

Offering Prospectus according to German Law.
The English translation is for convenience only!
The German text is exclusively legally binding.



MVV Energie AG
Mannheim

**Offering Prospectus/
Stock Exchange Listing Prospectus**

March 1, 1999

Offering Prospectus

for

12,680,400 no-par value shares

– proportional interest in capital stock DM 5.00 per no-par value share –
from the capital increase resolved at the Extraordinary General Meeting on January 27, 1999

as well as for up to

1,100,000 no-par value shares

– proportional interest in capital stock DM 5.00 per no-par value share –
from the holdings of an existing shareholder
on the basis of the greenshoe option granted to Dresdner Bank Aktiengesellschaft

– each carrying dividend rights for half of fiscal year 1998/1999 –

– Securities Code Number 725 591 –

– ISIN Code Number DE 000 725 5911 –

and

Stock Exchange Listing Prospectus

for

50,702,000 no-par value shares

– proportional interest in capital stock DM 5.00 per no-par value share –

Nos. 00 000 001 – 50 702 000

and

36,921,600 no-par value shares

– carrying full dividend rights for fiscal year 1998/1999 –

– Securities Code Number 725 590 –

– ISIN Code Number DE 000 725 5903 –

and

13,780,400 no-par value shares

– carrying dividend rights for half of fiscal year 1998/1999 –

– Securities Code Number 725 591 –

– ISIN Code Number DE 000 725 5911 –

and for up to

400,000 no-par value shares

– proportional interest in capital stock DM 5.00 per no-par value share –

with regard to the options for conversion into no-par value bearer shares from the contingent capital increase dated January 27, 1999 amounting to DM 2,000,000 carrying full dividend rights for the fiscal year in which the conversion right is exercised,

and

for up to

600,000 no-par value shares

– proportional interest in capital stock DM 5.00 per no-par value share –

with regard to the option rights on no-par value bearer shares from the contingent capital increase dated January 27, 1999 amounting to DM 3,000,000 carrying full dividend rights for the fiscal year in which the option right is exercised,

of

MVV Energie AG

Mannheim

**for Admission to Trading and Official Listing on the
Frankfurt Stock Exchange and the Stuttgart Stock Exchange**

Table of Contents

	Page
General Information	9
Liability for the contents of the Offering Prospectus/Stock Exchange Listing Prospectus	9
Inspection of documents	9
Subject of the Offering Prospectus/Stock Exchange Listing Prospectus	9
The Offering	10
General information	10
Management stock option plan	11
Employee stock option plan	11
Stock exchange listing	12
Prohibition on the disposal of shares	12
Stabilization	12
Utilization of the proceeds of the issue from the capital increase	12
Payment date and delivery	12
Transferability of shares	12
Taxation	13
Risk Factors	16
General Information on the Company	19
Formation and development	19
Name, registered office and fiscal year	19
Purpose of the Company	19
Capitalization	19
Stockholders	21
Control and profit and loss transfer agreement	21
Appropriation of profits	21
Developments in earnings	22
Dividend policy	22
Notices, paying and depositary agents	22
Auditor	23
Liquidation and participation in liquidation proceeds	23
Executive Bodies of the Company	24
Executive Board	24
Supervisory Board	24
General Meeting	26

Group Restructuring	27
Overview	27
Financial and cash management system	27
Municipal legal framework	27
Indirect majority interest of the city of Mannheim	29
Industry Information	30
Business Activities of the MVV Energie Group	39
Overview	39
Group structure	40
Historical development	41
Divisions of the MVV Energie Group	42
Corporate strategy	52
Subsidiaries and associates	55
Investments	60
Patents, licenses and agreements of particular importance	61
Concession agreements	61
Management and employees	61
Real property	62
Insurance policies	62
Litigation	62
Financial Section	63
Pro Forma Financial Statements of MVV Energie AG for the MVV Energie Group for Fiscal Years 1997/98, 1996/97 and 1995/96, as of September 30, respectively	64
Financial Statements for Fiscal Year 1997/98 Stadtwerke Mannheim Aktiengesellschaft (SMA)	83
Three-year Review of MVV Energie AG (formerly Stadtwerke Mannheim Aktiengesellschaft (SMA), Mannheim)	96
Recent Business Developments and Prospects	97

This Offering Prospectus/Stock Exchange Listing Prospectus is not intended for US residents as defined by the Securities Act of 1933 and may not be mailed or otherwise transferred to the United States. This Offering Prospectus/Stock Exchange Listing Prospectus is neither an offer for sale of the no-par value bearer shares, nor a solicitation for the submission of bids for no-par value bearer shares, but is supplied purely for information purposes.

List of Abbreviations

Companies

FRN	Fernwärme Rhein-Neckar GmbH, Mannheim
GeTeBe	Gesellschaft für Technologieberatung mbH, Berlin
GKM	Grosskraftwerk Mannheim Aktiengesellschaft, Mannheim
GVS	Gasversorgung Süddeutschland GmbH, Stuttgart
HKW	Heizkraftwerk Nord der RHE auf der Friesenheimer Insel, Mannheim
ICEU	Internationales Centrum für Energie- und Umwelttechnologie Leipzig GmbH, Leipzig
InnoTec	InnoTec Systemanalyse GmbH, Berlin
MANet	MANet – Gesellschaft für Telekommunikation und Information mbH, Mannheim
MSW	Meißener Stadtwerke GmbH, Meissen
MVV Energie AG	formerly Stadtwerke Mannheim Aktiengesellschaft (SMA), Mannheim
MVV Energie Group	MVV Energie AG with its fully consolidated subsidiary Energie- und Wasserwerke Rhein-Neckar Aktiengesellschaft (RHE), Mannheim
MVV GmbH	formerly Mannheimer Versorgungs- und Verkehrsgesellschaft mbH (MVV), Mannheim
MVV Group	MVV GmbH with its fully consolidated companies MVV Energie AG, Energie- und Wasserwerke Rhein-Neckar Aktiengesellschaft (RHE) and MVV Verkehr AG
MVV Verkehr AG	formerly Mannheimer Verkehrs-Aktiengesellschaft (MVG), Mannheim
Regio-Tec	Regio-Tec Planungsgesellschaft für Wirtschaftspolitik und Infrastruktur mbH, Starnberg
RHE	Energie- und Wasserwerke Rhein-Neckar Aktiengesellschaft (RHE), Mannheim
SMA	Stadtwerke Mannheim AG (SMA), Mannheim, now MVV Energie AG
ZWK	Zweckverband Wasserversorgung Kurpfalz, Heidelberg (Palatinate Water-Service Association)

Associations

AGFW	Arbeitsgemeinschaft Fernwärme e.V. bei der VDEW, Frankfurt am Main (National Association of District Heating)
BDI	Bundesverband der Deutschen Industrie e.V., Cologne (German Federation of Industry)
BGW	Bundesverband der Deutschen Gas- und Wasserwirtschaft e.V., Bonn (National Organization of German Gas and Water Suppliers)
ÖTV	Gewerkschaft Öffentliche Dienste, Transport und Verkehr (German Public Services Union)
VDEW	Vereinigung Deutscher Elektrizitätswerke e.V., Frankfurt am Main (Association of German Electric Power Utilities)
VIK	Verband der Industriellen Energie- und Kraftwirtschaft e.V., Essen (Association of the Industrial and Power Industries)
ZARN	Zweckverband Abfallwirtschaft Rhein-Neckar, Mannheim (Rhine-Neckar Waste Management Association)

Laws and ordinances

BetrVG	Betriebsverfassungsgesetz (Labor Management Relations Act)
BGB	Bürgerliches Gesetzbuch (German Civil Code)
BImSchV	Bundesimmissionsschutzverordnung (Federal clean air regulations)
BörsZulV	Börsenzulassungs-Verordnung (Stock Exchange Admission Act)
EnWG	Energiewirtschaftsgesetz (Energy Industry Act)
GWB	Gesetz gegen Wettbewerbsbeschränkungen (Act Against Restraint of Trade)

Technical abbreviations

GW	Gigawatts (1,000,000,000 watts)
GWh/a	Gigawatt hours per year
km	Kilometers
kV	Kilovolts (1,000 volts)
kW	Kilowatts (1,000 watts)
kWh	Kilowatt hours
m ²	Square meters
m ³	Cubic meters
MW	Megawatts
MW _{el}	Megawatts electrical
MW _{th}	Megawatts thermal
ng	Nanograms
t	Tonnes (metric)
t/a	Tonnes (metric) per year
TJ/a	Terajoules per year
TWh	Terawatt hours
V	Volts

Other abbreviations

BMWi	Bundesministerium für Wirtschaft (Federal Ministry for the Economy)
CO ₂	Carbon dioxide
DSD	Duales System Deutschland GmbH
EBIT	Earnings before interest and taxes
e.V.	eingetragener Verein (non profit organization)
IAS	International Accounting Standards
KWK	Kraft-Wärme-Kopplung (cogeneration)
MVA	Müllverbrennungsanlage (Incineration Plant)
PLZ	Polish zloty
SICAD	IT system for the digitalization of the existing distribution networks

General Information

Liability for the contents of the Offering Prospectus/ Stock Exchange Listing Prospectus

MVV Energie AG, Mannheim (hereinafter also referred to as “the Company” or together with its fully consolidated subsidiary Energie- und Wasserwerke Rhein-Neckar AG, Mannheim (hereinafter also called “RHE”), referred to as “the MVV Energie Group”) and the underwriting banks (hereinafter also referred to as the “underwriting banks” or the “underwriting syndicate”) listed at the end of this Offering Prospectus/Stock Exchange Listing Prospectus assume liability for the Prospectus pursuant to section 13 of the Wertpapier-Verkaufsprospektgesetz (German Offering Prospectus Act) in conjunction with section 45 of the Börsengesetz (German Stock Exchange Act), as well as pursuant to section 45 of the Börsengesetz, and herewith state that to the best of their knowledge, the information contained in this Offering Prospectus/Stock Exchange Listing Prospectus is accurate, and that no material information has been omitted.

Inspection of documents

All documents cited in this Offering Prospectus/Stock Exchange Listing Prospectus relating to the Company may be inspected at the Company’s registered office at Luisenring 49, 68159 Mannheim, and at the offices of Dresdner Bank Aktiengesellschaft, Jürgen-Ponto-Platz 1, 60301 Frankfurt am Main, during normal business hours.

Subject of the Offering Prospectus/Stock Exchange Listing Prospectus

The subject of this Prospectus as an Offering Prospectus is 12,680,400 no-par value shares of MVV Energie AG (hereinafter also referred to as “new shares”) from the capital increase resolved by the Extraordinary General Meeting on January 27, 1999 and up to 1,100,000 no-par value shares of MVV Energie AG from the holdings of an existing shareholder on the basis of the greenshoe option granted to Dresdner Bank AG (hereinafter also referred to as “greenshoe shares”), each carrying dividend rights for half of fiscal year 1998/1999.

The subject of this Prospectus as a Stock Exchange Listing Prospectus is 50,702,000 no-par value shares representing the aggregate capital stock of MVV Energie AG (hereinafter also referred to as the “aggregate capital stock”), up to 400,000 no-par value shares from the options for conversion into no-par value shares from the contingent capital increase dated January 27, 1999 amounting to DM 2,000,000, carrying full dividend rights for the fiscal year in which the conversion right is exercised, and up to 600,000 no-par value shares with regard to the option rights for no-par value shares from the contingent capital increase dated January 27, 1999 in the amount of DM 3,000,000, carrying full dividend rights for the fiscal year in which the option right is exercised.

The Offering

General information

The 12,680,400 new shares from the capital increase resolved by the Extraordinary General Meeting on January 27, 1999 for which statutory subscription rights were excluded, as well as up to 1,100,000 greenshoe shares (together with 12,680,400 new shares, hereinafter also referred to as the "placement volume") if applicable, were offered for sale to investors with no obligation by an underwriting syndicate with Dresdner Bank AG as lead manager and with the participation of Credit Suisse First Boston Aktiengesellschaft, DG BANK Deutsche Genossenschaftsbank AG, Landesbank Baden-Württemberg and Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien, by way of a bookbuilding process within a price range of between EUR 14.– and EUR 16.–¹⁾ per no-par value share from February 23, 1999, to February 26, 1999 ("subscription period") by way of a public placement within the Federal Republic of Germany and by way of a private placement outside of the Federal Republic of Germany. The price range was announced on February 22, 1999, during a press conference and company presentation at Dresdner Bank AG and was published by way of a press release. The price range was published in the Handelsblatt on February 23, 1999.

Bids could be submitted with a price limit within this price range. The standard subscription price at which 12,680,400 new shares and, if applicable, also up to 1,100,000 greenshoe shares, was fixed at EUR 16.–²⁾ on the basis of the bids received before the end of the subscription period, on February 26, 1999. The subscription price was published on March 1, 1999, in the Handelsblatt. Bids were accepted without obligation by the underwriting banks during normal banking hours. In particular in the event that the placement volume was insufficient to service all bids at the subscription price, the underwriting banks reserved the right to reject bids in full or in part. Investors who submitted their bids through an underwriting bank may obtain information from this bank regarding the number of shares allotted to them as of March 1, 1999. Special emphasis was given to the Rhine-Neckar region in placing the shares.

Dresdner Bank AG has been granted the option of acquiring up to an additional 1,100,000 no-par value shares from the holdings of MVV GmbH, Mannheim (formerly Mannheimer Versorgungs- und Verkehrsgesellschaft mbH) within a period of 30 days beginning on the day on which the shares of the Company are first traded on the stock exchange, in order to cover the greenshoe option with these shares. The proceeds from the sale of these shares will be paid to MVV GmbH.

A number of shares from the placement volume (5% of the placement volume) was reserved for the employees of MVV Energie AG and companies in which MVV Energie AG has a direct or indirect majority holding, as well as MVV GmbH and MVV Verkehr AG. Employees received a preferential allotment of the shares described in the section below entitled "Employee stock option plan". MVV GmbH and MVV Verkehr AG received a preferential allotment (103,400 no-par value shares) as part of this plan to cover the option rights issued in the course of the employee stock option plan. Otherwise, the general terms of sale apply.

To implement the above-mentioned capital increase, 12,680,400 new shares were underwritten by Dresdner Bank AG at DM 5.00 per share on behalf of the underwriting banks with the obligation to place these shares. The difference between the issuing price and the subscription price attained for these shares will be paid to the Company:

The proportional amount of capital stock per no-par value share currently amounts to DM 5.00.

The shares with full dividend rights for fiscal year 1998/1999 have been allocated the Securities Code Number 725 590.

The shares with dividend rights for half of fiscal year 1998/1999 have been allocated the Securities Code Number 725 591.

¹⁾ Using a conversion rate of DM 1.95583 for one EURO, this corresponds to between approximately DM 27.38 and DM 31.29.

²⁾ Using a conversion rate of DM 1.95583 for one EURO, this corresponds to approximately DM 31.29.

Management stock option plan

The Executive Board of the Company was authorized by a resolution of the Extraordinary General Meeting on January 27, 1999 to introduce a management stock option plan with the approval of the Supervisory Board. To implement this management stock option plan, the Company plans to issue interest-bearing convertible bonds on one or several occasions up to December 31, 2003 up to an aggregate face value of DM 2,000,000 or the corresponding equivalent in euro, composed of 400,000 convertible bonds with a face value of DM 5.00 per bond or the corresponding value in euro and a maximum maturity of 5 years. The convertible bonds may only be issued to members of the Executive Board of MVV Energie AG, members of the Executive Boards of subsidiaries of MVV Energie AG and employees in executive and key positions in MVV Energie AG and its subsidiaries. Only the Supervisory Board of the Company can decide whether members of the Executive Board of MVV Energie AG will receive convertible bonds. The subscription rights of the shareholders of the Company are excluded. Each convertible bond with a face value of DM 5.00 or its corresponding equivalent in euro entitles the holder to exchange it for one no-par value share of MVV Energie AG. The conversion right cannot be exercised until the three-year blocking period following the issue of the convertible bond has expired. After this, the right may be exercised within a period of two years after the expiration of the blocking period within defined exercise periods. The conversion right may only be exercised if the increase in the price of MVV Energie AG's shares between the commencement of the plan and the expiration of the blocking period exceeds the increase in the CDAX Utilities benchmark index. The conversion price is derived from the average price of MVV Energie's shares on the 30 trading days preceding the expiration of the blocking period less a price markdown in the amount of the percentage by which the price of MVV Energie's shares has improved over the benchmark index during the blocking period. The Extraordinary General Meeting resolved on January 27, 1999 to implement a contingent increase of the capital stock by DM 2,000,000 to cover the conversion rights from the convertible bonds (contingent capital) (see "Capitalization").

Employee stock option plan

The employees of MVV Energie AG and the employees of companies in which MVV Energie AG has a direct or indirect majority holding, as well as MVV GmbH and MVV Verkehr AG, had the opportunity to receive a preferred allotment of shares with an equivalent value of up to DM 10,000 per employee from MVV Energie AG's shares.

MVV Energie AG also offered its employees and employees of companies in which MVV Energie AG has a direct or indirect majority holding, as well as MVV GmbH and MVV Verkehr AG, the opportunity to receive:

- I. Between 20 and 80 shares of MVV Energie in blocks of ten. Employees were offered shares at preferential terms (50% rebate on placement price). The resulting price advantage is subject to income tax and social security contributions. The shares have been restricted by an internal blocking period lasting until March 3, 2001.
- II. An additional up to 20 shares of MVV Energie, also at preferential terms (50% rebate on placement price). The participants' subscriptions were only considered (in full or in part) to the extent that shares were remaining from the volume of shares required to meet orders under I. above. For shares allocated under this clause, the resulting price advantage is also subject to income tax and social security contributions, and these shares have also been restricted by an internal blocking period until March 3, 2001.

Two subscription rights (call options) were attached free of charge to each share purchased in accordance with I. and II. which allow the bearer to purchase an MVV Energie share at the placement price following the expiration of a blocking period. Under the terms of the option agreement, the call options may not be exercised until two years after the call option has been granted. The options may be exercised within three exercise periods provided that the price of the MVV Energie shares from the granting of the call option has risen by at least 5% p.a. within a period of 14 days before the commencement of the exercise period. The exercise period extends over the four weeks after publication of the next three semi-annual reports after completion of the blocking period. The employee can only exercise his/her option rights in full. In the case of option rights which were granted to employees of the MVV Energie AG and employees of companies in which MVV Energie AG directly or indirectly has a majority interest, distribution over the various exercise periods is not possible. In order to grant these rights, the Extraordinary General Meeting resolved on January 27, 1999 to undertake a contingent increase of the capital stock by DM 3,000,000 (contingent capital II) (see "Capitalization"). In order to meet the remaining option rights, MVV GmbH and MVV Verkehr AG will receive a preferred allotment of up to 150,000 shares in the course of the placement of the new shares.

Stock exchange listing

The aggregate capital stock of MVV Energie AG was admitted to trading on the Amtlicher Handel (First Trading Segment) of the Frankfurt and Stuttgart Stock Exchanges on February 26, 1999. The listing on the Amtlicher Handel is planned for March 2, 1999.

Prohibition on the disposal of shares

MVV Energie AG and MVV GmbH have agreed that for a period of six months commencing on the date of listing of the shares on the Amtlicher Handel and with the exception of the exercise of the greenshoe option, they will not offer for sale directly or indirectly any shares, announce the disposal of these shares or take other measures which are the financial equivalent of their disposal. For an additional period of six months, this may only be done with the consent of Dresdner Bank AG.

Stabilization

In connection with the placement of shares, Dresdner Bank AG may, on behalf of the underwriting syndicate in accordance with general market practice, exercise greenshoe options or perform other transactions affecting the Company's shares or any derivatives relating to the shares which might stabilize the exchange price or hold it at a level that would not exist if such steps were not taken. Dresdner Bank AG will perform the technical implementation of these steps; the time-limit for stabilization measures ends 30 days after the new shares have been listed.

Utilization of the proceeds of the issue from the capital increase

The proceeds of the placement of the 12,680,400 new shares offered by the Company amount to approximately DM 396.8 million. The aggregate cost of the issue, including the remuneration of the underwriting banks, which totals approximately DM 18.4 million, amounts to around DM 24.7 million. The Company will also bear the costs arising from granting shares to its employees under preferential issuing terms as part of the employee stock option plan. These expenses amount to approximately DM 2.3 million.

Approximately DM 369.8 million of the net proceeds will be used by the Company to extend its lines of business, to purchase equity interests in Germany and abroad and to strengthen its capital base.

MVV GmbH will benefit from the proceeds of the placement of up to 1,100,000 shares from the greenshoe option. It will also be responsible for the remuneration of the underwriting syndicate for the placement of these shares.

Payment date and delivery

The shares are certified in global certificates together with global coupons which will be lodged with Deutsche Börse Clearing AG, Frankfurt am Main for the free float shares. The shareholders will each receive a credit to a collective securities account. Claims for the individual certification of shares are excluded in accordance with the Articles of Association.

Investors will be required to pay the purchase price for the shares plus the standard securities commission on March 3, 1999.

Transferability of shares

The Company's shares are freely transferable bearer shares. They are certified in global certificates. Transfer will be effected in Deutsche Börse Clearing AG's collective securities transfer system.

Taxation

This section contains a brief summary of a number of key German taxation principles which are or could be of material relevance to the shares. It does not present a comprehensive or complete picture of all aspects of German tax laws which could be of relevance to shareholders. The summary is based on current German law at the time of preparation of this Prospectus, as well as on typical double taxation agreements currently in force between the Federal Republic of Germany and other countries. Domestic and bilateral tax regulations may change at any time without notice. Prospective investors should therefore consult their tax adviser regarding the tax consequences of any purchase, ownership or disposal or cost-free transfer of shares and regarding the procedure to be observed in any refund of German withholding tax (investment income tax). Only a tax adviser is in a position to adequately assess the particular tax position of the individual shareholder.

– The Company's tax liability

German corporations are subject to corporation tax at the rate of 45% on retained earnings and 30% on distributed profits. A "solidarity surcharge" (currently 5.5%) has been levied on the corporation tax liability since January 1, 1995. The tax liability on distributed profits amounts to 31.65% (30% + 5.5% of 30%). Provided the corporation is required to pay corporation tax of 30% on distributed profits, taxpayers with unlimited tax liability in Germany (as well as foreign shareholders holding shares in the assets of an operating establishment or a permanent facility in Germany) are entitled to offset $\frac{3}{7}$ of the cash dividend (before investment income tax) distributed by a German corporation.

– Taxation of dividends

German corporations are required to withhold and remit to the authorities a withholding tax (investment income tax) amounting to 25%. The 5.5% solidarity surcharge is also levied on the investment income tax. It amounts to 1.375% (5.5% of 25%) of the cash dividend.

Under most of the double taxation agreements concluded by the Federal Republic of Germany, the rate of the withholding tax applicable to dividends paid to foreign shareholders is reduced to 15%. Most double taxation agreements provide for further reductions for dividends distributed to corporations which hold at least 10% of the voting shares of the distributing company. The withholding tax reduction is applied in such a way that the difference between the total amount withheld, including the solidarity surcharge, and the actual withholding tax liability under the relevant double taxation agreement is reimbursed on application to the German tax authorities (Bundesamt für Finanzen, Friedhofstrasse 1, 53221 Bonn). Application forms for reimbursement may be obtained from the German tax authorities or at German embassies or consulates abroad.

Shareholders with unlimited tax liability in Germany and foreign shareholders who hold shares in the assets of an operating establishment or a permanent facility in Germany are entitled to offset the investment income tax (including solidarity surcharge) withheld by the distributing company against their income or corporation tax liability, or (where applicable) to claim a refund.

Shareholders resident in Germany and foreign shareholders who hold shares in the assets of an operating establishment or a permanent facility in Germany are also generally entitled to offset or have reimbursed $\frac{3}{7}$ of the cash dividend (before investment income tax) under the corporation tax imputation procedure. This also reduces the basis for assessment of the solidarity surcharge on their income or corporation tax liability. The purpose of the corporation tax imputation procedure is to avoid double taxation of the company/shareholder relationship, and to ensure that the dividends are taxed on the basis of the individual shareholder's circumstances. No imputation credit applies where distributed profits were tax-free at the company, for example as a result of a double taxation agreement.

Under German law, foreign shareholders without operating establishments or a permanent facility in Germany are not entitled to offset or have reimbursed either the investment income tax (which may be at a reduced rate) or the corporation tax imputation credit. German income tax is thereby paid in full.

Income from shares forming part of the assets of an operating establishment or a permanent facility maintained by a foreign legal entity in Germany is subject to German corporation tax at the rate of 42% plus 2.31% solidarity surcharge (5.5% of 42%), i.e. a total rate of 44.31%; the corporation tax imputation procedure applies.

In the case of natural persons with an unlimited tax liability in the Federal Republic of Germany who are not holding the shares as part of business assets, the dividends including corporation tax and investment income tax owed are considered income from capital assets. A "savings allowance" is applied to this income; it currently amounts to DM 6,000 for single persons or DM 12,000 for married couples. Up to the amount of these tax allowances plus a lump-sum business expenses allowance of DM 100/DM 200,

income may be paid out without deducting investment income tax and the corporation tax imputation credit may be credited, provided that an exemption application certificate has been submitted to the payer. The same applies if it can be assumed that an assessment of income tax will not occur, as long as a non-assessment certificate has been presented.

– Taxation of capital gains

Profits from the disposal of shares held in the operating assets of an operating establishment or a permanent facility in Germany of a shareholder resident in Germany, or held in the assets of an operating establishment or a permanent facility in Germany of a foreign shareholder, are subject to standard taxation.

In contrast, profits from the disposal of privately held shares are only taxable if disposal takes place within six months of acquisition or – following the expiry of this capital gains tax liability period – if the shareholder directly or indirectly held an interest in the company exceeding 25% at any time during the five years preceding the disposal. Foreign shareholders without an operating establishment or a permanent facility in Germany are only liable for German tax on profits from the disposal of shares if they directly or indirectly held an interest in the company exceeding 25% at any time during the five years preceding the disposal. In addition, most double taxation agreements even provide complete exemption from German taxation in this case.

– Wealth tax

For assessment periods starting on or after January 1, 1997, no wealth tax is currently levied in the Federal Republic of Germany.

– Inheritance and gift tax

The transfer of shares to another person by way of a gift or on account of death is only subject to German inheritance or gift tax if

- (a) the testator (donor) or the heir (donee or other acquirer) was resident or ordinarily resident in Germany at the time of the transfer of assets, or as a German national had not been resident abroad for more than five years without having a place of residence in Germany, or
- (b) other than in the case described in (a) above, the shares of the testator or donor were operating assets for which an establishment was maintained in Germany or a permanent representative was appointed, or
- (c) the testator or donor either alone or in conjunction with other persons closely associated with him or her directly or indirectly held at least 10% of the nominal or ordinary capital stock of the German corporation.

The few German double inheritance taxation agreements currently in force (e.g. with the USA) generally provide that German inheritance or gift tax can only be levied in cases (a) and (b). In case (c) inheritance or gift tax can be levied if the heir or donee was resident in Germany at the time of the inheritance or donation (e.g. double inheritance taxation agreement with the US).

– Other taxes

No German capital transfer tax, valued-added tax, stamp duty or any similar tax or duty is levied on the purchase, sale or disposal of shares by other means.

– Planned legislation

According to the "Tax reform bill for 1999/2000/2002 submitted by the SPD (Social Democratic Party) and Bündnis 90/die Grünen (Green Party)" published on November 10, 1998, the following changes in taxation are planned:

- The corporation tax on retained earnings is expected to amount to only 40% as of January 1, 1999.
- Earnings from shares belonging to an operating establishment or permanent facility held by a foreign legal entity in Germany are expected to be subject to a corporation tax rate of 40% as of January 1, 1999.
- It is anticipated that the savings allowance which currently amounts to DM 6,000/DM 12,000 (single persons/married couples) will be reduced to DM 3,000/DM 6,000 (single persons/married couples) for assessment periods starting in the Year 2000.

- Profits from the disposal of shares held as private assets are expected to be subject to tax as of January 1, 1999 if the disposal is made within one year after acquisition of the shares. This also applies if the shares were acquired before January 1, 1999.
- Profits from the disposal of shares held as private assets are expected to be subject to tax as of January 1, 1999 if the shareholder directly or indirectly held an interest in the company exceeding 10% at any time during the five years preceding the disposal.
- Profits from the disposal of shares recorded by a foreign shareholder without an operating establishment or permanent facility in Germany are expected to be subject to German taxation as of January 1, 1999 if the shareholder directly or indirectly held an interest in the company exceeding 10% at any time during the five years preceding the disposal.

Risk Factors

Before deciding to buy shares of the Company under the terms of this offering, prospective investors should consider carefully all the specific risk factors described below in conjunction with the other information presented in this Prospectus.

Influence of the deregulation of the energy markets

In the past, energy utility companies in Germany benefited from separate and exclusive electric power supply areas. The relevant utility was the sole supplier in these supply areas and was subject to little or no competition in the area of bulk-rate and standard rate-paying customers.

