects of the initial consolidation of Kiel.

Of the total sales of the Group, Euro 1.1 billion were generated by the parent company, MVV Energie AG (previous year: Euro 0.9 billion). This figure includes the electricity trading activities incorporated as part of the portfolio optimisation at the MVV Energie Group.

Our shareholdings in German municipal utility companies in Offenbach, Ingolstadt, Solingen, Köthen and Kiel generated sales totalling Euro 544 million, compared with Euro 431 million in the previous year (excluding Kiel). Our foreign sales, including those of our international consulting business, amounted to Euro 137 million during the year under report (previous year: Euro 144 million) and thus made up 8 % of the total sales of the Group (previous year: 10 %).

Sales volumes rose across all segments. This was again largely attributable to the initial inclusion of the sales of Stadtwerke Kiel.



◀ Dr. Werner Dub (left), Executive Board member of MVV Energie AG, in conversation with Dr. Kurt Hunsänger, Executive Board member of Energieversorgung Offenbach AG.

In order to supply our industrial customers, we have built or acquired numerous energy and environmental technology facilities, and operate them on the basis of contracting models. The range of services we offer to our municipal and housing clients also includes supplying residential and building complexes with energy, as well as infrastructure supply projects undertaken in the context of land improvement and development. Our individual supply solutions enable us to strengthen our business relationships with existing industrial, commercial and municipal clients and to acquire new clients. ▶▶

Earnings performance affected by one-off factors

The 2003/04 financial year was largely characterised by fundamental strategic restructuring measures affecting the entire Group, which were aimed at increasing our profitability and growth. We have thus laid important foundations, enabling us to maintain the successful development of the MVV Energie Group and to generate increasing returns for our shareholders in the long term.

As a result of the strategic realignment decided upon in March 2004, our portfolio of shareholdings, which had expanded rapidly following the company's initial public offering in 1999, has been subject to a consistent series of measures aimed at streamlining the portfolio, relinquishing loss-making operations and focusing on our core business, as well as on promising high-growth areas. The streamlining of our portfolio of shareholdings and realignment towards our profitable core competencies resulted in a one-off charge on earnings of Euro 53 million (including tax effects) in the consolidated financial statements of the MVV Energie Group compiled in line with *IFRS*.

This one-off charge is primarily the result of writing down tangible assets and financial assets. The principal items in this respect related to the Power-line business and the wind park project development business of our subsidiary eternegy GmbH, Mannheim. Further write-downs were undertaken on our shareholdings in Spain, Portugal and France. We sold AWATECH GmbH Abwasser und Technik, Isernhagen, which has activities in the field of sewage plant operation and construction. MVV Energie AG had already sold its 33.3 % shareholding in AquaMundo GmbH, Mannheim, in December 2003.

The impairment tests undertaken in anticipation of the annual financial statements in order to ascertain the ongoing value of our most important shareholdings resulted in write-down requirements of Euro 3 million in the consolidated financial statements of MVV Energie AG pursuant to *IFRS*. This comparatively low amount is attributable to the straight-line amortisation of goodwill already undertaken in the previous years following the acquisition of the shareholdings.

Both sides benefit from the range of services we supply: our clients can focus on their core businesses, do not need to commit any capital and can thus secure their energy supply at favourable and predictable prices without incurring any risk. Our expertise enables valuable resources to be saved and means that we are able to generate positive earnings contributions following the initial investment stage.

What makes energy services a high-growth area? The market for energy services in Germany is growing at an astonishing rate—its average annual growth is estimated to be around 15%. We have been active in this market for several years and are now one of the ten largest providers. ►►



One of the reasons for the impairment tests being brought forward was our comparatively inexpensive acquisition of shares in Stadtwerke Kiel, in which we were able to benefit from the decline in prices for municipal utilities companies resulting from current developments in the German energy market. By contrast, MVV Energie AG had acquired its shares in the municipal utilities companies in Offenbach, Ingolstadt and Solingen between 2000 and 2002, a period in which prices were high. The required write-downs turned out to be considerably lower than had previously been speculated in the media.

The total write-down requirements of Euro 56 million determined by MVV Energie AG in connection with the restructuring of the company's portfolio and the impairment tests were reviewed by the auditing company *Deloitte & Touche GmbH*, Mannheim.

These one-off charges during the year under report were counterbalanced by a positive extraordinary item in the previous year resulting from the sale of our shares in GVS. This sale generated extraordinary income of Euro 141 million following the deduction of net book values and once the transaction costs and the final income from the GVS shareholding had been accounted for. We used one portion of the tax-exempt income from the disposal of our shares in GVS in the previous year for restructuring

measures aimed at enhancing our competitiveness. This reduced our operating earnings (EBIT) for the previous year by Euro 18 million. Overall, having accounted for the measures aimed at enhancing our competitiveness, the sale and deconsolidation of the GVS shareholding thus improved our EBIT figure for the previous year by a net total of Euro 123 million.

To ensure that the business developments of the past two financial years are comparable, we have adjusted the earnings figures reported in the income statement of the MVV Energie Group to eliminate the effects of the aforementioned extraordinary items.

Adjusted earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA) rose from Euro 235 million in the previous year to Euro 236 million.

After deducting depreciation and goodwill amortisation, our Group generated **adjusted operating earnings before interest and taxes (EBIT)** of Euro 97 million in the year under report, compared with an adjusted EBIT figure of Euro 121 million in the previous year. The decline in our adjusted EBIT figure was thus larger than initially indicated in our forecast.

¹ total volume from all segments² stated net and excluding deliveries within the Group (previous year adjusted)³ corrections in previous year's figure

Sales Volumes of the MVV Energie Group ¹ by Segment

	2003/2004	2002/2003	% change
Electricity in kWh million	14 539	10 927	+ 33
of which: wholesale ^{2,3} in kWh million	5 587	2 678	+ 109
of which: retail in kWh million	8 952	8 294	+ 8
District heating ³ in kWh million	7 488	7 370	+ 2
Gas ³ in kWh million	8 906	8 422	+ 6
Water in m ³ million	47.6	41.9	+ 14
Incinerated waste in tonnes 000s	519	481	+ 8

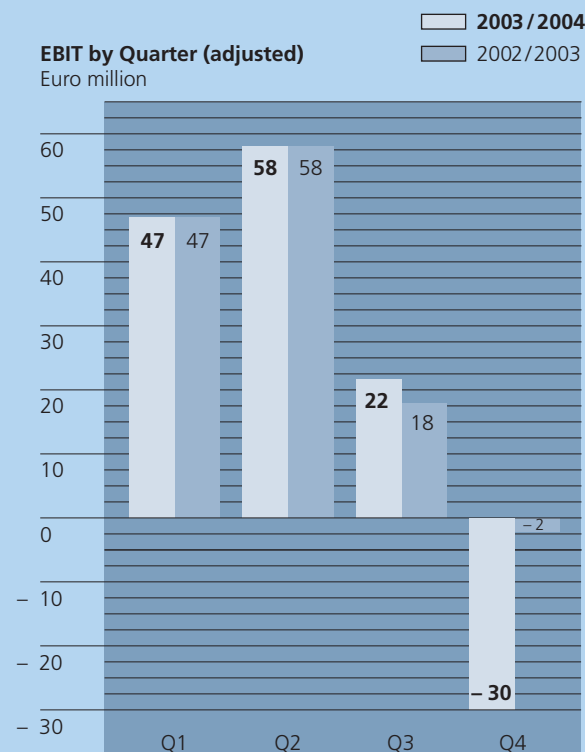
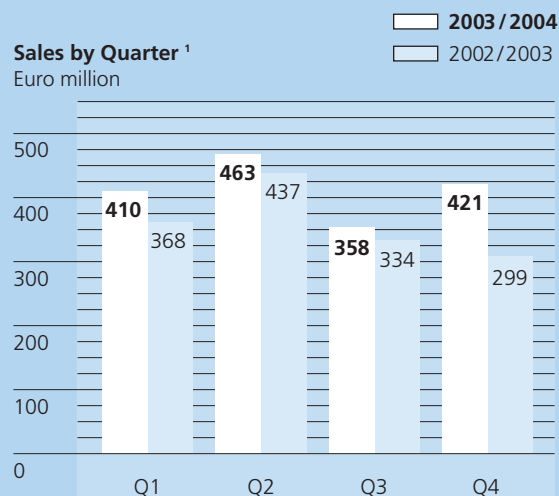
One of the main reasons for this development was the negative earnings contribution resulting from the initial consolidation of Stadtwerke Kiel for the period of May to September 2004 (Euro 2 million), in view of the fact that earnings are traditionally weaker in the summer months. This was supplemented by the amortisation of our invoicing software (Euro 4 million) and write-downs of receivables (Euro 5 million) identified as a result of a new risk classification procedure. Furthermore, the initial inclusion and restructuring of MVV Consultants and Water Engineers GmbH, Mannheim, resulted in extraordinary expenses of Euro 2 million incurred in the context of its merger with MVV Consultants and Engineers GmbH, Berlin, to form MVV Consulting GmbH, Mannheim. These measures resulted in a one-off charge totalling Euro 13 million on our earnings for the year under report. The year-on-year decline in our adjusted EBIT figure was further attributable to a downturn in our Eastern European district heating business as a result of weather conditions and currency developments, as well as to increased costs for raw materials and maintenance measures in the district heating and energy from waste operations at EVO and extraordinary depreciation on the glass fibre ring. The impact of these extraordinary expenses on our balance sheet is covered by the high level of retained earnings from the sale of our GVS shares in the previous year.

After deducting the higher level of negative financial expenses, which are primarily attributable to the financing of our acquisition of Stadtwerke Kiel, and the reduced level of taxes on income resulting from our decline in earnings, our income statement for the year under report shows an **annual net deficit** of Euro –38 million, compared with an annual net surplus of Euro 159 million in the previous year. Excluding the one-off charge on earnings relating to the restructuring of our portfolio and the impairment tests, we generated an **adjusted net surplus** of Euro 19 million in the year under report, compared with an adjusted annual net surplus of Euro 32 million in the previous year.

The MVV Energie Group reported an **annual net deficit after minority interests** of Euro –44 million, compared with a surplus of Euro 152 million in the previous year. Adjusted to account for the impact on earnings of the restructuring of the portfolio and the impairment tests, the MVV Energie Group generated an **adjusted annual net surplus after minority interests** of Euro 12 million in the year under report, compared with a figure of Euro 25 million for the previous year following adjustment for the impact of the sale of the GVS shareholding.

Adjusted earnings per share calculated in accordance with IAS 33 declined from Euro 0.50 in the previous year to Euro 0.24.

¹ energy trading sales reported net,
i.e. only with the gross margin
generated (previous year adjusted)



Quarterly overview of sales and earnings

Earnings for the fourth quarter (July to September) are traditionally weak, given that no earnings contribution is generated by the high-volume district heating business in the summer months and that maintenance and revision measures are more frequently undertaken during this period. The final quarter of the year under report was further burdened by the one-off charge of Euro 15 million relating to the restructuring of the portfolio and the impairment tests outlined above. A total of Euro 41 million had already been accounted for in the first nine months of the 2003/04 financial year (October 2003 to June 2004).

Moreover, the earnings for the fourth quarter of the 2003/04 financial year were affected by the aforementioned effects relating to the consolidation of Stadtwerke Kiel and the consulting companies. Further one-off charges resulted from the write-down of receivables and amortisation undertaken on our invoicing software.

The high level of sales growth in the fourth quarter of 2003/04 is mainly attributable to the initial consolidation of Stadtwerke Kiel.

EBIT adjusted for one-off factors

Euro million	2003/2004	2002/2003	change
EBIT (unadjusted)	41	244	– 203
+ costs of portfolio streamlining	+ 53	—	+ 53
+ charge from impairment tests	+ 3	—	+ 3
– income from sale of GVS shareholding (after deduction of net book values and transaction costs)	—	– 140	+ 140
– income from GVS shareholding	—	– 1	+ 1
+ cost of measures to enhance competitiveness	—	+ 18	– 18
EBIT (adjusted)	97	121	– 24



Segment earnings performance

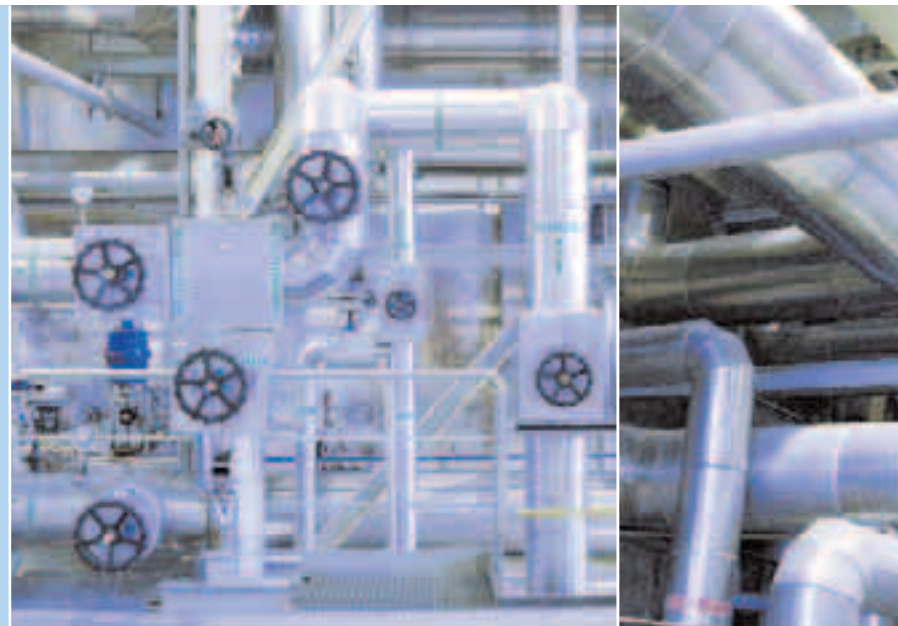
The one-off items resulting from the streamlining of our portfolio primarily impacted on the value-added services and renewable energy segments.

Our external sales in the highly competitive **electricity business** rose by 22 % during the year under report to reach Euro 828 million. The key factors behind this increase were the initial inclusion of the sales of Stadtwerke Kiel (Euro 51 million) and a higher level of sales in the wholesale power and interregional power businesses of MVV Energie AG. Moreover, the sales of our Offenbach and Solingen shareholdings also increased. The sharp increase in wholesale power volumes was primarily attributable to the initial consolidation of Stadtwerke Kiel and the optimisation of our portfolio.

The increase of Euro 5 million in the unadjusted operating earnings (EBIT) figure is partly attributable to Energieversorgung Offenbach (EVO). The improvement in earnings at this company is principally due to a higher level of sales, an increase in the income received from shareholdings and the release of provisions. The initial consolidation of Stadtwerke Kiel generated a positive earnings contribution of Euro 1 million.

The development of earnings in the **district heating segment** was characterised by a seasonal negative EBIT figure at Stadtwerke Kiel amounting to Euro –7 million for the period of May to September 2004. In the current 2004/05 financial year, which includes the high-volume winter months, we expect our shareholding in Kiel to generate significantly positive operating earnings. Although operating earnings (EBIT) at our foreign shareholdings in the Czech Republic and Poland declined by almost Euro 2 million on account of a weather-related downturn in volumes, as well as currency effects, they nevertheless together reported a significantly positive EBIT figure of Euro 12 million.

The sharing of expertise and experience within our network of municipal utility companies strengthens all of its individual members. The same applies to our activities in the field of energy services. Each new municipal utility company enables us to access further potential for marketing our energy services in the respective catchment area. In Offenbach, EVO focuses its activities on contracting and technical facility management; Stadtwerke Ingolstadt focuses on providing contracting services to municipalities. Together with our shareholding in Solingen, we have founded a joint subsidiary which is very active in providing contracting services to housing construction companies. Köthen Energie, on the other hand, has enjoyed considerable success in the field of land improvement and development in Sachsen-Anhalt.



The **gas business** saw a decline of Euro 6 million in its adjusted EBIT figure following adjustment of the previous year's figure to account for the GVS effect. Of this decline, Euro 2 million resulted from Stadtwerke Kiel, where earnings were affected by the seasonally weak period of May to September 2004, in the same way as for the district heating segment. This was supplemented by a downturn in margins in the redistribution and industrial client business of MVV Energie AG as a result of increased competition. The improvement in earnings reported by the other large municipal utility company shareholdings was not sufficient to compensate for the downturns outlined above.

The sales of our **water business** were characterised by a significant decline in volumes faced by all companies as a result of the comparatively cool and wet weather in the summer months of 2004. The resultant downturns were made up for by the initial positive EBIT contribution of Euro 2 million received from Stadtwerke Kiel and an improved EBIT figure at our shareholding in Solingen, enabling us, as in the previous year, to achieve an adjusted EBIT figure of Euro 12 million for the overall Group.

Sales in our **value-added services segment** saw a year-on-year increase of 14 % to reach Euro 117 million. The development of earnings was burdened to a considerable extent by one-off items relating to the streamlining of the portfolio and in particular to the Powerline business, the sewage plant operation and construction company AWATECH GmbH and the consulting business. Following adjustment for the resultant extraordinary expenses of Euro 45 million, the value-added services segment generated negative adjusted operating earnings (EBIT) of Euro –18 million during the year under report, compared with adjusted earnings (EBIT) of Euro –5 million in the previous year. This decline is primarily attributable to the extraordinary depreciation undertaken on the glass fibre ring and the consulting activities (including the effects of consolidation). Now that significant loss-making operations have been relinquished, we expect to achieve virtual break-even in this segment in the 2004/05 financial year.

EBIT of the MVV Energie Group by Segment

Euro million	unadjusted 2003/2004	unadjusted 2002/2003	adjusted ¹ 2003/2004	adjusted ² 2002/2003	adjusted % change
Electricity	32	27	33	30	+ 10
District heating	32	38	33	39	– 15
Gas	17	163	17	23	– 26
Water	12	11	12	12	—
Value-added services	– 63	– 8	– 18	– 5	– 260
Energy from waste plants	22	19	22	28	– 21
Renewable energy	– 10	– 6	– 2	– 6	+ 67
Other/consolidation	– 1	—	—	—	—
	41	244	97	121	– 20

¹ in the year under report: excluding one-off expenses for streamlining of portfolio and impairment tests

² in the previous year: excluding income from sale of GVS shares, income on GVS shareholding and expenses for measures aimed at enhancing competitiveness

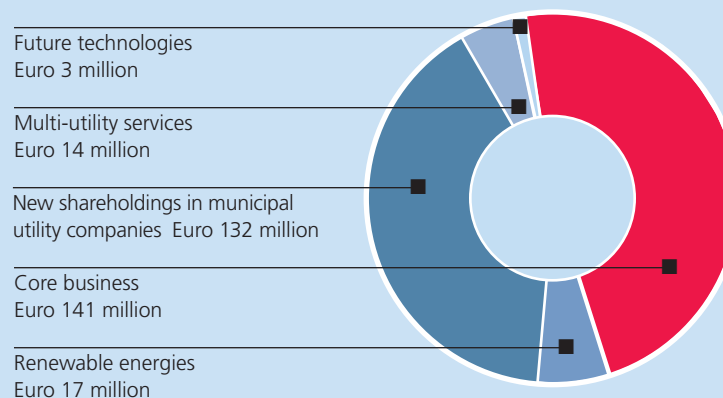
In future, our existing energy from waste and renewable energy segments will be combined to form our **environmental energy business fields**.

Our **energy from waste segment** reported a year-on-year increase of Euro 3 million in its unadjusted operating earnings. Excluding the expenses incurred in the previous year in connection with measures aimed at enhancing our competitiveness, which arose on account of obligations made upon the take-over of the operation of the energy from waste plant in Mannheim from Grosskraftwerk Mannheim AG, the EBIT figure has fallen by Euro 6 million. This decline is principally attributable to the reallocation of the steam business from the district heating segment to the energy from waste segment and to higher expenses incurred on raw materials at EVO.

Our **renewable energy segment** generated sales of Euro 7 million during the year under report (previous year: Euro 2 million). These are mainly due to the biomass power plants in Mannheim, Flörsheim-Wicker and Königs Wusterhausen, which commenced operations at the end of 2003. Apart from the remaining start-up expenses relating to the biomass power plants, the development of earnings was particularly affected by project write-downs and restructuring measures undertaken within the framework of our value-based consolidation process at our wind park subsidiary eternegy GmbH, Mannheim. Following adjustment for this one-off charge of Euro 8 million, this segment nevertheless reported negative adjusted operating earnings (EBIT) of Euro – 2 million during the year under report, primarily as a result of the ongoing losses incurred by eternegy GmbH, Mannheim. This compares with Euro – 6 million in the previous year. Our biomass business, which is profitable now that the start-up expenses have been absorbed, will be bundled with our non-recyclable waste incineration activities in the current 2004/05 financial year.

Investments of the MVV Energie Group in the 2003/2004 financial year

Total investments: Euro 307 million



Investments and Financing

Cash flow statement

A cash flow statement depicts a company's flow of payments from operating activities, as well as from investment and financing activities. The detailed cash flow statement of the MVV Energie Group can be found on Page 90 of this annual report.

Cash flow from operating activities

The cash flow based on DVFA/SG rose by Euro 8 million (+ 5 %) to Euro 158 million during the year under report. The high level of depreciation and write-downs resulting from the streamlining of the portfolio are not expressed in the cash flow statement, given that they have already been accounted for in the increased annual net deficit. Following the inclusion of the respective changes in other asset and liability items, the cash flow statement reported an inflow of funds from operating activities of Euro 148 million in the year under report, compared with Euro 100 million in the previous year. The difference between the inflow of funds from operating activities and investments in tangible assets (Euro 166 million) represents the free cash flow, which amounted to Euro – 18 million in the year under report, compared with Euro – 61 million in the previous year. In respect of the amendments made to the cash flow figures for the previous year, reference is made to the notes on Page 91.

High level of investment activity

The inflow of funds from operating activities was counterbalanced in the year under report by the outflow of funds for investment activities, amounting to Euro 294 million. This was principally due to the high investment volume of Euro 307 million in the MVV Energie Group (previous year: Euro 181 million), which was made up of investments in tangible assets of Euro 166 million (previous year: Euro 161 million) and investments in financial assets amounting to Euro 141 million (previous year: Euro 20 million). The outflow of funds for investments was counterbalanced by incoming payments totalling Euro 13 million from the disposal of tangible and financial assets. In the previous year, the sale of the company's shareholding in Gasversorgung Süddeutschland GmbH (GVS) had resulted in an inflow of funds from investment activities amounting to Euro 31 million.

¹ including investments in financial assets**Investments of the
MVV Energie Group ¹**

Euro million	2003/2004	2002/2003	% change
Electricity	48	17	+ 182
District heating	74	21	+ 252
Gas	32	19	+ 68
Water	32	10	+ 220
Value-added services	17	39	– 56
Energy from waste plants	45	19	+ 137
Renewable energy	17	35	– 51
Other	42	21	+ 100
	307	181	+ 70

Investments in tangible assets

Of the investments made in tangible assets during the year under report, Euro 51 million, or around 31 %, related to MVV Energie AG, while Euro 115 million, or 69 %, was invested by other group companies.

The main focuses of investment in the electric power segment involved overhauling and expanding distribution networks and facilities, including the new construction of a switching facility at Stadtwerke Ingolstadt. In the district heating segment, the largest investment projects included the conversion of the steam network to heating water at Stadtwerke Kiel, as well as projects at our Czech and Polish shareholdings. In the gas and water segments, investments focused on overhauling and expanding the distribution networks of MVV Energie AG and its municipal utility company shareholdings. The investments made in the value-added services segment primarily related to contracting and land improvement and development projects at MVV Energie AG and at its shareholding in Solingen (ENSERVA subsidiary).

At the energy from waste power plant in Mannheim, our new CHP incinerator, which has replaced older units, commenced operations in the 2003/04 financial year. The manufacturing costs relating to the waste incineration and energy extraction facility at Leuna have been recorded in the consolidated financial statements of MVV Energie AG via the full consolidation of the special purpose entity Zeder Verwaltungsgesellschaft

mbH & Co. Vermietungs KG. In the renewable energy segment, the newly constructed biomass power plants in Mannheim, Flörsheim-Wicker and Königs Wusterhausen began operating during the year under report. Other investments mainly focused on software procurement for our data-processing centre, which is intended to serve as the central IT platform for the entire Group.

Financing of investments

During the year under report, MVV Energie AG was still included in part in the central financial and cash management structures of the holding company, MVV GmbH. This applies to that part of the short-term liquidity which continued to be provided by MVV GmbH by means of cash pooling agreements and which was settled at market rates via internal company accounts. The financial liabilities of the cash pool were reduced by Euro 134 million during the year under report. In future, MVV Energie AG will meet an increasing share of its short-term liquidity requirements independently via the capital markets.

The investments made in tangible and financial assets during the year under report were primarily debt financed. MVV Energie AG obtained the necessary long-term debt capital directly from the capital markets. Loan repayments totalling Euro 82 million were made during the year under report.





