Strong in Our Network:
Value-Driven Growth

MVV Energie Annual Report

05/06

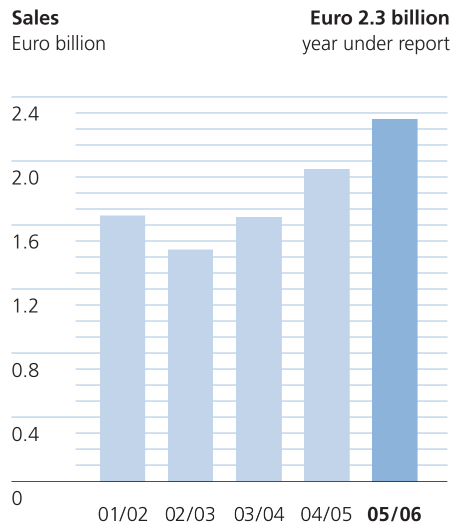
MVV Energie

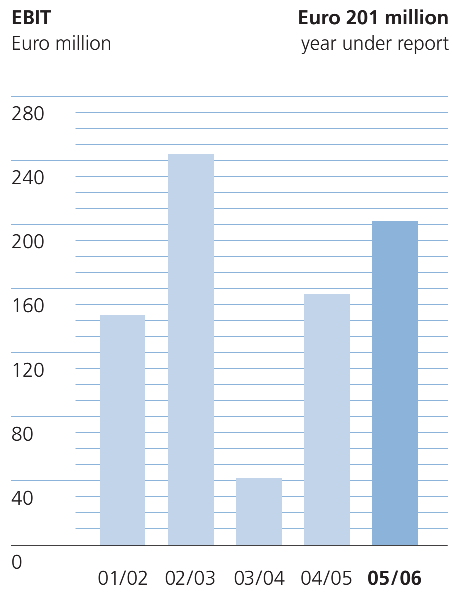
to the Key Figures ▶

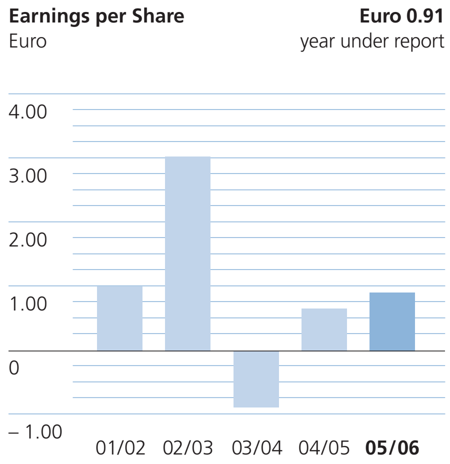
Company Profile

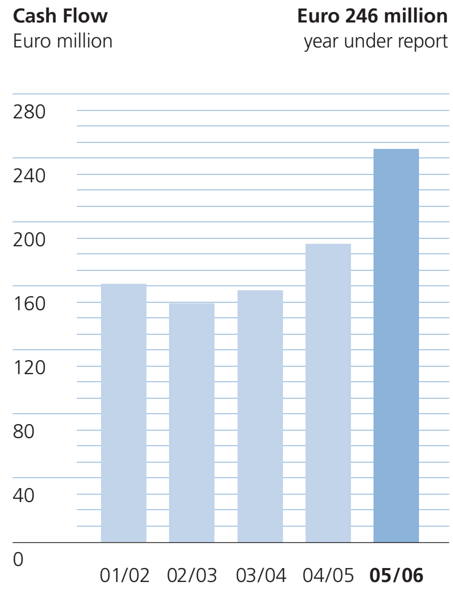
With an annual turnover of Euro 2.3 billion and around 6 300 employees, the MVV Energie Group is the largest publicly listed municipal utility network in Germany. Our business model is based on the horizontal networking and integration of multidivisional municipal utility companies. A value-driven approach to company management enables us to increase the earnings power of our shareholdings – and thus the overall value of the Group. Our strategy is focused on our solid core business.

As a distributor of electricity, district heating, gas and water, we have a high level of technical expertise and maintain traditionally close links to our customers. On the basis of this core business, we develop innovative products and customised solutions. We have promoted the development of our high-growth businesses of environmental energy, energy-related services and the nationwide sale of electricity, which now make an important contribution to the performance of our business. The success of the efficiency enhancement measures introduced across the Group means that we prepared for the forthcoming challenges facing the energy market at an early stage, thus enabling us to exploit the opportunities presented by the ongoing transformation of the market.


Sales
Euro billion
Euro 2.3 billion
year under report
2.4
2.0
1.6
1.2
0.8
0.4
0
01/02
02/03
03/04
04/05
05/06


EBIT
Euro million
Euro 201 million
year under report
280
240
200
160
120
80
40
0
01/02
02/03
03/04
04/05
05/06


Earnings per Share
Euro
Euro 0.91
year under report
4.00
3.00
2.00
1.00
0
– 1.00
01/02
02/03
03/04
04/05
05/06


Cash Flow
Euro million
Euro 246 million
year under report
280
240
200
160
120
80
40
0
01/02
02/03
03/04
04/05
05/06

Key Figures

MVV Energie Group[1] Euro million	**2005/2006**	2004/2005 adjusted[2]	2004/2005	% change adjusted[2]	% change
Sales	2 276	1 958	1 958	+ 16	+ 16
EBITDA	370	287	288	+ 29	+ 28
EBITA	223	156	156	+ 43	+ 43
EBIT	201	158	158	+ 27	+ 27
EBT	128	80	90	+ 60	+ 42
Annual net surplus	64	41	51	+ 56	+ 25
Annual net surplus after minority interests	50	28	34	+ 79	+ 47
Earnings[3] per share[4] in Euro	0.91	0.55	0.67	+ 65	+ 36
Cash flow pursuant to DVFA/SG	246	188	195	+ 31	+ 26
Cash flow per share[4] in Euro pursuant to DVFA/SG	4.47	3.71	3.85	+ 20	+ 16
Free cash flow[5]	– 52	53	60	—	—
Dividend per share[6] in Euro	0.80	0.75	0.75	+ 7	+ 7
Total assets (as of 30. 9.)	3 153	2 918	2 899	+ 8	+ 9
Equity (as of 30. 9.)	837	737	854	+ 14	– 2
Equity ratio[7]	26.5%	25.3%	29.4%	+ 5	– 10
Capital employed[8]	2 293	2 263	2 224	+ 1	+ 3
ROCE[9]	9.7 %	6.9 %	6.9 %	+ 41	+ 41
WACC[10]	7.5 %	7.5 %	7.5 %	—	—
Value spread[11]	2.2 %	– 0.6%	– 0.5 %	—	—
Investments[12]	219	214	214	+ 2	+ 2
Number of employees[13]	6 338	6 449	6 449	– 2	– 2

[1] in accordance with International Financial Reporting Standards (IFRS)
[2] previous year's figures adjusted by initial statement of put option at Stadtwerke Kiel AG
[3] in accordance with IAS 33
[4] increase in number of shares (weighted annual average) from 50.7 million to 55.8 million as a result of capital increases
[5] cash flow from operating activities less investments in intangible assets, property, plant and equipment and investment property
[6] dividend for the year under report subject to approval by the Annual General Meeting on 9 March 2007
[7] equity as a proportion of total assets
[8] equity plus financial debt plus provisions for pensions and similar obligations plus cumulative goodwill amortisation (calculation based on annual average)
[9] return on capital employed (EBITA as a proportion of capital employed)
[10] weighted average cost of capital
[11] value spread (ROCE less WACC)
[12] investments in intangible assets, property, plant and equipment, investment property, as well as payments for the acquisition of fully and proportionately consolidated companies and other financial assets
[13] including external personnel at Mannheim waste-to-energy plant of MVV Energie AG

Strong in Our Network: Value-Driven Growth

Our network strategy and the consistent implementation of our efficiency enhancement measures enabled us to make a success of the 2005/06 financial year. Our group of companies has consistently focused on achieving value-driven growth.

Success is a priority for our company – after all we are answerable to our stakeholders. This is why the photographs in our 2005/06 Annual Report show some representatives of these various interest groups – people with a stake in the successful performance of our strong network.

MVV Energie AG
2005/2006 Annual Report

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The City of Offenbach has been reliably supplied by Energieversorgung Offenbach AG (EVO) with electricity, gas, water and district heating for many years now. As part of the successful municipal utility network of the MVV Energie Group, EVO is in fine economic shape. After all, a strong EVO is absolutely in our interests and those of our inhabitants.

Horst Schneider,
Lord High Mayor of Offenbach

To Our Shareholders

1

To Our Shareholders

1

Letter from the CEO

Dear Shareholders and Friends of MVV Energie AG,

Dr. Rudolf Schulten,
CEO of MVV Energie AG

The MVV Energie Group succeeded in maintaining its course of profitable and sustainable growth in the 2005/06 financial year. The positive performance of the Group is reflected in the very pleasing rate of growth in all of our key earnings figures. This has been achieved in spite of a difficult climate in the energy industry and a high level of one-off charges relating in particular to impairment tests. We can report pleasing results – the measures we have taken to realign our strategy and to enhance our efficiency have borne fruit. We have sharpened the focus of our group of companies, strengthened it in financial terms and enhanced its profitability, thus meeting our target of generating a level of return suitable to the capital market for the first time once again in the 2005/06 financial year.