The amendment to the energy law which took effect in April 1998 eliminated closed supply areas. In the future, each electric power supplier will be able to supply each customer via the existing networks of other electricity distributors in exchange for a transmission fee as defined in the currently valid temporary agreement of associations ("Verbändevereinbarung"). This new regulation allows competitors to supply the MVV Energie Group's customers, which could lead to a reduction in sales and turnover.

Electricity prices are expected to continue to fall as a result of increasing competition. The energy utilities' ability to maintain their earnings power will depend on whether they are able to cut costs as a reaction to falling prices in the electricity market. The MVV Energie Group has introduced a series of cost-cutting measures in anticipation of this development. It cannot be ruled out, however, that these measures may be insufficient to maintain the Company's current earnings power.

Due to the pending deregulation of the gas market, similar developments on this market cannot be ruled out.

Municipal regulations; the city of Mannheim's indirect majority interest

Even after the Initial Public Offering, MVV Energie AG is subject to the regulations in sections 102 ff. of the municipal legislation for Baden-Württemberg and is a public corporation. As such, the Company must serve the public interest and must remain commensurate with the municipality's performance and with its projected needs. MVV Energie AG has consistently served the public interest; it supplies electric power, district heating, gas and water to the city of Mannheim. In addition, it has also been active in other regions in cooperation with the state government. In view of the deregulation of the energy markets which has been apparent since the late 1980s and the introduction of non region-specific competition, the MVV Energie Group has expanded its activities both geographically and in terms of its products. In the opinion of the Company, this expansion is in line with municipal economic legislation. This opinion was confirmed in a legal opinion issued by a renowned expert. When deciding to buy shares, prospective investors should also consider that the room to maneuver in terms of geography and in terms of products that is allowed under the municipal economic legislation is still controversial (see also the section entitled "Municipal legal framework").

Prospective investors should also take into account that the city of Mannheim is able to exert considerable influence on the resolutions passed in the General Meeting due to the indirect majority interest it holds in the MVV Energie AG. Any influence the city of Mannheim and/or MVV GmbH may exert on MVV Energie AG to its disadvantage must be compensated. If this is the case, it cannot be ruled out that conflicts may arise as a result of the public interest served by the city of Mannheim and its obligation to fulfill requirements laid down in legislation on the municipal economy or on municipal fees and charges on the one hand, and the Company's interests on the other. These conflicts could have an adverse effect on the further development and thus on the results of the MVV Energie Group (see also the section entitled "Indirect majority interest of the city of Mannheim").

Codetermination agreement; works agreement

MVV Energie AG is currently not subject to the Codetermination Act of 1976. However, the bylaws of the Supervisory Board of MVV Energie AG are similar to those defined in the Codetermination Act of 1976 due to the contractual agreement (codetermination agreement) between the city of Mannheim and the works council of MVV Energie AG (see the section entitled "Supervisory Board").

On the basis of a works agreement, terminations of MVV Energie Group employment contracts on commercial grounds are not permitted for the period from October 1, 1998 to September 30, 2004. On the basis of this agreement, the limited scope for reducing employment may influence the MVV Energie Group's economic development.

Relationship with the Grosskraftwerk Mannheim

The MVV Energie Group currently receives a major part of its electric power from the Grosskraftwerk Mannheim AG (GKM), as laid down in long-term contracts. The MVV Energie Group owns a 28% interest in GKM. On the basis of the current contracts, the MVV Energie Group must assume a share of GKM's fixed costs corresponding to the interest it owns, regardless of whether, or to what extent, it purchases its electric power from GKM or from other third parties. If the market price for electric power were to decrease substantially or GKM's production costs were to increase, e. g. as a result of increasing coal prices, the MVV Energie Group – from an economic standpoint – would be limited in its freedom to purchase cheaper electric power due to this fixed cost burden.

Dependence on weather conditions

The sale of gas and district heating is heavily dependent on the weather conditions during the winter months. The MVV Energie Group cannot therefore be certain that the capacity it orders annually on the basis of existing gas supply contracts will actually be purchased to the extent projected by the Group's customers. Even if the MVV Energie Group makes efforts to market the supply which is not purchased by its customers to other potential buyers, this could adversely affect the Company's earnings power.

New business areas

For several years, the MVV Energie Group has offered services which extend beyond energy and water supply: energy services, contracting, consulting, telecommunications and facility management, among others. The goal of these activities is to convert the experience gained in the core business areas into new services and to offset the expected drop in sales in the Group's core business. The sales and contribution to profits of these services have continually increased in the past fiscal years, however, they only account for approximately 2% of the sales or approximately 1% of the earnings of the MVV Energie Group.

Even though the Company assumes that the demand for these services will continue to increase in the future, it cannot be ruled out that the launch and expansion of these business activities in the Company and the demand for these services may develop less favorably than the Company expects.

Effects of the ecological tax reform on sales trends

The German Federal Government plans to tax the use of electric power and to increase natural gas taxes as part of its ecological tax reform. The ecological tax reform will probably take effect in the first six months of 1999. It cannot be ruled out that this will have consequences for energy consumption. It is conceivable that this effect could be compounded by the fact that consumers could become more environmentally aware.

Year 2000 compliance

The MVV Energie Group has inventoried the measures which – in its opinion – are currently required to ensure that the Group's mission-critical computer systems will be able to be converted to ensure year 2000 compliance. The companies named in this Prospectus are all currently converting and updating their information technology and monetary systems in order to avoid potential failures. According to current plans, these conversion measures will be completed in the second quarter of 1999. On the basis of the information currently available, the MVV Energie Group does not expect the costs of these conversion measures to have a sustained effect on the Group's financial position or results. At the same time, it cannot be ruled out that the conversion measures may not be completed on time and thus may not prevent failure and/or that the costs in conjunction with Y2K conversion may reach substantial proportions.

Reliability of opinions and forecasts

The opinions and forecasts expressed in the present Prospectus are primarily the opinions and forecasts of the management of MVV Energie AG. They represent the current understanding of the Company's management with regard to potential future events which are as yet uncertain. Numerous factors may result in actual circumstances that differ substantially from the forecasts.

Volatility of market price

Before this Prospectus was published, there was no public market for MVV Energie shares. The placement price for the shares as part of this offering was fixed by Dresdner Bank AG in agreement with the Company. No guarantee can be given that the future selling price of the shares will not drop below the placement price and that these shares will be actively traded as a result of the offering.

Unsatisfactory development of the Company's results, changes in the general business environment in the industry, the economy as a whole or a general downward trend in prices on the financial markets may have adverse effects on the development of the share price. In general, securities markets have experienced considerable fluctuations in price and sales volumes in the past. Such fluctuations could have positive or negative effects on the MVV Energie share price in the future, regardless of the business development of the Company.

General Information on the Company

Formation and development

MVV Energie AG was founded in 1974 under the name Stadtwerke Mannheim Aktiengesellschaft (SMA) (hereinafter also referred to as "SMA") with a capital stock of DM 100,000. The Company is subject to the laws of the Federal Republic of Germany. Stadtwerke Mannheim Aktiengesellschaft was entered in the Commercial Register of the District Court of Mannheim under No. HRB 1780 on July 31, 1974.

Following the capital contribution agreement resolved on September 18, 1974, MVV GmbH incorporated its Energy and Water Supply division with the entire assets and liabilities attributable to this division by way of a capital increase against non-cash contributions in return for granting shares in the nominal amount of DM 143,900,000. On September 18, 1974, SMA's General Meeting approved the capital contribution agreement of September 18 as a post-formation contract. The post-formation was entered in the Commercial Register of Mannheim District Court on September 30, 1974.

On September 23, 1998, the Extraordinary General Meeting resolved to change the name of the Company to "MVV Energie AG". This change was entered in the Commercial Register of the District Court of Mannheim on October 7, 1998.

In the light of the initial public offering, the Company's Articles of Association and the by laws for the Supervisory Board and the Executive Board were revised.

The control and transfer of earnings contract between MVV GmbH and MVV Energie AG was terminated on September 30, 1998 in an agreement dated September 28, 1998. The termination of the contract was entered in the Commercial Register of the District Court of Mannheim on October 27, 1998.

A resolution by MVV GmbH and RHE also led to the termination of the control and transfer of earnings contract. The termination of this contract was entered in the Commercial Register of the District Court of Mannheim on October 15, 1998.

On December 8, 1998, the General Meetings of MVV Energie AG and RHE approved a control and profit and loss transfer agreement between MVV Energie AG and RHE as of October 1, 1998. This was entered in the Commercial Register of Mannheim District Court on December 18, 1998 (see "Control and profit and loss transfer agreement").

Name, registered office and fiscal year

The **name** of the Company is MVV Energie AG.

The **registered office** of the Company is in Mannheim.

The **fiscal year** of the Company runs from October 1 to September 30 of the subsequent year.

Purpose of the Company

The purpose of the Company is the generation, trade and general provision of utility services relating to electric power, gas, water and district heating, recycling of recoverable resources, information processing and communications technology. It also comprises the planning, establishment and operation of telecommunications facilities, the management of parking garages and parking lots, the purchase, utilization and management of property, property management and building and facility management, as well as the provision of consultancy services to third parties and the provision of services in these areas.

The Company is entitled to perform all business activities and take all steps which are related to or which are suitable for indirectly or directly furthering the Company's business purpose. The Company is entitled to establish branch offices or found, purchase or acquire an equity investment in other companies. It is able to group such companies in full or in part under a single management structure. The Company is also entitled to perform its business activities through subsidiaries, affiliated companies and joint ventures, or to outsource its operations completely or in part to affiliated companies and limit itself to the management and administration of its affiliated companies.

Capitalization

Following the registration of the capital increase against non-cash contributions in the Commercial Register of Mannheim District Court on September 30, 1974, the Company's capital stock amounted to DM 144,000,000.

By the resolution of the Extraordinary General Meeting on September 19, 1984, the Company's capital stock was increased by DM 5,000,000 from DM 144,000,000 to DM 149,000,000 against cash contributions.

On May 2, 1985, the Ordinary General Meeting resolved to increase the Company's capital stock by a further DM 20,000,000 from DM 149,000,000 to DM 169,000,000 against cash contributions.

The Extraordinary General Meeting on December 17, 1998 resolved to redivide the capital stock into 33,800,000 no-par value shares. These are fully paid-up bearer shares. The General Meeting also resolved to increase the Company's capital stock by DM 5,500,000 from DM 169,000,000 to DM 174,500,000 against cash contributions by issuing 1,100,000 no-par value shares at an issuing price of DM 5.00, each carrying dividend rights for half of fiscal year 1998/1999. The City of Mannheim has relinquished the subscription right to which it is entitled by law. The performance of the capital increase was entered in the Commercial Register of the District Court of Mannheim on January 27, 1999. MVV GmbH has subscribed all 1,100,000 no-par value bearer shares.

Subsequent to the resolution of the Extraordinary General Meeting on January 27, 1999, the Company's capital stock was raised from corporate funds by DM 15,608,000 from DM 174,500,000 to DM 190,108,000 through the conversion of a portion of the other revenue reserves into capital stock. The capital increase was based on the Company's annual financial statements as of September 30, 1998 approved by the Executive Board and Supervisory Board. These annual financial statements have been granted an unqualified audit certificate by the Company's auditor, the Mannheim branch of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The capital increase was performed by the issue of 3,121,600 no-par value shares. These carry full dividend rights from fiscal year 1998/1999. The capital increase was entered in the Commercial Register on February 4, 1999.

On January 27, 1999, the Extraordinary General Meeting again resolved to increase the capital stock from DM 190,108,000 by up to DM 63,402,000 to up to DM 253,510,000 against cash contributions by issuing up to 12,680,400 shares. The new shares carry dividend rights for half of fiscal year 1998/1999. The stockholders' subscription right was excluded. The new shares were subscribed and underwritten by Dresdner Bank AG on behalf of the underwriting consortium at an issuing price of DM 5.00 per share. Dresdner Bank AG will be obliged to ensure the disposal and transfer of these shares. The difference between the issuing price and the selling price attained for these shares will be paid to the Company.

After the performance and recording of the capital increase against cash contributions resolved by the Extraordinary General Meeting on January 27, 1999, the Company's capital stock will amount to DM 253,510,000, composed of up to 50,702,000 no-par value shares.

The capital increase was recorded in the Commercial Register on February 26, 1999.

Contingent capital

In order to implement the employee and management stock option plans, the Company's Extraordinary General Meeting resolved the following capital measures on January 27, 1999:

- (1) A contingent increase of the capital stock has been undertaken by an additional amount of DM 2,000,000 by way of the issue of up to 400,000 shares (contingent capital I). The contingent capital increase will only be performed when bearers of convertible bonds, which will be issued by MVV Energie AG following authorization by the Executive Board from January 27, 1999 to December 31, 2003, exercise their conversion right. The contingent capital increase will only be performed insofar as the holders of the convertible bonds exercise their conversion rights. The new shares each carry dividend rights from the beginning of the fiscal year in which they arise through the exercise of conversion rights.
- (2) A contingent increase of the capital stock has been undertaken by a further DM 3,000,000 by way of the issue of up to 600,000 shares (contingent capital II). The contingent capital increase will only be performed when bearers of option rights, which will be issued by MVV Energie AG following authorization by the Executive Board from January 27, 1999 to December 31, 2003, exercise their subscription right. The new shares each carry dividend rights from the beginning of the fiscal year in which they arise due to the exercise of the option rights.

The contingent capital was entered in the Commercial Register on February 4, 1999.

Stockholders

The following table provides an overview of the shareholder structure both before and after the listing when the capital increase to DM 253,510,000 has been fully performed.

Stockholder	Capital Stock held before IPO (in no-par value shares)	Capital stock held after IPO but without exercise of the greenshoe option (in no-par value shares)	Capital stock after IPO and after complete exercise of the greenshoe option (in no-par value shares)
City of Mannheim	872	872	872
MVV GmbH ¹⁾	38,020,728	38,020,728	36,920,728
Free float	–	12,680,400	13,780,400
Total	<u>38,021,600</u>	<u>50,702,000</u>	<u>50,702,000</u>

¹⁾ 100% of shares held by the City of Mannheim

Control and profit and loss transfer agreement

MVV Energie AG and its subsidiary RHE concluded a control and profit and loss transfer agreement on December 8, 1998 which was entered in the Commercial Register of the District Court of Mannheim on December 18, 1998.

Under the terms of this agreement, RHE will subordinate the management of its company to MVV Energie AG, and MVV Energie AG is correspondingly entitled to instruct the Executive Board of RHE. RHE is obliged to remit its entire profits to MVV Energie AG. MVV Energie AG is bound by contract to offset any net loss for the year incurred by RHE, provided that the settlement does not consist of drawing on amounts from the free reserves which were allocated to the reserves during the term of the contract. The contract is binding until September 30, 2003; it will be extended each year for one year provided that it is not terminated with six months' notice.

Appropriation of profits

The Articles of Association of the Company do not contain any particular regulations concerning the creation of reserves and appropriation of profits. An amount must be appropriated to the statutory reserve which corresponds to one twentieth of any net loss for the previous year, less any potential loss carryforward. This amount must be appropriated for as long as the statutory reserve and the capital reserves together do not amount to 10% of the capital stock or reach this amount again, in accordance with section 272 (2) clauses 1–3 of the HGB.

The General Meeting decides on the appropriation of the balance sheet profit, taking into account the additional expense incurred through the resolution on the appropriation of profits. It is obliged to base its decision on the annual financial statements as adopted.

Developments in earnings

In fiscal years 1995/1996, 1996/1997 and 1997/1998, the Company recorded the following net earnings after taxes and appropriated profits as shown below in accordance with the annual financial statements as of September 30, 1996, 1997 and 1998 respectively (see "Financial Section"):

	1997/1998	1996/1997	1995/1996
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Result from ordinary activities	62,414	42,133	57,093
Result from extraordinary activities	-13,670	-10,600	-
Taxes	3,070	363	10,555
Profit transferred on the basis of a transfer of earnings contract ¹⁾	45,674	31,170	46,538
Net earnings after taxes	0	0	0
Earnings per share in DM ¹⁾	1.35	0.92	1.38
Dividends per share in DM ²⁾	-	-	-

¹⁾ On the basis of 33,800,000 no-par value shares.

²⁾ In accordance with the control and transfer of earnings contract as of September 18, 1974, the Company was obliged to transfer its profits to MVV GmbH. As a result, no dividends were distributed. This agreement was terminated with effect from September.

The pro forma consolidated financial statements of the MVV Energie Group in accordance with International Accounting Standards show the following earnings for fiscal years 1995/1996, 1996/1997 and 1997/1998 (see "Financial Section"):

	1997/1998	1996/1997	1995/1996
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Earnings before interest and taxes (EBIT)	163,133	149,299	153,022
Interest income	-53,110	-47,858	-46,447
Extraordinary expenses	-33,979	-	-
Net earnings before income taxes	76,044	101,441	106,575
Income taxes	32,117	45,234	51,514
Net earnings after taxes	43,927	56,207	55,061
Allocation to/withdrawal from retained earnings	-1,278	1,771	2,482
Total net earnings of the MVV Energie Group	42,649	57,978	57,543
DVFA/SG earnings per share in DM ¹⁾	0.86 (1.25*)	1.09	1.08

¹⁾ On the basis of 50,702,000 no-par value shares.

^{*}) Early retirement plan applies in the case of net adjustment.

Dividend policy

In the future, the Company plans to pay its stockholders a substantial dividend based on the earnings of the MVV Energie Group. In general, the ability of the Company to pay dividends and the amount of the given dividend are dependent on the earnings achieved and on the Company's financial situation, liquidity requirements, future prospects, and the tax and other aspects of the general business environment. The General Meeting decides on the appropriation of the balance sheet profit.

Notices, paying and depositary agents

The Company's notices are published exclusively in the Bundesanzeiger (Federal Gazette) and, insofar as they affect the shares, in at least one journal of record for notices of the Frankfurt and Stuttgart stock exchanges.

The underwriting banks listed at the end of this Offering Prospectus/Stock Exchange Listing Prospectus will function as depositary agents to which stockholders may submit certificates from a depositary bank or a securities clearing and deposit bank attesting to the proper deposit of shares for the purpose of issuing admission tickets to the General Meeting.

The paying agency services, which are centralized at Dresdner Bank AG, will also be transferred to the underwriting banks, where subscription rights can also be exercised.

Auditor

The auditor for the Company for the fiscal year October 1, 1998 to September 30, 1999 is the Mannheim branch of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Theodor-Heuss-Anlage 5, 68165 Mannheim (hereinafter also referred to as "KPMG").

This Offering Prospectus/Stock Exchange Listing Prospectus contains the Company's annual financial statements for fiscal year 1997/1998 and the pro-forma consolidated financial statements of the MVV Energie Group for fiscal years 1995/1996, 1996/1997 and 1997/1998.

KPMG audited the Company's annual financial statements for fiscal years 1995/1996, 1996/1997 and 1997/1998 and issued an unqualified auditors' certificate in each case. KPMG also audited the pro-forma consolidated financial statements for fiscal years 1995/1996, 1996/1997 and 1997/1998 and issued an unqualified audit certificate in each case, confirming the accuracy of the financial statements.

Liquidation and participation in liquidation proceeds

The Company may be liquidated by resolution of the General Meeting with a majority of at least three quarters of the capital stock represented at the vote on the resolution. In the event of liquidation, the stockholders will receive a share of the proceeds of the liquidation corresponding to their share of the capital of the Company.

Executive Bodies of the Company

Executive Board

Under the Articles of Association of the Company, the Executive Board consists of at least two persons. The Supervisory Board elects and determines the number of members of the Executive Board. The Supervisory Board can appoint a Chairman of the Executive Board as CEO.

The Company is represented by two Executive Board members or one Executive Board member and a Prokurist (procurator). The Supervisory Board can release the Executive Board members from the restrictions of section 181 of the BGB (German Civil Code).

The following section contains additional information about the members of the Executive Board of the Company, all of whom may be contacted at MVV Energie AG, Luisenring 49, 68159 Mannheim:

Roland Hartung, 62, heads the division for commercial affairs and waste management. He is temporarily serving as Technical Director.

Roland Hartung studied law, political science and economics at Heidelberg University. After passing the German bar exam, he worked as a lawyer. From 1965 to 1988, Mr. Hartung was a member of Mannheim city council. As a councillor, he played an important role in the restructuring of Stadtwerke und Verkehrsbetriebe (public utilities and transport) as public corporations under the leadership of the holding company MVV GmbH in 1973/1974. He was one of the founding members of both the Supervisory Board of MVV GmbH and its subsidiaries and served in this capacity until the end of June 1988.

In July 1988, Roland Hartung was appointed Director of MVV GmbH as well as a member of the Executive Board of MVV Energie AG and the other subsidiaries of MVV GmbH. He has been the coordinator of the Executive Board since 1989 and was appointed CEO of MVV GmbH in 1994. On November 1998, he was appointed CEO of MVV Energie AG as part of the reorganization of MVV Energie AG. In addition to this function, he is also the CEO of MVV GmbH and continues to act as a member of the Executive Boards of RHE and MVV Verkehr AG.

Klaus Curth, 60, is the Director of Personnel, Social Services, Administration and Data Processing.

Klaus Curth trained as a fitter at the then Stadtwerke Mannheim and studied to be an engineering technician at night school. He was awarded a degree in mechanical engineering in 1971. Ten years later, Mr. Curth was appointed head of the District Heating department. From 1968 up until his appointment to the Executive Board, Klaus Curth was the Director of the Works Council, and since 1986 he was the Chairman of the Works Council.

In 1975 Klaus Curth was appointed a member of the Supervisory Board of MVV Energie AG (formerly SMA). He moved to the Supervisory Board of MVV GmbH in 1978 and was elected Deputy Chairman of the Supervisory Board of MVV GmbH in 1986. Since December 1989, Klaus Curth has been a member of the Executive Board of MVV Energie AG. In addition, he continues as a member of the Executive Board of MVV GmbH and is also still a member of the Executive Board of RHE and MVV Verkehr AG.

The members of the Executive Board did not hold any shares or subscription rights on shares of the Company prior to the Offering.

In fiscal year 1997/1998, the members of the Executive Board of MVV Energie AG were remunerated exclusively by MVV GmbH for their membership of the Executive Board of the former Stadtwerke Mannheim AG, now MVV Energie AG. MVV Energie AG paid a proportionate share of the group contribution, thereby fully remunerating the Executive Board's activities at the Company.

Supervisory Board

The Company's Supervisory Board is composed of 18 members. The City of Mannheim appoints the Oberbürgermeister (Lord Mayor) and the City Treasurer to the Supervisory Board, taking into account the Supervisory Board Members to be elected by the General Meeting, provided that MVV GmbH holds shares in the amount of more than 50% of the capital stock. In accordance with the Betriebsverfassungsgesetz (German Labor-Management Relations Act) of 1952, 6 employees are elected as members of the Supervisory Board. The remaining members are elected from among the stockholders, in accordance with the Aktiengesetz (German Stock Corporation Act).

The Supervisory Board currently comprises the following members, all of whom may be reached at MVV Energie AG, Luisenring 49, 68159 Mannheim:

Name	Function	Membership in Supervisory Board of other MVV Group companies
Gerhard Widder, Mannheim (Chairman)	Oberbürgermeister (Lord Mayor) of Mannheim	1), 2), 3)
Hans-Jürgen Farrenkopf, Mannheim (1 st Deputy Chairman) **)	Chairman of the Works Council	1), 2)
Dr. Norbert Egger, Mannheim (2 nd Deputy Chairman)	1 st Vice-Mayor of Mannheim	1), 2), 3)
Manfred Barwind, Hockenheim *)	Master electrician	
Barbara Daum-Leiendeker, Mannheim*)	Clerk	
Werner Ehret, Mannheim *)	Electrical fitter	1)
Karl Feuerstein, Mannheim **)	Chairman of the Group's Works Council and Deputy Chairman of DaimlerChrysler AG	1)
Manfred Froese, Mannheim	Deacon	
Dr. Manfred Fuchs, Mannheim **)	Chairman of the Executive Board of FUCHS PETROLUB AG	
Karlheinz Haas, Mannheim	Electrician	1)
Klaus Lindner, Mannheim **)	Manager of ÖTV district office, Mannheim	1)
Jörg Mergenthaler, Mannheim	Lawyer	
Peter Sattler, Mannheim *)	Electrician	
Rolf Schmidt, Mannheim	School principal	1), 2)
Christel Spohni, Mannheim *)	Clerk	1)
Elke Stegmeier, Mannheim	School principal	2)
Hans-Jürgen Trimborn, Mannheim *)	Technical employee	
Dr. Elke Wormer, Mannheim	Lawyer	

*) = Employee representative, elected (BetrVG 1952)

***) = Elected in accordance with contractual codetermination agreement

Also member of the following Supervisory Boards of the MVV Group, comprising the following companies:

1) = MVV GmbH

2) = RHE

3) = MVV Verkehr AG

As part of a contractual codetermination agreement between the City of Mannheim and the Works Council of MVV Energie AG of December 29, 1998, amended following a resolution on January 26, 1999, the City of Mannheim has undertaken to ensure that MVV GmbH exercises its voting right such that two more employee representatives are elected to the Supervisory Board in addition to the six representatives to be elected among the employees. The remaining employee representatives are appointed by the employee representative in the Supervisory Board of MVV GmbH. The Deputy Chairman of the Supervisory Board of MVV GmbH is appointed and, in accordance with the Mitbestimmungsgesetz (Codetermination Act) of 1976, one of the union representatives in the Supervisory Board of MVV GmbH. The City of Mannheim has also undertaken to ensure that MVV GmbH exercises its voting right in the General Meeting of MVV Energie AG such that two external persons are elected to the Supervisory Board of MVV Energie AG. One of these two external Supervisory Board members is elected on the proposal of the City of Mannheim. This Supervisory Board member may not be a member of the Mannheim City Council or an employee of the Company, or work in a company which is part of the Group. The other external Supervisory Board member is elected on the proposal of the employee representatives on the Supervisory

Board of MVV Energie AG in agreement with the city of Mannheim. This Supervisory Board member may not be an employee of the Company, or of a company which is part of the Group or of one of its subsidiaries. Furthermore, the City of Mannheim has assumed an obligation to exercise its influence to the effect that one of the employees elected in accordance with the Betriebsverfassungsgesetz of 1952 or one of the two other employee representatives will be elected Deputy Chairman of the Supervisory Board of MVV Energie AG. In addition, the City of Mannheim will exercise its right to the effect that one member of the Executive Board of MVV Energie AG will be elected Director of Personnel. This agreement is not limited by time; it becomes invalid in the event MVV Energie AG becomes subject to the Mitbestimmungsgesetz of 1976.

The members of the Supervisory Board are elected for a term of office terminating at the end of the General Meeting which resolves their discharge for the fourth fiscal year after the commencement of the term of office. This does not include the fiscal year in which the election takes place.

The General Meeting can resolve a shorter term of office at the time of the election. Alternate Supervisory Board members may be elected to replace members retiring or resigning before the expiry of their term for the remainder of their terms.

The Supervisory Board is authorized to set up committees composed of members of the Supervisory Board in accordance with statutory regulations and to transfer tasks and decision-making powers to these committees in its by laws or by way of separate resolutions.

The Supervisory Board members receive a fixed remuneration that is payable annually at the end of the fiscal year as well as attendance fees, the amount of which is decided by the General Meeting. The Chairman of the Supervisory Board receives double these amounts. Members of the Supervisory Board who were not part of the Supervisory Board for a full year receive remuneration prorated over their period of office. In addition, the Company reimburses all Supervisory Board members all expenses and the value-added tax payable on this remuneration and expenses.

The total remuneration of the members of the Supervisory Board amounted to approximately DM 64 thousand in fiscal year 1997/1998. On January 27, 1999, the General Meeting resolved remuneration in the amount of DM 100 thousand for fiscal year 1997/1998.

The members of the Supervisory Board did not hold any shares or subscription rights on shares of the Company prior to the Offering. They are not permitted to participate in the management stock option plan.

The Company has granted members of the Supervisory Board loans amounting to approximately DM 50 thousand.

General Meeting

The General Meeting is held at the registered office of the Company.

The General Meeting is convened by the Executive Board. The legal right of others to convene the General Meeting remains unaffected.

The General Meeting is presided over by the Chairman of the Supervisory Board or another member of the Supervisory Board elected by the Supervisory Board.

Resolutions are passed by a simple majority of votes in the General Meeting and, insofar as the law prescribes a majority of the Company's capital as well as a majority of the votes, by a simple majority of the capital stock represented in the vote on the resolution.

The General Meeting resolves the discharge of members of the Executive Board and Supervisory Board, the appropriation of profits, the election of the Supervisory Board members, and elects an auditor to certify the financial statements, as laid down in law.

Each share entitles the holder to one vote at the General Meeting.

Group Restructuring

Overview

MVV GmbH together with MVV Energie AG, RHE and MVV Verkehr AG and further associates and subsidiaries comprise the MVV Group. Its parent company, MVV GmbH, is wholly owned by the city of Mannheim.