- ¹ energy trading sales reported net, i.e. only the gross margin generated (previous year adjusted)
² cost of materials reduced in accordance with amended sales (previous year adjusted)
³ reclassification of release of income subsidies from sales to depreciation (previous year adjusted)
⁴ subject to approval by Annual General Meeting on 4 March 2005

Value Added Statement of the MVV Energie Group

Euro million	2003/2004	2002/2003	% change
Company output ¹	1743	1673	+ 4
Intermediate input ²	– 1151	– 973	– 18
Depreciation ³	– 171	– 122	– 40
Value added	421	578	– 27
to employees	250	216	+ 16
to MVV Energie shareholders	38 ⁴	38	—
to lending institutions	64	58	+ 10
to federal, state and local authorities	145	145	—
to the MVV Energie Group	– 76	121	

Balance sheet structure

Key balance sheet figures

As of 30 September 2004, the MVV Energie Group had total assets of Euro 2.9 billion, an increase of Euro 0.5 billion on the previous year. This increase was primarily attributable to the initial consolidation of the majority shareholding acquired in Stadtwerke Kiel AG (SWK) during the year under report.

On the asset side of the balance sheet, there was an increase in intangible assets, which was due in particular to the valuation of customer agreements in connection with the Kiel acquisition. The increase in tangible assets is also attributable to the assets taken over upon the initial consolidation of SWK, as well as to the higher level of investment.

The decline in financial assets arose on account of the streamlining of the portfolio of shareholdings undertaken in the process of focusing on the Group's core business and as a result of the sale of shares held by Energieversorgung Offenbach (EVO) in Kraftwerke Mainz-Wiesbaden AG (11.1%) on 27 September 2004, which will come into effect on 1 January 2005. Until the sale agreement enters force, the shares have been reallo-

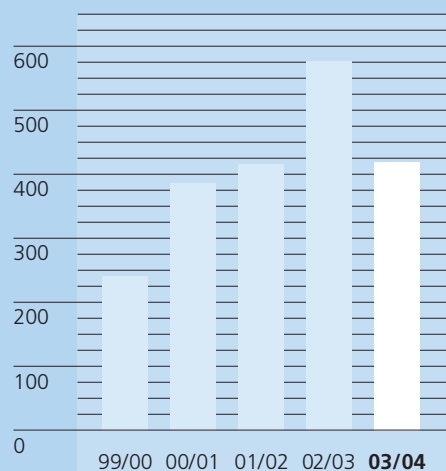
cated in full to the current assets. At 81%, the high level of fixed assets as a proportion of total assets underlines the ratio of capitalisation and level of capital employed by an energy distribution company.

To improve the depiction of our net asset and financial position, we have for the first time deducted the part-payments made by customers in the context of their annual consumption invoices from the receivables. Equally new is the removal of the income allowances relating to construction and customer connection costs from the liabilities side, and the deduction of corresponding amounts from the respective fixed asset items. These two changes from previous gross statement to net reporting resulted in a reduction of Euro 0.4 billion in the company's total assets during the year under report. The figures for the previous year have been adjusted accordingly (for further details, please see Page 91 of this annual report).

The changes on the liabilities side are also largely due to the new SWK acquisition. At Euro 610 million, the company's equity excluding minority interests was nevertheless down on the equivalent figure for the previous year (Euro 698 million). This reduction is primarily attributable to the defi-

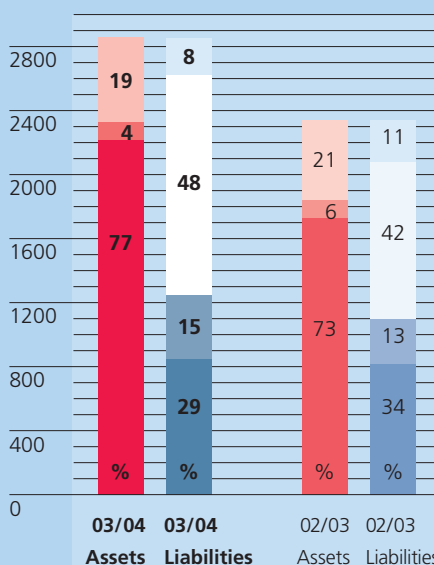
Value Added

Euro million



Balance Sheet Structure

Euro million, shares in %



Assets

- Current assets
- Financial assets
- Tangible assets

Liabilities

- Other liabilities
- Financial liabilities
- Provisions and deferred taxes
- Equity

cit for the current financial year and the payment of the dividend. Equity including minority interests rose by 5%, mainly as a result of the initial consolidation of Stadtwerke Kiel, to reach Euro 849 million. A large part of the increase in provisions and liabilities also stems from the taking over of provisions and liabilities from SWK. In the case of liabilities, the increase is also attributable to a higher level of financial liabilities resulting from the financing of investments and acquisitions. Overall, liabilities rose from Euro 1.2 billion in the previous year to Euro 1.6 billion. In the previous year, by contrast, there had been a considerable reduction in financial liabilities as a result of the income from the disposal of GVS. Even after its debt-financed acquisition of shareholdings, the MVV Energie Group reported an equity ratio of 29.5% as of 30 September 2004 (previous year: 34.3%), which is comparable with that of peer group companies. The fixed assets are covered to a total of 77% by equity and long-term debt capital (previous year: 84%).

The capital used at the Group on which it must pay interest, i.e. capital employed, which is calculated on the basis of equity plus financial liabilities, provisions for pensions and cumulative goodwill amortisation, increased

from Euro 1838 billion to Euro 2055 billion. The key ROCE figure (return on capital employed), which expresses operating earnings before interest, taxes and goodwill amortisation (EBITA) as a percentage of capital employed, fell from the high figure of 14.0% in the previous year resulting from the GVS sale to 2.7% as a result of the one-off extraordinary expenses incurred in connection with the strategic realignment of the company and the streamlining of its portfolio.

Value added

The value added statement calculates the corporate income from operating activities. This figure fell from Euro 578 million in the previous year to Euro 421 million. The main reason for this can be found in the high levels of intermediate input and depreciation. At 59%, employee-related expenses constituted the largest item on the expenditure side (previous year: 37%).

Value-Based Management



Key figures, calculation methods and assessment criteria enable the economic performance of companies to be recorded and rendered transparent. Above all, however, they are an important instrument for planning, managing and controlling the company's activities.

In order to achieve its strategic goals, the MVV Energie Group began expanding its range of controlling instruments at an early stage. By introducing value-based company management three years ago, we targeted our actions even more consistently on increasing the long-term value of the company. This is also reflected in our constant efforts to generate an appropriate return on the capital committed by our shareholders.

Value-based company management does not merely strengthen us in the increasing level of competition for capital—it also enables us to establish comparable internal requirements for all of the Group's business activities and to optimise our decision-making basis to achieve the most efficient possible use of capital. Value-based company management already provides us with decisive guidance in our management of the Group. We aim to continue to develop this consistently in order to safeguard the success of our network of municipal utility companies.

Value-driven system

We achieve an increase in our value if we generate more profit on the capital we employ, taking due account of the business risk, than the average return achieved on the capital market. Our value-oriented approach therefore takes account of both components, i.e. the level of risk and the capital market.

The concept of value-based company management is expressed in the value spread figure. This is derived by determining the return on capital employed (ROCE) and subtracting the weighted average cost of capital (WACC) from this figure. The resultant figure represents the positive or negative value spread.

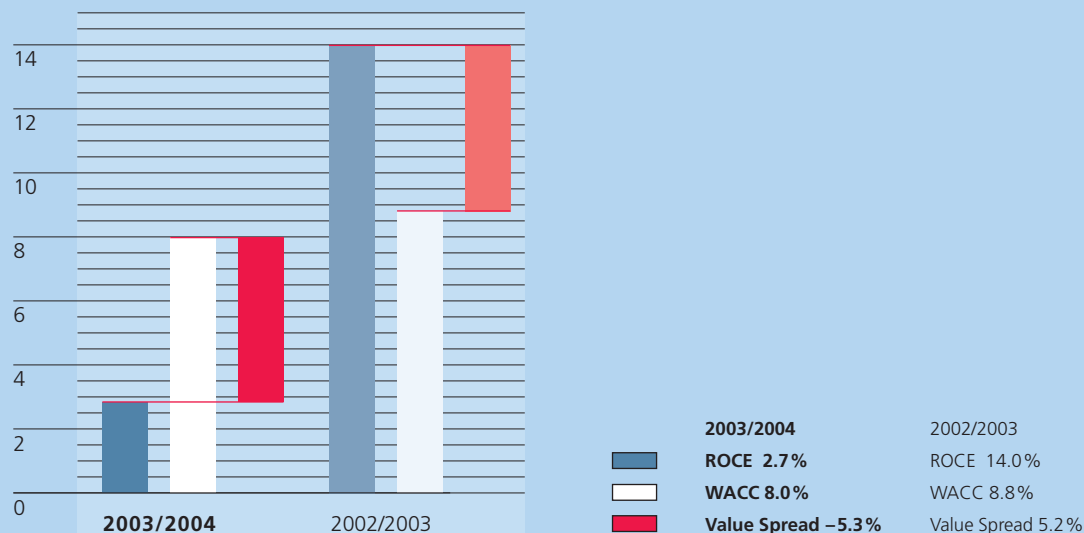
The ROCE and WACC key figures are very powerful indicators for assessing the operating business:

ROCE expresses operating earnings before financing items, i.e. before interest, taxes and goodwill amortisation (EBITA), as a percentage of the capital employed to achieve such earnings. This key figure facilitates an assessment of how efficiently the capital employed has been put to use.

The WACC figure represents the standard by which the ROCE generated is measured, by referring to the average level of return on the capital market as a means of comparison. WACC depicts the costs of capital resulting from the existing debt and equity structure. We do not base our equity for this purpose on book values, but rather on the actual medium-term market value of the equity, given that this also has to be generated to meet the level of return expected by the shareholders. As a result of the decline in the share price and in the balance sheet equity ratio in the 2003/04 financial year, we have based the calculation on a low equity ratio of 30 % at market value (previous year: 40 %).



Key Figures
in %



Restructuring burdens results in 2003/04 financial year

In economic terms, the ROCE has to exceed the WACC for a profit to be generated. Given a risk-free rate of return of 4.8 % (previous year: 4.8 %), a market risk premium of 5.0 % (previous year: 5.0 %) and a beta factor of 0.7 (previous year: 0.7), the equity return amounted to 8.3 % in the 2003/04 financial year (previous year: 8.3 %). The debt return amounted to 5.5 % in the 2003/04 financial year (previous year: 5.5 %). When weighted to take the respective proportions and the tax shield into account, these figures produce a WACC after tax of 4.8 % (previous year: 5.3 %).

Given that the ROCE as described above is a pre-tax figure, the WACC also has to be converted into a pre-tax figure to be comparable with the ROCE. This can also be undertaken with the assistance of a tax shield, which results in a pre-tax WACC of 8.0 % for the past financial year (previous year: 8.8 %).

In view of its ROCE of 2.7 %, the company had a negative value spread of -5.3 % in the past financial year. This was primarily attributable to the extraordinary expenses relating to the restructuring of its portfolio of shareholdings. An adjusted depiction excluding these extraordinary items can only be calculated on the basis of assumptions. This particularly applies to the adjustment of balance sheet items. If only the direct items in the adjusted income statement are taken into consideration, following adjustment the company had an improved, but nevertheless negative, value spread of -2.8 %.

Our declared aim is to improve the profitability of the Group over the next three years in such a way that we are once again able to report a positive value spread and thus to generate economic profit.

Risk Report



Our business policies are aimed at achieving ongoing improvements in our performance and earnings power and at benefiting from the opportunities offered by the competitive environment. Any entrepreneurial undertaking, however, inherently involves risk. Our risk management activities are intended to identify and monitor such risks from an early stage and to implement precautionary measures designed to avoid them and limit their effects.

Risk management

The law governing corporate control and transparency (KonTraG) requires companies to deploy a risk management system. Our risk management system, which is reviewed on an annual basis by our auditors, is in full compliance with these legal requirements. Furthermore, the efficiency of the working processes and procedures used in our risk management activities, and the security of the systems used, are subjected to regular reviews by our internal audit department. In line with the legal requirements, the Executive and Supervisory Boards of MVV Energie AG are provided with quarterly reports including a detailed depiction of the risk situation in the various divisions of the company. These quarterly reports are supplemented by up-to-date reports upon there being any change to such risks, or in the event of individual risks no longer pertaining or of new risks arising. Together, these reports therefore ensure that the Executive and Supervisory Boards are suitably informed on an ongoing basis.

Within the framework of the risk management process managed by the group controlling department, possible risks are documented and assessed in cooperation with the respective departments in terms of their potential implications and the probability of their occurrence. The reporting is undertaken by the central risk management department, whose responsibilities also include conceptual support and the documentation of the risk management system. In order to underline the importance our company attaches to risk management, a risk controlling department was established as

part of the restructuring of the group organisation in the 2003/04 financial year. This department is responsible for further developing and extending our risk management activities.

The risks facing the MVV Energie Group can be broken down as follows:

Market risks

One consequence of the implementation of the EU Directives regarding the establishment of competitive supervision for the electricity and gas markets is that the MVV Energie Group is faced with increased competition in some of its segments, which is primarily reflected in increased levels of price competition. The risks relating to prices and products are actively managed using hedging tools. On the liberalised energy markets we are exposed to sales and price risks. We reduce the sales-related risks by subjecting our products to ongoing further development, by bundling our products and by offering services relating to our core business. Our shareholdings in distribution and service companies both in Germany and abroad increase our sales potential. Our targeted sales and marketing activities enable us to retain our existing customers and to acquire new ones.

Political, social and legal risks

Upon the amendment to the Energy Act entering force in the course of 2005, German energy suppliers will be obliged to separate the operations of their generation, network and sales divisions. We have introduced or already undertaken all of the measures necessary for the foreseeable legal requirements to be implemented on time.

In order to be able to counter the risks relating to energy legislation, the MVV Energie Group has followed the genesis of the Energy Act and other legislative proposals very closely. By means of our ongoing presence

	▶ To Our Shareholders	▶ Business Model	▶ Group Management Report	▶ Business Segments	▶ Information	▶ Consolidated Financial Statements
						

in the relevant associations and bodies, as well as maintaining contacts and exchanging views with political representatives, we are able to contribute our specialist knowledge and the resultant opinions to the further development of the legal framework.

Performance risks

We protect ourselves against those risks which we are obliged to face as a result of our company's activities primarily by means of suitable insurance policies. Liability risks are covered by comprehensive third-party liability insurance policies. Proprietary damage is covered by fire and machine insurance policies based on reinstatement values. We have compiled detailed and mandatory project management and quality management requirements for individual company divisions in order to prevent possible operating risks. These measures enable us to ensure that process-related risks in the value chains of the individual business areas and the respective supporting divisions are kept to a minimum.

Financial risks

We define financial risks as constituting liquidity, market price and customer default risks. These can arise in connection with financial transactions in the operating business, the financing activities of the Group or from a change in the value of balance sheet items. Internal hedging methods have been developed to control the flow of payments effectively and for the management of interest and receivables. These are subject to

ongoing development. Foreign currency risks continue to be of minor significance to the MVV Energie Group. While the business of MVV Energie AG is largely based in Germany, our foreign subsidiaries undertake their business in their respective national currencies. Information regarding currency conversion has been provided in the notes to the annual financial statements on Page 96 of this annual report.

Strategic risks

Strategic risks represent the key challenge in an economic environment which is subject to constant change. The essence of such risks is the discrepancy between the current corporate strategy and the changing operating environment, with the latter being determined on the one hand by customers' desires and on the other by the strategies of our competitors.

Our project aimed at modernising our group organisational structure and management and control systems, which was successfully completed on 1 July 2004, means that we are now in a position to manage our risks even more effectively.

Overall risk

There have been no significant changes in the risk environment of the MVV Energie Group since the previous year. During the period under report, no risks were identified which either individually or in their entirety could pose a threat to the continued existence of the company.

Research & Development



Over the past six years, the energy industry has been subject to a series of far-reaching changes. It has moved from being a monopoly business, characterised by a secure market environment and reliable investment conditions, to become a liberalised energy industry focused on competitive and quality-conscious operations within the network infrastructure. Following this period of radical change, higher priority is once more being accorded to long-term structural and technical planning strategies.

As an innovative energy distribution and service provider, the MVV Energie Group bases its future planning on a target-driven, four-stage innovation process, starting with the generation of ideas and culminating in the finished product. This produces key results in the fields of product development, process optimisation and technical advances. Any successful process of innovation, however, does not only require creativity and communications competence alone—it also requires comprehensive training and sound expertise. This is why the MVV Energie Group is closely involved with national and international research projects, such as *DISPOWER* and *SIDENA*, in which new, more efficient and resource-saving technologies and products are developed, tested and promoted together with technology leaders. The research and development department has eight employees, with around 80 further company employees committing a significant share of their time ($\geq 5\%$ of their working hours) to innovation projects. Our research and development expenses amounted to Euro 3.7 million in the 2003/04 financial year (previous year: Euro 3.6 million). Of this figure, Euro 1.8 million was invested in process optimisation projects and Euro 1.3 million in product development. A sum of Euro 0.6 million was dedicated to technical advances.

Measures aimed at optimising district heating supply

During the period under report, we developed strategies and methods for our district heating division with the aim of achieving further reductions in the loss of heat and heating water from our existing district heating networks. Valuable ideas in this respect were provided by the international study “Strategies to manage heat losses” commissioned at the same time by the *International Energy Agency (IEA)* and undertaken by a team of international partners with the MVV Energie Group acting as project manager. The reduction of such losses increases the efficiency of our district heating networks and enables natural resources to be saved.

Second fuel cell in Mannheim

As a founding member of the *Fuel Cell Initiative*, the MVV Energie Group is pursuing the aim of accompanying and promoting the ongoing technological development and market launch of fuel cell systems. In a joint project with the Mannheim *Chamber of Handicrafts (HWK)* and the *Mannheim College of Technology and Design*, a fuel-cell facility which had been subject to further development by the company *Vaillant* commenced operations at the training and development centre of the HWK. This trial facility forms the nucleus of the *Rhine-Neckar Region Fuel Cell competence and innovation centre*, which provides training to students, tradespeople and energy company employees. This project makes MVV Energie AG, which had previously installed the first fuel cell in Mannheim at its company premises, the forerunner and technology leader for fuel cell technology in its region.

	► To Our Shareholders	► Business Model	► Group Management Report	► Business Segments	► Information	► Consolidated Financial Statements
						

Using biomass to generate energy

We have consistently maintained our activities in the field of energy generation from biomass, especially in view of the fact that the amended *Renewable Energy Act* has resulted in an improvement in underlying economic conditions, particularly for biogas projects.

Our biogas facilities are at the pilot stage: at Stadtwerke Kiel we are currently constructing a facility for fermenting liquid manure and replaceable raw materials.

We have succeeded in increasing efficiency at our biomass power plant in Königs Wusterhausen by means of targeted reheating. Further investigations aimed at optimisation are being undertaken in the course of ongoing operations.

Workforce Management

The strategic group project “Workforce Management” (WFM) was launched during the period under report. The first stage of this project involved investigating how working processes in our network operations might be improved using modern information and communications technologies. These investigations were then followed up by two field experiments (mobile GIS and mobile SAP) and by a pilot installation (GEO referencing). The mobile GIS field experiment, in which 15 employees were equipped with laptops and a completely digital grid plan, was so successful that the application has been directly taken over in the operating business of MVV Energie AG. In the mobile SAP field experiment, data was transmitted for the first time using the UMTS mobile phone standard, which resulted in a significant improvement in the flow of communication.

Moreover, the project facilitated the identification of eleven modules of modern, integrated WFM, which we will implement step by step in the coming years. We expect GEO referencing, which facilitates the precise tracking of company vehicles in the interconnected control centre, to provide effective support for our service disruption management. We undertook a pilot installation for trial purposes, in which selected vehicles were equipped with a computer with a GPS receiver and mobile phone module, which reported the precise location of the vehicle to head office on an ongoing basis.

Optimised service disruption management

At the beginning of the 2003/04 financial year we integrated a centralised service disruption management facility, encompassing all divisions within the interconnected control system. Moreover, we optimised our working processes in the event of a disruption, using modern communications technologies in such a way that we can ensure that we are on site within 30 minutes. This system has been certified for us by the *German Society of Gas and Water Industries*. In this context, we have provided our customers with a central service telephone number to be used free of charge for all divisions in the event of a service disruption.

Employees



 Foreign shareholdings
1862 employees
 German shareholdings
3262 employees
 MVV Energie AG
1769 employees

The strategic realignment, reorganisation and restructuring programme undertaken by the MVV Energie Group in the past financial year have placed it firmly on course to be competitive in its further development. Our well-qualified and committed employees played a decisive part in the successful implementation of necessary, if sometimes difficult, strategic measures undertaken in the year under report.

Internal job market up and running

The new organisational structure of MVV Energie AG was implemented at its Mannheim location with effect from 1 July 2004. Within the framework of this measure, we allocated our employees to new divisions or business fields. In some cases, completely new functions were created and the resultant posts filled.

Our personnel was faced with various challenges resulting from changes in processes and responsibilities, the reallocation of tasks, restructuring measures within individual departments, new reporting structures and the handling of a large number of internal moves.

The declared aim of the Executive Board in this respect was to ensure that the newly-created functions were predominantly filled with existing employees. This resulted in a large number of internal job advertisements in the final quarter of the financial year, which led to a great deal of movement within the internal job market. Moreover, the personnel of the Group's subsidiaries were also involved in the realigned corporate strategy and the resultant human resources measures.

The fact that we succeeded in filling numerous positions via the internal job market shows that the professional qualifications acquired by our

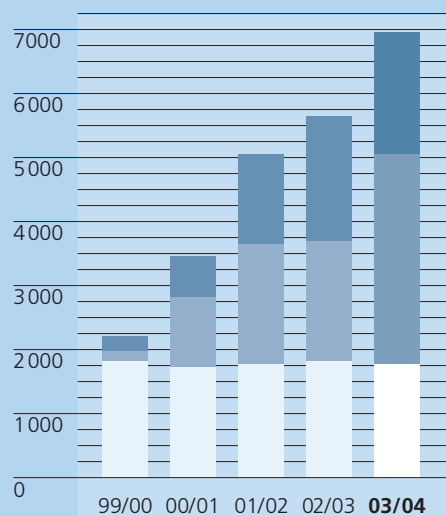
employees, in most cases via various personnel development programmes within the MVV Energie Group, and the improvement in training standards resulting from special promotion programmes have borne fruit.

The past financial year also saw the successful implementation of reorganisation measures at our subsidiaries in Ingolstadt, Offenbach and Solingen. The existing organisational structure at Offenbach was also reviewed and the company was provided with a new organisational structure with effect from 1 October 2004. In Solingen, the implementation of the "Fit for the Future" project undertaken in 2003 was started at the beginning of 2004. These measures create a common basis for MVV Energie AG and its subsidiaries and provide an opportunity for aligning and thus optimising procedures and working processes, as well as exploiting synergy effects.

Acquisition of Stadtwerke Kiel AG more than compensated for reduction in personnel

The strategic realignment and the company's resultant focus on the segments of electricity, gas, district heating, water, energy services and environmental energy have led to a reduction in our portfolio of shareholdings. However, the reduction in personnel resulting from the sale of shareholdings is not reflected in the personnel totals for the MVV Energie Group, given that the initial consolidation of Stadtwerke Kiel AG as of 30 September 2004 resulted in the addition of a total of 1345 new employees. At the end of the 2003/04 financial year, the MVV Energie Group therefore had a total of 6957 employees, including external employees (previous year: 5727).

Employees of the MVV Energie Group



¹ including 92 employees of MVV RHE AG (previous year: 94)

² including 314 trainees (previous year: 215)

Personnel Figures

at the Reporting Date

	2003 / 2004	2002 / 2003	change
MVV Energie AG ¹	1 769	1 821	– 52
Fully consolidated shareholdings	3 492	2 122	+ 1 370
MVV Energie AG plus fully consolidated shareholdings	5 261	3 943	+ 1 318
Partially consolidated shareholdings	1 632	1 711	– 79
MVV Energie Group ²	6 893	5 654	+ 1 239
Non-MVV personnel at MHKW Mannheim	64	73	– 9
	6 957	5 727	+ 1 230

Personnel development bears fruit

The further training measures introduced during the 2002/03 financial year to train employees as network fitters led to the first 14 qualifications during the year under report. These were certified by the *Chamber of Industry and Commerce*. This additional qualification is focused on cross-divisional tasks, ranging from planning to technical implementation at the company to maintenance measures. By launching this training programme we have reacted at an early stage to the changing requirements and tasks in the field of technology. Employees from the Solingen and Offenbach shareholdings are also participating in this training measure.

The first MBA qualifications were also obtained by employees of MVV Energie AG during the year under report. A total of 13 trainees received their degrees from the *Steinbeis-Akademie* and can now contribute their knowledge to various functions within the MVV Energie Group. We will maintain this sophisticated trainee programme in order to remain an attractive employer for university graduates in future. Our development programmes for upcoming managers, MAP (Managerial Programme) and PEP (People Empowerment Programme) have been successfully established and will be developed further. Among other skills, the participants in these programmes learn how to react flexibly to changes in the working environment and are thus better prepared to deal with new challenges. We offer special management development programmes for our managers and upcoming managers. These programmes are tailored to the requirements of individual management tiers and were launched in the past financial year with more than 50 participants.