The strategic progress and improvement in operating earnings figures achieved by our group of companies has also been honoured by the capital market. This is reflected in the performance of the share of MVV Energie AG. At Euro 23.23, our share price as of 30 September 2006 was 20% higher than the closing price in the previous year. We intend to enable our shareholders to participate in this success. The Executive and Supervisory Boards will propose an increase in the dividend for the 2005/06 financial year to Euro 0.80 per share for approval by the Annual General Meeting of MVV Energie AG. A dividend of Euro 0.75 cents per share was distributed last year for the 2004/05 financial year.

This Annual Report informs you about the course of a difficult, but nevertheless highly successful year. By raising our forecasts in January 2006, we set ourselves ambitious targets for 2005/06. We aimed to achieve sales of Euro 2.25 billion and operating earnings before interest and tax (EBIT) of Euro 195 million in the year under report. We surpassed these targets – the sales of the MVV Energie Group rose to Euro 2.28 billion and operating earnings (EBIT) to Euro 201 million. These are our best earnings figures since our stock market flotation in 1999, with the exception of the 2002/03 financial year, which included a high level of one-off income resulting from the sale of shares in Gasversorgung Süddeutschland GmbH (GVS). Compared with the previous year, our sales improved by 16% and our operating earnings (EBIT) even grew by 27%. After deducting interest, tax and minority interests, our annual net surplus of Euro 50 million was 79% higher than the equivalent annual surplus of Euro 28 million reported in the previous year.

Successful course maintained

Operations at our companies were not yet affected during the 2005/06 financial year by the entry into force of any grid fee approvals. In view of the cost decisions due to be received from the regulatory authorities, however, we were obliged to undertake a high volume of write-downs as a result of impairment tests. We achieved our ambitious earnings forecasts in spite of these one-off charges, thus demonstrating that our group of companies is now in good shape.

The main reasons for our pleasing earnings performance in 2005/06 are to be found in the dynamic development of our high-growth environmental energy segment and the success of our cost-saving measures. Moreover, the colder weather conditions during the 2005/06 heating period led to volume growth in our district heating and gas businesses. Our electricity and gas prices had no notable impact on our earnings growth. As announced at the beginning of 2006, the MVV Energie AG parent company refrained from raising its private customer rates any further before the end of the 2005/06 financial year in spite of the further increase in procurement costs. The electricity price increases submitted by our shareholdings in Offenbach and Solingen were declined or reduced by the authorities.

Growth drivers: environmental energy and energy-related services

The performance of the environmental energy segment exceeded our own targets. Segment earnings rose by Euro 41 million to Euro 68 million. This sharp growth in earnings is chiefly due to initial sales at the new non-recyclable waste incineration plant in Leuna and to increased waste deliveries following the entry into force of the Technical Guidelines for the Disposal of Municipal Solid Waste (TASi) on 1 June 2005. Moreover, sales were also positively affected by improved capacity utilisation rates at our plants and the increase in commercial waste prices since the introduction of the TASi guidelines. Municipal waste disposal prices, including those in the Rhine/Neckar metropolitan region, remained constant.

Our assessment of developments in the waste disposal market has proven to be correct and has enabled us to achieve a superb position in this market, with the timely introduction of new structures and expanded waste incineration capacities. Our second waste incineration plant in Leuna will take up operations in the autumn of 2007. In view of the great demand for incineration capacities in the waste market, we expect prices for the incineration of industrial and commercial waste to remain high in subsequent years as well. Given that we only invest in new disposal capacities in cases where their utilisation is secured by long-term contracts, we can expect to see pleasing levels of capacity utilisation in the coming years as well.

We also made considerable progress in our second high-growth segment, energy-related services, during the year under report and laid important foundations for growth. In line with the resolution adopted by the 2006 Annual General Meeting, the energy-related services division was spun off to MVV Energiedienstleistungen GmbH, a wholly-owned subsidiary of MVV Energie AG, with effect from 1 October 2005. Starting in the 2006/07 financial year, our group of companies will provide all utility and infrastructure services required by the industrial park in Gersthofen near Augsburg. From mid-2008, following the construction of an industrial power plant, we will also supply the production location of Continental AG in Korbach with process steam and electricity. One further milestone was the takeover of IVB Immobilien Versorgung GmbH Berlin and the successful establishment of the joint venture e:duo GmbH together with the German subsidiary of ista International GmbH, the world's leading heating cost invoicing company. Our energy-related services and contracting business has therefore succeeded in gaining a foot-hold in the real estate and housing market.

Efficiency enhancements across the Group

A further major focus during the 2005/06 financial year involved achieving sustainable improvements in our earnings power by means of efficiency enhancements and measures to optimise processes and reduce costs in the administration and technical facility management divisions at our Mannheim location. The professionalisation and expansion of our procurement network, coupled with process improvements and the exploitation of further synergies in cooperation with our municipal utility shareholdings, also enabled us to achieve considerable cost savings in the past financial year. The current cost-saving programmes are also being consistently implemented at our other locations. The programmes already implemented and those newly initiated will take full effect in terms of personnel costs in the coming years.

We will maintain our efforts and continue to focus on enhancing the competitiveness of our group of companies in the 2006/07 financial year. Our ability to maintain our economic success in spite of increasingly intense price competition is dependent on our achieving efficiency enhancements and cost savings in all of our core business processes.

It is also for this purpose that we are pooling internal services which were previously organised separately at the MVV Energie AG parent company and the shareholdings. The establishment of a total of five intra-group shared service companies, which largely began operations at the beginning of the new 2006/07 financial year, will enable us to further raise the effectiveness of our group of companies.

In addition to its organic growth, the MVV Energie Group is also pursuing a clear strategy of external growth. By acquiring further shareholdings in municipal utility companies and in companies operating in the environmental energy and energy-related services segments, we aim to strengthen our position in the market and to exploit opportunities for achieving profitable growth in future as well. We believe that unbundling, regulation and possible additional legal requirements will profoundly change the existing structures in the German energy industry, thus significantly increasing the need for mergers and cooperation between companies. This is particularly true for a large number of municipal utility companies, which will be on the lookout for a strong partner in view of the downturn in earnings in their electricity and gas distribution businesses resulting from grid regulation. In the long term, municipal utility companies will only be able to benefit from economies of scale and achieve cost savings by cooperating with each other. We intend to actively exploit the consolidation expected in the municipal utility market. The value-driven management of municipal utility companies on a basis of partnership has become one of our core competencies. In view of current antitrust restrictions on the four largest energy groups in Germany and our proven track record of successful cooperation, we see good prospects for welcoming further municipal utility companies into our network in the coming years.

Capital increase planned

We intend to obtain the capital required for our company’s external growth by means of the capital increase planned for the first half of 2007. The 2005 Annual General Meeting authorised us to increase our capital by up to 30%. Following the capital increase of just under 10% on 15 November 2005, we still have authorised capital of 18.2% at our disposal, which we intend to furnish with subscription rights. The Supervisory Board of MVV Energie AG has commissioned the Executive Board to undertake all necessary preparations for this capital increase.

We also see potential for further international growth. We are very satisfied with the performance of our subsidiaries in the Czech Republic. We are currently examining some interesting investment opportunities, especially in the field of district heating, both in this country and in neighbouring Slovakia. The Polish energy market, by contrast, is undergoing a period of stagnation as a result of the political framework having become more difficult.

Strong foundations for the future

All of the companies in the MVV Energie Group achieved a very great deal during the 2005/06 financial year. The implementation of the savings measures has required a large number of individuals to accept changes and in some cases cutbacks. Throughout this process we have fulfilled our social obligations and have accorded absolute priority to implementing all of the measures involved in a socially responsible manner. The Executive Board of MVV Energie AG would like to extend its heartfelt thanks to all managers, employees and employee representatives at the companies within our Group for their sense of responsibility, their commitment and their willingness to accept change.

We also offer our thanks to our shareholders for the trust they placed in us in the past 2005/06 financial year. We believe that our group of companies is very well positioned to face the difficult new phase of regulated competition and are convinced that we have laid good foundations for the MVV Energie Group to achieve further profitable growth. With this in mind, we would be very pleased if you were to continue to place your trust in us in the current financial year as well.

With kind regards.
Yours faithfully,

Dr. Rudolf Schulten
CEO

The Executive Board of MVV Energie AG

Dr. Werner Dub Dr. Rudolf Schulten Hans-Jürgen Farrenkopf

Major Events in the Financial Year

October 2005

Commencement of operations at the waste-to energy plant in Leuna following a construction period of only 20 months. The ground-breaking ceremony is held at the same time for a second, identical plant due to commence operations in the summer of 2007.

The World Bank awards MVV Consulting GmbH the largest single contract awarded by the bank to a German consulting company in recent years. The consulting assignment for the Afghan Ministry of Energy and Water has a subsidised volume of US$ 11 million and is scheduled to be completed by the end of 2008.

By founding Stadtwerke Solingen Netz GmbH, our Stadtwerke Solingen GmbH shareholding implements the unbundling requirements set out in the amended German Energy Act (EnWG) in good time.

