On Course:
Success Driven by Efficiency

MVV Energie

to the Key Figures ▶

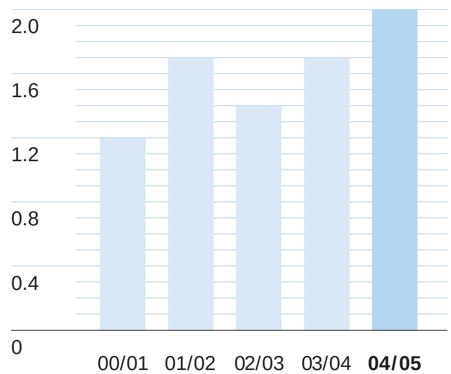
Company Profile

Since its stock market flotation in 1999, MVV Energie AG has developed into a modern and innovative energy distribution and energy-related service company. We combine proven core competencies with innovative solutions, providing our customers with the whole range of services from one source: electricity, district heating, gas, water, thermal utilisation and value-added services. The MVV Energie Group has around 6500 employees and generated sales of around Euro 2 billion during the 2004/05 financial year.

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

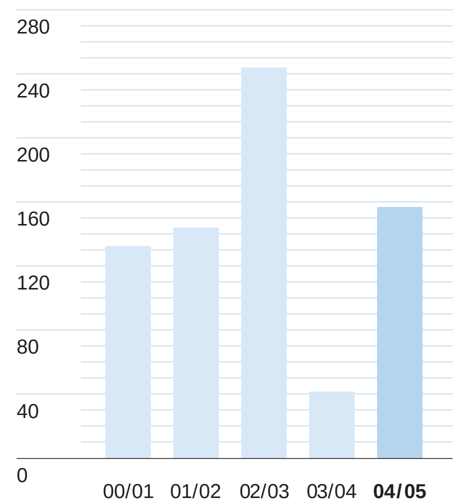
Sales
Euro billion

year under report
Euro 2.0 billion



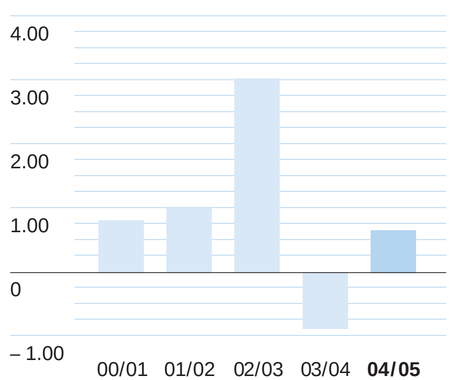
EBIT
Euro million

year under report
Euro 158 million



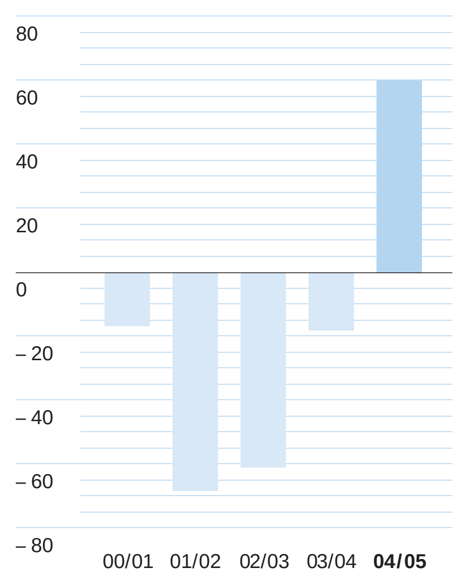
Earnings per Share
Euro

year under report
Euro 0.67



Free Cash Flow
Euro million

year under report
Euro 60 million



Key Figures

MVV Energie Group[1] Euro million	**2004/2005**	2003/2004	adjusted[2] 2003/2004	% change	adjusted[2] % change
Sales	1 958	1 652	1 652	+ 19	+ 19
EBITDA	288	209	236	+ 38	+ 22
EBITA	156	55	106	+ 184	+ 47
EBIT	158	41	97	+ 285	+ 63
EBT	90	– 23	36	—	+ 150
Annual net surplus/deficit	51	– 38	19	—	+ 168
Annual net surplus/deficit after minority interests	34	– 44	12	—	+ 183
Earnings[3] per share in Euro	0.67	– 0.86	0.24	—	+ 179
Cash flow pursuant to DVFA/SG	195	158	160	+ 23	+ 22
Cash flow per share pursuant to DVFA/SG in Euro	3.85	3.11	3.15	+ 24	+ 22
Free cash flow[4]	60	– 18	– 16	—	—
Dividend per share[5] in Euro	0.75	0.75		—	
Total assets (as of 30.9.)	2 899	2 877		+ 1	
Equity (as of 30.9.)	854	849		+ 1	
Equity ratio[6]	29.4%	29.5%		—	
Capital employed[7]	2 224	2 055		+ 8	
ROCE[8]	7.0%	2.7%		+ 159	
WACC[9]	7.5%	8.0%		– 6	
Value spread[10]	– 0.5%	– 5.3%		+ 91	
Investments	214	307		– 30	
Number of employees[11]	6 449	6 957		– 7	

[1] in accordance with International Financial Reporting Standards (IFRS)

[2] previous year excluding expenses for streamlining of portfolio and restructuring measures

[3] in accordance with IAS 33

[4] cash flow from operating activities less investments in tangible/intangible assets

[5] dividend for the year under report subject to approval by the Annual General Meeting on 10 March 2006

[6] equity as a proportion of total assets

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

[8] return on capital employed (EBITA as a proportion of capital employed)

[9] weighted average cost of capital

[10] value spread (ROCE less WACC)

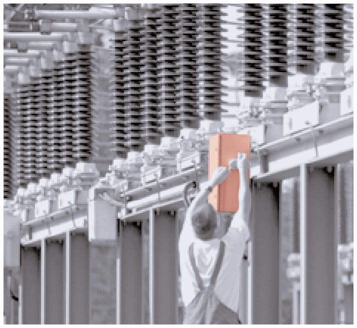
[11] including external personnel at Mannheim waste-to-energy plant of MVV Energie AG

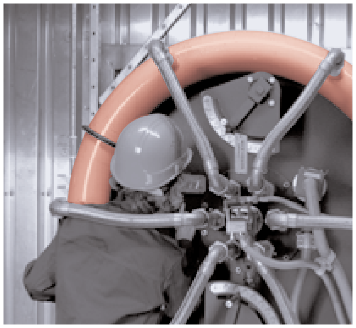
On Course:
Success Driven by Efficiency

MVV Energie AG

Annual Report 2004/2005

Contents





To Our Shareholders

To Our Shareholders

Letter from the CEO

Dear Shareholders and Friends of MVV Energie AG,

Dr. Rudolf Schulten,
CEO of MVV Energie AG

MVV Energie is steering a successful course. We achieved a great deal in the past 2004/05 financial year, both in terms of our strategy, as well as in our operations. Over the past two years, we have provided the MVV Energie Group with a new strategic orientation and structure and streamlined the business by consistently removing loss-making operations. This enabled us to achieve a significant improvement in the operating earnings power of the MVV Energie Group in the 2004/05 financial year. This is true of our solid core business – the distribution of electricity, district heating, gas and water. However, we have also succeeded in raising profitability levels in our newly restructured growth fields of energy-related services and especially in the environmental energy segment, which includes the incineration of non-recyclable waste and the biomass business. It is in these non-regulated business fields in particular that our group of companies sees excellent market opportunities.

Targets reached

We are very satisfied with what we have achieved. At Euro 2 billion, our sales for the 2004/05 financial year were in line with our target. With operating earnings (EBIT) of Euro 158 million, we even succeeded in surpassing the targeted level of Euro 150 million. Compared with the previous year's figure of Euro 97 million (following adjustment for one-off items relating to the streamlining of the portfolio and to impairment tests), we have thus achieved operative improvements of Euro 61 million. Following the deduction of interest, taxes and minority interests, we have reported an annual net surplus of Euro 34 million, compared with an adjusted annual net surplus of Euro 12 million in the previous year. The Executive Board of MVV Energie AG will therefore once again be proposing the payment of an attractive dividend of Euro 0.75 per share for approval by the Annual General Meeting on 10 March 2006. In contrast to previous years, we are now in a position to fund the dividend in full from our free cash flow.

Our positive earnings performance is primarily a reflection of the first full-year consolidation of the Stadtwerke Kiel AG subgroup, as well as of the successful completion of the streamlining of our portfolio.

Not only have our measures taken effect – they are also being honoured by the capital markets. At Euro 19.29, our share price as of 30 September 2005 was 34 % up on the closing price at the end of the previous year. Our shareholders have thus achieved an above-average dividend yield of 3.9 %.

Efficiency and earnings power strengthened

This Annual Report for the 2004/05 financial year documents the clear strategy of focused and earnings-driven growth chosen by the MVV Energie Group. One of our main focuses in the past financial year was on raising our efficiency and earnings power. To enable us to maintain our success as an independent and autonomous company in the phase of regulated competition, we launched our "FOKUS" efficiency enhancement programme in Mannheim in early 2005 and pressed ahead with preparing the measures involved. In July 2005, the Executive Board reached agreement with the Works Council of MVV Energie AG as to how the jointly compiled savings measures are to be implemented. By the 2007/08 financial year, MVV Energie AG aims to reduce its annual material and personnel expenses by up to Euro 29 million at the Mannheim location. Around two thirds of these savings are already expected to take effect in the current 2005/06 financial year. We have been obliged to make some cuts to be able to reach these savings targets. For this reason, we have accorded high priority to ensuring that the measures involved are undertaken in a socially responsible manner. Our management, employees and company representatives have demonstrated a high degree of flexibility and willingness to change during the more difficult stages of this efficiency enhancement programme. The same is true of our shareholdings, which have also been making great efforts to improve their competitiveness. The Executive Board of MVV Energie AG would like to extend its heartfelt thanks to all employees of the companies in the Group for their sense of responsibility and their commitment. We will be maintaining our efforts to achieve further improvements and to become even more competitive.

Utility company network – a solid foundation

One important foundation of the earnings and growth of the MVV Energie Group is its network of municipal utility companies, which has gradually been expanded over the past years by the acquisition of profitable shareholdings. In addition to MVV Energie AG, this network of municipal utility companies in Germany includes the energy suppliers or municipal utility companies in Kiel, Offenbach, Ingolstadt, *Solingen and Köthen. These are supplemented by ten shareholdings in municipal district heating companies in Poland and the Czech Republic. The horizontal networking of municipal utility companies, which have the same core business and stable end customer potential, provides our profitable growth with a solid basis.*

We aim to achieve even greater levels of cohesion between the companies in our network and to expand further into economically attractive regions as and when suitable opportunities arise. The regulation of grid prices resulting from the amended Energy Act will lead to a further intensification in the level of competition. According to industry experts, the expected pressure on efficiency levels will result in privatisations and, given the desolate state of municipal finances, to a rise in the number of municipal utility companies put up for sale. In view of its position as a successful and experienced municipal utility group with access to the capital markets, we see the MVV Energie Group as having good prospects for benefiting from any consolidation of municipal utility companies and for achieving external growth through the acquisition of further shareholdings. Other forms of partnership and cooperation between operating units are also increasingly coming to the forefront. The talks regarding a closer degree of cooperation between MVV Energie AG and Mainova AG in Frankfurt am Main have come to a halt for the time being – not least for political reasons. However, no bridges have been burnt as yet. The economic arguments and the expected pressure on margins in the regulated energy market favour closer cooperation and company mergers.

Ambitious targets for 2005/06

We aim to consistently maintain our organic growth in the 2005/06 financial year. Our targets are ambitious – we intend to increase our sales to Euro 2.2 billion, our EBIT to Euro 185 million and our earnings before tax to Euro 123 million. Moreover, we intend to generate a positive free cash flow once again, as well as covering our capital costs in full for the first time in several years. The principal earnings drivers are the expected cost savings from the "FOKUS" efficiency enhancement programme and the planned improvement in operations in the non-regulated segments of district heating and environmental energy, as well as in our energy-related services.

Capital increase successfully executed

On 15 November 2005, we successfully executed the capital increase previously announced. This involved issuing 5 million new shares at a price of Euro 18 each and placing them among a wide range of German and European institutional investors. Given the high level of interest both in Germany and abroad, the shares were placed within just a few hours. We see this as providing a confirmation of our positive acceptance on the capital markets. This measure has increased the value of our company to Euro 1 billion and the percentage of freely traded shares from 12 % to 19 %. We will be channelling the proceeds from the capital increase in particular into the profitable growth of our environmental energy and value-added service segments.

The strategic realignment, the streamlining of the portfolio and the efficiency enhancement programme in Mannheim mean that we have laid the foundations for greater profitability and for a sustainable increase in the value of our company. We have proven that with realistic budgeting, professional controlling and the consistent raising of our efficiency we are able to actually meet ambitious targets. In the current 2005/06 financial year, we will continue to direct all of our energies into retaining and justifying the trust placed in our company by our shareholders.

With kind regards.
Yours faithfully,

Dr. Rudolf Schulten
CEO

The Executive Board of MVV Energie AG

Dr. Werner Dub   Hans-Jürgen Farrenkopf   Karl-Heinz Trautmann   Dr. Rudolf Schulten

The Share of MVV Energie AG

Very positive share performance

The share of MVV Energie AG showed a considerable increase in the first months of the 2004/05 financial year up to the Annual General Meeting in March 2005, reaching an interim high of Euro 18.00 per share in XETRA trading. As in previous years, the share price saw a marked decline following the Annual General Meeting, particularly as a result of the payment of the dividend, but stabilised once again a short time later in a range of between Euro 15.00 and Euro 17.00. The announcement of the "FOKUS" efficiency enhancement programme in April gave rise to a strong recovery in the share price, which was accompanied by rising trading volumes and led to an annual high of Euro 19.50 in the course of the summer. Subsequent minor profit taking resulted in the share price declining in XETRA trading to Euro 19.29 at the end of the financial year on 30 September 2005, which nevertheless represented an increase of 34% on the closing price at the end of the previous financial year. Accounting for the dividend payment of Euro 0.75 per share, the performance of the share amounted to 41% over the same period. The lowest closing price during the 2004/05 financial year was recorded on 11 November 2004 at Euro 13.90. We interpret the significant increase in the share price as a sign of the capital market honouring the highly positive earnings performance of MVV Energie AG, as well as our measures to reduce costs.

Our comparative indices, the SDAX and Prime Utilities, rose by 50 % and 38 % respectively during the 2004/05 financial year. The performance of the MVV Energie AG share was thus more or less consistent with that of the relevant market. In the MDAX ranking list compiled by Deutsche Börse AG, at the end of the financial year the MVV Energie AG share occupied 94th position in terms of its free float market capitalisation and 93rd position in terms of its trading volumes. The MDAX and the SDAX, in which MVV Energie AG is listed, each include 50 companies, and thus 100 companies in total.

Our share's volume of stock market turnover showed further very pleasing developments. This virtually doubled once again during the financial year to reach Euro 79 million. Rising trading volumes enhance the tradability of a share and thus make it more attractive, especially to institutional investors. Around two thirds of our stock market turnover was undertaken on the XETRA trading system.

Shareholder structure

The 15.05 % shareholding in MVV Energie AG previously owned by Thüga AG was acquired by EnBW AG during the 2004/05 financial year. By its own account, EnBW considers this shareholding as a financial investment and, in contrast to Thüga AG previously, has not taken up any supervisory board mandate. EnBW has declared to the Federal Cartel Office that it will not increase its shareholding in MVV Energie AG.

The free float of around 12.2 % was worth Euro 119 million on the stock market at the end of the financial year.

A former major financial investor in MVV Energie AG reduced its holding in the company in the context of the rising share price in the past financial year. The shares coming onto the market as a result of this were largely acquired by institutional investors with a long-term focus and an interest in the dividend. This contributed to the international expansion of our shareholder base during the financial year.

We have so far not made any use of the option of buying back shares, given that this would have led to a reduction in the number of freely tradable shares (free float) in our company. We intend to implement the Executive Board resolution regarding the establishment of a new employee share option programme in 2006.

Dividend

MVV Energie AG remains committed to upholding its consistent and shareholder-friendly dividend policy in future. Encouraged by the significant improvement in earnings in the past 2004/05 financial year, we are once again able to propose an attractive dividend of Euro 0.75 per share to the Annual General Meeting. This is equivalent to a return of 3.9 % for our shareholders in terms of the year-end XETRA closing price. The further improvement in earnings expected in the current 2005/06 financial year will enable us to increase the proposed dividend slightly in spite of the rise in the number of shares resulting from the capital increase, as well as to retain a portion of the earnings.

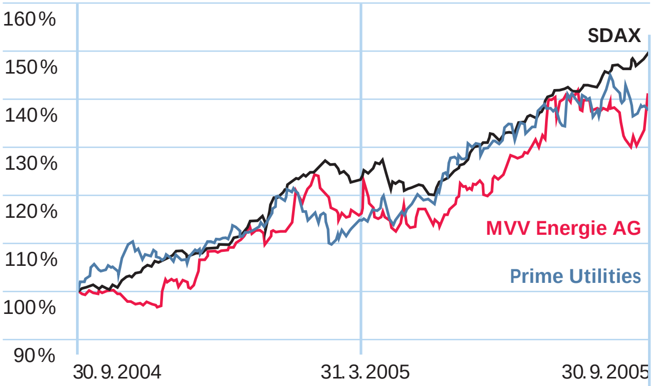
Key Figures per Share	2004/2005	2003/2004
Earnings (IAS 33) (Euro)	0.67	– 0.86
Price/earnings ratio (IAS 33)	28.8	—
Dividend (Euro)	0.75 [1]	0.75
Dividend yield [2] (%)	3.9 [1]	5.2
Equity [3] (Euro)	12.28	12.02

[1] pending approval by the Annual General Meeting on 10 March 2006

[2] based on closing price in XETRA trading on 30 September

[3] excluding minority interests

Share of MVV Energie AG (ISIN DE0007255903)
Performance Comparison



Successful investor relations activities

The number of research institutes publishing analyses of MVV Energie AG increased further to eleven in the year under report. Many of these institutes provide regular commentaries on the development of our group of companies. We presented MVV Energie AG to institutional and private investors at numerous analysts' conferences, road shows and investors' meetings. We commented on current developments in telephone conferences. The talks held at important financial centres outside Germany, such as London, Edinburgh, Paris, Zurich and Vienna, were particularly important for laying the foundations for the expansion of our international shareholder base. Our homepage at *www.mvv-investor.de* is updated on an ongoing basis and thus provides all interested parties with up-to-date information about our share. Our reporting is continuously adapted to meet the changing requirements of the capital markets.

In the "Best Investor Relations in Germany" prize awarded by the magazine Börse Online, we reached 9th position in the SDAX (out of 50), thus being ranked among the top ten for the third time in succession. The aim of our capital market communications activities has been and continues to be that of providing our investors and the general public with transparent, up-to-date and open information. Our Investor Relations thus contribute to an appropriate evaluation of the MVV Energie AG share.

Events subsequent to the end of the financial year

MVV Energie AG executed a capital increase of 9.86% (5 million shares) to the exclusion of existing shareholders' subscription rights at the beginning of the 2005/06 financial year. The shares were widely spread among institutional investors in Germany and abroad. The free float of the MVV Energie share now amounts to 18.68%.

Outlook

In view of the "FOKUS" efficiency enhancement programme and of rising earnings, notably in the environmental energy segment, we expect the coming financial year to have a positive impact on the performance of our share. Moreover, the increase in the free float is expected to lead to investors showing greater interest in the shares of MVV Energie AG.

In the event of any major acquisition in the market for municipal utility companies, we would obtain fresh equity within the framework of a further capital increase.

Corporate Governance

Report of the Executive and Supervisory Boards

The legal framework for corporate governance is provided by German stock corporation law. Furthermore, the German Corporate Governance Code first presented by the Government Commission on the German Corporate Governance Code in February 2002 also includes standards of good and transparent company management, some of which go beyond existing legal requirements. The Code is intended to raise the level of trust placed by international and national investors, customers, employees and the general public in the management and supervision of German publicly listed stock corporations. The Code was most recently amended on 2 June 2005.

MVV Energie AG also accords great significance to responsible and value-based company management. The Executive and Supervisory Boards support the principles of value-based company management and control formulated in the German Corporate Governance Code and base their activities on these principles. The recommendations in the Code therefore form part of the way we see ourselves and have been implemented virtually in full. The Statement of Compliance provides information as to why we have deviated from the recommendations in a few exceptional cases.

The latest amendments to the Code primarily focused on improving the activities of the supervisory board and on achieving even greater levels of transparency for company-internal incentive systems.

The remuneration of Supervisory Board members is commensurate to their duties and to the responsibility they assume. The members of the Supervisory Board were paid annual remuneration of Euro 10 thousand each in the year under report, with the Chairman receiving twice this amount and his deputy one and a half times this figure. Moreover, a meeting allowance of Euro 300 was paid per person per meeting. No performance-related remuneration is paid to the members of the Supervisory Board.

The performance-related remuneration of members of the Executive Board and of all other employees is an issue of great importance to MVV Energie AG. The remuneration of Executive Board members thus consists of fixed and variable components, which have been reported on an individual basis in the notes to the consolidated financial statements for the first time this financial year. The remuneration of the Executive Board has this year been depicted with the claims acquired in the year under report, including bonuses. In the previous year, these figures were reported on the basis of the accrual principle. The remuneration of division heads at MVV Energie AG and of members of the executive boards or directors of the shareholdings also include performance-related components. Moreover, we are planning to grant our employees a share in the performance of the company. An employee share option programme is to be established for this purpose in 2006.

The major concerns of the German Corporate Governance Code involve enhancing the transparency of publicly listed companies and the ongoing improvement of communications between such companies and their environment. In the past, MVV Energie AG has always fulfilled the transparency obligations resulting from the Securities Trading Act (WpHG) and complied in full with the Code's recommendations in this respect and will continue to do so in future. Our transparent, comprehensive, timely and open communications serve the purpose of reinforcing the trust placed in the company by existing and future shareholders, business partners, customers, employees and the general public and at strengthening such trust on an ongoing basis. We make particular use of our website *www.mvv-investor.de* to provide information on latest developments at the Group in terms of its financial situation and strategic orientation.

The accounting of the Group is undertaken in accordance with International Financial Reporting Standards (IFRS), while the individual financial statements of MVV Energie AG are compiled in line with the German Commercial Code (HGB).

Statement of Compliance

The Executive and Supervisory Boards of MVV Energie AG hereby confirm that the company has complied with and continues to comply with the recommendations made by the Government Commission on the German Corporate Governance Code.

In respect of the past, this Statement refers to the version of the German Corporate Governance Code dated 21 May 2003 and published by the Federal Ministry of Justice in the official section of the electronic Federal Official Gazette on 30 June 2003. With regard to the future, it refers to the recommendations of the new version of the Code dated 2 June 2005 and published in the official section of the electronic Federal Official Gazette on 12 July 2005.

The following recommendations were not and are not complied with:

- Retention for D&O insurance – Point 3.8 (2): *"If the company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed."*

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

- Remuneration of the members of the executive board – Point 4.2.3. (2) Sentence 4 (variable remunerative components of a long-term incentive nature and involving risk): *"For extraordinary, unforeseen developments a possibility of limitation (Cap) shall be agreed by the Supervisory Board."*

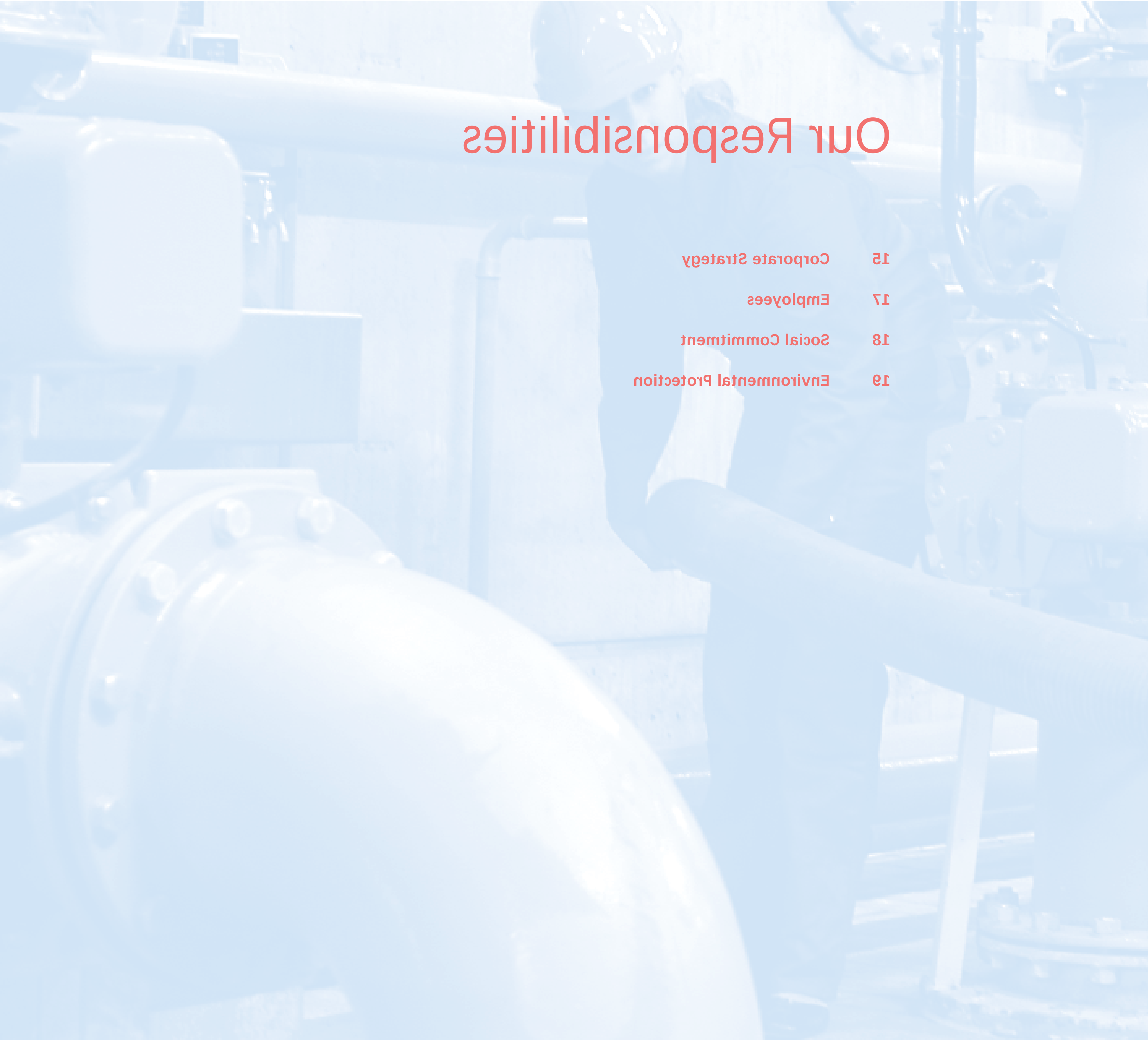
  We will comply with this recommendation in future insofar that a cap (upper limit) is to be agreed to cover exceptional, unforeseen developments in the redesign of employment contracts for members of the executive board due to be undertaken in March 2006.

- Performance-related remuneration for members of the supervisory board – Point 5.4.7 (2) Sentence 1: *"Members of the Supervisory Board shall receive fixed as well as performance-related compensation."*

  The articles of incorporation of MVV Energie AG only provide for the fixed remuneration of the Supervisory Board, plus a meeting allowance. We have already commented in the past that we were not convinced by models based on linking supervisory board remuneration to the level of the dividend or to the share price. Our reservations were affirmed by the ruling of the Federal High Court in 2004 in respect of the admissibility of share option programmes for supervisory board members. This ruling is interpreted in some legal commentaries as meaning that only fixed remuneration is permissible for supervisory board members. We have therefore refrained from introducing any performance-related remunerative components for members of the Supervisory Board.

This Statement of Compliance has also been published on our company's website *www.mvv-investor.de*.

Our Responsibilities



Our Responsibilities

Corporate Strategy

Underlying conditions in the energy markets continue to be subject to far-reaching changes. The largest publicly listed group of municipal utility companies in Germany, the MVV Energie Group, consists of a network of successful energy distributors and service providers. Our group of companies is very well placed to face the challenges of the energy market. Our well-balanced mixture of business fields in regulated and non-regulated markets, coupled with our determination to manage change proactively, enable us to master market and regulatory risks and to achieve long-term growth.

The MVV Energie Group is drawing on three entrepreneurial approaches to meet the various challenges it faces: excellence and efficiency in its administrative and business processes, a risk-optimised product portfolio in its core business and a major commitment to high-growth areas closely related to our core business. This combination provides us with stability in spite of the changes in underlying conditions and enables us to exploit growth opportunities in emerging market sectors.

Excellence and efficiency act as our guiding principles for optimising processes at our locations and within our network of companies. By means of consistent target management and performance monitoring we provide powerful incentives for improving processes and cooperation. Cooperation projects within our network of municipal utility companies, such as the standardisation of technology or joint regulation management, enable us to integrate our partners and to implement best-practice solutions across the Group.

We focus on:

Our stable core business:

- The MVV Energie Group is successful in the distribution of electricity, district heating, gas and water, as well as in the incineration of non-recyclable waste and the exploitation of biomass for energy generation.
- The MVV Energie Group is a network of municipal utility companies. By providing management and support, we raise the earnings power of our shareholdings in stable markets in Germany, Poland and the Czech Republic. Our cooperation projects enable us to generate numerous synergies.
- We are well-positioned to face the challenges presented by the regulatory authority, CO_2 trading and the high level of competition and consistently exploit the opportunities involved.

Our growth potential:

- The MVV Energie Group extends its network of municipal utility companies by acquiring shareholdings and establishing cooperations and taps new regional markets.
- Our energy-related services and our environmental energy segment harbour a high level of growth potential, which we will consistently exploit.
- In the sale of electricity across the whole of Germany, we acquire new customers on the basis of intelligent products and a marketable procurement structure.

Our core business segments of electricity, district heating, gas and water form a solid foundation for our earnings. Although we are confronted by unpredictable factors, such as the sharp rise in commodity and CO_2 prices and the establishment of the Federal Network Agency, the measures we have initiated mean that we are largely able to master such challenges. While our electricity and gas segments are affected by such factors, we also operate in segments marked by a high degree of stability, such as district heating and water.