Training—an important component of personnel management

In view of the public debate surrounding the issue of training positions, MVV Energie AG and its municipal utilities companies decided to maintain the number of their traineeships at their current high levels or to increase them further. The training structure includes special development programmes for the best trainees. This further reflects the great significance accorded to training measures within the MVV Energie Group.

Introduction of SAP HR in Offenbach

At the end of the financial year, the Supervisory Board of EVO decided to introduce SAP HR software in cooperation with MVV Energie AG as its basis for modern personnel management. In addition to the resultant hardware and software synergies and the transfer of know-how within the Group in terms of the specific adaptation of the systems, this step will enable personnel divisions to share their experiences even more closely and thus lead to a further improvement in processes.

Social Commitment



As an energy distribution and service company we bear responsibility for the development and maintenance of our supply facilities. Over and above this, the companies of the MVV Energie Group bear responsibility towards society and are active in their respective catchment areas as partners in the fields of science and sport and in cultural and social projects.

Education and training, research and teaching are all areas which strengthen companies' innovative potential. We are therefore committed to supporting longstanding partners. At the *University of Mannheim*, we initiated the "Business Ethics" lecture series at the Institute of Business Administration. Renowned professors provide insights into issues surrounding the future interaction between companies and their customers and business partners. Employees from our company work as lecturers at universities, technical colleges and vocational training colleges. All companies of the MVV Energie Group provide interns and students from Germany and other countries with the opportunity of gaining practical experience in a company. At the *Mannheim technical college—the College of Technology and Design* MVV Energie AG has sponsored a professorship, which focuses on research projects relating to the energy business.

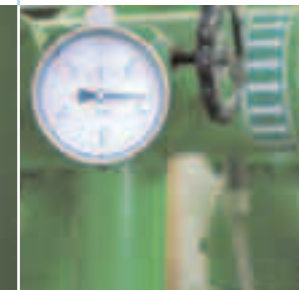
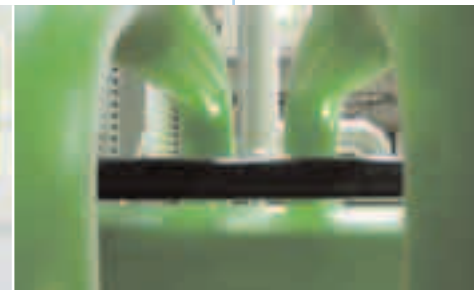
Cultural events enhance a region's quality of life and at the same time serve as a successful means of customer retention for particular target groups. The *Nationaltheater* in Mannheim celebrated the 225th anniversary of its foundation in 2004. MVV Energie AG has long been a reliable partner of this theatre. Our special focus is the Mozart Week, which we have supported since the very beginning. This festival provides a platform for performances of Mozart's early works. Supporting young artists is another area which is close to our hearts. That is why we contributed to the acclaimed concert tour of the *Youth Wind Orchestra* in China. Stadtwerke Ingolstadt has once again supported the *Künstlerinnentage*, a project aimed at promoting equal opportunities for women in culture and society. Via the arts project *Netzwerk Offenbach*, Energieversorgung Offenbach (EVO) sponsors the *Offenbacher Oratorienchor*, one of the best-established

concert choirs in Germany, as well as the arts school for young people—*Jugendkunstschule Offenbach*.

Team spirit, stamina and performance are sporting values which we also prize. We underline our commitment in this respect by supporting popular and competitive sporting ventures. In the past Olympic year, we can be particularly proud of our longstanding commitment to the sports clubs *WSV Sandhofen* and *MTG Mannheim*. Sportsmen and sportswomen from both of these clubs took part in the Athens Olympics. Since 2000 we have supported the outstanding canoeists Birgit Fischer and Carolin Leonhardt in their sporting careers. We can be proud of the Olympic gold and silver medals awarded to these two participants. Our longstanding sponsorship of *SG Leutershausen*, the *Mannheim "Eagles"* and *TSG Hoffenheim* underlines our commitment to Mannheim and the surrounding region. We are therefore one of the initiators paving the way for the *Future of the Rhine-Neckar Triangle* sports project. Together, the companies operating in this region aim to make a contribution to its strengths and attractiveness as a place to live and work. EVO promotes the *Offenbacher Kickers* and the state league volleyball team of *BSC 1899 Offenbach*. In Kiel, our shareholding works together closely with the *Kiel Sports Association* and sponsors projects in 194 clubs across Kiel. Sporting events, such as the tournament at the Mannheim *Maimarkt*, the *Ingolstadt Half-Marathon* and the Kiel sailing event *Camp24sieben* also receive financial support from the MVV Energie Group.

Supporting social projects is a matter of great importance to all of the companies in our Group. Grassroots projects and spontaneous assistance characterise the actions of all our companies in this respect. In Mannheim, our help is primarily focused on the *Vesperkirche*, an organisation providing assistance to the needy in winter. Support is also provided all year round in the form of individual help for aid organisations, such as the disaster prevention organisation *THW Offenbach*, church facilities and social support groups in Solingen, Offenbach and Ingolstadt.

Environmental Protection



For the companies of the MVV Energie Group, supplying reliable energy and water services to our customers while at the same time protecting the environment is accorded top priority. Our Company Environmental Protection Guidelines set out ways of governing the efficient utilisation of limited natural resources, an environmentally aware consumption of our products and environmentally appropriate methods of non-recyclable waste and biomass incineration.

Environmental protection activities in the 2003/04 financial year

During the year under report, the MVV Energie AG parent company alone invested a total of Euro 26 million in measures benefiting environmental protection (previous year: Euro 13 million). In particular, these included investments in soil and water protection and measures to keep the air clean. This sum does not include investments made during the 2003/04 financial year in the commissioning of biomass power plants, contracting facilities or numerous projects undertaken by our subsidiaries.

Reducing the level of greenhouse gas emissions is of critical importance to the protection of the environment. That is why we are investing in the development and use of decentralised energy generation facilities based on the most up-to-date technology. Merely by operating our three biomass power stations in Mannheim, Königs Wusterhausen and Flörsheim-Wicker we have achieved an annual reduction in our carbon dioxide (CO₂) emissions of 300 000 tonnes. We also contribute to the protection of the climate by providing heating to around 84% of private households in Mannheim via conducted energy (district heating and gas). Furthermore, our CO₂ emissions have been reduced to a considerable extent by means of our environmentally-friendly generation of district heating on the basis of cogeneration.

In the numerous contracting projects undertaken by our energy services segment, we have compiled individual technical solutions facilitating efficient energy generation, which at the same time serve to protect the environment. Virtually all of our contracting projects result in efficiency enhancements, regardless of whether use is made of renewable energy sources or not. Contracting agreements are generally concluded for a period of 10 to 20 years. The projects currently underway for our *MVV Energie Municipal Solutions* product have enabled us to reduce the level of CO₂ emissions by an annual total of 12 000 tonnes. Our current projects in the field of *MVV Energie Industrial Solutions* have resulted in an annual reduction of 160 000 tonnes in the level of CO₂ emissions. Furthermore, during the reporting period we acquired a 67% shareholding in the biomass heat and power plant in Altenstadt, Bavaria, for the next 17 years. The modernisation work aimed at increasing power generation and improving steam generation at that plant is expected to be completed by the end of 2004. In future, the heat thereby generated will be available to the adjacent industrial plants for use as processing energy. As well as saving fossil fuels, the power station will facilitate a considerable reduction in the level of CO₂ emissions.

Our in-house environmental experts oversee the implementation of our stringent environmental standards. The main responsibilities of these company representatives for clean air, emergency response, water protection, waste and the transport of hazardous goods involve informing and training employees and facility managers, proposing improvements and supervising compliance with legal requirements. Measurements have shown, for example, that in the 2003/04 financial year the emissions from our facilities were once again significantly below the legal limits specified in the 17th amendment of the *German Federal Clean Air Act*. Moreover, no significant incidents were registered in the monitoring of the transport of hazardous goods.

Outlook



Market forecast

In their Autumn 2004 Survey, the six leading German economic research institutes forecast economic growth of 1.5 % in Germany in 2005. This will therefore fall short of the growth of 1.8 % predicted for 2004. In view of the subdued economic climate in Germany, we do not expect the economy to provide any significant stimuli for our business as an energy distribution company.

In the 2004/05 financial year, the economic environment of our industry will continue to be shaped by the further development of competition in the electricity and gas markets. Furthermore, the performance of our core businesses in the district heating, gas and water segments will be highly dependent on weather conditions. With regard to our value-added services business, further dynamic growth is expected in the market for energy services in which the MVV Energie Group has already successfully established itself. We therefore expect to see a significant increase in demand in this segment. Positive developments can also be expected in the environmental energy segment, and especially in the incineration of non-recyclable waste. As a result of the *Technical Guidelines for the Disposal of Municipal Solid Waste (TASi)*, from 1 June 2005 it will no longer be permitted to deposit municipal solid waste in Germany without prior treatment. As one of the largest waste incineration companies in Germany, we therefore expect to benefit from the resultant increase in the volumes of waste which cannot be put to alternative uses in terms of their component materials.

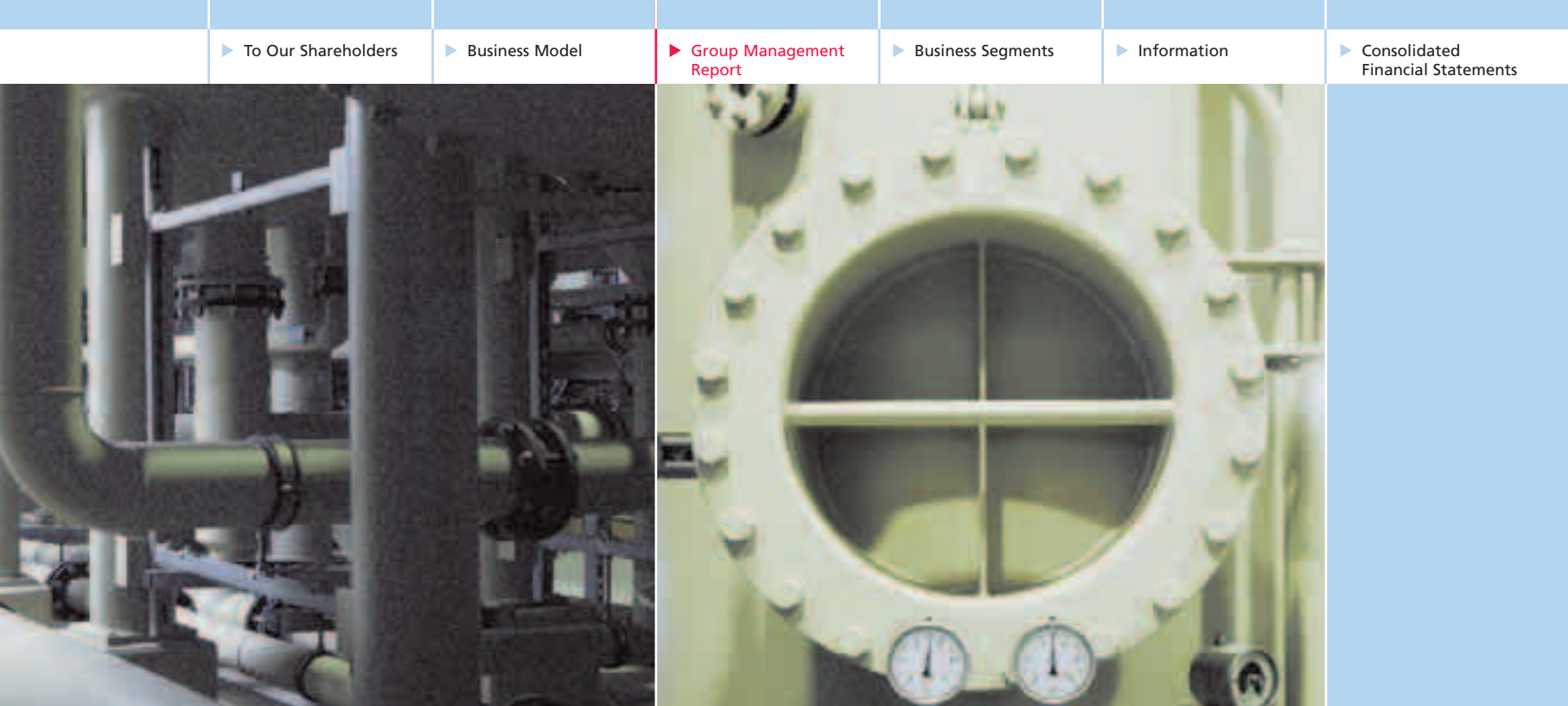
The German Electricity and Gas Regulatory Authority is expected to commence operations in the course of 2005. Its precise objectives and its competencies, procedures and instruments have yet to be defined conclusively. We assume that the new standards issued by the regulatory body for network operators will lead to an increase in the level of competition in the domestic electricity and gas markets. We expect to see improvements in the regulations governing cross-border electricity trading and energy-balancing, which will enable us as a distribution company to meet our future electricity procurement requirements on the basis of better competitive terms on the market.

Network regulation is expected to exert pressure on usage fees both for the utilisation of high-voltage transmissions networks and for end distribution networks.

In view of the fact that this regulation could affect our level of earnings, it is difficult at present to assess the net impact which network regulation could have on our electricity segment.

The price of gas, which following a certain delay largely tracks that of oil (oil price link), will rise significantly in 2005 as a result of the sharp increase in the price of heating oil. An improved network access model, coupled with a new usage fee system, is expected to provide significant impulses to create functional competition in the gas market.

A further rise in electricity prices is looming on the horizon on account of the increase in wholesale prices and in maximum voltage network usage fees. Usage fee increases of up to 19 % for maximum voltage transmissions have been announced for 2005 by some of the large German transmissions network operators. Based on the wholesale prices at the end of the 2003/04 financial year, prices can be expected to rise in the 2004/05 financial year.



Expansion of network of municipal utility companies—increased profitability

As announced at the beginning of the past financial year, the MVV Energie Group has focused its activities on its core business and promising high-growth areas and has relinquished its unprofitable shareholdings. At the same time, we have significantly expanded our network of municipal utility companies in the form of our majority shareholding in Stadtwerke Kiel.

In the current 2004/05 financial year we aim to expand our German network of municipal distribution companies operating in the same core business as our company. In this respect, we intend to exploit the favourable prices currently available for such initial investments. The prerequisites for each such engagement would be that the potential shareholding should show positive earnings in the respective profitability forecasts and that its acquisition would strengthen our network. Any further significant acquisition, however, would require a supply of new equity, which we aim to acquire by means of a capital increase undertaken in the context of a secondary public offering.

We are focusing our energies on achieving a stronger level of cooperation between the individual shareholdings within the MVV Energie Group. One of our targets in this respect is to establish successful business processes as examples of best practice within the Group in order to increase the efficiency of our processes and to generate cost savings. New shareholdings in municipal utility companies enable us to undertake joint sales activities for energy services in their respective catchment areas.

Following a phase of strong growth in previous years, greater significance is now being attached to increasing the company's profitability. This involves achieving an adequate return on the capital employed, as well as generating a suitable level of free cash flow. This also applies to our district heating shareholdings in Poland and the Czech Republic.



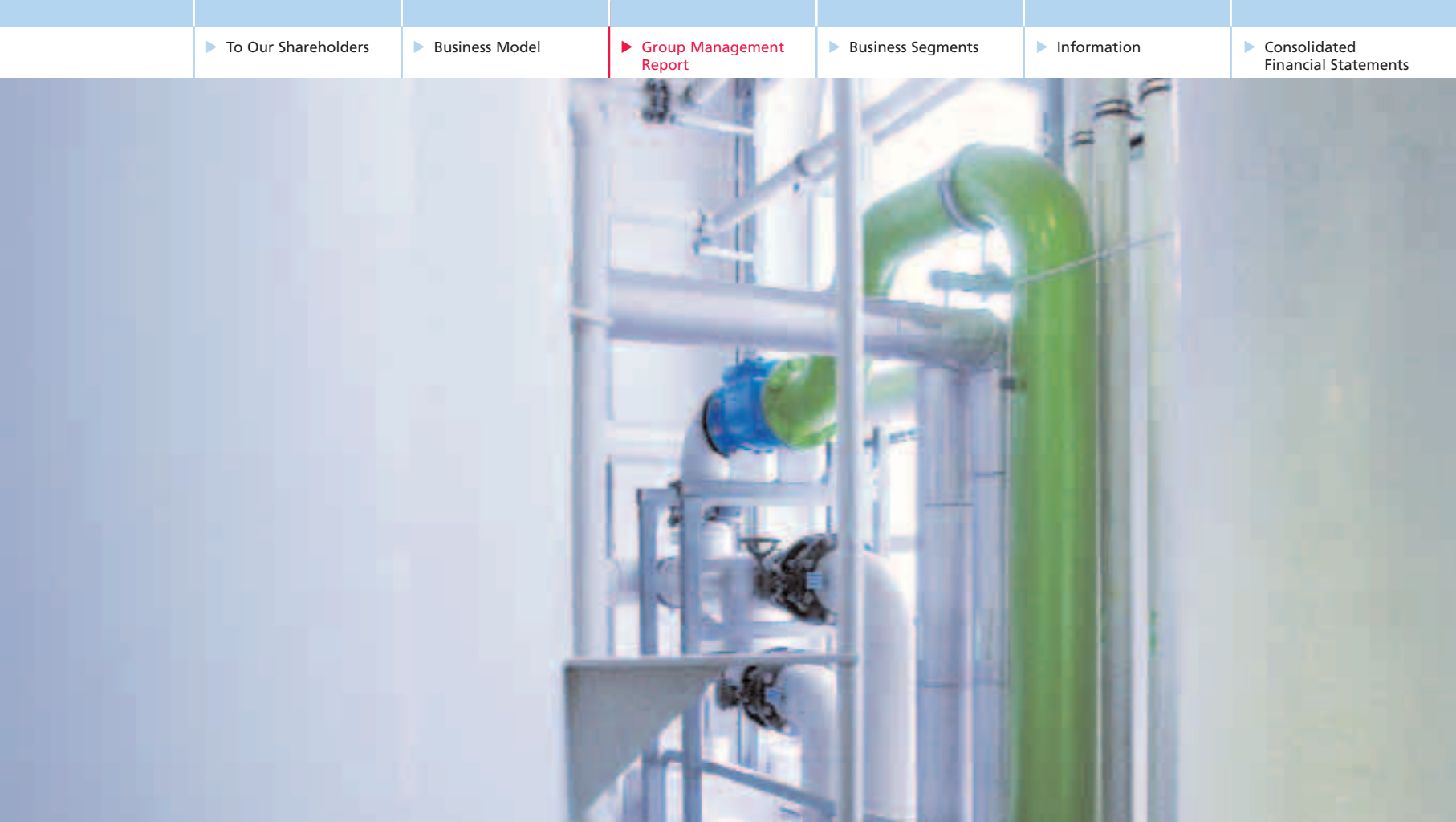
Expansion of the energy services and environmental energy business fields

We aim to generate organic growth in the high-growth markets for energy services and non-recyclable waste incineration, as well as seizing any favourable acquisitions opportunities which may arise. In this respect, we will draw on our longstanding experience and the strong market position we have already built up in these business fields. The new waste utilisation facility at Leuna will commence operations in the course of 2005, making us the third-largest operator of thermal utilisation facilities in Germany.

Earnings performance

How can our earnings be expected to perform in the current financial year and beyond? A large portion of our earnings from our core business is dependent on weather conditions, and in particular on winter temperatures. Given normal temperatures and excluding consolidation factors, we do not expect to see any significant fluctuations in the earnings generated by our district heating, electric power, gas and water segments. In our environmental energy segment, by contrast, the rise in the volume of non-recyclable waste requiring incineration is expected to have a positive impact on our sales and earnings figures. As a result of our having relinquished various loss-making shareholdings, we now expect only a marginally negative operating earnings figure for our energy services activities, which will be primarily attributable to start-up losses. The discontinuation of scheduled goodwill amortisation as a result of international financial reporting standards (IFRS) will also have a positive effect on the operating earnings of the MVV Energie Group. We expect the first full-year consolidation of Stadtwerke Kiel to have a significant impact on our sales and earnings performance. This will more than compensate for the future loss of earnings contributions resulting from the sale of our shareholding in Brno.

Overall, we expect to generate operating earnings (EBIT) of around Euro 150 million in the current financial year. We also expect the efficiency enhancements resulting from the restructuring of the company undertaken in the past year to have a significantly positive impact on the earnings of the Group in coming years.



Events subsequent to the reporting date

In October 2004, MVV Energie AG sold its shareholding in the Czech district heating company in Brno, which it had acquired in 2001, back to the city of Brno. The proceeds generated by the disposal of this shareholding, and the earnings received in the past financial years, mean that this was a profitable participatory investment. Following the disposal, MVV Energie AG continues to own shareholdings in seven district heating companies in the Czech Republic. MVV Energie AG will maintain its focus on the Czech and Polish district heating markets.

As in the previous year, we intend to propose the payment of a dividend of Euro 0.75 per share for the past 2003/04 financial year for approval by the Annual General Meeting to be held on 4 March 2005. In view of the fact that in the interests of dividend continuity only a small portion of the income generated by the disposal of our shares in Gasversorgung Süddeutschland GmbH was distributed in the previous year, we have sufficient funds available to distribute a dividend for the past 2003/2004 financial year in spite of the one-off charges arising from restructuring our company.

Waterworks

Safety and quality play an important role in the supply of tap water. At our waterworks we extract ground water and purify it so that it can be subsequently stored and distributed to our customers. ►►



Business Segments

58	Electricity
61	District Heating
63	Gas
65	Water
66	Value-Added Services
70	Environmental Energy

Water is one of the most important commodities of all. The supply of tap water is crucial to survival. In Germany, the supply of water is closely linked to individual municipalities and has traditionally been oriented towards the requirements of the public good. The development, modernisation and liberalisation of the water industry currently forms the subject of numerous debates among politicians and the business community. ►►

Business Segments

Karl-Heinz Trautmann (right), Executive Board member of MVV Energie AG, in conversation with Arthur Bächle, Executive Board member of Stadtwerke Kiel AG. ►



Electricity

With a 50% share of sales and a 34% share of operating earnings (EBIT), the electricity segment is one of the most significant business segments in our group of companies.

The circumstances surrounding the sale and trading of electricity and portfolio management activities were far from optimal during the year under report. The successful conclusion of agreements in spite of the considerable rise in procurement prices and grid expenses represented a great challenge in all customer segments. All of the companies in our group were nevertheless able to maintain their positions in the market during the year under report.

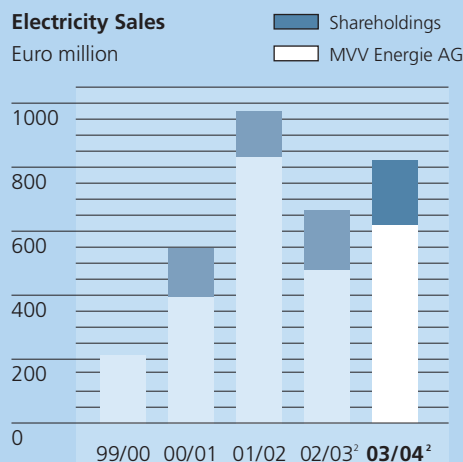
Our sales in this highly competitive market rose by Euro 148 million (+22%) to Euro 828 million. Of this significant year-on-year increase, Euro 51 million resulted from the initial sales contribution of Stadtwerke Kiel for the five-month period of May to September 2004. In addition to this external growth, MVV Energie AG generated a higher level of sales in its wholesale electricity trading and national electricity businesses. Our shareholdings in Offenbach and Solingen also reported higher sales in their electricity businesses. Of the total electricity sales of Euro 900 million (prior to consolidation), 68% related to MVV Energie AG (including electricity trading) and 32% to the shareholdings in municipal utility companies in Offenbach, Solingen, Ingolstadt and Kiel, which together generated sales of Euro 291 million.

In order to improve the clarity of the presentation of our business performance and by analogy with the approach taken by other electricity providers, we have reported those sales resulting from our proprietary electricity trading business which are undertaken purely for trading purposes on a net basis for the first time, i.e. only in the amount of the gross margin thereby generated (sales price minus procurement price). This change in reporting procedures has no impact on earnings.

Our electricity turnover (excluding energy from waste plants and value-added service projects) rose by 3.6 billion kWh (+33%) compared with the previous year to reach 14.4 billion kWh. Of this growth, 2.9 billion kWh related to wholesale electricity trading. Following the deduction of the turnover relating to proprietary trading and risk control, we turned over 5.6 billion kWh in this field during the year under report, compared with 2.7 billion kWh in the previous year. This increase mainly resulted from the initial consolidation of Stadtwerke Kiel.

Electricity Sales

Euro million

**Electricity Turnover of the MVV Energie Group ¹**

kWh million

	2003 / 2004	2002 / 2003	% change
Wholesale electricity trading (including secondary distributors) ²	5 587	2 678	+ 109
Industrial and large commercial customers	7 037	6 567	+ 7
Private and small business customers	1 777	1 592	+ 12
	14 401	10 837	+ 33

¹ excluding electricity turnover from energy from waste plants and value-added services

² reported on net basis and excluding supplies within the group

Improved operating earnings

The electricity segment generated earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA) of Euro 55 million during the year under report, compared with Euro 47 million in the previous year. The income subsidies relating to construction and house connection expenses have been reported for the first time under depreciation rather than as sales. The figures for the previous year have been adjusted accordingly. Following adjustment for the one-off expenses relating to measures aimed at enhancing the company's competitiveness, the EBITDA figure calculated on this basis for the previous year amounted to Euro 51 million. The growth of Euro 4 million attained on this basis was primarily attributable to the initial consolidation of Stadtwerke Kiel.