November 2005

The previously announced capital increase is successfully executed on 15 November 2006. The issue of 5 million new shares leads the share capital of MVV Energie AG to increase by a nominal amount of Euro 12.8 million to Euro 142.6 million.

December 2005

The Annual Report of the MVV Energie Group for the 2004/05 financial year is published on the internet on 30 December 2005 and thus within fewer than three months of the end of the year under report.

January 2006

MVV Energie AG launches its "Optimisation of Operating Processes" project at its technical facility management division. The new competitive structure is set to be implemented as of 1 January 2007. The aim is to become the leading technical service provider for the supply of energy and water in the region.

February 2006

With the publication of its interim report for the 1st quarter of 2005/06, the MVV Energie Group affirms the increase in its sales and earnings forecast for the 2005/06 financial year announced at the end of January 2006.

March 2006

The supervisory bodies of Continental AG and MVV Energie AG agree a major contracting project. The operating company MVV Industriekraftwerk Korbach GmbH & Co. KG is to build an industrial power plant based on alternative fuels at the production location operated by the world's fourth-largest tyre producer in Korbach. This plant is due to supply the location, which has 3 000 employees, with process steam and electricity from mid-2008 onwards (investment volume: around Euro 30 million). The necessary agreements between Continental AG and the operating company were signed on 4 October 2006.

MVV Energiedienstleistungen GmbH acquires IVB Immobilien Versorgung GmbH Berlin, one of the most important providers of district heating services in Berlin, thus marking its successful entry into the housing sector contracting business.

April 2006

MVV Energie AG uses the rapid decline in CO_2 certificate prices at the end of April/beginning of May 2006 as an opportunity for a major sales success. In just under two weeks it succeeds in procuring more than 2.5 billion kWh of electricity for industrial and business customers at favourable conditions. This electricity will be supplied in 2007 and 2008.

New computer programmes enabling status and forward-looking simulation calculations to be undertaken are integrated into the central control room of MVV Energie AG. This enables the company to improve the operations management of its 500 kilometres of district heating grid. Mannheim's district heating supply is among the largest in Germany and Europe.

May 2006

The spin-off of the energy-related services division to MVV Energiedienstleistungen GmbH approved by the 2006 Annual General Meeting of MVV Energie AG is entered in the Commercial Register on 25 May 2006.

MVV Energiedienstleistungen GmbH and the German subsidiary of the world's leading company for consumption-based energy and water invoicing, ista International GmbH, agree to cooperate in the rapidly growing housing sector services market.

MVV Consulting GmbH is awarded a major consulting order in Rumania involving the modernisation and expansion of the drinking water supply and wastewater disposal. The order has a volume of Euro 3 million.

June 2006

The Supervisory Boards of MVV Energie AG and Energieversorgung Offenbach AG (EVO) approve the establishment of a joint grid company as of 1 October 2006. This new company, which operates a total grid length of some 11 000 kilometres, will have around 120 employees from MVV Energie AG and EVO.

Work begins on the construction of the third gas cavern at Stadtwerke Kiel. The drilling stage of this Euro 29 million investment project was completed before the end of the year under report.

MVV Energie AG converts its shares from bearer shares into registered shares on 20 June 2006.

July 2006

Launch of large-scale image campaign by MVV Energie AG in Mannheim and the Rhine/Neckar metropolitan region.

MVV Energie AG acquires a 10 % shareholding in Stadtwerke Schwetzingen GmbH & Co. KG.

Köthen Energie GmbH builds a direct and storage pipeline to the grid of the ONTRAS – VNG Gastransport GmbH grid company. It is thus directly connected to the integrated European grid.

August 2006

MVV Energiedienstleistungen GmbH signs the purchase agreement for the acquisition of 100 % of the shares in Industriepark Gersthofen Servicegesellschaft mbH & Co. KG (IGS). Located in Gersthofen near Augsburg, IGS provides all utility supply and infrastructure services to the companies in the business park, in most cases chemicals companies.

September 2006

All management and supervisory bodies of the MVV Energie Group approve the establishment of five jointly owned subsidiaries (shared service companies) as of 1 October 2006. This provides the cooperation within the Group in the areas of grids, invoicing, information technology, metering and energy trading with an entirely new foundation.

The Share of MVV Energie AG

Positive share performance maintained

The share of MVV Energie AG performed positively in the past financial year in spite of an occasionally difficult market climate, thus maintaining the upward trend seen since summer 2004. The closing price rose from Euro 19.29 as of 30 September 2005 to Euro 23.23 as of 30 September 2006, equivalent to an increase of 20 %. Accounting for the dividend payment of Euro 0.75 per share, the performance of the share even amounted to 25 %. Our comparative indices, the SDAX and Prime Utilities, rose by 15 % and 33 % respectively over the same period. One reason for the relative weakness in the performance of our share price compared with the Prime Utilities Index could be the capital increase, which by its nature had a temporary negative impact on our share price. The share price fell to Euro 17.50 directly following the capital increase on 15 November 2005. The raising of our sales and earnings forecast, however, led to a steep upward trend which began in January 2006 already. Accompanied by rising trading volumes, our share price reached an interim high of Euro 23.00 in XETRA trading shortly before the Annual General Meeting in March 2006. The payment of the dividend led to the usual slight dip in the share price, which nevertheless began to rise significantly once again in April 2006 already. In the course of the sharp correction seen across the stock markets, our share price also fell, albeit with a low level of trading volumes, but recovered once again from June 2006, receiving further support from the positive figures for the first nine months of 2005/06. Overall, we see the increase in the share price as reflecting the positive performance of the company. During the 2005/06 financial year, the highest closing price was recorded at Euro 24.50 on 11 May 2006 and the lowest closing price at Euro 17.46 on 13 December 2005.

Successful execution of capital increase

We increased the share capital, as previously announced, by 10 % on 15 November 2006. Within the framework of the capital authorised by the 2005 Annual General Meeting, a total of 5 million shares were placed at a price of Euro 18.00 per share with institutional investors in Germany and abroad by means of an accelerated book building procedure undertaken to the exclusion of shareholders' subscription rights. We opted for the customary accelerated book building procedure in view of the fact that this process is inexpensive and enables issuers to react flexibly to specific circumstances on the capital market. The inflow of funds to the company amounted Euro 90 million.

Significant increase in free float

As a result of the capital increase, the free float of MVV Energie AG rose from 12.2 % to 18.8 % and was valued at Euro 242 million at the end of the 2005/06 financial year. We have also witnessed an increase in the distribution of the MVV Energie share in other countries. It has been possible to acquire US-based funds as shareholders for the first time to any significant extent. There has also been an increase in the number of our shareholders in the UK and Austria.

The City of Mannheim still owned 66.2 % of the shares in MVV Energie AG at 30 September 2006, with EnBW also continuing to hold a 15 % shareholding. By its own account, EnBW considers this shareholding as a financial investment and does not aim to assume any supervisory board mandate. Moreover, EnBW has stated to the Federal Cartel Office that it has no intention of increasing its shareholding in MVV Energie AG.

Following approval by the 2006 Annual General Meeting, in the past 2005/06 financial year we established a programme to enable our workforce to participate in MVV Energie AG via employee shares. A total of 63 290 shares with an overall value of Euro 1.1 million were subscribed. The share capital of MVV Energie AG rose accordingly by around Euro 162 thousand, with the shares being entered in the Commercial Register on 28 September 2006. The employee shares are subject to a lockup period running until 31 December 2008.

Further increase in trading volumes

Our stock market trading volumes virtually doubled once again in the 2005/06 financial year to reach Euro 152 million. This increase was mainly due to the execution of the capital increase. Rising trading volumes enhance the tradability of a share and thus make it more attractive, especially to institutional investors. Around three quarters of our stock market turnover is now undertaken on the XETRA trading system.

Key Figures per Share	2005/2006	2004/2005 adjusted [1]	2004/2005
Earnings pursuant to IAS 33 (Euro)	0.91	0.55	0.67
Price/earnings ratio (IAS 33)	25.5	35.1	28.8
Dividend (Euro)	0.80 [2]	0.75	0.75
Dividend yield [3] (%)	3.4 [2]	3.9	3.9
Equity [4] (Euro)	13.29	12.46	12.28

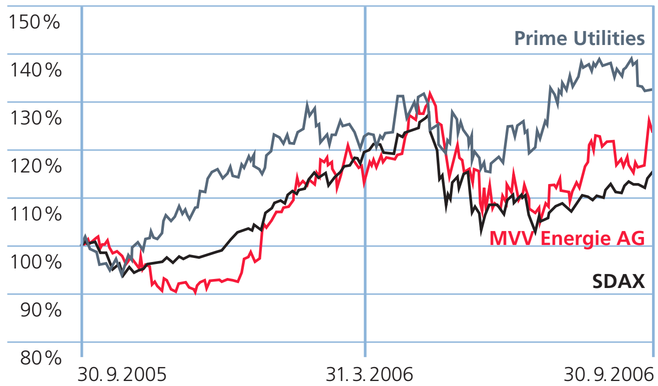
[1] previous year's figures adjusted due to initial recognition of put option at Stadtwerke Kiel AG

[2] pending approval by the Annual General Meeting on 9 March 2007

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

[4] excluding minority interests

Share of MVV Energie AG (ISIN DE000A0H52F5)
Performance Comparison



Improved ranking in market capitalisation index

In the joint index statistics compiled for the 100 companies listed in the MDAX and SDAX indices at the end of the financial year, the share of MVV Energie AG occupied 83rd position in terms of its free float market capitalisation (previous year: 94th). This improvement is chiefly due to the increased level of free float following the capital increase. As in the previous year, the share occupied 93rd position in terms of stock market trading volumes.