Building on our healthy core business, we draw on our expertise in order to succeed in high-growth business fields as well. The environmental energy segment, which is very well established in the market, plays a particularly notable role in this respect. Our focus on the incineration of non-recyclable waste and the generation of electricity from biomass, coupled with the favourable legislative framework resulting from the Technical Guidelines for the Disposal of Municipal Solid Waste coming into force in June 2005, have placed us in a very good competitive position. We are committed to achieving consistent growth in our energy-related services and in the sale of electricity throughout Germany. The German market for value-added services has shown particularly dynamic developments. We aim to assume a leading role in this sector.

Success in the network

The network of the MVV Energie Group has grown rapidly in recent years. It includes municipal utility companies in Germany, district heating providers in Poland and the Czech Republic and a number of shareholdings in the fields of energy-related services and environmental energy. During the year under report, we pressed ahead with reinforcing the links between these partners, learning from one another and further exploiting synergy and efficiency potential within the network. We have developed a coordinated procedure for the required spin-off of grid companies, for example, and established joint regulation management procedures. Engineer and technician capacities have been co-ordinated across the Group. We will extend such pilot projects in the field of shared service solutions into other areas as well in future.

The expansion of the network of municipal utility companies will continue to form a focus for the further growth of the MVV Energie Group in future. We see the repeated tightening up of regulatory requirements and the resultant pressure on earnings in the energy market as offering additional opportunities for acquiring further companies for our network. Small and medium-sized companies will become increasingly reliant on the specialist knowledge of larger players in the market. It makes sense to cooperate in this respect, particularly on a local and regional level, in order to be able to fulfil grid operation efficiency criteria.

Mission statement points the way forward

With which corporate principles do we intend to achieve our objectives? During the year under report, the Executive Board of MVV Energie AG developed five guiding principles encapsulating the vision for the development of the company and communicated these to the employees. They form the basis for our mutual understanding of ourselves and of the role and purpose of the MVV Energie Group as a “service provider” to society as a whole:

MVV Energie is a leading energy group in Germany which is expanding its shareholdings in municipal utility companies into a robust network with activities across the whole of Germany. By exploiting “local intelligence” and generating efficiency benefits, we are increasing the value of the partners in the network.

Our autonomy is indispensable
Autonomy is the prerequisite for variety in the energy sector. We see the independence of our Group as meaning that we purchase energy at market conditions in the interests of our customers and that we base all of our entrepreneurial decisions solely on the needs of our customers. Our autonomy means that we are promoting competition.

Our claim – to expand the network
All companies acting in a competitive environment endeavour to optimally fulfil their goals. We endeavour to do so in our network of numerous municipal utility companies and provide our employees with the conditions necessary for achieving the best results together.

Our growth is attributable to our focus
Growth represents a challenge for any company. This is particularly true of companies operating in the energy sector with its new legislative framework. The MVV Energie Group is focusing not only on increasing its size, but also on raising its quality. Only by focusing on our capabilities will we really achieve growth.

We pursue our goal
We know that all of our actions have to be aimed at one objective – success. This is based on three pillars – customer satisfaction, employee motivation and earnings strength.

We take our success personally
Success is created anew every day. Each individual employee thus repeatedly renews his or her commitment to the performance of the MVV Energie Group. This applies to all divisions and departments. The focus is on people who advance the group of companies with conviction and commitment.

Code of Conduct

Based on the mission statement for our group of companies, we have also compiled a binding Code of Conduct. This sets out the values of the company and provides a foundation for achieving the success of the company on a morally and ethically responsible basis. The Code governs the way in which the Executive Board, management and employees behave towards each another and with third parties in their daily work. It will be communicated and introduced during the current 2005/06 financial year within the framework of information events, departmental discussions and team meetings held across the Group.

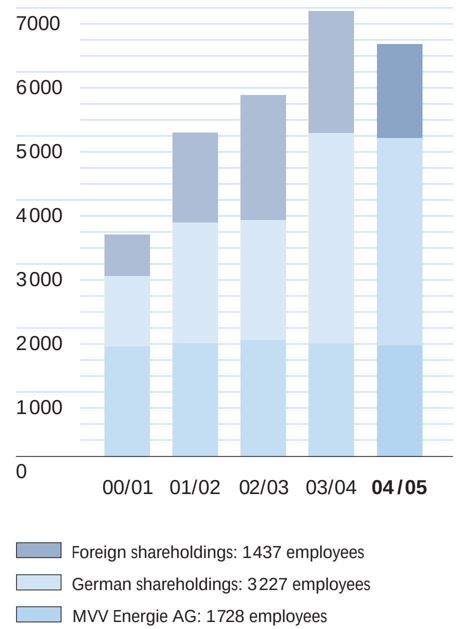
Personnel Figures at the Reporting Date	2004/2005	2003/2004	change
MVV Energie AG [1]	1728	1769	– 41
Fully consolidated shareholdings	3114	3492	– 378
MVV Energie AG plus fully consolidated shareholdings	**4842**	5261	– 419
Proportionately consolidated shareholdings	1550	1632	– 82
MVV Energie Group [2]	**6392**	6893	– 501
External personnel at MHKW Mannheim	57	64	– 7
	6449	6957	– 508

[1] including 68 employees of MVV RHE AG (previous year: 92)

[2] including 306 trainees (previous year: 314)

Employees of the MVV Energie Group

as of 30.9.



Employees

Restructuring and reduction in personnel

For the employees of MVV Energie AG, the 2004/05 financial year was characterised by the implementation of the new organisational structure and the “FOKUS” efficiency enhancement programme, which will achieve savings of Euro 29 million per year in the company’s administrative divisions from the 2007/08 financial year.

The implementation of the new organisational structure was already begun in July 2004. However, the integration of employees from various organisational units in terms of locations and responsibilities extended into the beginning of the year under report. The jobs newly created within the framework of the amended structure have largely been filled by existing company employees, with the number of external entrants being kept to a minimum.

The “FOKUS” efficiency enhancement programme was launched in early 2005 and is aimed at optimising the administrative structure in Mannheim. The cost-saving proposals compiled by the management were adopted by the Executive Board in June 2005. Agreement concerning the basic conditions for the implementation of the measures involved was reached in negotiations with the Works Council at the end of July 2005. Around 245 jobs are to be cut over three years in a socially responsible manner by drawing on partial retirement potential, other personnel fluctuation, the cutting of jobs not currently occupied, internal transfers and compensation agreements. Jobs becoming vacant are to be filled by available personnel in most cases. The personnel development measures aimed at raising qualification levels among our employees, which have been continuously underway for many years now, have proven to be exceptionally helpful in this context.

Overall, the consistent application of consolidation and efficiency enhancement measures resulted in the number of employees at the MVV Energie Group, including external personnel at the waste-to-energy plant in Mannheim (MHKW), being reduced by 508 compared with 30 September 2004. The personnel total at MVV Energie AG fell by 41 compared with 30 September 2004. As of 1 April 2005, 26 employees switched from MVV RHE AG to MVV Umwelt GmbH and are now therefore included in the figures for the fully consolidated shareholdings. The fully and proportionately consolidated share-holdings also witnessed a further decline in their personnel totals compared with the previous year. This was particularly the case at our shareholdings in Kiel and Offenbach, as well as at those in Poland and the Czech Republic. The decline in other countries was mainly due to the sale of the Czech company Teplárny Brno. Excluding external personnel, the MVV Energie Group had 4955 employees in Germany (30 September 2004: 5031) and 1437 employees in other countries (30 September 2004: 1862) as of 30 September 2005.

Training as a key success factor

In view of the various restructuring programmes and cost-saving projects, the provision of specialist training to our workforce is gaining in significance. For this reason, we consistently pressed ahead during the year under report with our chosen path, that of systematising personnel development measures at all levels, from trainees through to top management. The first round of the Management Development Programme, in which 50 managers and upcoming managers from our group of companies participated, was concluded in November 2005. The combination of theoretical and practical training modules has proven to be successful and is already being applied in a new round. Successful programmes aimed at our upcoming managers – MAP (Managerial Programme) and PEP (People Empowerment Programme) – have already been in place for several years. We provide the best of our trainees with special development programmes in order to promote and spur on their development over and above the requirements of the standard training programme.

Introduction of SAP HR completed at Offenbach

In a project undertaken jointly by EVO AG and MVV Energie AG, we introduced the SAP HR personnel software at Offenbach as well and converted wage and salary settlements to the new software as of 1 January 2005.

Family-oriented personnel policies

MVV Energie AG draws on its family-oriented personnel policies to assist its employees in better combining their family obligations with career commitments. During the year under report, we implemented various measures at the Mannheim location, such as the parent-child working room, and supported a crèche initiative started by parents.

Social Commitment

Apart from the economic performance of our group of companies, we see the fulfilment of our responsibility towards society as representing one of the key factors in our success. This is why the companies of the MVV Energie Group have for many years been actively committed to supporting activities in the fields of sport, culture, science and social projects at their respective locations.

In 2003, companies, organisations, institutions and municipalities in the region launched the “Future Initiative Rhine-Neckar Metropolitan Region”. This has set itself the target of promoting this economic region as one of the most attractive places to live and work in the heart of Europe. MVV Energie AG was one of the founder companies of this initiative. We have thus been committed from the very start and have focused the greater part of our sponsoring activities on the Rhine-Neckar triangle.

We have maintained our longstanding commitment to the University of Mannheim and the Mannheim Technical College. In the national school project “Youth Thinks Future”, pupils at the Humboldt secondary modern school in Mannheim turned their thoughts to “Renewable Energies” and developed some astonishing project proposals.

The Mozart Week and the Schiller Days held at the Nationaltheater in Mannheim also benefit from our financial support, as do selected projects and exhibitions at the State Museum of Technology and Work and the Reiss-Engelhorn museums.

Sports sponsorship by MVV Energie AG focuses on promoting sporting talent at an early stage. Individual sportsmen and women, such as Kirsten Bolm, hurdle sprinter, Carolin Leonhardt, current world champion in the double and quadruple canoe, and Dr. Robert Figl, medal winner at the European hand-cycling championships, as well as the TSG Hoffenheim, SG Leutershausen and Adler Mannheim teams, are among the popular regional figures benefiting from our support. We are also once again sponsoring the jerseys of SV Waldhof Mannheim 07.

One new development during the year under report was the establishment of the Sponsoring Fund, with which MVV Energie AG promotes exemplary projects, especially in the field of social welfare. Twice a year, clubs and institutions from Mannheim and across the region have the opportunity of submitting applications, which are decided on by a jury. During the year under report, our support enabled 34 clubs and institutions to implement their projects.

Some examples worth mentioning in this respect are the support granted to the Graf-von-Oberndorff exhibition in Edingen-Neckarhausen, our commitment to young riders in Northern Baden, and to disabled dressage riders across the region.

Our subsidiaries – Energieversorgung Offenbach AG (EVO), Stadtwerke Kiel AG (SWK), Stadtwerke Solingen GmbH (SWS), Stadtwerke Ingolstadt and Köthen Energie – also attach a high degree of significance to their sponsoring activities. By providing financial support to innovative projects, especially those involving young people, all companies underline their commitment to their respective regions and their inhabitants.

In future, Köthen Energie will be supporting two young sportswomen from Köthen in their summer biathlon activities. As jersey sponsor, EVO is of course very proud that the Offenbach Kickers team was promoted to the second football division in June 2005.

Our companies are also committed in a number of ways to social projects. In Ingolstadt, for example, work assignments are issued to therapeutic workshops. EVO provides children with the opportunity of taking part in a training week at the football school run by the Offenbach Kickers team. SWS continues to support the "Courage Against Racism" campaign in a number of activities and SWK can look back on a successful adventure week at the 24sieben camp – a sailing school introducing children from Kiel to water sports.

Environmental Protection

The companies of the MVV Energie Group are committed to the efficient utilisation of limited natural resources and to the promotion of environmental awareness in the consumption of their products. Our environmentally appropriate methods of non-recyclable waste and biomass incineration also help us to protect the environment. By building on sustainable concepts and solutions, we are able to contribute to the protection of the environment and to fulfil our responsibility towards the environmentally-friendly supply of energy in future.

Environmental protection activities in the 2004/05 financial year

The measures taken by our Group to protect the environment include investments and expenses for soil and water protection, measures to keep the air clean and waste management. During the year under report, MVV Energie AG alone invested a total of Euro 29 million (previous year: Euro 26 million) in these measures. This sum does not include the expenses and investments relating to projects undertaken in the value-added services and environmental energy segments primarily for technical and economic reasons, but whose implementation has a positive effect in terms of environmental protection due to resultant efficiency enhancements or lower energy consumption.

Protecting the climate is an important component of environmental protection. The companies of the MVV Energie Group contribute in this respect by reducing their emissions of greenhouse gases. Our use of conducted energy resources for the supply of heat in the form of district heating and gas, with which we supply 85% of private households in Mannheim, has a positive impact on the protection of the climate. The use of environmentally-friendly cogeneration technology for district heating facilitates a sharp reduction in carbon dioxide (CO_2) emissions.

Our environmental energy segment and energy-related services also make a significant contribution to the generation of energy on an environmentally-friendly basis. During the year under report, the environmental energy segment commenced operations at the waste-to-energy plant in Leuna. Our waste-to-energy power plants in Mannheim, Offenbach and Leuna will now enable an annual total of 475 000 tonnes of CO_2 emissions to be avoided starting in the current 2005/06 financial year. The operation of our three biomass power plants in Mannheim, Königs Wusterhausen and Flörsheim-Wicker enables us to achieve an annual reduction of around 230 000 tonnes in our carbon dioxide emissions. In the numerous contracting projects undertaken by our energy-related services division, the modernisation of older generation facilities results in efficiency enhancements in their energy generation and thus in a more optimal exploitation of limited natural resources. The energy-related services projects currently underway have resulted in a reduction in CO_2 emissions of more than 220 000 tonnes per year.

Our in-house environmental experts in the fields of emissions and water protection, as well as of waste and hazardous goods legislation, ensure that the company complies with high standards of environmental protection. The emissions from our facilities were once again significantly below the legal limits specified in the 17th amendment of the German Federal Immission Control Ordinance (BImSchV) in the 2004/05 financial year. The regular inspections of our transports of hazardous goods did not lead to any objections.

Group Management Report

Group Management Report

Market Climate

Economic framework

The economic upturn in the European Union has been maintained in the course of 2005. The European statistics office Eurostat expects the gross domestic product (GDP) of the 25 member states to grow by 2.0 % in 2005 and by 2.3 % in 2006. It remains to be seen whether any possible further increase in oil prices will, as widely feared, dampen this growth.

Following a period of stagnation in the second quarter of 2005, the German economy is growing once again. There will be a slight increase in GDP for the overall year; according to the Autumn Survey of the six leading German economic research institutes, this growth will amount to around 0.8 %. Significantly more positive economic developments have been seen in our foreign target markets of the Czech Republic and Poland. Eurostat has forecast GDP growth of 4.4 % for Poland and of 4.0 % for the Czech Republic. In general, however, macroeconomic developments are of less significance to the MVV Energie Group than weather conditions.

The phase of regulated competition now beginning confronts integrated suppliers with new challenges. On the one hand, the stricter requirements placed in grid operator efficiency can be expected to result in increased pressure on costs, while on the other hand the separation of grids from other company divisions will lead to a loss of efficiency. In a first step, grid operators have to present their grid utilisation fees for approval by the regulatory authorities.

The beginning of 2005 saw the introduction of pan-European trading in carbon dioxide (CO_2) emissions rights. According to the Federal Environmental Agency, 495 million emissions permits were issued in 2005 for existing facilities in Germany. Based on the certificates thereby transferred, the authority expects there to be an ongoing increase in trading volumes. To date, however, market developments have been characterised by high levels of price volatility. The MVV Energie Group completed its internal preparations at an early stage and is actively participating in CO_2 trading.

Regulatory framework for the energy industry

The amended Energy Act (EnWG), which redefines the conditions governing competition in the German electricity and gas markets, came into force following a delay of more than a year on 13 July 2005. The new act is accompanied by four legal ordinances governing grid access and grid utilisation fees which have been in force since 29 July 2005.

The core of the new legislative framework involves ensuring that access to the grid is free of discrimination and facilitating an efficiency-based check on grid utilisation fees. The German energy market has thus made the transition from negotiated to regulated grid access. The Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railways (Federal Network Agency) has since been responsible for the implementation of this legislation on a federal level. Moreover, regulatory authorities on the level of the individual states have also assumed certain responsibilities for the inspection of small and medium-sized grid operators.

The MVV Energie Group made an active contribution to the discussions surrounding the new Energy Act in order to achieve further improvements in the vitalisation of market activities in the interests of functional competition.

Energy markets

According to figures compiled by the VDEW sector association, electricity consumption rose to 276 billion kWh in Germany in the first half of 2005, an increase of 1.3 % compared with the equivalent period in the previous year. The rise in electricity demand is attributed to increased industrial production and to cold weather conditions in February.

The sharp rise in wholesale prices on EEX, the German electricity exchange, triggered an intense media debate as to the implications for industry and private consumers. This has led to high levels of public pressure on end distributors, which have no choice but to pass on the increase in generation prices to their customers. The principal factors driving the price upwards are to be found in the development of oil and gas prices. Moreover, CO_2 certificate prices have also had an impact on electricity prices since the introduction of emissions trading. The average electricity price on the German spot market for supplying base loads rose from Euro 28.89 per MWh in the 2003/04 financial year to Euro 38.38 per MWh in the 2004/05 financial year.

Market position of the MVV Energie Group

- Electricity: Based on the volume of electricity sold to end customers, we are the sixth-largest German electricity supplier.
- District heating: With a district heating turnover of around 5.5 billion kWh in Germany in the 2004/05 financial year, we are the fifth-largest German district heating company. With total sales volumes of 7.5 billion kWh, including our Polish and Czech shareholdings, we are one of the five largest suppliers of district heating in Europe.
- Energy-related services: With sales of Euro 101 million during the year under report, we are one of the ten largest providers in Germany.
- Environmental energy: We are one of the market leaders among the operators of biomass power plants in Germany. With a current incineration capacity of 1.2 million tonnes per year, our waste-to-energy and biomass power plants make us the third-largest German operator of thermal utilisation facilities.

The market share of district heating remains comparatively stable in regional markets across Germany. The turnover of this source of heating energy is directly dependent on weather conditions during the heating period. Moreover, district heating is in competition with individual oil or gas-powered heating systems. The sharp rise in fuel expenses has obliged many suppliers to raise their district heating prices. Since the liberalisation of the gas market in the Czech Republic at the beginning of 2005, gas procurement has become significantly more expensive for our Czech companies on account of the lack of alternative sources of procurement and the rise in oil prices. Together with other Czech suppliers, MVV Energie CZ has since submitted a complaint to the respective antitrust authority.

As a result of the amended Energy Act, the gas market in Germany is facing changes. Entry/exit systems are being introduced on the grid gas and regional distribution grid levels irrespective of the transmissions route involved. Local distribution grid operators will maintain the stamp system in an enhanced grid participation model. A transition period until 1 February 2006 has been provided for the implementation of the new grid access regulations. These legislative amendments are intended to boost competition in the gas market and to simplify grid access for transmissions customers. The gas sector was also affected by the debate surrounding prices for end customers in the past year. Given the high level of oil prices, the criticism was mainly targeted at the link to the oil price.

Earnings

Sales increased in spite of difficult market climate

The MVV Energie Group increased its sales by 19 % to around Euro 2 billion in spite of the energy market being characterised by a high degree of competition. This sharp increase is primarily attributable to our strong external growth. The full consolidation of the Stadtwerke Kiel AG (SWK) subgroup for the first whole year contributed Euro 336 million to the overall sales of our group of companies in the 2004/05 financial year. In the 2003/04 financial year, the sales of SWK had been included in the consolidated financial statements for only five months (May – September 2004).

The positive effect of the consolidation of SWK was dampened slightly by the negative impact of the sale in October 2004 of our Czech shareholding in Brno. This shareholding had reported sales of Euro 56 million in the 2003/04 financial year. Since its deconsolidation, this company's sales have no longer been included in the Group's figures. On a comparable basis, i.e. excluding the impact of Kiel and Brno, the sales of our group of companies rose by 8 % compared with the previous year. All core business segments contributed to this sales growth, as did the new environmental energy segment, at which we have pooled our non-recyclable waste incineration and biomass activities.

Over and above the impact of SWK, the higher level of sales in the core business segments of electricity, gas and water is due on the one hand to increased turnover and on the other to price adjustments. All of the German companies in our network of municipal utility companies achieved higher sales than in

Sales of the MVV Energie Group by Segment

Euro million	**2004/2005**	2003/2004	% change
Electricity [1]	975	828	+ 18
District heating	250	252	– 1
Gas [2]	366	263	+ 39
Water	106	86	+ 23
Value-added services	115	117	– 2
Environmental energy	131	97	+ 35
Other/consolidation	15	9	+ 67
	1 958	1 652	+ 19

[1] including energy tax of Euro 92 million (previous year: Euro 84 million)
[2] including gas tax of Euro 61 million (previous year: Euro 49 million)

the previous year. Overall, our group of companies in Germany, including Kiel, generated sales (before consolidation) of Euro 2 106 million (previous year: Euro 1 694 million).

Our foreign sales fell by 33 % compared with the previous year to Euro 87 million, as a result of which their share of total sales declined to 4 % (previous year: 8 %). The sales growth of 17 % reported by our Polish group of companies was not sufficient to compensate for the decline in sales at our Czech group of companies resulting from the deconsolidation of Brno. Excluding the impact of this deconsolidation, our Czech group of companies achieved sales growth of 17 %.

Significant improvement in earnings performance

In the 2004/05 financial year, the MVV Energie Group reaped the first benefits of its strategic streamlining process, with improvements being reported for all key earnings figures. The dividend has been generated from the free cash flow for the first time in several years.

In the previous 2003/04 financial year, we had consistently streamlined our portfolio of shareholdings to remove loss-making operations and had strictly focused our core business on profitability in close liaison with our shareholdings. At the same time, we succeeded in further developing our promising high-growth fields of environmental energy and value-added services. We introduced a more efficient organisational structure in the course of the strategic realignment and improved our management and control systems. We maintained these measures initiated during the previous year in the year under report and supplemented them with an efficiency enhancement programme at the Mannheim location. The improvement in our earnings performance has enabled us to absorb the resultant one-off charges of Euro 13 million without difficulty.

Any comparison of earnings is highly affected by the high level of one-off charges relating to the streamlining process undertaken in the previous year. To ensure that the business developments of the past two financial years are comparable, and by analogy with the procedure adopted in the previous year and in the interim reports during the 2004/05 financial year, we have adjusted the earnings figures reported in the income statement for the previous financial year to eliminate the effects of the one-off extraordinary charges resulting from the streamlining process. We have not undertaken any adjustments for the year under report.

Earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA) increased from the adjusted EBITDA figure of Euro 236 million reported for the previous year to Euro 288 million (+ 22 %).

Sales Volumes of the MVV Energie Group[1] by Segment

	2004/2005	2003/2004	% change
Electricity in kWh million	18 307	14 539	+ 26
of which: wholesale in kWh million	9 454	5 587	+ 69
of which: retail in kWh million	8 853	8 952	– 1
District heating[2] in kWh million	7 454	7 504	– 1
Gas in kWh million	11 096	8 906	+ 25
Water in m^3 million	58.3	47.6	+ 22
Incinerated waste in tonnes 000s	619	519	+ 19

[1] total volume from all segments

[2] correction in previous year's figure

Following the deduction of depreciation and goodwill amortisation, our Group generated operating earnings before interest and taxes (EBIT) of Euro 158 million in the year under report. Our operating earnings (EBIT) for 2004/05 were thus higher than originally planned (Euro 150 million). Our EBIT figure has improved by Euro 61 million in comparison with the EBIT figure of Euro 97 million reported for the previous year following adjustment for Euro 56 million of one-off charges resulting from the streamlining process (unadjusted: Euro 41 million).

A major part of the improvement in earnings is attributable to the first full-year consolidation of the SWK subgroup, which generated operating earnings (EBIT) of Euro 22 million in the year under report. In the previous year, SWK had reported negative operating earnings of Euro 6 million for the period of May to September 2004, a period in which earnings are traditionally weaker on account of the seasons involved.

A further pillar of our earnings performance was the high-growth environmental energy segment, where operating earnings (EBIT) rose by Euro 7 million compared with the adjusted figure for the previous year. Significant increases in profitability were achieved by both the non-recyclable waste incineration and the biomass businesses. Our non-recyclable waste incineration business benefited from the change in market conditions since the entry into force of the Technical Guidelines for the Disposal of Municipal Solid Waste on 1 June 2005 and from the acquisition of new waste volumes from the city and district of Karlsruhe. Our waste incineration facilities in Mannheim, Offenbach und Leuna (in operation since June 2005) were working at virtually full capacity.

Operating earnings at the fully consolidated Energieversorgung Offenbach AG (EVO) subgroup rose by Euro 12 million in the year under report. This growth is attributable to improvements in its district heating and waste businesses, as well as to the proceeds from the sale of its shares in 3T Telekommunikationsgesellschaft mbH, Offenbach.

The discontinuation of scheduled goodwill amortisation also had a further positive impact on the development of operating earnings (EBIT). Since the 2004/05 financial year, we have made application of the accounting standards published by the International Accounting Standards Board in March 2004, in which IFRS 3 states that goodwill is no longer to be subject to scheduled amortisation, but is rather to be submitted to an impairment test at least once per year. The EBITA margin, which portrays the development of earnings before the one-off impact resulting from the discontinuation of scheduled goodwill amortisation, rose from the adjusted figure of 6 % in the 2003/04 financial year to 8 %.

Following the deduction of net interest expenses, which rose to minus Euro 68 million, the MVV Energie Group reported pre-tax earnings (EBT) of Euro 90 million for the year under report. EBT had been negative in the previous year on account of the high level of one-off charges. The comparatively high tax rate of 43 % for the year under report is principally due to expenses not deductible for tax purposes.

EBIT of the MVV Energie Group by Segment

Euro million	**2004/2005**	2003/2004	**adjusted[1] 2003/2004**	% change	adjusted[1] % change
Electricity	39	32	33	+ 22	+ 18
District heating	40	32	33	+ 25	+ 21
Gas	35	17	17	+ 106	+ 106
Water	15	12	12	+ 25	+ 25
Value-added services	2	– 63	– 18	—	—
Environmental energy	27	12	20	+ 125	+ 35
Other/consolidation	—	– 1	—	—	—
	158	41	**97**	+ 285	+ 63

[1] in the previous year: excluding expenses for streamlining of portfolio and restructuring measures

After taxes on income and a higher level of minority interests (especially SWK), the MVV Energie Group reported an annual net surplus after minority interests of Euro 34 million for the year under report. In the previous year, the charges and one-off items relating to the strategic realignment and restructuring programme had led to an annual net deficit of Euro 44 million.

In the 2004/05 financial year, the MVV Energie Group generated earnings per share calculated pursuant to IAS 33 of Euro 0.67, compared with the adjusted earnings of Euro 0.24 per share in the previous year.

Joint procurement activities

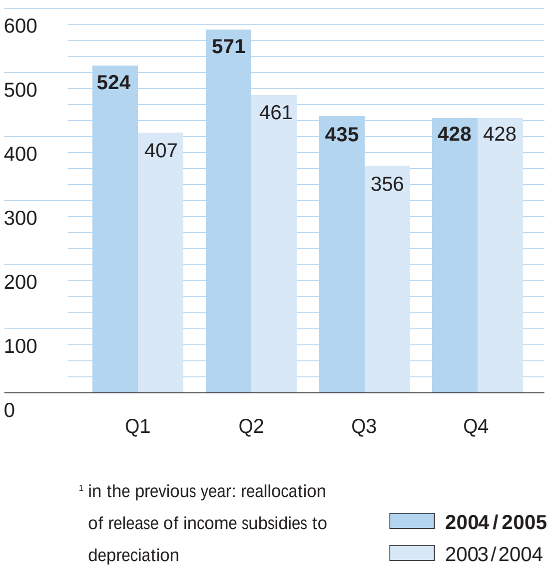
The economically effective use of our resources constitutes a critical success factor in our efforts to raise our competitiveness. The materials management division newly established during the year under report has already made a contribution to the significant improvements in our cost structures. We have decided to introduce a lead buyer organisation for procurement in our network of municipal utility companies. The aim is to achieve cost benefits by making use of joint competence centres acting on behalf of all of the companies. We are pressing ahead with the rapid development of a uniform communications and transaction platform.

Employees

The consistent implementation of consolidation and efficiency enhancement measures has resulted in a decline of 508 in the number of employees at the MVV Energie Group compared with 30 September 2004. This decline is mainly attributable to the sale of the Czech company Teplárny Brno in Brno. As of 30 September 2005, the MVV Energie Group had a total of 6449 employees, including external personnel at the Mannheim waste-to-energy plant (30 September 2004: 6957).

Sales by Quarter [1]

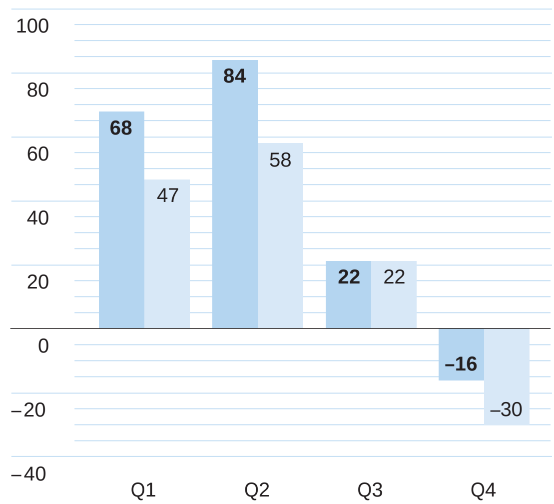
Euro million



[1] in the previous year: reallocation of release of income subsidies to depreciation

EBIT by Quarter (previous year adjusted)

Euro million



Quarterly performance

Our sales in the 4th quarter of 2004/05 (July to September) were at the same level as in the previous year. Fourth-quarter earnings are traditionally weak given that no earnings contribution is generated by the high-volume heating energy business in the summer months and that maintenance and revision measures are undertaken more frequently during this period. The 4th quarter was also marked by expenses for the socially responsible reduction of personnel within the framework of the "FOKUS" efficiency enhancement programme and by the amortisation of financial assets, especially at eternegy GmbH, Mannheim and ENERGY InnovationsPortfolio AG & Co. KGaA.