Until September 30, 1998, the current MVV Energie AG and RHE as well as MVV Verkehr AG were each linked to MVV GmbH by a control and transfer of earnings contract. MVV GmbH thus had uniform control of the MVV Group and also exercised important service functions for the Group companies.

The IPO and the hiving off of the utility services business from the transportation division, MVV Verkehr AG required the cancellation of the control and transfer of earnings contracts between MVV GmbH and MVV Energie AG and between MVV GmbH and RHE as of September 30, 1998. MVV Energie AG and RHE concluded a control and profit and loss transfer agreement effective from October 1, 1998. As of October 1, 1998, several agency agreements, a cash-pooling contract (see the section entitled "Financial and cash management system"), a value-added tax contract and a trade-tax contract redefine the legal relationships between MVV GmbH, MVV Energie AG, RHE and MVV Verkehr AG as well as further associates and subsidiaries of the MVV Group.

As part of the restructuring process, employment contracts and the assets and liabilities of MVV GmbH were transferred to MVV Energie AG as of October 1, 1998. Furthermore, equity investments in several subsidiaries of MVV GmbH were transferred to MVV Energie AG. Senior management and the secretarial staff were the only part of the workforce to remain at MVV GmbH. All important functional units with the exception of the financial and cash management system were also transferred from MVV GmbH to MVV Energie AG. Thus, since October 1, 1998, MVV GmbH has only acted as a financial holding company.

The new MVV Energie Group, whose historical pro forma consolidated financial statements are disclosed in the financial section, consists of MVV Energie AG and RHE as well as further associates and subsidiaries (see the section entitled "Financial Section").

Pro forma consolidated financial statements for the previous years were drawn up as of September 30 for fiscal years 1995/1996, 1996/1997 and 1997/1998. To make a comparison with the two previous years possible, the MVV Energie Group was theoretically presented as having already existed during this period (see the section entitled "Financial Section").

Financial and cash management system

The Company is linked to the central financial and cash management system of the MVV Group. In addition to guaranteeing liquidity, the main aim of this system is to optimize financial transactions within the MVV Group and to optimize financing costs by centralizing the procurement of credit facilities.

The total liquidity of the companies of the MVV Group is kept exclusively in bank accounts held by MVV GmbH. MVV GmbH affects all payments (investments, current expenditures) for the companies and receives all earnings (sales, etc.).

A clearing account operated on a current account basis is kept for every company. In this clearing account, transactions are displayed with the same value as they are in the cash accounts of MVV GmbH.

When planning the liquidity of MVV GmbH, the transactions of all companies are accounted for, and borrowing and investment arrangements are made.

Financial planning at the level of MVV GmbH includes total long-term capital requirements. To cover these long-term capital requirements, MVV GmbH raises capital under municipal loan terms with a guarantee by the city of Mannheim.

The total interest balance of MVV GmbH (long-term and short-term interest payable less interest received) is allocated to the clearing accounts of the individual companies in proportion to the interest accumulated on these accounts during the fiscal year after deduction of a margin in line with market conditions.

Municipal legal framework

After the IPO, MVV GmbH, whose sole owner is the city of Mannheim, will still hold a majority interest in MVV Energie AG (see the sections entitled "Stockholders" and "Indirect majority interest of the city of Mannheim"). MVV Energie AG is thus subject to the provisions of sections 102ff. of the municipal legis-

lation for Baden-Württemberg, which limit the activities of companies owned by municipalities. On the one hand, its activities must serve the public interest. On the other hand, the nature and scope of the company must be commensurate with the capacity and projected needs of the municipality. The municipality may only grant a company in which it holds a majority permission to participate in another company when this is justified by the public purpose of the Company.

MVV Energie AG has always performed tasks that serve the public interest as defined by municipal economic legislation. On the basis of a concession agreement with the city of Mannheim, it supplies the municipal area of the city of Mannheim with electric power, district heating, gas and water, and thus works to supply the needs of the public (see the section entitled "Concession agreements"). The areas of activity of the individual divisions, particularly as relates to the supply of natural gas, have for years also gone beyond the borders of the municipal area of the city of Mannheim and partly beyond the borders of Baden-Württemberg; concession agreements also exist for these activities. These three decades of regionalization have been favorably viewed by the respective state governments of Baden-Württemberg. This also resulted in the formation of a regional gas company (GVS), in which the MVV Energie Group holds a 26.25% interest and the state of Baden-Württemberg a 25% interest.

Especially since the emergence of energy deregulation in the late 1980s, which is now moving forward due to federal legislation on the energy sector for electricity and gas that came into force on April 29, 1998, the Company has expanded its areas of operation both geographically and in terms of its products. As a corollary to abolishing the service-area monopoly and introducing non-region-specific competition in supply areas, deregulation offers the opportunity to provide services beyond the traditional supply area and to develop new offerings. MVV Energie AG is thus active in the area of transregional energy service and new energy services. In addition, it has acquired equity interests in power trading companies and expanded its previously developed consulting activities that focus on Eastern and Central Europe. Furthermore, it has built up facility management operations.

The supply of electric power, gas, district heating and water in municipal areas belong to the typical public duties as defined by section 102 (1) No. 1 of the municipal legislation. Operations that go beyond the municipal supply area commenced following the expansion of Company activities both geographically and in terms of its products must also serve the public interest. The Company believes that this condition is fulfilled. The aim of extending its business activities beyond the municipal area is namely to be able to continue carrying out the cost-efficient and reliable services provided to the supply area of the city of Mannheim in the future. The removal of the service-area monopoly and the introduction of competition in the supply area in particular require such an expansion in order to maintain and further efficiency in the supply area. On the other hand, the above-mentioned objectives and the related ties to municipal supply needs may result in conflicts with geographical and operational expansion. If companies owned by municipalities provide services outside the municipal area that have no material connection to public supply but aim exclusively at making a profit, the public-interest requirement is not fulfilled. This is true even when these resources are used to satisfy local public demand.

The extent of the geographical and operational scope of action guaranteed by municipal legislation, especially as regards the permissibility of extending the operational area beyond the municipal territory is not undisputed. The preceding summary of the Company's opinion is based on the legal opinion of a renowned, independent expert. This legal opinion was submitted to the state government of Baden-Württemberg, which had previously raised objections to the expansion of the Company's business operations. Nevertheless, it cannot be ruled out that the municipal supervisory authority or competing third parties will not hold a more narrow view and question the legality of the activities going beyond the supply mandate of the city of Mannheim.

The Ministry of the Interior of the state of Baden-Württemberg submitted a preliminary bill for the amendment of the municipal regulations, according to which, among other things, the criteria for defining the scope of activities for municipal corporations should be somewhat restricted. According to the bill, use of the legal form of the Aktiengesellschaft (public limited company) should only be secondary to other private-sector legal forms of companies. This means that municipalities would only be able to establish, acquire or take an interest in an Aktiengesellschaft if the company did not or could not fulfill the public-interest requirement to the same extent in another legal form. The bill is extremely controversial; the future of this legislative initiative is uncertain.

The Company believes that maintaining or even intensifying the municipal economic restrictions on companies owned by municipalities contradicts energy market deregulation as effected in the amendment of the Energy Industry Act. The removal of the service-area monopolies of public utilities and the possibility that competing companies will enter these markets must in turn go hand in hand with the freedom of public utilities to develop new markets outside of the municipal supply area. The Company believes that this assessment is confirmed by federal legislators, on the grounds stated in the draft of a law concerning the amendment of legislation on the energy industry.

In this bill, the Federal Government emphasizes public electricity and gas utilities as an important factor for an efficient and balanced supply network, particularly in a deregulated market. It thus expresses its willingness – in as far as this is desired by the municipalities – to appeal to the federal states to ease restrictions for public electricity and gas utilities in municipal economic legislation. If necessary, it is also willing to support a related resolution of the Deutscher Bundestag (German federal parliament). On the basis of this policy, the Company is convinced that public utilities such as MVV Energie AG should establish themselves as a force on the market independent of large-scale producers operating across several regions in order to create and maintain the competition the government is encouraging.

Indirect majority interest of the city of Mannheim

The city of Mannheim holds an indirect majority interest in MVV Energie AG through its wholly owned subsidiary, MVV GmbH. MVV Energie AG supplies the needs of the public in the municipal area by order of the city of Mannheim. In particular, this includes supplying the municipal area with electricity, gas, district heating and water, operating the waste-to-energy plant and being active in the area of waste-to-energy incineration. It is to be assumed that the city of Mannheim will continue to influence the Company through MVV GmbH as part of its shareholders' rights and responsibilities in order to ensure the performance of the duties incumbent through MVV Energie AG.

It cannot be ruled out that conflicts of interest will not arise due to the public purpose pursued by the city of Mannheim due to the indirect majority interest it holds in MVV Energie AG and the obligation of the city of Mannheim to fulfill the requirements laid down in legislation on the municipal economy or on municipal fees and charges on the one hand, and the interest of the Company, which aims to optimize earnings, on the other. Such conflicts of interest might especially relate to questions of the subject of Company activities as well as to pricing.

However, the influence of the city of Mannheim is limited by corporate law provisions. Thus, MVV GmbH cannot use its influence on MVV Energie AG to induce MVV Energie AG to effect disadvantageous legal transactions or to undertake or refrain from measures to its disadvantage, unless such disadvantage is compensated. To guarantee compensation for a possible disadvantage resulting from such a transaction, the German Stock Corporation Act obligates the Executive Board of MVV Energie AG to draw up a dependent company report during the first three months of every fiscal year. In this report, all legal transactions that the Company concluded with MVV GmbH, the city of Mannheim or affiliates of MVV GmbH in the preceding fiscal year shall be listed, advantages and disadvantages shall be cited and the method of compensation for a disadvantage shall be disclosed. This dependent company report is subject to the examination of the auditor and the Supervisory Board. The first such dependent company report will be drawn up for fiscal year 1998/1999, after the current control and transfer of earnings contract between MVV GmbH and MVV Energie AG has been cancelled as of September 30, 1998.

Company Supervisory Board members whose election is brought about by the city of Mannheim or who have been delegated to the Supervisory Board have no duty of secrecy as regards their reports to the city of Mannheim. This does not apply to confidential information or to Company secrets, i.e. operational and business secrets, if knowledge of them is not important for the purpose of the reports.

As long as the city of Mannheim holds a direct or indirect majority interest in the Company, it has, pursuant to the Law on Budgetary Principles, the right to require the Company to extend its audit engagement with the auditors of the Company and its subsidiaries to the propriety of management and certain additional matters. These audit reports must be sent to the city of Mannheim upon request.

Industry Information*)

Industry information – electric power

General environment

On April 29, 1998, the amended Energiewirtschaftsrecht (Energy Industry Act or EnWG) took effect as part of the implementation of the European Single Market Directive on Electricity (96/92/EC dated December 19, 1996). The basis for competition within the electricity sector in Germany was created by the abolition of the exemption for electricity (and gas) and the reorganization of network access in the EnWG.

The aim of this Directive and amendment of the EnWG is to deregulate the energy markets. Achieving a competition-oriented electricity market will represent an important step in the completion of the European single market. This will improve efficiency in the production, transmission, distribution and sale of energy. Mutual access to networks will become more efficient and therefore cheaper for consumers. The goal is to open up the electricity market, in particular to create new ways to penetrate markets and improve supply conditions for users.

A decisive factor in the success of competition is that all market players must have equal, non-discriminatory access to the networks. In the past, transportation and distribution networks were constructed and operated by state-regulated monopolies. They also represent natural monopolies in deregulated energy markets due to economies of scale (provision of networks by one company is less expensive than by several companies), since it does not make economic or ecological sense to construct parallel networks. Construction of direct power lines is only cost-effective in exceptional cases.

Network access is regulated by an agreement of associations between the Association of German Electric Power Utilities (VDEW), the Association of the Industrial and Power Industries (VIK) and the German Federation of Industry (BDI). This agreement provides guidelines concerning the structure of transmission charges, in particular regarding which components are to be included in the calculation of transmission charges. However, agreement on the level of transmission charges is subject to negotiation between the network operator and the network distributor. The agreement of associations, which expires in September 1999, is regarded as less than ideal by many market participants. According to information currently available, a new agreement of associations should continue to take precedence over the state regulation after September 1999.

Utility companies face new competition due to the abolition of the former monopolies and in view of the introduction of the deregulated electricity market. These changes have different consequences for MVV Energie AG: on the one hand, it loses the protection offered by the monopoly it used to hold, and on the other hand, it is no longer subject to the restrictions imposed by the monopolies on other utility companies. Hence, new forms of supply and demand structures are developing. This provides market participants with new opportunities and risks, since they can offer all their services in competition with one another outside their traditional supply areas. Power trading is gaining in importance through the creation of electricity exchanges. From the technical side, network access is controlled by an agreement, the grid code, between the utility companies, and a corresponding agreement for the distribution level is being prepared.

Industry structure

The electricity sector in Germany comprises the public electricity utilities, the industrial power sector (industrial companies with in-plant generation), the electricity supply of Deutsche Bahn (the national rail company) and private electricity generators.

All companies which supply electricity to third parties are regarded as public power utility companies. These include combined utility companies and regional and municipal companies. Since the 1950s, the number of public power utility companies has fallen from 3,500 to around 1,000 today. This concentration process is expected to accelerate through increasing competition. Apart from the concentration process, the number of people employed in power utility plants has been decreasing in recent years.

The electricity supply sector can be divided in terms of function into the following value chain: generation, transmission, transportation, distribution, sales and lastly, power trading, a promising new area of operation that offers growing market volumes.

*) The figures in this section are based on the sources named and were compiled by the company.

Electricity generation

Generation of electricity in Germany is widely diversified. The gross power generated in 1997 amounted to 549.7 TWh.

Gross electric power generation by sources of energy used in Germany:

	1997	1996	1995
	in TWh	in TWh	in TWh
Hard coal	143.1	152.7	147.1
Lignite	141.7	144.3	142.6
Fuel oil	5.9	6.9	7.8
Natural gas	48.0	45.5	41.1
Other fuels	19.8	17.6	18.0
Nuclear energy	170.3	161.6	154.1
Hydropower	20.9	21.7	24.2
Total	549.7	550.3	534.9

Source: Federal Ministry for the Economy (hereinafter referred to as "BMWi")

Electric power in Germany is mainly generated by lignite, hard coal and nuclear power. The installed capacity for public supply amounted to approximately 100 GW in 1997.

Transportation and distribution of electric power

Germany has an efficient, extensive electric power network. Overhead transmission lines, cables and transformer facilities transport the electric power from the power plants to customers. Its diversity of functions requires the network to have different voltage levels. Supergrids with 380kV and 220kV lines transfer electricity over large distances and are used to trade electricity with other countries. High voltage grids with 110kV lines additionally transfer electricity from the power plants to the main area of consumption. Electricity is distributed to end users via medium-voltage grids (10–20kV) and low-voltage grids (230V/400V). In recent years, a large number of overhead transmission lines have been replaced at the medium and low-voltage levels by more cost-intensive underground cables which meet greater acceptance among the general population. While the length of overhead transmission lines in public supply was reduced from 193,746 km to 174,577 km at medium-voltage level and from 251,900 km to 206,887 km at low-voltage level between 1992 and 1997, the cable network was extended from 276,575 km to 307,276 km at medium-voltage level and from 651,513 km to 765,573 km at low-voltage level during the same period. This trend is expected to continue in the next few years.

Utilization of electricity

Electricity consumption has been stagnating in Germany for several years. In 1996, consumption reached 477.8 TWh as compared with 472.9 TWh in 1991. The demand for electricity is not expected to change significantly during the next few years. Two opposing trends can be discerned.

On the one hand, the new German government plans to raise the costs of energy consumption through taxes, which will tend to increase the price of electricity. On the other hand, prices are expected to fall due to deregulation of the market. At the same time, all major research institutes expect the demand for electricity to decline.

Public utilities divide their customers into two categories: standard rate-paying and bulk-rate customers. Standard rate-paying customers are those customers which a power utility company supplies with electricity at general rates from the low-voltage network in accordance with the General Terms and Conditions of Service and based on federal rates and tariff legislation. These are primarily private households as well as commercial and agricultural companies. Since a private household's average yearly consumption, amounting to approximately between 3,000 and 4,000 kWh, is relatively low, a high level of competition is not expected for this sector during the initial phase of market deregulation.

Bulk-rate customers are customers which a power utility company supplies with power according to specially agreed prices and conditions, not on the basis of the General Service Provisions and General Rates and Tariffs. These include large-scale consumers, mainly industrial companies. Competition for the important bulk-rate customers is particularly intense during the initial phase of market deregulation.

Delivery of electrical energy to bulk-rate customers, standard rate-paying customers and customers with bulk-rate agreements (public supply) in Germany:

Year	Bulk-rate customers		Standard rate-paying customers		Total Delivery GWh
	Number	Delivery GWh	Number	Delivery GWh	
1995	280,919	255,779	41,883,595	172,579	428,358
1996	289,874	256,515	42,359,185	179,338	435,853
1997	295,257	265,133	43,004,252	174,808	439,941

Source: VDEW

Growing importance of power trading

In addition to focusing more heavily on customers' requirements, power trading is set to play a central role in the energy industry. After initially only trading physically and bilaterally, i.e. regarding quantities of electric power to be actually delivered, electricity exchanges on which electricity will be traded both physically and financially in the form of forward transactions and other derivatives will be established as the market develops further. Electricity exchanges already exist in Europe in Norway and the UK. Amsterdam is expected to be the next market location where organized trading of electric power will take place. Düsseldorf, Frankfurt am Main and Hanover are currently under discussion as possible market locations. Applying the experience of other deregulated markets to Germany, MVV Energie AG forecasts a medium-term volume of electric power exceeding 250 TWh to be traded. This corresponds to a market volume of DM 10–20 billion.

Planned taxation of electric power consumption

As part of its ecological tax reform, the German government also plans to impose taxes on the consumption of electricity. The current discussion indicates that the bill will stipulate a standard rate of 2 pf./kWh. Exceptions will be made for off-peak storage heating, where a tax of 1 pf./kWh is planned. Manufacturing industries are likely to receive an exemption. Further tax burdens in phases two and three of ecological tax reform cannot be ruled out.

Industry Information – District Heating

According to current statistics of the National Association of District Heating (AGFW), approximately 250 district heating suppliers with an annual total output to the public network of around 350,000 TJ per year and a connected load of 56,000 MW provided district heating for industrial, commercial, public and private customers in Germany in 1997. In comparison to the previous year, the connection value increased slightly by 0.8%. This was due to the fact that the notable decrease (–3.6%) in Eastern Germany was compensated by an increase of +1.9% in Western Germany. The decrease in the annual output to the public grid (–10.6%) was the result of adverse weather conditions.

While district heating supply was implemented by planning policy measures in Eastern Germany, district heating had to overcome intense competition to reach its current status in Western Germany, supported by subsidized research projects to reduce the losses resulting from a capital-intensive start-up phase. District heating is currently subject to competition from oil and gas energy carriers. This competition has also been a factor in Eastern Germany since 1990, resulting in the substantial displacement of district heating, even in those areas with a dense district heating grid. The main reason for this is that the price of district heating tends to be relatively high even in current market conditions. The competition among respective energy carriers will increase on the heating market due to falling oil and gas prices. Moreover, district heating suppliers are subject to high costs for their services, ranging from generating/purchasing heat through cost-intensive transportation and distribution systems to the transfer of heating to customers.

The following table provides an overview of the largest German district heating suppliers – ranked according to the level of district heating output to public grids – (1996):

Ranking	Company	District heating output to public grid	Network length	Transfer stations
		MWh	km	Number
1	Berliner Kraft- und Licht Aktiengesellschaft (Bewag), Berlin	11,801	1,108	11,230
2	Stadtwerke München, München	5,116	519	8,089
3	Hamburger Elektrizitätswerke AG, Hamburg	4,436	678	8,576
4	RWE Energie AG, Essen	3,965	82	358
5	MVV Energie AG, Mannheim	3,430	498	9,931
6	Grosskraftwerk Mannheim Aktiengesellschaft, Mannheim	2,999	8	13
7	Vereinigte Energiewerke AG, Berlin	2,883	108	11
8	STEAG, Essen	2,800	424	5,858
9	DEF GmbH, Dresden	2,720	394	4,592
10	Stadtwerke Leipzig, Leipzig	2,518	329	3,118

Source: MVV Energie AG study

As a result, the ability to generate district heating cost-efficiently in power plants close to the consumer is very important for the development of the district heating sector. As opposed to traditional district heating power stations, cogeneration has distinct economic as well as ecological advantages in the generation of district heating, since fuel is better utilized when power and heat are generated together instead of separately.

In comparison to all other relevant energy sources, district heating has the smallest share of the German heating market (7%). About 45% of overall district heating sales are generated by households, approximately 35% by small businesses and 20% by the industrial sector. This indicates that households and small businesses will be crucial factors in determining future demand for district heating. By implementing an increasing number of thermal insulation measures, specific generation will decrease in this sector; this trend can only be partially offset by increasing the number of connections.

Against this background, the major issues for the German district heating sector in the future will be opportunities in product development as well as expansion in countries with a high proportion of district heating and low technical standards, particularly in Central and Eastern Europe.

Industry Information – Gas

General environment

The European Single Market Directive on Gas (98/30/EC dated June 22, 1998) took effect on August 10, 1998 and must be implemented within two years. The Directive will be implemented on a national basis in part through the amendment to the Energiewirtschaftsrecht (German Energy Industry Act or EnWG), which applies to electric power and gas. As with electric power, gas is no longer covered by the exemption in the Gesetz gegen Wettbewerbsbeschränkungen (law against restraint of trade or GWB). The regulations contained in the EnWG, in particular with regard to accounting, network access and reciprocity, only apply to the electricity sector. For this reason, discussions are currently being held about a detailed federal amendment to the Directive on the gas sector. However, it must be borne in mind that a general clause relating to network access was incorporated into the GWB in the 6th amendment of that law, which took effect on January 1, 1999 and also applies to gas. This amendment states that a market leader must allow third parties access to its network in return for an appropriate consideration.

Since the gas extraction industry is characterized by an oligopoly and the new EnWG does not contain any regulation concerning network access, which is essential for the emergence of competition, the Company does not expect competition on the gas market to increase. However, in the medium and long term, the Company forecasts a sharp increase in gas-to-gas competition in all areas. The Company expects that physical and financial natural gas exchanges will be established, that new natural gas products will become increasingly important and that competition for each new customer will grow.

Industry structure

The German gas industry can be divided into the public gas industry and other gas industries. The public gas industry comprises all companies which supply gas to third parties (industries, private households, trade, commerce, the services sector and power plants). These companies, around 750 in total, include municipal and regional gas suppliers, natural gas extraction companies, gas transportation utilities and carbonizing plants. Coal mining, the iron and steel and oil industries, in which gas is produced in joint production and principally used for power consumption, make up the rest of the gas industry.

From a functional point of view, the gas industry can be subdivided into the so-called "gas chain", comprising all areas from the source to the end user. Specific companies are sometimes assigned the following types of tasks:

- Gas extraction and import: natural gas extraction companies
- Gas transportation and secondary distribution: regional gas suppliers and regional distribution companies
- End users

Gas extraction and import

In contrast to electric power, which can be generated in power plants, natural gas is extracted. German suppliers purchase gas in a number of countries so as to decrease the dependency on any one supplier country. In 1997, Russia supplied 29% of Germany's gas, The Netherlands almost 21% and Norway 19%; 28% is extracted in Germany. The Company expects the Norwegian share to increase in future, with a resulting decrease in the Dutch share.

Gas volume in Germany:

	1997	1996	1995
	kWh billion	kWh billion	kWh billion
Domestic gas production	301.4	298.9	289.2
Import			
The Netherlands	231.1	276.9	233.6
Norway	209.7	175.6	130.4
CIS	319.9	338.6	334.8
Others	30.6	20.8	16.2
Total volume	1,092.7	1,110.8	1,004.2

Source: BMWi

The purchase of natural gas from abroad is based on long-term contracts between suppliers and gas supply companies active on the German market.

Gas transportation and distribution

German natural gas supply is integrated into the pan-European network. This extends from the North Sea to the Mediterranean and North Africa, and from the Atlantic Ocean to Eastern Europe. The major gas pipelines have a total length of 25,000 kilometers. In addition, the national networks in the European network extend to 1 million kilometers. The German pipeline network is about 300,000 kilometers long. This wide-ranging network guarantees an adequate and secure supply of gas. Since gas is transported over long distances, a loss of pressure occurs. Compressor stations have therefore been installed at intervals of 100–200 km along the pipelines to increase the pressure needed for transport.

Regional gas suppliers import the greater part of natural gas to Germany and also purchase natural gas from domestic producers. The regional gas suppliers then distribute this gas to regional and municipal secondary distributors (local gas suppliers) via the extensive transmission network. Storing the large volume of natural gas required to compensate for peak consumption periods is principally the task of regional gas suppliers and natural gas producers. It is not unusual among German suppliers of gas to share storage facilities through joint venture companies or to rent or lease storage capacity and to cooperate at an international level.

End users

Gas has many different uses. It is used in private households and small businesses (approximate share: 49%), in industry (42%) and by electric power generation companies to produce electricity and steam (9%).

Utilization of gas in Germany:

	1997	1996	1995
	kWh billion	kWh billion	kWh billion
Domestic figures for consumers	980.2	1,003.4	917.1
thereof:			
– Iron and steel industry	127.0	123.3	122.8
– Chemicals sector	153.3	146.6	148.2
– Other manufacturing industries	296.5	295.9	271.9
– Private households	294.7	320.1	271.8
– Other users	108.7	117.5	102.4
Own consumption by the gas industry, losses and storage balance	74.0	71.8	56.1
Exports	38.5	35.6	31.0
Total utilization	1,092.7	1,110.8	1,004.2

Source: BMWi

The number of connections for natural gas heating continues to rise in the household segment. At the end of 1997, approximately 14.6 million apartments and houses (40.6%) were heated by gas. This represented a net increase of about 700,000 apartments and houses as compared to the previous year. In the new housing sector, the market share of natural gas heating even exceeded 70%. This positive trend is expected to continue in the future.

Factors that determine gas prices

On the heating market customers can choose between natural gas and fuel oil. In accordance with the principle of viable rates, a natural gas company can, for example, charge the equivalent oil price for home heating, although gas may actually be slightly more expensive due to its handling advantages (no tank necessary, no carbon fouling or stockpiling costs), before homeowners would switch to another fuel. A municipal gas utility must cover the network costs for final distribution. If there were more gas suppliers, gas-to-gas competition could develop.

Planned taxation of gas consumption

The current standard tax rate is 0.36 pfennigs/kWh. The Federal German government plans to increase taxation on natural gas. The markup is expected to amount to 0.32 pf./kWh. Manufacturing industries are likely to receive an exemption.

Industry information – water

General environment

Since the founding of the European Economic Community, approximately 140 directives and other legal instruments have been issued which either directly or indirectly concern tap water supply and water conservation. The EU Directive on Tap Water dated July 15, 1980 was implemented in German national law in the Tap Water Act dated December 12, 1990, which contains more stringent requirements for tap water quality. The amended EU Directive on Tap Water effective as of November 3, 1998 must be implemented in national law within two years.

Securing tap water supply for the public, commerce and industry is a duty assigned to municipalities in Germany as part of their task of supplying the basic needs of the public. The municipalities generally have the freedom to decide whether they will handle water supply themselves, join an association for this purpose or commission a water supply company by means of a contract (concession contract, facility management contract).

To date, the use of ground and surface water has not been subject to free market conditions, but instead has been managed completely by the public sector in the form of the water authorities. The responsible administrative district has the right of disposal for water, and can grant permission or authorization for the use of water.

German water recovery, treatment and distribution plants are technically of a very high standard, and the water quality also meets high quality requirements, thus making the German water supply among the best in Europe. Self-monitoring by water supply companies as well as additional monitoring by public authorities ensures that this high quality standard is maintained. The public's supply of tap water is safeguarded for the long term through existing water resources and good, sustainable management.

Facilities for extracting water

There are about 6,600 water supply companies in Germany comprising a variety of organizational models. The largest group (by percentage) are the water supply companies operated by the municipalities as municipal departments and special-purpose associations. Thus the structure of the water supply market in Germany differs materially from the structure in other European countries. Water services are provided by just three companies in France, by about ten in the UK and by approximately 20 in The Netherlands. In the long term, Germany will also see a trend towards the consolidation of water utilities into larger units.

Water extraction facilities in Germany:

Year	Groundwater	Spring water	Surface water	Total
	in millions of m ³	in millions of m ³	in millions of m ³	in millions of m ³
1995	3,725	470	1,615	5,810
1996	3,707	447	1,549	5,703
1997	3,648	408	1,568	5,624

Source: National Organization of German Gas and Water Suppliers in Bonn (hereinafter referred to as "BGW") – Wasserstatistik (Water Statistics)

Volume of water delivered to consumers

Specific water usage in Germany based on the volume of water delivered to households and small businesses decreased from 145 to 130 liters per resident per day from 1990 to 1997.