Higher dividend planned

As previously announced, the Executive and Supervisory Boards will propose to the 2007 Annual General meeting that the dividend be increased from the amount of Euro 0.75 paid in the previous year to Euro 0.80 in view of the improved earnings for the 2005/06 financial year and in spite of the increase in the number of shares. This is equivalent to a dividend yield of 3.4 % for our shareholders in terms of the share price in XETRA trading on the reporting date on 30 September 2006. We aim to pay our shareholders an attractive dividend based on our earnings performance in future as well.

Active and successful investor relations activities

We succeeded in further raising the level of interest shown in our company by the capital market in the past financial year. This is also reflected in the number of national and international research institutes publishing reports about our company, which has now risen to twelve, an exceptionally high figure for an SDAX company. Moreover, we presented MVV Energie AG to a large number of institutional investors, as well as private shareholders, at several investors' conferences and at numerous one-to-one meetings. We commented on the latest earnings performance of our company in telephone and analysts' conferences. One particular focus during the 2005/06 financial year was on road shows and talks with institutional investors in Germany and abroad. We visited investors in New York, Dublin and the Netherlands for the first time. Our homepage at *www.mvv-investor.de* provides all interested parties with up-to-date information about our share.

At the "Investor Relations Prize 2006", an award organised by the magazine "Capital" and supported by the Society of Investment Professionals in Germany (DVFA), we further improved our position to 9th out of the 50 SDAX companies, thus being ranked among the top ten for the first time.

Outlook

We plan to draw on existing authorised capital to undertake a capital increase of 18.2 % with subscription rights in the first half of 2007. In line with our strategy, the funds thereby received by the company are to be invested in particular in shareholdings in municipal utility companies and in our high-growth business fields of environmental energy and energy-related services.

I appreciate the fact that my employer also takes account of the wishes and needs of its employees. This is reflected in new projects and measures, such as the working life account, the childcare facilities supported by the company, the company pension scheme and the employee shares, from which both MVV Energie AG and its employees stand to benefit.

Tina Kumpf,
Employee at MVV Energiedienstleistungen GmbH

Our Responsibilities

2

Our Responsibilities

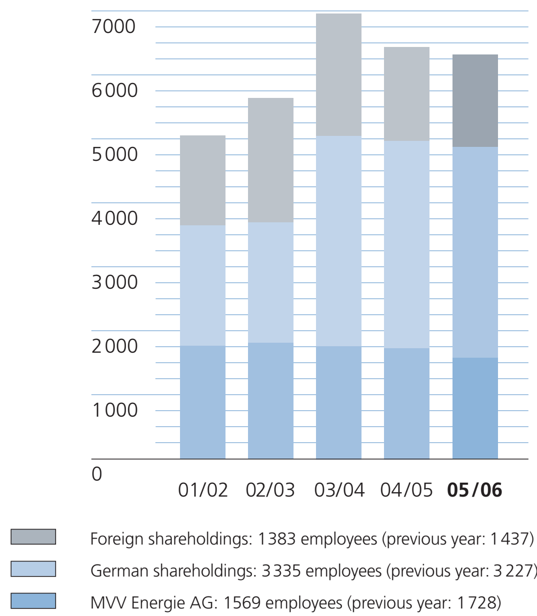
2

Personnel Totals at the Reporting Date	**2005/2006**	2004/2005	change
MVV Energie AG [1]	1 569	1 728	– 159
Fully consolidated shareholdings	3 156	3 114	+ 42
MVV Energie AG plus fully consolidated shareholdings	**4 725**	4 842	– 117
Proportionately consolidated shareholdings	1 562	1 550	+ 12
MVV Energie Group [2]	**6 287**	6 392	– 105
External personnel at MHKW Mannheim	51	57	– 6
	6 338	6 449	– 111

[1] including 59 employees of MVV RHE AG (previous year: 68)

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

Employees of the MVV Energie Group
as of 30. 9.



Employees

The 2005/06 financial year was characterised by the implementation of the strategic measures required to increase our competitiveness. Our managers, employees and works councils demonstrated a high degree of willingness to change and flexibility in this respect. Our cost reduction and efficiency enhancement programmes have been accompanied by modern personnel measures, thus underlining our objective of remaining an attractive employer in future as well.

Implementation of cost-saving measures

The FOKUS efficiency enhancement programme launched at MVV Energie AG in the previous year will lead to 245 jobs being cut in administrative divisions in Mannheim by 30 September 2008. By 30 September 2006, 145 of these positions had been cut in a socially responsible manner. Our shareholding in Kiel is also in the process of implementing reorganisation and cost-saving projects involving personnel-related measures.

In the run-up to the establishment of the five shared service companies as of 1 October 2006 (please also see Page 21), we clarified a whole series of personnel-related issues, enabling our employees from various companies to be pooled with different collective wage and salary agreements. A reconciliation of interests was reached with representatives of the companies thereby affected and the Group Works Council in September 2006, thus providing an important foundation for the development of workable and competitive structures at the shared service companies. A total of 130 positions are to be gradually phased out at the MVV Energie Group, of which 50 in Mannheim, over a period of five years.

In January 2006 we launched the “Optimisation of Operating Processes” project at MVV Energie AG. We intend to cut a total of 74 jobs in the field of technical facility management by the 2010/11 financial year.

The MVV Energie Group had a total of 6 287 employees as of 30 September 2006. This therefore represents a reduction of 105 in the number of employees compared with the previous year. The reduction in the number of employees at the MVV Energie AG parent company by 159 is due on the one hand to the FOKUS programme and on the other to the transfer of 64 employees to the MVV Energiedienstleistungen GmbH subsidiary, which has been fully consolidated for the first time. This transfer of personnel is one of the reasons for the increase in the number of employees at fully consolidated shareholdings. The slight decline in personnel totals at the proportionately consolidated shareholdings mainly relates to the Polish shareholding SEC Szczecin Sp.z o o.

Training and development – a valuable investment

At 135, the number of trainees at MVV Energie AG is unchanged on the previous year. With a training quota of more than 7 %, we thus exceed the national average of 6 % and comply with the target value recommended by the Federal Government. A total of 314 training positions were on offer within the overall MVV Energie Group as of 30 September 2006 (previous year: 306).

Given the further aggregation of working procedures and optimisation of processes, training measures are becoming ever more important. Our Management Development Programme, which is open to employees from all of the companies in the Group, provides further training to managers with the aim of developing a common understanding of management across the Group.

Modern HR instruments

With the introduction of the working life account, MVV Energie AG has enabled its employees to structure their working time flexibly. We have maintained our family-oriented personnel policies aimed at assisting our employees in better combining their family obligations with career commitments. We have gained very positive experience to date with the childcare measures supported by the company, especially in the care provided to children at a crèche organised by an MVV parents initiative and at the parent-child working room project.

Social Commitment

A reliable partner for the regions

All of the companies within the MVV Energie Group contribute to the benefit of society at their respective locations, thus illustrating our identification with the people in the regions in which we operate. Our companies support charitable and welfare projects, promoting science, education and culture and championing professional and amateur sport. Our conception of social responsibility also involves providing young people with training positions and securing the jobs of our employees. However, we can only do justice to our responsibility towards society if we are successful in economic terms and if our group of companies succeeds in maintaining its position in its competitive environment on an ongoing basis.

MVV Energie AG provided sponsorship funds of around Euro 1 million during the year under report. As one of the driving forces behind the Rhine/Neckar Future Initiative, our company's sponsoring concept focuses on the needs of people living in the Rhine/Neckar metropolitan region. We attach particular priority to supporting upcoming talent and young people.

As far as our sports sponsorship activities are concerned, we can look back on a track record of successful cooperation with TSG Hoffenheim, a club in the regional football division which we have accompanied as principal sponsors for four years now. We also maintain close links to the work undertaken with young people by the two traditional Mannheim clubs, SV Waldhof and VfR Mannheim. Together with the Nationaltheater in Mannheim, we were able to present the "Junge Oper" for the first time. Our science and education sponsorship activities focus in particular on supporting the University of Mannheim and the Mannheim Technical College (College of Technology and Design). Our newly established Sponsoring Fund has enabled around 70 clubs and institutions from among more than 250 applicants to implement their innovative and exemplary projects.

Energieversorgung Offenbach AG (EVO) has established its own competition for artists in the Rhine/Main region. EVO will also remain the principal sponsor of Kickers Offenbach, a second division football team, in the current season as well. **Stadtwerke Kiel AG (SWK)** supports welfare, cultural and sport initiatives in line with its understanding of its role as a promoter of Kiel as a business location. The organisation of the 24sieben sailing school is especially noteworthy in this respect. **Stadtwerke Ingolstadt Beteiligungen GmbH (SWI)** acts as sponsor to the ice hockey club ERC Ingolstadt and to FC Ingolstadt, a football team recently promoted to the regional division. Among the activities promoted by **Stadtwerke Solingen GmbH**, the support provided to the "Courage Against Racism" campaign is particularly worthy of mention. The financial support provided by **Köthen Energie GmbH** is focused on the Business Meets Schools project in the district of Köthen.