Segment earnings performance

Our external sales in the highly competitive electricity segment rose by Euro 147 million (+ 18 %) during the year under report to reach Euro 975 million. Of this growth, Euro 95 million is due to the consolidation of SWK. The additional growth is attributable to increased sales at the other companies. These were primarily the result of price adjustments and in some cases of higher sales volumes, especially in the wholesale electricity business, as well as of higher sales with new customers at the Offenbach and Solingen shareholdings.

In spite of the sharp increase in procurement costs, operating earnings (EBIT) in the electricity business rose by Euro 7 million to Euro 39 million. Apart from the impact of the consolidation of SWK (Euro + 3 million), this earnings growth is based on improvements at MVV Energie AG and at EVO.

The performance of the district heating segment was mainly characterised by two opposing developments. The growth in turnover, sales and earnings resulting from the consolidation of SWK was countered by the negative impact of the sale of the shareholding in Brno.

Overall, sales in the district heating segment declined by Euro 2 million to Euro 250 million. Operating earnings (EBIT), however, improved by Euro 8 million (+ 24 %) compared with the previous year to reach Euro 40 million. The district heating segment has thus become the division with the highest level of earnings.

Sales in the gas segment rose by Euro 103 million to Euro 366 million. Operating earnings (EBIT) showed a year-on-year increase of Euro 18 million to Euro 35 million. Of this growth, Euro 14 million is attributable to SWK. The remaining improvement in earnings is due to the discontinuation of prorated goodwill amortisation and to cost savings at MVV Energie AG. Developments at all companies were characterised by the sharp rise in procurement prices.

The acquisition of our shareholding in SWK has also considerably strengthened our activities in the water segment. Sales rose by Euro 20 million to Euro 106 million. Operating earnings improved by Euro 3 million to Euro 15 million. Apart from the discontinuation of prorated goodwill amortisation, this increase is accounted for by our shareholdings in Kiel and Solingen.

Our value-added services segment, which includes MVV Energiedienstleistungen GmbH, all shareholdings with activities in the value-added services business and ENERGY InnovationsPortfolio AG & Co. KGaA, generated sales of Euro 115 million in the year under report and reported positive operating earnings for the first time, achieving an EBIT figure of Euro 2 million. In the previous year, the earnings performance had been highly affected by the one-off charges resulting from the streamlining of the portfolio and the restructuring programme, which had led to negative operating earnings (EBIT) of Euro 63 million. This compares with amortisation of financial assets amounting to Euro 7 million in the year under report, which relates to companies held in the ENERGY InnovationsPortfolio. The one-off income resulting from the sale by EVO of 3T Telekommunikationsgesellschaft mbH, Offenbach, contributed to the positive earnings performance.

We have pooled our activities in the field of thermal utilisation facilities in our new environmental energy segment. Sales in this segment rose from Euro 34 million in the previous year to Euro 131 million. This strong growth stems from non-recyclable waste incineration at our waste-to-energy plants in Mannheim and Offenbach, from higher sales at our consolidated biomass power plants in Mannheim and Königs Wusterhausen, as well as from higher sales in the energy business at our waste-to-energy plant in Mannheim. The operating earnings of the environmental energy segment rose from Euro 15 million in the previous year to Euro 27 million.

Earnings Performance of Major Shareholdings

Growing importance of municipal utility company shareholdings

Including the MVV Energie AG parent company, the network of municipal utility companies of the MVV Energie Group consists of seven municipal utility companies in Germany and ten district heating providers in Poland and the Czech Republic. The growth of our group of companies is driven by the development and strengthening of the links between our partner companies, as well as by the further tapping of synergy and efficiency potential within the Group.

Our shareholding in Stadtwerke Kiel has further increased our stability and raised our earnings power. During the year under report, our domestic portfolio of fully and proportionately consolidated municipal utility company shareholdings in Offenbach, Kiel, Ingolstadt, Solingen and Köthen generated sales amounting to Euro 823 million prior to consolidation (previous year: Euro 544 million). The economic significance of these shareholdings is even more apparent from their operating earnings (EBIT) contributions of Euro 88 million (previous year: Euro 49 million).

Energieversorgung Offenbach AG (48.88 % shareholding)

Energieversorgung Offenbach AG (EVO), in which we own a majority of the voting rights, was the shareholding with the highest earnings in the year under report. The EVO subgroup, which is included in the consolidated financial statements of the MVV Energie Group, succeeding in improving its sales by 7 % compared with the previous year to Euro 306 million and its operating earnings (EBIT) from Euro 29 million to Euro 41 million. These record earnings are attributable both to sales growth and to strict cost management, as well as to one-off income from the sale of its shares in 3T Telekommunikationsgesellschaft mbH, Offenbach, by means of which EVO has also maintained its process of focusing on its core business. Benchmarking and in-sourcing projects have been deployed to enhance the company's efficiency.

EVO is one of the most important energy and energy-related service companies in the Rhine-Main region, one of the strongest economic regions in Germany. It achieved notable sales successes in the year under report and has thus further improved its position in the regional market. The company was awarded large orders for the supply of electricity to 100 properties owned by the State of Hessen and the Federal Government, as well as to 60 properties owned by the State of Rheinland-Pfalz, for both of which tenders had been invited from across Europe.

Stadtwerke Kiel AG (51.0 % shareholding)

The Stadtwerke Kiel AG (SWK) subgroup, which is included in the consolidated financial statements of the MVV Energie Group, contributed sales of Euro 336 million and operating earnings (EBIT) of Euro 22 million to the overall results of our Group during the year under report, the first whole year of the subgroup's consolidation. In the previous year, SWK had been included in the consolidated financial statements for only five months (the less profitable summer period of May – September 2004) with sales of Euro 92 million and operating earnings (EBIT) of Euro – 6 million.

During the 1st quarter of 2004/05, SWK acquired a 49.9 % shareholding in ZVO Versorgungs GmbH, Timmendorfer Strand, of the Ostholstein special purpose association. 24sieben energie service GmbH, an energy services company jointly owned by SWK (51%) and MVV Energiedienstleistungen GmbH (49 %) was founded in July 2005. One important investment project, involving a volume of Euro 29 million, was the beginning of construction work for the third gas cavern at SWK. This new underground reservoir, which will have a volume of 500 000 m^3, is to be used to optimise procurement costs.

In the legal dispute with ares Energie AG, all conceivable risks from our perspective have been carefully examined. Provisions to cover any risks relating to the trial involving claims which cannot be precisely quantified have been taken in the annual financial statements of SWK for 2004/05.

Stadtwerke Solingen GmbH (49.9 % shareholding)

Stadtwerke Solingen GmbH (SWS), a proportionately consolidated subsidiary, succeeded in increasing its prorated sales from Euro 83 million to Euro 94 million (+13 %) during the year under report. Its prorated operating earnings (EBIT) nevertheless declined from Euro 12 million to Euro 11 million. This earnings performance shows that the sharp rise in procurement costs, especially for gas, during the year under report could only be partially compensated for by cost savings. Further measures aimed at optimising internal processes and improving the company's competitiveness were resolved during the year under report, as was the establishment of Stadtwerke Solingen Netz GmbH.

SWS acquired a 2.45 % shareholding in Trianel Power Kraftwerk Hamm-Uentrop GmbH & Co. KG during the year under report and has thus secured electricity purchasing rights for 20 MW of the planned 817 MW gas and steam turbine power plant of Trianel European Energy Trading GmbH in Hamm-Uentrop.

Stadtwerke Ingolstadt Beteiligungen GmbH (48.4 % shareholding)

The sales of our proportionately consolidated shareholding Stadtwerke Ingolstadt Beteiligungen GmbH (SWI) and of its subsidiaries SWI Energie GmbH and SWI Netze GmbH rose from Euro 73 million to Euro 75 million in the 2004/05 financial year. This sales growth is primarily attributable to the charging on of the price increases incurred on the procurement of electricity and gas. Prorated operating earnings (EBIT) improved by 2 % to Euro 12 million.

During the year under report, a gas supply contract with an annual volume of 700 million kWh was concluded with a large industrial customer. Moreover, an agreement was also signed for the operating management of the gas grid at the site of the industrial customer. The subsidiary responsible for energy-related services, reginova GmbH, trebled its sales during the 2004/05 financial year. The most significant contract involved taking on the supply of cooling and heating energy to the clinical hospital in Ingolstadt.

Köthen Energie GmbH (100.0 % shareholding)

The sales of Köthen Energie GmbH rose by 4% to around Euro 12 million during the year under report in spite of poor economic developments and noticeable savings measures on the part of customers. Operating earnings (EBIT) improved by 8 % to a new record of Euro 2 million. The company succeeded in acquiring new projects in the new business field of energy-related services (contracting, land improvement and development).

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

Our shareholding in Stadtwerke Buchen (SWB) is included in the consolidated financial statements of the MVV Energie Group as an associated company valued at equity with its annual financial statements as of 31 December 2004. SWB generated sales of Euro 18 million in the 2004 financial year (previous year: Euro 16 million) and, as in the previous year, reported an annual net surplus of Euro 2 million, which is included in the valuation at equity in line with our shareholding.

Foreign shareholdings

Our international business is focused on our shareholdings in district heating companies in Poland and the Czech Republic, which contributed sales of Euro 84 million (previous year: Euro 128 million) and operating earnings (EBIT) of Euro 7 million (previous year: Euro 12 million) to the overall results of our group of companies in the year under report.

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

The sales and earnings performance of our Czech subgroup, which currently consists of seven district heating companies and one service company, was highly affected by the sale of our shareholding in the district heating company Teplárny Brno a.s. in Brno at the beginning of the year under report. As a result of the disposal of this large shareholding, our Czech subsidiary reported district heating turnover of 0.7 billion kWh (previous year: 1.9 billion kWh), sales of Euro 42 million (previous year: Euro 92 million) and operating earnings of Euro 8 million (previous year: Euro 11 million) during the year under report.

The holding company of the Czech group was reorganised during the 2004/05 financial year and more clearly structured as a strategic holding company. This reorganisation also involved strengthening decentralised responsibility structures. Towards the end of the year under report, MVV Energie CZ s.r.o. increased its shareholding in the Termo Děčín a.s. geothermal energy facility to 96.9%.

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

Our shareholdings in the municipal district heating companies in Bydgoszcz, Szczecin and Skarzysko-Kamienna and in two service companies are pooled at our Polish holding company MVV Polska Sp. z o.o., Warsaw. This holding company, which is responsible for the management of our Polish shareholdings, was reorganised during the past financial year.

The district heating turnover of our Polish group of companies rose by 5 % compared with the previous year to reach 1.2 billion kWh in the 2004/05 financial year. Sales rose by 17 % to Euro 42 million. In spite of this sales growth, our Polish group of companies reported operating earnings (EBIT) of Euro –1 million during the year under report, compared with Euro 1 million in the previous year. The decline in earnings is principally due to special charges incurred in the course of the reorganisation. The district heating shareholding of MVV Polska located in Skarzysko-Kamienna took over the supply of district heating to the small town of Grojec near Warsaw in the summer of 2005, and has thus expanded its catchment area.

Investments and Financing

Cash flow statement

The detailed cash flow statement of the MVV Energie Group can be found in the consolidated financial statements on Page 69 of this Annual Report.

Positive free cash flow

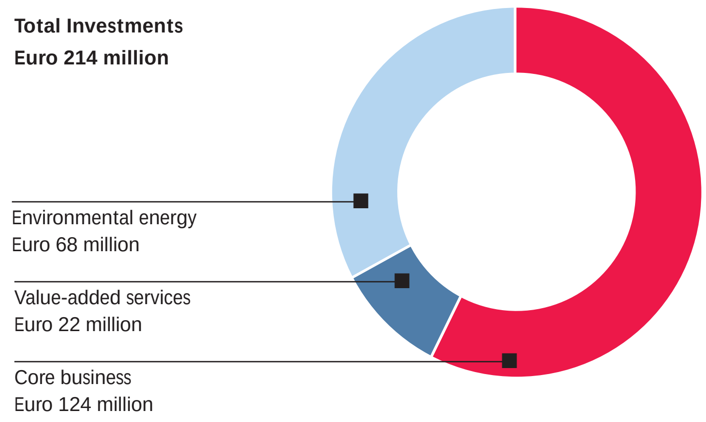
The cash flow based on DVFA/SG rose from Euro 158 million in the previous year to Euro 195 million (+ 23 %). This increase is primarily due to earnings. The annual net surplus of Euro 51 million for the year under report compares with the annual net deficit of Euro 38 million in the previous year, which had been affected by one-off factors. In spite of the first full-year inclusion of Stadtwerke Kiel AG (SWK), the level of depreciation of fixed assets fell by Euro 54 million to Euro 134 million. This decline is mainly due to the discontinuation of goodwill amortisation and to the high level of extraordinary depreciation undertaken in the previous year as a result of the streamlining of the portfolio.

Following the inclusion of the respective changes in other asset and liability items, the cash flow statement reported an inflow of funds from operating activities of Euro 223 million in the year under report (previous year: Euro 148 million). The difference between the inflow of funds from operating activities and investments in intangible and tangible assets, which amounted to Euro 162 million (previous year: Euro 166 million), represents the free cash flow. At Euro 60 million, this was positive in the year under report. In the previous year, the free cash flow had been negative (Euro 18 million).

Reduction in net investments

The volume of investment fell in the year under report from Euro 307 million to Euro 214 million (– 30 %). The higher figure for the previous year was attributable to the acquisition of SWK. The investments and disinvestments (incoming payments from the sale of tangible and financial assets) led to a net outflow of funds amounting to Euro 118 million, compared with Euro 294 million in the previous year. The proceeds from disinvestments, which amounted to Euro 97 million (previous year: Euro 13 million), related in particular to the sale of our shareholdings in Teplárny Brno a.s., Brno, and Croplin d.o.o., Zagreb, and of those in Kraftwerke Mainz-Wiesbaden AG and 3T Telekommunikationsgesellschaft mbH by Energieversorgung Offenbach AG (EVO).

Investments of the MVV Energie Group in the 2004/05 financial year



Investments in intangible and tangible assets

Of the investments made during the year under report, Euro 47 million, or 29 % (previous year: 31 %), related to MVV Energie AG and Euro 115 million, or 71 % (previous year: 69 %), was invested by other group companies.

The main focuses of investment in the core business fields involved overhauling and expanding supply facilities and distribution networks. The investments made in the gas segment include the beginning of construction work on a gas cavern by SWK. The investments made by the value-added services segment primarily related to contracting and land improvement and development projects.

Investments in the environmental energy segment focused on the construction of the non-recyclable waste incineration facility in Leuna and on concluding investments for the biomass power plant in Königs Wusterhausen. We have built an on-site railway unloading station for the delivery of waste at the waste-to-energy plant in Mannheim. To do justice to positive market developments, we have also invested in the technical optimisation of the waste-to-energy plant in Mannheim.

Investments of the MVV Energie Group[1]

Euro million	**2004/2005**	2003/2004	% change
Electricity	30	48	– 38
District heating	33	74	– 55
Gas	22	32	– 31
Water	17	32	– 47
Value-added services	22	17	+ 29
Environmental energy	68	62	+ 10
Other	22	42	– 48
	214	307	– 30

[1] including investments in financial assets

Balance sheet structure

Financing of investments

The cash flow from financing activities was affected by the reorganisation of cash pooling structures undertaken during the 2004/05 financial year on account of changes to the underlying tax and legal framework. MVV Energie AG is the company now managing the cash pool for the utility supply shareholdings included in the cash pool. In this function, it procures and safeguards both its own liquidity and that of the shareholdings included in the cash pool, as well as supplying the latter with the capital required for their investments. The outflow of funds for financing activities, which amounted to Euro 89 million (previous year: inflow of Euro 204 million), shows that the company was able to make repayments from its operating activities in spite of the dividend payment and the investments outlined above.

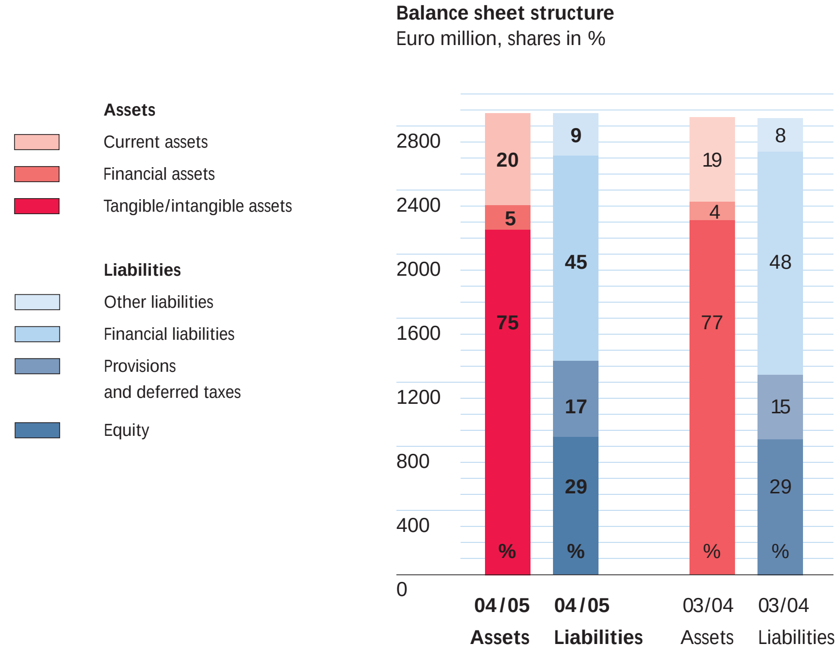
Key balance sheet figures

The MVV Energie Group had total assets of Euro 2.9 billion as of 30 September 2005, an increase of 1 % on the previous year.

On the asset side, the slight reduction in fixed assets (–1 %) was offset by an 8 % increase in current assets.

Within fixed assets, the value of tangible assets declined by 3 % to Euro 1.8 billion as a result of deconsolidation and depreciation. At 64 %, their high share of total assets in spite of this decline underlines the intensity of investment and high level of capital committed at our group of companies. Financial assets rose by Euro 37 million to Euro 146 million. This increase is attributable both to the acquisition by SWK of a 49.9 % shareholding in ZVO Versorgungs GmbH of the Ostholstein special purpose association and to capital increases and newly established companies in the value-added services segment.

The increase in current assets is principally due to the higher level of accounts receivable resulting from the expansion of the scope of our electricity trading activities, the higher market values of our electricity trading contracts due to the rise in energy prices and the increase in the price of gas and district heating.



The liability side of the balance sheet was affected by an increase in equity, a higher level of provisions, an increase in accounts payable and a reduction in financial liabilities. The company's equity excluding minority interests rose from Euro 610 million at the reporting date in the previous year to Euro 623 million. This increase is mainly attributable to earnings in the current year. Including minority interests, the company's equity rose by almost 1% to reach Euro 854 million.

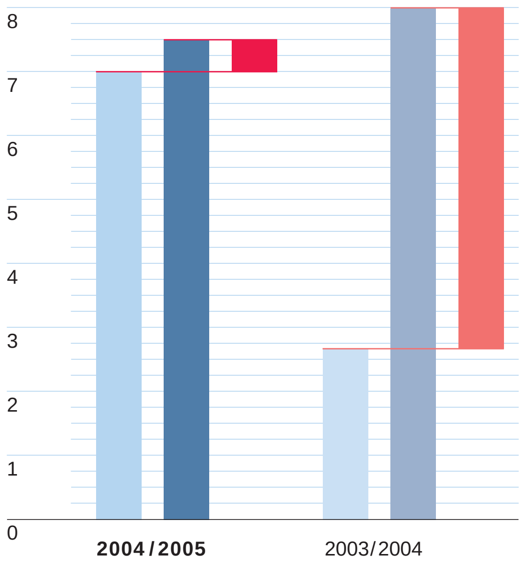
The rise in provisions from Euro 234 million to Euro 302 million is primarily due to a higher level of other provisions. These principally consist of one-off expenses for the socially responsible reduction in personnel within the framework of the "FOKUS" efficiency enhancement programme at the Mannheim location, expenses relating to energy and water supplies still to be invoiced, expenses for third-party services not yet settled and other contractual obligations.

We have reduced our financial liabilities to Euro 1.3 billion, a decrease of 6% compared with the previous year. The MVV Energie Group reported an equity ratio of 29.4% as of 30 September 2005 (previous year: 29.5%), which is comparable with that of peer group companies. The fixed assets are covered to a total of 91% by equity and long-term debt capital (previous year: 86%).

The capital used at the Group on which it must pay interest, i.e. capital employed, which is calculated as an annual average of equity plus financial liabilities, provisions for pensions and cumulative goodwill amortisation, increased from Euro 2055 million in the previous year to Euro 2224 million on account of the investment made in SWK in the second half of the past 2003/04 financial year. The key ROCE figure (return on capital employed) expresses operating earnings before interest, taxes and goodwill amortisation (EBITA) as a percentage of capital employed. As a result of the high level of one-off charges due to the strategic realignment and streamlining of the portfolio in the previous year, as well as of the measures taken to enhance earnings in the year under report, the ROCE improved from 2.7% in the previous year to 7.0%.

Key Figures
in %

	2004 / 2005	2003/2004
	ROCE 7.0 %	ROCE 2.7 %
	WACC 7.5 %	WACC 8.0 %
	Value spread –0.5 %	Value spread –5.3 %



Value-Based Management

We understand value-based management as meaning that the company's objectives have to focus on increasing the value of the company in the long term. The MVV Energie Group identifies suitable strategies for increasing its value on a sustainable basis and makes use of a key figure system to objectify the issues involved and to be able to reach decisions on an economically well-grounded basis of information. We thus assess all entrepreneurial decisions and measures in terms of their impact on our earnings, both in the short and in the long term. We have set ourselves the goal of achieving sustainable profitable growth. In order to reach this goal, we are improving our cost structures and making more economical use of our capital.

Key figures are particularly well suited for comparative analysis, given that they provide a summarised portrayal of issues and developments capable of depiction in figures by combining various kinds of data. These measurements can be defined both as ratios and as absolute figures.

The MVV Energie Group has used the "value spread" relative performance figure, which acts a gauge of the company's profitability, in its budgeting and target-setting processes for four years now. The advantage of the value spread is that it visibly depicts the relationship between return on investment, costs of capital and the increase in the company's value.

We have consistently oriented our business activities towards this key figure over the past years and have consequently discontinued those activities not fulfilling the requirement of generating a positive value spread in the medium term.

Foundations for calculating the value spread

An increase in value occurs if the profit generated on an investment is higher than the risk-adjusted average costs of the necessary capital.

The value spread is derived by comparing the period-specific return on capital employed (ROCE) performance figure with the weighted average cost of capital (WACC). These two key figures are very powerful indicators for assessing our operating business.

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

With the assistance of the WACC figure, the ROCE generated can be compared with the average level of return on the capital market. WACC depicts the costs of capital resulting from the existing debt and equity structure at the company. The derivation of the costs of capital makes use of the capital asset pricing model (CAPM) and is based on the weighted average of equity and debt capital costs. In this respect, the costs of equity equate to the hypothetical return expected by shareholders, while the costs of debt capital reflect the actual financing conditions for the MVV Energie Group.

2004/05 financial year

In view of the prolonged decline in interest rate levels, we have reduced our costs of capital (WACC) compared with last year. This is reflected in the reduction of 0.5 percentage points in the cost of debt capital to its current level of 5.0 % and of the risk-free rate of return from 4.8 % to 4.5 %. We have left all other parameters used for calculating the WACC figure unchanged (ß factor: 0.7; market risk premium: 5.0 %; tax shield: 40 %; equity ratio: 30 %).

As a result, our costs of capital during the year under report fell from 8.0 % in the previous year to 7.5 %.

The WACC figure thus represents the long-term lower economic limit for the return generated on operations. In view of its ROCE of 7.0 %, the company had a negative value spread of 0.5 % in the past financial year. The projects initiated during the year under report to raise our operating efficiency levels will help to enable us to report a positive value spread once again starting in the 2005/06 financial year.

Risk Report

For the MVV Energie Group, group-wide, systematic risk management constitutes an indispensable instrument for controlling risks and opportunities. As such, it forms an integral component in the management of the company.

The risk policies of our group of companies are based on the targeted and efficient exploitation of entrepreneurial opportunities, as well as on minimising or avoiding potential risks. The implementation of a central risk unit, which pools and analyses all information, ensures that any risks to the Group's continued existence are monitored and controlled on an ongoing basis. This unit is also responsible for the enhancement of the instruments used for the standardised recording, assessment, control and monitoring of risks. The introduction of a uniform software for recording risks and opportunities in a standardised format at group level was begun in 2005.

The principles of the risk management system are set out in a risk management handbook adopted by the Executive Board. The central components of this handbook focus in particular on the risk guidelines, which provide a binding definition of responsibilities, methods of analysis and assessment for business processes, as well as key figures for quantifying risks. The risk limit system is governed by the accompanying limit handbook, which documents budget/actual variances and is crucial for the identification of risks at an early stage.

The Executive Board and the Supervisory Board are informed at regular intervals of the risk performance of the Group. The efficiency and effectiveness of the risk management system are reviewed by the group internal auditing department and form part of the annual audit.

The principal areas of risk which could impact on our business performance or on our net asset, financial and earnings position are set out below.

Macroeconomic risks

The earnings of our electricity, district heating, gas and water segments are less affected by macroeconomic developments than by weather conditions.

Market risks

The liberalisation of the energy market means that the MVV Energie Group is exposed to market risks on the sales side as well as in terms of its procurement.

Our trading unit optimises price risks and risks resulting from the optimisation of the energy portfolio, as well as risks relating to CO_2 certificate trading. This unit has the entire range of security and risk instruments available for energy und CO_2 trading at its disposal.

The MVV Energie Group counters liquidity and currency risks with comprehensive security instruments. To optimise our liquidity positions, we undertake internal group cash pooling, which has a positive effect on our net interest expenses. Foreign currency risks continue to play a subordinate role at MVV Energie AG. Information concerning foreign currency conversion has been provided in the notes to the annual financial statements. Our credit risks are limited by restricting our transactions to banks and trading partners of high creditworthiness and to business transactions undertaken within predefined limits.

Political/social/legal risks

The coming into force of the Energy Act amendment (EnWG) and of the accompanying legal ordinances in July 2005 marks the further restriction of our scope for entrepreneurial decision-making by the respective legislation. The increasing depth of regulation and the numerous possibilities of intervention available to the Federal Network Agency could affect our earnings. We undertook all measures required for the prompt implementation of the Energy Act and all ordinances in the run-up to the legislation coming into force. We have followed and analysed the development of the legislative framework very closely over many years. We took an active part in the opinion-forming process from an early stage by means of our activities in industry associations and by communicating directly with political and scientific representatives. By opening our representative office in the capital city of Berlin, we aim to intensify this dialogue with political representatives even further in future.

Adequate provisions have been taken at the MVV Energie Group for all existing court and arbitration proceedings which, on the basis of the information currently available, might have a negative impact on the earnings performance of the Group. Our central legal department, which is responsible for the correct formulation of contracts in terms of their structure and contents, as well as for conducting legal trials, has the overall remit of limiting the legal risk faced by the Group.

Performance risks

We characterise those risks which could have a detrimental effect on our business performance as a result of deficits in or of external influences on processes and organisational procedures as representing performance risks. These risks are limited by means of suitable insurance cover and by high project and quality management standards. Liability risks are covered by third-party liability insurance. Proprietary damage is covered by fire and machine insurance policies based on reinstatement values.

The main sources of potential risk in the operating business relate to the costing of complex projects, which in most cases have durations of several years, and in their technical and economic implementation. In particular, these risks include unexpected technical problems, unforeseeable developments at the project locations and problems at our partners. We counter these risks by means of strict project management and group-wide investment guidelines. We enhance the internal instruments available for this purpose on an ongoing basis and adapt them to the permanently increasing requirements involved.

Extensive technical and organisational measures have been taken in order to avoid potential IT risks. Redundant versions have therefore been constructed for the most important hardware components and a backup computer centre has been established. The completeness and integrity of relevant company data is safeguarded by the ongoing transfer of data between the production computers and backup computers at a separate location.

Strategic risks

We define strategic risks as those factors preventing a company from achieving earnings as a result of it being inadequately aligned to its business environment, which may possibly change at short notice. Strategic risks may thus result from an inadequate strategic decision-making process, from unforeseeable developments in the market or from a deficient implementation of the chosen strategy. The strategic alignment of the MVV Energie Group is set at executive board level and is reviewed at regular intervals. Since the beginning of the 2004/05 financial year, the Group Strategy department has been responsible for preparing strategic decisions for approval by the Executive Board and for monitoring the implementation and performance controlling of such strategic requirements.

Overall risk

Overall, the assessment of the current risk situation by the Executive Board has not resulted in the identification of any risks which endangered the continued existence of the company during the period under report or which could do so in future.

Research and Development

The group Technology and Innovation division was created within the framework of the reorganisation of the group structure. This division is principally responsible for undertaking value-driven research and development (R&D) for the MVV Energie Group. The new division acts as the technology hub and integrator for the company's technical divisions.

The future of the energy industry is largely determined by the political framework. The wide range of instruments aimed at promoting environmentally-friendly, regenerative energy forms and at reducing CO_2 emissions will lead in future to the further expansion of decentralised energy generation facilities. This in turn provides great opportunities for the development of new markets and products, as well as placing new requirements in traditional energy transmission and distribution networks. Technological development is also gaining in significance, with numerous innovations both in terms of primary technologies, such as facilities and networks, and of secondary technologies, such as information and communications technologies.

The group Technology and Innovation division has six employees. Furthermore, around 70 other employees of our company commit a significant portion of their work to innovation projects. R&D expenses amounted to Euro 4 million in the 2004/05 financial year (previous year: Euro 4 million). Of this sum, Euro 1 million was channelled into process optimisation projects, Euro 2 million into product development and Euro 1 million into technical enhancement.

The strategic objectives of our R&D activities are the targeted identification of profitable product and process enhancements, the permanent accompaniment and implementation of best-practice solutions and standardisation within the Group. Moreover, we also participate in national and international R&D projects. In order to reach our strategic R&D objectives, our work in the year under report focused on three areas, for which examples of current projects can be found below. Further projects have already been presented in our quarterly reports.

Technical services

Together with our subsidiary, EUS GmbH, Dortmund, we implemented the "Teleservices" demonstration project, involving the supervision and control of decentralised facilities. The project pools operations and facility status information from three of our large contracting customers and from further decentralised facilities, such as fuel cells, photovoltaic and micro-cogeneration units. Depending on the facility status, the system compiles automated evaluation reports or generates fault reports. This enables disruptions, reduced energy generation volumes or similar occurrences to be identified at an early stage. A further activity of this division involves innovative renovation and repair measures for district heating grids.