Volume of water delivered to consumers in Germany:

Year	Households and small business	Industry	other	Total
	in millions of m ³	in millions of m ³	in millions of m ³	in millions of m ³
1995	3,999	736	359	5,094
1996	3,976	703	341	5,020
1997	3,946	704	311	4,961

Source: BGW-Wasserstatistik (BGW Water Statistics)

As has already occurred in industry, the correlation between the development of water usage by households and small businesses and gross national product has been weakened. Reasons for this include the increasing use of water-saving appliances and fixtures and a general tendency toward using less water.

Based on international comparisons, Germany and Belgium have the lowest water usage figures for households and small businesses.

Pricing

The overall average price for water in Germany is about DM 3.20/m³ and is thus slightly less than that of Baden-Württemberg at approximately DM 3.30/m³. This price in Baden-Württemberg contains municipal fees and charges amounting to DM 0.10/m³, which are collected for water extraction ("Wasserpfeinig"). This contribution primarily serves to meet agricultural and forestry requirements to compensate for restrictions on cultivation in protected catchment zones.

Due to the high concentration of facilities, more than 80% of the total costs in a water utility's cost structure are attributable to fixed costs. The downward trend in tap water demand and the high fixed costs of

water utilities as a result of long-term investments in recovery, treatment and distribution plants (c. DM 41.5 billion from 1990 to 1997) will result in an increase in the price of water in future if no structural changes occur.

Industry Information – Waste Management

General environment

Waste disposal and recycling in Germany is influenced primarily by the federal legislation on recycling and waste disposal, the Technical Directive on Municipal Solid Waste (TASi) and German Packaging Regulations.

The federal legislation on recycling and waste disposal dated September 27, 1994 stipulates the following priorities in handling waste: 1) source reduction, 2) recycling and 3) disposal. If waste cannot be prevented, resources contained in it should be recovered, either as individual materials themselves or as waste-derived fuel. Waste which cannot be recycled must be disposed of. Private households and commercial enterprises are subject to mandatory waste collection by the local public utility. This does not apply to commercial waste, which can be traded on the waste disposal market.

According to the Third General Administrative Regulation on the Waste Management Act (TASi) of 1993, nonrecyclable waste may only be deposited in landfills in an inert state ("similar to the earth's crust"); the organic content must not exceed 5%. This serves to prevent any chemical reactions in the landfill which may be harmful to the environment and endanger the air or groundwater. With the technology available today, the stipulated limit of 5% can only be achieved with waste-to-energy incineration. A transitional regulation until 2005 ensures a sufficient transition period for those regional authorities to continue using landfills until they can obtain the necessary waste-to-energy facilities. As a result, only approximately 30% of nonrecyclable waste is incinerated at present and the remaining 70% is deposited in landfills.

The German Packaging Regulations of 1991 require recyclable product packaging to be collected locally in order to reduce the volume of packaging by regulating source reduction, return to manufacturers or recycling. Duales System Deutschland GmbH (hereinafter referred to as "DSD") was founded in 1990 in order to release manufacturers and/or retailers from the obligation of taking back their used packaging and to coordinate a comprehensive collection system. As defined in German Packaging Regulations, certain recycling ratios must be upheld. The recycling process which initially applied exclusively to recycling of individual packaging materials is financed by issuing the "Grüner Punkt" (green dot) logo.

Following the amendment to the German Packaging Regulations in 1998, plastics are also permitted as a waste-derived fuel. This allows plastics from DSD collection to be incinerated in waste-to-energy plants.

Waste volume/incineration capacity

Germany

The most recent figures from the Federal Statistics Office on this issue were published in 1993. According to that study, the amount of nonrecyclable waste in Germany totaled 43.5 million tonnes, of which 30.5 million tonnes were disposed of and 13 million tonnes were recycled.

With regard to incineration capacity, the National Association of the German Waste Management Industry published a study in January 1997 which recorded 53 waste incineration plants with total capacity of around 12 million tonnes per year.

According to this study, an additional 10 waste incineration plants are currently being planned; however, three such plants will also be shut down. On balance, the future waste incineration capacity will amount to around 14 million tonnes per year. This is clearly insufficient, particularly in view of the fact that current laws require domestic waste (for disposal) to be incinerated starting in 2005.

Baden-Württemberg

According to Baden-Württemberg's waste statistics, the amount of nonrecyclable waste in the state decreased from 5.2 million tonnes in 1990 to 2.3 million tonnes in 1997.

The negotiable draft plan for the waste management industry in Baden-Württemberg – the subsection on municipal solid waste – of the Baden-Württemberg Ministry of Environment and Transportation (as of December 1997) presented the following overview of future incineration capacity in the state.

There are currently four incineration plants for residential waste in operation (Mannheim, Stuttgart, Göppingen, Ulm). Two more waste-to-energy plants (Böblingen, Karlsruhe) are to begin operating in 1999. In addition, facilities are planned in Heilbronn and Bremgarten, bringing the total capacity to 1.5–1.6 million tonnes per year starting in 2005 (provided the two planned facilities are in fact commissioned). The waste management plan forecasts the volume of nonrecyclable waste to reach 1.8–2.2 million tonnes per year in 2005. After subtracting the volume of waste totaling 100,000 to 140,000 tonnes per year which is exported to Switzerland and Bavaria, incineration capacity will still be insufficient.

Nonrecyclable waste treatment concept in Baden-Württemberg

The draft plan for the waste management industry still under negotiation in Baden-Württemberg stipulates that recyclable waste to be disposed of must be incinerated in local waste-to-energy plants in Baden-Württemberg. The obligation to utilize this waste will take effect by way of an ordinance. The state encourages interregional association solutions as part of overall municipal, cross-district cooperation in order to ensure long-term waste disposal services and their profitability.

Ecological ramifications of waste incineration

Emissions

Waste incineration plants in Germany are subject to the regulations stipulated in the federal clean air regulations (BImSchV). These regulations drastically limit the amount of emissions permitted from waste-to-energy plants. The limits for particulate release and the emission of nitrogen oxides, sulfur oxides, mercury and other heavy metals as well as dioxins and furans are among the lowest worldwide. State-of-the-art waste incineration plants therefore release fewer pollutants into the environment than are originally contained in the nonrecyclable waste, i.e. waste incineration plants reduce pollution.

Utilization of energy

The calorific value of nonrecyclable waste exceeds that of lignite mined in the Rhine area. If the waste is deposited in landfills, this energy is left unused. Thermal recycling, on the other hand, utilizes the energy contained in the nonrecyclable waste to generate steam and electricity.

CO₂ reduction

Utilizing nonrecyclable waste to generate steam and electric power conserves a substantial amount of fossil fuels. Waste as fuel is largely CO₂ neutral due to the high content of renewable raw materials, e.g. paper and biomass. By using waste as a substitute in power generation, a substantial amount of CO₂ can be avoided (reducing the greenhouse effect).

Volume and weight reduction

The incineration process reduces nonrecyclable waste to 10% of its original volume and 30% of its original weight. A major portion of the materials contained in the remaining slag can be recycled, e.g. extracted metals and production materials for street construction. Flue-gas treatment converts flue-gas emissions into recoverable resources such as hydrochloric acid and gypsum. In the end, less than 5% of the original volume of nonrecyclable waste is deposited in landfills.

Residue suitable for landfilling

Using waste-to-energy incineration, only inert, organically inactive nonrecyclable waste is deposited in landfills, as stipulated by the TASI. In contrast, depositing untreated nonrecyclable waste in landfills represents a major burden for future generations from an ecological standpoint.

Business Activities of the MVV Energie Group

Overview

The companies of the MVV Energie Group and their subsidiaries operate in the following areas:

- Generation and distribution of electric power and heating
- Distribution of gas
- Extraction and distribution of tap water
- Waste incineration

MVV Energie AG is the utility for the Mannheim city area and RHE operates in the surrounding region (North Baden, North Württemberg, Hesse and Rhineland-Palatinate). In addition to supplying energy and water, the MVV Energie Group offers its customers a comprehensive range of services in line with its core business (e.g. energy services and consulting). In fiscal year 1997/1998, the Group expanded its range of services to include energy trading, telecommunications and facility management.

The MVV Energie Group is one of the ten largest municipal and regional public utilities and is the fourth largest city district heating utility in Germany. Electric power and heating are generated in the Group's own facilities as well as in the Grosskraftwerk Mannheim (central power plant) in which the MVV Energie Group holds a 28% share. As the ninth largest gas distributor in Germany, the MVV Energie Group also holds a 26.25% share in Germany's third largest regional gas utility (GVS GmbH, see also the section entitled "Subsidiaries and associates"). On behalf of various regional authorities, RHE operates the largest waste incineration plant in southern Germany.

The following table provides an overview of the MVV Energie Group, based on the pro forma consolidated financial statements of MVV Energie AG for the MVV Energie Group.

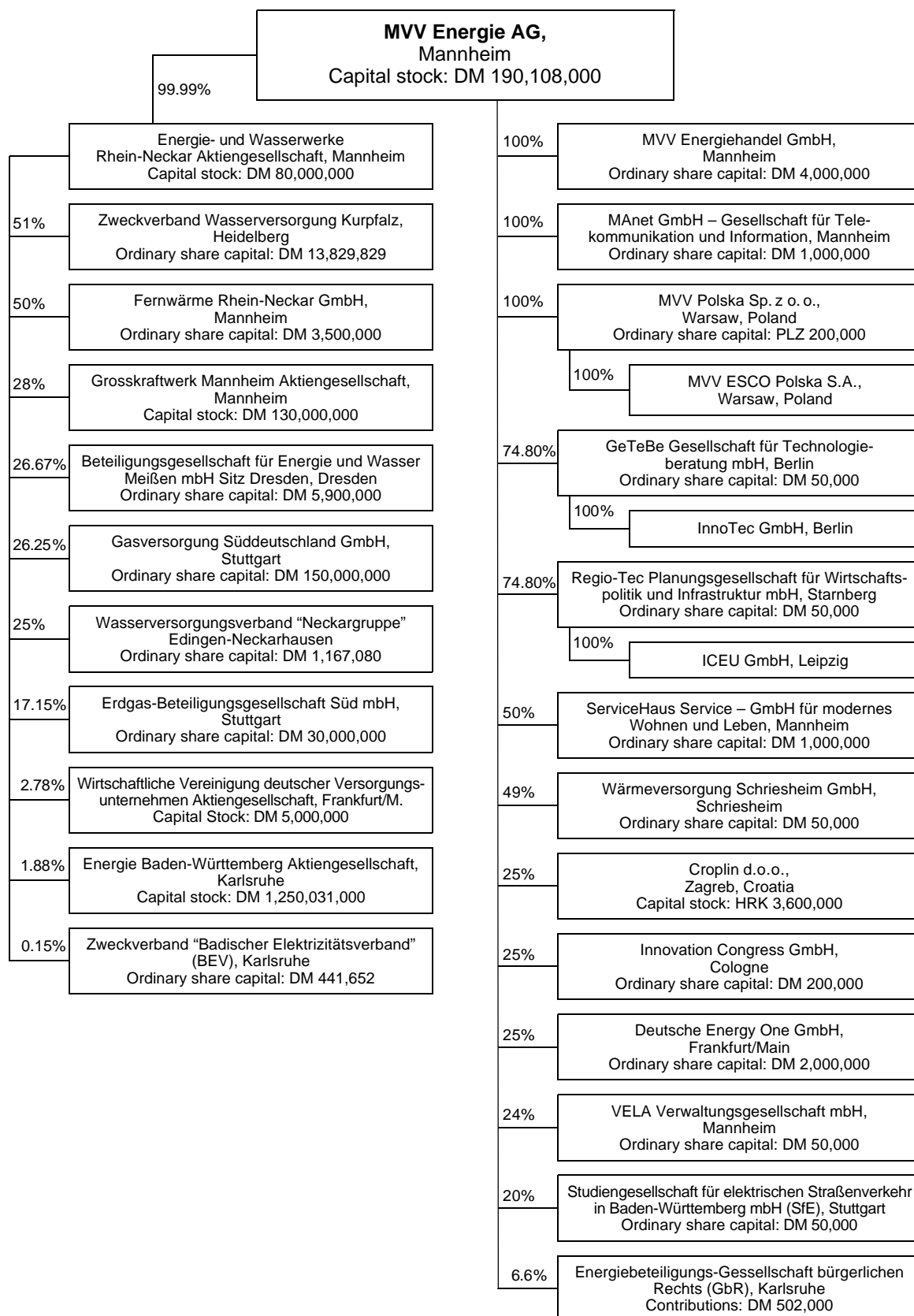
	<u>1997/1998</u>	<u>1996/1997</u>	<u>1995/1996</u>
	Million DM	Million DM	Million DM
External sales	1,082	1,068	1,046
Depreciation	102	90	82
EBIT	163	149	153
Investments	95	159	195
Employees (as of September 30)	1,869	1,870	1,846

The Electric Power and Gas divisions contributed approximately 55% of the EBIT in fiscal year 1997/1998. The other operating divisions, which are not directly affected by the amendment to the law on the energy industry, contributed 45% of the MVV Energie Group's EBIT. The MVV Energie Group maintains ownership of its distribution network even after the liberalization of the electric power and gas markets. This network is a major part of the Group's value chain and thus also of the divisions' results.

The MVV Energie Group supplies both end users as well as secondary distributors (district heating, gas and water).

Group structure

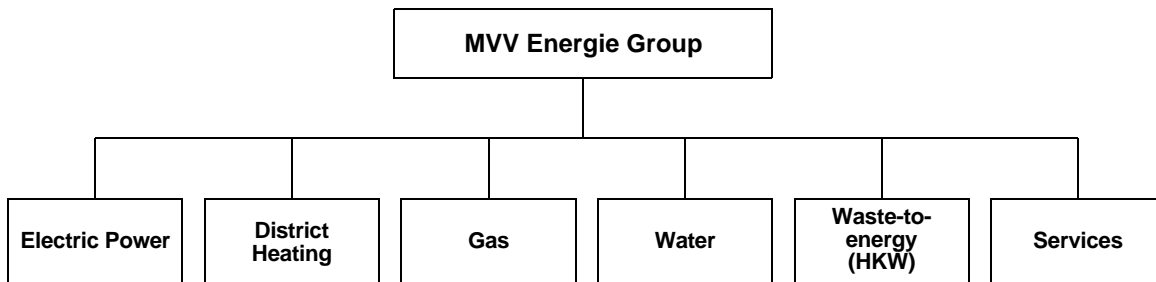
(As of February 5, 1999)



Historical development

- 1888 Commissioning of the Käfertal waterworks, introduction of centralized tap water supply in Mannheim
- 1899 Launch of electric power supply in Mannheim
- 1900 Commissioning of the Luzenberg gasworks
- 1923 Commissioning of the Grosskraftwerk Mannheim
- 1959 Connection of district heating for Mannheim city center
- 1961 Establishment of Gasversorgung Süddeutschland GmbH (gas utility for Southern Germany or GVS)
- 1964 Commissioning of the HKW (waste-to-energy plant) in the Friesenheimer Insel industrial area in Mannheim
- 1974 Conversion of the city of Mannheim's own utility departments into MVV GmbH with the subsidiaries SMA, RHE and Mannheimer Verkehrs-Aktiengesellschaft (MVG)
- 1979 Expansion of natural gas service in the northern Baden region, Rhineland-Palatinate and Hesse
- 1983 Adoption of the Mannheim energy plan concept with the establishment of priority areas for gas and district heating
- 1989 Launch of international energy consulting activities
- 1990 Conclusion of an engineering contract between SMA and the city of Warsaw for the rehabilitation of Warsaw's district heating service
- 1991 Conclusion of a partnership agreement between RHE and the city of Meissen for the establishment of Meißener Stadtwerke GmbH (Meissen public utility or MSW)
- 1992 Launch of energy services activities
- 1993 Creation of an energy plan concept for Budapest
- 1996 Development of a strategy for liberalized energy markets
- 1997 MVV Consulting advises various communities in Poland on the restructuring of district heating utilities
 - Planning, construction and project management in the district heating supply of the US airbase in Ramstein
 - Commissioning of boiler No. 4 in the HKW
 - Acquisition of the BASF power plant in the Friesenheimer Insel industrial area in Mannheim
- 1998 Restructuring and conversion of SMA to MVV Energie AG
- 1999 Partial privatization of MVV Energie AG through the IPO

Divisions of the MVV Energie Group



The divisions of the MVV Energie Group are supported by units with cross-divisional functions:

- Customer-oriented cross-divisional functions:

- Marketing and sales
- Energy trading and energy management

The market-oriented units are organized by customer groups.

- Internal cross-divisional functions:

- Data-processing, information and communication technologies
- Finance and accounting
- Human resources and social services, general administration

The internal cross-divisional functions ensure the cost-efficient coordination of basic operating tasks. By performing services for third parties, the Group has been able to reduce the remaining costs for internal services.

The Group's sales activities are classified by customer segments in order to ensure consistent orientation towards the competition, the market as a whole and the Group's customers:

- Industrial key accounts/commercial accounts (bulk-rate customers)
- Standard rate-paying customers: households, small businesses and "B-communities" direct supply to customers in other communities by the MVV Energie Group)
- "A-communities" (public utilities, secondary distributors)

By focusing its sales activities on its customers (key account management), the Group ensures that customer requirements are taken into account by all divisions. In supplying cross-divisional support in marketing and product management processes, the Group ensures that the supply of energy and services is performed competently.

In order to be able to make energy supply more flexible, thus providing customers with new services, the Energy Trading organizational division was created in early 1998. Long-term energy supply contracts will increasingly become the exception in the future. The number of different energy products will increase. Short-term supply contracts (e.g. on a weekly or daily basis) are therefore to be expected, as are price hedging transactions for medium-term supply contracts. The development of the Electric Power and Gas divisions will primarily depend on product developments which increase benefits to individual customers. The risk management required for this purpose is a significant component in the success of MVV Energie Group's overall development.

Electric Power Division

Overview

The Electric Power division contributed 34.0% of the sales and 39.6% of the EBIT of the MVV Energie Group in fiscal year 1997/1998. Developments over the last three fiscal years are outlined in the following table:

	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM
External sales	368,051	366,577	384,763
Depreciation	17,247	17,368	17,670
EBIT	64,608	45,578	69,727

Purchasing

In fiscal year 1997/1998, the MVV Energie Group purchased approximately 94 % of its electric power from Grosskraftwerk Mannheim AG (GKM), in which the MVV Energie Group holds a 28% share, and 6% from the waste-to-energy plant (HKW). GKM is an electric power plant which generates electricity, hot water and steam using the resource- and environmentally-friendly cogeneration process. GKM's installed capacity amounts to 2,125MW_{el}, two-thirds of which is generated by coal and one-third by gas. 998MW_{th} of heating and 224MW_{th} of steam can be generated from the installed capacity. GKM's currently competitive electricity prices are a result of the ongoing, largely fully implemented cost-cutting programs in place since 1997 amounting to DM 100 million, almost fully depreciated power plant units and the fall in coal prices.

According to its own calculations, GKM subtracts its own consumption and the amount it delivers to third parties (e.g. Deutsche Bahn AG, the national rail company) from the electrical capacity which is produced with the boiler capacity available in condenser-type power plants. The remaining capacity and the resulting costs are distributed among the owners on the basis of the interest they hold (cost-based power plant). The costs to be distributed which affect the price of power do not include the plants and costs which are required for the conversion of steam into heating. These costs are borne exclusively by the MVV Energie Group. The MVV Energie Group receives a credit for the potential optimization of the GKM through implementing cogeneration. The remaining owners are treated as if GKM were just a power utility company, i.e. the exclusive purchase of district heating by the MVV Energie Group does not affect either the capacity charge (per kilowatt) or the energy charge (kilowatt hour rate).

The MVV Energie Group is allotted 481.6MW_{el} from GKM, in accordance with its 28% interest. An average kilowatt hour rate for electric power and district heating is calculated. Since district heating is not burdened by the Wasserpfennig, a surcharge, the final kilowatt hour rate charged for district heating is reduced accordingly.

Distribution

The MVV Energie Group supplies electric power to the city of Mannheim and the municipality of Edingen-Neckarhausen (Neu-Edingen). An extensive network is available for the distribution of electric power all the way up to the end user. Eight 110/20kV transformer substations are supplied by the 110kV network covering 147 km. 20kV transport cables extend from these stations to 32 distribution centers equipped with circuit-breakers. The 20kV cables are connected to 1,221 grid and transfer stations, which transform the voltage into 400V or 230V.

Underground cables totalling 3,935 km and overhead transmission lines covering 460 km have been laid, all of which are owned by the MVV Energie Group. There are 43,241 residential connections and 192,781 meters.

Sales

The MVV Energie Group supplies electric power to 350 bulk-rate customers and to approximately 188,000 standard rate-paying customers.

	1997/98	1996/97	1995/96
	kWh million	kWh million	kWh million
Electric power sales			
in Mannheim			
Households and small businesses	663	652	664
Industry	1,385	1,353	1,324
MVV Verkehr AG	28	25	23
Space-heating	50	52	60
	<u>2,126</u>	<u>2,082</u>	<u>2,071</u>
In the region			
Direct sales to customers	24	22	22
Total	<u>2,150</u>	<u>2,104</u>	<u>2,093</u>

These figures do not include sales of electricity from the HKW plant which is operated as a separate division within the MVV Energie Group.

Sales of electric power by the MVV Energie Group rose slightly in the past year. This was principally due to the increase in demand from industry and trade as a result of favorable economic conditions.

Price approval by the regulatory authority (Baden-Württemberg Ministry of Trade and Commerce, Stuttgart) is necessary for the standard rate-paying customer segment (households and commercial accounts). The MVV Energie Group's prices are approved up until December 31, 1999. Prices for bulk-rate customers are not subject to price approval. In this customer segment, the MVV Energie Group reduced prices by an average of 8% at the beginning of the current fiscal year. This makes the MVV Energie Group one of the most inexpensive suppliers in Germany in this customer segment, in sixth place according to an electricity price comparison dated December 14, 1998 by the VIK (per consumer: 2.5 MW; 10 GWh/a).

The MVV Energie Group expects that it will at least be able to compensate for the expected pressure on electricity prices by winning new business outside the existing supply areas as well as continuing to implement measures to cut costs and increase efficiency.

The MVV Energie Group sees positive opportunities in extending its business outside its existing supply area on the deregulated market. It has already signed its first supply contracts. Furthermore, it has concluded new contracts with large industrial customers in Mannheim.

The existing contracts with bulk-rate customers have a term of up to six years. They mainly enable customers to change suppliers if they find a cheaper offer, as long as MVV Energie AG does not provide electric power at comparable conditions. Under the amended legal conditions, long-term contracts are not likely to prevail in the bulk-rate customer segment. Individual customer-specific supply contracts could even be concluded on a weekly or daily basis. This greater flexibility on the sales side will require the purchase of additional electrical power or the sale of excess capacity to the wholesale trade (power trading).

Power trading

The MVV Energie Group regards energy trading as the key to success in deregulated energy markets. Its energy trading aims to fulfill the following concrete goals:

- Optimizing purchasing conditions
- Minimizing the price and volume risks in deregulated markets
- Maximizing customer benefits
- Increasing earnings
- Ensuring growth

To this end, the MVV Energie Group has already introduced various strategic and organizational measures, such as

- Establishing the Energy trading and energy management division
- Establishing a separate energy trading company, MVV Energiehandel GmbH
- Opening a representative office in Norway to gain experience on the deregulated Scandinavian market

Certain types of trades performed by MVV Energiehandel GmbH (e.g. derivatives trading) may require approval in accordance with the Kreditwesengesetz (German Banking Act). Since no comparative cases exist, the issue is currently being clarified with the Federal Banking Supervisory Authority.

At the operating level, a variety of activities have already been implemented or started, the most important of which are as follows:

- Training employees in Scandinavia to familiarize them with trading practices on a deregulated market
- Strengthening the Energy trading and energy management division with employees with experience in this market, including Scandinavian employees
- Close observation and detailed analysis of the national and international markets relevant for energy trading
- Developing routines in respect of trading workflows
- Developing a risk management concept for energy trading activities that is based on its portfolio evaluation
- Concluding the first electricity trades.

District Heating Division

Overview

The District Heating division contributed 14.8% of the sales and 16.7% of the EBIT of the MVV Energie Group in fiscal year 1997/98. The following table provides an overview of the developments in the past three fiscal years:

	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM
External sales	159,699	161,504	160,297
Depreciation	19,319	18,535	18,156
EBIT	27,178	25,221	28,400

Purchasing

The MVV Energie Group is one of the five largest district heating suppliers in Germany. The hot water and process steam supplied to its customers are virtually exclusively generated in cogeneration plants. The MVV Energie Group receives two-thirds of its district heating from Grosskraftwerk Mannheim AG. District heating is extracted as a waste heat product from the power generation process.

The remaining one-third of the Group's overall demand is supplied by the HKW (waste-to-energy plant) which operates as a combined-cycle cogeneration plant with an incineration plant for nonrecyclable waste. Cogeneration saves up to 30% more fuel compared to the separate generation of electric power and heat.

Distribution

Within its supply area, which now extends beyond the borders of the city of Mannheim, the MVV Energie Group supplies over 3 billion KWh of hot water and process steam to households and industrial companies via more than 467 km of district heating loops. In the household segment, the Group supplies district heating to approx. 75,000 apartments and houses. This represents a share of 47% in the space-heating market within MVV's supply area, while the national average market share for this energy source amounts to only 12%.

Sales

The MVV Energie Group supplies just over 80% of its useful heat to customers within Mannheim city limits. Through its associate Fernwärme Rhein-Neckar GmbH (FRN), the Group supplies four other cities and communities, including areas of Heidelberg which MVV has been supplying via a pipeline since 1987.

The Group has been systematically expanding its district heating network since 1959. Innovative pipe-laying technologies as well as additional technological developments and improved coordination of household connection processes have led to substantial cost reductions.

The district heating supply in Mannheim is integrated into an energy plan which aims to increase the density of grid based energy supply. This supply system offers a maximum of two sources of energy: electric power/natural gas, electric power/district heating or electric power alone. The Group also offers an electric power/steam combination for industry and commerce as required.

	<u>1997/98</u>	<u>1996/97</u>	<u>1995/96</u>
	kWh million	kWh million	kWh million
Heating sales			
Hot water			
in Mannheim			
Households and small businesses	1,077	1,176	1,214
Industry	269	289	316
Public facilities	255	264	297
	<u>1,601</u>	<u>1,729</u>	<u>1,827</u>
In the region			
Sales to secondary distributors	630	622	656
	<u>2,231</u>	<u>2,351</u>	<u>2,483</u>
Steam			
in Mannheim			
Industry	523	470	436
Contracting (energy services)	43	45	41
	<u>566</u>	<u>515</u>	<u>477</u>
Total	2,797	2,866	2,960

This table does not include sales of steam generated in the HKW, which is operated as a separate division.

The MVV Energie Group's domestic growth potential results from other activities, primarily in the services segment. This applies especially to facility management and contracting solutions for heat generation plants, but also to the acquisition of district and local heating networks (heating from packaged cogeneration modules) of other utility companies in the region.

The MVV Energie Group has cooperated in the rehabilitation and expansion of major heating systems in Warsaw, Budapest and Basel. The Group also recently signed a cooperative contract with a Rumanian partner for the construction and sale of the compact building substations which were developed by the Group and launched on the German market a few years ago.

Pricing in the space-heating segment is linked to gas price trends. The prices are virtually the same for both of these alternatives. Pricing takes into account the changes in the primary energy markets for coal and gas as well as trends in personnel expenses (escalation clause). Contractually stipulated escalation clauses are also used in the process steam segment. Substitution is only possible if the customer produces its own supply. However, experience has shown that the trend towards outsourcing is dominant among industrial customers. The Group was able to acquire another customer's power station in late 1998. The competitive risks in terms of volume and price in this division are relatively low.

Gas Division

Overview

In fiscal year 1997/1998, the Gas division contributed 32.5% of the sales and 15.4% of the EBIT of the MVV Energie Group. Developments over the last three fiscal years are presented in the following table:

	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM
External sales.....	351,778	356,762	342,655
Depreciation	12,605	12,557	12,662
EBIT	25,101	30,826	24,927

Purchasing

The MVV Energie Group purchases over 99% of its gas from Gasversorgung Süddeutschland GmbH (GVS), one of the largest regional gas suppliers in Germany, in which the MVV Energie Group holds a 26.25% interest.

Distribution

In addition to the city of Mannheim, the MVV Energie Group supplies 37 towns and municipalities with natural gas. The Group has a two-tier regional gas supply system. "A-communities" have independent supply utilities to which the natural gas is delivered. The gas is then distributed throughout the internal network of the local utility. In "B-communities", which do not have their own supply networks, the MVV Energie Group directly supplies households and commercial customers. The supply area, which has approximately 1.2 million inhabitants, extends from the eastern part of the Rhineland-Palatinate through south Hesse and across to the Bavarian border, extending for approximately 100 kilometers from west to east. Over 75% of the natural gas business is operated outside Mannheim. The MVV Energie Group's overall natural gas network covers 1,577 km, including 349 km high pressure lines and 1,228 km low pressure lines.