Environmental Protection

Responsibility for environmentally-friendly energy supply

The careful handling of limited natural resources forms an integral part of our company policy. The same applies to protecting the climate, which given the increasing prevalence of extreme weather conditions, such as storms, floods and drought, will play an ever more important role in future. The companies of the MVV Energie Group reacted to these challenges at an early stage. By working with efficient, environmentally-friendly technologies, processes and products, and increasing our use of regenerative energy sources, we are making our contribution to ecological sustainability.

Environmental protection activities in the 2005/06 financial year

With regard to climate protection, we aim to reduce the emission of gases harmful to the climate, especially carbon dioxide, by using modern flue gas cleaning facilities. Our waste incineration plants in Mannheim, Offenbach and Leuna enable more than 200 000 tonnes of CO_2 to be avoided every year. As one of the market leaders in the generation of electricity from biomass at our power plants in Mannheim, Königs Wusterhausen and Flörsheim-Wicker, we set standards in the field of renewable energies. The generation of electricity from mature timber at these three locations and the use of biogas at our combined heat and power plant in Kiel contribute to an annual reduction in our CO_2 emissions of around 270 000 tonnes.

The combined generation of electricity and district heating at the large-scale power plants in Mannheim and Kiel generates fuel savings of up to 30 % compared with separate generation facilities. The efficient use of resources in this cogeneration process also enables equivalent reductions to be achieved in the level of emissions, waste, waste heat and the use of cooling water. MVV Energiedienstleistungen GmbH is making increasing use of regenerative energy sources in its contracting projects with industrial and municipal customers. Our preferred fuel for energy generation is wood, a regenerative source whose use does not result in any additional CO_2 being emitted into the atmosphere. During the year under report we implemented five projects making use of wood chips and wood pellets. The modernisation of older generation facilities also leads to efficiency enhancements and to reduced resource consumption levels. Overall, the projects undertaken by MVV Energiedienstleistungen GmbH have contributed to a reduction of 221 000 tonnes of CO_2 per year.

We have already been using geothermal energy for heat generation purposes since November 2002. In Děčín, our Czech subsidiary, MVV Energie CZ, operates that country's largest geothermal energy plant. MVV Energiedienstleistungen GmbH also further extended its activities in the use of geothermal energy during the year under report, successfully installing a geothermal energy plant at a leisure pool in Weinheim.

Corporate Governance

Report of the Executive and Supervisory Boards

Corporate governance involves the entire system of responsible company management. In addition to internal and external supervisory mechanisms, it also encompasses the company's business policies, guiding principles and organisational structure. The legal framework for corporate governance is provided by German stock corporation law. Furthermore, the German Corporate Governance Code presented by the Government Commission on the German Corporate Governance Code 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 12 June 2006. The latest amendments to the Code also focused on achieving an even greater degree of transparency for internal company incentive systems.

The Executive and Supervisory Boards of MVV Energie AG support the principles of value-based company management and control formulated in the German Corporate Governance Code. The recommendations in the Code are recognised by them as guiding principles for their activities and have been implemented virtually in full. Our Statement of Compliance provides information as to why we have deviated from the recommendations in a few exceptional cases.

The members of the Supervisory Board were paid annual remuneration of Euro 10 thousand each in the 2005/06 financial year, with the Chairman of the Supervisory Board receiving twice and his deputy one and half times this figure. Moreover, a meeting allowance of Euro 300 was paid per person per meeting of the full Supervisory Board and of the committees. This remuneration amounted to Euro 284 thousand in total. No performance-related remuneration is paid to the members of the Supervisory Board.

The members of the Executive Board of MVV Energie AG simultaneously act as executive board members of the group company MVV RHE AG; the Chairman of the Executive Board simultaneously acts as the managing director of MVV GmbH. The remuneration for their activities at these companies is included in the remuneration paid by MVV Energie AG and is reimbursed by MVV RHE AG and MVV GmbH. MVV RHE AG reimburses MVV Energie AG for 15 % of the fixed remuneration of the members of the Executive Board for their activities on behalf of MVV RHE AG (excluding the supplementary CEO allowance in the case of the Chairman of the Executive Board). MVV GmbH reimburses MVV Energie AG for 2 % of the fixed remuneration of the Chairman of the Executive Board (excluding the supplementary CEO allowance) for his activity on behalf of MVV GmbH.

The Executive Board was paid total remuneration amounting to Euro 1 881 thousand during the year under report. This was structured as follows:

Remuneration Euro 000s	Fixed [1]	Variable [2]	from supervisory board positions	**Total**
Dr. Rudolf Schulten	404	209	9	622
Dr. Werner Dub	239	170	5	414
Hans-Jürgen Farrenkopf	242	170	5	417
Karl-Heinz Trautmann	253	170	5	428
Total	1 138	719	24	**1 881**

[1] including allowances for pension insurance, health insurance, nursing care insurance, voluntary contributions to employers' mutual insurance association and non-cash benefits, as well as the CEO allowance

[2] provision, including final settlement amounts from 2004/05

No remuneration components of a long-term incentive nature were granted during the year under report. No further payments were made by third parties. The pension commitments made to members of the Executive Board represent defined benefits. The service cost amounts to Euro 393 thousand. The present value of the total defined benefit obligation amounted to Euro 2 840 thousand at the reporting date. Former members of the Executive Board received benefits of Euro 199 thousand during the year under report. The present value of the total obligation relating to defined benefit pension commitments amounted to Euro 2 917 thousand at the reporting date.

The heads of division at MVV Energie AG and members of the management bodies of the shareholdings also receive performance-related remuneration. Senior employees participate in a defined contribution pension plan at an average of 8.6 % of their fixed remuneration. Within the channels of execution offered within the Group, senior employees are able to determine which biometric risks they would like to cover. Total expenses amounted to Euro 159 thousand during the year under report.

At the end of the financial year we introduced an employee share programme in order to enable our employees to participate in the performance of the company as well. The shares were made available to employees at a price of Euro 17.50 per share. The price was set on the basis of the average price of the MVV Energie share in the period from 21 to 25 August 2006. The average price during this period amounted to Euro 22.50. The employees were granted a discount of Euro 5.00 on this share price and were able to order shares in the period from 28 August to 19 September 2006. Of the 2876 employees across the Group entitled to participate, a total of 324 employees made use of this opportunity. This is equivalent to a participation rate of 11.3 %. The average order calculated in terms of all participants amounted to 195 MVV Energie shares per employee. The company therefore generated proceeds of around Euro 1.1 million and incurred costs of around Euro 35000.

In the past, MVV Energie AG has always fulfilled the transparency obligations resulting from the German Securities Trading Act (WpHG) and complied in full with the Code's recommendations in this respect and will continue to do so in future. We make particular use of our website *www.mvv-investor.de* to provide information about our company and on latest developments at the Group.

Group accounting is based on International Financial Reporting Standards (IFRS), while the separate financial statements of MVV Energie AG are compiled in accordance 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 2 June 2005 and published by the Federal Ministry of Justice in the official section of the electronic Federal Official Gazette on 20 July 2005. With regard to the future, it refers to the recommendations of the new version of the Code dated 12 June 2006 and published in the official section of the electronic Federal Official Gazette on 24 July 2006.

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 members of the Executive and Supervisory Boards, neither does it cover against their knowingly committing any dereliction of duty. The Executive and Supervisory Boards are absolutely committed to performing their duties in a motivated and responsible manner and are not of the opinion that this requires underlining in the form of a deductible.

Compensation report – Point 4.2.5 (2) Sentence 2: "In the case of pension plans, the allocation to accrued pension liabilities or pension funds shall be stated each year."

The compensation report includes detailed individualised information concerning the current remuneration of members of the Executive Board. The encroachment of the private sphere of members of the Executive Board and their families resulting from the individualised disclosure of pension plans is far greater than any benefit such disclosure may have for investors. We have therefore only disclosed the pension plans in aggregate form.

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 already commented in the past that we were not convinced by linking supervisory board remuneration to the level of the dividend or to the share price. We have therefore refrained from introducing any performance-related remunerative components for members of the Supervisory Board.

This Statement of Compliance is also available at our company's website *www.mvv-investor.de*.

We have been working together with MVV Energie AG since 2001. The company now supplies us with electricity for around 50 locations. We very much appreciate the customer-focused, innovative and flexible approach taken by MVV Energie AG. We already introduced portfolio management for our locations with high energy requirements several years ago. We opted for the electricity fund offered by MVV Energie AG, thus enabling us to introduce adequate risk management for our small and medium-sized locations as well.