Regional energy

In February 2005, we commenced operations with a WhisperGen Stirling engine in the heating system of an energy-saving 3 litre house in Mannheim-Gartenstadt. This gas-powered micro-cogeneration unit supplies the heat required for the heating and warm water supply. It simultaneously generates electricity, which contributes to covering the proprietary requirements of the house. Surplus electricity is fed into the electricity grid. By equipping the heating system with this unit, the primary energy requirement of the low-energy house is reduced to less than 40 kWh/m^2 per annum (a newly constructed house currently has to meet a requirement of around 100 kWh/m^2 per year to comply with the Energy Saving Ordinance (EnEV)). When selecting the technology, we took account of the positive experience of Stadtwerke Kiel AG with the WhisperGen Stirling engine. The "Regional Energy" division also includes our new "cooling energy from district heating" project.

Transfer of expertise

At the first MVV Energie Group innovation day, which was held in Mannheim in June 2005, managers and specialists from our network of municipal utility companies discussed innovative energy supply solutions and specific group-wide projects. Moreover, as one component of our innovation strategy, the protection of our intellectual property rights (IPR) is now pooled at the Technology and Innovation group division.

Outlook

Development of the economy and the energy market

A low level of economic growth has been forecast once again for Germany in 2006. We do not expect macroeconomic developments to provide any notable momentum for the development of our core business. The German market for energy-related services, by contrast, is expected to continue to show double-digit annual percentage growth. The market for the incineration of non-recyclable waste, which is important for our company, can be expected to be characterised by a lack of incineration capacities in the medium term on account of the Technical Guidelines for the Disposal of Municipal Solid Waste (TASi), which came into force on 1 June 2005. We therefore expect prices for waste requiring incineration, and thus earnings, to remain at least stable and to see high capacity utilisation rates at our facilities.

One imponderable involves the introduction by the Federal Network Agency of regulation for grid utilisation fees for electricity and gas. All grid operators are required to submit applications to their respective regulatory authorities for the approval of their grid utilisation fees. These applications had to be submitted by the end of October 2005 in the case of electricity and by the end of January 2006 in the case of gas. In view of the lack of experience in dealing with the regulatory authorities to date, the manner and extent to which this procedure will result in any change in the level of grid utilisation fees cannot be assessed. On this basis, the regulatory authorities will develop a system of incentive regulation for grid utilisation fees, whose entry into force can be expected to result in a further increase in the pressure on fees. This applies both to the utilisation of high-voltage transmissions grids and to end distribution grids. Moreover, we assume that the regulatory authority will provide for greater competition in the domestic electricity and gas markets. We would be pleased if this could provide momentum for greater competition in the markets for conducted energy. Given that we attuned ourselves at an early stage to the establishment of a regulatory authority, the measures we have taken enable us to feel well-prepared for this new phase of competition in the conducted energy supply market.

Crude oil prices showed a further sharp increase in the past 2004/05 financial year. As a result of their link to the oil price, gas prices will rise significantly on the procurement markets in 2006. This development will also impact on the prices charged to end customers. Prices for carbon dioxide (CO_2) within the framework of the newly launched emissions trading were initially highly volatile, but have settled down in recent months. We expect further European integration to result in a higher level of liquidity in the emissions trading market.

Consolidation in the municipal utility companies sector

We expect numerous municipal utility companies in Germany to be exposed to increasing pressure on their margins as a result of grid regulation. The resultant consolidation in the sector could provide the MVV Energie Group, as a municipal utility group with access to the capital market, with the opportunity of acquiring further shareholdings. Based on our experience in this field, we expect to be able to exploit the efficiency enhancement potential resulting from such acquisitions. Given the antitrust restrictions on large vertical players and our previous success in the development of municipal utility company shareholdings, we see our company as having good prospects of prevailing over any other potential bidders.

Within the framework of the expansion of our network of municipal utility companies, during the year under report we already pursued the objective of contributing our shareholding in Energieversorgung Offenbach AG (EVO) to the Frankfurt utility company Mainova AG and in return acquiring a shareholding of at least 25.1 % in the merged company. We would expect any merger of Mainova and EVO to produce a high level of synergy effects, from which we would then benefit as a shareholder in Mainova. It was not clear upon the compilation of this annual report, however, whether and when the relevant talks will be restarted, and whether they will lead to any results.

Any major new shareholding would be financed by debt capital and by fresh equity from the available authorised capital, thus enabling our current financing structure to be maintained.

Cost savings potential in the network

One of our most important objectives is to increase the efficiency of our core business. This applies both to our shareholdings in municipal utility companies in Germany and to our district heating shareholdings in Poland and the Czech Republic. We expect the implementation of our “FOKUS” efficiency enhancement programme at the Mannheim location already to produce savings of around Euro 18 million in the current financial year. These savings are expected to amount to Euro 29 million per year from the 2007/08 financial year. These positive results encourage us in our plan to implement similar programmes at our municipal utility company shareholdings as well. Moreover, we are striving to achieve a higher degree of cooperation between our individual shareholdings in order to establish successful best-practice business processes across the Group.

Expansion of the environmental energy and value-added services segments

We intend to expand our strong position in the incineration of non-recyclable waste. For this reason, we are investing around Euro 70 million in a further non-recyclable waste incineration facility in Leuna, which will be identical to the existing facility in terms of its construction. This facility is planned to commence operations in 2007 and will contribute to increasing the sales of our environmental energy segment to considerably more than Euro 160 million per year by that date. We expect higher capacity utilisation rates at our facilities and a rise in the revenues from the incineration of the waste volumes supplied to lead to a significant increase in the earnings of this segment in the current 2005/06 financial year already.

We also intend to achieve organic growth in the rapidly growing market for energy-related services and will supplement this with acquisitions should any favourable opportunities arise. Our aim is to become one of the three largest companies in the sector within the next five years. With this in mind, we are planning to invest a medium-sized double-digit million sum in contracting projects in the current financial year. Following the marginally positive results achieved for the first time in the year under report, we expect the value-added services segment to generate markedly positive earnings in the 2005/06 financial year.

Research and development

The four-year DISPOWER project, in which a consortium of 37 partners from eleven countries have compiled technical and socio-economic solutions for intelligent networks of the future, will be concluded in the 2005/06 financial year. We will be the first distribution grid operator to implement these concepts at a virtual power plant in the low-voltage grid and will then transfer the findings to our operating business.

In the coming years, we intend to work more intensively with micro-cogeneration facilities, which contribute to the decentralised generation of electricity on the basis of cogeneration technology. We will also be focusing on various process enhancements. We expect research and development expenses to remain at around their previous level in the next two financial years.

Earnings performance

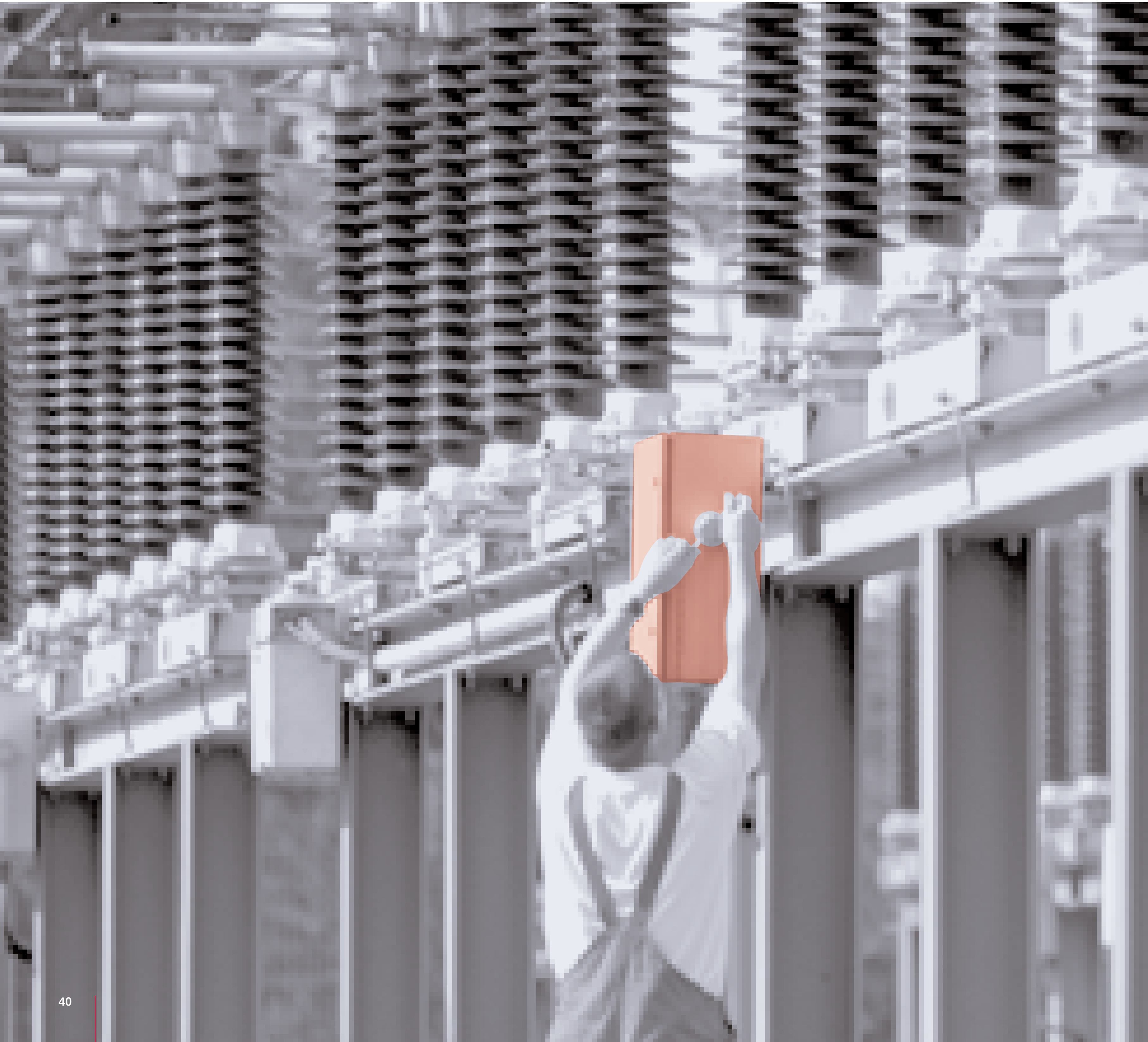
We intend to consistently maintain our organic growth in the current 2005/06 financial year. We aim to increase our sales to Euro 2.2 billion, our operating earnings (EBIT) to Euro 185 million and our earnings before tax to more than Euro 123 million. Moreover, we will generate a positive free cash flow once more and, in contrast to the previous years, we expect to achieve a positive value spread for the first time again.

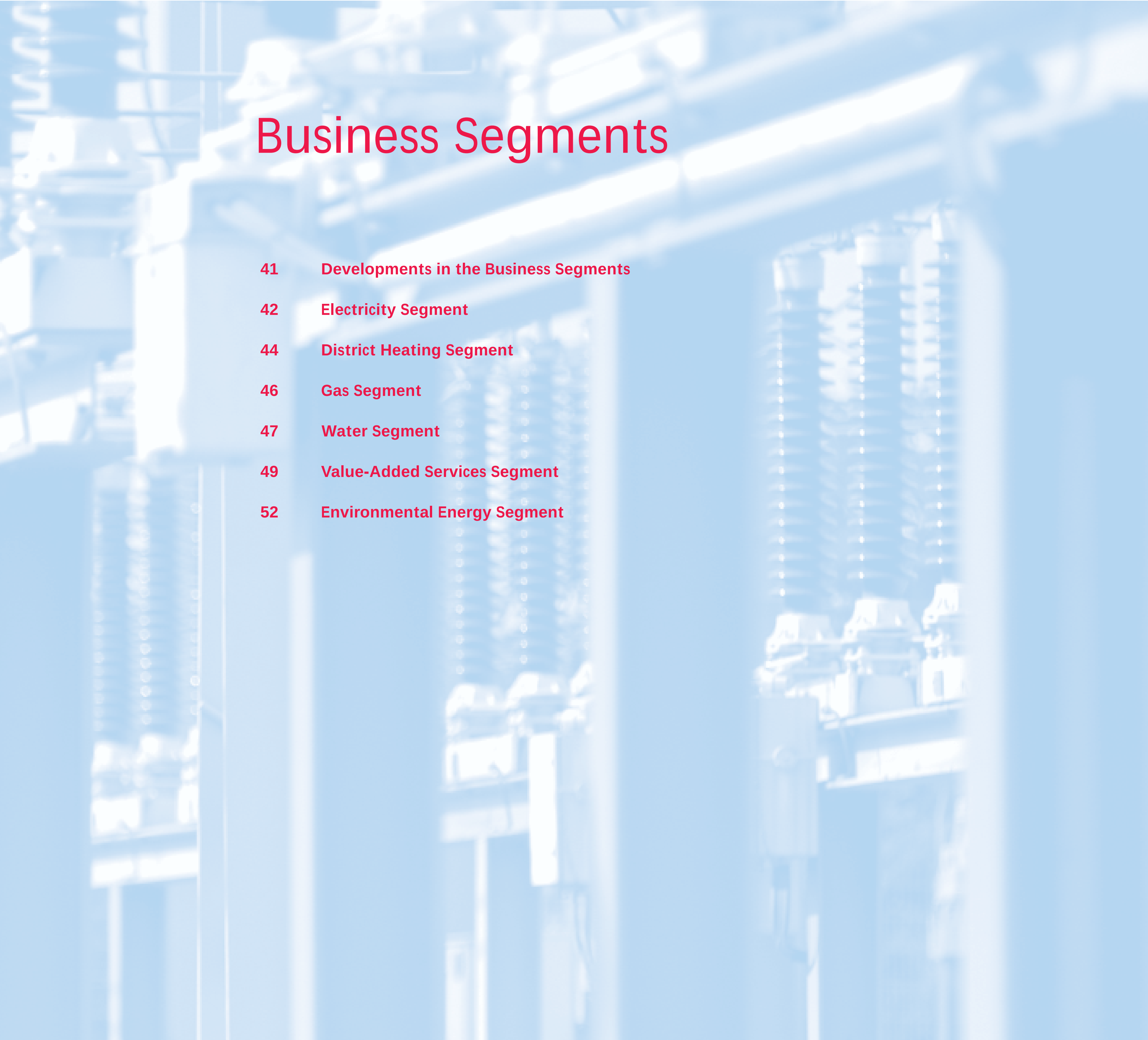
The positive assessment of our earnings performance is chiefly characterised by the cost savings expected to be generated by the “FOKUS” programme and the positive performance of the environmental energy and value-added services segments. We expect these to continue to have a markedly positive impact on our earnings performance in the coming years.

Events subsequent to the reporting date

We will be proposing the payment of an unchanged dividend amounting to Euro 0.75 for the past 2004/05 financial year, which can be paid in full from the company's free cash flow, for approval by the Annual General Meeting to be held on 10 March 2006. The planned positive earnings performance for the current 2005/06 financial year should enable us to increase the dividend slightly and nevertheless to retain earnings for future growth.

On 15 November 2005, we successfully executed the 10 % capital increase already announced some time ago. The company's share capital was increased by a nominal amount of Euro 12.8 million to Euro 142.6 million, with the increase being undertaken in return for cash contributions and to the exclusion of subscription rights. This involved the issuing of 5 million new shares at a price of Euro 18, with these being placed with German and European institutional investors by means of an accelerated bookbuilding procedure. The proceeds of the capital increase will chiefly be channelled into financing further growth in the environmental energy and value-added services segments.





Business Segments

Business Segments

Developments in the Business Segments

Transmissions Grids of the MVV Energie Group in km	**2004/2005**	2003/2004	% change
Electricity grid	14 544	14 734	– 1
District heating grid	1 889	1 892	—
Steam grid	105	207	– 49
Gas grid	5 608	5 594	—
Water grid	4 101	4 124	– 1
Telecommunications	2 236	2 883	– 19
of which: glass fibre	681	930	– 27

A new regulatory framework has been in place since the new Energy Act (EnWG) came into force in July 2005. The unbundling regulations, for example, have to have been implemented in organisational, accounting and information terms. These serve to achieve a clear separation of roles between the network divisions on the one hand and the competitive divisions, such as sales, on the other.

The companies of the MVV Energie Group have implemented the legal requirements in terms of unbundling and have introduced an equal treatment programme. Moreover, MVV Energie AG has established a central regulation management department for its network of municipal utility companies, which is responsible for communicating with the Federal Network Agency and for coordinating and supporting the exchange of data.

The Energy Act requires the legal separation of generation, network and sales activities as of 1 July 2007. At MVV Energie AG, the strategic and operational issues involved will result in the hiving off of the network division, which we intend to have undertaken by 1 October 2006.

Networks of the Future

Ensuring high supply reliability levels while simultaneously reducing costs: this is the most important challenge facing the future design of our networks. With this in mind, we launched several major projects at MVV Energie AG during the year under report which will already have a positive impact on our operating earnings (EBIT) in the current 2005/06 financial year. The development of a conversion strategy for our high and medium voltage electricity transmissions grids and our high pressure gas supply grids has enabled us to determine potential cost reductions, increase the transparency of future capital and capacity requirements, raise planning reliability levels and reduce our overall costs. We are also implementing similar projects at our municipal utility shareholdings, taking account of their respective grid structures.

In order to further optimise the economic effectiveness and operating safety of our gas and district heating grids, we have created additional functionalities in the interconnected control system. We have introduced the possibility of real-time simulations of the grids and are thus able to simulate disruptions and countermeasures, dynamically portray power flows, facilitate capacity analyses and thus train our staff far more effectively.

During the year under report, we also investigated our disruption management across all segments and will generate further cost savings in the current 2005/06 financial year on account of the resultant improvement in processes.

Electricity Segment

Sales and turnover significantly increased

We succeeded in raising our sales in the highly competitive electricity market to Euro 975 million, an increase of Euro 147 million (+18 %) compared with the previous year. With a 50 % share of overall sales, the supply of electricity is the most important business segment of our group of companies in terms of sales.

The greater part of this sales growth is attributable to strong external growth. The sales contributions of the Stadtwerke Kiel AG (SWK) subgroup, which was consolidated for the first full year, amounted to Euro 146 million. In the previous year, its sales had amounted to Euro 51 million in the five-month period from May to September 2004. Adjusted to account for the impact of the consolidation of SWK, we achieved sales growth of 7 % in spite of the market climate remaining difficult. This growth is mainly due to a higher level of sales at the MVV Energie AG parent company, as well as at its shareholdings in Offenbach and Solingen, and is attributable both to price adjustments and to the acquisition of new customers.

One part of the increase in electricity sales at MVV Energie AG is due to the electricity trading business. As in the previous year, only those electricity trading volumes which are directly related to our core business, the generation and supply of electricity to secondary distributors and end customers, have been reported on a gross basis. By contrast, sales relating to the proprietary electricity trading business have, as in the previous year, been reported on a net basis.

Sales volumes in our electricity segment (excluding the electricity turnover reported in the environmental energy and value-added services segments) rose by 14.4 billion kWh compared with the previous year to 18.0 billion kWh (+25 %). This growth is attributable to the electricity trading business and, within this area, is partly due to the first full-year consolidation of SWK. The secondary distribution business of Stadtwerke Solingen GmbH has been supplying Stadtwerke Hilden GmbH with electricity since the beginning of 2005. This resulted in an initial electricity turnover of 67 million kWh in the year under report.

Trading activities extended with new products

The trading division successfully performed its role as the central unit for the management of the Group's portfolio of energy positions during the year under report. The targeted marketing of proprietary generation and the procurement of sales volumes have enabled us to maintain our sales strategy while keeping risks at a very low level.

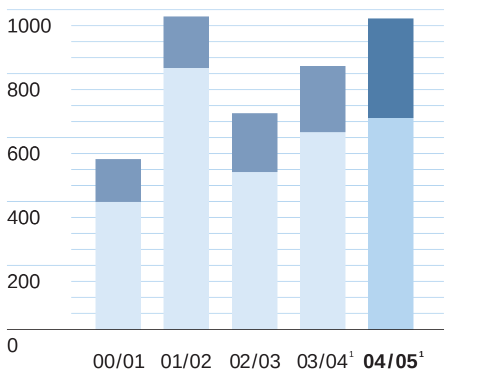
There were further improvements in the liquidity of the electricity trading market as a result of the rising number of participants from the financial sector. The European trade in emissions certificates launched at the beginning of 2005 is not yet as highly developed, but has nevertheless reported rising sales figures. This trading not only impacted on the development of electricity prices – MVV Energie AG was also affected by such trading in its role as a plant operator. The MVV Energie Group made detailed preparations for emissions trading, thus enabling it to participate in CO_2 trading and actively manage its portfolio of certificates from the very beginning. Moreover, as the most important fuel for the MVV Energie Group, coal is a significant factor within the framework of its portfolio management.

The electricity turnover in our sales and retail business with industrial and commercial customers (business customers) showed a year-on-year decline of 5 % to 6.6 billion kWh. This decrease, which was expected, is due in particular to the discontinuation of the scheduled supply over several months to a large national industrial customer of MVV Energie AG, which had procured 0.7 billion kWh in the previous year. This negative effect on volumes more than offset the newly acquired sales volumes at our shareholdings in Kiel, Offenbach and Solingen.

Individual concepts for flexible and inexpensive electricity procurement for industrial and large commercial customers

With its range of structured procurement options and its new "Electricity Fund" product, MVV Energie AG provides industrial and commercial customers with individual concepts for procuring their electricity flexibly and inexpensively. Within the framework of structured procurement options, our trading experts develop procurement strategies for energy-intensive industrial companies. In order to minimise the risks of substantial price fluctuations on the wholesale markets, they monitor the wholesale market together with our electricity fund managers, subdivide customers' electricity requirements into partial volumes and procure these at the most favourable times. This enables us to reduce our customers' procurement risks and to achieve long-term prices which fall short of the annual average. Since the launch of the Electricity Fund, which is

Electricity Sales
Euro million



[1] proprietary electricity trading sales reported on a net basis, i.e. only showing the gross margin generated

Electricity Turnover of the MVV Energie Group[1]

kWh million	2004/2005	2003/2004	% change
Wholesale electricity trading (including secondary distributors)	9 334	5 587	+ 67
Business customers[2]	6 637	7 021	– 5
Private customers[2]	2 058	1 793	+ 15
	18 029	14 401	+ 25

[1] excluding electricity turnover in environmental energy and value-added services segments

[2] correction in previous year

tailored to the needs of medium-sized industrial and commercial customers with annual electricity requirements of between 1 million kWh and 60 million kWh, in January 2005, we have succeeded in acquiring 41 customers with overall sales volumes in excess of 270 million kWh.

This new Electricity Fund was taken up by 24 customers in the interregional, i.e. national electricity market during the year under report. The product is now also being marketed by our shareholdings in Kiel, Offenbach and Köthen in their respective catchment areas.

The electricity turnover in our private customer business rose by 15 % compared with the previous year to 2.1 billion kWh. This growth is principally due to the first full-year consolidation of SWK. The deployment of field service employees in the Mannheim catchment area enabled around 2 500 private customers who had previously switched to a competitor to be won back.

Together with its shareholdings, the MVV Energie Group currently supplies electricity to around 659 000 customers in Germany.

Higher procurement costs successfully offset

The increase in fuel costs, especially for gas and oil, led to a sharp rise in wholesale electricity prices in the course of the year under report. Moreover, wholesale prices were affected for the first time by carbon dioxide emissions rights. As a result, electricity prices reached new records on the European electricity market.

Our risk-minimising procurement strategy, the success of our cost management procedures and other factors beneficial to earnings, however, enabled us to compensate for this price increase.

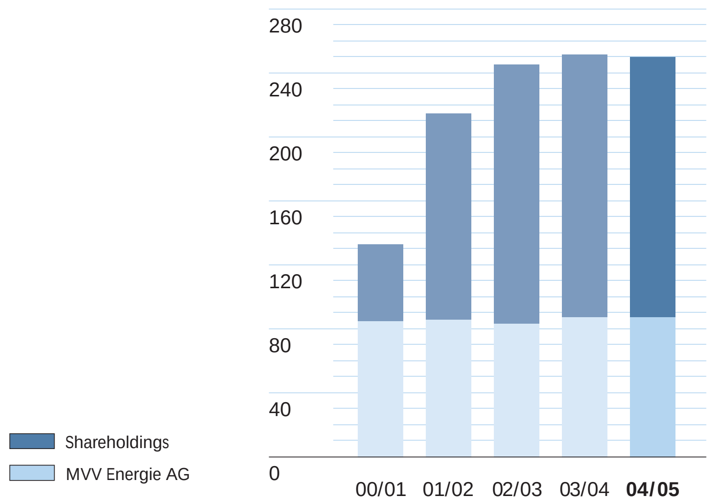
Earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA) rose from Euro 55 million in the previous year to Euro 63 million. Following the deduction of depreciation and goodwill amortisation, the electricity segment generated operating earnings before interest and taxes (EBIT) of Euro 39 million in the year under report, compared with the figure of Euro 33 million reported in the previous year following adjustment for special items relating to the restructuring process. The rise in earnings was decisively due to the first full-year earnings contributions from SWK and to refunds and retrospective payments from customers in connection with the Cogeneration/ Renewable Energy Act (KWK / EEG).

District Heating Segment

Strongest segment in terms of earnings

The MVV Energie Group is one of the five largest suppliers of district heating in Germany and Europe in terms of sales volumes. District heating is now the business segment with the highest earnings in our group of companies.

District Heating Sales
Euro million



Development characterised by opposing effects

Sales volumes in the district heating segment amounted to 6.1 billion kWh, which is equivalent to a decline of 0.2 billion kWh (– 3 %) compared with the previous year. Sales fell by Euro 2 million (– 1 %) compared with the previous year to Euro 250 million. The decline is in both cases attributable to the sale of the shareholding in Brno (Czech Republic) at the beginning of the 2004/05 financial year. This effect was exacerbated by the negative impact on turnover and sales resulting from the transfer of the steam business of the MVV Energie AG parent company from the district heating segment to the environmental energy segment. This development did not, however, have any effect on the overall earnings of our group of companies. The growth in turnover and sales generated by the first full-year inclusion of the Stadtwerke Kiel AG (SWK) subgroup was not sufficient to offset the factors outlined above.

Of the total district heating turnover in this segment, 93 % relates to district heating (heating water) and 7 % to the provision of steam, with the latter figure relating to the steam generated by our shareholdings. The predominant share of heating water relates to the end customer business with business and private customers. Sales volumes with business customers (especially industry, commercial customers, public institutions) rose by 38 %, particularly as a result of the SWK subgroup. In the private customer business, the impact of SWK was more than compensated for by the discontinuation of volumes at the Brno shareholding.

The shareholding in Kiel has led to a further improvement in our market position in Germany. Our turnover of district heating in the German market rose by 0.9 billion kWh (+ 28 %) compared with the previous year to reach 4.1 billion kWh. Sales in Germany showed a year-on-year increase of Euro 43 million (+ 35 %) to Euro 167 million. Their share of overall district heating sales therefore rose from 49 % to 67 %.

The connection of the SAP Arena in Mannheim, one of the most modern sports and event halls in Europe, to the district heating network of MVV Energie AG means that we won an extremely attractive customer during the year under report.

At Euro 88 million, the district heating sales of MVV Energie AG, which accounts for 35 % of total sales in the segment, were at the same level as in the previous year and were affected by the transfer of the steam business to the new environmental energy segment. This transfer relates to the steam volumes generated at the waste-to-energy plant in Mannheim, which are supplied from the plant to industrial customers. On a comparable basis, i.e. following adjustment of the previous year's sales to account for the steam business (Euro 10 million), district heating sales rose by 13 % at MVV Energie AG. This growth is attributable to price increases. The sharp rise in fuel costs has resulted in higher procurement expenses, which were charged on to customers. Higher sales were also generated by the municipal utility shareholdings in Offenbach, Ingolstadt and Köthen.

District Heating Turnover of the MVV Energie Group[1]

kWh million	2004/2005	2003/2004	% change
Heating water			
Secondary distributors[2]	705	1 089	– 35
Business customers[2]	2 244	1 622	+ 38
Private customers[2]	2 699	2 857	– 6
	5 648	5 568	+ 1
Steam			
Business customers[3]	408	701	– 42
	6 056	6 269	– 3

[1] excluding district heating turnover in the environmental energy and value-added services segments

[2] correction in previous year

[3] previous year's figure adjusted

Our foreign sales fell from Euro 128 million in the previous year to Euro 83 million and thus still account for 33 % of total district heating sales (previous year: 51 %). Sales at our Polish group of companies, MVV Polska Sp. z o.o., Warsaw, rose from Euro 36 million to Euro 42 million. This significant growth of 17 % is due to volume increases, price adjustments and exchange rate effects.

Our Czech subgroup, MVV Energie CZ s.r.o., Prague, generated sales of Euro 42 million in the year under report (previous year: Euro 92 million). District heating prices were raised as a result of the substantial price increases in the primary energy source of gas undertaken by the dominant gas importer in the market.

Together with its shareholdings, the MVV Energie Group currently supplies around 380 000 customers (including residential units) with district heating. In Mannheim, 50 % of all flats are supplied with district heating, compared with a national average of 12 %.

Significant improvement in earnings

Our district heating segment has become even more profitable as a result of the SWK subgroup. The segment's earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA) rose by Euro 2 million compared with the previous year to reach Euro 63 million. Following the deduction of depreciation and goodwill amortisation, the district heating segment of the MVV Energie Group generated earnings before interest and taxes (EBIT) of Euro 40 million (previous year: Euro 32 million). In addition to the first full-year inclusion of the SWK subgroup, this strong EBIT growth is attributable to improved earnings contributions from MVV Energie AG and from its shareholdings in Offenbach, Ingolstadt and Köthen. The discontinuation of the EBIT contribution from the shareholding in Brno (previous year: Euro 7 million) was thus more than offset.

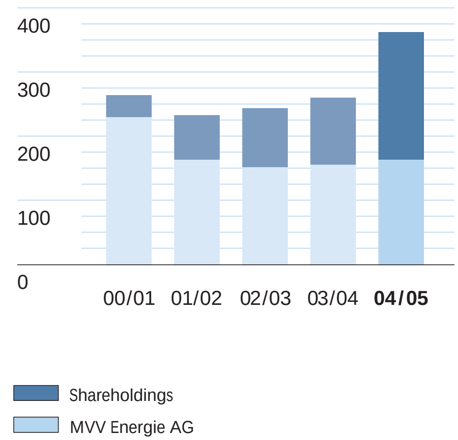
Gas Segment

Gas business boosted by Stadtwerke Kiel AG

The entry into force of the amended Energy Act (EnWG) marks the beginning of a new phase of liberalisation in the gas sector – that of regulated competition. We are prepared for these changes to lead to an intensification of competition in this sector.