Unadjusted operating earnings before interest and taxes (EBIT) improved from Euro 27 million in the previous year to Euro 32 million. Following adjustments to account for one-off expenses relating to measures aimed at increasing competitiveness in the previous year (Euro 3 million) and for proportionate one-off charges resulting from the impairment tests during the year under report (Euro 1 million), operating earnings (EBIT) rose from Euro 30 million in the previous year to Euro 33 million. Apart from the impact of the initial consolidation of Stadtwerke Kiel (Euro 1 million), this increase resulted from an improvement in earnings at Energieversorgung Offenbach.

Increased electricity turnover in the retail segment

In the difficult market climate, which continues to be characterised by tough price competition for large-scale customers, our electricity turnover with end customers in the retail segment rose by 8% to 8.8 billion kWh. Apart from the impact of the initial consolidation of Stadtwerke Kiel (0.4 billion kWh), this strong growth was mainly attributable to increased volumes in the electricity business of MVV Energie AG with industrial and large commercial clients outside of its own network region.

During the year under report we reviewed our organisational structure and reoriented the strategy of the business field of sales at MVV Energie AG. In the electricity segment, this realignment focuses on growth in the external electricity business outside our network regions and on raising customer retention in the internal multi-utility business within our narrower catchment area, concentrating on the Rhine/Neckar region. The newly introduced business divisions of sales and networks, as well as the sales invoicing division, will face particular challenges as a result of the legal requirement for networks to be separated from the other company divisions in terms of their organisation (unbundling).

Transmissions Networks of the MVV Energie Group

in km

	2003/2004	2002/2003	% change
Electricity network	14 734	11 614	+ 27
District heating network	1 892	1 625	+ 16
Steam network	207	144	+ 44
Gas network	5 594	3 789	+ 48
Water network	4 124	2 597	+ 59
Telecommunications network	2 883	2 109	+ 37
of which: glass fibre	930	557	+ 67



► Considerable market success in the national electricity business with industrial and large commercial clients

Industrial and large commercial customers (business clients) represent the largest customer group in our end customer business. These account for one half of our entire electricity turnover and 79 % of our end customer business. Our turnover in this particularly competitive segment of the market rose by 7 %.

This growth results from the national electricity business, in which we were able to acquire numerous new customers. Our electricity turnover in the external electricity business rose from 4.1 billion kWh in the previous year to 4.8 billion kWh. As a result of the economic climate and increased levels of competition, the electricity turnover relating to industrial and large commercial clients in our network regions declined by 10 %.

MVV Energie AG already supplies 4 000 customers with electrical energy outside of its own network region. The most significant acquisition in terms of volumes during the year under report relates to the supply of electricity to various locations of a large industrial group, for which the volume amounts to 560 million kWh for one quarter alone. Our other shareholdings also succeeded either in acquiring new customers or in retaining the majority of their existing customers or in winning back customers which had previously been lost.

In our external business, we focus on sophisticated customers whose electricity supply involves service requirements which go far beyond the traditional comprehensive supply. These are, for example, construction companies or multi-location companies, which supply their consumption

locations in Germany on a central basis via the MVV Energie Group. As the largest supplier of electricity to construction sites in Germany, we underline our competence in the field of efficient energy data management on a daily basis. During the year under report we supplied around 1 000 large construction sites in Germany with electricity (around 40 % of the total number of such sites).

Large industrial customers constitute a further important target group for the MVV Energie Group. These require sophisticated electricity supply solutions in order to cover themselves with individual price and procurement models against the existing risks in the highly volatile electricity market.

► Increase in electricity turnover in the private customer segment due to the initial consolidation of Stadtwerke Kiel

Our electricity turnover in the private customer segment (households and small business) rose by 12 % to 1.8 billion kWh. This significant growth is due to the initial consolidation of Stadtwerke Kiel. Following adjustment for the impact of this consolidation, we reported a 1 % decline in volumes in this customer segment. Together with our shareholdings, our increased sales efforts enabled us to retain 99 % of the electricity volumes which we supply to our private and small business customers. The proportion of customers changing provider in the private customer segment remained significantly below the federal average of around 4 %.

	► To Our Shareholders	► Business Model	► Group Management Report	► Business Segments	► Information	► Consolidated Financial Statements
						

Increased turnover in wholesale electricity trading

The review of the strategic alignment of the MVV Energie Group carried out during the 2003/04 financial year underlined the role of our trading division as the central portfolio manager for the energy procurement of the group. The merging of the generation and sales volumes facilitates the control and optimisation of the portfolio. Apart from attaining favourably priced procurement, particular importance is attached to minimising price and other market risks. Energy trading thus makes a significant contribution to our active risk management activities.

Although the withdrawal of American participants in the market had led to a temporary decline in trading volumes in Germany, the wholesale electricity market witnessed an increase in its liquidity during the 2003/04 financial year. New market participants, particularly banks, made a considerable contribution to the significant revival of the market in this respect.

The takeover of the majority of the shares in Stadtwerke Kiel has led to a significant increase both in the Group's generation capacities and its turnover. As in other divisions of the company, work has also been started in the trading division on optimising the level of cooperation and integration to be able to exploit synergies successfully.

► Challenge of trading with CO₂ emissions certificates

The launch of trading in CO₂ emissions certificates in 2005 already represents a considerable challenge for all parties involved. We made intensive preparations for this development at an early stage in order to ensure that the opportunities and risks resulting for the Group from such trading can be optimally controlled from the very beginning.

District Heating

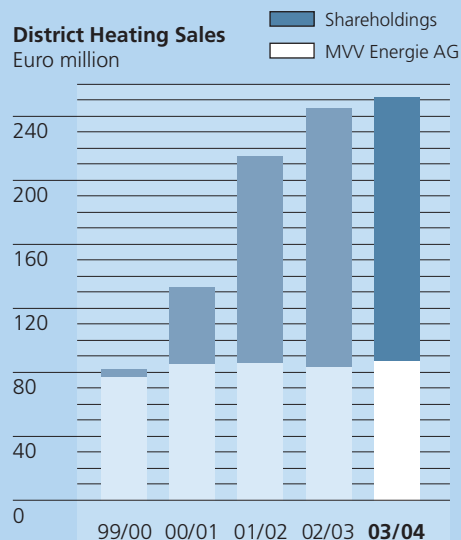
Contributing 34% to the adjusted operating earnings (EBIT) of our group of companies, the supply of district heating is one of our business segments with the highest earnings. The earnings performance of the district heating segment was curbed by the negative earnings contribution resulting from the initial consolidation of Stadtwerke Kiel during the summer months.

Contrasting sales performance in Germany and abroad

The sales of our district heating segment rose by 2 % to Euro 252 million. Of the overall district heating sales during the year under report, 49 % (previous year: 45 %) were generated on the German market and 51 % (previous year: 55 %) by our foreign shareholdings in Poland and the Czech Republic.

The district heating sales of our companies in Germany—MVV Energie AG, Energieversorgung Offenbach, Stadtwerke Ingolstadt, Stadtwerke Kiel and Köthen Energie—increased by Euro 12 million (+ 11%) on the previous year to reach Euro 124 million. Of this growth, Euro 9 million resulted from the initial consolidation of Stadtwerke Kiel for the five-month period from May to September 2004. The remaining sales growth was primarily attributable to the MVV Energie AG parent company and to our shareholding in Ingolstadt. Our foreign sales declined by 5 % to Euro 128 million as a result of weather conditions and currency effects. Our Czech shareholdings in the cities of Brno, Česká-Lípa, Děčín, Jablonec, Opava, Studénka, Uherské Hradiště and Vsetín, which are bundled together at MVV Energie CZ s.r.o., Prague, generated sales of Euro 92 million during the year under report (previous year: Euro 95 million). Our Polish district heating shareholdings contributed sales of Euro 36 million during the year under report (previous year: Euro 40 million). Our Polish subsidiary MVV Polska Sp. z o.o., Warsaw, holds shareholdings in district heating companies in Skarzysko-Kamienna, Bydgoszcz and Szczecin.

District Heating Sales
Euro million



¹ excluding district heating turnover from energy from waste plants and value-added services

² volume corrections in previous year

District Heating Turnover of the MVV Energie Group ¹

kWh million

	2003/2004	2002/2003	% change
Heating water turnover			
Secondary distributors	1 090	1 077	+ 1
Business customers ²	1 605	1 515	+ 6
Private customers ²	2 877	2 888	—
	5 572	5 480	+ 2
Steam turnover			
Business customers ²	1 113	1 132	– 2
	6 685	6 612	+ 1

Volume increases

The turnover of our district heating segment rose by 1% to 6.7 billion kWh. This figure does not include district heating generated at our energy from waste plant in Mannheim or that relating to our contracting business, which is reported in our value-added services segment. For the period in which it was consolidated, Stadtwerke Kiel reported a low district heating turnover of 0.2 million kWh as a result of the seasons involved.

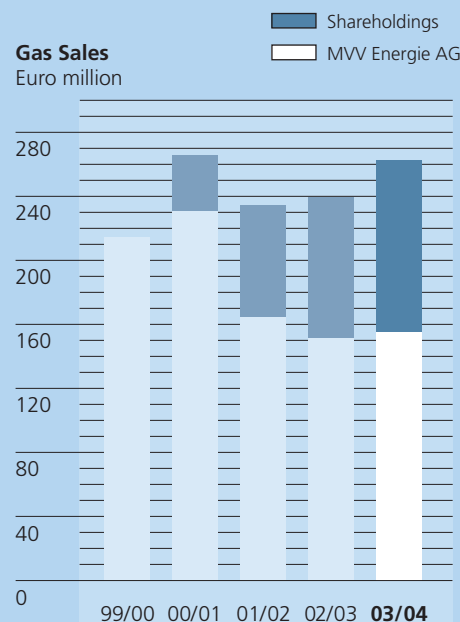
More than half of our heating water, which makes up 83 % of the overall district heating business, is supplied to private customers. The decline in turnover reported by our foreign private customer business was compensated for by the turnover initially consolidated from Stadtwerke Kiel and by increased volumes in Mannheim and Offenbach. The above-average volume growth in the business customer segment (+ 6 %) is primarily attributable to one new large customer in Ingolstadt, which was connected in December 2003. The process steam business principally relates to the supply of process steam to industrial customers by MVV Energie AG and its Czech shareholdings.

Of the overall district heating turnover, 3.0 billion kWh (previous year: 3.3 billion kWh) related to our foreign shareholdings in the Czech Republic (1.9 billion kWh, previous year: 2.0 billion kWh) and in Poland (1.1 billion kWh, previous year: 1.3 billion kWh).

Earnings performance affected by initial consolidation

The performance of earnings was affected by the initial consolidation of Stadtwerke Kiel, which in view of the seasons involved resulted in negative contributions of Euro –3 million to the EBITDA figure and of Euro –7 million to the EBIT figure. The initial consolidation of the company during the summer months of May to September meant that the high earnings contributions generated by the heating energy business in the winter months were not included. Moreover, the earnings for this period were further burdened by increased construction and maintenance measures, which are undertaken more intensively during the summer months.

Overall, following the allocation of income subsidies from sales to depreciation, the district heating segment generated operating earnings before interest, taxes, depreciation and goodwill amortisation of Euro 61 million during the year under report (previous year: 65 million). Excluding the proportionate share of costs for measures aimed at raising competitiveness (Euro 1 million), an adjusted EBITDA figure of Euro 66 million was reported in the previous year.



Gas

Following adjustment for one-off items, operating earnings (EBIT) declined from Euro 39 million in the previous year to Euro 33 million. Apart from the seasonally negative EBIT contribution from Stadtwerke Kiel, this decline was attributable to a downturn in earnings at the Offenbach shareholding and in the Eastern European district heating business. The improvement in earnings at the MVV Energie AG parent company was not sufficient to compensate for these items.

The development of the district heating segment in the current 2004/05 financial year will be affected by the sale of shares in the Czech district heating company Teplárny Brno a.s. to the city of Brno in October 2004. This shareholding reported sales of Euro 55 million and operating earnings (EBIT) of Euro 7 million during the year under report. By contrast, the first full-year consolidation of Stadtwerke Kiel will result in a higher level of sales and significantly more positive earnings contributions.

In terms of its sales, the gas business is our second largest segment. Following the liberalisation of the gas market, the competition for large customers has taken off. This particularly applies to the construction of direct pipelines by competitors. In spite of the difficult market climate, our sales increased by Euro 23 million (+ 10%) on the previous year to reach Euro 263 million. The bulk of this increase is attributable to the initial consolidation of Stadtwerke Kiel, which generated sales of Euro 17 million during the period of May to September 2004, traditionally a time of year marked by low consumption volumes. Apart from this external growth, the sales growth is a result of volume and price increases at MVV Energie AG and at its Solingen and Ingolstadt shareholdings. Of the overall sales, 59 % (previous year: 63 %) related to MVV Energie AG and 41 % (previous year: 37 %) to our five municipal utility company shareholdings (including Kiel and Köthen).

¹ excluding gas turnover in value-added services segment² volume corrections in previous year**Gas Turnover****of the MVV Energie Group¹**

kWh million

	2003/2004	2002/2003	% change
Secondary distributors	2 739	2 387	+ 15
Business customers ²	2 720	2 991	– 9
Private customers ²	3 186	2 818	+ 13
	8 645	8 196	+ 5

The German water industry, including the MVV Energie Group, views the forms of liberalisation currently under discussion with some reservations. It considers such approaches to harbour risks for the quality, safety and sustainability of the complex system of the water industry. ►►

Increased turnover in secondary distribution and private customer business balances out downturn in industrial customer business

Excluding the turnover relating to our contracting business, which is reported in our value-added services segment, our gas sales volumes rose by 0.4 billion kWh (+ 5 %) during the year under report to reach 8.6 billion kWh. If the initially consolidated volumes of Stadtwerke Kiel (0.4 billion kWh) are not included, then our gas turnover was at the same level as in the previous year. In the secondary distribution business, we achieved a pleasing 15 % increase in volumes.

At 5.9 billion kWh, the turnover of gas in the end customer business with business and private customers was all in all marginally higher than in the previous year (5.8 billion kWh). The downturn in turnover resulting from mounting competition, which affected the business and industrial customers in Mannheim and Ingolstadt in particular, was more than compensated for by increased volumes in the private customer business. This volume increase is attributable on the one hand to the cooler weather conditions compared with the previous year. On the other hand, it is the result of new connections in the sales regions within our network, especially in Ingolstadt, Offenbach and Solingen.

Earnings performance affected by one-off items in previous year

In comparison with the previous year, our earnings performance was characterised by the high level of one-off income resulting from the sale of our shares in Gasversorgung Süddeutschland GmbH (GVS) during the 2002/03 financial year. This means that in the previous year we had reported unusually high earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA)—following the allocation of income subsidies from sales to depreciation—amounting to Euro 175 million and operating earnings before interest and taxes (EBIT) of Euro 163 million.

Adjusted to account for the one-off GVS effect (Euro 141 million) and a proportionate share of the measures to enhance competitiveness (Euro 1 million), the MVV Energie Group generated an EBITDA figure of Euro 35 million and EBIT of Euro 23 million in the previous year. These adjusted earnings figures compare with an EBITDA figure of Euro 30 million and EBIT of Euro 17 million in the year under report. The decline is attributable in both cases to the negative EBIT contribution received from Stadtwerke Kiel for the period in which it was fully consolidated (May to September 2004) and to the reduced margin in the redistribution and industrial customer business of MVV Energie AG as a result of more intense competition. Our shareholdings in Offenbach, Ingolstadt and Solingen, by contrast, reported improved operating earnings figures.

Together with our shareholdings, we supplied 87 towns and municipalities with gas during the 2003/04 financial year. In the end customer business, we supplied around 221 000 private and business customers and around 3 300 industrial customers via a grid with a length of 5 594 km.

Gas trading activities

During the year under report, the MVV Energie Group managed its gas procurement on the basis of its trading activities and optimised this according to market circumstances. This enabled us to provide our customers with better-priced customised offers.

In the 2004/05 financial year, one of the main tasks in this business segment will involve exploiting the opportunities arising from the integration of Stadtwerke Kiel and its gas portfolio. The ongoing development of underlying conditions in the highly competitive gas market will play a significant role in this respect.

¹ excluding water turnover in value-added services segment

Water Turnover of the MVV Energie Group¹

m³ million

	2003/2004	2002/2003	% change
Secondary distributors	4.5	4.2	+ 7
Business customers	3.9	3.7	+ 5
Private customers	38.0	32.6	+ 17
	46.4	40.5	+ 15

Water

The safety and quality of the services provided play an especially significant role in the supply of tap water and the disposal of wastewater. During the year under report, the MVV Energie Group successfully undertook a number of projects in this segment.

Initial consolidation of Stadtwerke Kiel eclipses negative impact of weather conditions

The sales of our water business rose by 18% on the previous year to reach Euro 86 million. The external sales growth of Euro 14 million generated by our Stadtwerke Kiel shareholding in the period of its initial consolidation from May to September 2004 more than compensated for the downturn in sales resulting from weather conditions. Excluding the effects of this initial consolidation, water sales amounted to Euro 72 million during the year under report and were therefore around 1% down on the previous year (Euro 73 million).

Of the overall water sales during the year under report, Euro 42 million (49%) were generated by the MVV Energie AG parent company and Euro 44 million (51%) by our shareholdings in the municipal utility companies in Offenbach (21%), Solingen (14%) and Kiel (16%). Water sales will see a further increase in the current 2004/05 financial year as a result of the full-year consolidation of Stadtwerke Kiel. The volume of turnover in the water segment, excluding the turnover relating to contracting transactions, which is reported under value-added services, rose by 15% during the year under report to reach 46.4 million m³. Excluding the turnover relating to the initial consolidation of Stadtwerke Kiel (7.9 million m³), which impacted on all customer segments, the water turnover of our group of companies was 5% down on the previous year. Our

strongest market segment was that of private customers, who accounted for 80% of sales volumes.

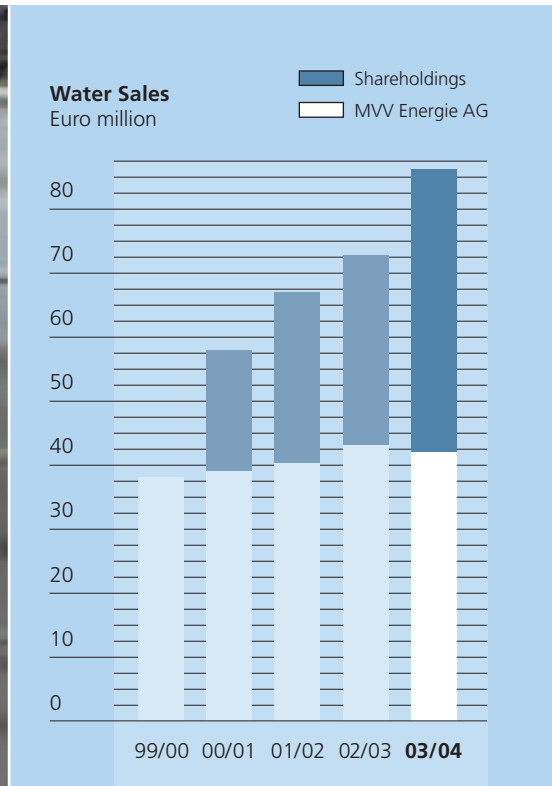
The decline in water turnover excluding that generated by Stadtwerke Kiel is attributable to the stark contrast between the weather conditions in the years under comparison—2003/04 and 2002/03. The hot and dry weather in Summer 2003 was followed by comparatively cool and wet weather in Summer 2004. This resulted in a decline in turnover at all of the companies in our group during the year under report. We were able to make up for one part of the sales downturn resulting from the weather by means of price adjustments. The EBITDA figure in our water business increased—following the allocation of income subsidies from sales to depreciation—from Euro 19 million to Euro 22 million. Following adjustment to take account of the proportionate charges relating to measures aimed at raising competitiveness, the EBITDA figure amounted to Euro 21 million in the previous year.

After deducting depreciation and goodwill amortisation, our group of companies generated adjusted operating earnings (EBIT) of Euro 12 million during the year under report (previous year: Euro 12 million). The earnings downturn attributable to weather conditions was compensated for by the initial positive EBIT contribution of Euro 2 million received from Stadtwerke Kiel and an improved EBIT figure at our Solingen shareholding.

Plant management

Within the framework of the plant management for the entire tap water and wastewater network of the Mainhausen municipality agreed for a period of 25 years in July 2003, Energieversorgung Offenbach AG (EVO)





began overhauling the network of sewers and tap water pipelines in the Mainflingen district during the year under report. A total of 1.4 km of pipelines and mains was replaced on behalf of the municipality.

Moreover, during the year under report EVO constructed a duct and throttelschaft weighing almost 50 tonnes for rainwater and wastewater for the municipality of Mainhausen in the Zellhausen district. This should safeguard the operation of the network of sewers and sewage plant in Seligenstadt, while also protecting the residents of the town from flooding after strong rainfall.

Stadtwerke Ingolstadt Beteiligungen GmbH (SWI) operates the plant management for water distribution on behalf of the independent water supply company of Stadtwerke Ingolstadt. This also involves constructing and maintaining water supply facilities. During the year under report, work was begun on the construction of a new waterworks for the supply of tap water in Ingolstadt.

The tank and machinery sections are being newly constructed, the well houses and well heads are being renovated and the electrical and technical facilities are being updated. We expect the construction work to be completed in the course of the current financial year. The income and expenses relating to the services thereby required, which are charged on to the independent water supply business, have been reported in the financial statements as other income and expenses respectively .

Value-Added Services

The strategic focus of the energy services business was also further sharpened during the 2003/04 financial year. With an annual growth rate of more than 15 %, the market for energy services in Germany is one of the fastest growing segments. We aim to become one of the three largest providers in the market for energy services in Germany within five years.

Contracting: Energy and Water Turnover of the MVV Energie Group

¹ volume correction in previous year

	2003/2004	2002/2003	% change
Electricity ¹ in kWh million	56	55	+ 2
Heating water ¹ in kWh million	111	79	+ 41
Steam in kWh million	211	193	+ 9
Gas in kWh million	261	226	+ 15
Water in m ³ million	1.2	1.4	– 14

The MVV Energie Group is a competent partner in the water business and also has related activities in its international consulting and value-added services business. Our MVV Consulting GmbH shareholding was commissioned in December 2003 with the implementation of a socially, technical and economically feasible water supply and waste-water disposal system for the town of Botosani in Rumania. This project will last for two and a half years. ►►

Portfolio of services realigned to the market and our customers

The MVV Energie Group has developed a promising portfolio of extended services based on its longstanding experience in the supply of electricity, district heating, gas and water. We realigned this portfolio of services during the year under report as part of the process of refocusing our business and modernising the organisational structure of our group of companies.

The sales of the “Consulting” product area rose by Euro 1 million to Euro 14 million. Our international consulting activities accounted for one half of these sales, while the other half related to the advisory services provided in Germany by our shareholding BfE Institut für Energie und Umwelt GmbH, Mühlhausen.

Segment sales rise by 14%

The sales of our value-added services segment rose by 14 % on the previous year to Euro 117 million. This growth was primarily attributable to an increase in energy services, with which we generated sales of Euro 93 million during the year under report (previous year: Euro 74 million). At Euro 51 million (previous year: Euro 35 million), the largest share of these sales related to our “Municipal Solutions” product area. A significant increase was seen in the level of sales generated by this product area, which particularly involves the supply of district heating to residential, commercial and municipal buildings within the framework of contracting solutions, as well as infrastructure supply solutions, such as land improvement and development projects.

The sales generated by the “Industrial Solutions” product area rose from Euro 22 million to Euro 24 million. These include in particular the sales relating to contracting projects for the supply of decentralised industrial energy and utility services by the MVV Energie AG parent company and our shareholdings MVV Energie Industrial Solutions West GmbH, Solingen, and MVV Industriekraftwerk Ludwigshafen GmbH, Mannheim.

Earnings performance affected by extraordinary items

The value-added services reported negative operating earnings before interest and taxes of Euro –63 million during the year under report (previous year: Euro –8 million). This result was largely due to the one-off extraordinary expenses incurred by the strategic realignment and the resultant restructuring measures. The streamlining of the portfolio and the impairment tests alone resulted in one-off charges of Euro 45 million, which related in particular to the Powerline business and the sewage facility construction and operation company AWATECH GmbH. Moreover, one-off restructuring expenses were also necessary, especially in the consulting business. Now that significant loss-making operations have been relinquished, we expect to see a marked improvement in earnings already starting in the current 2004/05 financial year.