Reinhard A. Mertsch,
Procurement Director, Linde Head Office

Group Management Report

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Group Management Report

Business Framework

Overview of Shareholdings and Business Activities

Selection of direct and indirect shareholdings of MVV Energie AG

Core business: distribution of electricity, district heating, gas, water		
German shareholdings		Foreign shareholdings
Municipal utility network	Shared service companies	District heating companies
MVV RHE AG (100 %) Stadtwerke Kiel AG (51 %) Köthen Energie GmbH (100 %) Stadtwerke Solingen GmbH (49.90 %) Energieversorgung Offenbach AG (48.78 %)[1] Stadtwerke Ingolstadt Beteiligungen GmbH (48.40 %) Stadtwerke Buchen GmbH & Co. KG (25.10 %) Stadtwerke Schwetzingen GmbH & Co. KG (10 %)	24/7 Netze GmbH*[2] Mannheim 24/7 Trading GmbH*[3] Mannheim 24/7 IT-Services GmbH*[4] Kiel 24/7 Metering GmbH*[5] Offenbach 24/7 United Billing GmbH*[6] Offenbach	MVV Polska Sp. z o.o. (100 %) MVV Energie CZ s.r.o. (100 %)

High-growth fields	
Environmental energy	Energy-related services
MVV Umwelt GmbH (100 %)	MVV Energiedienstleistungen GmbH (100 %)
MVV O&M GmbH (100 %) MVV BioPower GmbH (100 %) — MVV TREA Leuna GmbH (100 %) MVV BMKW Mannheim GmbH (89.80 %)	With 18 majority shareholdings in the product areas of: Municipal solutions Industrial solutions Consulting

* subject to entry of shared service companies in the Commercial Register, which is only due to take place after 1 October 2006.

1 majority of voting rights
2 MVV Energie AG (70 %), Energieversorgung Offenbach AG (30 %)
3 MVV Energie AG (51 %, in fiduciary capacity: 3.9 %), Stadtwerke Kiel AG (25.1 %), Energieversorgung Offenbach AG (12.5 %), Stadtwerke Solingen GmbH (5 %), Stadtwerke Ingolstadt Beteiligungen GmbH (2.5 %)
4 MVV Energie AG (50 %), Stadtwerke Kiel AG (50 %)
5 MVV Energie AG (49 %), Energieversorgung Offenbach AG (51 %)
6 Energieversorgung Offenbach AG (70 %), Stadtwerke Kiel AG (30 %)

Status: 1 October 2006

Corporate Strategy and Management

The MVV Energie Group is a network of energy distribution and service companies operating in stable markets in Germany, Poland and the Czech Republic. We operate successfully in the distribution of electricity, district heating, gas and water, in energy services related to our core business, as well as in the incineration of non-recyclable waste and generation of energy from biomass. The horizontal structure of our group of companies means that we are superbly positioned to meet the challenges facing the highly dynamic energy market. A mature mixture of various segments in regulated and unregulated markets, coupled with a high degree of willingness to face new circumstances flexibly, enable us to manage market and regulatory risk and to achieve long-term growth.

We increase the efficiency of our core electricity, district heating, gas and water businesses

By a combination of management and support measures, we enable our shareholdings to increase their earnings power. The opportunities for growth and the potential in our core businesses of electricity (excluding the nationwide sale of electricity), district heating, gas and water, which form a stable foundation for our earnings, are limited, however, given that we are not able to acquire additional market share by means of product differentiation in these areas. In view of this, we focus on achieving excellence and efficiency in our administration and business processes and on generating further cost savings based on ongoing enhancements. Moreover, we also adopt measures to optimise the risk profile of our product portfolio. This enables us to continue to act successfully in economic terms in spite of increasingly tough competition and to counter the sharp increase in fuel prices and procurement costs, as well as imponderable factors resulting from regulation.

The MVV Energie Group is expanding its municipal utility network by means of shareholdings and cooperations, thus enabling it to access new regional markets. Our municipal utility network enables us to benefit from economies of scale, such as those generated by our shared service companies, and to achieve targeted cost savings in those areas harbouring potential for such economies. The energy market is subject to ever greater regulatory requirements and increasing pressure on earnings. We therefore expect that other municipal utility companies will wish to benefit from our efficiency enhancement and specialist expertise as one of the larger players in the market. By accepting further municipal utility companies into our network, we aim to generate additional benefits of scale.

We generate value-driven growth in our environmental energy and value-added services segments

We continue to pursue interesting growth and investment projects in our environmental energy and value-added services segments. In these areas, we are tapping markets which offer great potential for our business. This increases our independence of developments in our core business, especially in terms of the impact of grid regulation. We are currently the third-largest player in the German environmental energy market. Our focus on the incineration of non-recyclable waste and the generation of electricity from biomass, coupled with the favourable framework provided by the Technical Guidelines for the Disposal of Municipal Solid Waste (TASi), have provided us with a highly advantageous competitive position. The German market for energy-related services has shown markedly dynamic developments. Promising takeovers and cooperation agreements mean that we have made considerable progress towards achieving our objective of playing a leading role in this area.

Our intelligent products and marketable procurement structures have also enabled us to acquire new customers in the nationwide sale of electricity.

Company management

Our strategy and our company targets serve to increase the value of the company in the long term. We assess all of our strategic decisions and actions in terms of their short-term and long-term impact on our earnings and company value. We base our value-driven management strategy on value spread, a relative performance key figure. This enables us to view issues in an objective light and provides decision-making processes with a solid economic foundation (further information on our performance during the year under report can be found on Page 32).

Energy Policy

Energy policy framework

In the spring of 2006, the Federal Chancellor, Angela Merkel, invited senior representatives from the energy sector and industry for the first time to attend high-level talks aimed at compiling an overall energy policy concept by 2007. In his function as Chairman of the Supervisory Board of MVV Energie AG, the Lord High Mayor of Mannheim, Gerhard Widder, took part in this energy summit. From the point of view of municipal utility companies, it is crucial that the future structure of the energy markets should provide a fair competitive framework for all market players.

In June 2006, the Federal Government adopted the National Allocation Plan for the second stage of EU-wide emissions trading (NAP II), which will have to be revised following objections raised by the EU Commission. This plan governs the allocation of CO_2 certificates to participating companies for the years 2008 to 2012. It is to be expected that there will be a considerable reduction in allocations for existing plant in the energy industry. The amendment of the German Cogeneration Act (KWKG) announced by the Federal Government will provide further momentum for this technology.

In January 2006, the Federal Cartel Office decreed the limitation of long-term gas supply agreements. The gas procurement activities of the MVV Energie Group are not affected by this measure.

The publication of power plant data relevant to the market by the four large electricity generation companies, which since April 2006 has been undertaken via the internet site of the EEX (European Energy Exchange), means that a longstanding demand of the MVV Energie Group for greater transparency, such as that promoted at our own generation locations, has now been met.

Transition made to regulated competition

In the first year since its entry into force, the amended German Energy Act (EnWG) has already significantly changed the competitive framework in the German electricity and gas market. Particularly noticeable in this regard are the changes affecting the gas sector, where simplified grid access has been introduced for transit customers on the grid gas and regional distribution grid levels for the first time, regardless of the transit route involved.

The implementation of these legal requirements and companies' compliance with them is monitored by the Federal Networks Agency for Electricity, Gas, Telecommunications, Post and Railways (Federal Networks Agency). Within a short period, this regulatory authority for electricity and gas has established itself as a self-confident participant in the German energy market. As well as regulating utilisation fees, it has also initiated numerous measures aimed at stimulating competition, a development which we welcome.

Given the parallel existence of regulatory and cartel authorities in individual states and the price supervision due to be introduced on state level by mid-2007, energy suppliers are confronted with a high density of regulation. We address the variety of regulatory requirements by means of active regulation management, based in part on expertise gained in EU states with longstanding experience of regulation.

Implications of grid regulation

None of the companies in the MVV Energie Group was affected by assessment notices concerning the approval of grid utilisation fees taking effect in their respective distribution grids during the 2005/06 financial year. Further information can be found in the report on events after the balance sheet date on Page 40.

In order to counter the effects of any possible cost reductions in its distribution grids, the MVV Energie Group will consistently adhere to the course already taken in terms of efficiency enhancement.

On 30 June 2006, the Federal Networks Agency presented its report on the structure of incentive regulation, thus meeting one of the requirements of the German Energy Act (EnWG). This incentive management, due to take effect at the beginning of 2008, will further increase the pressure on costs at grid operators. We have closely followed the planned requirements and will actively accompany the issuing of the legal ordinance by the Federal Government.

The MVV Energie Group will punctually fulfil the unbundling of grid operations from other business divisions required by law by hiving off of its grid companies at the latest by 1 July 2007. Our grid subsidiaries are also thereby completing the steps already initiated towards becoming independent infrastructure providers in terms of their legal structures as well.

Progress in rules governing market practice

We believe that some subsections of the electricity market at the interface between regulated grids and competitive divisions have been insufficiently regulated to date and are therefore characterised by a low degree of competition.

During the period under report, the Federal Networks Agency brought about structural improvements in some markets. The provisions concerning manually activated power reserves published by the regulatory authority following consultation within the industry in September 2006, for example, represent an improvement on tendering practice to date, although the market remains fragmented as a result of there being four electricity balancing zones.

The MVV Energie Group took part in all major consultation processes organised by the Federal Networks Agency in the past financial year concerning electricity balancing, business processes and the contents of agreements. With our competition-friendly positions, we aim to achieve non-discriminatory access to markets and to enhance their efficiency.