In the 2004/05 financial year, we succeeded in raising our sales in the gas segment by Euro 103 million (+ 39 %) to Euro 366 million in spite of the difficult market climate. The Stadtwerke Kiel AG (SWK) subgroup, which was consolidated for the first full year, contributed sales of Euro 101 million to the overall sales of the segment. In the previous year, the subgroup's sales had amounted to Euro 17 million in the period from May to September 2004. The growth over and above this external growth (Euro +84 million) is due to a higher level of sales at all of the companies in our municipal utility network with activities in the gas business. Of total gas sales, 45 % related to MVV Energie AG and 55% to our shareholdings in Kiel, Offenbach, Ingolstadt, Solingen and Köthen.

Gas Sales
Euro million



Gas turnover (excluding the volumes relating to contracting projects, which have been reported in the value-added services segment) rose by 25 % to 10.8 billion kWh. Of the total gas turnover, 31 % related to the secondary distribution business and 69 % to the end customer business with business and private customers.

Double-digit growth in sales volumes was reported in both the secondary distribution business (+ 23 %) and the end customer business (+ 26 %). The growth in both market segments is principally due to the first full-year consolidation of sales volumes at the SWK subgroup. In the secondary distribution and end customer business, we supply a total of 101 towns and districts together with our shareholdings. In the end customer business, we supply in total around 224 000 business and private customers.

Positive earnings performance

Our gas segment has gained in earnings power as a result of the shareholding in SWK. The high share of private customers means that our gas business has become even more stable.

Segment earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA) rose by Euro 19 million to Euro 50 million. Following the deduction of depreciation and goodwill amortisation, the MVV Energie Group achieved earnings before interest and taxes (EBIT) of Euro 35 million (previous year: Euro 17 million). The strong level of EBIT growth is primarily attributable to the SWK subgroup, which generated operating earnings (EBIT) of Euro 11 million in the year under report. This contrasts with the negative operating earnings (EBIT) of Euro 2 million consolidated for the first time in the previous year for the period from May to September 2004, traditionally a period of weak earnings in view of the seasons involved. Further positive effects on earnings resulted from price adjustments, the discontinuation of goodwill amortisation and cost savings measures. These enabled us to offset the substantial price increases reported by all companies on the procurement side as a result of the development of the oil price.

Gas trading

During the year under report, the MVV Energie Group optimised its gas procurement within the framework of market circumstances. We have, for example, made use of storage opportunities, flexible contracts and peak gas facilities to offset peak loads. Individually designed supply agreements have enabled us to provide our customers with competitive price conditions. The

Gas Turnover of the MVV Energie Group[1]

kWh million	2004/2005	2003/2004	% change
Secondary distributors	3 381	2 739	+ 23
Business customers[2]	3 128	2 719	+ 15
Private customers[2]	4 315	3 187	+ 35
	10 824	8 645	+ 25

[1] excluding gas turnover in value-added services segment

[2] correction in previous year

construction of a third gas cavern by SWK will result in a further improvement in our procurement terms.

The Federal Network Agency took up its work immediately following the entry into force of the amended Energy Act (EnWG). This will lead to changes in transmissions conditions in the gas market in the 2005/06 financial year. Furthermore, at the initiative of the Federal Cartel Office, the prohibition of long-term supply agreements between grid gas and secondary distribution companies is intended to promote the entry of new competitors into the market. We will monitor future regulatory changes, will exploit the resultant competitive opportunities and, by means of active procurement management, will provide our customers with individual solutions for their specific requirements.

Water Segment

Positive business performance

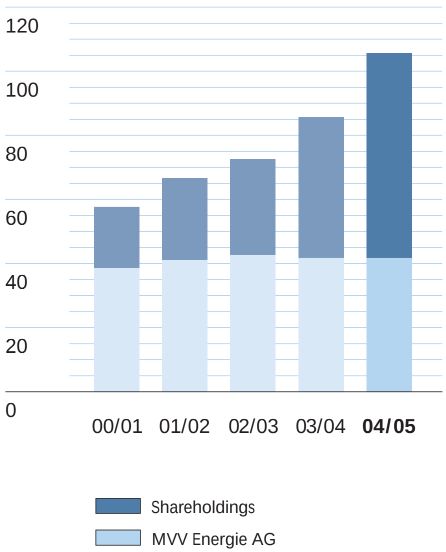
Drinking water is not simply a commodity – it forms the indispensable foundation for life itself. The companies of the MVV Energie Group operating in the water segment guarantee high quality standards and reliability of supply.

Increase in sales and earnings due to SWK

The sales volumes, sales and operating earnings (EBIT) of our water business showed double-digit growth rates compared with the previous year. In this segment as well, these developments were attributable to the first full-year inclusion of the Stadtwerke Kiel AG (SWK) subgroup.

Water sales rose by Euro 20 million to Euro 106 million. The SWK subgroup generated water sales of Euro 33 million during the year under report. In the previous year, the subgroup had reported sales of Euro 14 million for the initial period of its inclusion (May to September 2004). Sales at the other companies showed an overall increase of 1 % to Euro 73 million. Solingen reported higher sales growth in this respect than Mannheim and Offenbach. Of total water sales, 40 % related to MVV Energie AG and 60 % to our shareholdings in Kiel (31 %), Offenbach (17 %) and Solingen (12 %).

Water Sales
Euro million



Water Turnover of the MVV Energie Group[1]

m^3 million	2004/2005	2003/2004	% change
Secondary distributors	5.7	4.5	+ 27
Business customers	4.4	3.9	+ 13
Private customers	47.1	38.0	+ 24
	57.2	46.4	+ 23

[1] excluding water turnover in value-added services segment

The turnover of the water segment (excluding the turnover relating to contracting projects, which is reported in the value-added services segment) rose by 23 % to 57 million m^3. Apart from the first full-year inclusion of the turnover of the SWK subgroup, the increase in volumes was attributable to higher sales volumes in Solingen. Our strongest market segment was that of private customers, who accounted for 82 % of sales volumes at our group of companies.

The earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA) of the water segment rose from Euro 22 million to Euro 25 million. Following the deduction of depreciation and goodwill amortisation, our group of companies generated earnings before interest and taxes (EBIT) of Euro 15 million in the year under report (previous year: Euro 12 million). This growth is primarily due to the SWK subgroup. Our shareholding in Stadtwerke Solingen GmbH succeeded in raising its operating earnings in the water business by Euro 1 million as a result of higher sales and internal cost reduction measures. Cost structures in the water business are characterised at all companies by a high proportion of fixed costs.

Together with its shareholdings, the MVV Energie Group currently supplies ten other water supply companies (secondary distributors) and around 390 000 end customers (including residential units) with drinking water.

Clean drinking water has its price

The importance of a clean supply of drinking water is apparent wherever it is in short supply or does not function properly. There is hardly any other product which we consume with so little thought as drinking water out of the tap. Yet water is as indispensable as the air we breathe. The careful treatment of this valuable asset is therefore extremely important.

We obtain the greater part of the drinking water supplied by us to secondary distributors and end customers from our own extraction activities. We operate a widespread quality measurement network and ultramodern proprietary water laboratories in order to protect the groundwater in the long-term. These laboratories monitor our drinking water to ensure that it fulfils all necessary microbiological standards. In order to safeguard the superb quality of the drinking water, to ensure that losses of water are kept to a minimum and to avoid future damages, our transmissions and water supply network is maintained on an ongoing basis and renovated whenever necessary.

Value-Added Services Segment

Positive EBIT achieved for the first time

Our value-added services segment achieved positive operating earnings for the first time in the year under report. This earnings performance shows that the measures taken to realign the strategy and to improve earnings, which largely related to this segment, have taken effect.

Sales and earnings affected by one-off items

Sales and earnings were highly affected by one-off items, especially in the telecommunications services/innovation portfolio/other division.

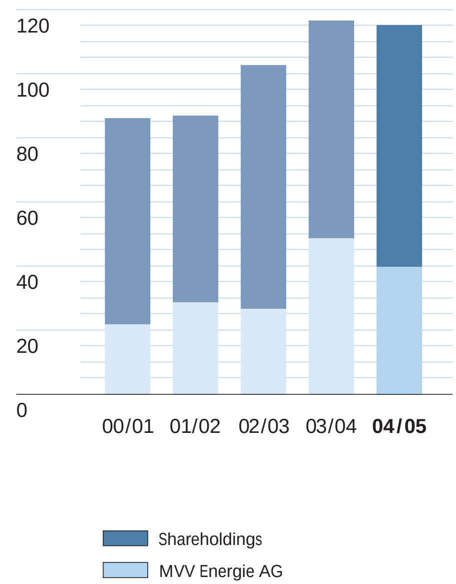
Segment sales showed a year-on-year decline of Euro 2 million to Euro 115 million (– 2 %). This decline is mainly due to the discontinuation of sales contributions from AWATECH GmbH (wastewater facility construction), which has been sold and which had generated sales of Euro 10 million in the previous year. On a comparable basis, segment sales rose by Euro 8 million (+ 7 %). This growth is primarily attributable to the "Industrial Solutions" product area within the MVV energy-related services division and to the consulting business.

Operating earnings (EBIT) in the segment rose from Euro – 63 million in the previous year to Euro 2 million. This improvement is principally due to the absence of the high level of one-off charges incurred in the previous year as a result of the streamlining of the portfolio and related restructuring measures. Furthermore, the earnings performance was also positively affected by operational improvements in the "Municipal Solutions", "Industrial Solutions" and "Consulting" product areas, as well as by the sale by EVO of 3T Telekommunikationsgesellschaft mbH, Offenbach. We were thus more than able to absorb the loss incurred at the venture capital subsidiary ENERGY InnovationsPortfolio AG & Co. KGaA, which was mainly the result of the amortisation of financial assets at the companies held in this portfolio.

Together with our municipal utility shareholdings, our group of companies generated sales of Euro 101 million in the field of energy-related services during the year under report (previous year: Euro 91 million) and operating earnings (EBIT) of Euro 3 million (previous year: Euro – 4 million).

Value-Added Services Sales

Euro million



Sales in the "Municipal Solutions" product area rose by Euro 1 million to Euro 33 million. MVV Energiedienstleistungen GmbH has firmly established itself as a partner for municipalities and the housing industry across Germany. We have optimised our cooperation within the network and are also working closely together with various companies, in some cases within the framework of public-private-partnership models. During the year under report, we acquired nine new land improvement and development projects with a combined sales volume of Euro 11 million. We had a total surface of 561 hectares under contract at the end of the financial year and are now the market leader in the Rhine-Neckar metropolitan region. In the field of municipal contracting (district heating supply to residential, commercial and municipal properties, as well as energy-saving contracting), we succeeded in acquiring new orders with a total investment volume amounting to Euro 11 million.

Sales of Value-Added Services at the MVV Energie Group by Product Area

Euro million	2004/2005	2003/2004	% change
Municipal solutions	33	32	+ 3
Industrial solutions	30	24	+ 25
Consulting	19	14	+ 36
Railway electricity/business services	1	4	– 75
MVV energy-related services	**83**	74	+ 12
Energy-related services at municipal utility shareholdings	18	17	+ 6
Energy-related services	**101**	91	+ 11
Telecommunications services/innovation portfolio/other	14	26	– 46
	115	117	– 2

Our "Industrial Solutions" product area, in which we were also able to acquire new projects, generated total sales of Euro 30 million (previous year: Euro 24 million). This growth nevertheless fell slightly short of our expectations. The strong development towards outsourcing forecast for industry was more sluggish than expected. In view of the sharp rise in energy costs, we nevertheless remain confident that the trend towards outsourcing and energy optimisation predicted for industry will gain in significance.

In the consulting business, we achieved sales growth of Euro 5 million to Euro 19 million in the past 2004/05 financial year. We expanded GeTeBe Gesellschaft für Technologieberatung mbH into the holding company for our consulting activities. The BfE Institut für Energie und Umwelt GmbH subsidiary strengthened its position as the German market leader in the field of energy-saving projects. On an international level, we streamlined our portfolio and focused our activities on MVV Consulting GmbH and DECON – Deutsche Energie Consult Ingenieurgesellschaft mbH, which cooperate very closely depending on the regions and specific products involved. The subsidiaries with activities in the international consulting business generated positive results in the year under report. The tendency on the part of international donor organisations, which represent major customers for our consulting projects, towards increasing their promotion of infrastructure projects has continued. This development provides us with promising opportunities of further improving the already pleasing levels of capacity utilisation.

Contracting: Energy and Water Turnover of the MVV Energie Group

	2004/2005	2003/2004	% change
Electricity turnover in kWh million	74	56	+ 32
Heating water turnover[1] in kWh million	144	131	+ 10
Steam turnover in kWh million	281	211	+ 33
Gas turnover in kWh million	272	261	+ 4
Water turnover in m^3 million	1.1	1.2	– 8

[1] correction in previous year

New structures in the energy-related services division

During the past financial year, the energy-related services division further optimised its processes and structures and expanded its market position. Together with Stadtwerke Kiel AG, we are offering our "Municipal Solutions" product area with our newly founded subsidiary 24sieben energie service GmbH, initially in Hamburg and Schleswig-Holstein. We successfully maintained our regional expansion in the state of Nordrhein-Westfalen, with our ENSERVA subsidiary acquiring more than 20 new projects. The activities of reginova GmbH are also making great progress in Bavaria.

We aim to achieve further organic growth in the dynamic market for energy-related services and to exploit the opportunities we expect from the consolidation of the market. We also intend to achieve external growth by acquiring companies or shareholdings, especially in the contracting business. The energy-related services division of MVV Energie AG is to be hived off to MVV Energiedienstleistungen GmbH in the 2005/06 financial year and subsequently expanded in its new form in cooperation with our shareholdings.

Telecommunications / other

MAnet GmbH provides business customers with flexible, reliable and innovative telephone, data and internet services with a regional focus on Mannheim and Heidelberg. The company has an ultramodern glass fibre network in the Rhine-Neckar region. Following the restructuring undertaken in the previous year, MAnet generated positive operating earnings (EBIT) of almost Euro 1 million in the year under report. In the course of its business-focusing process, our Energieversorgung Offenbach AG (EVO) shareholding sold its shares in 3T Telekommunikationsgesellschaft mbH, Offenbach, at the end of the year under report.

Within the framework of the strategic realignment of the MVV Energie Group, we transformed the corporate venture capital fund MVV InnovationsPortfolio AG & Co. KGaA, which now operates under the name of ENERGY Innovations-Portfolio AG & Co. KGaA and continues to be managed by ACCERA Venture Partners AG, into a traditional venture capital fund. This venture capital fund, which was established in 2001, will in future be open to further partners and investors wishing to make targeted investments in innovative future technologies in the field of energy and utilities. In view of the fact that venture capital does not form part of the core business of MVV Energie AG, our group of companies will not be undertaking any further investments in this area.

Environmental Energy Segment

Superb market prospects

The market prospects for our environmental energy segment have improved significantly as a result of the entry into force of the Technical Guidelines for the Disposal of Municipal Solid Waste (TASi) as of 1 June 2005. These guidelines, which are applicable across the whole country, state that municipal waste may only be disposed of at waste dumps following prior thermal or biological treatment. It is already apparent that the incineration capacities available for commercial waste in Germany will not be sufficient.

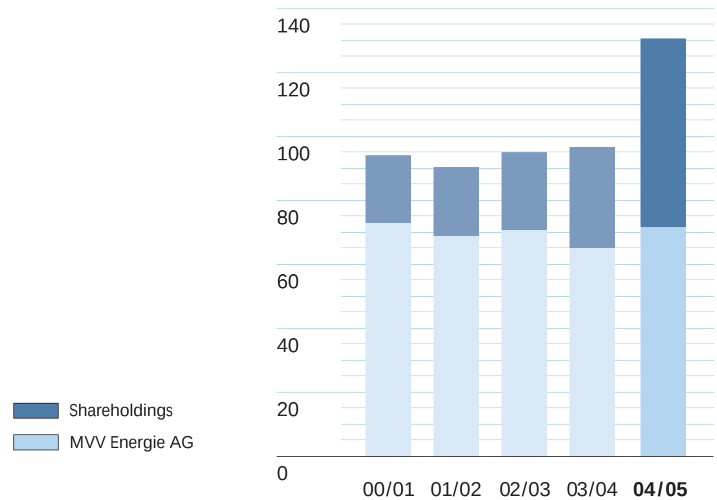
Our non-recyclable waste incineration plants in Mannheim, Offenbach and Leuna currently have an incineration capacity of 900 000 tonnes per annum. As one of the market leaders in the incineration of non-recyclable waste, our group of companies is already superbly positioned. We intend to exploit the growth opportunities in this market.

Within the framework of the strategic realignment and modernisation of the organisational structure of our group of companies, we have pooled our non-recyclable waste incineration activities, the related power plant business and our biomass activities at MVV Umwelt GmbH, a wholly-owned subsidiary of MVV Energie AG founded during the year under report to act as the operating management company, thus combining the previously separate segments of waste-to-energy plants and renewable energies.

The concentration of our activities in the disposal and power plant businesses enables us to pool competencies and longstanding experience, to simplify control procedures and to exploit synergies, such as those concerning the procurement of waste and wood.

The smaller-scale energy generation plants based on biomass, such as the biomass heating plants which we use for decentralised utility supply concepts, are to remain at our value-added services segment. Within the framework of our value-driven focusing strategy, we have parted company with the wind farm business of our subsidiary eternegy GmbH, Mannheim, which in the previous year was included in the renewable energies segment. During the year under report, MVV Energie AG sold projects for new wind farms in Germany, Poland and France.

Environmental Energy Sales
Euro million



Significant rise in sales and earnings

Sales in our environmental energy segment rose by Euro 34 million to Euro 131 million. The incineration of non-recyclable waste in Mannheim, Offenbach and Leuna generated sales of Euro 92 million during the year under report (previous year: Euro 78 million). Sales at the Mannheim location (including the operating companies MVV Umwelt GmbH and MVV O&M GmbH) rose from Euro 55 million to Euro 63 million. The main reasons for this growth can be found in the increased deliveries of waste resulting from the entry into force of the Technical Guidelines for the Disposal of Municipal Solid Waste (TASi) and in particular from initial deliveries from the Karlsruhe region. The non-recyclable waste disposal contracts concluded with the District and City of Karlsruhe during the year under report and taking effect in June 2005 have an initial term of 11.5 years. The complete annual volume of 166 000 tonnes will be delivered for the first time in the current 2005/06 financial year.

The waste-to-energy plant at our shareholding in Energieversorgung Offenbach AG (EVO) was also working at virtually full capacity as a result of the entry

Environmental Energy Turnover of the MVV Energie Group and Incineration Volume	**2004/2005**	2003/2004	% change
Electricity turnover (including secondary distributors) in kWh million	204	82	+ 149
Steam turnover[1] in kWh million	973	893	+ 9
Incinerated waste in tonnes 000s	619	519	+ 19

[1] previous year's figure adjusted

into force of the TASi. The sales generated at EVO from the incineration of non-recyclable waste rose from Euro 23 million to Euro 24 million. During the year under report, our new company, MVV TREA Leuna GmbH, generated sales of Euro 5 million since taking up operations in June 2005.

Our group of companies incinerated a total of 619000 tonnes during the year under report, compared with 519000 tonnes in the previous year (+ 19 %). Of this sum, 365000 tonnes (previous year: 325000 tonnes) related to Mannheim and 209 000 tonnes (previous year: 194000 tonnes) to Offenbach. A total of 45000 tonnes of waste was incinerated at the non-recyclable waste incineration and energy extraction plant (TREA) in Leuna during the year under report.

Our waste-to-energy plant in Mannheim generates steam and electricity using the resource-saving cogeneration procedure. The sales generated by the energy business increased from Euro 13 million in the previous year to Euro 23 million. This growth is predominantly due to the reclassification of the steam business of MVV Energie AG from the district heating segment to the environmental energy segment. This involves volumes of steam supplied to industrial customers by the Mannheim waste-to-energy plant. The respective supply agreements are gradually being transferred to MVV Umwelt GmbH.

The biomass power plants in Mannheim (20 MW) and Königs Wusterhausen (20 MW), at which we generate electricity, achieved combined sales of Euro 25 million in the year under report (previous year: Euro 14 million). The biomass power plant in Flörsheim-Wicker (15 MW) is consolidated as an associated company at equity.

Operating earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA) increased from Euro 43 million in the previous year to Euro 53 million. The operating earnings before interest and taxes (EBIT) of the environmental energy segment rose from Euro 12 million to Euro 27 million. The profitability of our waste-to-energy plants in Mannheim and Offenbach has improved significantly as a result of their working at virtually full capacity.

Investments in organic growth

We are continuing to invest in the organic growth of our environmental energy segment. We have optimised incineration capacities at our waste-to-energy plant in Mannheim. The new on-site railway unloading station for the delivery of waste commenced operations at the Mannheim waste-to-energy plant during the year under report (investment volume: approx. Euro 2 million).

We succeeded in commencing operations at the non-recyclable waste incineration and energy extraction plant constructed at the chemical industry location of Leuna (Sachsen-Anhalt) two months ahead of schedule, i.e. already in June 2005. The disposal capacity of this plant of around 200000 tonnes per annum is already fully utilised as a result of contractually agreed municipal and commercial waste volumes.

In view of the high disposal requirements on the part of commercial customers, we decided during the year under report to construct a further waste incineration plant in Leuna. The existing plant will be expanded by an identical second line (TREA Leuna II) with an additional capacity of 200000 tonnes per annum. The investment volume amounts to around Euro 70 million.

This means that from 2007 onwards our group of companies will have three ultramodern non-recyclable waste incineration plants with an annual incineration capacity of 1.1 million tonnes. Including the three biomass power plants in Mannheim, Königs Wusterhausen and Flörsheim-Wicker, which have a combined wood incineration capacity of 334 000 tonnes per annum, our total incineration capacity will amount to around 1.4 million tonnes per annum.

Information

Information

Directors and Officers of the Company

Executive Board

Dr. Rudolf Schulten
Chief Executive Officer
Commercial Director

Dr. Werner Dub
Technology, Networks
and Energy-related Services

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

Karl-Heinz Trautmann
Marketing, Sales
and Environmental Energy

Division Heads

Dr. Christoph Helle
General Director
Energy Business and Group Strategy

Helfried Krope
until 15 January 2006
General Director Network

Hans-Georg Hägele
Finance and Accounting

Dr. Alfred Herkelmann
until 31 March 2005
IT and Applied Computer Science

Michael Homann
Materials Management
since 1 April 2005
IT and Applied Computer Science

Michael Horix
Environmental Energy

Dr. Simon Kalvoda
since 15 January 2006
Network

Gunter Kühn
Personnel, Social and Wellfare Services

Michael Lowak
Energy-related Services

Dr. Reiner Lübke
since 1 January 2005
Plant Management

Christian Mehl
Trading

Dr. Gert Riemenschneider
until 30 June 2005
Engineering

Ralph Rischmüller
Real Estate Management

Bernhard Schumacher
Sales

Dr. Thomas Stephanblome
since 1 July 2005
Engineering

Frank Zeeb
Group Controlling

Supervisory Board

Gerhard Widder
Chairman
Lord High Mayor of the City of Mannheim
Graduate in Engineering

Manfred Lösch [1]
Deputy Chairman
Chairman of the Works Council
of the MVV Group

Peter Dinges [1]
Works Council of MVV Energie AG

Dr. Norbert Egger
until 28 February 2005
1st Deputy Mayor
of the City of Mannheim

Werner Ehret [1]
Works Council of MVV Energie AG

Dr. Manfred Fuchs
Deputy Chairman of the
Supervisory Board of
Fuchs Petrolub AG, Mannheim

Rosi Haus [1]
Managing Director
of ver.di Offenbach

Dr. Karl Heidenreich
since 12 April 2005
Former Member of the Executive Board
of Landesbank Baden-Württemberg

Prof. Dr. Egon Jüttner
University Professor

Helfried Krope [1]
Head of Networks Division
at MVV Energie AG

Egon Laux [1]
Deputy Chairman of the
Works Council of Energieversorgung
Offenbach AG

Klaus Lindner [1]
Managing Director of
ver.di Mannheim

Manfred Mathia [1]
until 30 June 2005
Chairman of the Works Council of
Energieversorgung Offenbach AG

Dr. Frank Mentrup
Medical Doctor

Dr. Rolf Neuhaus
until 25 October 2005
Management Consultant

Dr. Sven-Joachim Otto
Judge

Dr. Michael Pfingsten
until 4 March 2005
Member of the Executive Board
of Ruhrgas AG, Essen

Konrad Schlichter
Businessman

Sabine Schlorke [1]
Trade Union Secretary
of ver.di Mannheim

Rolf Schmidt
Mayor of the City of Mannheim

Bernd Sendzik [1]
since 1 July 2005
Commercial Assistant

Christian Specht
since 1 March 2005
Financial Mayor
of the City of Mannheim

Christa Spohni [1]
Commercial Assistant

[1] elected employee representatives

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

Report of the Supervisory Board

Gerhard Widder,
Chairman

During the 2004/05 financial year, the Supervisory Board performed its duties in accordance with the requirements of the law and of the company's articles of incorporation. We were provided by the Executive Board with regular, prompt and comprehensive information and involved at an early stage in all decisions of significance to the development of the company. We monitored the work of the Executive Board on an ongoing basis throughout the year under report and assisted it in an advisory capacity.

The Executive Board informed us on a regular basis of the business situation and performance of MVV Energie AG and its principal shareholdings, the course of business in the individual segments and the development of the company's financial position. We were also provided with information about the company's risk situation and its risk management, as well as its financial, investment, personnel and strategic planning. At our meetings, the Executive Board outlined all major business transactions to us, which were then jointly discussed in detail. In addition to the presentations and documentation pertaining to the meetings, we were also provided with quarterly reports and further oral and written reports concerning events of significance and the decisions thereby required.

In the case of decisions and actions requiring our consent, the Supervisory Board inspected the draft resolutions, which in some cases were prepared by its committees, at its meetings and reached the necessary decisions. The Supervisory Board met on six occasions during the period under report. The Audit and Personnel Committees each met on three occasions during the year under report.

Main topics of discussion

At the beginning of the year under report, we adopted resolutions on the amendments to the organisational structure begun within the framework of the restructuring process in the previous year, particularly in respect of the restructuring of the environmental energy and value-added services segments at MVV Energie AG. We are very satisfied with the development and results of the focusing process and with the consistent value focus of the portfolio management. The “FOKUS” efficiency enhancement programme launched during the year under report has resulted in cutbacks for the staff. The Supervisory Board attached great importance in this respect to the reduction in personnel being undertaken in a socially responsible manner and without any redundancies.

In addition to the approval of the 2004/05 business plan and the discussion of the company's medium-term planning, one particular focus of our attention in the year under report was on the development of the underlying political framework in the electricity and gas industry and on market developments in our high-growth areas. We also discussed in great detail the decisions concerning the increase in electricity, gas and district heating prices in the context of the rise in procurement expenses. A further major topic related to the restructuring of the cash pool. In order to meet needs within the Group and to do justice to the new requirements of corporate and tax legislation, the establishment of a separate cash pooling system for MVV Energie AG independent of the MVV GmbH holding company was approved.

Further important topics related to the sale of the shares held in the Czech district heating company in Brno executed in the initial months of the 2004/05 financial year, as well as to various resolutions involving our high-growth areas of environmental energy and value-added services, including the decision to build a second incineration line in Leuna.

At the end of the year under report, we discussed the 2005/06 business plan and the company's medium-term planning in great detail. Furthermore, the full Supervisory Board once again addressed the implementation of the German Corporate Governance Code and reviewed the effectiveness of our supervisory activities. Further information about corporate governance at the MVV Energie Group can be found on Pages 12 and 13 of this Annual Report, together with our Statement of Compliance, which has also been made available to our shareholders on the company's homepage at www.mvv-investor.de.

Composition of Supervisory and Executive Boards

Dr. Karl Heidenreich, a member of the executive board of Landesbank Baden-Württemberg until his retirement on 30 April 2005, succeeded Dr. Michael Pfingsten on the Supervisory Board of MVV Energie AG as of 12 April 2005. Dr. Pfingsten, a member of the executive board of E.ON Ruhrgas AG, retired from his position on the Supervisory Board on 4 March 2005. Dr. Norbert Egger, First Deputy Mayor of the City of Mannheim, left the Board on 28 February 2005 and was succeeded by Christian Specht, Financial Mayor of the City of Mannheim, on 1 March 2005. A further new member of the Supervisory Board since 1 July 2005 is Bernd Sendzik, a commercial assistant, who has succeeded the longstanding Chairman of the Works Council of Energieversorgung Offenbach AG, Manfred Mathia, who retired from his position on the Supervisory Board on 30 June 2005. We should like to thank Dr. Egger, who accompanied the fortunes of our company as a member of the Supervisory Board for 20 years, as well as Mr. Mathia and Dr. Pfingsten, for their constructive contribution to the work of our body.

There were no changes in the composition of the Executive Board.

Approval of the annual financial statements

The auditing company Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Mannheim, audited the consolidated financial statements and group management report of the MVV Energie Group for the 2004/05 financial year pursuant to the resolution passed by the Annual General Meeting and the subsequent mandate by the Supervisory Board. The consolidated financial statements, which were compiled in accordance with International Financial Reporting Standards (IFRS), and the group management report were granted an unqualified audit opinion.

The annual financial statements of MVV Energie AG compiled in line with the German Commercial Code (HGB) and the accompanying management report for the 2004/05 financial year were also audited by Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Mannheim. These were also granted an unqualified audit opinion.

The consolidated financial statements and group management report of the MVV Energie Group, the annual financial statements and management report of MVV Energie AG, the proposal made by the Executive Board in respect of the appropriation of earnings and the audit reports of the auditor were all submitted in time for the respective meetings of the Audit Committee and the Supervisory Board.

The Audit Committee and the Supervisory Board carefully inspected and discussed these documents in the presence of the auditor. The auditor presented the principal audit findings and was available to provide further information.

We have raised no objections and concur with the findings of the audit. At its meeting on 15 December 2005, the Supervisory Board approved the consolidated financial statements and group management report of the MVV Energie Group and the annual financial statements and management report of MVV Energie AG. The annual financial statements are thus adopted. The Supervisory Board endorses the proposal made by the Executive Board in respect of the appropriation of earnings.