Expansion of sales regions

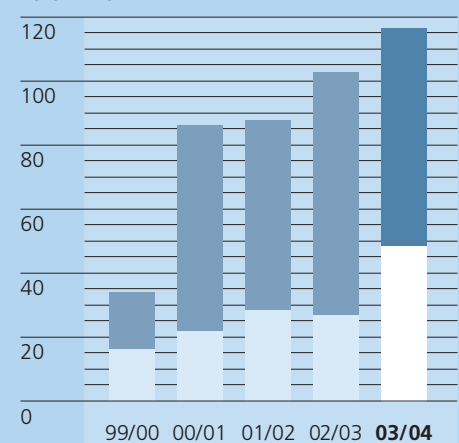
Our numerous branch offices and shareholdings in many regions of Germany mean that we are in direct proximity to our customers. Within the framework of our regional strategy, we have succeeded in building up and expanding our Industrial Solutions product area further by means of

Sales of Value-Added Services at MVV Energie Group by product area

Euro million	2003/2004	2002/2003	% change
Municipal solutions	51	35	+ 46
Industrial solutions	24	22	+ 9
Consulting	14	13	+ 8
Railway electricity/business services	4	4	—
Energy services	93	74	+ 26
Telecommunications services	12	11	+ 9
Portfolio streamlining (facility construction, international business)	12	18	– 33
	117	103	+ 14

Value-Added Services Sales

Euro million



our regional company in Nordrhein-Westfalen, based in Solingen, and in developing interesting projects for the market. Our office for Eastern Germany, located in Berlin, also reported further successful projects. Moreover, in October 2004 we founded a Bavarian office of MVV Industrial Solutions in Ingolstadt. Preparations are currently underway for the establishment of an office in the North of Germany.

With our *MVV Energie Municipal Solutions* product, we are currently further expanding our activities in the field of municipal services in Nordrhein-Westfalen and in the area of housing. Our *Energieversorgung Offenbach* shareholding is providing these services in the Rhine/Main area, while *Köthen Energie* is covering Sachsen-Anhalt.

Industrial Solutions—providing industrial companies with more room for manoeuvre

The rising prices for the proprietary generation of energy and utilities constitute an increasingly significant production and cost factor for industrial companies. Operating technical facilities economically, compiling cost-saving concepts, making investments in modernisation, complying with environmental protection regulations and the recruitment of suitable human resources do not, however, usually form part of their actual core businesses. For this reason, the MVV Energie Group puts its experience at the disposal of industrial companies in the form of individual contracting

solutions within the *MVV Energie Industrial Solutions* product area. The customer can assign its entire energy and utility supply requirements to us and thus benefits from significantly lower energy expenses and high levels of availability. This product has now been successfully established and has achieved high levels of recognition.

Moreover, *MVV Energie Dienstleistungen GmbH* has acquired a 67% shareholding in a biomass heat and power plant in Bavaria. This facility, which was constructed at the end of the 90s, is now being optimised.

Municipal Solutions—optimal energy supply in times of tight public finances

As a result of their tense financial situation, municipalities and public-sector bodies are increasingly considering joint solutions together with a competent partner in the private sector. Our *MVV Energie Municipal Solutions* product area provides this group of customers with individual services tailored to their individual requirements and including matters of financing. During the year under report the volume of orders on hand for *MVV Energie Municipal Solutions* increased, particularly in Southwestern Germany. We now have a surface area of 423 hectares under contract in the field of land improvement and development projects. Furthermore, we acquired around 35 further projects in the contracting field during the 2003/04 financial year.



In cooperation with Stadtwerke Ingolstadt, we compiled a feasibility study in the Serbian town of Kragujevac during the year under report, which was financed by the Water Technology Transfer Project of the State of Bavaria. The focal point of this study was a technical analysis of the town's tap water purification and wastewater system. Furthermore, we also compiled a business analysis of the water company.

Consulting

Our consulting activities are focused on the provision of advisory services relating to energy, water and wastewater issues. A further important pillar concerns projects in the field of renewable energies. Moreover, our consultants are also active in all infrastructure sectors involving supply requirements on an international basis.

During the 2003/04 financial year, our consulting activities were subject to extensive restructuring within the framework of the reorganisation of the Group. MVV Consultants and Water Engineers GmbH and MVV Consultants and Engineers GmbH were merged to form MVV Consulting GmbH.

In spite of the challenges presented by the restructuring, the companies succeeded in the past year in acquiring interesting orders from international institutions such as the *German Development Bank (KfW)*, the *Gesellschaft für technische Zusammenarbeit (GTZ)*, the *World Bank* and from other multilateral development and financing organisations, including the *United Nations*. DECON, for example, received the order from the *German Development Bank* to build up the energy supply in Afghanistan. MVV Consulting GmbH was commissioned to provide technical support for the modernisation of the water supply and wastewater disposal infrastructure of the Rumanian town of Botosani. It is also undertaking an environmental management project in the Lebanon.

In future, we aim to attach greater priority to our Private Sector Participation activities. Accessing new lucrative markets will form a further focal point of our activities. We have already succeeded in acquiring a number of orders in the USA.

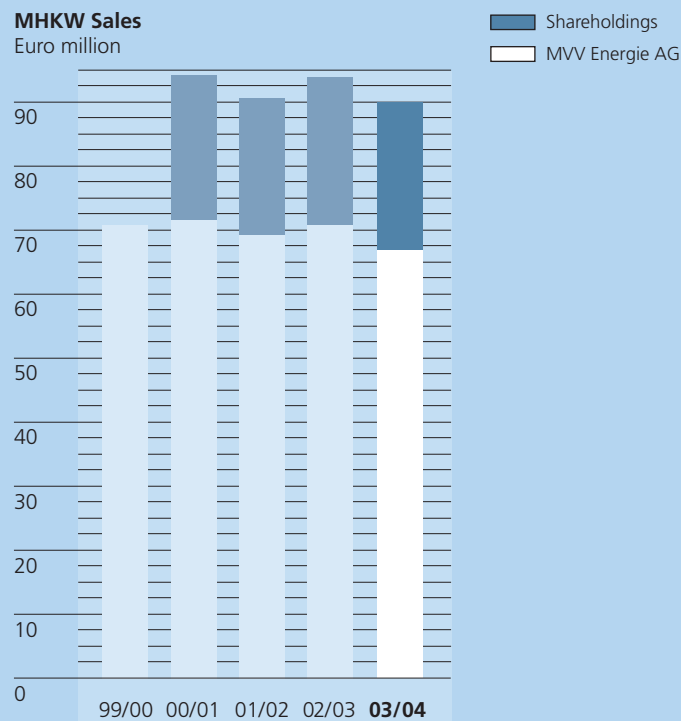
Telecommunications

The telecommunications division was also subject to fundamental restructuring during the year under report. From the point of view of the MVV Energie Group, our "Internet from the Socket" product offered on the basis of Powerline technology in Mannheim, which with more than 4 000 customers is one of the world's largest projects of this kind, can be split into two subdivisions. Firstly, there is the modem and technology installation business, which continues to be operated by Power PLUS Communications AG (PPC), Mannheim, whose shares were transferred by MVV Energie AG to the MVV innovation portfolio within the framework of the restructuring. Secondly, there is the newly founded VYPE GmbH, Mannheim, a wholly owned subsidiary of PPC, which acts as a new Powerline operator in Mannheim, providing innovative internet access in numerous parts of the city.

The infrastructure required for the VYPE business is partly provided by MVV Energie AG. The technology supplied by PPC, which is active on an international basis, already enables 200 000 households in German-speaking countries, including those in Linz, Dresden, Hameln and Hassfurt, to surf on the internet via the electricity network. The previous Powerline operator, MVV MANet Telecom Services, will in future concentrate exclusively on the business customer segment. With a focus on Mannheim and Heidelberg, this company provides flexible, reliable and innovative telephone, data and internet services. The glass fibre network operated by the company in the Rhine/Neckar region places it in a good competitive position.



MHKW Sales
Euro million



Innovation Portfolio

Via our corporate venture capital fund MVV Innovationsportfolio AG & Co. KgaA, we invest in innovative companies in the energy and utility supply sector. These shareholdings develop new technologies and projects in which we in turn participate. The areas of technology in which the fund has invested include power quality, superconductors and wireless applications.

Consumers with sensitive supply requirements can be provided with consistent electricity quality with the assistance of the flywheel storage device developed by Pentadyne Inc. Nanotron Technologies GmbH has a technology for use in the application of wireless data transmission, which facilitates the reliable and energy-efficient transfer of data. Trithor GmbH is one of four companies around the world which manufacture high-temperature superconductors on an industrial basis, enabling electricity to be transmitted virtually loss-free.

Environmental Energy

Within the framework of the strategic realignment and modernisation of the organisational structure of our group of companies, we combined our non-recyclable waste incineration (MHKW) and renewable energy activities, particularly the biomass business, as of 1 July 2004 to form our new "Environmental Energy" business field. We plan to bundle all activities of the MVV Energie Group relating to the bioenergy project companies of our biomass power plants in Mannheim (20 MW), Königs Wusterhausen (20 MW) and Flörsheim-Wicker (15 MW), as well as the non-recyclable waste incineration facilities together at MVV Umwelt GmbH, a wholly owned subsidiary of MVV Energie AG. Smaller projects, such as the biomass heating plants entirely developed in the context of decentralised utility supply concepts, have been allocated to our value-added services segment. This concentration of the Group's disposal and power plant activities provides it with the possibility of bundling its competencies and longstanding experience, of simplifying management procedures and of exploiting synergies, for example in terms of waste and wood procurement.

Turnover and Incineration Volumes at the Energy from Waste Plants of the MVV Energie Group

	2003/2004	2002/2003	% change
Electricity turnover in kWh million	82	80	+ 3
Steam turnover in kWh million	481	486	– 1
Incinerated waste in tonnes 000s	519	481	+ 8



Energy from waste plants

Our non-recyclable waste incineration facilities in Mannheim and Offenbach, which have an annual capacity of around 580 000 tonnes and modern high-performance flue gas scrubbing facilities, contribute to the avoidance of backlogs of waste and thus protect the environment. The incineration is based on the resource-saving cogeneration process and enables the energy potential of non-recyclable waste and rubbish to be optimally exploited. Our energy from waste plant in Mannheim generates process steam and electricity and that in Offenbach generates district heating and electricity. At 90 %, our energy from waste plants in Mannheim and Offenbach reported excellent capacity utilisation rates during the year under report.

► Decline in sales and earnings

The sales of our energy from waste plants segment declined by 3 % to Euro 90 million. The sales from the related energy business totalled Euro 12 million.

Sales of Euro 78 million were generated by our non-recyclable waste incineration activities in Mannheim and Offenbach during the year under report, compared with Euro 81 million in the previous year. This decline in sales is primarily attributable to a price reduction contractually agreed in 2001 with the waste disposal company *Zweckverband Abfallentsorgung Rhein-Neckar GmbH (ZARN)*. In this way, the cost savings resulting from the new CHP incinerator have been passed on to customers.

The growth in the volume of waste incinerated mainly relates to the energy from waste plant in Mannheim, which incinerated 325 000 tonnes of waste during the year under report, an increase of 33 000 tonnes on the previous year. The volume of waste delivered rose by 9 % in Mannheim and by 2 % in Offenbach. The main reason for the significant growth in Mannheim was an increase in the volume of waste delivered by the Karlsruhe-based company *Thermoselect Südwest GmbH* and by private customers.

Operating earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA) rose by Euro 3 million (8 %) on the previous year to reach Euro 43 million. Operating earnings before interest and taxes (EBIT) amounted to Euro 22 million, compared with Euro 19 million in the previous year. The earnings figures for the previous year were reduced by one-off expenses of Euro 9 million resulting from measures undertaken to raise the company's competitiveness. These measures arose on account of the obligations made in the context of the takeover of the plant management of the energy from waste plant in Mannheim from *Grosskraftwerk Mannheim AG (GKM)* and of restructuring measures at *EVO* in Offenbach. Excluding these one-off charges, the energy from waste plants would have generated EBITDA and EBIT figures of Euro 49 million and Euro 28 million respectively in the previous year. The decline in earnings figures apparent following this adjustment is principally attributable to the reallocation of the process steam business from the district heating segment to the energy from waste plants segment and from higher expenses relating to input materials and maintenance measures at *EVO*.

► Promising market climate for non-recyclable waste incineration

The *Technical Guidelines for the Disposal of Municipal Solid Waste* in Germany (*TASi*) require that with effect from 1 June 2005 only waste which has been subject to thermal or biological pre-treatment may be disposed of at rubbish dumps. Annual incineration capacities of 17 million tonnes are currently available across Germany. In all probability, these will not be sufficient to cope with the estimated 25 to 30 million tonnes of non-recyclable waste volumes expected per year. We therefore expect to see a sharp increase in the required level of waste disposal capacities. The MVV Energie Group stands to benefit from this market situation in two ways. The remaining capacities of its waste incineration facilities which have not yet been committed to long-term supply contracts with municipalities will be easily marketable in future. Moreover, investments in further non-recyclable waste incineration facilities will result in further growth potential.



► Investments during the year under report

The new CHP incinerator at the energy from waste plant in Mannheim commenced operations during the year under report, thereby replacing older incinerators. At the energy from waste plant in Offenbach we completed the installation of the new extinguisher facility towards the end of the year under report and thus improved the fire protection of the waste receiving bunker at the facility.

In view of the pleasing capacity utilisation rates expected for our waste incineration facilities, we are continuing to invest in organic growth in our energy from waste plants segment. Preliminary construction work was completed during the year under report on our Non-Recyclable Waste Incineration and Energy Extraction Facility (TREA), which we are currently constructing at the Leuna chemical site at a cost of Euro 94 million. From June 2005, it is expected to convert around 195 000 tonnes of household, business and bulky refuse per year into process steam and electricity on the basis of the resource-saving cogeneration procedure. We will supply industrial companies at the planned industrial park in Leuna with these forms of energy. The incineration capacity of the facility has already been earmarked for municipal and business waste volumes which have already been contractually agreed.

Renewable Energy

The renewable energy segment was also subjected to a thorough review within the framework of our strategic realignment and focusing on our profitable core business and promising high-growth business fields.

► New strategic orientation

The amended *Renewable Energy Act (EEG)*, which came into force in August 2004, provides an important foundation for securing investments in renewable energy technologies, such as electricity generation using biomass, in the long term. This is one of the reasons why we intend to continue to focus on electricity generation using biomass. In our construction and operation of bioenergy facilities, we are able to benefit from the longstanding experience we have gained in our core business of non-recyclable waste incineration.

Following their completion, our biomass power plants successfully commenced regular operations during the year under report.

	► To Our Shareholders	► Business Model	► Group Management Report	► Business Segments	► Information	► Consolidated Financial Statements
						

We contribute our expertise to our lobbying activities in this business segment as well and exchange views with political representatives as to the further development of the legislative framework.

By contrast, we will not be maintaining our activities in the field of wind energy generation. The market opportunities in this field have not developed as positively as was generally expected in the past, meaning that it is not possible to achieve the planned returns. Moreover, the wind energy division has little in common with our core business and therefore does not fit in with our new focused strategic orientation. We will maintain the project development and operation of solar energy facilities to a more limited extent and continue to offer them as a complement to our range of services within the framework of our existing customer relationships.

In addition to smaller-scale projects, we also installed a large 112 kWp photovoltaic facility in Mannheim during the year under report. At the end of the financial year it was in the final construction stage and had already generated electricity. In constructing this facility we made use of thin-film modules supplied by our American shareholding Energy Photovoltaics, Inc. and were thus able to achieve a lower level of system costs.

► Earnings performance affected by streamlining of portfolio

The sales of our renewable energy segment rose from Euro 2 million in the previous year to Euro 7 million. This sales growth was particularly attributable to our biomass power plants in Mannheim, Flörsheim-Wicker and Königs Wusterhausen, which commenced operations in the course of the year under report.

Our earnings performance was characterised by one-off charges on earnings resulting from project write-downs and restructuring measures undertaken at our wind park subsidiary, eternegy GmbH, Mannheim, in the context of our process of focusing our business. These charges were supplemented by the start-up expenses incurred at our biomass power plants. The renewable energy segment generated a positive EBITDA figure of Euro 0.2 million during the year under report, compared with a negative EBITDA figure of Euro –6 million in the previous year. Once depreciation and goodwill amortisation had been deducted, the segment reported negative operating earnings (EBIT) of Euro –10 million for the year under report. Following adjustment for the one-off expenses incurred on the streamlining of the portfolio (Euro 8 million), this segment nevertheless reported negative operating earnings (EBIT) of Euro –2 million (previous year: Euro –6 million). We expect our biomass business to generate a positive earnings contribution in the current 2004/05 financial year.

Gas Transfer Stations

At our gas transfer stations we reduce the pressure of the gas supplied to us in high-pressure mains and distribute it to district substations and industrial stations, where the pressure of the gas is reduced once again to meet our customers' requirements. ►►

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Multi-Year Overview

Income Statement (Euro million)	1999/2000	2000/2001 ¹	2001/2002	2002/2003 ²	2003 / 2004 ³
Sales	649	1 180	1 679	1 438 ⁴	1 652 ⁴
Cost of materials	338	763	1 178	873	1 041
Personnel expenses	102	169	182	215	250
EBITDA	154	289	258	359	209
Depreciation	56	151	103	102	154
EBITA	98	138	155	257	55
Goodwill amortisation	< 1	5	11	13	14
EBIT	98	133	144	244	41
EBT	79	100	100	184	– 23
Annual net surplus/deficit	48	43	57	159	– 38
Annual net surplus/deficit after minority interests	49	38	50	152	– 44
External Sales (Euro million)					
Electricity	206	538	983	680 ⁴	828 ⁴
District heating	82	133	215	246	252
Gas	216	267	234	240	263
Water	38	58	67	73	86
Value-added services	34	86	87	103	117
Energy from waste plants (MHKW)	71	94	91	93	90
Renewable energy	—	—	—	2	7
Other/consolidation	2	4	2	1	9
MVV Energie Group	649	1 180	1 679	1 438	1 652
EBIT (Euro million)					
Electricity	21	121	26	27	32
District heating	25	21	38	38	32
Gas	33	– 2	52	163	17
Water	7	7	10	11	12
Value-added services	– 7	– 7	– 9	– 8	– 63
Energy from waste plants (MHKW)	19	– 7	27	19	22
Renewable energy	—	—	—	– 6	– 10
Other/consolidation	—	—	—	—	– 1
MVV Energie Group	98	133	144	244	41

Share and Dividend

	1999/2000	2000/2001 ¹	2001/2002	2002/2003 ²	2003 / 2004 ³
Closing price on 30.9 (Euro)	15.35	14.25	15.02	15.25	14.50
Annual high ⁵ (Euro)	16.10	20.50	16.51	16.00	17.25
Annual low ⁵ (Euro)	11.70	13.60	13.82	13.50	11.51
Market capitalisation on 30.9 (Euro million)	778	723	762	773	735
No. of individual shares (million)	50.702	50.702	50.702	50.702	50.702
Dividend per share (Euro)	0.56	0.75	0.75	0.75	0.75 ⁶
Total dividend (Euro million)	28.5	38.0	38.0	38.0	38.0 ⁶
Earnings per share pursuant to IAS 33 (Euro)	0.95	0.76	1.00	3.01	– 0.86
Cash flow per share pursuant to DVFA/SG ¹¹ (Euro)	1.70	2.71	3.18	2.96	3.11
Equity per share ⁷ (Euro)	11.01	11.31	11.64	13.76	12.02
Price/earnings ratio per share pursuant to IAS 33	16.2	18.3	15.0	5.1	—
Price/cash flow ratio per share	9.0	5.3	4.7	5.2	4.7
Dividend yield ⁸ in %	3.6	5.3	5.0	4.9	5.2 ⁶

Volumes⁹

Electricity (kWh million)	3 836	14 401	28 436	10 972	14 539
of which wholesale incl. secondary distributors	1 393	9 800	22 472	2 678 ¹⁰	5 587 ¹⁰
of which retail	2 443	4 601	5 964	8 294	8 952
District heating (kWh million)	3 468	4 907	6 381	7 370	7 488
Gas (kWh million)	11 609	9 449	8 626	8 422	8 906
Water (m ³ million)	24	35	39	42	48
Waste incinerated (tonnes)	309	522	466	481	519

Employees (as of 30.9)

MVV Energie AG incl. MVV RHE AG	1 819	1 736	1 789	1 821	1 769
Fully consolidated shareholdings	388	1 738	2 044	2 122	3 492
MVV Energie AG with fully consolidated shareholdings	2 207	3 474	3 833	3 943	5 261
Proportionately consolidated shareholdings	—	—	1 251	1 711	1 632
MVV Energie Group	2 207	3 474	5 084	5 654	6 893
Non-MVV personnel at MHKW Mannheim	85	84	86	73	64
	2 292	3 558	5 170	5 727	6 957

Hans-Jürgen Farrenkopf (left), Executive Board member of MVV Energie AG, in conversation with Joachim Kistenmacher, Executive Board member of Stadtwerke Kiel AG

Our gas procurement is controlled and optimised by our energy portfolio management. In terms of its sales, gas is our second-largest business segment. The competition for large customers which are favourably located in terms of the grid has intensified since the liberalisation of the gas market.



Assets (Euro million)	1999/2000	2000/2001 ¹	2001/2002	2002/2003 ²	2003/2004 ³
Electricity	258	528	783	581	716
District heating	200	321	522	393	601
Gas	263	283	423	379	377
Water	119	255	266	218	309
Value-added services	56	157	213	185	162
Energy from waste plants (MHKW)	237	305	308	328	329
Renewable energy	—	—	—	86	109
Other/consolidation	119	175	251	178	274
MVV Energie Group	1252	2024	2766	2348	2877
Investments (Euro million)					
Investments in tangible assets	52	111	168	161	166
Investments in financial assets	39	218	378	20	141
MVV Energie Group	91	329	546	181	307
of which					
Electricity	10	73	132	17	48
District heating	16	62	107	21	74
Gas	12	24	96	19	32
Water	8	27	62	10	32
Value-added services	30	59	80	39	17
Energy from waste plants (MHKW)	4	40	19	19	45
Renewable energy	—	—	—	35	17
Other/consolidation	11	44	50	21	42



¹ including the income from the sale of our EnBW shares and the expenses on measures to enhance competitiveness

² including the income from the sale of our GVS shares and the expenses on measures to enhance competitiveness

³ including one-off expenses relating to portfolio adjustments and impairment tests

⁴ energy trading sales reported net, i.e. only showing the margin actually realised

⁵ variable trading Frankfurt/Main

⁶ pending approval by the Annual General Meeting on 4 March 2005

⁷ excluding minority interests

⁸ basis: closing price in Frankfurt/Main on 30 September

⁹ total volume for all segments

¹⁰ reported on a net basis and excluding group-internal supplies

¹¹ pursuant to the German Association for Financial Analysis and Asset Management/ Schmalenbach-Gesellschaft

¹² equity as a proportion of total assets

¹³ equity plus financial liabilities plus provisions for pensions and similar obligations plus accumulated goodwill amortisation (calculated on an annual average)

¹⁴ return on capital employed (EBITA as a percentage of capital employed)

¹⁵ weighted average cost of capital—calculated for the first time in 2001/02

¹⁶ value spread (ROCE less WACC)

Balance Sheet Figures (Euro million)

	1999/2000	2000/2001 ¹	2001/2002	2002/2003 ²	2003/2004 ³
Intangible assets	16	110	264	248	316
Tangible assets	872	1 253	1 610	1 472	1 902
Financial assets	147	162	228	140	109
Fixed assets	1 035	1 525	2 102	1 860	2 327
Current assets	217	499	664	488	550
Share capital	130	130	130	130	130
Capital reserve	178	178	178	178	178
Retained earnings	204	231	236	222	197
Total net earnings	46	34	46	168	104
Minority interests	8	100	109	108	240
Equity	566	673	699	806	849
Income subsidies	97	141	181	—	—
Provisions	89	179	156	155	235
Liabilities	419	909	1 590	1 249	1 599
Deferred taxes	81	122	140	138	194
Total assets	1 252	2 024	2 766	2 348	2 877

Key Balance Sheet Figures and Ratios

Cash flow pursuant to DFVA/SG ¹¹ (Euro million)	86	137	161	150	158
Equity ratio ¹² in %	45.2	33.3	25.3	34.3	29.5
Capital employed ¹³	809	1 037	1 538	1 838	2 055
ROCE ¹⁴ in %	12.1	13.3	10.1	14.0	2.7
WACC ¹⁵ in %	—	—	9.3	8.8	8.0
Value spread ¹⁶ in %	—	—	0.8	5.2	– 5.3



Directors and Officers of the Company

Executive Board

Dr. Rudolf Schulten
Chief Executive Officer
Commercial Director

Dr. Werner Dub
Technology, Networks
and Energy Services

Hans-Jürgen Farrenkopf
Personnel, Social and General Services,
IT and Real Estate Management

Karl-Heinz Trautmann
Marketing, Sales
and Environmental Energy

Division Heads

Dr. Christoph Helle
General Director
Energy Business and Group Strategy

Helfried Kroke
since 1 November 2004
General Director
Network

Arthur Bächle
until 30 June 2004
Energy and Water Production,
Technical Services

Gerhard Fischer
since 1 July 2004 (temp.)
until 31 December 2004
Plant Management

Hans-Georg Hägele
Finance and Accounting

Dr. Alfred Herkelmann
IT and Applied Computer Science

Michael Homann
since 1 September 2004
Materials Management and Control

Michael Horix
Environmental Energy

Gunter Kühn
Personnel, Social and
General Services

Michael Lowak
Energy Services

Dr. Reiner Lübke
since 1 January 2005
Plant Management

Christian Mehl
since 1 July 2004
Trading

Dr. Gert Riemenschneider
since 1 July 2004
Engineering

Ralph Rischmüller
since 1 July 2004
Real Estate Management

Bernhard Schumacher
Sales

Frank Zeeb
since 1 July 2004
Group Controlling



Supervisory Board

Gerhard Widder

Chairman
Lord High Mayor
of the City of Mannheim

Manfred Lösch¹

Deputy Chairman
Chairman of the Works Council
of the MVV Group

Arthur Bächle¹

until 26 May 2004
Head of Division, Energy
and Water Production,
Technical Services
MVV Energie AG

Peter Dinges¹

Works Council
of MVV Energie AG

Dr. Norbert Egger

1st Deputy Mayor
of the City of Mannheim

Werner Ehret¹

Works Council
of MVV Energie AG

Dr. Manfred Fuchs

Deputy Chairman
of the Supervisory Board
of Fuchs Petrolub AG, Mannheim

Rosi Haus¹

Managing Director
of ver.di Offenbach

Prof. Dr. Egon Jüttner

University Professor

Helfried Krobe¹

since 27 May 2004
Head of Division, Networks
MVV Energie AG

Egon Laux¹

Works Council
of Energieversorgung
Offenbach AG

Klaus Lindner¹

Managing Director
of ver.di Mannheim

Manfred Mathia¹

Chairman of the Works Council
of Energieversorgung
Offenbach AG

Dr. Frank Mentrup

Physician

Dr. Rolf Neuhaus

Management Consultant

Dr. Sven-Joachim Otto

Judge

Dr. Michael Pfingsten

Member of the Executive Board
of Ruhrgas AG, Essen

Konrad Schlichter

Businessman

Sabine Schlorke¹

Union Secretary
of ver.di Mannheim

Rolf Schmidt

Mayor of the City of Mannheim

Christa Spohni¹

Commercial Assistant

¹ elected employee representatives

A detailed list of the positions held by the members of the Supervisory Board in other supervisory boards or comparable bodies is available upon request.