Sales

The MVV Energie Group supplies a total of 18,000 bulk-rate and 57,000 standard rate-paying customers in its entire supply area. With 11.2 billion kWh sold, the MVV Energie Group is the second largest gas supplier in Baden-Württemberg. On a nationwide basis, it is one of the ten largest municipal and regional gas distributors.

As already explained in the section entitled "District Heating Division", gas supply in Mannheim is part of an energy plan which offers a maximum of two sources of energy: natural gas/electric power, district heating/electric power or electric power alone. Approximately 32% of all households in the Mannheim city area are heated by gas.

	1997/98	1996/97	1995/96
	kWh million	kWh million	kWh million
Gas sales			
In Mannheim			
Households and small businesses	64	68	70
Space-heating	772	818	901
Industry and commercial key accounts	1,600	1,570	1,611
	2,436	2,456	2,582
In the region			
Direct sales to municipal customers	1,355	1,361	1,360
Sales to secondary distributors	5,074	5,183	5,746
	6,429	6,544	7,106
Two key accounts	2,370	2,376	2,484
Total	11,235	11,376	12,172

The MVV Energie Group's gas sales declined slightly in recent years, due mainly to weather conditions. Regional supply sales are expected to increase as a result of the acquisition of new customers along the existing loops. The MVV Energie Group is also offering its customers a greater range of gas services. These are described in more detail in the section on the new Services division.

Pricing on the gas market is characterized by an oligopolistic structure. There is no real competition at present. The margins for final distributors are therefore extremely narrow. As it stands today, local distribution companies are essentially no more than retail gas distributors and can only benefit from the pending market deregulation.

Water Division

Overview

In fiscal year 1997/1998, the Water division contributed 7.1% of the sales and 3.8% of the EBIT of the MVV Energie Group. The following table provides an overview of the developments of the last three fiscal years:

	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM
External sales.....	77,068	77,804	72,900
Depreciation	9,043	8,674	8,342
EBIT	6,128	9,339	4,484

Procurement

The MVV Energie Group extracts water from the sand and gravel aquifers of the Upper Rhine valley. The supply of tap water is ensured by three waterworks, which together provide a daily average of c. 60,000 m³, or 82% of the total water the Group provides. The remaining 18% is provided by the waterworks belonging to the Palatinate water-service association (ZWK), in which the MVV Energie Group has held a 51% interest since 1965. The advantageous location of the waterworks in conjunction with advanced water treatment facilities results in this water being well within all legal minimum standards for water purity. The water is carefully treated in state-of-the-art facilities so that it is fresh and pure when it reaches the Group's customers. In order to meet high water quality standards, the MVV Energie Group operates its own laboratory which performs more than 6,000 tests each fiscal year.

The abundance of groundwater in Mannheim and the ZWK region means that the water supply is secure for the future. In fiscal year 1997/1998, the MVV Energie Group reapplied at the Karlsruhe administrative district for the water rights of the Rheinau and Käfertal waterworks which are due to expire in 1999. The Company expects to be able to continue to maintain these water rights after 1999. The negotiations being held with the Karlsruhe administrative district will be concluded shortly.

Distribution

The MVV Energie Group supplies the tap water extracted and treated in the Company's waterworks via a 1,311 km pipe network to the Mannheim city area, the city of Viernheim, the municipalities of Illvesheim and Brühl and the city of Schwetzingen (as part of an emergency water supply agreement).

Sales

Water sales have remained stable in the past few fiscal years, as shown in the following table.

Water sales (m³ million).

	1997/98	1996/97	1995/96
	m ³ million	m ³ million	m ³ million
Water sales			
In Mannheim			
Households and small businesses	17.8	18.3	17.9
Industry and public facilities	4.0	3.9	4.0
	21.8	22.2	21.9
In the region			
Direct sales to end users	0.7	0.8	0.6
Sales to secondary distributors	2.3	2.4	2.3
	3.0	3.2	2.9
Total	24.8	25.4	24.8

The extensive experience of the MVV Energie Group in the areas of water recovery, treatment and distribution is being increasingly offered to groups of customers in industry and commerce, municipalities and public utilities as part of the new Service division. As in the District Heating division, there is a great deal

of potential for growth in the complete takeover of networks and in the operation of third-party networks. Promising discussions are being held with several municipalities in the area surrounding Mannheim about the takeover of water supply in those areas.

Pricing in this division is characterized by a high proportion of fixed costs (water extraction facilities, distribution networks) and the trend toward a decrease in demand (e.g. lower levels of water usage by new washing machines).

Waste-to-energy Division (HKW)

The Heizkraftwerk Nord (Waste-to-Energy plant or HKW) division contributed 11.0% of sales and 16.2% of the EBIT of the MVV Energie Group in fiscal year 1997/98. The following table provides an overview of developments over the past three fiscal years:

	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM
External sales.....	119,164	99,479	79,416
Depreciation	27,399	18,453	11,458
EBIT	26,375	26,415	16,935

The HKW, with its four waste-fired boilers, is one of the most technologically advanced plants of its kind in Europe. Since the commissioning of boiler No. 4 in July 1997, the waste incineration capacity at the HKW amounts to 380,000 tonnes per year. The HKW's waste supply consists mainly of nonrecyclable waste from the cities of Mannheim and Heidelberg as well as from the Rhine-Neckar district, which have joined together to create the Rhine-Neckar waste-management association (ZARN). As a result, the MVV Energie Group's Waste-to-Energy plant disposes of the nonrecyclable waste of approximately one million people as defined in a long-term waste incineration agreement (valid until 2012).

In addition, waste which is not supplied via ZARN – in particular nonrecyclable waste from neighboring districts and commercial waste with a relatively high calorific value – undergoes waste-to-energy incineration.

	1997/98	1996/97	1995/96
	in tonnes	in tonnes	in tonnes
Incinerated waste in tons			
ZARN waste (only Mannheim until June 30, 1997)	219,013	154,300	141,401
Third-party waste	54,160	53,858	54,047

The growth in fiscal year 1997/1998 is primarily due to the fact that for the first time, outlying ZARN partners delivered their entire nonrecyclable waste to the HKW.

Process steam and electric power generated from nonrecyclable waste using cogeneration conserves fossil fuels and protects the climate. Compared to depositing refuse in landfills, the environmental balance is substantially more favorable for environmental pollutants such as greenhouse gases because of the flue-gas treatment system. This system produces results which are 60 to 98% below the required limits. The filtered flue-gas has a dioxin content of only 0.002 ng/m³, 98% below the required amount. In addition, the energy contained in the waste is utilized. The energy-related benefit of 380,000 tonnes of nonrecyclable waste corresponds to fuel savings of around 70,000 tonnes of fuel oil. The incineration of 380,000 tonnes of nonrecyclable waste in the HKW saves the environment around 250,000 tonnes of CO² emissions. In addition to the waste-to-energy resources, the HKW utilizes natural gas in the generation of process steam and electric power.

	1997/98	1996/97	1995/96
	kWh million	kWh million	kWh million
Sales			
Electric power to industry	111	80	22
Steam to industry	444	427	286

The MVV Energie Group expects the utilization of its waste-to-energy plant to increase due to the overall legal environment as well as intensified sales efforts, above all utilization by regional authorities in Baden-Württemberg. Efforts are also being made to acquire commercial waste customers in the private waste management sector since the high technical standards of the Group's incineration facilities can accommodate commercial waste with a relatively high calorific value.

Services Division

For the past few years, the MVV Energie Group has offered services which extend beyond simply supplying energy and water. The MVV Energie Group's goal is to market these resources by exploiting its existing know-how and to make a name for itself as an energy services provider among existing as well as new customers.

A new division was formed in fiscal year 1998/1999 to accommodate these services, which were formerly performed in the various divisions.

Contracting and industrial cogeneration

The MVV Energie Group assumes responsibility for all tasks along the energy conversion chain, in particular for conversion which customers used to perform in their own facilities. The expertise of the MVV Energie Group's employees is focused on contractual services for heating, cooling, electric power and steam.

The "cooling from district heating" process developed by the MVV Energie Group uses district heating to generate cooling for air conditioning systems. This innovative process is already being implemented by several customers in Mannheim.

The Group's contracting and industrial cogeneration activities focus on acquisitions of existing customer facilities, such as industrial power plants, heat-only plants, heating networks, switchgear and controllers as well as the design, planning, construction and operation of new facilities. The MVV Energie Group has successively acquired and operated the facilities of key accounts in Mannheim over the past several years. In December 1998, the Group concluded new contracts for energy supply and the acquisition of a power plant with a Mannheim industrial company.

Energy services

As part of its integrated product management, coordinated closely with the Company's sales division in a matrix organization, the Group is systematically expanding its energy services activities. As a result, the MVV Energie Group can offer application-specific services to its customers from the industrial and commercial sectors, municipalities and public utilities. The following is a sample of the Group's range of energy services:

Electric power services

- Network calculation and surge-protection engineering
- Management of electricity networks and plants
- Management of street lighting

Heating services

- Management of heat-only plants
- Grid planning and management of heating grids
- Generation of cooling from district heating

Gas services

- Rehabilitation concepts for gas distribution networks
- Maintenance of technical facilities for natural gas
- Leak detection for public utilities

Energy management

- Energy plans for buildings, halls and production facilities
- Load optimization concepts, load management
- Energy controlling and reporting

The MVV Energie Group was able to acquire numerous customers for all its services. Since energy services are playing an increasingly important role in the energy market, the MVV Energie Group will continue to accelerate its acquisition efforts in Germany and abroad.

Water services

Water services are becoming increasingly important within the MVV Energie Group. The Water division's know-how in the area of water extraction, treatment and distribution is being offered more and more to

industry, commerce, municipalities and public utilities. The following is a sample of the Group's range of water services:

- Network planning and creation of comprehensive tap water supply concepts
- Groundwater quality analysis and cleanup
- Engineering and management of water plants

Contracts for these services originate primarily from the Rhine-Neckar region. In addition, the Group has acquired contracts from other parts of Germany, particularly for new concepts in tap water supply and contaminated groundwater cleanup. The "simultaneous increment-pumping method", an MVV Energie Group development which is a registered design, enables mobile testing of various depths of ground water in existing wells and measurement stations.

Facility management

The Company has been active in the facility management segment since the beginning of fiscal year 1997/98. The expertise in areas related to the Group's core business, e.g. supply technology, energy services, building technology and commercial- and infrastructure-related building management, are marketed to customers as systems services. These services are offered in the form of an overall management concept or as individual modules. The first consulting projects in the hospital and public utility segments began in fiscal year 1997/1998.

Project management

The MVV Energie Group offers its customers comprehensive project management services for complex building projects in energy and supply technology. The Group was able to acquire contracts in Germany and abroad on the basis of its existing experience and expertise in strategic planning, plant design technology and process optimization.

Consulting

Since late 1989, the MVV Energie Group has offered national and international consulting services, above all in Central and Eastern Europe, but also outside Europe. Its partners and customers include domestic and foreign public utilities, organizations and institutions. On the basis of its proven competence in efficient energy generation and management, the MVV Energie Group's consulting division often operates on behalf of the World Bank, European institutions and numerous other organizations in various energy supply projects.

The MVV Energie Group has acquired contracts primarily in Central and Eastern Europe over the past few years, above all for studies and concepts in the energy and environmental sectors.

The experience gathered in managing international consulting projects provides the basis for expansion of the Group's direct heating and gas activities in Poland and Croatia.

In order to further strengthen its consulting activities, the Group acquired a majority share of the following companies in December 1998: GeTeBe Gesellschaft für Technologieberatung mbH, Berlin, and Regio-Tec Planungsgesellschaft für Wirtschaftspolitik und Infrastruktur mbH, Starnberg, and their subsidiaries InnoTec GmbH, Berlin, and ICEU GmbH, Leipzig. The consulting activities of InnoTec GmbH and ICEU GmbH concentrate mainly on Russia, as well as increasingly on Central and East Asia, where they virtually exclusively operate on behalf of western institutions (e.g. EU, World Bank).

Telecommunications

The Group completed its launch in the telecommunications market in the middle of fiscal year 1997/1998. MAnet GmbH is responsible for these activities within the MVV Energie Group. MAnet offers custom products and services tailored to companies' requirements such as Internet services, planning and project management of communication systems, creation of connections and systems as well as maintenance. The basis of MAnet's activities is the MVV Energie Group's communication network which comprises a 696 km copper wire network and a 46 km fiber-optic grid in the city of Mannheim. MAnet holds a long-term lease on the MVV Energie Group's existing network which is successively being expanded.

Corporate Strategy

Current situation and economic environment

The energy sector in the European Union (EU) is in the midst of a process of far-reaching structural change. Changes in regulatory policy are intended to make competition as effective as possible. The EU issued a directive concerning the internal market in electricity in February 1997 and concerning the internal market in gas in August 1998; each of these directives has a two-year implementation period. Both EU directives were implemented in Germany as part of the new *Energiewirtschaftsgesetz* (German Energy Industry Act), which took effect on April 29, 1998 with the relevant amendments to the *Gesetz gegen Wettbewerbsbeschränkungen* (Law against restraint of trade).

The new energy legislation abolishes the service area monopolies for electric power and gas which have existed in Germany for over 100 years.

The introduction of competition in the electric power and gas sector involves factors which are different than those involved in the deregulation of markets for regular goods. Due to the high concentration of existing facilities, the most sensible way to transport and distribute grid-bound energy in the future is via the existing networks belonging to the utility companies. The new energy legislation will open up these networks to other companies for the distribution of electric power or gas to end users in the supply area which was once exclusively served by public utilities.

The deregulation of the market for electric power will lead to national and international competitive pressure, intense competition for market share, consolidation processes and pressure on selling/purchasing prices and margins in view of Europe-wide capacity surpluses in the electric power supply and stagnating energy usage in Germany's energy markets. The established utility companies will not be the only ones attempting to lure away customers; an increasing number of foreign suppliers will also enter the German energy market.

At the start of this development, the focus is likely to be on the competition for key accounts, municipalities and "bundled" standard rate-paying customers. Customers will increasingly attempt to sign short-term supply contracts at more attractive prices.

The development into a buyer's market will raise customers' expectations for lower prices and an increasing level of customer service. The parameters for the energy suppliers' actions will be defined by the market and by customers.

Strategic goals

The MVV Energie Group is ready to face the challenges of this restructured energy market. The Group intends to use the deregulation of the energy market as an opportunity for the expansion of its business by further extending its existing range of services and also by entering strategically important new markets and business areas in Germany and abroad.

The following is a description of the strategic activities of the MVV Energie Group.

a) Customer orientation: marketing, price and product policies

In the course of the deregulation of the energy markets, the MVV Energie Group has already begun to transform itself from a technically oriented supplier and distributor to a customer-oriented, integrated energy service provider.

The measures toward customer orientation undertaken by the MVV Energie Group aim to:

- Increase customer loyalty
- Attract new customers in the long-standing supply area with new products
- Attract new customers outside of the existing supply area

The goal of this policy of customer orientation is to develop customer-specific products. In order to take customer requirements into account in the product development process, the MVV Energie Group is implementing extensive marketing measures. An example of a product that was developed specifically for industrial customers is power plant outsourcing. Discussions about this service segment are currently being held with various industrial customers in Germany. In order to solidify existing customer relationships, the product range is constantly being expanded or adapted to customer requirements. The MVV Energie Group is also launching new services closely related to its core business in addition to these energy services. The Company's existing resources and experience form the basis for this augmentation

of its product range. As a result, since early 1998 the Company has been marketing its existing telecommunications networks which were installed in the past to manage energy supply.

The precondition for the success of this customer-oriented product policy is attractive prices. Successful cost management in the past enabled the Company to lower electricity prices considerably while increasing earnings. The Company will continue to implement this cost management policy in the future.

b) Continued market-oriented development of the organizational structure

The Sales division was reorganized by replacing the functional division of duties, which was the model used to date, with a matrix organization. Markets and customers were segmented in order to define clear areas of responsibility and to lay the groundwork for segment-specific marketing and customer service by key account managers. Key Account Management is supported by the Marketing, Product Development and Product Management sales units. The most significant goals for the future in this area will be to orient the sales organization more strongly toward customer requirements and to adapt the other technical and commercial processes to the new requirements of the sales organization.

Recruitment and staff qualification measures are being implemented in order to provide the sales division with the necessary human resources. The entry into power trading serves to further strengthen the sales structure and will enable the MVV Energie Group to develop customer-specific electric power products in the future.

c) Consistent cost management

As a result of an early retirement program carried out up to the end of fiscal year 1997/98, the Company was in a position to achieve significant cost savings which led to an attractive decrease in electricity prices. The early retirement program for 1998/2003, which comprises early retirement, partial retirement and lay-off of a total of 280 employees, is expected to bring additional cost savings. Provisions amounting to DM 34 million were set aside for this purpose in fiscal 1997/98.

Further cost-cutting potential is available through the consistent optimization of the Company's internal workflows as well as through the upgrading of software systems (SAP R/3 and SICAD) begun in 1997, particularly in the area of maintenance.

In preparation for the deregulation of the industry, far-reaching cost reduction plans were launched in GKM. Extensive provisions were made and special depreciation performed for this purpose. This led to pressure on the earnings of the MVV Energie Group, primarily in fiscal 1996/1997.

The cost reduction plans already underway will continue in the future and will be enhanced by the marketing of basic operational services (e.g. IT, commercial services). Additional opportunities for reducing costs are provided by the planned expansion policy. The creation of potential for new synergies as a result of the equity investment policy in Germany and abroad is another interesting possibility.

d) Expansion of power trading

With the founding of MVV Energiehandel GmbH and the investment in Energiehandelsgesellschaft Deutsche Energy One GmbH (DEO), the MVV Energie Group plans to exploit the opportunities provided by power trading. The MVV Energie Group considers itself prepared for power trading and is already active in the Scandinavian power trading market.

The entry into power trading opens up a new area of business with great potential for the MVV Energie Group. On the one hand, the Group will be able to attract new customers for whom it could ensure attractive purchase prices. On the other, free capacity in power stations can be placed on the market. The MVV Energie Group can also develop customized products for its customers. Short-term supply contracts, e.g. on a daily or weekly basis, would also become possible, as would long-term price hedging.

In view of the decline in prices on the energy market, the economic situation is also changing for many industrial power plants. The takeover of such energy generation and distribution plants creates larger units for energy trading.

e) Expansion of new services

In addition to the development of energy services, the Company has developed further services closely related to its core business. These include the following:

- Telecommunications
- Facility management

Over the past few years, the MVV Energie Group has invested substantially in an optical fiber network. These investments were necessary to ensure the management of energy service. Telecommunications activities are aimed at utilizing these existing resources. Only a low level of additional investment will be necessary to enter further markets.

The Company has entered another high-growth business segment, facility management, by building on the energy services it has developed since the late 1990s. The Company's offerings in the area of facility management provide customers with comprehensive real estate management services or, if required, with modular or individual services. A facility management plan integrated technically, commercially and in terms of infrastructure offers customers economic advantages over the separate administration of individual tasks.

The MVV Energie Group views both energy services and facility management as areas with high growth potential and intends to expand these activities further.

f) Continuing internationalization

Since the end of the 1980s, the MVV Energie Group has been marketing its experience and know-how in the fields of energy generation and distribution as part of its consulting activities. The first step in this direction comprised consulting projects in Central and Eastern Europe, mostly funded by international organizations. In order to expand these activities, majority interests were acquired in two internationally active consulting companies at the end of 1998.

In addition to expertise in operating plants, expertise in financing projects is also required. In the mid-1990s, the MVV Energie Group began to develop a corresponding supplier and financing concept (City Comfort). For this reason, MVV Polska Sp.z o.o., Warsaw, Poland, was founded in June 1998 and a contract signed with the European Bank for Reconstruction and Development (EBRD), London, on December 14, 1998 to jointly acquire interests in district heating operating companies in Poland. Additional activities are underway in Croatia (gas supply).

The MVV Energie Group views these activities as business areas with great potential for the future and plans to expand them further.

g) Equity interest in public utilities

Since deregulation, many municipal utilities have been trying to strengthen their positions by forming affiliations with financially strong combined utilities or regional suppliers. Other utilities are consolidating to form larger companies.

The MVV Energie Group's goal is to invest in other public utilities in order to increase its buyer concentration, to create potential for new synergy effects and thus to transfer successful development of the company to its future subsidiaries and associates. The MVV Energie Group, the former owners of the associates and their employees also have promising opportunities in this regard. On the one hand, rationalization measures are expected to result in earnings improvements; on the other hand, the Company offers future subsidiaries and associates the opportunity for new employment and earnings potential by means of growth from new services.

The MVV Energie Group intends to maintain its independence in this consolidation process through qualitative and quantitative growth, and strengthening its market position through cooperation with, and equity investment in, other companies.

Subsidiaries and associates

The MVV Energie Group includes numerous subsidiaries and associates (see the section entitled "Group structure"), in which MVV Energie AG either directly or indirectly holds an equity interest.

The number of subsidiaries and associates in the MVV Energie Group's pro forma consolidated financial statements as of September 30, 1998 is shown below:

Affiliated companies	
Fully consolidated	2
Not included	2
Equity interests	
Valued at equity	5
Others	14
Total	<u>23</u>

Since fiscal year 1997/1998, the Group has increasingly oriented its acquisition strategy towards the services segment. In addition, the Group has acquired equity interests in foreign companies.

In fiscal year 1997/1998, the MVV Group established the following subsidiaries and associates either alone or in cooperation with partners:

National:

- MAnet GmbH – Gesellschaft für Telekommunikation und Information, Mannheim
- Wärmeversorgung Schriesheim GmbH, Schriesheim
- ServiceHaus Service – GmbH für modernes Wohnen und Leben, Mannheim
- Deutsche Energy One GmbH, Frankfurt am Main

International:

- MVV Polska Sp. z o.o., Warsaw, Poland
- Croplin d.o.o., Zagreb, Croatia

MVV Energiehandel GmbH was founded in the first quarter of fiscal year 1998/1999. MVV Polska Sp. z o.o. Warsaw, established MVV ESCO Polska S. A., Warsaw, and concluded a contract with the EBRD on December 14, 1998 in which the EBRD acquired a qualified minority interest in MVV ESCO Polska S.A. The purpose of this company is primarily the acquisition of equity interests in district heating companies in Poland as well as temporary management of district heating plants as defined in a concession agreement.

The Group also acquired 74.8% of both GeTeBe Gesellschaft für Technologieberatung mbH, Berlin, and Regio-Tec Planungsgesellschaft für Wirtschaftspolitik und Infrastruktur mbH, Starnberg, in the first quarter of fiscal year 1998/1999. Their subsidiaries InnoTec Systemanalyse GmbH, Berlin, and ICEU-Internationales Centrum für Energie- und Umwelttechnologie GmbH, Leipzig, are primarily active in the consulting segment in Russia as well as Central and East Asia.

The most economically significant subsidiaries and associates of the MVV Energie Group as of September 30, 1998 are outlined below:

Gasversorgung Süddeutschland GmbH, Stuttgart

Purpose of the company:

- Regional gas service in Baden-Württemberg,
- Construction and operation of the plants required for this purpose and
- Purchasing, sale and transportation of all types of gases.

	in 1,000 DM
Subscribed capital as of 9/30/97	150,000
Reserves as of 9/30/97	35,821
Sales 1996/97	2,035,392
Net earnings after taxes 1996/97	31,870
Book value of the MVV Energie Group's equity interest (equity valuation) 9/30/97	47,667
Net income from MVV Energie Group's equity interest 1997/98	12,487
Receivables from the MVV Energie Group as of 9/30/97	6,206
Payables to the MVV Energie Group as of 9/30/97	21,353
Employees (annual average 1996/1997)	264
Interest in subscribed capital	26.25 %

The GVS partners own a preemptive right to the state of Baden-Württemberg's 25 % share.

Grosskraftwerk Mannheim AG, Mannheim

The purpose of the company is the construction and operation of the central power plant in Mannheim-Neckarau in which electrical power and heating will be generated for the shareholders.

	in 1,000 DM
Subscribed capital as of 12/31/97	130,000
Reserves as of 12/31/97	80,241
Sales 1997	843,556
Net earnings after taxes 1997	13,000
Book value of the MVV Energie Group's equity interest (equity valuation) 9/30/98	49,670
Net income from the MVV Energie Group's equity interest 1997/98	5,200
Receivables from the MVV Energie Group as of 9/30/98	296
Payables to the MVV Energie Group as of 9/30/98	5,059
Employees	1,192
Interest in subscribed capital	28.0 %

Badische Gesellschaft zur Beteiligung am Badenwerk GmbH, Karlsruhe¹⁾ (hereinafter referred to as "BBG")

Purpose of the Company:

- Acquisition of shares in Badenwerk Holding AG (hereinafter referred to as "Badenwerk") from the partners or from third parties,
- Participation in future capital increases of Badenwerk AG and
- Administration of the Badenwerk shares with the aim of consolidating the interests of the partners.

	in 1,000 DM
Subscribed capital as of 12/31/97	50,500
Reserves as of 12/31/97	132,655
Sales 1997	–
Net earnings after taxes 1997	9,238
Book value of the MVV Energie Group's equity interest (equity valuation) 9/30/98	81,969
Net income from the MVV Energie Group's equity interest 1997/98	6,870
Receivables from the MVV Energie Group as of 9/30/98	2,029
Payables to the MVV Energie Group as of 9/30/98	0
Employees	–
Interest in subscribed capital	42.4 %

¹⁾ Due to the resolution passed on December 23, 1998 to liquidate the company, it is no longer included in the "Group structure" overview.

After the merger agreement dated June 25, 1997 between Badenwerk Holding Aktiengesellschaft, Karlsruhe, and EVS Holding Aktiengesellschaft, Stuttgart, the interest held by BBG in the newly founded Energie Baden-Württemberg AG (hereinafter referred to as "EnBW") was reduced. As a result, BBG is no longer of strategic importance and the partners decided to liquidate the company in a resolution dated December 23, 1998

The MVV Energie Group owns 4,697,750 no par-value shares in EnBW. This corresponds to a 1.88 % share in the capital stock of EnBW amounting to DM 1,250,031,000. With an official cash settlement price of DM 70.70 on the Frankfurt Stock Exchange on December 31, 1998, the market value amounts to approximately DM 330,000,000.

The following information on additional subsidiaries and associates of the MVV Energie Group as of September 31, 1998 is provided in accordance with section 24 of the BörsZulV (Stock Exchange Admission Regulations):

Name	MAnet GmbH – Gesellschaft für Telekommunikation und Information	
Registered office	Mannheim	
Area of operation	Telecommunication	
Subscribed capital	DM 1,000,000	
Reserves	–	
Most recent total net earnings/losses after taxes	–	
Share in subscribed capital	100.0 %	
Book value of the MVV Energie Group's equity interest	DM 1,000,000	
Net income from the MVV Energie Group's equity interest	–	
Receivables from the MVV Energie Group	DM 44 ,000	
Payables to the MVV Energie Group	DM 225,000	

Name	MVV – Polska Sp.z o.o.	ServiceHaus Service GmbH für modernes Wohnen und Leben
Registered office	Warsaw	Mannheim
Area of operation	Acquisition of interest in utility companies	Provision of housing services
Subscribed capital	PLZ 200,000	DM 1,000,000
Reserves	–	–
Most recent total net earnings/losses after taxes	–	–
Share in subscribed capital	100.0 %	50.0 %
Book value of the MVV Energie Group's equity interest ...	DM 104,000	DM 500,000
Net income from the MVV Energie Group's equity interest	–	–
Receivables from the MVV Energie Group	DM 200,000	–
Payables to the MVV Energie Group	–	–

Name	Wärmeversorgung Schriesheim GmbH	Croplin d.o.o.
Registered office	Schriesheim	Zagreb
Area of operation	District heating service	Gas production and supply
Subscribed capital	DM 50,000	Croatian Kuna 3,600,000
Reserves	–	–
Most recent total net earnings/losses after taxes	– DM 26,000	–
Share in subscribed capital	49.0 %	25.0 %
Book value of the MVV Energie Group's equity interest ...	DM 25,000	DM 253,000
Net income from the MVV Energie Group's equity interest	–	–
Receivables from the MVV Energie Group	–	–
Payables to the MVV Energie Group	–	–

Name	Innovation Congress GmbH	Deutsche Energy One GmbH
Registered office	Cologne	Frankfurt am Main
Area of operation	Organization of congresses, symposiums, etc.	Energy trading
Subscribed capital	DM 200,000	DM 2,000,000
Reserves	–	–
Most recent total net earnings/losses after taxes	DM 349,000	–
Share in subscribed capital	25.0 %	25.0 %
Book value of the MVV Energie Group's equity interest ...	DM 50,000	DM 500,000
Net income from the MVV Energie Group's equity interest	DM 82,000	–
Receivables from the MVV Energie Group	–	–
Payables to the MVV Energie Group	–	DM 500,000

Name	VELA Verwaltungsgesellschaft Mannheim mbH	Studiengesellschaft für elektrischen Straßenverkehr in Baden-Württemberg GmbH
Registered office	Mannheim	Stuttgart
Area of operation	Administration of equity interest	Promotion and development of electronic vehicles
Subscribed capital	DM 50,000	DM 50,000
Reserves	–	DM 15,000
Most recent total net earnings/losses after taxes	DM 269,000	–
Share in subscribed capital	24.0 %	20.0 %
Book value of the MVV Energie Group's equity interest ...	DM 12,000	DM 10,000
Net income from the MVV Energie Group's equity interest	–	–
Receivables from the MVV Energie Group	–	–
Payables to the MVV Energie Group	–	–

Name	Zweckverband Wasserversorgung Kurpfalz (ZWK)	Fernwärme Rhein-Neckar GmbH
Registered office	Heidelberg	Mannheim
Area of operation	Water extraction	District heating utility
Subscribed capital	DM 13,829,000	DM 3,500,000
Reserves	–	–
Most recent total net earnings/losses after taxes	Nonprofit organization	Transfer of earnings contract
Share in subscribed capital	51.0 %	50.0 %
Book value of the MVV Energie Group's equity interest	DM 7,052,000	DM 1,750,000
Net income from the MVV Energie Group's equity interest	–	Transfer of earnings DM 751,000
Receivables from the MVV Energie Group	–	DM 1,282,000
Payables to the MVV Energie Group	DM 218,000	–

Name	Beteiligungsgesellschaft für Energie und Wasser Meißen mbH Sitz Dresden	Erdgas- Beteiligungsgesellschaft Süd mbH
Registered office	Dresden	Stuttgart
Area of operation	Maintenance and administration of the equity interest in Stadtwerke Meißen GmbH	Acquisition of equity interests in the natural gas supply segment
Subscribed capital	DM 5,900,000	DM 30,000
Reserves	DM 5,850,000	–
Most recent total net earnings/losses after taxes	– DM 76,000	DM 65,000
Share in subscribed capital	26.67 %	17.15 %
Book value of the MVV Energie Group's equity interest ...	DM 3,142,000	DM 1,286,000
Net income from the MVV Energie Group's equity interest	–	–
Receivables from the MVV Energie Group	–	–
Payables to the MVV Energie Group	–	–

Investments

The total investment volume of the MVV Energie Group amounted to DM 449,565,000 in the period from fiscal year 1995/1996 to 1997/1998.