Dependent company report and risk managment

The Executive Board further compiled a report for the 2004/05 financial year on the company's relationships with closely related companies (dependent company report). This report demonstrates that in the legal transactions with affiliated companies outlined therein MVV Energie AG received commensurate compensation and was not disadvantaged on the basis of the circumstances pertaining upon the execution of the respective transactions. The dependent company report was audited by Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Mannheim, and granted an unqualified audit opinion. The Supervisory Board was provided with copies of the dependent company report and of the audit report compiled by the auditor. Following our own thorough review, we concur with the assessment made by the auditor and thus approve this report.

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

The Supervisory Board would like to thank the Executive Board, the management teams at the shareholdings, all employees and employee representatives for their successful work during the financial year and for their constructive and responsible cooperation, also in respect of the difficult issues tackled within the framework of the "FOKUS" efficiency enhancement programme.

Mannheim, December 2005
Supervisory Board

Gerhard Widder
Chairman

Multi-Year Overview

Income Statement (Euro million)	2000/2001[1]	2001/2002	2002/2003[2]	2003/2004[3]	**2004/2005**
Sales	1 180	1 679	1 438[4]	1 652[4]	1 958[4]
Cost of materials	763	1 178	873	1 041	1 233
Personnel expenses	169	182	215	250	295
EBITDA	289	258	359	209	288
Depreciation	151	103	102	154	132
EBITA	138	155	257	55	156
Goodwill amortisation	5	11	13	14	– 2
EBIT	133	144	244	41	158
EBT	100	100	184	– 23	90
Annual net surplus	43	57	159	– 38	51
Annual net surplus after minority interests	38	50	152	– 44	34

External Sales (Euro million)					
Electricity	538	983	680[4]	828[4]	975[4]
District heating	133	215	246	252	250
Gas	267	234	240	263	366
Water	58	67	73	86	106
Value-added services	86	87	103	117	115
Environmental energy	94	91	95	97	131
Other/consolidation	4	2	1	9	15
MVV Energie Group	1 180	1 679	1 438	1 652	**1 958**

EBIT (Euro million)					
Electricity	121	26	27	32	39
District heating	21	38	38	32	40
Gas	– 2	52	163	17	35
Water	7	10	11	12	15
Value-added services	– 7	– 9	– 8	– 63	2
Environmental energy	– 7	27	13	12	27
Other/consolidation	—	—	—	– 1	—
MVV Energie Group	133	144	244	41	**158**

Assets (Euro million)	2000/2001[1]	2001/2002	2002/2003[2]	2003/2004[3]	**2004/2005**
Electricity	528	783	581	716	788
District heating	321	522	393	601	507
Gas	283	423	379	377	354
Water	255	266	218	309	304
Value-added services	157	213	185	162	157
Environmental energy	305	308	414	438	475
Other/consolidation	175	251	178	274	314
MVV Energie Group	2 024	2 766	2 348	2 877	**2 899**

Investments (Euro million)	2000/2001[1]	2001/2002	2002/2003[2]	2003/2004[3]	**2004/2005**
Investments in tangible assets	111	168	161	166	162
Investments in financial assets	218	378	20	141	52
MVV Energie Group	329	546	181	307	**214**
of which					
Electricity	73	132	17	48	30
District heating	62	107	21	74	33
Gas	24	96	19	32	22
Water	27	62	10	32	17
Value-added services	59	80	39	17	22
Environmental energy	40	19	54	62	68
Other/consolidation	44	50	21	42	22

Balance Sheet Figures (Euro million)	2000/2001[1]	2001/2002	2002/2003[2]	2003/2004[3]	**2004/2005**
Intangible assets	110	264	248	316	317
Tangible assets	1 253	1 610	1 472	1 902	1 843
Financial assets	162	228	140	109	146
Fixed assets	1 525	2 102	1 860	2 327	2 306
Current assets	499	664	488	550	593
Share capital	130	130	130	130	130
Capital reserve	178	178	178	178	178
Retained earnings	231	236	222	197	246
Total net earnings	34	46	168	104	69
Minority interests	100	109	108	240	231
Equity	673	699	806	849	854
Income subsidies	141	181	—	—	—
Provisions	179	156	155	235	302
Liabilities	909	1 590	1 249	1 599	1 555
Deferred taxes	122	140	138	194	188
Total assets	2 024	2 766	2 348	2 877	2 899
Key Balance Sheet Figures and Ratios					
Cash flow pursuant to DFVA/SG[5] (Euro million)	137	161	150	158	195
Free cash flow[6] (Euro million)	– 17	– 68	– 61	– 18	60
Equity ratio[7] in %	33.3	25.3	34.3	29.5	29.4
Capital employed[8]	1 037	1 538	1 838	2 055	2 224
ROCE[9] in %	13.3	10.1	14.0	2.7	7.0
WACC[10] in %	—	9.3	8.8	8.0	7.5
Value spread[11] in %	—	0.8	5.2	– 5.3	– 0.5
Employees (as of 30. 9.)					
MVV Energie AG incl. MVV RHE AG	1 736	1 789	1 821	1 769	1 728
Fully consolidated shareholdings	1 738	2 044	2 122	3 492	3 114
MVV Energie AG with fully consolidated shareholdings	3 474	3 833	3 943	5 261	**4 842**
Proportionately consolidated shareholdings	—	1 251	1 711	1 632	1 550
MVV Energie Group	3 474	5 084	5 654	6 893	6 392
Non-MVV personnel at MHKW Mannheim	84	86	73	64	57
	3 558	5 170	5 727	6 957	**6 449**

Share and Dividend	2000/2001[1]	2001/2002	2002/2003[2]	2003/2004[3]	2004/2005
Closing price on 30.9. (Euro)	14.42	14.90	15.30	14.40	19.29
Annual high[12] (Euro)	21.00	16.75	15.95	17.16	19.50
Annual low[12] (Euro)	13.00	14.00	13.50	11.67	13.90
Market capitalisation on 30.9. (Euro million)	731	755	776	730	978
No. of individual shares on 30.9. (million)	50.702	50.702	50.702	50.702	50.704
Dividend per share (Euro)	0.75	0.75	0.75	0.75	0.75[13]
Total dividend (Euro million)	38.0	38.0	38.0	38.0	41.8[13,14]
Earnings per share pursuant to IAS 33 (Euro)	0.76	1.00	3.01	– 0.86	0.67[15]
Cash flow per share pursuant to DVFA/SG (Euro)	2.71	3.18	2.96	3.11	3.85[15]
Equity per share[16] (Euro)	11.31	11.64	13.76	12.02	12.28[15]
Price/earnings ratio pursuant to IAS 33	18.3	15.0	5.1	—	28.8[15]
Price/cash flow ratio	5.3	4.7	5.2	4.6	5.0[15]
Dividend yield[17] in %	5.2	5.0	4.9	5.2	3.9[13]
Volumes[18]					
Electricity (kWh million) of which	14 401	28 436	10 972	14 539	18 307
wholesale incl. secondary distributors (kWh million)	9 800	22 472	2 678[19]	5 587[19]	9 454[19]
retail (kWh million)	4 601	5 964	8 294	8 952	8 853
District heating (kWh million)	4 907	6 381	7 370	7 504	7 454
Gas (kWh million)	9 449	8 626	8 422	8 906	11 096
Water (m^3 million)	35	39	42	48	58
Waste incinerated (tonnes 000s)	522	466	481	519	619

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

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

3 including expenses for portfolio streamlining and restructuring measures

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

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

6 inflow of funds from ongoing business activities, less investments in tangible assets/intangible assets

7 equity as a proportion of total assets

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

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

10 weighted average cost of capital – calculated for the first time in 2001/02

11 value spread (ROCE less WACC)

12 variable XETRA trading

13 pending approval by the Annual General Meeting on 10 March 2006

14 entitled to dividend: 55 704 000 individual shares

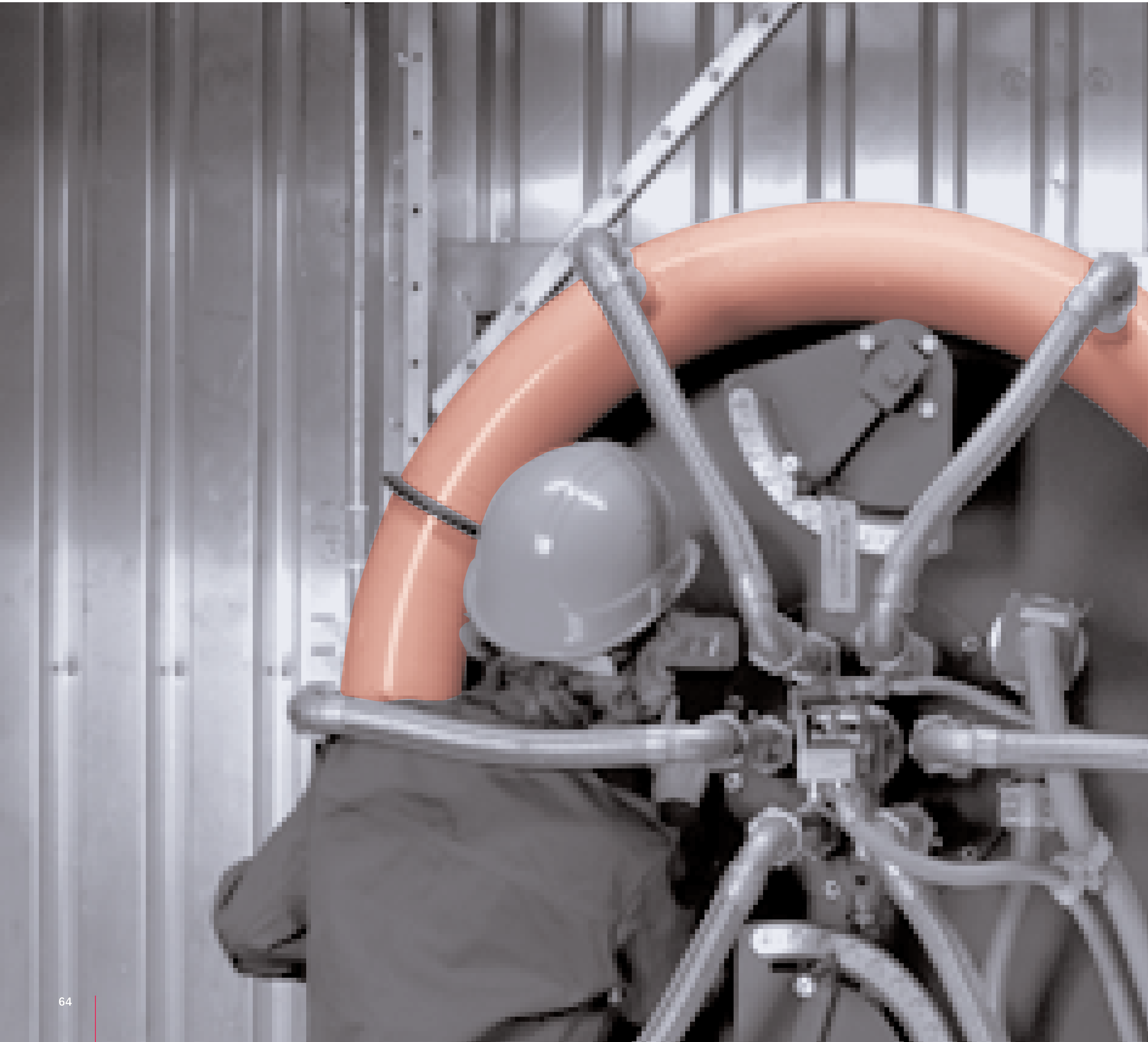
15 weighted number of individual shares 50 702 167

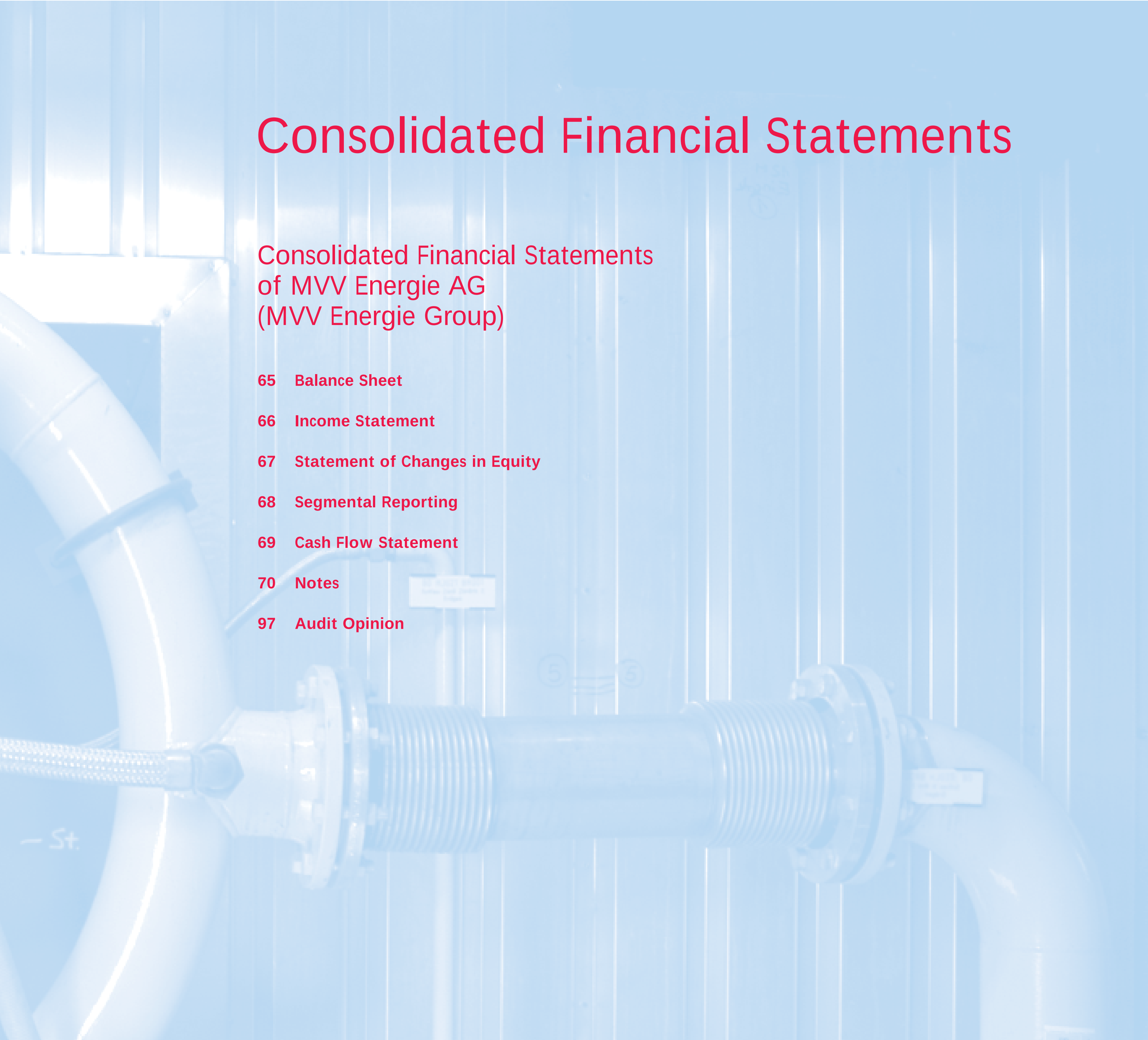
16 excluding minority interests

17 basis: closing price in XETRA trading on 30 September

18 total volume for all segments

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





Consolidated Financial Statements

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

Consolidated Financial Statements

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

Balance Sheet as of 30.9.2005

Balance Sheet of the MVV Energie Group Euro 000s	**30.9.2005**	30.9.2004	Notes
Assets			
Fixed assets			
Intangible assets	317 485	315 858	1
Tangible assets	1 843 290	1 901 916	2
Financial assets	145 600	109 159	3
	2 306 375	2 326 933	
Current assets			
Inventories	45 348	41 976	4
Accounts receivable and other assets	419 394	383 316	5
Cash and cash equivalents	127 975	125 167	6
	592 717	550 459	
	2 899 092	2 877 392	
Liabilities			
Equity			7
Share capital of MVV Energie AG	129 802	129 797	
Capital reserve of MVV Energie AG	178 293	178 270	
Retained earnings	245 693	197 571	
Total net earnings of the MVV Energie Group	68 976	104 034	
Capital of the MVV Energie Group	**622 764**	609 672	
Minority interests	230 839	239 788	
	853 603	849 460	
Provisions			8
Provisions for pensions and similar obligations	31 382	30 749	9
Tax provisions	17 109	4 147	
Other provisions	253 680	199 590	10
	302 171	234 486	
Liabilities			
Financial liabilities	1 290 688	1 379 469	11
Accounts payable	151 550	116 584	12
Advance payments for orders	9 929	4 480	
Other liabilities	103 390	98 794	13
	1 555 557	1 599 327	
Deferred taxes	**187 761**	194 119	14
	2 899 092	2 877 392	

Income Statement

from 1.10.2004 to 30.9.2005

Income Statement of the MVV Energie Group Euro 000s	**2004/2005**	2003/2004	Notes
Sales	1 957 592	1 651 487	18
Capitalised own-account services	64 540	47 460	19
Other operating income	73 095	59 698	20
Cost of materials	1 233 431	1 040 789	21
Personnel expenses	294 515	250 067	22
Other operating expenses	281 708	240 490	23
Income from shareholdings in associated companies	7 115	5 374	24
Other income from shareholdings	– 4 932	– 23 925	25
EBITDA	**287 756**	208 748	
Depreciation	132 038	153 852	26
EBITA	**155 718**	54 896	
Amortisation of goodwill	– 1 793	13 670	27
EBIT	**157 511**	41 226	
Net interest expenses	– 67 528	– 63 906	28
EBT	**89 983**	– 22 680	
Taxes on income	38 885	14 814	29
Annual net surplus (previous year: annual net deficit)	**51 098**	– 37 494	
Minority interests	17 112	6 030	
Annual net surplus after minority interests (previous year: annual net deficit after minority interests)	**33 986**	– 43 524	30
Reconciliation:			
Annual net surplus after minority interests (previous year: annual net deficit after minority interests)	**33 986**	– 43 524	
Earnings retained at MVV Energie AG from the previous year	36 398	148 331	
Transfer of at-equity income of the MVV Energie Group for the current financial year to retained earnings	– 1 408	– 773	
Total net earnings of the MVV Energie Group as reported in the balance sheet	**68 976**	104 034	

Statement of Changes in Equity

including minority interests

Statement of Changes in Equity including minority interests Euro 000s	Share capital of MVV Energie AG	Capital reserve of MVV Energie AG	Retained earnings: Statutory reserve and other retained earnings / consolidation	Retained earnings: Differential amount from currency conversion	Retained earnings: Market valuation of financial instruments	Annual net earnings of the MVV Energie Group	**Capital of the MVV Energie Group**	Minority interests	**Total**
Balance at 1.10.2003	129 797	178 270	222 486	– 1 394	1 006	167 604	**697 769**	107 997	**805 766**
Distribution of dividend	—	—	—	—	—	– 38 027	– 38 027	– 7 036	– 45 063
Annual net deficit	—	—	—	—	—	– 43 524	– 43 524	6 030	– 37 494
Change in retained earnings	—	—	– 17 981	—	—	17 981	—	—	—
Currency adjustments	—	—	—	– 1 996	—	—	– 1 996	2 177	181
Change in reporting entity	—	—	– 2 674	—	—	—	– 2 674	132 587	129 913
Adjustments not affecting earnings (IAS 39)	—	—	—	—	– 1 876	—	– 1 876	– 1 967	– 3 843
Balance at 30. 9. 2004	129 797	178 270	201 831	– 3 390	– 870	104 034	**609 672**	239 788	**849 460**
Distribution of dividend	—	—	—	—	—	– 38 027	– 38 027	– 13 624	– 51 651
Capital increase	5	23	—	—	—	—	28	—	28
Annual net surplus	—	—	—	—	—	33 986	33 986	17 112	51 098
Change in retained earnings	—	—	31 017	—	—	– 31 017	—	—	—
Currency adjustments	—	—	—	11 757	—	—	11 757	4 086	15 843
Change in reporting entity	—	—	– 1 029	—	—	—	– 1 029	– 16 349	– 17 378
Adjustments not affecting earnings (IAS 39, IFRS 3)	—	—	5 396	—	981	—	6 377	– 174	6 203
Balance at 30. 9. 2005	129 802	178 293	237 215	8 367	111	68 976	**622 764**	230 839	**853 603**

Segmental Reporting

Income Statement by Segment

Euro 000s	External Sales		Intercompany Sales		Depreciation		EBIT	
	2004/2005	2003/2004	**2004/2005**	2003/2004	**2004/2005**	2003/2004	**2004/2005**	2003/2004
Electricity	975 113	828 047	16 701	15 894	24 008	23 124	38 940	32 274
District heating	249 892	251 627	13 848	13 579	23 019	28 869	40 213	32 297
Gas	366 134	263 444	19 679	17 972	14 946	13 464	34 770	16 928
Water	106 014	85 531	407	397	10 620	10 132	14 634	11 601
Value-added services	114 732	117 361	20 325	13 528	6 305	35 053	2 277	– 62 816
Environmental energy	131 022	96 900	21 580	30 241	26 131	31 525	26 998	11 847
Other/consolidation	14 685	8 577	– 92 540	– 91 611	25 216	25 355	– 321	– 905
MVV Energie Group	**1 957 592**	1 651 487	**—**	—	**130 245**	167 522	**157 511**	41 226

Balance Sheet by Segment

Euro 000s	Investments		Assets		Liabilities	
	30. 9. 2005	30. 9. 2004	**30. 9. 2005**	30. 9. 2004	**30. 9. 2005**	30. 9. 2004
Electricity	30 061	48 191	787 566	716 009	428 333	388 043
District heating	32 936	73 919	507 292	601 124	288 817	346 706
Gas	22 527	32 098	353 680	376 838	196 835	211 220
Water	16 690	31 764	304 484	308 999	173 697	176 861
Value-added services	22 021	17 405	157 265	162 073	85 875	89 613
Environmental energy	67 985	62 049	474 767	438 064	298 382	288 543
Other/consolidation	22 245	41 576	314 038	274 285	83 618	98 341
MVV Energie Group	**214 465**	307 002	**2 899 092**	2 877 392	**1 555 557**	1 599 327

Further information about Segmental Reporting has been provided under Note 31

Cash Flow Statement

Cash Flow Statement of the MVV Energie Group Euro 000s	2004/2005	2003/2004
Annual net surplus (previous year: annual net deficit)	51 098	– 37 494
Depreciation of fixed assets	134 353	188 022
Change in long-term provisions	12 465	8 043
Other changes in income and expenses not affecting payments	– 2 751	– 773
Subtotal for cash flow in accordance with DVFA/SG	**195 165**	157 798
Change in short-term provisions	54 597	– 902
Losses incurred on disposal of tangible assets	2 816	3 731
Losses incurred on disposal of financial assets (previous year: profit)	299	– 4 874
Change in other assets	– 96 965	74 174
Change in other liabilities	66 881	– 81 985
Inflow of funds from operating activities	**222 793**	147 942
Proceeds from disposal of tangible assets	6 272	7 023
Proceeds from disposal of financial assets	90 324	5 974
Investments in tangible assets/intangible assets	– 162 308	– 165 636
Investments in acquisitions, shareholdings and loans	– 52 157	– 141 366
Outflow of funds from investment activities	**– 117 869**	– 294 005
Proceeds from subsidy payments	13 388	12 107
Proceeds from the taking up of loans	670 625	453 305
Payments for the redemption of loans	– 457 019	– 82 432
Change in financial liabilities from cash pooling	– 264 826	– 133 592
Proceeds from capital increases	28	—
Dividend payment	– 51 651	– 45 063
Outflow of funds (previous year: inflow) from financing activities	**– 89 455**	204 325
Changes in cash and cash equivalents affecting payments	15 469	58 262
Change in cash and cash equivalents due to changes in reporting entity	– 15 819	2 101
Change in cash and cash equivalents due to currency conversion	3 158	728
Cash and cash equivalents as of 1.10.2004 (2003)	125 167	64 076
Cash and cash equivalents as of 30.9.2005 (2004)	**127 975**	125 167

Further information about the Cash Flow Statement has been provided under Note 32

Notes to the Annual Financial Statements

of the MVV Energie Group for the 2004/2005 Financial Year

Principles and methods

The consolidated financial statements of the MVV Energie Group based on International Financial Reporting Standards (IFRS) have been compiled in line with the standards of the International Accounting Standards Board (IASB) applicable as of 30 September 2005.

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

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

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

No voluntary premature application has been made of IAS 1 (2004 revision), IAS 32 (2003 revision) or IAS 39 (2003 revision).The valuation of the provision for the obligation to submit emissions rights pursuant to Section 6 (1) of the Greenhouse Gas Emissions Trading Act has been based on the book values of the emissions rights held on the reporting date.

In the interests of transparency, only those electricity trading sales directly relating to the basic business of "generation and supply of electricity to secondary distributors and end customers" have been reported on a gross basis. Sales relating to the proprietary electricity trading business, by contrast, have been reported on a net basis. This means that only the gross margin resulting from the total proprietary electricity trading transactions has been reported – as sales, if positive, and as cost of materials, if negative.

Reporting entity

In addition to MVV Energie AG, 43 German and foreign subsidiaries in which MVV Energie AG directly or indirectly holds a majority of the voting rights have been fully consolidated in the annual financial statements of the MVV Energie Group for the 2004/05 financial year (previous year: 43). The relevant control concept set out in IAS 27 requires the parent company to exercise a controlling influence in the case of fully consolidated companies. Six companies have been proportionately consolidated (previous year: six). A further eleven associated companies have been valued using the equity method (previous year: ten).

The companies 24solution GmbH, Kiel, and SWKiel Erzeugung GmbH, Kiel, were fully consolidated for the first time in the past 2004/05 financial year. The companies 3T Telekommunikationsgesellschaft mbH, Offenbach, and Teplárny Brno a.s., Brno, Czech Republic, were deconsolidated on account of their disposal. There has been no change in the number of companies consolidated proportionately. ZVO Versorgungs GmbH, Timmendorfer Strand, was included for the first time using the equity method.

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

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

The companies included in the consolidated financial statements of the MVV Energie Group as of 30 September 2005 have been depicted in the following overview. The equity and annual earnings figures for the fully and proportionately consolidated companies have been taken from their respective financial statements compiled in line with IFRS as of 30 September 2005. In the case of the companies included using the equity method, the respective equity and annual earnings figures have been taken from the most recent available annual financial statements. An extensive list of holdings, which also includes the non-consolidated subsidiaries and other shareholdings which have been reported as financial assets, has been deposited in the Mannheim Commercial Register (HRB 1780).