Report of the Supervisory Board



During the 2003/04 financial year the Supervisory Board monitored the Executive Board and assisted it in an advisory capacity in accordance with the requirements of the law and of the company's articles of incorporation. We were directly involved in all decisions of fundamental significance to the development of the company and were informed of all events of significance. The Supervisory Board met on a total of nine occasions during the period under report. The Audit Committee held three meetings and the Personnel Committee met four times during the year under report.

The Executive Board informed us on a regular basis of the sales and earnings performance of the MVV Energie Group, the course of business in the individual segments and the development of the company's financial position. We were also provided with information about the company's risk situation and its risk management. At our meetings, the Executive Board provided us with an in-depth account of all major business transactions, which were then jointly discussed in detail. In addition to the presentations and documentation pertaining to the meeting, we were also provided with quarterly reports and further oral and written reports concerning events of significance and the decisions thereby required. We were informed by the Executive Board on time and in detail of all measures requiring the consent of the Supervisory Board. Our decisions were preceded by extensive discussions and careful consideration.

Main topics of discussion

The major topics of the meetings of the Supervisory Board held during the year under report were the sales and earnings performance and medium-term and strategic planning of the MVV Energie Group. We closely followed the economic development of the Group's major shareholdings. Of particular significance during the financial year under report was the restructuring process focused on the strategic realignment of the Group, the measures required to streamline the portfolio and the changes made to the organisational structure. These topics were discussed in considerable detail. In view of the rapid growth of the Group in previous years, we considered

the process of focusing on the core business resolved by the Executive Board and the streamlining of the Group's portfolio of shareholdings, which was consistently implemented during the year under report, to be necessary and appropriate. Important requirements for the Group to maintain its successful development have therefore been fulfilled. We expressly support the course taken by the Executive Board.

The acquisition of shares in Stadtwerke Kiel AG and the sale of shares in the Czech district heating company in Brno, which was completed in the first months of the current 2004/05 financial year, constituted the subject of further significant discussions and decisions. Moreover, we also addressed the implementation of the German Corporate Governance Code at several meetings and by means of written documentation, as well as reviewing the effectiveness of our activities as a Supervisory Board. Further information about the corporate governance policies of the MVV Energie Group can be found on Pages 12 and 13 of this annual report, together with our Statement of Compliance, which has also been published on the company's homepage at: www.mvv-investor.de.

Composition of Supervisory and Executive Boards

Arthur Bächle, who had been appointed to the Supervisory Board as a senior employees' representative, retired from office on 26 May 2004 as a result of his having been appointed to the Executive Board of our Stadtwerke Kiel AG shareholding. He was replaced by Helfried Krobe with effect from 27 May 2004. We should like to thank Mr. Bächle for his dependable and constructive contributions to the work of our body.

Dr. Rudolf Schulten came to MVV Energie AG on 1 October 2003, assuming his position on the Executive Board as Commercial Director and Director of the Energy from Waste Division and was appointed as Chief Executive Officer. Karl-Heinz Trautmann also joined the Executive Board on 1 October 2003. Mr. Trautmann is the head of the newly created board department of marketing and sales/energy services. Within the framework of the

reorganisation of MVV Energie AG, the responsibilities and designations of the various board departments were adjusted to the new organisational structure with effect from 1 July 2004 and redefined as follows: Dr. Rudolf Schulten—Commercial Director; Dr. Werner Dub—Technology, Networks and Energy Services; Hans-Jürgen Farrenkopf—Personnel, Social and General Services, IT and Real Estate Management; Karl-Heinz Trautmann—Marketing, Sales and Environmental Energy.

Approval of the annual financial statements

The auditing company *Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft*, Mannheim, audited the consolidated financial statements and group management report of the MVV Energie Group for the 2003/04 financial year pursuant to the resolution passed by the Annual General Meeting on 12 March 2004 and the subsequent mandate by the Supervisory Board. The consolidated financial statements, which were compiled in accordance with *International Financial Reporting Standards (IFRS)*, and the group management report were granted an unqualified audit opinion.

The annual financial statements of MVV Energie AG compiled in line with the *German Commercial Code (HGB)* and the accompanying management report for the 2003/04 financial year were also audited by *Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft*, Mannheim. These were also granted an unqualified audit opinion.

The consolidated financial statements and group management report of the MVV Energie Group, the annual financial statements and management report of MVV Energie AG, the proposal made by the Executive Board in respect of the appropriation of earnings and the audit reports of the auditors were all submitted in time for the respective meeting of the Supervisory Board. We inspected these documents closely and discussed them in great detail. The auditor attended this meeting, presented the principal audit findings and was available to provide further information. Our own review of the consolidated financial statements and the group management report of the MVV Energie Group and of the annual financial statements and management report of MVV Energie AG did not give rise to any objections. We concurred with the findings of the audit undertaken by *Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft*, Mannheim.

At its meeting on 9 December 2004, the Supervisory Board approved the consolidated financial statements and group management report of the MVV Energie Group and the annual financial statements and management report of MVV Energie AG. The annual financial statements are thus adopted. We further endorse the proposal made by the Executive Board in respect of the appropriation of earnings.

The report on the company's relationships with closely related companies (dependent company report) compiled by the Executive Board for the 2003/04 financial year demonstrates that in the legal transactions with affiliated companies outlined therein MVV Energie AG received commensurate consideration and was not disadvantaged insofar as could be ascertained by the Executive Board on the basis of the circumstances pertaining upon the execution of the respective transactions. The dependent company report was audited by *Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft*, Mannheim, and granted an unqualified audit opinion. The dependent company report and the audit report by *Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft*, Mannheim, were submitted to the Supervisory Board. Following our own thorough review, we concurred with the assessment made by the auditors and thus approved this report.

Moreover, the auditor also reviewed the risk management system in place at MVV Energie AG and was of the opinion that this system was suited to fulfil its legal obligations.

The Supervisory Board would like to express its thanks to the Executive Board, the management of the Group's shareholdings and to all employees and employee representatives for the work performed during the year under report and in particular for their dependable and responsible cooperation in the difficult restructuring of the Group.

Mannheim, December 2004
Supervisory Board



Gerhard Widder
Chairman

Steam Distribution Station

We supply steam to industrial, business and contracting customers in Germany and the Czech Republic. The secure distribution and supply of medium and low pressure steam is regulated at our distribution stations.



Consolidated Financial Statements

Consolidated Financial Statements of MVV Energie AG (MVV Energie Group)

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Balance Sheet as of 30.9.2004

Balance Sheet of the MVV Energie Group Euro 000s	30.9.2004	30.9.2003	Notes
Assets			
Fixed assets			
Intangible assets	315 858	247 840	1
Tangible assets	1 901 916	1 472 270	2
Financial assets	109 159	139 460	3
	2 326 933	1 859 570	
Current assets			
Inventories	41 976	50 291	4
Receivables and other assets	383 316	373 685	5
Cash and cash equivalents	125 167	64 076	6
	550 459	488 052	
	2 877 392	2 347 622	
Liabilities			
Equity			7
Share capital of MVV Energie AG	129 797	129 797	
Capital reserve of MVV Energie AG	178 270	178 270	
Retained earnings	197 571	222 098	
Total net earnings of the MVV Energie Group	104 034	167 604	
Capital of the MVV Energie Group	609 672	697 769	
Minority interests	239 788	107 997	
	849 460	805 766	
Provisions			8
Provisions for pensions and similar obligations	30 749	21 380	9
Tax provisions	4 147	11 086	
Other provisions	199 590	122 701	10
	234 486	155 167	
Liabilities			
Financial liabilities	1 379 469	995 920	11
Trade payables	116 584	134 517	12
Advance payments for orders	4 480	11 293	
Other liabilities	98 794	107 289	13
	1 599 327	1 249 019	
Deferred taxes	194 119	137 670	14
	2 877 392	2 347 622	

Income Statement

from 1.10.2003 to 30.9.2004

Income Statement of the MVV Energie Group Euro 000s	2003/2004	2002/2003	Notes
Sales	1 651 487	1 438 224	18
Capitalised own-account services	47 460	36 911	19
Other operating income	59 698	186 585	20
Cost of materials	1 040 789	873 073	21
Personnel expenses	250 067	215 469	22
Other operating expenses	240 490	220 385	23
Income from shareholdings in associated companies	5 374	5 155	24
Other income from shareholdings	– 23 925	1 315	25
EBITDA	208 748	359 263	
Depreciation	153 852	102 636	26
EBITA	54 896	256 627	
Amortisation of goodwill	13 670	12 989	
EBIT	41 226	243 638	
Net interest expenses	– 63 906	– 59 638	27
EBT	– 22 680	184 000	
Taxes on income	14 814	24 925	28
Annual net deficit (previous year: annual net surplus)	– 37 494	159 075	
Minority interests	6 030	6 636	
Annual net deficit after minority interests (previous year: annual net surplus after minority interests)	– 43 524	152 439	29

Statement of Changes in Equity

including minority interests

Statement of Changes in Equity including minority interests	Share capital of MVV Energie AG	Capital reserve of MVV Energie AG	Mandatory reserve and other retained earnings/ consolidation	Differential amount from currency conversion	Market valuation of financial instruments	Annual net earnings of the MVV Energie Group	Capital of the MVV Energie Group	Minority interests	Total
Euro 000s									
Balance at 1.10.2002	129 797	178 270	232 011	3 093	786	46 086	590 043	109 398	699 441
Distribution of dividend	—	—	—	—	—	– 38 027	– 38 027	– 8 248	– 46 275
Annual net surplus	—	—	—	—	—	152 439	152 439	6 636	159 075
Change in retained earnings	—	—	8 380	—	—	– 8 380	—	—	—
Currency adjustments	—	—	—	– 4 487	—	—	– 4 487	– 1 444	– 5 931
Change in reporting entity	—	—	– 17 905	—	—	15 486	– 2 419	2 041	– 378
Adjustments not affecting earnings (IAS 39)	—	—	—	—	220	—	220	– 386	– 166
Balance at 30.9.2003	129 797	178 270	222 486	– 1 394	1 006	167 604	697 769	107 997	805 766
Distribution of dividend	—	—	—	—	—	– 38 027	– 38 027	– 7 036	– 45 063
Annual net deficit	—	—	—	—	—	– 43 524	– 43 524	6 030	– 37 494
Change in retained earnings	—	—	– 17 981	—	—	17 981	—	—	—
Currency adjustments	—	—	—	– 1 996	—	—	– 1 996	2 177	181
Change in reporting entity	—	—	– 2 674	—	—	—	– 2 674	132 587	129 913
Adjustments not affecting earnings (IAS 39)	—	—	—	—	– 1 876	—	– 1 876	– 1 967	– 3 843
Balance at 30.9.2004	129 797	178 270	201 831	– 3 390	– 870	104 034	609 672	239 788	849 460

Segmental Reporting

Income Statement by Segment

	External sales		Intercompany sales		Depreciation		EBIT	
Euro 000s	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003
Electricity	828 047	679 889	15 894	11 384	23 124	20 709	32 274	26 803
District heating	251 627	246 209	13 579	12 780	28 869	27 341	32 297	38 133
Gas	263 444	240 007	17 972	20 162	13 464	12 288	16 928	162 952
Water	85 531	72 799	397	622	10 132	8 745	11 601	10 593
Value-added services	117 361	103 028	13 528	38 617	35 053	10 031	– 62 816	– 8 315
Energy from waste plants	89 960	93 168	22 319	27 157	21 199	20 666	21 981	19 556
Renewable energy	6 940	1 761	7 922	—	10 326	358	– 10 134	– 6 084
Other/consolidation	8 577	1 363	– 91 611	– 110 722	25 355	15 487	– 905	—
MVV Energie Group	1 651 487	1 438 224	—	—	167 522	115 625	41 226	243 638

Balance Sheet by Segment

	Assets		Investments	
Euro 000s	30.9.2004	30.9.2003	30.9.2004	30.9.2003
Electricity	716 009	580 985	48 191	17 397
District heating	601 124	392 614	73 919	20 615
Gas	376 838	378 484	32 098	18 833
Water	308 999	217 650	31 764	10 104
Value-added services	162 073	184 994	17 405	39 361
Energy from waste plants	329 441	328 442	44 851	18 539
Renewable energy	108 623	86 118	17 198	35 185
Other/consolidation	274 285	178 335	41 576	20 824
MVV Energie Group	2 877 392	2 347 622	307 002	180 858

Further information about Segmental Reporting has been provided under Note 30.

Cash Flow Statement

Cash Flow Statement of the MVV Energie Group

Euro 000s

	2003/2004	2002/2003
Annual net deficit (previous year: annual net surplus)	– 37 494	159 075
Depreciation of fixed assets	188 022	122 571
Change in long-term provisions	8 043	8 218
Other changes in income and expenses not affecting payments	– 773	– 321
Income from the sale of investments	—	– 139 687
Subtotal for cash flow in accordance with DVFA/SG	157 798	149 856
Change in short-term provisions	– 902	– 12 032
Losses incurred on disposal of tangible assets	3 731	963
Profit on disposal of financial assets	– 4 874	—
Change in other assets	74 174	– 5 470
Change in other liabilities	– 81 985	– 33 615
Inflow of funds from operating activities	147 942	99 702
Proceeds from disposal of tangible assets	7 023	14 967
Proceeds from disposal of financial assets	5 974	197 327
Investments in tangible assets/intangible assets	– 165 636	– 160 484
Investments in acquisitions, shareholdings and loans	– 141 366	– 20 374
Outflow of funds (previous year: inflow) from investment activities	– 294 005	31 436
Proceeds from subsidy payments	12 107	13 009
Proceeds from the taking up of loans	453 305	168 564
Payments for the redemption of loans	– 82 432	– 182 399
Change in financial liabilities from cash pooling	– 133 592	– 114 542
Dividend payment	– 45 063	– 46 275
Inflow of funds (previous year: outflow) from financing activities	204 325	– 161 643
Changes in cash and cash equivalents affecting payments	58 262	– 30 505
Change in cash and cash equivalents due to changes in reporting entity	2 101	4 703
Change in cash and cash equivalents due to currency conversion	728	– 3 052
Cash and cash equivalents as of 1.10.2003 (and/or 2002)	64 076	92 930
Cash and cash equivalents as of 30.9.2004 (and/or 2003)	125 167	64 076

Further information about the Cash Flow Statement has been provided under Note 31.

Notes to the Annual Financial Statements

of the MVV Energie Group for the 2003/2004 Financial Year

Principles and methods

The consolidated financial statements of the MVV Energie Group based on *International Financial Reporting Standards (IFRS)* have been compiled in line with the standards of the *International Accounting Standards Board (IASB)* applicable as of 30 September 2004.

The compilation of consolidated financial statements based on IFRS exempts MVV Energie AG from the obligation to compile consolidated financial statements based on the accounting principles of German commercial law, given that the requirements of Section 292a (2) of the *German Commercial Code (HGB)* have been fulfilled. The assessment of these criteria has been based on the interpretation of the German Standardisation Committee in German Accounting Standard No. 1 (DRS 1).

The annual financial statements of those companies proportionately or fully consolidated in the consolidated financial statements of the MVV Energie Group have been based on uniform accounting and valuation principles.

In addition to the balance sheet, income statement and the statement of changes in equity pursuant to IAS 1, the annual financial statements encompass a cash flow statement pursuant to IAS 7 and segmental reporting pursuant to IAS 14, as well as the notes to the annual financial statements.

To improve the presentation of the net asset and financial position of the company, the part-payments made by customers in the context of their annual consumption invoices have been deducted from trade receivables for the first time. Corresponding adjustments have been made to the figures for the previous year. The sums thereby deducted amounted to Euro 236 781 thousand as of 30 September 2004 and to Euro 220 671 thousand as of 30 September 2003.

Since the beginning of the financial year, the sales relating to the proprietary electricity trading business have been reported on a net basis in order to enhance their transparency. This means that only the gross margin resulting from the total proprietary energy trading transactions has been reported—as sales, if positive, and as cost of materials, if negative. For reasons of comparison, the figures for the previous year have been adjusted accordingly. The deductions to sales and cost of materials resulting from the aforementioned net reporting procedure amounted to Euro 142 562 thousand as of 30 September 2004 and to Euro 247 710 thousand as of 30 September 2003. This amendment of reporting procedures has no impact on earnings.

A further amendment of reporting procedures in the balance sheet and the income statement relates to the treatment of income subsidies for construction and house connection expenses. The income subsidies previously reported as liabilities have been deducted from the tangible fixed assets in the consolidated financial statements as of 30 September 2004 (c.f. Note 2). This results in a reduction of Euro 184 417 thousand in the net items reported under technical equipment and machinery. The equivalent net items for the previous year have been reduced by Euro 182 832 thousand. In the income statement, we have made a corresponding adjustment to the release of income subsidies, which was previously reported under sales. Accordingly, the income subsidies thereby released reduce the volume of depreciation of the underlying assets. The release of income subsidies amounted to Euro 9 358 thousand in the past year and to Euro 9 289 thousand in the previous year. The reduction of sales and equal reduction in the volume of depreciation means that this amendment of reporting procedures has no impact on earnings.

Reporting entity

In addition to MVV Energie AG, 43 German and foreign subsidiaries in which MVV Energie AG directly or indirectly holds a majority of the voting rights have been fully consolidated in the annual financial statements of the MVV Energie Group for the 2003/2004 financial year. The relevant control concept set out in IAS 27 requires the parent company to exercise a controlling influence in the case of fully consolidated companies. Six companies have been proportionately consolidated. Ten associated companies have been valued using the equity method.

A total of nine companies was fully consolidated for the first time in the past financial year. Within the framework of the reorganisation of a subgroup, we have merged four German and two foreign companies into two German companies and one foreign company. One company has been deconsolidated on account of its disposal. There has been no change in the number of companies consolidated proportionately. Three companies have been included for the first time using the equity method.

The principal corporate acquisition involved the purchase of 51 % of the shares in Stadtwerke Kiel AG on 6 May 2004. The cost of acquisition amounted to Euro 132 982 thousand and comprised the purchase price and the costs directly allocable to the take-over. This figure also includes the legal and advisory expenses incurred in the context of the acquisition. Following adjustment to their respective current values, the values of the assets thereby acquired amounted to Euro 535 984 thousand in the case of fixed assets and to Euro 63 450 thousand in the case of current assets. Furthermore, liabilities of Euro 220 933 thousand, provisions of Euro 46 674 thousand, contingent liabilities of Euro 143 thousand and deferred tax liabilities of Euro 62 392 thousand were also taken over. The valuation of the assets and liabilities of Stadtwerke Kiel AG thereby taken over resulted in a debit balance of Euro 4 357 thousand, which was recorded as goodwill amortisation in the income statement with a corresponding impact on earnings.

Those subsidiaries with different reporting dates from the parent company have compiled interim financial statements as of the reporting date for the consolidated financial statements.

Moreover, those subsidiaries and other shareholdings which both on an individual basis and as an entirety are of minor significance to the consolidated financial statements in terms of their sales, total assets and earnings contributions, have not been included in the reporting entity, but have instead been reported as financial assets in the consolidated balance sheet.

The companies included in the consolidated financial statements of the MVV Energie Group as of 30 September 2004 have been depicted in the following overview. The equity and annual earnings figures for the fully and proportionately consolidated companies have been taken from their respective financial statements compiled in line with IFRS as of 30 September 2004. In the case of the companies included using the equity method, the respective equity and annual earnings figures have been taken from the most recent available annual financial statements. The ownership structure of the non-consolidated subsidiaries and other shareholdings which have been reported as financial assets can be seen in the complete list of holdings deposited in the Mannheim Commercial Register (HRB 1780).