The following review of the investment structure distinguishes between investments in tangible assets, classified according to divisions, and in financial assets:

	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Tangible assets/intangible assets of which:			
Electric power	11,804	13,055	15,495
Heating	8,185	14,134	10,486
Gas	17,922	15,356	13,142
Water	11,419	10,956	8,709
HKW plant	14,303	87,450	131,248
Other	28,523	16,948	16,386
	<u>92,156</u>	<u>157,899</u>	<u>195,466</u>
Financial assets	3,042	1,002	–
Total	<u>95,198</u>	<u>158,901</u>	<u>195,466</u>

The main focus of investment activity in tangible assets/intangible assets over the past few fiscal years has been the expansion of the HKW comprising the addition of boiler No. 4 with a downstream flue-gas treatment system.

In fiscal year 1997/1998, important projects included expanding into new areas and attracting new customers in the Gas division, investments in facilities for distributing energy and facilities for extracting water in the Water division, as well as investments in switching and transformer stations in the Electric Power division. Investments in hot water supply in the city of Mannheim were also key factors. Other capital expenditures included the migration of software systems to SAP/R3 including the related investments in the client/server structure as well as the expansion of telecommunications networks and systems.

The MVV Energie Group plans total investments in tangible assets amounting to approximately DM 130,000,000 for the fiscal year 1998/1999, including the continued upgrading of software systems. Additional cornerstones of the Group's investment activity comprise refurbishing of the cross-divisional integrated monitoring station and expansion of the contracting business and telecommunications activities. The focus of these investments is on the supply area, and all of these investments will be financed with the Group's funds.

The MVV Energie Group plans an annual investment volume for tangible assets between DM 80,000,000 and DM 100,000,000 in the coming fiscal years.

Patents, licenses, and agreements of particular importance

The Company is not dependent on patents or licenses of material importance to its business activities or earnings. Contracts of particular importance for the Company's business activities and profitability exist with Grosskraftwerk Mannheim AG (see "Risk Factors") as well as in the area of concession agreements (see "Concession agreements") for purchasing gas (see "Gas division") and for water rights (see "Water division").

Concession agreements

A prerequisite for supplying customers with electric power, gas, water and district heating is the installation of networks. These services cannot be supplied unless land owned by third parties can be used for the purpose of laying supply networks. Within residential developments in municipalities, supply networks are generally installed in public access routes, which requires the approval of the easement owner. The public access routes in municipalities are normally owned by the respective municipality, apart from a few exceptions. The approval of the municipality for the use of these areas is granted in the form of concession agreements. By signing these agreements, the utility company undertakes to supply the municipality with utilities, and the municipality allows the utility company to use its access routes to install supply networks. Remuneration in the form of concession fees is agreed upon for the use of these access routes.

The new legislation to deregulate the energy sector rescinded the possibility of granting exclusive easements for electric power and gas. The same law contains a transitional regulation stating that current concession agreements, including the agreed concession fees, would remain unaffected, despite the negation of the exclusivity clause. Exclusive easements may still be granted in the case of water supply. In the past, only non-exclusive easements were allowed for district heating, as is now the case with electric power and gas. For this reason, the revocation of the exemption from the prohibition of restrictive practices regarding exclusive easements for electric power and gas does not have any influence at all on the other provisions of the concession agreements.

The MVV Energie Group is party to the following number of concession agreements (by division):

Electric Power:	2
Gas:	27
Water:	2
District Heating:	2

The concession agreement with the city of Mannheim, which was signed for all divisions, is in effect until December 31, 2014. If no new agreement is signed within 2 years of termination of the contract, the city of Mannheim undertakes to take over the supply facilities at the current market value, insofar as these are exclusively used to supply the city, if it is responsible for the new agreement not being signed. If the city is not responsible for the new contract not being signed, it is authorized to take over these supply facilities at the current market value or to reach an alternate arrangement by which the city's utility supply is ensured. To the extent that the city of Mannheim is not authorized or does not agree to take over the supply facilities, it must acquiesce to the use of these facilities even after termination of the agreement as long as MVV Energie AG requires these supply facilities to supply its customers outside of the city limits. If the agreement is terminated permanently, MVV Energie AG undertakes to hand over the facilities in an orderly and operational state to the city of Mannheim and to transfer to the city all supply agreements with customers within the city limits.

The other concession agreements signed with municipalities in the region have terms ending between 1999 and 2014. These agreements include similar termination conditions as in the contract with the city of Mannheim. Negotiations are currently underway to renew a total of six concession agreements that expire on September 30, 1999.

Management and employees

The Executive Board is assisted in the management of the Company by divisional managers who are responsible for eight different divisions. The Executive Board regularly meets with its key employees to analyze and to plan further development of the Company.

According to pro forma figures, the MVV Energie Group employed the following numbers of employees as of September 30 in fiscal years 1995/1996, 1996/1997 and 1997/1998:

	<u>1997/98</u>	<u>1996/97</u>	<u>1995/96</u>
	number	number	number
Industrial employees	568	585	597
Salaried employees	1,170	1,147	1,132
Industrial trainees	86	88	80
Commercial trainees	45	50	37
Total	<u>1,869</u>	<u>1,870</u>	<u>1,846</u>

The MVV Energie Group already applies or plans to implement the following performance-based measures:

- Performance bonuses for all employees
- Flexible salary structures for employees in higher income groups
- Employee stock option plans in conjunction with the IPO in 1999
- Management stock option plans in conjunction with the IPO in 1999

In the past fiscal year, the MVV Energie Group approved an early retirement program that is intended to reduce staffing levels by the year 2003. Provisions amounting to DM 33,979,000 were created for this purpose in fiscal year 1997/1998.

Terminations of MVV Energie Group employment contracts are excluded under the terms of a works agreement signed on October 1, 1998, which went into effect on, until October 1, 1998 to September 30, 2004.

The Group has recruited a large number of new employees and intends to continue hiring, particularly in sales departments and for the purpose of building up staff for the new activities of the MVV Energie Group.

A new human resources development program intended for a broad range of employees in the Company will serve to improve employee qualifications. The endowed professorship in the study of the energy sector set up by the MVV Energie Group at the Fachhochschule (University of Applied Sciences) in Mannheim is expected to improve the exchange of information.

Real property

The MVV Energie Group owns real property with a total area of approximately 1.8 million m². Of this area, MVV Energie AG owns 0.2 million m² either exclusively or, to a lesser extent, as the result of a hereditary tenancy rights; nearly all of this property is developed. This real property is located in within the city limits of Mannheim and, to a lesser extent, in municipalities in the surrounding area. Commercial buildings for energy services and telecommunications and administrative buildings are located on the majority of these properties and are used primarily by MVV Energie AG. RHE exclusively owns real property amounting to 1.6 million m². About three-quarters of this real property is not developed and consists of agricultural areas comprising a protected catchment zone. The improved areas include two waterworks, a waste-to-energy plant with an incineration facility, plants used for regional and local gas supply and an administration building. None of the MVV Energie Group's real property is mortgaged and therefore it is not subject to liens or foreclosure.

Insurance policies

The MVV Energie Group is of the opinion that it has sufficient insurance cover.

Litigation

None of the companies of the MVV Energie Group are currently involved in any legal or arbitration proceedings that had a significant influence on the economic situation of the Company or could have had such an influence in the past two fiscal years. The Company is not aware of any pending litigation and does not plan to initiate any such proceedings.

Financial Section

MVV Energie AG implemented comprehensive restructuring measures in 1998. The Company prepared pro forma consolidated balance sheets and profit and loss statements for the MVV Energie Group in accordance with International Accounting Standards (IAS) on the basis of the consolidated financial statements and individual financial statements for 1997/1998, 1996/1997, and 1996/1995. The pro forma financial statements present the Group as if it had already been established in fiscal years 1995/1996 to 1997/1998.

	Page
Pro forma Financial Statements of MVV Energie AG for the MVV Energie Group for Fiscal Years 1997/98, 1996/97, and 1995/96, as of September 30, respectively (in Accordance with International Accounting Standards (IAS))	
Pro Forma Balance Sheets of the MVV Energie Group 1998, 1997, 1996, as of September 30, respectively	65
Pro Forma Profit and Loss Statements of the MVV Energie Group 1997/98, 1996/97, and 1995/96, from October 1 until September 30, respectively	66
Pro Forma Developments of Capital of the MVV Energie Group 1997/98, and 1996/97, from October 1 until September 30, respectively	66
Pro Forma Reporting Financial Information by Segment of the MVV Energie Group 1997/98, 1996/97, and 1995/96, from October 1 until September 30, respectively	67
Pro Forma Cash Flow Statements of the MVV Energie Group 1997/98, and 1996/97, from October 1 until September 30, respectively	68
Notes on the Pro Forma Annual Financial Statements of the MVV Energie Group for 1997/98, 1996/97, and 1995/96	69
Auditors' Certificate	82
Financial Statements for Fiscal Year 1997/1998 of Stadtwerke Mannheim AG (SMA)	
Balance Sheet as of September 30, 1998	84
Profit and Loss Statement from October 1, 1997 until September 30, 1998	84
Annex, General Information, Accounting and Valuation Methods	85
Annex, Notes on the Balance Sheet	85
Annex, Fixed Asset Movement Schedule	86
Annex, Notes on the Profit and Loss Statement	88
Miscellaneous Information	90
Economic Report	91
Auditors' Opinion	95

**Pro Forma Financial Statements of MVV Energie AG
for the MVV Energie Group for Fiscal Years 1997/98, 1996/97 and 1995/96,
as of September 30, respectively**

In Accordance with International Accounting Standards (IAS)

MVV Energie AG, Mannheim

Pro Forma Balance Sheets of the MVV Energie Group 1998, 1997, and 1996, as of September 30, respectively

Pro Forma Balance Sheets

	9/30/1998	9/30/1997	9/30/1996	Notes
	in 1,000 DM	in 1,000 DM	in 1,000 DM	
Assets				
Fixed Assets				
Intangible assets	21,523	15,102	13,470	1
Tangible assets	1,679,570	1,697,143	1,643,335	2
Financial assets	224,148	220,814	222,440	3
	<u>1,925,241</u>	<u>1,933,059</u>	<u>1,879,245</u>	
Current Assets				
Inventories	14,382	12,018	12,200	4
Receivables and other assets	263,827	253,637	211,847	5
Cash and cash equivalents	82	30	31	6
	<u>278,291</u>	<u>265,685</u>	<u>224,078</u>	
	<u>2,203,532</u>	<u>2,198,744</u>	<u>2,103,323</u>	
Liabilities				
Equity				7
Capital stock of MVV Energie AG.....	169,000	169,000	169,000	
Capital reserves of MVV Energie AG	15,608	15,608	15,608	
Retained earnings	403,286	384,850	365,557	
Total net earnings of the MVV Energie Group.....	42,649	57,978	57,543	
	<u>630,543</u>	<u>627,436</u>	<u>607,708</u>	
Equity of the MVV Energie Group	4	4	4	
Minority interests.....	<u>630,547</u>	<u>627,440</u>	<u>607,712</u>	
Customers' Contributions	192,642	190,443	185,219	8
Provisions				
Provisions for pensions and similar obligations ...	38,233	37,197	39,438	9
Provisions for taxes	197,434	206,423	205,038	10
Other provisions	122,093	99,920	81,854	11
	<u>357,760</u>	<u>343,540</u>	<u>326,330</u>	
Liabilities				
Corporate debt	769,262	803,381	738,709	12
Trade payables	69,324	51,766	90,759	13
Advance payments for orders	150,044	142,374	105,003	14
Other liabilities	33,953	39,800	49,591	15
	<u>1,022,583</u>	<u>1,037,321</u>	<u>984,062</u>	
	<u>2,203,532</u>	<u>2,198,744</u>	<u>2,103,323</u>	

Pro Forma Profit and Loss Statements of the MVV Energie Group 1997/98, 1996/97, and 1995/96, from October 1 until September 30, respectively

Pro Forma Profit and Loss Statements	1997/98	1996/97	1995/96	Notes
	in 1,000 DM	in 1,000 DM	in 1,000 DM	
Sales	1,082,486	1,068,454	1,046,271	19
Capitalized assets for internal services rendered ...	12,459	10,293	11,891	20
Other operating income	43,929	37,998	37,407	21
Cost of materials	626,465	634,360	605,156	22
Personnel costs	180,770	177,855	172,067	23
Depreciation	101,862	90,455	81,843	24
Other operating expenses	93,324	85,145	100,694	25
Net income from associates	23,567	16,669	13,700	26
Other net income from subsidiaries	3,113	3,700	3,513	27
Earnings before interest and taxes (EBIT)	163,133	149,299	153,022	28
Net interest expenses	-53,110	-47,858	-46,447	29
Extraordinary expenses	-33,979	-	-	30
Net earnings before income taxes	76,044	101,441	106,575	
Income taxes	32,117	45,234	51,514	31
Net earnings after taxes	43,927	56,207	55,061	
Allocations to (In 1996/97, reallocation from) retained earnings (Equity consolidation)	-1,278	1,771	2,482	
Total net earnings of the MVV Energie Group	42,649	57,978	57,543	

Pro Forma Developments of Capital of the MVV Energie Group 1997/98 and 1996/97, from October 1 until September 30, respectively

	Capital		Retained Earnings	Total Net Earnings	Minority Interests	Total
	Capital Stock of MVV Energie AG	Reserves of MVV Energie AG				
	in 1,000 DM	in 1,000 DM				
1/10/1996	169,000	15,608	365,557	57,543	4	607,712
Net earnings after taxes	-	-	-	56,207	-	56,207
Dividends	-	-	-	-36,479	-	-36,479
Allocation to retained earnings ..	-	-	19,293	-19,293	-	-
9/30/1997	169,000	15,608	384,850	57,978	4	627,440
10/1/1997	169,000	15,608	384,850	57,978	4	627,440
Net earnings after taxes	-	-	-	43,927	-	43,927
Dividends	-	-	-	-40,820	-	-40,820
Allocation to retained earnings ..	-	-	18,436	-18,436	-	-
9/30/1998	169,000	15,608	403,286	42,649	4	630,547

**Pro Forma Reporting Financial Information by Segment of the MVV Energie Group
1997/98, 1996/97 and 1995/96, from October 1 until September 30, respectively**

Pro Forma Reporting Financial Information by Segment

Profit and Loss Statements

	External Sales			Intercompany Sales			Depreciation			Earnings before Interest and Taxes (EBIT)		
	1997/98	1996/97	1995/96	1997/98	1996/97	1995/96	1997/98	1996/97	1995/96	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM
Electric power	368,051	366,577	384,763	4,370	4,286	5,355	17,247	17,368	17,670	64,608	45,578	69,727
District heating	159,699	161,504	160,297	2,041	2,123	1,862	19,319	18,535	18,156	27,178	25,221	28,400
Gas	351,778	356,762	342,655	21,268	22,559	12,717	12,605	12,557	12,662	25,101	30,826	24,927
Water	77,068	77,804	72,900	814	1,305	1,019	9,043	8,674	8,342	6,128	9,339	4,484
Waste-to-Energy (HKW)	119,164	99,479	79,416	24,558	26,227	23,250	27,399	18,453	11,458	26,375	26,415	16,935
Other	6,726	6,328	6,240	-53,051	-56,500	-44,203	16,249	14,868	13,555	13,743	11,920	8,549
MVV Energie Group	1,082,486	1,068,454	1,046,271	-	-	-	101,862	90,455	81,843	163,133	149,299	153,022

Balance Sheets

	Assets			Investments		
	1997/98	1996/97	1995/96	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM
Electric power	486,154	477,570	473,204	11,804	13,055	15,495
District heating	313,564	323,250	322,926	8,185	14,134	10,486
Gas	420,891	413,539	400,219	17,922	15,356	13,142
Water	220,712	218,048	213,472	11,419	10,956	8,709
Waste-to-Energy (HKW)	495,660	503,872	435,847	14,303	87,450	131,248
Other	266,551	262,465	257,655	31,565	17,950	16,386
MVV Energie Group	2,203,532	2,198,744	2,103,323	95,198	158,901	195,466

**Pro Forma Cash Flow Statements of the MVV Energie Group
1997/98 and 1996/97, from October 1 until September 30, respectively**

Pro Forma Cash Flow Statements

	1997/98	1996/97
	in 1,000 DM	in 1,000 DM
Total net earnings of the MVV Energie Group	42,649	57,978
Allocations to (In 1996/97, reallocation from) retained earnings (Equity consolidation)	1,278	-1,771
Depreciation	101,862	90,455
Changes in long-term provisions and customers' contributions	15,389	7,856
Other income (In 1996/97, other expenses)	-1,278	1,771
Cash flow	159,900	156,289
Changes in short-term provisions	1,030	14,578
Losses from disposals of fixed assets	525	1,505
Changes in inventories, trade receivables, and other assets	-12,554	-41,608
Changes in trade payables and other liabilities	19,381	-11,413
Cash flow from operating activities	168,282	119,351
Proceeds from disposals of financial assets	986	857
Proceeds from disposals of tangible assets	577	971
Expenditures for investments in intangible assets	-9,462	-4,223
Expenditures for investments in tangible assets	-82,694	-153,676
Expenditures for investments in financial assets	-3,042	-1,002
Cash flow used for investment activities	-93,635	-157,073
Dividends to shareholder (City of Mannheim)	-40,820	-36,479
Subsidy payments	344	2,832
Proceeds from new corporate loans	2,526	2,936
Expenditures to retire corporate debt	-2,835	-2,375
Changes in other corporate debt	-33,810	70,807
Cash flow used for financial activities	-74,595	37,721
Changes in cash and cash equivalents	52	-1
Cash and cash equivalents at the beginning of the fiscal year	30	31
Cash and cash equivalents at the end of the fiscal year	82	30

Notes on the Pro Forma Annual Financial Statements of the MVV Energie Group for 1997/98, 1996/97, and 1995/96

At the annual meeting on September 23, 1998, the stockholders voted to change the name of Stadtwerke Mannheim AG (SMA) to MVV Energie AG on October 1, 1998. This change in the company name was recorded in the commercial register on October 7, 1998. In conjunction with taking the company public, there has also been a thorough restructuring of the legal framework of this enterprise.

Through an agreement of September 28, 1998, the control and profit-transfer agreement with Mannheimer Versorgungs- und Verkehrsgesellschaft mbH (MVV) – now called MVV GmbH – was terminated on September 30, 1998. The control and profit-transfer agreement between MVV GmbH and its subsidiary, Energie- und Wasserwerke Rhein-Neckar Aktiengesellschaft (RHE), was also terminated by an agreement of September 28, 1998, on September 30, 1998. The stockholders of both companies agreed to a control and profit-transfer agreement between MVV Energie AG and RHE as of October 1, 1998.

Various assets and debt of MVV GmbH have been conveyed to MVV Energie AG by a transfer agreement of September 30, 1998. Moreover, shares in several subsidiaries of MVV GmbH have been transferred to MVV Energie AG. Furthermore, with the exception of the Executive Board, the contracts of the employees of MVV GmbH have been taken over by MVV Energie AG. The same applies for the functions of MVV GmbH with the exception of financial activities.

The legal relations between MVV GmbH, MVV Energie AG, RHE, and the other enterprises in the MVV Group have been redefined within the framework of several agency agreements, a cash-pooling contract, a value-added tax contract, and a trade-tax contract as of October 1, 1998.

In preparing pro forma financial statements for fiscal years 1995/96, 1996/97, and 1997/98, we have taken the above mentioned facts into account. The following principles were followed:

1. With the organizational units and functions, the assets necessary to perform these functions were also transferred together with the accompanying obligations. At the same time, new supply and service relationships arose between MVV GmbH, RHE, and MVV Energie AG.
2. All of the assets and liabilities pertaining to our personnel were also conveyed to the respective enterprise. Former personnel remained with all of the assets and liabilities with the respective enterprise, in which they were last employed.
3. The consolidated enterprises of MVV GmbH are MVV Energie AG and MVV Verkehr AG. All of the subsidiaries and associates of MVV GmbH have been transferred according to their respective business purposes. Receivables and liabilities from relations with subsidiaries and associates have been conveyed together with the respective enterprise.
4. Real estate (property and buildings) of MVV GmbH has not been transferred.
5. MVV GmbH's tax-related assets and/or liabilities have remained with MVV GmbH, so long as they stemmed from the function of MVV GmbH as parent company. All other tax-related assets and/or liabilities have been transferred in the course of restructuring. The same applies for provisions.
6. Current account assets and liabilities as well as loans, cash holdings, and bank credits have also remained with MVV GmbH and will be regulated by a cash-pooling contract.
7. Items stipulated in the corporate charter of MVV GmbH, e.g., nominal capital or profit or loss brought forward, have remained of necessity with MVV GmbH. The same applies for memberships in various trade and/or professional associations until they are terminated.

Principles and Methods

The standards of the IASC in effect on the balance sheet date have been used for the pro forma financial statements of the MVV Energie Group. In addition, we have already integrated the regulations of IAS 12 (revised 1996) *Accounting for Taxes on Income* and IAS 14 (revised 1997) *Reporting Financial Information by Segment*.

The financial statements of the subsidiaries included in the pro forma financial statements of the MVV Energie Group are subject to uniform principles for accounting and valuation. The accounting and valuation methods used in the notes precede the respective items in the balance sheets, and the profit and loss statements.

In addition to the balance sheet and the profit and loss statement, the development of capital according to IAS 1, the cash flow statement according to IAS 7, and segment information according to IAS 14 are

mandatory components of consolidated financial statements. Reporting financial information by segments of the MVV Energie Group corresponds to our internal reporting.

Scope of Consolidation

In the pro forma financial statements of the MVV Energie Group, MVV Energie AG and RHE have been fully consolidated in accordance with IAS 27 (control concept).

The pro forma financial statements are based on the financial statements of the individual enterprises involved, which had been prepared by the balance sheet date for the Group financial statements. These financial statements have been examined by external auditors and each has been granted an unqualified attestation.

The equity method has been used to account for stock in the five main affiliates. Affiliates that are of secondary importance for the economic assessment of the MVV Energie Group are recorded at book value. Refraining from using the equity method has had no impact on total assets, on the structure of the balance sheet, or on the profit and loss statement.

Consolidation Methods

In consolidating capital, the book value of the subsidiaries has been set off against proportional equity. Investments accounted for with the equity method have been recorded at the value of their proportional equity according to the book-value method.

Intercompany sales, expenses, and income as well as receivables and payables among consolidated enterprises have been eliminated.

Foreign Currency Translation

Payables and receivables in foreign currency have been recorded at the exchange rate in effect on the balance sheet date. Their amounts were negligible on the balance sheet date.

As the MVV Energie Group does not hold stock in consolidated enterprises outside Germany, it has not been necessary to translate the figures in the financial statements of foreign companies.

Notes on the Balance Sheet

1. Intangible Assets

Intangible assets are recorded at acquisition cost. They are decreased by regular depreciation rates in proportion to the amount of use in accordance with the straight-line method. There were no grounds for extraordinary depreciation that would accrue if there were permanent reductions in value.

Research and development costs of the MVV Energie Group represent expenses for the respective fiscal year. These expenses amounted to 2,221,000 DM as of September 30, 1998, to 1,804,000 DM as of September 30, 1997, and to 1,756,000 DM as of September 30, 1996. They primarily include operational expenditures and depreciation for a newly developed, low-energy building and expenditures for introducing new product- and facility management. As the cumulative criteria of IAS 9 were not met, development costs have not been carried as an asset.

Asset-like rights consist of software as well as contractual subsidies to customers and suppliers. Useful life is oriented to the economic aspects and/or contractual terms and is between 3 and 20 years.

There were no write ups in the fiscal years involved. Goodwill does not exist for the enterprises included in the scope of consolidation.

Intangible Assets

	Asset-like rights	Advance payments	Total
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Cross carrying amounts 9/30/1996	45,411	180	45,591
Investments/Additions 96/97	2,957	1,266	4,223
Disposals 96/97	-3,333	-	-3,333
Repostings 96/97	99	-	99
Gross carrying amounts 9/30/1997	45,134	1,446	46,580
Investments/Additions 97/98	9,189	273	9,462
Disposals 97/98	-	-	-
Repostings 97/98	1,287	-1,271	16
Gross carrying amounts 9/30/1998	55,610	448	56,058
Depreciation 9/30/1996	32,121	-	32,121
Depreciation 96/97	2,691	-	2,691
Disposals 96/97	-3,333	-	-3,333
Repostings 96/97	-1	-	-1
Depreciation 9/30/1997	31,478	-	31,478
Depreciation 97/98	3,057	-	3,057
Disposals 97/98	-	-	-
Repostings 97/98	-	-	-
Depreciation 9/30/1998	34,535	-	34,535
Net carrying amounts 9/30/1996	13,290	180	13,470
Net carrying amounts 9/30/1997	13,656	1,446	15,102
Net carrying amounts 9/30/1998	21,075	448	21,523

2. Tangible assets

Tangible assets are recorded at their acquisition or production costs less depreciation.

With tangible assets produced by the MVV Energie Group, production cost is determined according to individual costs that can be reliably measured and commensurate overhead costs. Capitalized interest was carried as a tangible asset for the last time on the balance sheet date as of September 30, 1996, with a book value of 14,193,000 DM. In fiscal year 1995/96, 6,100,000 DM in interest was implicitly capitalized.

The cost of acquisition or production of tangible assets has been reduced by the amount of public subsidies (investment subsidies) in accordance with IAS 20.

We have depreciated tangible assets in proportion to the amount of use with the straight-line method. For buildings, the depreciation period is 50 years. Machinery and technical equipment are depreciated between 8 and 50 years, although pipe networks are usually assigned a useful life of 30 to 40 years. Plant and office equipment is depreciated over a period of 4 to 10 years.

There was no need to take extraordinary depreciation into account in accordance with IAS 16 in this fiscal year. In 1996/97, it was 1,244,000 DM, in 1995/96, 500,000 DM. Write ups have not been recorded that would otherwise have to be made due to permanent elimination of extraordinary depreciation accumulated in previous years.

A fourth waste-fired boiler with a downstream flue-gas treatment system, which went into operation during fiscal year 1996/97 and was subsequently sold within the framework of a finance lease before being leased back by MVV GmbH, has been carried as an asset according to IAS 17. With regard to this finance lease, the MVV Energie Group has the option as lessee to repurchase the facility after 8.5 years. In all likelihood, we will exercise this option – at least according to current planning objectives. The carrying amount, which as present value resulted from the leasing payments minus accrued depreciation, within the *Machinery and technical equipment* item was 198,395,000 DM as of September 30, 1998, and 208,977,000 DM as of September 30, 1997.

Beyond this, there are no other rented or leased assets, in which business ownership clearly belongs to the MVV Energie Group based on the terms of a contract.