List of Holdings of the MVV Energie Group as of 30.9.2005 **Affiliated companies** **(fully consolidated subsidiaries)**	Share of capital pursuant to Sec 16 (2 and 4) AktG %	Employees	Sales Euro 000s	Annual surplus/deficit Euro 000s	Equity Euro 000s
Germany					
MVV RHE AG, Mannheim [1]	100.00	68	386 065	39 059	100 938
ABeG Abwasserbetriebsgesellschaft mbH, Offenbach [6]	51.00	—	2 077	27	208
BFE Institut für Energie und Umwelt GmbH, Mühlhausen	100.00	76	6 936	907	1 607
Energieversorgung Offenbach AG, Offenbach [4]	48.88	793	276 588	24 317	188 988
ENERGY InnovationsPortfolio AG & Co. KGaA, Mannheim	99.64	—	—	– 14 007	22 246
eternegy GmbH, Mannheim	100.00	3	2 355	– 8 834	– 3 999
Gasversorgung Offenbach GmbH, Offenbach [6]	74.90	—	28 499	2 080	15 847
GeTeBe Gesellschaft für Technologieberatung mbH, Berlin	100.00	—	5	– 66	11 874
KSG Kommunikations-Service-Gesellschaft mbH, Offenbach [6]	100.00	94	6 001	61	194
Köthen Energie GmbH, Köthen	100.00	45	11 839	824	6 521
MAnet GmbH, Mannheim	100.00	24	6 883	1 921	5 035
MVV BioPower GmbH, Königs Wusterhausen [6]	100.00	8	10 541	– 2 273	12 558
MVV BMKW Mannheim GmbH, Mannheim [6]	89.80	—	14 089	1 437	17 847
MVV Consulting GmbH, Mannheim [6]	100.00	39	11 546	650	257
MVV Energie Industrial Solutions West GmbH, Solingen [1, 6]	100.00	14	7 264	61	1 344
MVV Energiedienstleistungen GmbH, Mannheim [1]	100.00	2	9 985	– 1 933	23 426
MVV Energiehandel GmbH, Mannheim [1]	100.00	—	—	– 6	2 230
MVV Industriekraftwerk Ludwigshafen GmbH, Mannheim	100.00	14	15 921	– 533	– 3 045
MVV O&M GmbH, Mannheim [6]	100.00	109	32 699	166	711
MVV TREA Leuna GmbH, Leuna	100.00	—	5 160	1 107	3 899
MVV Umwelt GmbH, Mannheim	100.00	27	15 912	– 290	44 810
Stadtwerke Kiel AG, Kiel [6]	51.00	1 286	331 925	7 005	254 712
SW Kiel Beteiligungsgesellschaft mbH, Mannheim [1]	100.00	—	—	11 452	131 001
SWKiel Erzeugung GmbH, Kiel [1, 5]	100.00	—	—	3	25
SWKiel Netz GmbH, Kiel [1, 6]	100.00	—	—	—	25
SWKiel Service GmbH, Kiel [1, 6]	100.00	—	—	– 2 359	25
ZEDER Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Pullach [7]	0.00	—	—	– 3 429	– 3 429
24sieben GmbH, Kiel [1, 6]	100.00	—	88 779	2 629	1 000
24solution GmbH, Kiel [1, 5]	100.00	27	4 726	1 014	54

[1] profit/loss transfer agreement, annual net income prior to transfer
[2] annual financial statements as of 31.12.2004, based on local requirements
[3] voting rights limited to 40%
[4] majority of voting rights
[5] additions in current financial year
[6] indirect shareholding
[7] special purpose entity pursuant to SIC 12
[8] Stadtwerke Ingolstadt Beteiligungen GmbH owns 100 % of the shares in each case

Continuation: Affiliated companies (fully consolidated subsidiaries)	Share of capital pursuant to Sec 16 (2 and 4) AktG %	Employees	Sales Euro 000s	Annual surplus/deficit Euro 000s	Equity Euro 000s
International					
Cogebar – Cogeração de Barcelos, Lda., Barcelos, Portugal [6]	100.00	—	—	– 4	– 3 117
Cogesac – Cogeração do Ave, Lda., Oliveira S. Mateus, Portugal [6]	95.00	—	2 889	– 24	– 1 360
CTZ s.r.o., Uherské Hradiště, Czech Republic [6]	50.96	44	2 468	209	2 632
EC Skarzysko-Kamienna Sp.z o.o., Skarzysko-Kamienna, Poland [4, 6]	46.06	104	4 482	8	5 891
Jablonecká teplárenská a realitni a.s., Jablonec, Czech Republic [6]	65.78	63	8 889	743	14 441
Mestské inzenyrské site Studénka a.s., Studénka, Czech Republic [6]	99.92	38	2 041	254	3 692
MVV Energie CZ s.r.o., Prague, Czech Republic	100.00	29	9 323	7 900	34 083
MVV Energie Portugal - Serviços de Racionalização Energética, Lda., Lisbon, Portugal	99.00	3	144	– 1 921	– 4 282
MVV enservis s.r.o., Česká Lipá, Czech Republic [6]	100.00	53	2 182	109	1 465
MVV EPS Polska S.A., Warsaw, Poland [6]	100.00	12	2 606	– 572	1 434
MVV Polska Sp.z o.o., Warsaw, Poland	100.00	31	1 262	—	46 536
Opatherm a.s., Opava, Czech Republic [6]	100.00	61	5 638	867	1 635
Termo Děčín a.s., Děčín, Czech Republic [6]	96.90	38	9 166	864	15 319
Zásobování teplem Vsetín a.s., Vsetín, Czech Republic [6]	83.65	73	10 393	917	10 028
Joint ventures (proportionate consolidation)					
Germany					
Stadtwerke Ingolstadt Beteiligungen GmbH, Ingolstadt	48.40	58	—	15 197	41 636
Stadtwerke Ingolstadt Energie GmbH, Ingolstadt [1, 6, 8]	100.00	38	144 557	7 137	1 164
Stadtwerke Ingolstadt Netze GmbH, Ingolstadt [1, 6, 8]	100.00	165	57 879	7 755	79 927
Stadtwerke Solingen GmbH, Solingen	49.90	401	189 122	11 655	104 777
International					
KPEC Komunalne Przedsiebiorstwo Energetyki Cieplnej Sp.z.o.o., Bydgoszcz, Poland [3, 6]	54.96	504	51 338	4 662	54 895
SEC Szczecin Sp. z o.o., Szczecin, Poland [6]	32.06	384	40 128	907	37 917
Associated companies (equity valuation)					
Germany					
ADG Abwasser Dietzenbach GmbH, Dietzenbach [2, 6]	49.00	—	3 028	– 4	63
Energiesysteme Nord GmbH, Kiel [2, 6]	25.00	171	15 065	405	1 748
Fernwärme Rhein-Neckar GmbH, Mannheim [1, 2, 6]	50.00	—	12 412	1 699	1 790
Gemeinschaftskraftwerk Kiel GmbH, Kiel [2, 6]	50.00	152	67 199	1 534	19 737
Grosskraftwerk Mannheim AG, Mannheim [2, 6]	28.00	607	342 422	6 647	114 142
KielNet GmbH Gesellschaft für Kommunikation, Kiel [2, 6]	50.00	60	17 856	2 666	6 619
Maintal Werke GmbH, Maintal [2, 6]	49.00	17	23 408	1 805	8 092
Stadtwerke Buchen GmbH & Co. KG, Buchen [2]	25.10	37	18 198	1 932	11 828
Zweckverband Wasserversorgung Kurpfalz (ZWK), Heidelberg [2, 3, 6]	51.00	—	3 060	—	7 071
ZVO Versorgungs GmbH, Timmendorfer Strand [2, 5, 6]	49.90	76	53 741	2 005	28 123
International					
Českolipská teplárenská a.s., Česká Lipá, Czech Republic [2, 6]	35.00	37	3 698	345	3 640

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

Balance Sheet Euro million **Assets**	**30. 9. 2005**	30. 9. 2004
Fixed assets	– 84.3	575.2
Current assets	– 19.5	89.9
	– 103.8	665.1
Liabilities		
Equity	– 11.6	122.4
Provisions	– 0.3	77.0
Liabilities	– 86.5	403.1
Deferred taxes	– 5.4	62.6
	– 103.8	665.1

Income Statement Euro million	**2004/2005**	2003/2004
Sales	– 62.1	96.1
Capitalised own-account services	– 0.1	3.5
Other operating income	– 1.5	6.4
Cost of materials	– 39.4	49.6
Personnel expenses	– 4.2	32.7
Other operating expenses	– 1.9	18.3
Income from shareholdings	0.9	1.5
EBITDA	**– 17.3**	6.9
Depreciation	– 9.2	14.6
EBITA	**– 8.1**	– 7.7
Amortisation of goodwill	0.0	– 4.4
EBIT	**– 8.1**	– 3.3
Net interest expenses	1.7	– 5.1
EBT	**– 6.4**	– 8.4
Taxes on income	– 2.9	– 5.6
Annual net deficit	**– 3.5**	– 2.8
Minority interests	– 0.9	– 2.8
Annual net deficit after minority interests	**– 2.6**	0.0

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

Balance Sheet Euro million **Assets**	**30. 9. 2005**	30. 9. 2004
Fixed assets	312.5	304.8
Current assets	42.8	39.0
	355.3	343.8
Liabilities		
Equity	16.8	1.1
Provisions	20.4	19.4
Liabilities	304.4	309.9
Deferred taxes	13.7	13.4
	355.3	343.8

Income Statement Euro million	**2004/2005**	2003/2004
Sales	202.7	187.0
Capitalised own-account services	3.4	2.8
Other operating income	5.8	6.2
Cost of materials	123.3	111.7
Personnel expenses	21.1	20.2
Other operating expenses	31.3	28.8
Income from shareholdings	0.1	0.0
EBITDA	**36.3**	35.3
Depreciation	10.5	9.8
EBITA	**25.8**	25.5
Amortisation of goodwill	0.0	8.0
EBIT	**25.8**	17.5
Net interest expenses	– 1.4	– 1.4
EBT	**24.4**	16.1
Taxes on income	8.8	9.1
Annual net surplus	**15.6**	7.0

1 Euro	Rate on reporting date		Annual average rate	
	30.9.2005	30.9.2004	**2004/2005**	2003/2004
Polish zloty (PLN)	3.918	4.380	4.103	4.626
Czech crowns (CZK)	29.553	31.660	30.242	32.139

(Source: European Central Bank)

Consolidation methods

The annual financial statements included in the consolidated financial statements have been converted to IFRS on the basis of uniform standards as of 30 September 2005 and have been certified by the auditors.

The capital consolidation for company acquisitions completed after 31 March 2004 has been undertaken pursuant to IFRS 3. This requires any resultant credit difference between the costs of acquiring a subsidiary and its re-valued prorated net assets to be stated as goodwill. Goodwill is not subject to scheduled amortisation, but rather undergoes an annual impairment test pursuant to IAS 36. In the event of the re-valued prorated net assets of the subsidiary exceeding the purchase price, then the debit difference is recorded under the goodwill amortisation item with a corresponding impact on earnings.

For company acquisitions completed prior to 31 March 2004, the capital consolidation was initially undertaken pursuant to IAS 22 on the basis of the proportional revaluation method. Any resultant credit differences were capitalised as goodwill and subject to scheduled amortisation. Debit differences were reported in the income statement in line with the change in future earnings implications depicted in the purchase price.

In the context of the transition from IAS 22 to IFRS 3, the scheduled amortisation of positive goodwill was discontinued as of 30 September 2004. Instead of scheduled amortisation, positive goodwill is subjected to an annual impairment test pursuant to IAS 36. Negative goodwill items reported as of 30 September 2004 were reclassified as retained earnings as of 1 October 2004 without any impact on earnings.

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

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

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

Currency conversion

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

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

Currency differences resulting from the conversion of the equity of the foreign companies in question or from the application of differing conversion rates for the balance sheet and the income statement have been offset against equity without any impact on earnings. The conversion of individual financial statements compiled in foreign currencies has been based on the exchange rates shown in the table above.

Accounting and valuation methods

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

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

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

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

- Certain financial instruments as defined in IAS 39 have been stated at their respective current values.
- Provisions for pensions have been valued using the projected unit credit method. In contrast to German Commercial Law, this approach also accounts for future salary and pension increases.
- Provisions for expenses (especially those for deferred maintenance) have not been stated.
- Deferred taxes have been calculated using the liability method. In the case of the market valuation of financial instruments without any impact on earnings, corresponding adjustments have been made to deferred taxes, again without any impact on earnings. Deferred tax assets have only been stated to the extent that the utilisation of tax loss carryovers is probable. Deferred tax assets have been offset against deferred tax liabilities and stated on a net basis in view of the fact that the overwhelming share of the respective claims and obligations relate to the same tax authority.
- Pursuant to IFRS 3, goodwill is no longer subject to scheduled amortisation. Instead, it is subject to annual impairment tests and to extraordinary goodwill amortisation if required as a result of such tests. Negative goodwill items are released with an impact on earnings immediately following their acquisition.

Notes on the Balance Sheet

1 Intangible assets

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

The research and development expenses of the MVV Energie Group constitute period expenses pursuant to IAS 38. The requirements for them to be capitalised were therefore not fulfilled. These expenses amounted to Euro 3577 thousand in the 2004/05 financial year (previous year: Euro 3674 thousand). Research and development expenses focus on activities aimed at achieving an ongoing improvement in working processes, product development and technological enhancements.

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

Goodwill stated as a result of business combinations undertaken prior to 31 March 2004 was amortised over a period of between 10 and 20 years up to 30 September 2004.

In order to undertake the goodwill impairment tests required by IAS 36, cash-generating units were formed on the level of the individual legal units, or on the basis of subgroups consisting of legal units in the same geographical area.

The higher of the use value or the attributable current value, less sales expenses, represents the achievable value of the cash-generating unit in question. The use values of the cash-generating units are calculated on the basis of cash flow forecasts approved by the management and supervisory bodies. The cash flow forecasts are based on experience and on previous years' results, as well as on expectations as to future market developments.

The cash flow forecasts involve a detailed budgeting period of five years. The results for subsequent financial years are extrapolated on the basis of the final year of the detailed budgeting period. Growth rates of 0.0 % to 1.0 % were applied in this respect. The growth rates correspond to the long-term average growth rates in the markets in which the companies are active. They are in agreement with external sources of information concerning expected market developments.

To determine the use value, the expected cash flows are discounted using discount rates of 6.25 % to 9.85 % after taxes. These discount rates have been calculated on the basis of observable market data.

The book value of goodwill showed the following developments:

Euro 000s	**30. 9. 2005**	30. 9. 2004
Stadtwerke Solingen	68 238	68 238
Energieversorgung Offenbach	65 066	69 458
Stadtwerke Ingolstadt	64 332	64 332
MVV Czech Republic	4 368	– 5 741
MVV Poland	4 343	2 082
Other	8 164	6 934
	214 511	205 303

The negative goodwill eliminated without any impact on earnings within the framework of the transition to IFRS 3 amounts to Euro 5 396 thousand. There has been a reduction in goodwill at Energieversorgung Offenbach on account of the deconsolidation of 3T Telekommunikationsgesellschaft mbH, Offenbach. At MVV Polska Sp. z o.o., the release of negative goodwill without any impact on earnings at the beginning of the financial year led to an increase in its book value. This resulted in an impairment requirement amounting to Euro 1 387 thousand, given that the discontinuation of negative goodwill resulted in an increase in the net assets of the cash-generating unit.

Given the changes currently thought possible in the principal assumptions underlying the determination of the achievable value, no further value adjustment is currently to be expected. Were the city of Offenbach to exercise its put option concerning its shares in Energieversorgung Offenbach AG, however, which is currently not expected, then this would result in a future impairment requirement. Reference is made to Note 16 for further details.

There were no indications of any requirement for write-backs pursuant to IAS 36.

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

Intangible assets Euro 000s	Concessions, industrial property rights and similar rights and values	Goodwill	Advance payments	**Total**
Gross value at 1.10.2004	202 258	249 902	1 933	454 093
Additions: shareholdings	2	– 3 091	—	– 3 089
Disposals: shareholdings	– 2 787	6 129	– 30	3 312
Currency adjustments	226	– 520	4	– 290
Investments	3 520	—	3 840	7 360
Disposals	– 5 432	—	—	– 5 432
Transition from IAS 22 to IFRS 3	—	8 232	—	8 232
Reclassifications	1 392	—	– 926	466
Gross value at 30.9.2005	199 179	260 652	4 821	464 652
Amortisation at 1.10.2004	93 574	44 599	2	138 175
Additions: shareholdings	—	—	—	—
Disposals: shareholdings	– 2 518	704	—	– 1 814
Currency adjustments	195	– 205	1	– 9
Amortisation	14 602	– 1 793	—	12 809
Disposals	– 5 016	—	—	– 5 016
Transition from IAS 22 to IFRS 3	—	2 836	—	2 836
Reclassifications	149	—	—	149
Amortisation at 30.9.2005	100 986	46 141	3	147 130
Subsidies at 1.10.2004	60	—	—	60
Disposals: shareholdings	– 23	—	—	– 23
Subsidies at 30.9.2005	37	—	—	37
Net values at 30.9.2005	98 156	214 511	4 818	317 485
Net values at 30.9.2004	108 624	205 303	1 931	315 858

2 Tangible assets

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

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

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

Extraordinary depreciation amounting to Euro 3199 thousand was undertaken during the year under report (previous year: Euro 24 601 thousand). Of this sum, Euro 1539 thousand related to land and buildings, Euro 1634 thousand to technical equipment and machinery and Euro 26 thousand to plant and office equipment. This depreciation was due to a reduction in expected earnings from future utilisation.

There were no indications of any requirement for write-backs pursuant to IAS 36.

Tangible assets Euro 000s	Land, leasehold rights and buildings, including buildings on third-party land	Technical equipment and machinery	Other facilities, plant and office equipment	Advance payments and construction in progress	**Total**
Gross value at 1.10.2004	665 911	3 430 550	239 470	81 874	4 417 805
Additions: shareholdings	315	163	4	19	501
Disposals: shareholdings	– 66 759	– 108 351	– 534	– 2 192	– 177 836
Currency adjustments	12 790	12 413	322	351	25 876
Investments/additions	8 845	61 217	7 261	77 625	154 948
Disposals	– 4 162	– 21 453	– 21 279	– 511	– 47 405
Reclassifications	2 551	26 201	1 167	– 33 767	– 3 848
Gross value at 30.9.2005	619 491	3 400 740	226 411	123 399	4 370 041
Depreciation at 1.10.2004	241 060	1 628 859	156 955	280	2 027 154
Additions: shareholdings	144	91	3	—	238
Disposals: shareholdings	– 34 508	– 52 710	– 323	—	– 87 541
Currency adjustments	5 205	6 205	242	14	11 666
Depreciation	14 534	88 565	13 157	—	116 256
Disposals	– 1 292	– 16 679	– 19 929	—	– 37 900
Reclassifications	– 35	8 304	– 345	– 60	7 864
Depreciation at 30.9.2005	225 108	1 662 635	149 760	234	2 037 737
Subsidies at 1.10.2004	8 203	478 489	1 401	642	488 735
Disposals: shareholdings	—	– 1 180	—	—	– 1 180
Additions	744	12 591	32	21	13 388
Disposals	– 136	– 330	– 68	—	– 534
Reclassifications	—	– 10 753	—	– 642	– 11 395
Subsidies at 30.9.2005	8 811	478 817	1 365	21	489 014
Net value at 30.9.2005	385 572	1 259 288	75 286	123 144	1 843 290
Net value at 30.9.2004	416 648	1 323 202	81 114	80 952	1 901 916

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

Waste-fired boiler No. 4, with a downstream flue-gas treatment system, which was completed in the 1996/97 financial year and subsequently sold and leased back as a financial leasing transaction, has been capitalised pursuant to IAS 17. With regard to this financial leasing, as lessee the MVV Energie Group has the option of repurchasing the facility after 8.5 years. On the basis of our current planning, we intend to exercise this purchase option. The capitalised amount resulting from the current value of the leasing instalments less accrued depreciation has been reported under technical equipment and machinery and amounted to Euro 63 568 thousand at the reporting date (previous year: Euro 68 978 thousand). The corresponding payment obligations relating to future leasing instalments have been capitalised as liabilities (please also see Note 11 in this respect).

The construction in progress item includes a non-recyclable waste incineration and energy extraction facility constructed at the Leuna location, whose costs of manufacture to date have been stated at Euro 71 094 thousand (previous year: Euro 31 096 thousand). This has been included in the consolidated financial statements of MVV Energie AG via the consolidation in full of the special purpose entity Zeder Verwaltungsgesellschaft mbH & Co. Vermietungs KG.

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

The book value of tangible assets provided as security amounts to Euro 138 613 thousand.

3 Financial assets

The shares in non-consolidated subsidiaries and other shareholdings reported under financial assets, as well as lendings, have been valued at their respective updated costs of acquisition. Any identifiable risks resulting from a decline in expected cash flows or from default risks have been accounted for in the form of write-downs.

Shares in major associated companies have been valued using the equity method, which involves the book values of the shareholdings being adjusted to account for any prorated changes in equity. Securities have been stated at their current attributable values to the extent that these can be reliably determined. In cases where this is not possible, they have been valued at their respective updated cost of acquisition, adjusted where appropriate by write-downs.

The amortisation of financial assets has been reported under Note 25 “Other income from shareholdings” and Note 28 “Net interest expenses”.

The other loans have fixed interest rates, with an average interest rate of 4.5 % (previous year: 4.1 %). (In the previous year there were also loans with floating interest rates, which bore interest at 2.3 %). The average period for which the interest rate remains fixed in the case of fixed-rate loans amounts to 11 years (previous year: 9 years).

Further details on financial instruments can be found under Note 17.

Financial assets Euro 000s	Shares in affiliated companies	Shareholdings in associated companies		Share-holdings in other companies	Loans to affiliated companies	Loans to associated companies	Loans to companies linked by virtue of a partici-patory share-holding	Other loans	Securities of fixed assets	**Total**
		Equity-valuation	Other							
Gross value at 1.10.2004	22 913	63 174	15 046	15 685	2 973	197	4 634	8 679	3 257	136 558
Additions: shareholdings	—	27 138	—	—	—	—	—	—	—	27 138
Disposals: shareholdings	—	—	– 825	– 3	—	– 1	—	—	—	– 829
Currency adjustments	—	—	—	—	2	—	—	—	—	2
Investments/additions	9 978	2 751	—	4 310	1 610	—	100	5 768	959	25 476
Disposals	– 5 162	– 1 259	– 3 960	– 23	– 78	—	—	– 1 829	—	– 12 311
Reclassifications	9	—	– 3	406	—	—	—	—	– 412	—
Balance at 30.9.2005	27 738	91 804	10 258	20 375	4 507	196	4 734	12 618	3 804	**176 034**
Amortisation at 1.10.2004	11 168	907	4 736	2 515	2 896	—	4 328	495	354	27 399
Additions: shareholdings	—	—	—	—	—	—	—	—	—	—
Disposals: shareholdings	—	—	– 825	—	—	—	—	—	—	– 825
Amortisation	187	—	2 872	3 811	60	—	—	—	803	7 733
Write-backs	– 2 445	—	—	—	—	—	—	—	– 1 145	– 3 590
Disposals	—	—	– 260	– 23	—	—	—	—	—	– 283
Reclassifications	—	—	– 1 342	1 342	—	—	—	—	—	—
Amortisation at 30.9.2005	8 910	907	5 181	7 645	2 956	—	4 328	495	12	**30 434**
Net value at 30.9.2005	18 828	90 897	5 077	12 730	1 551	196	406	12 123	3 792	**145 600**
Net value at 30.9.2004	11 745	62 267	10 310	13 170	77	197	306	8 184	2 903	109 159

4 Inventories

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

The inventories are in some cases subject to the customary retention of title by suppliers. There are no assignments or lendings. The MVV Energie Group has only a negligible volume of long-term contract work requiring application of IAS 11. The resultant inventories and revenues have been stated at the level of costs actually incurred for the respective contracts.

Inventories Euro 000s	**30. 9. 2005**	30. 9. 2004
Raw materials and supplies	19 034	18 532
Unfinished and finished products	25 651	21 709
Advance payments	663	1 735
	45 348	41 976

Accounts receivable and other assets Euro 000s	**30. 9. 2005 Total**	**of which with a remaining term of >1 year**	30. 9. 2004 Total	of which with a remaining term of >1 year
Receivables				
accounts receivable	322 769	48	251 572	102
from affiliated companies	7 278	121	10 613	96
from associated companies	4 588	—	5 592	—
from companies linked by virtue of a participatory shareholding	933	—	4 328	—
Other assets	83 826	3 925	111 211	6 413
	419 394	**4 094**	383 316	6 611

5 Receivables and other assets

Receivables from customers have been stated at updated cost of acquisition. Existing default risks have been covered by adequate write-downs as of the reporting date.

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

Other assets include prepaid expenses amounting to Euro 10 269 thousand (previous year: Euro 10 636 thousand). The decline in other assets is primarily attributable to the reclassification undertaken in the previous year of the shares held in Kraftwerke Mainz-Wiesbaden AG, which were sold as of 1 January 2005.

Further details on financial instruments can be found under Note 17.

6 Cash and cash equivalents

Cash and cash equivalents primarily consist of credit balances at banks and correspond to the financial funds calculated pursuant to IAS 7 in the cash flow statement. Joint ventures account for a total of Euro 10 872 thousand (previous year: Euro 10 110 thousand).

7 Equity

Share Capital: The share capital of MVV Energie AG amounts to a total of Euro 129 802 thousand and is divided into 50 704 000 individual bearer shares of Euro 2.56 each (previous year: 50 702 000). The year-on-year increase in the number of shares is due to the exercising of 2 000 conversion rights relating to Conditional Capital I outlined in the section below. The City of Mannheim indirectly owned 72.82 % of the share capital as of 30 September 2005 and Energie Baden-Württemberg AG owned 15.05 %. The remaining 12.13 % of the shares are in free float.

Authorised Capital: The Annual General Meeting held on 4 March 2005 authorised the Executive Board to increase the share capital within the framework of a possible capital increase by an amount of Euro 39 000 000 (Authorised Capital). This is equivalent to approx. 30 % of the company's share capital at the time of the resolution being passed.

The Annual General Meeting held on 12 March 2004 had authorised the Executive Board to increase the share capital of the company prior to 11 March 2009 and with the consent of the Supervisory Board by issuing new individual bearer shares in return for cash or non-cash payments on one or several occasions by a total amount of up to Euro 26 000 000. This authorisation was rescinded by the resolution adopted at the Annual General Meeting held on 4 March 2005.

Conditional Capital I: The extraordinary shareholders' meeting held on 27 January 1999 authorised the Executive Board of the company to introduce a management share option programme subject to the consent of the Supervisory Board. The implementation of this programme involved issuing a total of 79 500 convertible bonds by 31 December 2003 with a nominal value of Euro 2.56 each and a maximum term of five years. These convertible bonds were issued exclusively to members of the Executive Board of MVV Energie AG, to members of the management of subsidiaries of MVV Energie AG and to employees in management and key positions at MVV Energie AG and its subsidiaries. The statutory subscription rights on the part of shareholders were excluded. Each convertible bond with a nominal amount of Euro 2.56 entitles its holder to exchange such bond for an individual share in MVV Energie AG. The conversion rights may be exercised for the first time following the expiry of a three-year lockup period following the issue of the respective convertible bonds. Following the expiry of the lockup period, the conversion rights may be exercised during prescribed exercise periods within a period of two years. The conversion rights may only be exercised if the increase in the share price of MVV Energie AG has exceeded the increase in the Prime Utilities reference index in the period between the issuing of the convertible bonds and the expiry of the lockup period. The conversion price is based on the average price of the MVV Energie share in the 30 trading days prior to the expiry of the lockup period, less a price discount amounting to the percentage by which the price of the MVV Energie share has outperformed the reference index during the lockup period. In order to service the conversion rights resulting from the convertible bonds, the extraordinary shareholders' meeting held on 27 January 1999 resolved to undertake a conditional capital increase of Euro 1 022 583.76. As a result of the conversion to the Euro, the Annual General Meeting held on 22 February 2001 passed a resolution increasing this sum to Euro 1 024 000.00. Reference is made to Note 11 "Financial Liabilities" in respect of the volume of bonds issued.

Conversions were undertaken for the first time during the 2004/05 financial year. A total of 2 000 convertible bonds were converted into shares in MVV Energie AG at an exercise price of Euro 14.18 per share, which is equivalent to a premium of Euro 11.62 per share. The price of the share amounted to Euro 18.80 on the day on which the conversion rights were exercised.

Of the convertible bonds existing at the beginning of the year, the conversion rights of 61 500 such bonds were still eligible to be exercised. During the 2004/05 financial year, this right lapsed or was not exercised in the case of 42 000 convertible bonds. As a result of the conversion rights already exercised, this means that there were still 17 500 convertible bonds with potential conversion rights at the end of the 2004/05 financial year.

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

Conditional Capital III: At the Annual General Meeting held on 22 February 2001 a resolution was passed authorising the creation of additional conditional share capital in MVV Energie AG totalling Euro 2 048 000 in order to facilitate the issuing of up to 800 000 individual bearer shares. The conditional capital increase is only to be executed to the extent that the owners of option rights issued by MVV Energie AG as a result of the authorisation of the Executive Board for the period from 23 February 2001 until 31 December 2005 to issue such options within the framework of the employee share option programme for 2001/2005 exercise their resultant rights to subscribe shares. To date, no use has been made of the possibility of issuing options in the context of this programme.

Conditional Capital IV: A new management share option plan for 2003/2007 was introduced by resolution of the Annual General Meeting held on 14 March 2003. MVV Energie AG is to issue a maximum number of options for a total of up to 400 000 shares with a total nominal value of up to Euro 1 024 000. These option rights may only be issued to members of the Executive Board of MVV Energie AG, to employees in key management positions at MVV Energie AG, to members of the executive boards and managing directors of companies within the MVV Energie Group and to employees in key management positions at companies within the MVV Energie Group. Each of the aforementioned groups should receive a maximum of 25 % of the option rights. In the event of individuals entitled to receive options belonging to several of the aforementioned groups, this would not result in any multiplication of their option rights. Should there be individuals who are eligible to receive option rights on the basis of this authorisation and who are simultaneously entitled to receive options from programmes relating to the employee share option programme established or to be established for 2001/2005, then the number of their options to which they are entitled from programmes established on the basis of this authorisation will be reduced accordingly. The Executive Board of MVV Energie AG will determine the exact circle of those authorised, as well as the allocation of options in cases where eligible recipients of options belong to several of the aforementioned groups or where they are entitled to receive options on the basis of this authorisation at the same time as being eligible to receive options from programmes relating to the employee share option programme established or to be established for 2001/2005. In cases where such eligibility for options applies to members of the Executive Board of MVV Energie AG, it will be incumbent on the Supervisory Board to determine the number of options. The option rights may be issued within a period of eight weeks following the publication of the respective half-year results of MVV Energie AG and may be exercised for the first time upon conclusion of a period of two years following the granting of such rights (lockup period). The option rights may then be exercised within three exercise periods (exercise windows). These exercise periods each last four weeks following the publication of the next three half-year reports by MVV Energie AG following the expiry of the lockup period. The new shares may participate in earnings from the beginning of the financial year in which they arise as a result of option rights having been exercised. Each option right shall entitle its bearer to purchase one share in MVV Energie AG at the price corresponding to the average share price of MVV Energie AG over the previous 30 trading days prior to the issuing of the option rights, plus a premium. The calculation of the average share price of MVV Energie AG during the previous 30 trading days prior to the issuing of the option rights is to be based on the arithmetical mean of closing prices quoted for the share of MVV Energie AG in the XETRA trading system of Deutsche Börse AG (or a comparable successor system). The premium amounts to 5 % per year. It is calculated for the period from the issuing of the option rights up to the beginning of the respective exercise window. If the company should increase its share capital, sell treasury stock or issue new bonds with conversion or option rights during the term of the aforementioned option rights, and should thereby grant indirect or direct subscription rights to its shareholders, then the exercise price will be reduced under the terms of the option agreement. No such reduction will take place if the eligible individual is granted a direct or indirect subscription right to new shares, treasury stock or new bonds which place such individual in the same position as if he/she had exercised the option. Moreover, the terms governing the option agreement may provide for an adjustment of such option rights in the event of a capital increase from company funds, a capital decrease, a share split or bundling or bonuses or extraordinary cash or non-cash payouts in accordance with the customs and practices on German and international forward exchanges. During the year under report, no options were issued to any individuals eligible to subscribe.

8 Provisions

Provisions Euro 000s	Balance at 1.10.2004	Additions share-holdings	Disposals share-holdings	Currency adjust-ments	With-drawals	Releases	Additions	Interest share of additions	Reclassi-fications	**Balance at 30.9.2005**
Long-term provisions										
Pensions and similar obligations	30 749	13	—	170	1 858	78	1 568	805	13	**31 382**
Other provisions										
Early retirement payments	37 042	—	—	—	5 183	543	6 406	739	603	39 064
Personnel expenses	26 498	—	333	55	3 812	156	5 136	669	– 36	28 021
Restructuring expenses	7 779	—	—	—	399	386	768	306	—	8 068
Misc. contingencies	3 204	—	—	—	145	—	7 833	—	—	10 892
Other provisions	74 523	—	333	55	9 539	1 085	20 143	1 714	567	**86 045**
Total long-term provisions	105 272	13	333	225	11 397	1 163	21 711	2 519	580	**117 427**
Short-term provisions										
Tax provisions	4 147	196	338	26	923	113	14 114	—	—	**17 109**
Other provisions										
Personnel expenses	31 502	43	40	594	27 764	1 963	38 814	—	– 580	40 606
Services not yet invoiced	50 475	6	—	—	43 408	2 704	55 732	—	300	60 401
Misc. contingencies	43 090	7	62	22	21 768	3 932	49 571	—	– 300	66 628
Other provisions	125 067	56	102	616	92 940	8 599	144 117	—	– 580	**167 635**
Total short-term provisions	129 214	252	440	642	93 863	8 712	158 231	—	– 580	**184 744**
Total provisions	234 486	265	773	867	105 260	9 875	179 942	2 519	—	**302 171**

9 Provisions for pensions and similar obligations

The retirement plan for the employees of the MVV Energie Group has largely been arranged in line with the collective wage and salary agreements specific to the respective companies. This has resulted in indirect obligations to provide pensions to employees which have been covered almost exclusively by municipal supplementary insurance companies (ZVK). Moreover, there are direct obligations to provide pensions based on arrangements made in conjunction with earlier collective wage and salary agreements, as well as with individual commitments. These provisions for pensions have been calculated pursuant to IAS 19 using the projected unit credit method. This involves valuing future obligations using actuarial procedures on the basis of estimates of the respective parameters. The survey as of 30 September 2005 has been based on an assumed development of approx. 2 % for salaries and pensions. Application was made of a discount rate of 4.25 % (previous year: 5.5 %), as well as of the 2005 Calculation Guidelines. The recording of actuarial profits and losses resulting from changes in the assumptions on which the calculations are based has been undertaken using the corridor method set out in IAS 19 No. 92. These pension obligations are fully covered by provisions.