Further development in competition

As a large group of municipal companies, we depend on a competitive framework which provides all market players with equal opportunities in the market. We see a need for further improvements in this regard.

The ability to cover their needs at inexpensive prices in upstream procurement markets is important for energy distribution companies. This requires liquid and transparent electricity and gas wholesale markets.

We therefore support the establishment of a liquid gas exchange in Germany in order to meet the need on the part of municipal companies for a diversification of their procurement sources. Moreover, we see the expansion of cross-border electricity exchange possibilities as harbouring potential for improvement, thus widening the range of procurement options in other EU countries available to municipal companies.

We contribute our ideas concerning fair competitive structures for the energy markets to the discussions about the political framework for the energy industry and thus actively take up contact with politicians, academics and the authorities. Our representative office in the capital city, which we opened in the Axel Springer building in Berlin in the autumn of 2005, enables us to remain in contact with key players in the energy policy debate on a federal level.

Market Climate

Market position of the MVV Energie Group	
Electricity: we are the seventh-largest German electricity supplier measured in terms of turnover with end customers (VDEW Ranking 2005).	Energy-related services: with a turnover of Euro 160 million prior to consolidation, we were one of the five largest providers in Germany during the year under report.
District heating: our district heating turnover in Germany amounted to around 5.4 billion kWh in the 2005/06 financial year, thus making us the fifth-largest supplier of district heating in Germany. Together with our Polish and Czech share-holdings, our total turnover of 7.3 billion kWh means that we are among the top five suppliers of district heating in Europe.	Environmental energy: we are one of the leading operators of biomass power plants in the German market. Our waste-to-energy plants and biomass power plants mean that we are the third-largest operator of incineration plants, with a current incineration capacity of 1.4 million tonnes per year.

Macroeconomic framework

The German economy showed stronger growth during 2006 than had been expected by economic experts. Leading economic research institutes expect gross domestic product (GDP) to grow by 2.3 % in 2006. Following a substantial pause, the more dynamic level of growth now reported again is attributable to stronger domestic demand and an increase in investments.

The ongoing high price of crude oil has not yet dampened the economic revival, but continues to be classified by economic research institutes as a potential risk factor. The oil price has contributed to a rise in inflation. At 2.2 % in 2006 to date, this has nevertheless remained at a comparatively moderate level. It is widely thought that the VAT increase scheduled for the beginning of 2007 will lead to a rise in consumer prices and thus weaken economic growth.

Our foreign target markets in the Czech Republic and Poland continue to report stable levels of economic growth. According to the European statistics authority Eurostat, GDP has grown by 5.2 % in real terms in Poland in 2006 and by 6.0 % in the Czech Republic.

In general, however, the fluctuation of industrial output in the course of the economic cycle is of less significance for the MVV Energie Group than weather conditions.

Energy industry framework

Competition can only function properly if there are a minimum number of independent competitors. Given the dominant market position of a small number of large energy companies, the Federal Government is planning to amend antitrust legislation in order to reinforce the supervision of market abuse in the energy sector.

The MVV Energie Group views the auctioning of virtual power plant capacities, thus enabling independent market players to obtain long-term rights to use sections of power plant capacity, as representing a suitable means of dealing with the high degree of concentration in the generation market.

Antitrust authorities in the Czech Republic imposed a fine of Euro 13 million on the gas importer Transgas in August 2006 as a result of market abuse. Our subsidiary MVV Energie CZ s.r.o. was one of the companies to file the complaint, which aimed to achieve non-discriminatory gas procurement conditions in view of the lack of alternative procurement sources.

Energy markets

The level of electricity consumption reported by the VDEW industry association showed only a moderate increase of 0.6 % to 408.6 billion kWh in the first three quarters of 2006 compared with the equivalent period in the previous year. Cold weather conditions and higher heating requirements meant that gas consumption, by contrast, showed a considerable increase of 9.3 % in the first half of 2006 compared with the same period in the previous year.

The intensity of competition in the electricity and gas market continues to differ depending on the customer segment involved. According to the monitoring report issued by the Federal Networks Agency, 11.4 % of large industrial customers and 10.9 % of commercial customers (in terms of supply volumes) changed supplier in 2005. This reflects the intense level of competition for industrial customers in the electricity market. The average supplier change rate for private households amounted to around 5 %.

Given the high prices for primary energy sources on the international markets and the sharp increase in wholesale prices on the German EEX electricity exchange, many end distributors were obliged to raise their prices for end customers. The average spot market price for base loads thus rose by 42.3 % from Euro 38.38/MWh in the 2004/05 financial year to Euro 54.61/MWh in the 2005/06 financial year. Brent crude oil reached a record price of US$ 78.15/barrel in August 2006. On average, the international crude oil price rose by 26.5 % from US$ 51.90/barrel in the 2004/05 financial year to US$ 65.64/barrel in 2005/06. The cross-border price for gas increased on average from Euro 4 025/terajoules in the 2004/05 financial year to Euro 5 687/terajoules in the 2005/06 financial year (status: September 2006).

Research and Development

Technological innovations open up new opportunities and perspectives for the MVV Energie Group in the fields of decentralised energy generation and distribution. The efficient use of primary energies by means of cogeneration in both large and smaller generation facilities is of key significance for our companies.

The company's research and development (R&D) activities are value-driven. R&D expenses amounted to Euro 3 million at the MVV Energie Group in the 2005/06 financial year (please also the multiyear overview on Page 67). Process optimisation projects, product development and technical enhancement each accounted for Euro 1 million of this total. The company has six full-time employees working in R&D. Furthermore, around 70 other employees commit a significant portion of their working hours to innovation projects.

We continuously expanded our R&D activities in the three strategic areas of Regional Energy, Technical Services and Transfer of Expertise in the past financial year, using the resultant technological impetus to cooperate with our customers and with operators of smaller-scale energy plants. These are playing an increasingly active role in the energy market, which means that it is necessary to lay the foundations for their efficient integration.

Environmentally-friendly house energy plants

MVV Energie AG has launched a pilot project together with the New Zealand manufacturer WhisperGen to test environmentally-friendly house energy plants. These plants enable carbon dioxide emissions to be reduced, conserve primary energies and increase the quality of life. Studies have shown that such house energy plants harbour great opportunities in the district heating market of the future. During the year under report, MVV Energie AG prepared an initial nationwide practical trial using a total of 20 appliances. Starting in autumn 2006, pilot customers in Mannheim, Kiel and Solingen can heat their flats using the house energy plants, while simultaneously generating electricity by means of cogeneration.

Earnings, Net Asset and Financial Position

Earnings Position

Intelligent grids

House energy plants will increasingly be connected with our electricity distribution grids in future. Working under the motto of "Intelligent Grids", the MVV Energie Group is preparing itself for the cost-efficient integration of these plants in the longer term. One successful approach in this respect involves the virtual power plant. During the 2005/06 financial year, the European DISPOWER project, an undertaking in which MVV Energie AG played a major role over a period of four years with a budget of Euro 1.1 million, was completed. The project involved optimising the interplay of several smaller-scale energy plants and electricity consumption in a residential estate. The pilot experiment has been designated by international specialists as showing the way forward.

Rhine/Neckar metropolitan region

In our "Safeguarding the Energy Supply" project, we are working together with strong partners in the Rhine/Neckar metropolitan region to find answers to future requirements for the sustainable supply of energy. Our CEO, Dr. Rudolf Schulten, has become the patron of this project. Representatives of leading companies in the region, as well as associations and municipalities, have been working together to achieve a higher degree of cohesion in this respect. The first milestone is a climate protection atlas depicting the region's overall achievements to date in terms of reducing CO_2 emissions.

In order to maintain our ground in the increasingly competitive climate in the energy market, we drew on standardised transfer instruments during the 2005/06 financial year to further structure the transfer of expertise within the MVV Energie Group.

The MVV Energie Group increased its sales by 16 % compared with the previous year to Euro 2.28 billion. Operating earnings before interest and taxes (EBIT) even rose by 27 % to Euro 201 million. These figures mean that we have exceeded the increased forecasts for sales (Euro 2.25 billion) and EBIT (Euro 195 million) for the 2005/06 financial year issued in January 2006. Our performance shows that the measures we have introduced are taking effect.

Our operating business faced increasingly tough competition in the year under report, as well as massive increases in electricity and gas procurement prices, which we were unable to pass on in full. In addition to the downturn in margins, we were also faced in the year under report with extraordinary depreciation, write-downs resulting from annual impairment tests and charges due to the statement of personnel provisions. Overall, we nevertheless succeeded in absorbing these items and compensating for them on an operational level.

Strong sales growth

The substantial year-on-year increase in sales is attributable to growth in all business segments. All companies in our municipal utility network contributed to this growth.

Within our product mix, electricity remains the business segment with the highest share of sales, accounting for 47 % of total sales. The year-on-year increase (+ 10 %) is mainly due to notable success in the nationwide sale of electricity. We also achieved high double-digit percentage sales growth in our district heating and gas businesses. This was the result of price adjustments and increased volumes during the 2005/06 heating period on account of weather conditions. Our companies passed on only part of the increase in procurement costs. The highest level of sales growth was reported by the environmental energy segment. This was chiefly due to the first full-year operations at the new non-recyclable waste incineration plant in Leuna and to increased waste deliveries and higher disposal prices for industrial and commercial waste following the entry into force of the Technical Guidelines for the Disposal of Municipal Solid Waste (TASi) on 1 June 2005.