There are no assets in the possession of the MVV Energie Group, for which a customer could be considered to be the owner for accounting purposes.

There are also no constraints on disposition or assets pledged as collateral for a loan.

Tangible Assets

	Land, land rights, and buildings including build- ings on land owned by others	Machinery and technical equipment	Miscel- laneous, equipment and facilities	Advance payments and con- struction in progress	Total
	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM
Gross carrying amounts 9/30/1996	416,543	2,217,962	134,346	263,834	3,032,685
Investments/Additions 96/97	10,739	47,345	14,545	81,047	153,676
Disposals 96/97	-345	-11,664	-2,372	-6,925	-21,306
Repostings 96/97	13,624	308,754	1,742	-324,219	-99
Gross carrying amounts 9/30/1997	440,561	2,562,397	148,261	13,737	3,164,956
Investments/Additions 97/98	2,817	42,073	22,657	15,147	82,694
Disposals 97/98	-180	-4,148	-3,854	-479	-8,661
Repostings 97/98	581	7,535	1,529	-9,661	-16
Gross carrying amounts 9/30/1998	443,779	2,607,857	168,593	18,744	3,238,973
Depreciation 9/30/1996	122,630	973,906	82,511	-	1,179,047
Depreciation 96/97	7,942	68,638	11,184	-	87,764
Disposals 96/97	-231	-6,659	-1,450	-	-8,340
Depreciation 9/30/1997	130,341	1,035,885	92,245	-	1,258,471
Depreciation 97/98	8,258	77,803	12,744	-	98,805
Disposals 97/98	-78	-3,863	-3,596	-	-7,537
Depreciation 9/30/1998	138,521	1,109,825	101,393	-	1,349,739
Subsidies 9/30/1996	10,654	195,753	2,921	975	210,303
Subsidies 96/97	19	2,143	234	436	2,832
Disposals 96/97	-	-3,791	-3	-	-3,794
Repostings 96/97	-	975	1	-975	1
Subsidies 9/30/1997	10,673	195,080	3,153	436	209,342
Subsidies 97/98	-	340	4	-	344
Disposals 97/98	-	-22	-	-	-22
Repostings 97/98	-	411	-	-411	-
Subsidies 9/30/1998	10,673	195,809	3,157	25	209,664
Net carrying amounts 9/30/1996	283,259	1,048,303	48,914	262,859	1,643,335
Net carrying amounts 9/30/1997	299,547	1,331,432	52,863	13,301	1,697,143
Net carrying amounts 9/30/1998	294,585	1,302,223	64,043	18,719	1,679,570

3. Financial Assets

Financial assets should be balanced with the acquisition costs.

Acquisition costs for associates that are accounted for according to the equity method should be adjusted to changes in the equity of said associates each year – so far as they affect the share in the net assets of these associates belonging to the MVV Energie Group.

In general, loans for housing construction granted to employees are recorded in *Other loans*.

There is no depreciation on financial assets.

Financial Assets

	Shares in			Minority interests	Loans to enterprises in which MVV holds stock	Other loans	Total
	associates		Other				
	Shares in subsidiaries	Equity valuation					
in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	
Gross amounts 9/30/1996	–	188,609	4,772	254	19,088	9,717	222,440
Investments/Additions 96/97	25	–	45	–	–	932	1,002
Disposals 96/97	–	–1,771	–	–	–	–857	–2,628
Repostings 96/97	25	–	–25	–	–	–	–
Gross amounts 9/30/1997	50	186,838	4,792	254	19,088	9,792	220,814
Investments/Additions 97/98	1,054	1,278	1,253	–	–	735	4,320
Disposals 97/98	–	–	–	–	–	–986	–986
Repostings 97/98	–	–	–	–	–	–	–
Gross amounts 9/30/1998	1,104	188,116	6,045	254	19,088	9,541	224,148
Net amounts 9/30/1996 ..	–	188,609	4,772	254	19,088	9,717	222,440
Net amounts 9/30/1997 ..	50	186,838	4,792	254	19,088	9,792	220,814
Net amounts 9/30/1998 ..	1,104	188,116	6,045	254	19,088	9,541	224,148

The enterprises of the MVV Energie Group as of September 30, 1998, are shown in the following list.

List of Holdings of the MVV Energie Group as of September 30, 1998

	Share of Capital	Equity ¹⁾	Total Net Earnings	Employees
	%	in 1,000 DM	in 1,000 DM	No.
Fully Consolidated Enterprises				
MVV Energie AG, Mannheim ²⁾	–	212,108	– ³⁾	1,410
Energie- und Wasserwerke Rhein-Neckar Aktiengesellschaft (RHE), Mannheim	99.99	110,288	– ⁴⁾	141
Subsidiaries				
MAnet GmbH – Gesellschaft für Telekommunikation und Information, Mannheim ⁵⁾	100.00	1,000	–13	–
MVV-Polska Sp. z o.o., Warschau ⁶⁾	99.99	104	–	4
Associates (Equity valuation)				
Grosskraftwerk Mannheim AG, Mannheim	28.00	210,241	13,000	1,192
Gasversorgung Süddeutschland GmbH, Stuttgart	26.25	185,821	31,870	264
Badische Gesellschaft zur Beteiligung am Badenwerk GmbH (BBG), Karlsruhe ..	42.40	182,705	9,238	–
Zweckverband Wasserversorgung Kurpfalz, Heidelberg ⁷⁾	51.00	13,829	–	–
Fernwärme Rhein-Neckar GmbH, Mannheim	50.00	3,500	– ⁴⁾	–
Associates (Book value)				
Beteiligungsgesellschaft für Energie und Wasser Meißen mbH Sitz Dresden, Dresden	26.67	11,750	–76	–
Wasserversorgungsverband "Neckargruppe", Edingen-Neckarhausen	25.00	1,167	–	1
Innovation Congreß-GmbH, Köln	25.00	88	349	4
Studiengesellschaft für elektrischen Straßenverkehr in Baden-Württemberg mbH (SfE), Stuttgart	20.00	65	–	–
VELA Verwaltungsgesellschaft mbH, Mannheim	24.00	50	269	–
Wärmeversorgung Schriesheim GmbH, Schriesheim	49.00	50	–26	–
ServiceHaus Service GmbH für modernes Wohnen und Leben, Mannheim ..	50.00	1,000	–	–
Deutsche Energy One GmbH, Frankfurt ..	25.00	2,000	–	–
Croplin d. o. o., Zagreb	25.00	1,000	–	–

¹⁾ Suscribed capital and reserves.

²⁾ Until September 30, 1998, Stadtwerke Mannheim AG (SMA), Mannheim.

³⁾ Profit-transfer agreement until September 30, 1998.

⁴⁾ Profit-transfer agreement.

⁵⁾ Recorporatized from Südwest Com GmbH – Gesellschaft für Telekommunikation und Information, Mannheim (not included in the consolidated financial statements).

⁶⁾ Not included in the consolidated financial statements.

⁷⁾ Voting rights limited to 40%.

4. Inventories

Inventories generally comprise raw materials and supplies. They are recorded at acquisition or production costs; however, to facilitate matters, an average acquisition price has been set in accordance with IAS 2. The book value of depreciated inventories is of minor importance. All of the inventories are owned by the MVV Energie Group. There are no legal assignments or pledges for loans. Long-term contract work, for which IAS 11 would have to be applied, does not take place in the MVV Energie Group.

5. Receivables and Other Assets

	9/30/1998		9/30/1997		9/30/1996	
	Total	Remaining period over 1 year	Total	Remaining period over 1 year	Total	Remaining period over 1 year
	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM
Trade receivables	237,843	–	234,799	–	192,404	–
Receivables due from subsidiaries	44	–	–	–	–	–
Receivables due from associates	9,828	–	7,308	–	7,935	–
Receivables due from the City of Mannheim ..	3,559	–	5,650	–	4,926	–
Other assets	12,553	831	5,880	861	6,582	1,263
	<u>263,827</u>	<u>831</u>	<u>253,637</u>	<u>861</u>	<u>211,847</u>	<u>1,263</u>

Receivables from customers have been recorded at nominal value. As of the balance sheet date, we allowed commensurate write-offs for the uncollectable portions of receivables.

Trade receivables include the total amount for accruals and deferrals, which was 184,308,000 DM as of September 30, 1998, 176,765,000 DM as of September 30, 1997, and 124,923,000 DM as of September 30, 1996, for energy and water sales not billed as of the balance sheet date. Payments on account received from customers have been recorded as a liability.

Active prepaid expenses have also been included under the item *Other assets*. Amounts of 825,000 DM as of September 30, 1998, and 861,000 DM as of September 30, 1997, have been carried as assets and correspond to the interest portion of the leasing payments made for a fourth waste-fired boiler with a flue-gas treatment system until September 30, 1998, that should be assigned to the respective fiscal year.

6. Cash and Cash Equivalents

Cash and cash equivalents mainly consist of bank deposits on the balance sheet date and correspond to the financial funds in accordance with IAS 7 that are developed in the cash flow statement.

7. Equity

MVV GmbH holds 99.99% of the capital shares in MVV Energie AG; the remaining 0.01% is held by the City of Mannheim.

8. Customers' Contributions

This item covers the contributions received from customers by the MVV Energie Group. These are partial payments made by customers to aid in defraying the expense of construction and installing building service connections for new and expanded connections. We have recorded these amounts as deferred income analogous to IAS 20. These contributions will be carried as income over the microeconomically useful life of the assets underlying said contributions.

9. Provisions for Pensions and Similar Obligations

The retirement plan for the employees of the MVV Energie Group has been arranged in accordance with our company pension agreement. For this purpose, the employer has agreed to insure eligible company employees with a municipal supplementary insurance company.

As responsibility for the company retirement benefit plan was taken over by the supplementary insurance company of the ZVK (Zusatzversorgungskasse des kommunalen Versorgungsverbandes Baden-Würt-

temberg) in Karlsruhe on January 1, 1972, direct obligations to provide pensions only exist with respect to those employees who went to work for the MVV Energie Group prior to this date and for those with whom individual arrangements have been made.

Provisions for pensions have been determined by the projected-unit credit method in accordance with IAS 19. At the same time, future obligations have been valued using actuarial procedures in estimating relevant parameters. Assumptions on trends were used as a basis for an expertise on developments in salaries and pensions of from 1% to 2% as of September 30, 1998. An interest rate of 6.5% was used in line with declining interest rates as of September 30, 1998. This rate was 7% in the two previous years. The new reference scale developed by Prof. Klaus Heubeck has been fully taken into account by means of flat-rate increments as a means of increasing pension provisions accordingly.

Pension-fund obligations have been fully covered by the provisions.

For employees of the MVV Energie Group who were hired after January 1, 1972, prorated payments have to be made to the ZVK in Karlsruhe for the retirement period. These payments made to ZVK serve to finance current pension outlays.

According to IAS 19, this type of retirement benefits is classified as a defined benefit plan, as the individual services provided by ZVK to former employees of member companies do not depend on contributions paid into a pension fund. As in addition employees from several companies are covered by ZVK, this type of retirement benefits is known as a multi-employer plan, for which special regulations in IAS 19 have to be applied.

Because of the redistribution of the services of ZVK to its member companies and insufficient data on age structures, natural attrition, and on salaries of the employees involved, information is not available on the proportion of future financial obligations accruing to the MVV Energie Group. Hence, formation of provisions according to IAS is not permissible and should thus be handled as a defined contribution plan in accordance with IAS 19.30a. Current payments to ZVK thus represent expenditures for this fiscal year. These payments amounted to 6,074,000 DM in fiscal year 1997/98, to 6 170,000 DM in fiscal year 1996/97, and to 5,931,000 DM in fiscal year 1995/96.

The financial obligations of ZVK as determined within the framework of an approximate computation in accordance with IAS for current and former employees of the MVV Energie Group are 139 million DM above the proportion accruing to the MVV Energie Group of the policy reserve of ZVK.

Total expenditures for our retirement-benefit plan were 11,027,000 DM in fiscal year 1997/98, to 8,495,000 DM in fiscal year 1996/97, and to 8,928,000 DM in fiscal year 1995/96.

10. Provisions for Taxes

	9/30/1998	9/30/1997	9/30/1996
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Tax expense from			
Taxes payable	39,870	33,467	36,819
Deferred taxes	157,564	172,956	168,219
	<u>197,434</u>	<u>206,423</u>	<u>205,038</u>

Provisions for deferred taxes have been formed for the first time in accordance with the new provisions of IAS 12, which went into effect on January 1, 1998. Deferred taxes should be used for timing differences between taxable income determined for assets and liabilities in compliance with the rules established by a tax authority and accounting income determined by external accounting principles in accordance with IAS.

Deferred taxes, which result from the individual items on the balance sheet, are shown in the following:

	9/30/1998	9/30/1997	9/30/1996
	in 1,000	in 1,000	in 1,000
	DM	DM	DM
Deferred Taxes			
Deferred tax assets from			
Customers' contributions	29,285	26,487	24,582
Provisions for pensions and similar obligations	1,130	267	–
Other provisions	18,583	1,037	1,027
Other contingencies	9,593	5,690	7,859
	<u>58,591</u>	<u>33,481</u>	<u>33,468</u>
Deferred tax liabilities from			
Tangible assets	215,064	205,348	200,607
Receivables and other assets	1,091	1,089	826
Provisions for pensions and similar obligations	–	–	254
	<u>216,155</u>	<u>206,437</u>	<u>201,687</u>
Total deferred taxes	157,564	172,956	168,219

11. Other Provisions

	9/30/1998	9/30/1997	9/30/1996
	in 1,000	in 1,000	in 1,000
	DM	DM	DM
Personnel costs	59,388	34,200	36,429
Energy and water	1,450	1,810	1,530
Rehabilitation	41,500	30,320	29,780
Miscellaneous	19,755	33,590	14,115
	<u>122,093</u>	<u>99,920</u>	<u>81,854</u>

The item *Other provisions* takes into account all of the contingencies due to third parties that were recognizable on the balance sheet date in accordance with IAS 10 when their amounts or due dates are uncertain. We have allocated the amount necessary on the balance sheet date to cover future contingencies and risks of the MVV Energie Group.

The increase in provisions for personnel costs is the result of assuming responsibility for pensions arising from early- and partial-retirement agreements entered into by the MVV Energie Group owing to organizational restructuring measures during fiscal year 1997/98.

Decreases in the other items can be explained by declining provisions for unbilled services rendered by third parties.

12. Corporate Debt

	9/30/1998		9/30/1997		9/30/1996	
	Total	Remaining period over 1 year	Total	Remaining period over 1 year	Total	Remaining period over 1 year
	in 1,000	in 1,000	in 1,000	in 1,000	in 1,000	in 1,000
	DM	DM	DM	DM	DM	DM
Debt due to subsidiaries	723,708	191,015	791,243	200,116	727,392	–
Other corporate debt	45,554	6,712	12,138	6,725	11,317	15,939
	<u>769,262</u>	<u>197,727</u>	<u>803,381</u>	<u>206,841</u>	<u>738,709</u>	<u>15,939</u>

Corporate debt is carried at nominal value.

MVV GmbH serves as the financial holding company for the enterprises of the MVV Energie Group. In conjunction with this function, the entire financial needs of the enterprises of the MVV Energie Group are covered by loans at matching maturities taken out by MVV GmbH. This is implemented within the framework of a cash-pooling contract.

13. Trade Payables

	9/30/1998		9/30/1997		9/30/1996	
	Total	Remaining period over 1 year	Total	Remaining period over 1 year	Total	Remaining period over 1 year
	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM
Due to suppliers	42,694	–	23,477	–	61,165	–
Due to associates.....	26,630	–	28,289	–	29,594	–
	<u>69,324</u>	<u>–</u>	<u>51,766</u>	<u>–</u>	<u>90,759</u>	<u>–</u>

Trade payables are carried at nominal value.

14. Advance Payments for Orders

This item covers advance payments made by customers for future deliveries of energy in line with one-time annual billing for actual consumption.

15. Other Liabilities

	9/30/1998		9/30/1997		9/30/1996	
	Total	Remaining period over 1 year	Total	Remaining period over 1 year	Total	Remaining period over 1 year
	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM
Due to third parties	11,479	–	15,175	–	19,835	–
Due to subsidiaries	225	–	79	–	74	–
Due to companies, in which a minority share exists	500	–	–	–	–	–
Due to the City of Mannheim	21,749	–	24,546	–	29,682	–
	<u>33,953</u>	<u>–</u>	<u>39,800</u>	<u>–</u>	<u>49,591</u>	<u>–</u>

16. Contingent Liabilities

There are guaranties totaling 2,500,000 DM primarily for the benefit of one of our associates.

17. Other Financial Obligations

There were no significant financial obligations in effect as of September 30, 1998.

18. Financial Instruments

In accordance with IAS 32, primary financial instruments, such as receivables and trade payables, belong to this item. Conversely, derivative financial instruments also belong here that are utilized as hedges to safeguard against risks from fluctuations in exchange rates and interest rates. With the primary financial instruments of the MVV Energie Group, the carrying amounts are equal to the market values. The carrying amounts thus represent the maximum financial soundness or risk of loss.

The MVV Energie Group does not make use of derivative financial instruments, e.g., options and swaps, in accordance with IAS 32.

Notes on the Profit and Loss Statement

19. Sales

Sales have been broken down by division and can be found in the segment information.

20. Capitalized Assets for Internal Services Rendered

Capitalized assets for internal services rendered are primarily affected by measures to construct and to expand supply networks.

21. Other Operating Income

Other operating income mainly comes from rendering consulting services, cost reimbursements, and rents.

22. Cost of Materials

	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Raw materials and other supplies and purchased goods	549,920	556,649	519,305
Purchased services	76,545	77,711	85,851
	<u>626,465</u>	<u>634,360</u>	<u>605,156</u>

23. Personnel Costs

	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Wages and salaries	141,099	141,353	137,095
Social security contributions and expenditures for assistance ...	28,574	28,007	26,044
Expenditures for our retirement-benefit plan	11,097	8,495	8,928
	<u>180,770</u>	<u>177,855</u>	<u>172,067</u>

The MVV Energie Group employed 1,869 people as of September 30, 1998. This figure also includes 131 trainees.

24. Depreciation

Tangible and intangible assets are depreciated according to the straight-line method over their economic-ally useful life. There was no depreciation of financial assets.

The increase in depreciation in fiscal year 1997/98 was mainly due to including a fourth waste-fired boiler with a downstream flue-gas treatment system for the first time in the depreciation of an entire year.

There was no extraordinary depreciation in fiscal year 1997/98. In fiscal year 1996/97, it was 1,244,000 DM and 500,000 DM in fiscal year 1995/96.

25. Other Operating Expenses

This item contains concession fees, which were 38,763,000 DM in fiscal year 1997/98, 38,880,000 DM in fiscal year 1996/97, and 39,298,000 DM in fiscal year 1995/96.

26. Net Income from Associates

In fiscal year 1997/98, the increase in the item *Net income from associates* was largely the result of higher dividends from Gasversorgung Süddeutschland GmbH in Stuttgart and from Badische Gesellschaft zur Beteiligung am Badenwerk GmbH (BBG), Karlsruhe.

27. Other Net Income from Subsidiaries

	1997/98	1996/97	1995/96
	in 1,000	in 1,000	in 1,000
	DM	DM	DM
Income from profit-transfer agreements.....	751	1,338	1,136
Income from minority interests.....	–	–	15
Income from loans to associates	2,362	2,362	2,362
	<u>3,113</u>	<u>3,700</u>	<u>3,513</u>

28. Earnings before Interest and Taxes (EBIT)

The item *Earnings before interest and taxes (EBIT)* is used as an international criterion. A breakdown of EBIT for the respective divisions can be found in the segment information.

29. Net Interest Expenses

	1997/98	1996/97	1995/96
	in 1,000	in 1,000	in 1,000
	DM	DM	DM
Income from loans	431	431	403
Other interest and similar income.....	31,467	34,017	33,722
Interest and similar expenses	85,008	82,306	80,572
	<u>–53,110</u>	<u>–47,858</u>	<u>–46,447</u>

30. Extraordinary Expenses

Within the framework of an EU-wide opening of the energy markets, the MVV Energie Group implemented organizational restructuring measures on a large scale in the last fiscal year. In this connection, the MVV Energie Group took on obligations for the pensions of early retirees to the amount of 33,979,000 DM in fiscal year 1997/98.

As the opening of relevant markets and the elimination of monopolies that had been in effect for decades both represent unique events in the corporate history of the MVV Energie Group, the formation of provisions undertaken in this context fulfill the criteria for an extraordinary item in their totality in accordance with IAS 8.

31. Income taxes

	1997/98	1996/97	1995/96
	in 1,000	in 1,000	in 1,000
	DM	DM	DM
Tax expense	47,495	39,196	44,070
Deferred taxes	–15,378	6,038	7,444
	<u>32,117</u>	<u>45,234</u>	<u>51,514</u>

The tax expense contains trade taxes on earnings and corporate income taxes.

We have dispensed with the transition from a fictitious nominal- to a fictitious effective-tax rate as these would not lead to any insightful conclusions due to the particular nature of pro forma financial statements.

Relationships to Related Parties, Persons, and Entities

MVV GmbH owns a 99.99 % share in MVV Energie AG. The City of Mannheim in turn is the sole shareholder of MVV GmbH and consequently should be considered a *related party* according to IAS 24. A concession contract exists between the City of Mannheim and MVV Energie AG, by which the City of Mannheim has assigned responsibility for supplying Mannheim with electricity, district heating, natural gas, and water to MVV Energie AG. The contract will remain in effect until December 31, 2014. Payments transferred to the shareholder from the concession contract amounted to 38,503,000 DM in 1997/98, 38,600,000 DM in 1996/97, and 38,858,000 DM in 1995/96.

Ongoing financial relations exist on a small scale between the City of Mannheim and the MVV Energie Group; the amounts have been recorded in the respective items on the balance sheet.

Legal relations between MVV GmbH and the MVV Energie Group have been redefined within the framework of several agency agreements, a cash-pooling contract, a value-added tax contract, and a trade-tax contract as of October 1, 1998.

The Executive Board and former members of the Executive Board receive their salaries and benefits exclusively from MVV GmbH. Any and all activities of the Executive Board have therewith been remunerated. MVV GmbH charges the MVV Energie Group for these services on a prorated basis within the framework of agency agreements.

Occurrences after the Balance Sheet Date

There were no significant occurrences after the balance sheet date.

Notes on Reporting Financial Information by Segment

Segmenting of the MVV Energie Group has been accomplished in accordance with internal reporting policies and contains the elements required by IAS 14 (revised 1997).

We have dispensed with assigning liabilities to the respective divisions.

We have refrained from transferring *Earnings before interest and taxes* (EBIT) to *Net earnings* (after taxes) of the MVV Energie Group in the segment information as this had already been done in the profit and loss statement.

Notes on the Cash Flow Statement

The cash flow statement shows the disposition of funds from ongoing operating activities, investment activities, and financial activities.

Interest expenditures of 85,008,000 DM in fiscal year 1997/98, 82,306,000 DM in fiscal year 1996/97, and 80,572,000 DM in fiscal year 1995/96, were offset by interest income of 31,898,000 DM in fiscal year 1997/98, 34,448,000 DM in fiscal year 1996/97, and 34,125,000 DM in fiscal year 1995/96 – including income from loans.

Mannheim, December 18, 1998

MVV Energie AG
Executive Board

Hartung Curth

Auditors' Certificate

We have audited the pro forma consolidated financial statements of the MVV Energie Group as of September 30, 1996, September 30, 1997, and September 30, 1998. These permit a comparative analysis of the MVV Energie Group in its overall organization as of September 30, 1998, in anticipation of the legal restructuring that took place on October 1, 1998, for the period from October 1, 1996, to September 30, 1998. For this purpose, the circle of enterprises included has been equated retroactively to October 1, 1996, with the scope of consolidation of the pro forma financial statements as of September 30, 1998.

The pro forma consolidated financial statements have been based on the financial statements of the consolidated enterprises, which have been examined by us and/or by other auditors.

In conclusion, our audit has indicated that:

- The premises postulated by the Executive Board of MVV Energie AG are objective;
- The pro forma consolidated financial statements have been objectively based on the financial statements that have been audited for the enterprises involved in light of the premises;
- They comply with the standards of the International Accounting Standards Committee.

Mannheim, December 18, 1998

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Frank	von Hohnhorst
Wirtschaftsprüfer	Wirtschaftsprüfer

**Financial Statements for Fiscal Year 1997/98
Stadtwerke Mannheim Aktiengesellschaft (SMA), Mannheim**

**Financial Statements for Fiscal Year 1997/98
Stadtwerke Mannheim Aktiengesellschaft (SMA), Mannheim**

Balance Sheet as of 9/30/1998

	9/30/1998	9/30/1997	Notes
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Assets			
Fixed Assets			1
Intangible assets	6,380	5,484	
Tangible assets	590,445	599,397	
Financial assets	103,511	103,097	
	<u>700,336</u>	<u>707,978</u>	
Current Assets			
Inventories	8,092	6,640	2
Receivables and other assets	223,088	223,794	3
Cash and cash items	82	30	
	<u>231,262</u>	<u>230,464</u>	
	<u>931,598</u>	<u>938,442</u>	
Liabilities			
Equity			
Subscribed capital	169,000	169,000	4
Capital reserves	15,608	15,608	
Revenue reserves	27,500	27,500	5
	<u>212,108</u>	<u>212,108</u>	
Special Reserves	105,108	106,618	6
Provisions	83,445	76,023	7
Debt	530,937	543,693	8
	<u>931,598</u>	<u>938,442</u>	

Profit and Loss Statement from 10/1/1997 until 9/30/1998

	1997/1998	1996/1997	Notes
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Gross operating revenues	747,301	746,965	9
Capitalized assets provided by MVV	8,029	6,049	
Other revenues	39,718	28,641	
Cost of materials	391,941	408,612	10
Personnel costs	128,255	128,822	11
Depreciation	65,989	66,182	
Other operating expenses	126,000	114,219	12
Earnings/Losses from financial activities	-20,449	-21,687	13
Net operating income	62,414	42,133	
Result from extraordinary activities	-13,670	-10,600	14
Taxes	3,070	363	15
From a transfer-of-earnings agreement transferred earnings	45,674	31,170	
Year-end earnings/Profit retained	-	-	

Annex

General Information

Accounting and Valuation Methods

The financial statements of this enterprise for fiscal year 1997/98 have been prepared in accordance with the terms of commercial law for stock corporations.

For reasons of clarity, we have summarized the items on the consolidated balance sheets as well as on the profit and loss statements and shown them separately in the annex. Except for a reclassification to the item *Extraordinary net income*, the figures from last year have been taken over unchanged for the consolidated balance sheets and profit and loss statements.

Financial operations are managed exclusively by the holding company.

Intangible assets acquired for a consideration have been valued at their acquisition cost. They will be written off according to their anticipated service life using the straight-line method of depreciation.

Tangible assets have been capitalized at their acquisition and production costs. Commensurate overhead charges have been factored into the values of facilities erected by MVV. Capital contributions already received have been deducted from the acquisition and production costs. Depreciation has been primarily effected with the progressively diminishing method in accordance with tax regulations. Items of low value have been depreciated at full value in the year of purchase.

With financial assets, our share in the Energie- und Wasserwerke Rhein-Neckar Aktiengesellschaft (RHE), Mannheim – hereinafter referred to as RHE – has been carried at its acquisition cost.

Average acquisition prices have been set for raw materials and supplies by taking the principle of the lower of cost or market into account.

Receivables and other assets have been set at the nominal value in light of individual risks.

Customers' contributions shown as special reserves have been carried as liabilities and are released at 5% of the original amount annually; with major projects, this calculation should be based on the service life of the assets involved.

Provisions for pensions and similar obligations have been determined primarily on the basis of partial value according to actuarial procedures. This is predicated on an interest rate of 6%. Partial amounts are shown at present value. The new reference scale developed by Prof. Klaus Heubeck has been taken fully into account by means of flat-rate increments. All other individual risks have been sufficiently covered by the *Other provisions*.

Liabilities have been set against payments on account.

Notes on the Balance Sheet

1. Fixed Assets

The fixed asset movement schedule shows the breakdown and development of the respective items summarized in the balance sheet.

The Energie- und Wasserwerke Rhein-Neckar AG (RHE) in Mannheim is carried under the item *Shares in subsidiaries*. Equity amounts to 110,288,000 DM; year-end earnings were 45,078,000 DM in fiscal year 1997/98, which were conveyed to MVV by virtue of a direct control and transfer-of-earnings agreement with the Mannheimer Versorgungs- und Verkehrsgesellschaft mbH (MVV). In addition to SMA, the City of Mannheim owns one share in RHE with a value of 1,000 DM. Moreover, SMA also has a 25% share in Deutsche Energy One GmbH in Frankfurt am Main, which was founded in September 1998. The remaining 75% is owned by EnBW Energie-Vertriebsgesellschaft mbH in Stuttgart, the Wirtschaftlichen Vereinigung deutscher Versorgungsunternehmen AG in Frankfurt am Main, and Wintershall AG in Celle/Cassel, with 25% each. The nominal capital of this enterprise is 2.0 million DM.