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

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

On account of the redistribution of the benefits provided by the ZVK among its member companies and of the lack of adequate information about the age structures, personnel turnover and salaries of the employees thereby covered, information is not available on the proportion of future financial obligations (economic obligation) accruing to the MVV Energie Group. In view of this, it is not permitted to take any provisions pursuant to IFRS and the obligations involved have to be treated as a defined contribution plan pursuant to IAS 19 No. 30a. Current payments to the ZVK thus represent expenses incurred within the respective financial year. These expenses amounted to Euro 13 234 thousand in the past financial year (previous year: Euro 10 833 thousand). The financial obligations of the ZVK as determined within the framework of an approximate calculation pursuant to IFRS for current and former employees of the MVV Energie Group are Euro 297 million (previous year: Euro 268 million) above the proportion accruing to the MVV Energie Group from the policy reserve of the ZVK (employment law obligation). The increase compared with the previous year is primarily attributable to the reduction in the discount rate to 4.25 %.

The total expenses incurred for retirement benefit plans during the year under report amounted to Euro 16 124 thousand (previous year: Euro 14 362 thousand).

10 Other provisions

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

Other provisions include provisions relating to the socially responsible reduction in personnel totals within the framework of the efficiency enhancement programme. These primarily involve actual obligations towards employees arising on account of the rescindment agreements thereby offered.

Moreover, other provisions also include provisions for litigation risks. These involve several individual risks for which the level of the claim is uncertain. The valuation has been based on the result of such litigation, which thereby provides the highest probability of occurrence based on the information currently available.

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

11 Financial liabilities

Financial liabilities Euro 000s	**30. 9. 2005** **Total**	**of which with a remaining term of >1 year**	30. 9. 2004 Total	of which with a remaining term of >1 year
Liabilities				
to banks	1 101 548	846 071	976 931	725 284
relating to financial leasing	62 186	284	69 289	62 297
to affiliated companies	58 336	57 219	264 840	—
to associated companies	28 043	—	7 974	—
relating to bonds	88	44	193	193
Other financial liabilities	40 487	13 492	60 242	27 797
	1 290 688	**917 110**	1 379 469	815 571

Financial liabilities have basically been stated at their updated cost of acquisition using the effective interest rate method. The costs of acquisition for a financial liability are equivalent to the value of the outlay received upon the liability first being recorded. In subsequent periods, the amount stated is adjusted to account for interest payments and principal repayments. Liabilities relating to financial leasing have been stated at the current value of the future leasing payments.

Since 1 March 2005, MVV Energie AG has managed the liquidity for seven further companies in the MVV Energie Group within the framework of a cash-pooling agreement. Prior to this date, this function was performed by MVV GmbH. The average interest rate on liabilities to affiliated companies amounted to 5.4 % during the year under report (previous year: 5.1 %).

The fixed-rate liabilities to banks amounting to Euro 744 million (previous year: Euro 760 million) have an average interest rate of 4.9 % (previous year: 4.8 %). The floating-rate liabilities to banks amounting to Euro 358 million (previous year: Euro 217 million) have an average interest rate of 2.6 % (previous year: 2.5 %). In the case of the fixed-rate liabilities, the average remaining period of the fixed rate is seven years (previous year: seven years).

The liabilities relating to bonds exclusively involve convertible bonds relating to the Conditional Capital I outlined under Note 7 “Equity”. These relate to 34 500 convertible bonds (previous year: 75 500) with a nominal value of Euro 2.56 each. Of this total, 17 500 still have potential conversion rights. The decline compared with the previous year is due to the repayment of 39 000 convertible bonds and the conversion of 2 000 convertible bonds into shares in MVV Energie AG. Reference is made to Note 7 “Equity” for further details.

The liabilities relating to financial leasing primarily involve a transaction undertaken by MVV GmbH, in which waste-fired boiler No. 4 with a flue-gas treatment system was sold to a leasing fund and then leased back (please also see Note 2 “Tangible assets”). The outstanding leasing payments are due for payment within one year and have a cash value of Euro 61 679 thousand.

Further details on financial instruments can be found under Note 17.

12 Accounts payable

Accounts payable Euro 000s	**30. 9. 2005 Total**	**of which with a remaining term of >1 year**	30. 9. 2004 Total	of which with a remaining term of >1 year
To suppliers	134 595	86	99 586	1 203
To affiliated companies	4 305	—	1 979	—
To associated companies	12 630	—	8 406	—
To companies linked by virtue of a participatory shareholding	20	—	6 613	—
	151 550	**86**	116 584	1 203

Accounts payable have been stated at their respective updated costs of acquisition.

Further details on financial instruments can be found under Note 17.

13 Other liabilities

Other liabilities Euro 000s	**30. 9. 2005 Total**	**of which with a remaining term of >1 year**	30. 9. 2004 Total	of which with a remaining term of >1 year
To third parties	103 301	25 875	98 640	28 137
To associated companies	13	—	—	—
To companies linked by virtue of a participatory shareholding	76	—	154	—
	103 390	**25 875**	98 794	28 137

Other liabilities have been stated at their respective updated costs of acquisition. The liabilities to third parties include deferred income of Euro 33 261 thousand (previous year: Euro 31 924 thousand). The principal item in this respect is the payment of a fee amounting to Euro 22 402 thousand (previous year: Euro 25 117 thousand) for the incineration of waste in conjunction with the take-over of a waste-to-energy plant by Energieversorgung Offenbach AG.

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

14 Deferred taxes

Provisions for deferred taxes are calculated in accordance with the requirements of IAS 12. Deferred taxes are mainly taken on account of temporal differences arising from the valuation of assets and liabilities for tax purposes on the one hand and for external accounting pursuant to IFRS on the other. Moreover, deferred taxes assets have also been stated for tax reduction claims resulting from the expected utilisation in subsequent years of existing losses carried forward. Such claims are capitalised if the realisation of these losses carried forward can be assumed with sufficient certainty on the basis of existing business plans. The calculation of deferred taxes in Germany has been based on a tax rate of 39 %. This results from the corporate income tax rate of 25 %, the solidarity surcharge of 5.5 % and the average trade tax charge. Furthermore, deferred taxes have also been stated for consolidation processes with an impact on earnings.

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

The deferred taxes reported for 2004/05 relate to the following items:

Deferred taxes Euro 000s	**Assets**	**Liabilities**
Intangible assets	5 941	– 23 884
Tangible assets	608	– 213 841
Financial assets	—	– 1 695
Inventories	2 397	—
Accounts receivable and other assets	1 009	– 5 166
Provisions for pensions	1 836	—
Other long-term provisions	15 694	—
Other short-term provisions	1 728	– 1 087
Liabilities	32 699	– 9 816
Losses carried forward and tax credits	9 117	—
Consolidation	—	– 2 921
Deferred taxes (gross)	**71 029**	**– 258 410**
Value adjustment	– 380	—
Netting	– 70 649	70 649
Deferred taxes (net)	**—**	**– 187 761**

In addition to the aforementioned deferred tax claims relating to losses carried forward and tax credits, the company also has tax claims relating to losses carried forward amounting to Euro 99 million which could not be stated. Of these, Euro 11 million may only be used up to 2010.

No deferred tax liabilities have been reported for temporary differences of Euro 744 thousand between the value of shareholdings in subsidiaries and associated companies in the tax balance sheet and those in the consolidated financial statements in view of the fact that the companies are unlikely to be sold in the foreseeable future.

Deferred tax assets amounting to Euro 264 thousand were taken during the 2004/05 financial year without any impact on earnings. Moreover, as a result of deconsolidation processes, deferred tax liabilities reduced by Euro 5.5 million during the 2004/05 financial year.

15 Contingent liabilities

The company has contingent liabilities amounting to Euro 54.6 million (previous year: Euro 56.3 million). These relate to guarantees and letters of comfort.

16 Other financial obligations

Investments in tangible and intangible assets amounting to Euro 157 million have been budgeted at the MVV Energie Group for the 2005/06 financial year (previous year: Euro 173 million).

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

17 Financial instruments

Primary financial instruments: shareholdings, lendings, securities, other cash receivables and cash and cash equivalents are reported as financial assets on the asset side of the balance sheet. Financial assets in the "financial assets available for disposal" category have basically been valued at their current attributable values. Any changes in current attributable values have been accounted for in the company's equity without any impact on earnings pursuant to IAS 39 No. 103b (2000 revision). In cases where the current attributable value cannot be reliably estimated, the valuation has been based on updated costs of acquisition.

The valuation of financial assets in the "loans and claims granted by the company" and "financial investments held to final maturity" categories has been based on updated costs of acquisition, with application of the effective interest rate method where appropriate.

The updated costs of acquisition of a financial asset are equivalent to the current attributable value of the counterperformance provided, adjusted to account for any value impairments, interest payments and principal repayments. Write-downs are undertaken to account for any identifiable risks, particularly those resulting from expected payment defaults or from a reduction in expected cash flows. The write-downs are directly recorded in the results for the respective period.

Financial liabilities, accounts payable and other liabilities are reported as financial liabilities on the liability side of the balance sheet. Financial liabilities have largely been valued at their updated costs of acquisition, with application of the effective interest rate method where appropriate. In the case of financial liabilities, the costs of acquisition are equivalent to the net proceeds. In the case of accounts payable and other liabilities, the costs of acquisition are equivalent to the current attributable value of the counterperformance received.

Derivative financial instruments: derivative financial instruments and financial instruments held for trading purposes have been valued at their current attributable values. Any changes in current attributable values have basically been directly recorded in the results for the respective period. In the event of the requirements for the accounting treatment of hedging transactions pursuant to IAS 39 No. 142 (2000 revision) being fulfilled, then any changes in current attributable values have been recorded directly under equity pursuant to IAS 39 No. 158a (2000 revision).

Derivative financial instruments include derivative interest rate contracts and derivative commodity contracts for electricity. The commodity derivatives are largely fulfilled by physical performance.

Financial risk management: the MVV Energie Group is exposed to market price and credit risks within the framework of its business activities. Market price risks result in particular from fluctuations in market prices on the energy markets, as well as from changes in interest rates and exchange rates. Exchange rate risk is of subordinate significance to the MVV Energie Group. The MVV Energie Group pursues the objective of covering itself against market price and credit risks by means of its systematic risk management activities. These involve setting discretionary frameworks, responsibilities, separating functions and checks based on internal guidelines.

In order to reduce credit risks, the creditworthiness of contractual partners for financial and energy trading transactions is systematically inspected upon the conclusion of such contracts and subsequently monitored, with limits also being set for such transactions. The default risk relating to energy trading transactions is reduced by means of appropriate framework agreements with the respective trading partners.

Derivative financial instruments are used to cover against market price risks. Interest swaps are concluded to cover interest rate risk. Derivative commodity contracts are used in the field of energy trading. These primarily serve to cover against market price risks. The use of derivative commodity contracts for the purposes of proprietary energy trading is only permitted within narrow limits and is restricted and monitored by separate organisational units.

To date, only those derivative commodity contracts relating to proprietary energy trading have been depicted as financial instruments pursuant to IAS 39. Starting in the 2005/06 financial year, the application of IAS 39 (2003 revision) will also require the statement of pending transactions aimed at securing market prices in the field of energy trading to be recorded in some cases as financial instruments, while the underlying transactions thereby hedged (sales contracts) are generally not affected by IAS 39 (2003 revision). This will lead to greater earnings volatility.

The following table depicts the nominal volumes and current values of the derivatives used:

Derivatives pursuant to IAS 39 Euro 000s	Nominal volumes		Current values	
	30. 9. 2005	30. 9. 2004	**30. 9. 2005**	30. 9. 2004
Derivative interest rate contracts	110 226	44 224	1 109	2 367
Derivative commodity contracts	301 347	142 203	45	– 205
	411 573	186 427	**1 154**	2 162

Notes on the Income Statement

18 Sales

Sales are stated upon the relevant risks and rewards being transferred to customers or upon the respective service having been provided. This does not apply to commission sales resulting from the application of the percentage of completion method pursuant to IAS 11.

A depiction of sales broken down into their respective segments has been provided in the segmental reporting section. The sales for the electricity segment include electricity tax amounting to Euro 92.4 million, which was charged on to customers (previous year: Euro 83.8 million).

19 Capitalised own-account services

Capitalised own-account services are primarily attributable to construction and expansion measures relating to distribution networks and power plants. Of the capitalised own-account services, Euro 39.6 million relate to the non-recyclable waste incineration and energy extraction facility constructed in Leuna (previous year: Euro 31.1 million).

20 Other operating income

Other operating income Euro 000s	**2004 / 2005**	2003 / 2004
Income		
from the release of provisions	9 875	7 183
from credit notes	9 411	3 721
from agency agreements and personnel supplies	8 882	8 155
from the release of emissions rights	7 250	—
from IT services	6 357	7 786
from contractual penalties and the collection of outstanding receivables	5 048	1 778
from benefits to employees	1 807	1 010
from foreign currency effects	1 107	—
Reimbursements from damages claims	1 925	2 388
Rental income	1 892	1 859
Profit on the disposal of assets	1 173	6 448
Other	18 368	19 370
	73 095	59 698

21 Cost of materials

Cost of materials Euro 000s	**2004/2005**	2003/2004
Raw materials and supplies and purchased goods	1 060 501	885 444
Purchased services	172 930	155 345
	1 233 431	1 040 789

The rise in the cost of materials compared with the previous year is primarily attributable to the first full-year inclusion of the Stadtwerke Kiel subgroup.

The cost of materials includes write-downs on raw materials and supplies amounting to Euro 166 thousand. Write-backs of raw materials and supplies amounting to Euro 71 thousand have been recorded as a reduction in the cost of materials.

22 Personnel expenses

Personnel expenses Euro 000s	**2004/2005**	2003/2004
Wages and salaries	234 955	196 072
Social security expenses and welfare expenses	43 436	39 633
Pension expenses	16 124	14 362
	294 515	250 067

The MVV Energie Group had a total of 6 392 employees at the reporting date on 30 September 2005 (previous year: 6 893). This total includes 306 trainees (previous year: 314). The increase in personnel expenses is attributable to the companies consolidated for the full year for the first time. The decline in the number of employees is principally due to the sale of the shareholding in Teplárny Brno a.s.

23 Other operating expenses

Other operating expenses Euro 000s	**2004/2005**	2003/2004
Energy tax	93 698	83 722
Concession fees	58 092	46 812
Contributions, fees and charges	17 445	15 300
Additions to write-downs	17 064	10 347
Legal, consulting and surveyor expenses	14 979	18 811
Rental and leasing expenses	14 059	13 868
Maintenance and repair expenses	11 326	9 754
Personnel and welfare expenses	8 582	8 178
Public relations expenses	7 867	7 536
Losses incurred on the sale of assets	5 159	5 305
Other	33 437	20 857
	281 708	240 490

The increase compared with previous year is primarily attributable to the first full-year inclusion of the Stadtwerke Kiel subgroup.

The additions to write-downs and other expenses include expenses for litigation risks and pending losses on uncompleted transactions.

Reference is made to Note 10 “Other provisions” for further details.

24 Income from shareholdings in associated companies

The rise in income from shareholdings in associated companies is principally due to income received for the first time from the shareholdings of Stadtwerke Kiel AG valued at equity.

25 Other income from shareholdings

Other income from shareholdings Euro 000s	2004/2005	2003/2004
Income from shareholdings	1 908	2 019
Expenses resulting from the transfer of losses	– 291	– 516
Depreciation of shareholdings	– 7 673	– 17 207
Write-backs to shareholdings	2 445	—
Amortisation of current asset securities	– 1 867	—
Profit/loss on the sale of shareholdings	546	– 8 221
	– 4 932	– 23 925

The depreciation of shareholdings is primarily attributable to the write-downs undertaken on shareholdings at ENERGY InnovationsPortfolio AG & Co. KGaA.

26 Depreciation

Depreciation Euro 000s	2004/2005	2003/2004
Depreciation		
of fixed assets	130 858	148 247
of inventories (unfinished and finished products)	1 180	5 605
	132 038	153 852

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

The decline compared with the previous year is principally due to the extraordinary depreciation undertaken in the previous year.

27 Amortisation of goodwill

The amortisation of goodwill includes expenses of Euro 1387 thousand relating to the write-down of goodwill at the MVV Polska Sp. z o.o. subgroup. The increase of shareholdings by the MVV Energie CZ s.r.o. subgroup gave rise to debit differences between the purchase price and the re-valued prorated net assets, which pursuant to IFRS 3 are to be recorded immediately in the income statement. This resulted in an opposing item amounting to Euro 3 180 thousand.

28 Net interest expenses

Net interest expenses Euro 000s	2004/2005	2003/2004
Income from loans	1 507	331
Other interest and similar income	3 070	2 674
Depreciation of fixed-asset loans and securities	– 60	– 677
Depreciation of current-asset loans	– 45	– 12
Interest and similar expenses	– 72 000	– 66 222
	– 67 528	– 63 906

29 Taxes on income

Taxes on income Euro 000s	2004/2005	2003/2004
Tax expenses	41 287	22 720
Deferred taxes	– 2 402	– 7 906
	38 885	14 814

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

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

Transition to income tax rate Euro 000s	**2004 / 2005**	2003 / 2004
Earnings before taxes (EBT)	**89 983**	– 22 680
Expected tax expenses based on a tax rate of 39 %	**35 359**	– 8 741
Deviations resulting from the trade tax calculation base	3 252	3 504
Change in write-downs for losses and losses for which no deferred taxes are stated	3 350	7 606
Tax-exempt earnings	– 1 829	– 491
Expenses not deductible for tax purposes	1 917	6 723
Earnings of companies valued at equity	– 2 760	– 286
Goodwill amortisation not deductible for tax purposes	– 641	5 202
Deviations from the expected tax rate	– 9	—
Change in the tax rate	—	– 1 009
Taxes for previous years	– 1 511	2 693
Other	1 757	– 387
Effective tax expenses	**38 885**	14 814
Effective tax rate as %	**43.2**	– 65.3

30 Annual net surplus – earnings per share

Annual net surplus – earnings per share	**2004 / 2005**	2003 / 2004
Annual net surplus (previous year: annual net deficit) after minority interests (Euro 000s)	33 986	– 43 524
No. of shares (weighted annual average in 000s)	50 702	50 702
Earnings per share pursuant to IAS 33 (Euro)	0.67	– 0.86
Earnings per share of MVV Energie AG based on German Commercial Code (Euro)	1.06	– 1.46
Dividend per share (Euro)	0.75	0.75

The dividend for the year under report is based on the proposal made by the Executive Board and is subject to approval by the Annual General Meeting on 10 March 2006. The appropriation of earnings proposed for the 2003/04 financial year was approved by the Annual General Meeting held on 4 March 2005.

The calculation of diluted earnings per share has to account for 17500 option rights. In view of the low number involved, however, these do not result in any change in earnings per share in Euro.

31 Segmental reporting

The segmentation of the MVV Energie Group is based on internal reporting procedures and contains all the elements required by IAS 14 (1997 revision). The segments have not been broken down on a geographic basis in view of the fact that the MVV Energie Group has not exceeded the limits set out in IAS 14.69 in terms of its volume of sales, assets and investments in foreign countries.

Transfer prices for group-internal sales have been determined on the basis of customary market conditions.

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

The waste-to-energy and renewable energies segments were combined during the year under report to form the environmental energy segment.

32 Cash flow statement

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

The cash flow based on DVFA/SG rose from Euro 157.8 million in the previous year to 195.2 million. At Euro 222.8 million, the inflow of funds from operating activities was 51 % higher than the equivalent figure for the previous year.

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

- Interest income of Euro 2.9 million (previous year: Euro 2.9 million) and interest expenses of Euro 56.0 million (previous year: Euro 55.6 million)
- Paid income taxes of Euro 39.4 million (previous year: Euro 33.6 million) and refunded income taxes of Euro 23.0 million (previous year: Euro 3.2 million)
- After deducting the non-cash part from the equity consolidation, the new income from shareholdings amounted to Euro 6.3 million (previous year: Euro 6.6 million).

The outflow of funds for investment activities during the year under report was affected by the investments made in the construction and expansion of supply networks and power plant facilities, as well as those made in shareholdings.

The outflow of funds for financing activities was attributable to the repayment of loans and the dividend payments made.

The cash flow statement for the previous year was marked by the purchase of shares in Stadtwerke Kiel AG. This resulted in an outflow of funds from investment activities, which led in turn to an inflow of funds from financing activities.

Relationships to related companies, individuals and entities

The City of Mannheim is the sole shareholder of MVV GmbH. MVV GmbH owns 100 % of the shares in MVV Verkehr AG, which in turn has a 72.82 % shareholding in MVV Energie AG. The City of Mannheim is therefore to be considered as a related party pursuant to IAS 24. A concession agreement exists between the City of Mannheim and MVV Energie AG, by which the City of Mannheim has assigned responsibility to MVV Energie AG for supplying Mannheim with electricity, district heating, gas and water. This agreement runs until 31 December 2014. The payment to the City of Mannheim on account of the concession agreement amounted to Euro 20 371 thousand in the year under report (previous year: Euro 20 055 thousand).

There are minor ongoing financial relations between the City of Mannheim and MVV Energie AG. The legal relationships pertaining between MVV GmbH, MVV Verkehr AG and the companies of the MVV Energie Group are defined in several contracts (agency agreements, loan agreements, VAT allocation).

MVV Energie AG has compiled a dependent company report pursuant to Section 312 of the German Stock Corporation Act (AktG) for the financial year ending on 30 September 2005.

The members of the Executive Board of MVV Energie AG simultaneously act as executive board members of the group companies MVV Verkehr AG, MVV OEG AG, MVV RHE AG and as managing directors of MVV GmbH. Their remuneration is paid in full by MVV Energie AG. The group companies reimburse MVV Energie AG with the following shares of the fixed remuneration (excluding the supplementary allowance for the CEO): MVV GmbH: 3 %, MVV Verkehr AG: 12 %, MVV OEG AG: 9 %, MVV RHE AG: 10 %.

Bonuses are granted for their activities on behalf of MVV Energie AG, MVV Verkehr AG and MVV OEG AG. MVV Verkehr AG and MVV OEG AG reimburse MVV Energie AG for their share of such bonuses.

No remuneration components of a long-term incentive nature were granted during the year under report.

The Executive Board was paid total remuneration amounting to Euro 1654 thousand during the year under report. This was structured as follows:

Remuneration Euro 000s	Fixed [1]	Variable	
Dr. Rudolf Schulten	301	193	494
Dr. Werner Dub	189	193	382
Hans-Jürgen Farrenkopf	190	193	383
Karl-Heinz Trautmann	202	193	395
	882	772	**1 654**

[1] including allowances for pension insurance, health insurance, nursing care insurance and non-cash benefits as well as the allowance of Euro 110 thousand for the CEO (Dr. Schulten)

Of the variable remuneration for all members of the Executive Board, Euro 26 thousand relates to MVV Verkehr AG and Euro 13 thousand to MVV OEG AG. These sums were paid by MVV Energie AG, but reimbursed by the respective companies.

During the year under report, one member of the Executive Board held conversion rights in connection with convertible bonds for 8 500 shares with a nominal value of Euro 21 760 as of 30 September 2005. Conversion rights for 7 000 shares with a nominal value of Euro 17 920 were held by heads of division at the same reporting date, given that two heads of division exercised their conversion rights for 2 000 shares with a nominal value of Euro 5120 on 31 August 2005. This conversion was undertaken at a conversion price of Euro 14.18, while the definitive share price on the day of such conversion amounted to Euro 18.80.

Benefits amounting to Euro 195 thousand were paid to former members of the Executive Board during the year under report. Provisions totalling Euro 3 011 thousand have been taken to cover pension obligations towards former members of the Executive Board.

According to IAS 24, individuals in key management positions are also to be considered as related parties. In addition to the Executive Board, such related parties within the MVV Energie Group also include the heads of division at MVV Energie AG. These individuals are remunerated exclusively by MVV Energie AG. In the year under report, their remuneration amounted to Euro 2325 thousand.

During the year under report, the members of the Supervisory Board each received annual remuneration amounting to Euro 10 thousand, with the Chairman receiving double that amount and the deputy chairman one and a half times that figure. Furthermore, an attendance fee of Euro 300 per session was paid per member per meeting. The overall remuneration amounted to Euro 265 thousand.

In addition, three members of the Supervisory Board of MVV Energie AG were granted loans totalling Euro 22 thousand. The interest on the loans amounts to 4.9 %.

The members of the Supervisory Board collectively own a total of 3113 shares and 1500 convertible bonds with potential option rights to shares in MVV Energie AG, which may be exercised upon certain requirements having been fulfilled.

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

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

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

Information on concessions

In addition to the concession agreement concluded between the City of Mannheim and MVV Energie AG (please see relationships to related companies, individuals and entities), concession agreements have also been concluded between companies of the MVV Energie Group and local and regional authorities. The remaining terms of these agreements range from 1 to 20 years. In these agreements, responsibility has been assigned for operating the respective supply networks and providing for their maintenance. Should these agreements not be extended upon their expiry, the facilities for supplying the respective utility service must be taken over by the municipalities upon payment of commensurate compensation.

Events subsequent to the reporting date

On 4 October 2005, the Supervisory Board of the company consented to the execution of a capital increase of 5 million ordinary shares to the exclusion of subscription rights within the framework of an accelerated bookbuilding procedure. The Executive Board acted on this authorisation on 15 November 2005. The issuing of 5 million new shares resulted in the share capital increasing by 9.86 % from Euro 129 802 thousand to Euro 142 602 thousand. The new shares were acquired by German and European institutional investors at an issue price of Euro 18.00. As a result, the free float increased from 12.13 % to 18.68 %. The indirect share held by the City of Mannheim now amounts to 66.28 %, with the remaining shareholding of 15.04 % being held by Energieversorgung Baden-Württemberg AG. The new shares are of the same class as the existing shares and therefore enjoy full dividend entitlement.

Mannheim, 15 November 2005

MVV Energie AG
Executive Board

Dr. Schulten   Dr. Dub   Farrenkopf   Trautmann

Audit Opinion

Audit Opinion

We have audited the consolidated financial statements compiled by MVV Energie AG, Mannheim, consisting of the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, the segment report and the notes to the consolidated financial statements, as well as the group management report, for the financial year from 1 October 2004 to 30 September 2005. The preparation and the content of the consolidated financial statements and the group management report are the responsibility of the company's executive board. Our responsibility involves expressing an opinion on the basis of our audit as to whether the consolidated financial statements are in compliance with International Financial Reporting Standards (IFRS).

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

In our opinion, the consolidated financial statements compiled by MVV Energie AG, Mannheim, for the financial year from 1 October 2004 to 30 September 2005 provide a true and fair view of the net asset, financial position, results of operations and cash flows of the Group for the financial year in accordance with IFRS.

Our audit, which also extended to the group management report compiled by the executive board for the financial year from 1 October 2004 to 30 September 2005, has not led to any objections. In our opinion, the group management report in conjunction with the other disclosures made in the consolidated financial statements provides a suitable portrayal of the position of the Group and adequately depicts the risks of its future development. We further confirm that the consolidated financial statements and group management report for the financial year from 1 October 2004 to 30 September 2005 satisfy the conditions required for the exemption of the company from its duty to compile consolidated financial statements and a group management report in accordance with German law.

Mannheim, 18 November 2005

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Greiner	Krämer
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial Calendar

24. 1. 2006	Annual financial statements press conference and analysts' conference
14. 2. 2006	Interim report 1st quarter 2005/2006
10. 3. 2006	Annual General Meeting
13. 3. 2006	Payment of dividend
15. 5. 2006	Interim report 2nd quarter 2005/2006
15. 5. 2006	Press conference and analysts' conference 2nd quarter 2005/2006
14. 8. 2006	Interim report 3rd quarter 2005/2006
14.11. 2006	Publication of preliminary results for the 2005/2006 financial year

Imprint

Editorial responsibility	MVV Energie AG Group Statistics and Reporting D-68142 Mannheim Wilfried Schwannecke Tel: ++49 (0) 621 290-23 92 Fax: ++49 (0) 621 290-30 75 w.schwannecke@mvv.de
Concept, editing and project coordination	Bettina von Rebenstock Tel: ++49 (0) 621 290-36 14 Fax: ++49 (0) 621 290-30 75 b.rebenstock@mvv.de
Translation	Daniel Clark & Associates Business Communication Services, Berlin
Concept and design, creative direction, consulting and project management	Anja Helm 745 Agentur für Gestaltung, Düsseldorf
Photography	Hans Jörg Michel, Mannheim (Pages 5, 9) Manfred Rinderspacher, Mannheim (Page 57) Peter Stumpf, Düsseldorf (Network-Photos)

Contact

MVV Energie AG
Investor Relations
Luisenring 49
D-68159 Mannheim

Tel: ++49 (0) 621 290-37 08
Fax: ++49 (0) 621 290-30 75
www.mvv-investor.de
ir@mvv.de

Contact Annual Report

Frank Nagel
Tel: ++49 (0) 621 290-26 92
Fax: ++49 (0) 621 290-30 75
f.nagel@mvv.de

Contact Investor Relations

Alexander Mitsch
Tel: ++49 (0) 621 290-37 08
Fax: ++49 (0) 621 290-30 75
a.mitsch@mvv.de

Internet

Both the German and the English editions of this Annual Report can be accessed as interactive online reports and may also be downloaded as pdf files.

www.mvv-investor.de

Published by:

MVV Energie AG
Luisenring 49
D-68159 Mannheim

Postal address
D-68142 Mannheim

www.mvv-energie.de
energie@mvv.de