List of Holdings of the MVV Energie Group as of 30.9.2004**Affiliated companies****(fully consolidated shareholdings)**

	Share of capital pursuant to Sec 16 (4) AktG %	Equity Euro 000s	Annual net surplus/deficit Euro 000s
Germany			
MVV RHE AG, Mannheim ¹	100.00	106 045	30 028
ABeG Abwasserbetriebsgesellschaft mbH, Offenbach ⁶	51.00	181	44
BfE Institut für Energie und Umwelt GmbH, Mühlhausen	100.00	1 196	992
Energieversorgung Offenbach AG, Offenbach ⁴	48.98	176 131	10 534
eternegy GmbH, Mannheim	100.00	4 836	2 098
Gasversorgung Offenbach GmbH, Offenbach ⁶	74.90	15 455	1 999
GeTeBe Gesellschaft für Technologieberatung mbH, Berlin	100.00	5 254	– 126
KSG Kommunikations-Service-Gesellschaft mbH, Offenbach ⁶	100.00	133	10
Köthen Energie GmbH, Köthen	100.00	6 804	594
MAnet GmbH—Gesellschaft für Telekommunikation und Information, Mannheim	100.00	3 114	7 521
MVV BioPower GmbH, Königs Wusterhausen ⁶	100.00	14 831	– 1 790
MVV BMKW Mannheim GmbH, Mannheim ⁶	89.80	16 410	191
MVV Consulting GmbH, Mannheim ⁶	100.00	– 393	– 2 626
MVV Energie Industrial Solutions West GmbH, Solingen ⁶	100.00	1 283	445
MVV Energie Dienstleistungen GmbH, Mannheim	100.00	3 631	– 51
MVV Energiehandel GmbH, Mannheim	100.00	2 237	– 61
MVV Erneuerbare Energien GmbH, Mannheim	100.00	34 100	77
MVV Industriekraftwerk Ludwigshafen GmbH, Mannheim	100.00	– 1 548	– 2 511
MVV Innovationsportfolio AG & Co. KGaA, Mannheim	100.00	35 004	– 7 469
MVV TREA Leuna GmbH, Leuna ⁵	100.00	243	– 332
MVV O&M GmbH, Mannheim ^{5,6}	100.00	– 655	– 667
Stadtwerke Kiel AG, Kiel ^{5,6}	51.00	263 653	– 5 662
SW Kiel Beteiligungsgesellschaft mbH, Mannheim ⁵	100.00	131 001	—
SWKiel Netz-GmbH, Kiel ^{1,5,6}	100.00	25	—
SWKiel Service GmbH, Kiel ^{1,5,6}	100.00	25	—
ZEDER Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Pullach ^{5,7}	0.00	– 474	– 500
24sieben GmbH, Kiel ^{1,5,6}	100.00	1 000	—
3T Telekommunikationsgesellschaft mbH, Offenbach ⁶	73.00	3 399	1 353

¹ profit/loss transfer agreement, annual net income prior to transfer² annual financial statements as of 31.12.2003³ voting rights limited to 40 %⁴ majority of voting rights⁵ additions in current financial year⁶ indirect shareholding⁷ special purpose entity (SPE) pursuant to SIC 12

**Continuation: Affiliated companies
(fully consolidated shareholdings)**

	Share of capital pursuant to Sec 16 (4) AktG %	Equity Euro 000s	Annual net surplus/deficit Euro 000s
International			
Cogebär—Cogeração de Barcelos, Lda., Barcelos, Portugal ⁶	70.00	– 3 113	– 598
Cogesac—Cogeração do Ave, Lda., Oliveira S. Mateus, Portugal ⁶	95.00	– 1 312	– 923
CTZ s.r.o., Uherské Hradiště, Czech Republic ⁶	50.96	2 264	172
EC Skarzynsko-Kamienna Sp. z o.o., Skarzynsko-Kamienna, Poland ^{4,6}	46.06	5 264	13
Jablonecká teplárenská a realitní a.s., Jablonec, Czech Republic ⁶	65.78	13 423	808
Mestské inženýrské site Studénka a.s., Studénka, Czech Republic ⁶	99.92	3 211	127
MVV Energie CZ s. r. o., Prague, Czech Republic	100.00	21 032	4 505
MVV Energie Portugal—Serviços de Racionalização Energética, Lda., Lisbon, Portugal	99.00	– 2 360	– 992
MVV enservis s.r.o., Česká Lipá, Czech Republic ⁶	100.00	1 248	187
MVV EPS Polska S.A., Warsaw, Poland ^{5,6}	100.00	1 818	– 29
MVV Polska Sp. z o.o., Warsaw, Poland	100.00	41 635	1 319
Opatern a.s., Opava, Czech Republic ⁶	100.00	698	– 49
Termo Děčín a.s., Děčín, Czech Republic ⁶	66.66	16 079	1 264
Teplarny Brno a.s., Brno, Czech Republic ⁶	85.20	51 664	3 435
Zásobování teplem Vsetín a.s., Vsetín, Czech Republic ⁶	82.25	8 434	611

Joint ventures (proportionate consolidation)

Germany			
Stadtwerke Solingen GmbH, Solingen	49.90	105 081	11 509
Stadtwerke Ingolstadt Beteiligungen GmbH, Ingolstadt	48.40	40 831	14 808
Stadtwerke Ingolstadt Energie GmbH, Ingolstadt ^{1,6}	100.00	2 027	6 013
Stadtwerke Ingolstadt Netze GmbH, Ingolstadt ^{1,6}	100.00	82 214	8 632
International			
KPEC Komunalne Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o., Bydgoszcz, Poland ^{3,6}	54.96	49 236	3 523
SEC Szczecin Sp. z o.o., Szczecin, Poland ⁶	31.42	34 833	1 467

Associated companies (equity valuation)

Germany			
ADG Abwasser Dietzenbach GmbH, Dietzenbach ^{2,6}	49.00	63	– 4
Energiesysteme Nord GmbH, Kiel ^{2,5,6}	25.00	1 744	1 016
Fernwärme Rhein-Neckar GmbH, Mannheim ^{1,2,6}	50.00	1 790	1 627
Gemeinschaftskraftwerk Kiel GmbH, Kiel ^{2,5,6}	50.00	19 408	23
Grosskraftwerk Mannheim AG, Mannheim ^{2,6}	28.00	114 142	6 647
KielNet GmbH Gesellschaft für Kommunikation, Kiel ^{2,5,6}	50.00	3 953	1 245
Maintal Werke GmbH, Maintal ^{2,6}	49.00	6 657	1 010
Stadtwerke Buchen GmbH & Co. KG, Buchen ²	25.10	11 728	1 567
Zweckverband Wasserversorgung Kurpfalz (ZWK), Heidelberg ^{2,3,6}	51.00	7 071	0
International			
Českolipská teplárenská a.s., Česká Lipá, Czech Republic ^{2,6}	35.00	3 194	310

The changes to the reporting entity resulting from the initial and final consolidation of fully consolidated companies have the following impact pursuant to IAS 27 on the balance sheet and the income statement:

Balance Sheet Euro million	30.9.2004	30.9.2003
Assets		
Fixed assets	575.2	77.9
Current assets	89.9	30.6
	665.1	108.5
Liabilities		
Equity	122.4	– 5.5
Provisions	77.0	2.4
Liabilities	403.1	115.1
Deferred taxes	62.6	– 3.5
	665.1	108.5

Income Statement	2003 / 2004	2002 / 2003
Euro million		
Sales	96.1	2.0
Capitalised own-account services	3.5	3.8
Other operating income	6.4	2.9
Cost of materials	49.6	5.5
Personnel expenses	32.7	2.0
Other operating expenses	18.3	4.8
Income from shareholdings	1.5	0.0
EBITDA	6.9	– 3.6
Depreciation	14.6	0.1
EBITA	– 7.7	– 3.7
Amortisation of goodwill	– 4.4	0.3
EBIT	– 3.3	– 4.0
Net interest expenses	– 5.1	– 3.6
EBT	– 8.4	– 7.6
Taxes on income	– 5.6	– 2.7
Annual net deficit	– 2.8	– 4.9
Minority interests	– 2.8	– 0.1
Annual net deficit after minority interests	0.0	– 4.8

The effects of the consolidation of joint ventures pursuant to IAS 31 are as follows:

Balance Sheet Euro million	30.9.2004	30.9.2003
Assets		
Fixed assets	304.8	308.8
Current assets	39.0	41.2
	343.8	350.0
Liabilities		
Equity	1.1	6.1
Provisions	19.4	20.4
Liabilities	309.9	310.7
Deferred taxes	13.4	12.8
	343.8	350.0

Income Statement	2003 / 2004	2002 / 2003
Euro million		
Sales	187.0	187.5
Capitalised own-account services	2.8	1.8
Other operating income	6.2	4.9
Cost of materials	111.7	111.9
Personnel expenses	20.2	22.9
Other operating expenses	28.8	27.9
Income from shareholdings	0.0	0.1
EBITDA	35.3	31.6
Depreciation	9.8	10.6
EBITA	25.5	21.0
Amortisation of goodwill	8.0	7.5
EBIT	17.5	13.5
Net interest expenses	– 1.4	– 1.4
EBT	16.1	12.1
Taxes on income	9.1	7.6
Annual net surplus	7.0	4.5

1 Euro	Rate on reporting date		Annual average rate	
	30.9.2004	30.9.2003	2003/2004	2002/2003
Polish zloty (PLN)	4.380	4.623	4.626	4.214
Czech crowns (CZK)	31.660	31.844	32.139	31.486

(Source: European Central Bank)

Consolidation methods

The annual financial statements included in the consolidated financial statements have been converted to IFRS on the basis of uniform standards as of 30 September 2004 and have been certified by external auditors.

The capital consolidation has been undertaken pursuant to IAS 22 on the basis of the proportional re-evaluation method for shareholdings based on the values assigned at the time of acquisition. Any resultant credit difference has been reported under fixed assets as goodwill and amortised in line with IAS 22. Conversely, any debit difference has been reported in the income statement in line with the change in future earnings implications depicted in the purchasing price.

On 31 March 2004, the IASB passed an accounting standard (IFRS 3—Business Combinations), which forms the first part of a comprehensive review of the accounting of business combinations. With effect from 1 October 2004, IFRS 3 has replaced IAS 22 (Business Combinations) which was previously valid for the MVV Energie Group. The stipulations included in IFRS 3 are already to be applied to the acquisition of shares in Stadtwerke Kiel AG during the year under report, in view of the fact that the acquisition took place following the passing of the standard.

Intercompany receivables and liabilities, as well as intercompany sales, income and expenses have been offset against each other pursuant to IAS 27.

Major joint ventures have been proportionately included in the consolidated financial statements in line with IAS 31. Such joint ventures have been consolidated on the basis of the principles outlined above.

Key shareholdings in associated companies have been valued at equity pursuant to IAS 28.

Currency conversion

The annual financial statements of foreign group companies have been converted into Euros in accordance with the concept of functional currency outlined in IAS 21. This relates to the respective national currency at all companies thereby affected, in view of the fact that they conduct their business in their respective national currencies as independent foreign entities within the Group in financial, economic and organisational terms.

Assets and liabilities have been converted from their respective national currencies into Euros using the mean exchange rate valid on the reporting date. Income and expenses items have been converted using the annual average exchange rate.

Currency differences resulting from the conversion of the equity of the foreign companies in question or from the application of differing conversion rates for the balance sheet and the income statement have been offset against equity without any impact on earnings.

The conversion of individual financial statements compiled in foreign currencies has been based on the exchange rates shown in the above table.

Accounting and valuation methods

In general, assets have been valued at their cost of acquisition or manufacture less scheduled depreciation. Debts have been stated at their respective repayment values. Long-term debts have been stated at their respective current values.

This does not apply to certain financial instruments as defined in IAS 39, which have been stated at their respective current values.

Details on the individual valuation methods applied have been provided in the notes to the individual items.

The following accounting and valuation methods deviate from those required by *German Commercial Law (HGB)*:

- ▶ Certain financial instruments as defined in IAS 39 have been stated at their respective current values
- ▶ Provisions for pensions have been valued using the projected unit credit method
- ▶ Provisions for expenses (especially those for deferred maintenance) have not been stated
- ▶ Deferred taxes have been calculated on the basis of the liability method. In the case of the market valuation of financial instruments without any impact on earnings, corresponding adjustments were made to deferred taxes, again without any impact on earnings. Deferred tax assets have only been stated to the extent that the utilisation of tax loss carryovers is probable. Deferred tax assets have been offset against deferred tax liabilities and stated on a net basis in view of the fact that the overwhelming share of the respective claims and obligations relate to the same tax authority

- ▶ Pursuant to IFRS 3, positive goodwill items arising from corporate acquisitions subsequent to 31 March 2004 are no longer subject to scheduled amortisation. Instead, they are subject to annual impairment tests and to extraordinary amortisation if required as a result of such tests. Negative goodwill items relating to corporate acquisitions subsequent to 31 March 2004 are reported in the income statement immediately after such acquisition.

Notes on the Balance Sheet

1 Intangible assets

Intangible assets have been stated at cost of acquisition. They are subject to scheduled straight-line amortisation on the basis of their respective useful lives.

The research and development expenses of the MVV Energie Group constitute period expenses pursuant to IAS 38. The requirements for them to be capitalised were therefore not fulfilled. These expenses amounted to Euro 3 674 thousand in the 2003/04 financial year (previous year: Euro 3 595 thousand). Research and development expenses focused on activities aimed at achieving an ongoing improvement in working processes, product development and advanced technologies.

The concessions, industrial property rights and similar rights and values consist of software and of contractually agreed grants to customers and suppliers. The term of such rights is based on the respective economic aspects and contractual stipulations and ranges between 3 and 20 years.

Capitalised goodwill is amortised over a period of between 10 and 20 years.

The intangible assets were subjected to impairment tests based on current economic conditions and forecasts during the 2003/04 financial year. The utility values thereby identified necessitated extraordinary amortisation amounting to Euro 4 476 thousand in the IT and E-Business division and to Euro 4 167 thousand in the case of goodwill.

There were no indications of any requirement for write-backs pursuant to IAS 38.

There are no constraints on the ownership rights to the intangible assets, neither have any intangible assets been provided as security for liabilities.

Intangible assets

Euro 000s

	Concessions, industrial property rights and similar rights and values	Goodwill	Advance payments	Total
Gross value at 1.10.2003	75 113	253 001	417	328 531
Additions: shareholdings	120 926	– 2 946	142	118 122
Disposals: shareholdings	– 19	—	—	– 19
Currency adjustments	18	– 47	—	– 29
Investments/additions	4 866	—	2 632	7 498
Disposals	– 1 299	– 108	– 4 134	– 5 541
Reclassifications	2 653	2	2 876	5 531
Gross value at 30.9.2004	202 258	249 902	1 933	454 093
Amortisation at 1.10.2003	50 021	30 608	2	80 631
Additions: shareholdings	30 881	396	—	31 277
Disposals: shareholdings	– 9	—	—	– 9
Currency adjustments	23	– 75	—	– 52
Amortisation	13 552	13 670	3 920	31 142
Disposals	– 894	—	– 3 920	– 4 814
Reclassifications	—	—	—	—
Amortisation at 30.9.2004	93 574	44 599	2	138 175
Subsidies at 1.10.2003	60	—	—	60
Subsidies at 30.9.2004	60	—	—	60
Net values at 30.9.2004	108 624	205 303	1 931	315 858
Net values at 30.9.2003	25 032	222 393	415	247 840

2 Tangible assets

Tangible assets have been stated at cost of acquisition or manufacture less depreciation. Assets constructed internally have been stated at cost of manufacture on the basis of allocable individual direct costs and a commensurate share of overhead expenses.

The costs of acquisition or manufacture of assets have been reduced pursuant to IAS 20 by the amount of public subsidies (investment grants) received and by the amount of customer payments for construction and house connection costs in the case of new connections or extensions of existing connections.

Tangible assets have been subjected to straight-line depreciation on the basis of their respective useful lives. For buildings, the period of depreciation amounts to 50 years. Technical equipment and machinery are depreciated over a period of between 8 and 50 years, with pipe networks predominantly having a useful life of 30 to 40 years. Plant and office equipment is depreciated over a period of between 4 and 10 years.

Extraordinary depreciation amounting to Euro 24 601 thousand was undertaken during the year under report. This depreciation primarily related to the telecommunications services division.

There were no indications of any requirement for write-backs pursuant to IAS 16.

Tangible assets Euro 000s	Land, leasehold rights and buildings, including buildings on third-party land	Technical equipment and machinery	Other facilities, plant and office equipment	Advance payments and construction in progress	Total
Gross value at 1.10.2003	495 636	2 581 964	180 955	147 786	3 406 341
Additions: shareholdings	138 670	699 747	64 363	7 811	910 591
Disposals: shareholdings	—	– 271	– 304	—	– 575
Currency adjustments	4 269	1 524	88	90	5 971
Investments/additions	8 026	69 639	12 470	68 003	158 138
Disposals	– 1 417	– 35 047	– 20 432	– 146	– 57 042
Reclassifications	20 727	112 994	2 330	– 141 670	– 5 619
Gross value at 30.9.2004	665 911	3 430 550	239 470	81 874	4 417 805
Depreciation at 1.10.2003	180 383	1 166 748	109 408	211	1 456 750
Additions: shareholdings	48 018	401 978	34 466	—	484 462
Disposals: shareholdings	—	– 237	– 225	—	– 462
Currency adjustments	1 006	946	86	1	2 039
Depreciation	12 653	87 498	30 556	68	130 775
Disposals	– 1 006	– 28 067	– 17 439	—	– 46 512
Reclassifications	6	– 7	103	—	102
Depreciation at 30.9.2004	241 060	1 628 859	156 955	280	2 027 154
Subsidies at 1.10.2003	8 343	467 576	1 402	—	477 321
Additions	—	11 462	3	642	12 107
Disposals	– 77	– 417	– 9	—	– 503
Reclassifications	– 63	– 132	5	—	– 190
Subsidies at 30.9.2004	8 203	478 489	1 401	642	488 735
Net value at 30.9.2004	416 648	1 323 202	81 114	80 952	1 901 916
Net value at 30.9.2003	306 910	947 640	70 145	147 575	1 472 270

In line with IAS 23 (Benchmark Method), interest on debt incurred on the manufacture of tangible assets has not been capitalised.

Waste-fired boiler No. 4, with a downstream flue-gas treatment system, which was completed in the 1996/97 financial year and subsequently sold and leased back as a financial leasing transaction, has been capitalised pursuant to IAS 17. With regard to this financial leasing, as lessee the MVV Energie Group has the option to repurchase the facility after 8.5 years. On the basis of our current planning, it is highly probable that we will exercise this purchase option. The capitalised amount resulting from the current value of the leasing instalments less accrued depreciation has been reported under technical equipment and machinery and amounted to Euro 68 978 thousand at the reporting date (previous year: Euro 74 388 thousand). The corresponding payment obligations relating to future leasing instalments have been capitalised as liabilities (please also see Note 11 in this respect).

The construction in progress item includes a non-recyclable waste incineration and energy extraction facility at the Leuna location, whose cost of manufacture has been stated at Euro 31 096 thousand. This has been included in the consolidated financial statements of MVV Energie AG via the consolidation in full of the special purpose entity Zeder Verwaltungsgesellschaft mbH & Co. Vermietungs KG.

Apart from this, there are no other major rented or leased assets, in which economic ownership is attributable to the MVV Energie Group as a result of the terms of the respective contracts.

There are no constraints on the ownership rights to the tangible assets, neither have any tangible assets been provided as security for liabilities.

3 Financial assets

The shares in non-consolidated subsidiaries and other shareholdings reported under financial assets have been valued at cost of acquisition or at their lower attributable value. The major associated companies have been valued using the equity method, which involves the book values of the shareholdings being amended by the prorated equity change on an annual basis.

Pursuant to IAS 39, the securities reported as fixed assets have been stated at their attributable current value to the extent that such can be reliably determined. Those loans and fixed-asset securities whose attributable current value cannot be determined reliably have been valued at their updated cost of acquisition.

The depreciation of financial assets has been reported in the other income from shareholdings and net interest expenses items.

The other loans with a fixed interest rate bore an average interest rate of 4.1% (previous year: 4.5%). Loans with a floating interest rate bore interest at 2.3% (in the previous year there were no loans with floating interest rates). The average period for which the interest rate remains fixed in the case of fixed-rate loans amounts to 9 years (previous year: 11 years).

Financial assets

Euro 000s

	Shares in affiliated companies	Shareholdings in associated companies		Shareholdings in other companies	Loans to affiliated companies	Loans to associated companies	Loans to companies linked by virtue of a participatory share holding	Other Loans	Securities of fixed assets	Total
		Equity valuation	Others							
Gross value at 1.10.2003	25 047	40 217	16 902	47 331	5 548	—	4 328	5 797	2 483	147 653
Additions: shareholdings	177	22 189	312	180	843	—	306	3 766	—	27 773
Currency adjustments	—	—	—	—	146	—	—	—	—	146
Investments/additions	11 737	773	18	2 351	164	—	—	595	819	16 457
Disposals	– 14 045	– 5	– 2 186	– 34 225	– 3 531	—	—	– 1 479	—	– 55 471
Reclassifications	– 3	—	—	48	– 197	197	—	—	– 45	—
Balance at 30.9.2004	22 913	63 174	15 046	15 685	2 973	197	4 634	8 679	3 257	136 558
Depreciation at 1.10.2003	422	—	1 195	23	1 700	—	4 328	495	30	8 193
Additions: shareholdings	—	—	—	—	843	—	—	—	—	843
Depreciation	18 465	907	3 541	2 515	353	—	—	—	324	26 105
Disposals	– 7 719	—	—	– 23	—	—	—	—	—	– 7 742
Depreciation at 30.9.2004	11 168	907	4 736	2 515	2 896	—	4 328	495	354	27 399
Net value at 30.9.2004	11 745	62 267	10 310	13 170	77	197	306	8 184	2 903	109 159
Net value at 30.9.2003	24 625	40 217	15 707	47 308	3 848	—	—	5 302	2 453	139 460

4 Inventories

Inventories include raw materials and supplies, unfinished and finished products, as well as advance payments made for these items. They have been stated at cost of acquisition or manufacture. The weighted average cost method is applied pursuant to IAS 2 to assess the cost of acquisition or manufacture of raw materials and supplies.

Depreciation amounting to Euro 5 605 thousand was undertaken on project developements during the year under report (please also see Note 26 in this respect). All inventories are owned by the MVV Energie Group. There are no assignments or lendings.

The MVV Energie Group has only a negligible volume of long-term contract work requiring application of IAS 11. The resultant inventories and revenues have been stated at the level of costs actually incurred for the respective contracts.

Inventories Euro 000s	30.9.2004	30.9.2003
Raw materials and supplies	18 532	16 155
Unfinished and finished products	21 709	28 385
Advance payments	1 735	5 751
	41 976	50 291

Receivables and other assets

Euro 000s

	30.9.2004 Total	of which with a remaining term of > 1 year	30.9.2003 Total	of which with a remaining term of > 1 year
Receivables				
trade receivables	251 572	102	275 099	90
from affiliated companies	10 613	96	16 972	706
from associated companies	5 592	—	9 925	—
from companies linked by virtue of a participatory shareholding	4 328	—	1 135	—
Other assets	111 211	6 413	70 554	4 646
	383 316	6 611	373 685	5 442

5 Receivables and other assets

Receivables from customers have been stated at nominal value. Adequate write-downs to cover existing default risks have been accounted for as of the reporting date.

Trade receivables include accruals/deferrals to cover energy and water consumption not yet read or invoiced as of the reporting date. Part-payments made within the framework of the annual consumption invoicing have been deducted from receivables.

Other assets include prepaid expenses amounting to Euro 10 636 thousand (previous year: Euro 8 586 thousand). The rise in other assets is primarily attributable to the reclassification of the shares held in Kraftwerke Mainz-Wiesbaden AG, which are to be disposed of as of 1 January 2005.

6 Cash and cash equivalents

Cash and cash equivalents primarily consist of credit balances at banks and correspond to the financial funds developed pursuant to IAS 7 in the cash flow statement. Joint ventures account for a total of Euro 10 110 thousand (previous year: Euro 3 657 thousand).

7 Equity

Share Capital: The share capital of MVV Energie AG amounts to a total of Euro 129 797 thousand and is divided into 50 702 000 individual shares of Euro 2.56 each. The City of Mannheim indirectly owned 72.82% of the share capital as of 30 September 2004 and Thüga Aktiengesellschaft owned 15.05%. The remaining 12.13% of the shares are in free float.

Authorised Capital: The Annual General Meeting held on 12 March 2004 authorised the Executive Board to increase the share capital of the company prior to 11 March 2009 and with the consent of the Supervisory Board by issuing new individual bearer shares in return for cash or non-cash payments on one or several occasions up to a total of Euro 26 000 000.

The resolution passed by the Annual General Meeting on 1 March 2002 authorising the Executive Board of MVV Energie AG to increase the share capital of the company prior to 28 February 2007 and with the consent of the Supervisory Board by issuing new individual bearer shares in return for cash or non-cash payments on one or several occasions up to a total amount of Euro 12 900 000 was annulled by the resolution passed at the Annual General Meeting on 12 March 2004.

Conditional Capital I: The management share option programme for 1999/2003, which was resolved by the extraordinary shareholders' meeting held on 27 January 1999, expired on 31 December 2003. Further details as to the number of convertible bonds thereby issued can be found

under Note 11 concerning financial liabilities. None of the convertible bonds thereby issued has been converted.

Conditional Capital II: The employee share option programme expired on 31 December 2003. No option rights were converted on account of the exercise hurdle not having been reached.

Conditional Capital III: At the Annual General Meeting held on 22 February 2001 a resolution was passed authorising the creation of additional conditional share capital in MVV Energie AG totalling Euro 2048000 in order to facilitate the issuing of up to 800000 individual bearer shares. The conditional capital increase is only to be executed to the extent that the owners of option rights issued by MVV Energie AG as a result of the authorisation of the Executive Board for the period from 23 February 2001 until 31 December 2005 to issue such options within the framework of the employee share option programme for 2001/2005 exercise their resultant rights to subscribe shares. To date, no use has been made of the possibility of issuing options in the context of this programme.

Conditional Capital IV: A new management share option plan for 2003/2007 was introduced by resolution of the Annual General Meeting held on 14 March 2003. MVV Energie AG is to issue a maximum number of options for a total of up to 400000 shares with a total nominal value of up to Euro 1024000. These option rights may only be issued to members of the Executive Board of MVV Energie AG, to employees in key management positions at MVV Energie AG, to members of the executive boards and managing directors of companies within the MVV Energie Group and to employees in key management positions at companies within the MVV Energie Group. Each of the aforementioned groups should receive a maximum of 25% of the option rights. In the event of individuals entitled to receive options belonging to several of the aforementioned groups, this would not result in any multiplication of their option rights. Should there be individuals who are eligible to receive option rights on the basis of this authorisation and who are simultaneously entitled to receive options from programmes relating to the employee share option programme established or to be established for 2001/2005, then the number of their options to which they are entitled from programmes established on the basis of this authorisation will be reduced accordingly. The Executive Board of MVV Energie AG will determine the exact circle of those authorised, as well as the allocation of options in cases where eligible recipients of options belong to several of the aforementioned groups or where they are entitled to receive options on the basis of this authorisation at the

same time as being eligible to receive options from programmes relating to the employee share option programme established or to be established for 2001/2005. In cases where such eligibility for options applies to members of the Executive Board of MVV Energie AG, it will be incumbent upon the Supervisory Board to determine the number of options. The option rights may be issued within a period of eight weeks following the publication of the respective half-year results of MVV Energie AG and may be exercised for the first time upon conclusion of a period of two years following the granting of such rights (lock-up period). The option rights may then be exercised within three exercise periods (exercise windows). These exercise periods each last four weeks following the publication of the next three half-year reports by MVV Energie AG following the expiry of the lock-up period. The new shares may participate in earnings from the beginning of the financial year in which they arise as a result of option rights having been exercised. Each option right shall entitle its bearer to purchase one share in MVV Energie AG at the price corresponding to the average share price of MVV Energie AG over the previous 30 trading days prior to the issuing of the option rights, plus a premium. The calculation of the average share price of MVV Energie AG during the previous 30 trading days prior to the issuing of the option rights is to be based on the arithmetical mean of closing prices quoted for the share of MVV Energie AG in the Xetra trading system of Deutsche Börse AG (or a comparable follow-up system). The premium amounts to 5 % p.a. It is calculated for the period from the issuing of the option rights up to the beginning of the respective exercise window. If the company should increase its share capital, sell treasury stock or issue new bonds with conversion or option rights during the term of the aforementioned option rights, and should thereby grant indirect or direct subscription rights to its shareholders, then the exercise price will be reduced under the terms of the option agreement. No such reduction will take place if the eligible individual is granted a direct or indirect subscription right to new shares, treasury stock or new bonds which place such individual in the same position as if he/she had exercised the option. Moreover, the terms governing the options agreement may provide for an adjustment of such option rights in the event of a capital increase from company funds, a capital decrease, a share split or bundling or bonuses or extraordinary cash or non-cash payouts in accordance with the customs and practices on German and international forward exchanges. During the year under report, no options were issued to any individuals eligible to subscribe.