Fixed Asset Movement Schedule

Intangible Assets	Investment-like rights	Payments on account	Totals
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Gross carrying amounts 10/1/1997	16,933	907	17,840
Investments/Additions	1,967	–	1,967
Repostings	923	–907	16
Gross carrying amounts 9/30/1998	19,823	–	19,823
Depreciation 10/1/1997	12,356	–	12,356
Depreciation 1997/98	1,087	–	1,087
Depreciation 9/30/1998	13,443	–	13,443
Net carrying amounts 9/30/1998	6,380	–	6,380
Net carrying amounts 9/30/1997	4,577	907	5,484

Tangible Assets	Land, land rights, and buildings, including buildings on land owned by others	Machinery and technical equipment	Miscellaneous equipment and facilities	Payments on account and construction in progress	Totals
	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM
Gross carrying amounts 10/1/1997	243,660	1,733,901	95,609	9,733	2,082,903
Investments/Additions	2,092	30,013	14,267	10,139	56,511
Disposals	–180	–3,904	–2,997	–149	–7,230
Repostings	581	5,418	3,178	–6,827	2,350
Gross carrying amounts 9/30/1998	246,153	1,765,428	110,057	12,896	2,134,534
Depreciation 10/1/1997	86,560	1,162,358	72,084	–	1,321,002
Depreciation 1997/98	4,894	50,581	9,426	–	6,4901
Disposals	–180	–3,888	–2,958	–	–7,026
Repostings	–	–	2,366	–	2,366
Depreciation 9/30/1998	91,274	1,209,051	80,918	–	1,381,243
Subsidies 10/1/1997	3,781	155,718	2,980	25	162,504
Subsidies 1997/98	–	340	4	–	344
Disposals	–	–2	–	–	–2
Subsidies 9/30/1998	3,781	156,056	2,984	25	162,846
Net carrying amounts 9/30/1998 ...	151,098	400,321	26,155	12,871	590,445
Net carrying amounts 9/30/1997 ...	153,319	415,825	20,545	9,708	599,397

Financial Assets	Shares in subsidiaries	Interests in other companies	Other loans	Totals
	in 1,000 DM	in 1,000 DM	in 1,000 DM	in 1,000 DM
Gross carrying amounts 10/1/1997	95,499	58	7,540	103,097
Investments/Additions	–	500	578	1,078
Disposals	–	–	–664	–664
Gross carrying amounts 9/30/1998	95,499	558	7,454	103,511
Net carrying amounts 9/30/1998	95,499	558	7,454	103,511
Net carrying amounts 9/30/1997	95,499	58	7,540	103,097

2. Inventories

This item comprises raw materials and supplies.

3. Receivables and Other Assets

Receivables for goods and services include the total amount of accruals and deferrals amounting to 184,308,000 DM for energy and water sales not yet billed as of the balance sheet date. Payments on account received from standard rate-paying customers are carried as liabilities.

	<u>1997/98</u>	<u>1996/97</u>
	in 1,000 DM	in 1,000 DM
Receivables		
For goods and services	217,196	215,676
Due from companies, in which MVV has a minority interest	37	168
Due from the City of Mannheim	3,504	5,271
Other assets	2,351	2,679
(of these, with an unexpired term of more than one year)	<u>(442)</u>	<u>(485)</u>
	223,088	223,794

4. Subscribed Capital

Capital stock will be issued as 169,000 registered shares with a nominal value of 1,000 DM/share. Of this, MVV will receive 168,996 shares, while the City of Mannheim will have four shares. Notification has been given in accordance with Article 20 of German Corporate Law (AktG).

5. Retained Earnings

	<u>1997/98</u>	<u>1996/97</u>
	in 1,000 DM	in 1,000 DM
Legal reserves	2,500	2,500
Other revenue reserves	25,000	25,000
	<u>27,500</u>	<u>27,500</u>

6. Special Reserves

This item only covers customers' contributions already received.

7. Provisions

In the item *Other provisions*, major figures are the liability reserves for personnel expenses as well as provisions in accordance with Article 249, Para. 1, Sentence 3, and Para. 2 of the German Commercial Code (HGB).

	<u>1997/98</u>	<u>1996/97</u>
	in 1,000 DM	in 1,000 DM
Provisions for pensions and similar obligations	30,925	31,143
Provisions for taxes	—	20
Other provisions	<u>52,520</u>	<u>44,860</u>
	83,445	76,023

8. Debt

	Unexpired Term			1996/97 in 1,000 DM
	1997/98 in 1,000 DM	Up to 1 Year in 1,000 DM	Over 5 Years in 1,000 DM	
Debt				
Advance payments for orders	149,429	149,429	–	142,114
Due for goods and services	13,952	13,952	–	10,384
Due to subsidiaries	318,112	318,112	–	349,901
Due to companies, in which a minority interest exists	500	500	–	–
Due to the City of Mannheim	21,743	21,743	–	24,545
Other debt	27,201	22,259	21	16,749
(of this, from taxes)	(1,578)	(1,578)	(–)	(1,634)
(of this, in the framework of social security)	(283)	(283)	(–)	(293)
	<u>530,937</u>	<u>525,995</u>	<u>21</u>	<u>543,693</u>

MVV GmbH performs the function of a financial holding company for the enterprises of the MVV Group. Within the framework of this function, the entire financial needs of the enterprises of the MVV Group are covered by corresponding loans taken out by MVV GmbH at matching maturities. In intercompany transactions, financial resources are made available within the framework of current account disbursements. Debt due to subsidiaries is thus carried as a short-term item.

Other Financial Obligations

Investments planned for tangible assets will amount to 100.7 million DM for fiscal year 1998/99.

To ensure payment of additional pensions, SMA's employees have been insured by the supplementary insurance company of the ZVK (Zusatzversorgungskasse des kommunalen Versorgungsverbandes Baden-Württemberg). The financial obligations of ZVK as determined within the framework of an approximate computation at an interest rate of 6% for SMA's employees are 83.3 million DM above the proportion accruing to SMA of the policy reserve of ZVK.

Notes on the Profit and Loss Statement

9. Operating Revenues

Operating revenues from electric power sales include a credit to industrial customers for previous years amounting to 0.8 million DM (0.9 million DM last year). Operating revenues from water sales contain a retroactively calculated bill due from the US Army for previous years amounting to 0.7 million DM.

	1997/98 in 1,000 DM	1996/97 in 1,000 DM
Sales Revenues		
Electric power	361,816	360,859
District heating	138,020	139,965
Natural gas	133,851	133,760
Water	68,675	69,171
Other revenues	44,939	43,210
	<u>747,301</u>	<u>746,965</u>

10. Cost of Materials

The decrease was primarily caused by disbursement of a retroactive debit of GKM for 1997 for electric power deliveries amounting to 1.7 million DM (11.0 million DM last year for 1996) from RHE.

	1997/98 in 1,000 DM	1996/97 in 1,000 DM
Expenditures		
For raw materials and other supplies and purchased goods	365,763	387,605
For purchased services	26,178	21,007
	<u>391,941</u>	<u>408,612</u>

11. Personnel Costs

	1997/98	1996/97
	in 1,000 DM	in 1,000 DM
Wages and salaries	99,789	102,276
Social security contributions and expenses for pensions and financial assistance	28,466	26,546
(of this, for pensions alone)	(7,399)	(5,667)
	<u>128,255</u>	<u>128,822</u>
Annual average number of employees ¹⁾	1,410	1,422
(of this, number of trainees)	(119)	(108)

¹⁾ Calculated on the basis of monthly figures.

12. Other Operating Expenses

This item contains, inter alia, concession fees of 38,763,000 DM for fiscal year 1997/98.

13. Earnings and Losses from Financial Activities

	1997/98	1996/97
	in 1,000 DM	in 1,000 DM
Revenues		
From loans made from financial assets	385	387
Other interest charges and similar revenues	23,315	24,539
(of this, from subsidiaries)	(13,129)	(14,322)
	<u>23,700</u>	<u>24,926</u>
Interest and similar expenses	44,149	46,613
(of this, to affiliated companies)	(30,291)	(31,928)
	<u>-20,449</u>	<u>-21,687</u>

14. Result from extraordinary activities

Within the framework of liberalization of the EU Single Market and the resulting necessity for organizational restructuring measures, an early retirement program was approved for the period from 1998 to the year 2003.

The formation of provisions undertaken in this context fulfill the criteria for an extraordinary item in their totality. In last year's financial statements, the provisions thus formed were almost exclusively carried under the item *Personnel costs*. For purposes of clarity, the figures from last year have been adjusted accordingly.

15. Taxes

	1997/98	1996/97
	in 1,000 DM	in 1,000 DM
Income taxes	3,858	1,754
(of this, charged to the parent company)	(3,858)	(1,754)
Other taxes	-788	-1,391
(of this, refunded to the parent company)	(-1,389)	(-1,775)
	<u>3,070</u>	<u>363</u>

Miscellaneous Information

A control and transfer-of-earnings agreement is in effect with the Mannheimer Versorgungs- und Verkehrsgesellschaft mbH (MVV) in Mannheim. It has prepared the financial statements for the MVV Group (consolidated financial statements), in whose scope of consolidation SMA and its subsidiary, RHE, are included.

The financial statements and the economic report of the MVV Group (consolidated economic report) have been deposited with the commercial registry of the municipal court in Mannheim under the HRB¹⁾ No. 1780.

¹⁾ HRB = Commercial registry book

Supervisory Board

Lord High Mayor Gerhard Widder, Chairman

1st Vice-Mayor Dr. Norbert Egger, 1st Deputy-Chairman

Hans-Jürgen Trimborn, 2nd Deputy-Chairman

Manfred Barwind
Councilman Wolfgang Bielmeier
Barbara Daum-Leiendecker
Councilman Manfred Froese
Councilwoman Anita Gentgen
Councilman Paul Hennze (until April 12, 1998)
Councilman Jörg Mergenthaler
Peter Sattler
Councilman Rolf Schmidt
Christa Spohni
Councilman Prof. Dr. Horst Wagenblaß (as of June 24, 1998)
Councilman Helmut Wetzler
Councilwoman Dr. Elke Wormer

One member of the Supervisory Board was granted a loan of 44,000 DM in fiscal year 1995/96 at 5.84 % interest; the first five years are free of payments on principal.

Executive Board

Roland Hartung
Chief Executive Officer, Commercial Director, Resource Recovery Program

Klaus Curth
Personnel Director, Social Services, Administration, and Data-Processing

The responsibilities of the Technical Director, Utility Services and Mass-Transit, have been temporarily assumed by the Chief Executive Officer.

Remuneration for current and former members of the Executive Board is received exclusively from MVV GmbH. The activities of the Executive Board at SMA are therewith fully compensated.

Mannheim, October 30, 1998

Executive Board

Hartung Curth

Economic Report

Stadtwerke Mannheim Aktiengesellschaft (SMA) belongs to the corporate group of the Mannheimer Versorgungs- und Verkehrsgesellschaft mbH (MVV). SMA has gained decades of experience in supplying electric power, natural gas, district heating, and water service and has achieved above-average efficiency in the area of distribution. From the know-how gained through its core business activities, SMA has succeeded in developing new value-added service packages, of which cooling from district heating and Contracting have particularly good prospects.

SMA's energy and water needs are almost exclusively supplied through purchase by its subsidiary, Energie- und Wasserwerke Rhein-Neckar AG (RHE).

Liberalization of the Power and Gas Markets in Germany

In fiscal year 1997/98, the regulatory framework in Europe underwent a fundamental transition. With new legislation governing the energy industry that went into effect on April 29, 1998, and brought corresponding changes in the law against restrictions on competition, the German markets for electricity and gas were opened to competition. The regulations of this new energy legislation go well beyond the EU Single Market Directive on Electricity that went into effect in February 1997. By eliminating captive service areas, every power consumer can now theoretically choose his own supplier. A central element in opening the market is the legally constituted right to unrestricted construction of new grids and unlimited transmission access to existing ones. Free transmission access can only be denied in certain exceptional cases.

Developments in Business and Profitability

For SMA, fiscal year 1997/98 was a milestone in its corporate history up till now, with far-reaching entrepreneurial decisions and unusually high earnings. Measures to improve our competitive position in future energy markets have been consistently implemented and have begun to reap benefits. They have primarily included improving our cost structures and greater orientation to our customers, our markets, and to competition.

Net operating income was 62.4 million DM in fiscal year 1997/98, which was 20.3 million DM above last year's figures. This has been an excellent performance, especially in light of the decreases in sales revenues from heating energy owing to weather conditions and in view of the noticeable effects of competition on our electric power and gas business. Key factors in improving these figures were lower purchase costs based on the capacity charges billed by our supplier, the Mannheim central powerplant (GKM), that included unbudgeted expenses last year. Moreover, net income figures were also improved by less depreciation and lower personnel costs as a result of our cost-cutting program.

Improvements in the overall situation have shown that our strategic measures have had a sustained impact on performance. Consequently, we could easily absorb the expenditures from the provisions formed for early retirement during this fiscal year, which were 11.3 million DM in the item *Extraordinary net income* for 1997/98.

After taking extraordinary net income into account and after deducting taxes, SMA had earnings of 45.7 million DM in fiscal year 1997/98, which was transferred to the Mannheimer Versorgungs- und Verkehrsgesellschaft mbH (MVV) in accordance with our contractual obligations. The total amount of earnings transferred was 14.5 million DM higher than last year.

Developments in Sales and Turnover

Compared to last year, sales revenues increased slightly by 0.3 million DM (+ 0.1%) to 747.3 million DM. Energy and water sales accounted for approx. 94% of these revenues. The remaining 6% came from miscellaneous sales. Developments in sales revenues varied widely in the individual business sectors in relation to economic trends and changes in weather conditions and as a result of price fluctuations.

Sales were up 0.3% in our electric power division, which also had the highest sales figures. A key factor here was an increase in electric power deliveries of 2.1% in comparison to last year. Revenues from our electric power business accounted for approx. 48% of SMA's total sales.

	1997/98	1996/97	Changes
Sales to Third Parties			
Electric power (Mill. kWh)	2,165	2,120	+2.1 %
District heating (Mill. kWh)	2,181	2,256	-3.3 %
Gas (Mill. kWh)	3,307	3,350	-1.3 %
Water (Mill m ³)	22,5	23,1	-2.6 %

As of January 1, 1998, SMA simplified its tariff system for its industrial and commercial customers and cut rates by an average of 3 %.

In our district-heating division with the second-highest sales figures, revenues were down 1.4 % compared to last year. The decrease stemmed exclusively from our service with heating water. Increases in revenues from expanded connections were not sufficient to offset a drop in sales caused by variable weather conditions. Deliveries of heating water were down 7.2% compared to last year due to milder temperatures during the heating period in 1997/98. According to our degree-day figures for 1997/98, it was 8.7% milder than last year.

Conversely, in supplying process steam, we were able to increase our sales revenues by 7.6% due to a sizable rise in turnover of 9.8%. One major reason for the higher turnover in steam was that we supplied a new industrial customer for the entire year for the first time.

In our gas service, sales remained at last year's levels in spite of decreases in turnover due to weather-related causes. Sales increases resulting from success in acquiring new customers in the surrounding towns and cities and from passing on higher purchase prices to consumers, which are coupled with developments in oil prices, were able to offset a drop in turnover.

Gas deliveries were down 1.3% to 3.3 billion kWh in fiscal year 1997/98. The national average dropped 1.6% for natural gas consumption for a comparable time frame. When adjusted for seasonal temperature fluctuations, SMA had a growth rate of 2.2% in gas deliveries compared to last year. Mannheim accounted for 74% of SMA's total gas deliveries and regional municipalities for 26%.

In our water service, revenues were down 0.7% compared to last year. Water deliveries fell off by 2.6 % compared to 1997 as a result of the inclement summer weather.

Other revenues rose 4.0% to 44.9 million DM in fiscal year 1997/98. Revenues from the sale of compact building substations for district heating produced by SMA rose 17.7% to 2.7 million DM compared to last year. In this fiscal year, SMA received 4.8 million DM (4.5 million DM last year) in reimbursements for operating costs for the street lights that we took over from the City of Mannheim as of October 1, 1996.

The largest proportion of miscellaneous revenues came from reallocating customers' contributions and from providing services for our subsidiaries.

Developments in Costs

The cost of purchasing energy and water as well as for miscellaneous raw materials and other supplies decreased by 5.6% to 365.8 million DM.

A key factor for this decrease was lower purchase costs for electric power and heating water based on the capacity charges billed by our supplier, the Mannheim central powerplant (GKM), that included unbudgeted expenses for full depreciation of old boilers last year. Purchase costs for natural gas went up due to developments in oil prices.

Compared to last year, our personnel costs were down 0.4% to 128.3 million DM despite having to adjust our provisions for pensions to compensate for a higher life expectancy. Expenditures for wages and salaries decreased by 2.3 million DM (- 2.3%) despite a raise in the base pay scale of 1.5% as of June 1, 1998. To improve our competitive position in the liberalized energy markets, SMA has decided to offer early retirement for the period from 1998 to 2003. Allocations to the provisions formed for this purpose in fiscal year 1997/98 amounted to 11.4 million DM and have been carried in the item *Extraordinary net income*.

Compared to last year, the annual number of employees was down by 12 to 1,410. The number of trainees included in this figure rose by 11 to 119.

To improve our transparency for costs and services, we introduced cost-center controlling and a new system based on causation to charge for intercompany balances or transactions at market prices as of the beginning of fiscal year 1997/98.

SMA transferred concession fees of 38.8 million DM (38.9 million DM last year) in fiscal year 1997/98.

Investments

Gross investments in fixed assets, i.e., before deducting capital contributions from third-parties, were 2.2 million DM below last year's figures at 59.6 million DM.

The largest investment measures in the electric power sector involved building new switching and transformer stations and upgrading old ones, connecting new residential and industrial zones, and laying 20-kV and 1-kV cables.

The focus of investments in district heating was placed on increasing connection density in Mannheim's DH network and on construction of building service lines and customer connections in new housing areas.

In the area of gas service, the primary objective was to expand local grids in "B-communities" (without their own utilities) as well as connections to new housing areas in Mannheim.

With water service, a major part of the investments went to install distribution mains and building service connections in new housing areas as well as to replace old pipes in the existing network.

	1997/98	1996/97
	in million DM	in million DM
Gross Investments		
Electric power	11.8	13.1
District heating	8.2	14.1
Natural gas	11.7	10.2
Water	9.0	9.9
Joint facilities	17.8	13.8
Tangible assets	58.5	61.1
Financial assets	1.1	0.7
Total fixed assets	59.6	61.8

Research and Development

Streamlining work flows and satisfying the product-oriented demands of our new windows of opportunity have determined the areas of concentration of our R & D efforts.

SMA has, for example, pilot-projects to test and to optimize various technologies for cooling services and to consolidate them into a marketable palette of products. In 1993, SMA's first absorption-chiller system, which uses district heating to produce chilled water for air-conditioning, proved to be the breakthrough for this technology in Germany. As of 1998/99, three of these systems are producing useful cooling in Mannheim.

We have pushed the use of *power-line carriers*, i.e., utilizing electric power lines to transmit electronic data, in light of intracompany, interdisciplinary development projects and have thus been able to set our focus on future growth in such promising markets as powerline services and telecommunications.

In our core business, costs have been significantly reduced through innovative and economical distribution systems for heating and conceptually optimized strategies for greater connection density. In international cooperation projects, e.g., promoted by the *International Energy Agency (IEA)*, these processes have been expanded and then disseminated to other companies in partner countries.

Liberalizing the power market will mean new challenges, both for our commercial and technical management. Our technical systems will have to be adapted to the integrated power grids as they are opened. Feasibility studies on adapting the *metering and billing systems* as well as on managing the grids have provided significant findings.

Within the framework of the EU program entitled Thermie, we have been developing environment friendly systems in light of *Demand-side Management (DSM)* as part of an international cooperative effort.

We have been involved in the Markal project funded by the Federal Ministry of Education, Science, Research, and Technology. The objective is to develop software to optimize energy planning so that advanced technologies can be more efficiently planned and utilized.

Addendum

SMA is currently being confronted with profound changes in all of its business sectors, which will have a decided impact on the further development of our enterprise. Elimination of natural monopolies in the electric power and gas sectors, which were in effect for more than 100 years, have led to noticeable effects of competition, pressure on margins, shifts in the market, and to concentration processes in our sector. These developments are expected to become even more pronounced in future.

While competition in the electric power and gas markets will thus mean greater risks for SMA's profitability, it will also open up a whole new radius of action for innovative and financially sound enterprises. SMA and the MVV Group together are ready to meet these challenges and intend to take advantage of competition as a window to expansion. To ensure and to enhance our competitive position and our successful corporate development on a long-term basis, we will consistently continue our efforts to cut costs and to streamline our operational processes. Moreover, the MVV Group intends to take advantage of new profit potential within the scope of our core business activities by expanding its palette of services, through new windows of opportunity, such as telecommunications, energy trading, and building management, and through acquisitions beyond our own regional and national borders.

To be able to finance this growth strategy, the MVV Group will need additional equity, which it intends to acquire through a partial privatization of its utility-services divisions (energy, water, waste-to-energy) by going public. According to a resolution passed by MVV's Supervisory Board in July 1998, the utility-services divisions of the MVV Group will go public during the first quarter of 1999.

In preparing to go public, it was necessary to restructure our organization.

Until the balance sheet date for fiscal year 1997/98, (9/30/1998), 99.9% of SMA's stock was held by MVV GmbH. SMA for its part held 99.9% of the stock of its subsidiary, RHE. The remaining shares in SMA and RHE were held by the City of Mannheim. SMA and its subsidiary, RHE, on the one hand, and the Mannheimer Verkehrs-AG (MVG) on the other hand, were consolidated under the common umbrella of the Mannheimer Versorgungs- und Verkehrsgesellschaft mbH (MVV). The City of Mannheim is the sole shareholder of MVV.

As of October 1, 1998, SMA was reincorporated as MVV Energie AG. Together with the reincorporated MVV Verkehr AG, it was consolidated under the common umbrella of the holding company, MVV GmbH.

The previous control and transfer-of-earnings agreements between MVV and SMA and between MVV and RHE have been terminated. As of October 1, 1998, a new control and transfer-of-earnings agreement was concluded between the MVV Energie AG and RHE.

The MVV Energie AG plans to increase its capitalization by going public in the first quarter of 1999, as the first municipal utility to do so in Germany. In conjunction with going public, just over 25.1% is expected to be placed on the stock exchanges in Frankfurt and Stuttgart by issuing new shares. Then just under 75% of the capital stock of MVV Energie AG will be held by MVV GmbH.

According to our economic forecast, the MVV Energie AG should achieve similar net income before taxes during fiscal year 1998/99 as in 1997/98.

For fiscal year 1998/99, investments of 100.7 million DM have been planned for tangible assets in comparison to 58.5 million DM in 1997/98.

Auditors' Opinion

The accounting and financial statements, which we have audited in accordance with professional standards, comply with (German) legal provisions. With due regard for generally accepted accounting principles, the financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of this enterprise. The economic report is consistent with the financial statements.

Mannheim, December 18, 1998

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Geil	Gunzenhäuser
Wirtschaftsprüfer	Wirtschaftsprüfer

Three-year Review of MVV Energie AG

(formerly Stadtwerke Mannheim Aktiengesellschaft (SMA), Mannheim)

Balance sheet

	9/30/1998	9/30/1997	9/30/1996
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Assets			
Fixed assets			
Intangible assets	6,380	5,484	5,358
Tangible assets	590,445	599,397	606,409
Financial assets	103,511	103,097	102,942
	<u>700,336</u>	<u>707,978</u>	<u>714,709</u>
Current assets			
Inventories	8,092	6,640	6,493
Receivable and other assets	223,088	223,794	175,019
Cash and cash equivalents	82	30	31
	<u>231,262</u>	<u>230,464</u>	<u>181,543</u>
	<u>931,598</u>	<u>938,442</u>	<u>896,252</u>
Liabilities			
Equity			
Subscribed capital	169,000	169,000	169,000
Capital reserves	15,608	15,608	15,608
Retained earnings	27,500	27,500	27,500
	<u>212,108</u>	<u>212,108</u>	<u>212,108</u>
Special items	105,108	106,618	105,294
Provisions	83,445	76,023	72,106
Liabilities	530,937	543,693	506,744
	<u>931,598</u>	<u>938,442</u>	<u>896,252</u>

Profit and Loss Statement

	1997/98	1996/97	1995/96
	in 1,000 DM	in 1,000 DM	in 1,000 DM
Sales	747,301	746,965	759,624
Capitalized assets for internal services rendered	8,029	6,049	7,020
Other operating income	39,718	28,641	26,567
Cost of materials	391,941	408,612	393,089
Personnel costs	128,255	128,822	125,491
Depreciation	65,989	66,182	63,545
Other operating expenses	126,000	114,219	131,495
Financial results	<u>-20,449</u>	<u>-21,687</u>	<u>-22,498</u>
Results from ordinary activities	62,414	42,133	57,093
Result from extraordinary activities	-13,670	-10,600	-
Taxes	3,070	363	10,555
Profit transferred on the basis of a profit-transfer agreement ..	45,674	31,170	46,538
Net earnings after taxes/Balance sheet profit	-	-	-

Recent Business Developments and Prospects

The MVV Energie Group generated sales totaling DM 300 million in the first quarter of fiscal year 1998/1999 (same period in the previous year: DM 306 million).

Despite volume increases in the energy segment, the 2% decrease in sales was primarily caused by the market-oriented electric power price reductions of 8% in the bulk-rate customer segment at the beginning of fiscal year 1998/1999. In addition, the Group was able, in part, to pass on the fall in purchasing costs due to downward price trends in coal and gas to the customer.

Temperatures (measured in degree-day figures: 1,325) developed substantially more favorably in the first quarter of fiscal year 1998/1999 than in the comparable period of the previous year (degree-day figures: 1,255). As a result, the Group achieved sales volumes from energy service which exceeded those of the comparable period in the previous year.

	1998/1999 1 st quarter	Change (year- on-year) in %	1997/1998 1 st quarter
	kWh million		kWh million
Electric power sales	606	+2.2	593
Heating sales	1,258	+6.3	1,183
Gas sales	3,664	+5.3	3,478

In comparison to the same period in the previous year, only the water sales volume recorded a slight decrease to 6.17 million m³.

Investments totaling around DM 130 million are planned for the current fiscal year. DM 15 million of those investments were made in the first quarter.

Temperature trends in the remaining winter months represent a decisive factor in business development. Assuming the sales volume continues to increase, revenues from energy activities are still likely to remain below those of the previous year due to the decrease in prices as a result of competition and falling energy prices.

If business trends for the rest of fiscal year 1998/1999 continue to develop as they have thus far and no unforeseen events occur, the Company expects DVFA/SG earnings to increase on balance in fiscal year 1998. Although the initial public offering will depress earnings for the year, they are likely to increase substantially as a result of the cost-cutting measures introduced in the previous years.

In general, the Company plans to pursue an earnings-oriented dividend and earnings retention policy. Provided no unforeseen events occur, the Company plans a dividend of DM 1.10 or EUR 0.56 per share, with the new shares carrying dividend rights for half of fiscal year 1998/1999.

Mannheim, March 1999

MVV Energie AG

On the basis of this
Offering Prospectus/Stock Exchange Listing Prospectus,

50,702,000 no-par value shares

– proportional interest in capital stock DM 5.00 per no-par value share –
Nos. 00 000 001 – 50 702 000

and

36,921,600 no-par value shares

– carrying full dividend rights for fiscal year 1998/1999 –
– Securities Code Number 725 590 –
– ISIN Code Number DE 000 725 5903 –

and

13,780,400 no-par value shares

– carrying dividend rights for half of a fiscal year 1998/1999 –
– Securities Code Number 725 591 –
– ISIN Code Number DE 000 725 5911 –

and up to

400,000 no-par value shares

– proportional interest in capital stock DM 5.00 per no-par value share –
with regard to the options for conversion into no-par value bearer shares from the contingent capital
increase dated January 27, 1999 amounting to DM 2,000,000 carrying full dividend rights
for the fiscal year in which the conversion right is exercised,

and up to

600,000 no-par value shares

– proportional interest in capital stock DM 5.00 per no-par value share –
with regard to the option rights on no-par value shares from the contingent capital increase
dated January 27, 1999 amounting to DM 3,000,000 carrying full dividend rights for the fiscal year
in which the option right is exercised,

of

MVV Energie AG

Mannheim

**were admitted to trading with official listing on the Frankfurt Stock Exchange
and the Stuttgart Stock Exchange.**

Frankfurt am Main, Karlsruhe, Cologne, Mannheim and Stuttgart, March 1999

Dresdner Bank

Aktiengesellschaft

Credit Suisse First Boston

Aktiengesellschaft

DG BANK

Deutsche Genossenschaftsbank AG

Landesbank Baden-Württemberg

Sal. Oppenheim jr. & Cie.

Kommanditgesellschaft auf Aktien