8 Provisions

Provisions

Euro 000s

Long-term provisions

	Balance at 1.10.2003	Additions share- holdings	Disposals share- holdings	Currency adjustments	With- drawals	Releases	Additions	Interest share of additions	Reclassifi- cations	Balance at 30.9.2004
Pensions and similar obligations	21 380	9 002	—	70	2 534	—	2 481	350	—	30 749
Other provisions										
Early retirement payments	12 462	20 522	—	—	4 205	232	8 014	481	—	37 042
Personnel expenses	21 375	1 524	—	—	1 660	369	4 273	660	695	26 498
Restructuring expenses	6 900	1 043	—	—	466	19	11	310	—	7 779
Misc. contingencies	643	2 378	—	—	—	—	183	—	—	3 204
Other provisions	41 380	25 467	—	—	6 331	620	12 481	1 451	695	74 523
Total long-term provisions	62 760	34 469	—	70	8 865	620	14 962	1 801	695	105 272
Short-term provisions										
Tax provisions	11 086	746	—	—	9 955	352	2 622	—	—	4 147
Other provisions										
Personnel expenses	25 968	6 169	136	—	25 425	429	26 050	—	– 695	31 502
Services not yet invoiced	28 648	13 509	3 885	—	28 464	1 492	41 425	—	734	50 475
Misc. contingencies	26 705	13 293	1 012	2	20 364	4 083	29 283	—	– 734	43 090
Other provisions	81 321	32 971	5 033	2	74 253	6 004	96 758	—	– 695	125 067
Total short-term provisions	92 407	33 717	5 033	2	84 208	6 356	99 380	—	– 695	129 214
Total provisions	155 167	68 186	5 033	72	93 073	6 976	114 342	1 801	—	234 486

9 Provisions for pensions and similar obligations

The retirement plan for the employees of the MVV Energie Group has been largely arranged in line with the collective wage and salary agreements specific to the respective company. This has resulted in indirect obligations to provide pensions to employees which have been covered almost exclusively by municipal supplementary insurance companies (ZVK).

Moreover, there are direct obligations to provide pensions based on arrangements made in conjunction with earlier collective wage and salary agreements, as well as with individual commitments. These provisions for pensions have been calculated pursuant to IAS 19 using the projected unit credit method. This involves valuing future obligations using actuarial procedures on the basis of estimates of the respective parameters. The surveys as of 30 September 2004 have been based on an assumed development of approx. 2 % for salaries and pensions. Application was made of a discount rate of 5.5 % and of the 1998 Calculation Guidelines. The recording of actuarial profits and losses resulting from changes in the assumptions on which the calculations are based has been undertaken using the corridor method set out in IAS 19 No. 92. These pension obligations are fully covered by the provisions.

Reallocations for the respective retirement periods have been established for the insurance by the aforementioned ZVK. The payments made to the ZVK in this respect serve to finance current pension outlays.

According to IAS 19, this type of retirement benefit is classified as a defined benefit plan, as the individual services provided by the ZVK to former employees of member companies are not dependent on the level of contributions paid into the pension fund. Moreover, in view of the fact that employees of several companies are insured by the ZVK, this type of retirement benefit is to be considered a multi-employer plan requiring the application of the special provisions outline in IAS 19.

On account of the redistribution of the services provided by the ZVK among its member companies and of the lack of adequate information about the age structures, personnel turnover and salaries of the employees thereby covered, information is not available on the proportion of future financial obligations accruing to the MVV Energie Group. In view of this, it is not permitted to take any provisions pursuant to IAS and the obligations involved have to be treated as a defined contribution plan pursuant to IAS 19 No. 30a. Current payments to the ZVK thus represent expenses incurred within the respective financial year. The financial obligations of the ZVK as determined within the framework of an approximate calculation pursuant to IAS for current and former employees of the MVV Energie Group are Euro 267.9 million (previous year: Euro 142.0 million) above the proportion accruing to the MVV Energie Group from the policy reserve of the ZVK. The increase compared with the previous year is primarily attributable to the initial inclusion of Stadtwerke Kiel AG.

The total expenses incurred for retirement benefit plans during the year under report amounted to Euro 14362 thousand (previous year: Euro 9259 thousand).

10 Other provisions

Pursuant to IAS 37, other provisions include all of the obligations to third parties which were identifiable at the reporting date and whose amount and maturity are uncertain. We have stated the amount required as of the reporting date in order to cover the payment obligations and risks of the MVV Energie Group.

The current value of the expected expenditure has been stated for those cases where interest effects could have a significant impact.

11 Financial liabilities

Financial liabilities

Euro 000s

	30.9.2004 Total	of which with a remaining term of > 1 year	30.9.2003 Total	of which with a remaining term of > 1 year
Liabilities				
to banks	976 931	725 284	465 338	396 839
to affiliated companies	264 840	—	414 123	—
to associated companies	7 974	—	1 907	—
relating to bonds	193	193	204	204
relating to financial leasing	69 289	62 297	75 049	68 586
Other financial liabilities	60 242	27 797	39 299	28 285
	1 379 469	815 571	995 920	493 914

Financial liabilities have been stated at their respective repayment values.

MVV GmbH manages liquidity for MVV Energie AG and further companies in the MVV Energie Group within the framework of a cash-pooling agreement. The average interest rate on liabilities to affiliated companies amounted to 5.1% during the year under report (previous year: 4.8%). The rise in the interest rate during the year under report is attributable to the lower level of short-term funds drawn down by MVV GmbH. The liquidity gap was covered by MVV Energie AG taking up loans. This, coupled with the acquisition and initial consolidation of Stadtwerke Kiel AG, is the primary reason for the increase in liabilities to banks.

The fixed-rate liabilities to banks amounting to Euro 760.4 million (previous year: Euro 427.1 million) have average interest rates of 4.8% (previous year: 4.9%). The floating-rate liabilities to banks amounting to Euro 216.5 million (previous year: Euro 38.2 million) have an average interest rate of 2.5% (previous year: 3.9%). In the case of the fixed-rate liabilities, the average remaining period of the fixed rate is 7 years (previous year: 11 years).

The liabilities relating to bonds exclusively involve convertible bonds with the option of being converted into shares in MVV Energie AG. In all, these relate to 75 500 bonds (previous year: 79 500) with a nominal value of Euro 2.56 each. The change is attributable to the return of shares by a senior employee of MVV Energie AG upon his leaving the company. Further details have been provided under Note 7 on equity.

The liabilities relating to financial leasing primarily involve a transaction undertaken by MVV GmbH, in which waste-fired boiler No. 4 with a flue-gas treatment system was sold to a leasing fund and then leased back (please also see Note 2 in this respect).

12 Trade payables

Trade payables Euro 000s	30.9.2004 Total	of which with a remaining term of > 1 year	30.9.2003 Total	of which with a remaining term of > 1 year
To suppliers	99 586	1 203	116 749	1 226
To affiliated companies	1 979	—	2 405	82
To associated companies	8 406	—	8 771	2
To companies linked by virtue of a participatory shareholding	6 613	—	6 592	2
	116 584	1 203	134 517	1 312

Trade payables have been stated at their respective repayment values.

13 Other liabilities

Other liabilities Euro 000s	30.9.2004 Total	of which with a remaining term of > 1 year	30.9.2003 Total	of which with a remaining term of > 1 year
To third parties	98 640	28 137	105 687	25 117
To affiliated companies	—	—	45	—
To companies linked by virtue of a participatory shareholding	154	—	1 557	1 557
	98 794	28 137	107 289	26 674

Other liabilities have been stated at their respective repayment values.

The liabilities to third parties include deferred income of Euro 31 924 thousand (previous year: Euro 35 261 thousand). The principal item in this respect is the advance payment of a fee amounting to Euro 25 117 thousand (previous year: Euro 27 833 thousand) for the incineration of waste in conjunction with the take-over of an energy from waste plant by Energieversorgung Offenbach AG.

Moreover, other liabilities principally include concession fees, taxes and liabilities relating to social security payments for our employees.

14 Deferred taxes

Provisions for deferred taxes are calculated on the basis of the provisions set out in IAS 12. Deferred taxes are mainly taken on account of temporal differences arising from the valuation of assets and liabilities for tax purposes on the one hand and for external accounting pursuant to IFRS on the other.

Deferred tax assets and liabilities have been stated on a net basis in view of the fact that they predominantly represent claims from and obligations towards one and the same tax authority.

15 Contingent liabilities

The company has contingent liabilities amounting to Euro 56.3 million (previous year: Euro 43.2 million). These relate to guarantees and letters of comfort.

16 Other financial obligations

Investments in tangible and intangible assets amounting to Euro 173 million have been budgeted at the MVV Energie Group for the 2004/05 financial year.

Furthermore, the cities of Offenbach and Kiel own put options on the shares held by them in Energieversorgung Offenbach AG and Stadtwerke Kiel AG respectively. The writers of these options are MVV Energie AG and SW Kiel Beteiligungsgesellschaft mbH, a wholly owned subsidiary of MVV Energie AG, respectively. The exercise prices are based on the historical purchase prices of the shares. The city of Offenbach is entitled to exercise its right to tender up to 28 February 2006. On the basis of our talks with the City of Offenbach, we currently do not expect these options to be exercised. The sale option of the city of Kiel may be exercised between 6 November 2006 and 6 November 2010.

17 Financial instruments

The current values of the primary financial instruments at the MVV Energie Group are equivalent to their balance sheet values. The financial asset and liability values reported therefore constitute the maximum credit or default risks. Adjustments to the current values are undertaken on the equity pursuant to IAS 39 No. 103b and do not affect earnings.

Interest swaps with a current value of Euro 2.7 million (previous year: Euro 2.4 million) have been reported as derivative financial instruments under other liabilities. Adjustments to the current values for the current financial year pursuant to IAS 39 No. 158a are also undertaken on the equity without affecting earnings.

Notes on the Income Statement

18 Sales

Sales are stated upon the risk being transferred to customers. This does not apply to commission sales resulting from the application of the percentage of completion method pursuant to IAS 11.

A depiction of sales broken down into their respective segments has been provided in the segmental reporting section. The sales for the electricity division include electricity tax amounting to Euro 83.8 million, which was passed on to customers (previous year: Euro 79.3 million).

19 Capitalised own-account services

Capitalised own-account services are primarily attributable to construction and expansion measures relating to distribution networks and power plants. Of the capitalised own-account services, Euro 31.1 million relate to the non-recyclable waste incineration and energy extraction facility at Leuna.

20 Other operating income

Other operating income Euro 000s	2003/2004	2002/2003
Profit on the disposal of assets	6 448	143 649
Income		
from agency agreements and personnel supplies	8 155	7 358
from IT services	7 786	5 069
from the release of provisions	7 183	1 903
from project sales	2 110	—
from contractual penalties and the collection of outstanding receivables	1 778	1 713
Credit notes	3 721	1 480
Reimbursements from damages claims	2 388	2 684
Rental income	1 859	1 739
Other	18 270	20 990
	59 698	186 585

The reduction in profit on the disposal of assets is primarily attributable to the sale of shares in Gasversorgung Süddeutschland GmbH (GVS), which resulted in income of Euro 141.9 million in the previous year.

21 Cost of materials

Cost of materials Euro 000s	2003/2004	2002/2003
Raw materials and supplies and purchased goods	885 444	739 158
Purchased services	155 345	133 915
	1 040 789	873 073

The increase in the cost of materials compared with the previous year is primarily attributable to the rise in wholesale electricity sales and to the resultant increase in the volume of energy purchased, as well as to the expansion of the reporting entity.

22 Personnel expenses

Personnel expenses Euro 000s	2003/2004	2002/2003
Wages and salaries	196 072	171 503
Social security contributions and welfare expenses	39 633	34 707
Pension expenses	14 362	9 259
	250 067	215 469

The MVV Energie Group had a total of 6 893 employees at the reporting date on 30 September 2004 (previous year: 5 654). This total includes 314 trainees (previous year: 215). The increase in personnel expenses is attributable to the companies consolidated for the first time. The same applies to the increase in the number of employees.

23 Other operating expenses

Other operating expenses Euro 000s	2003/2004	2002/2003
Energy tax	83 722	79 617
Concession fees	46 812	39 166
Legal, consulting and surveyor expenses	18 811	21 497
Contributions, fees and charges	15 300	12 051
Rental and leasing expenses	13 868	14 908
Additions to write-downs	10 347	4 524
Maintenance and repair expenses	9 754	3 870
Personnel and welfare expenses	8 178	8 145
Public relations expenses	7 536	9 876
Losses incurred on the sale of assets	5 305	2 727
Other	20 857	24 004
	240 490	220 385

The increase compared with the previous year is primarily attributable to the change in the reporting entity.

24 Income from shareholdings in associated companies

The income from shareholdings is primarily attributable to the shareholdings in Grosskraftwerk Mannheim AG, Gemeinschaftskraftwerk Kiel GmbH and Fernwärme Rhein-Neckar GmbH.

25 Other income from shareholdings

Other income from shareholdings Euro 000s	2003/2004	2002/2003
Income from shareholdings	2 019	1 797
Expenses resulting from the transfer of losses	– 516	– 62
Depreciation of shareholdings	– 25 428	– 420
	– 23 925	1 315

The depreciation of shareholdings is primarily attributable to the write-downs undertaken on the innovation portfolio of MVV Energie AG and on other non-consolidated shareholdings and from the process of disposing of shares in AWATECH GmbH.

26 Depreciation

Depreciation Euro 000s	2003/2004	2002/2003
Depreciation		
of fixed assets	148 247	102 636
of inventories	5 605	—
	153 852	102 636

Tangible and intangible fixed assets are subject to straight-line depreciation and amortisation on the basis of their respective useful lives.

The increase compared with the previous year is primarily attributable to extraordinary depreciation (please see Notes 1 and 2 for further details).

27 Net interest expenses

Net interest expenses Euro 000s	2003/2004	2002/2003
Income from loans	331	185
Other interest and similar income	2 674	5 100
Depreciation of loans and fixed-asset securities	– 677	– 6 526
Depreciation of current-asset securities	– 12	– 20
Interest and similar expenses	– 66 222	– 58 377
	– 63 906	– 59 638

28 Taxes on income

Taxes on income Euro 000s	2003/2004	2002/2003
Tax expenses	22 720	27 941
Deferred taxes	– 7 906	– 3 016
	14 814	24 925

Tax expenses include both the trade tax and the corporate income tax paid.

The transition from the nominal tax rate to the effective tax rate is structured as follows:

Transition to income tax rate Euro 000s	2003/2004	2002/2003
Earnings before taxes (EBT)	– 22 680	184 000
Hypothetical tax expenses based on an assumed distribution of 38.54 %	– 8 741	70 914
Tax effects on		
amortisation of goodwill from capital consolidation	5 202	5 245
expenses not deductible for tax purposes	4 522	3 753
unused tax losses pursuant to IAS 12 No. 81e	6 161	4 653
retroactive statement of deferred tax assets	1 445	– 2 671
effect of amendments to tax legislation	– 1 009	– 5 296
tax-exempt earnings	4 928	– 54 078
taxes for previous years	2 693	1 646
other	– 387	759
Effective tax expenses	14 814	24 925
Effective tax rate as %	– 65.3	13.5

29 Annual net deficit—earnings per share

Annual net deficit—earnings per share	2003/2004	2002/2003
Annual net deficit (previous year: annual net surplus) after minority interests (Euro 000s)	– 43 524	152 439
No. of shares (weighted annual average in 000s)	50 702	50 702
Earnings per share pursuant to IAS 33 (Euro)	– 0.86	3.01
Dividend per share (Euro)	0.75	0.75

The dividend for the year under report is based on the proposal made by the Executive Board and is subject to approval by the Annual General Meeting on 4 March 2005. The appropriation of earnings proposed for the 2002/03 financial year was approved by the Annual General Meeting.

No dilutive effects needed to be accounted for in the calculation of earnings per share pursuant to IAS 33 for the year under report. No option rights were exercised within the framework of share option programmes.

30 Segmental reporting

The segmentation of the MVV Energie Group is based on internal reporting procedures and contains all the elements required by IAS 14 (1997 revision). We have refrained from compiling a breakdown into geographic segments in view of the fact that the MVV Energie Group has not exceeded the limits set out in IAS 14 No. 69 in respect of its volume of sales, assets and investments in foreign countries.

We have also dispensed with assigning liabilities to their respective divisions. The largest items under liabilities are the financial liabilities principally due to MVV GmbH, which acts as a financial holding company, as well as those due to banks.

We have refrained from depicting the transition from operating earnings (EBIT) to the annual net income of the MVV Energie Group in our segmental reporting, in view of the fact that this transition has already been depicted in the income statement.

31 Cash flow statement

The cash flow statement portrays the flow of funds from operating activities, investment activities and financing activities.

Cash flow based on DVFA/SG rose from Euro 149.9 million in the previous year to Euro 157.8 million. At Euro 147.9 million, the inflow of funds from operating activities was 48 % above the equivalent figure for the previous year.

The inflow of funds from operating activities includes the following items:

- Interest income of Euro 2.9 million (previous year: Euro 4.8 million) and interest expenses of Euro 55.6 million (previous year: Euro 56.4 million)
- Paid income taxes of Euro 33.6 million (previous year: Euro 30.6 million) and refunded income taxes of Euro 3.2 million (previous year: Euro 0.5 million)
- After deducting the non-cash part from the *equity consolidation*, the new income from shareholdings amounted to Euro 6.6 million (previous year: Euro 6.6 million).

In addition to investments in the construction and expansion of distribution networks and power plant facilities, the outflow of funds for investment activities during the year under report was affected by the acquisition of shares in Stadtwerke Kiel AG.

The inflow of funds from financing activities is attributable to the taking up of loans to finance the investments made.

The cash flow statement for the previous year was characterised by the sale of shares in Gasversorgung Süddeutschland GmbH. This resulted in an inflow of funds from investment activities, which was used to redeem a portion of the financial liabilities.

Relationships to related companies, individuals and entities

The City of Mannheim is the sole shareholder of MVV GmbH. MVV GmbH owns 100 % of the shares in MVV Verkehr AG which in turn has a 72.82 % shareholding in MVV Energie AG. The City of Mannheim is therefore to be considered as a related party pursuant to IAS 24. A concession agreement exists between the City of Mannheim and MVV Energie AG, by which the City of Mannheim has assigned responsibility to MVV Energie AG for supplying Mannheim with electricity, district heating, gas and water. This agreement runs until 31 December 2014. Payments to the City of Mannheim on account of the concession agreement amounted to Euro 20 055 thousand Euro in the year under report (previous year: Euro 18 983 thousand).

There are minor ongoing financial relations between the City of Mannheim and MVV Energie AG.

The legal relationships pertaining between MVV GmbH, MVV Verkehr AG and the companies of the MVV Energie Group are defined in several contracts (agency agreements, cash pooling, VAT allocation).

The members of the Executive Board of MVV Energie AG receive their remuneration exclusively from that company. This remuneration is paid both for their activities as managing directors of MVV GmbH and for their activities as members of the Executive Boards of MVV Energie AG, MVV RHE AG, MVV Verkehr AG and MVV OEG AG. The remuneration of the members of the Executive Board of MVV Energie AG consists of fixed and variable components. The variable component is dependent on the EBIT figure pursuant to IFRS. No convertible bonds were issued during the year under report. The share of overall remuneration proportionately allocable to the MVV Energie Group (MVV Energie AG and MVV RHE AG) amounted to Euro 1 444 thousand in the year under report. This amount consists of fixed salaries totalling Euro 634 thousand and a bonus of Euro 810 thousand. These remuneration figures include non-monetary benefits, such as the private use of company vehicles and the costs of journeys between private residences and the respective workplaces, as well as the bonuses for the members of the Executive Board who retired in the previous year. No use was made of the authorisation granted by the 2003 Annual General Meeting to introduce a management share option programme for the period of 2003 to 2007.

Pension provisions amounting to Euro 0.2 million have been taken for former members of the Executive Board.

According to IAS 24 No. 3d, individuals in key management positions and others are also to be considered as related parties. In addition to the Executive Board, such related parties within the MVV Energie Group also include the heads of divisions at MVV Energie AG. These individuals are directly remunerated by MVV Energie AG. In the year under report, their remuneration amounted to Euro 1 899 thousand.

The members of the Executive Board and the heads of divisions collectively own convertible bonds with conversion rights for a total of 75 500 shares.

MVV Energie AG has compiled a dependent company report pursuant to Section 312 of the *German Stock Corporation Act (AktG)* for the financial year ending on 30 September 2004.

During the year under report, the members of the Supervisory Board each received annual remuneration amounting to Euro 10 thousand, with the Chairman earning double that amount and the deputy chairman one and half times that figure. Furthermore, an attendance fee of Euro 300 per session was paid per member per meeting. The overall remuneration amounted to Euro 281 thousand. Moreover, one member of the Supervisory Board received Euro 15 thousand within the framework of an advisory agreement.

In addition, three members of the Supervisory Board of MVV Energie AG were granted loans totalling Euro 24 thousand. The interest on the loans amounted to 5.36 %, and to 4.9 % with effect from 1 January 2004. The change is attributable to the interest rate being linked to tax provisions governing non-monetary benefits.

The members of the Supervisory Board collectively own a total of 1768 shares and 4000 subscription rights for shares in MVV Energie AG, which may be exercised upon certain conditions having been fulfilled.

Statement of Compliance pursuant to Section 161 of German Stock Corporation Law (AktG)

The Executive and Supervisory Board have submitted a Statement of Compliance with the Recommendations of the Government Commission on the *German Corporate Governance Code* pursuant to Section 161 of the *German Stock Corporation Act (AktG)* and have made it available to the company's shareholders.

The complete statement has been published on the internet at: www.mvv-investor.de.

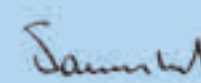
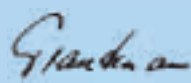
Information on concessions

In addition to the concession agreement concluded between the City of Mannheim and MVV Energie AG (please see relationships to related companies, individuals and entities), concession agreements have also been concluded between companies of the MVV Energie Group and local, regional and state governments. The remaining terms of these agreements range from 1 to 19 years. In these agreements, responsibility has been assigned for operating the respective supply networks and providing for their maintenance. Should these agreements not be extended upon their expiry, the facilities for supplying the respective utility service must be taken over by the municipalities upon payment of commensurate compensation.

Events subsequent to the reporting date

There have been no events of significance subsequent to the reporting date.

Mannheim, 23 November 2004
MVV Energie AG
Executive Board

			
Dr. Schulten	Dr. Dub	Farrenkopf	Trautmann

Audit Opinion

We have audited the consolidated financial statements compiled by MVV Energie AG, Mannheim, consisting of the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, the segment report and the notes to the consolidated financial statements for the financial year from 1 October 2003 to 30 September 2004. The preparation and the content of the consolidated financial statements and the group management report are the responsibility of the company's executive board. Our responsibility involves expressing an opinion on the basis of our audit as to whether the consolidated financial statements are in compliance with *International Financial Reporting Standards (IFRS)*.

We conducted our audit of the consolidated financial statements according to German auditing regulations and took due account of the principles governing the proper auditing of financial statements promulgated by the German Institut der Wirtschaftsprüfer and with additional consideration of the *International Standards on Auditing (ISA)*. These standards require that the audit be planned and executed in such a way that it can be assessed with reasonable assurance that the consolidated financial statements are free of any material misstatements. Knowledge of the business activities and of the economic and legal environment of the Group and expectations as to any possible misstatements are taken into consideration when determining the audit procedures. The evidence supporting the amounts and disclosures made in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes an assessment of the accounting principles applied and of significant estimates made by the executive board, as well as an evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a sufficiently secure basis for our opinion.

In our opinion, the consolidated financial statements compiled by MVV Energie AG, Mannheim, for the financial year from 1 October 2003 to 30 September 2004 provide a true and fair view of the net asset, financial position, results of operations and cash flows of the Group for the financial year in accordance with IFRS.

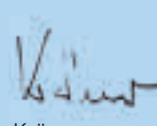
Our audit, which also extended to the group management report compiled by the executive board for the financial year from 1 October 2003 to 30 September 2004, has not led to any objections. In our opinion, the group management report in conjunction with the other disclosures made in the consolidated financial statements provides a suitable portrayal of the position of the Group and adequately depicts the risks of its future development. We further confirm that the consolidated financial statements and group management report for the financial year from 1 October 2003 to 30 September 2004 satisfy the conditions required for the exemption of the company from its duty to compile consolidated financial statements and a group management report in accordance with German law.

Mannheim, 23 November 2004

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft



Greiner
Wirtschaftsprüfer



Krämer
Wirtschaftsprüfer

Financial Calendar

26. 1. 2005	Annual financial statements press conference and analysts' conference
14. 2. 2005	Interim report 1 st quarter 2004/2005
4. 3. 2005	Annual General Meeting
7. 3. 2005	Payment of dividend
17. 5. 2005	Interim report 2 nd quarter 2004/2005
17. 5. 2005	Press conference and analysts' conference 2 nd quarter 2004/2005
15. 8. 2005	Interim report 3 rd quarter 2004/2005

Imprint

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