Sales of the MVV Energie Group by Segment

Euro million	2005/2006	2004/2005	% change
Electricity [1]	1 069	975	+ 10
District heating	276	250	+ 10
Gas [2]	449	366	+ 23
Water	107	106	+ 1
Value-added services [3]	150	108	+ 39
Environmental energy	193	131	+ 47
Other/consolidation [3]	32	22	+ 45
	2 276	**1 958**	+ 16

[1] including electricity tax of Euro 102 million (previous year: Euro 92 million)

[2] including gas tax of Euro 63 million (previous year: Euro 61 million)

[3] previous year's figure adjusted (see information on Page 30)

Sales in our foreign business, which chiefly comprises our Polish and Czech subgroups, rose by 14 % to Euro 95 million. As in the previous year, foreign sales accounted for around 4 % of the consolidated sales of the MVV Energie Group.

Our strategic measures are bearing fruit

Following a thorough analysis of market risks and opportunities, we have consistently streamlined our business portfolio over the past years, removing loss-making businesses and the resultant risks and focusing on our core business. The areas with which we have parted company include the development of wind farms, wastewater technology, our foreign businesses in Portugal and Spain and, following the sale of MAnet GmbH, Mannheim, during the year under report, with telecommunications activities as well.

While streamlining our portfolio, we have repositioned ourselves and invested very substantially in business fields not affected by regulation, especially in waste incineration and energy-related services. We were correct in our assessment of the potential in the waste market and the market for energy-related services. By implementing restructuring measures and pooling our activities at wholly-owned subsidiaries (MVV Umwelt GmbH, MVV Energiedienstleistungen GmbH), we achieved a superb position in these high-growth markets at an early stage.

Development in key items in the income statement

The sales include electricity tax of Euro 102 million (previous year: Euro 92 million), which was charged on, and gas tax of Euro 63 million (previous year: Euro 61 million). The new German Energy Tax Act now requires distribution companies to transfer the gas tax to the financial authorities, rather than gas producers or import companies, as was previously the case.

The development in *capitalised own-account* services was chiefly driven by changes in the amounts stated in connection with the completion and settlement of the non-recyclable waste incineration and energy generation plant in Leuna.

Other *operating income* includes items subject to valuation in connection with the initial application of IAS 39 (2004), as well as income from the release of provisions, from the sale of emissions certificates and the sale of MAnet GmbH and remaining EnBW shares.

Development of expenses affected by one-off items

Cost of materials increased by 11 %, mainly as a result of the sharp rise in energy procurement costs. We nevertheless generated considerable cost savings together with the partners in our procurement network at the Mannheim, Kiel, Offenbach, Ingolstadt and Solingen locations. The lead buyer organisation, which is structured in line with procurement competencies at the respective locations and which grants employees access to a standardised communications and transaction platform, has proven to be especially effective in this respect.

Sales Volumes of the MVV Energie Group[1]

	2005/2006	2004/2005	% change
Electricity[2] in kWh million	20 338	18 402	+ 11
of which wholesale[2] in kWh million	10 478	9 454	+ 11
of which retail[2] in kWh million	9 860	8 948	+ 10
District heating[2] in kWh million	7 343	7 446	– 1
Gas in kWh million	11 513	11 096	+ 4
Water in m³ million	57.9	58.3	– 1
Combustible waste delivered in tonnes 000s	1 229	872	+ 41

[1] total volume from all segments

[2] correction in previous year's figure

Personnel expenses fell by Euro 14 million in spite of expenses of Euro 9 million (previous year: Euro 13 million) stated as provisions for the socially responsible reduction of personnel and related reconciliation of interests at the Mannheim location.

The *number of employees* at the MVV Energie Group, including external personnel at the waste-to-energy plant in Mannheim, declined by 2 % compared with the previous year to 6 338. This decline is principally due to the reduction in personnel undertaken in a socially responsible manner. More detailed information about this and about our new human resources instruments, such as working life accounts, childcare support and employee share programmes, can be found on Pages 16 and 18.

Other operating expenses rose by 36 % to Euro 372 million. Of this sum, Euro 106 million relates to energy taxes (previous year: Euro 94 million) and Euro 59 million to concession fees (previous year: Euro 58 million). The increase in energy taxes charged on to customers is primarily due to the volume growth in the electricity business. Moreover, the increase compared with the previous year is also attributable to the initial application of IAS 39 (2004). This standard amended the recognition and measurement of financial instruments and the resultant specification of the "own use exemption", and thus also the depiction of energy trading transactions in the balance sheet. Pursuant to IAS 39 (2004), pending transactions to hedge market prices also have to be recognised as financial instruments.

The negative income from shareholdings valued at equity resulted from the write-down of ENERGY InnovationsPortfolio AG & Co. KGaA, Mannheim. In the previous year, this item still included distributions from associated companies deconsolidated as of 1 January 2006. The distributions by these companies have been reported as other income from shareholdings in the year under report.

The fact that our group of companies achieved profitable growth in spite of numerous one-off charges is reflected in the improvement in **operating earnings before interest, tax, depreciation and goodwill amortisation (EBITDA)**, which rose by 29 % compared with the previous year to reach Euro 370 million.

Depreciation includes extraordinary depreciation of Euro 15 million (previous year: Euro 3 million). Among other items, this involved land and buildings, the decommissioning of insufficiently profitable steam grids in Mannheim and plant at MVV Biopower GmbH.

Goodwill is not subject to scheduled amortisation, but rather undergoes an annual impairment test. The amortisation of goodwill reported in the income statement (Euro 22 million) includes write-downs resulting from impairment tests undertaken at Stadtwerke Ingolstadt, Stadtwerke Solingen and at the Polish subgroup.

Following depreciation and goodwill amortisation, our group of companies generated **operating earnings before interest and tax (EBIT)** of Euro 201 million during the year under report. This is equivalent to an increase of Euro 43 million (+ 27 %) on the previous year.

EBIT of the MVV Energie Group by Segment

Euro million	**2005/2006**	2004/2005	% change
Electricity	20	39	– 49
District heating	51	40	+ 28
Gas	31	35	– 11
Water	21	15	+ 40
Value-added services [1]	12	16	– 25
Environmental energy	68	27	+ 152
Other/consolidation [1]	– 2	– 14	+ 86
	201	**158**	+ 27

[1] previous year's figure adjusted (see information below)

The development in the **earnings contributions of individual business segments** reflects the success of the strategic alignment of our group of companies. Our high-growth environmental energy and value-added services segments generated combined operating earnings (EBIT) of Euro 80 million in the year under report (previous year: Euro 43 million), thus accounting for 40 % of the total operating earnings (EBIT) of our group of companies (previous year: 27 %).

Our business portfolio has become more balanced. This makes us more independent of fluctuations in individual business segments. We are thus securely protected against the expected increase in pressure on costs in our regulated core business. The segment earnings (EBIT) in our core business (electricity, district heating, gas, water) were negatively affected in the year under report by proportionate goodwill write-downs resulting from impairment tests undertaken at our shareholdings in Ingolstadt and Solingen and at the Polish subgroup (district heating). Starting in the 2005/06 financial year, MAnet GmbH (deconsolidated as of 30 September 2006) and ENERGY Innovations-Portfolio AG & Co. KGaA (valued at equity since 1 January 2006) have been reported in the other/consolidation segment rather than in the value-added services segment, given that the business activities of these companies do not correspond to the traditional energy-related services business. The previous year's figures have been adjusted to facilitate comparison. Information on the performance of individual business segments has been provided on Pages 47 to 59.

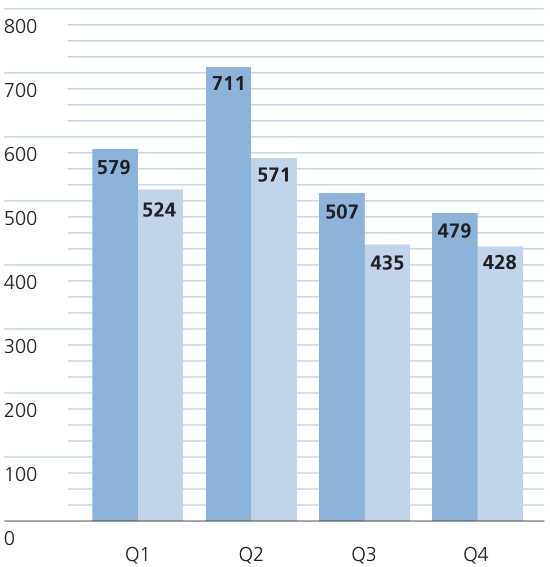
Financing expenses include interest expenses of Euro 9 million resulting from the revised version of IAS 32 (2003), which required mandatory application at our company for the first time as of 30 September 2006. This requirement applies to the minority shareholding held by the city of Kiel in Stadtwerke Kiel AG. Put options held by minority shareholders constitute a financial liability and are to be reported as short-term or long-term debt. To facilitate comparison, we have made corresponding adjustments to the interest expenses included in net interest expenses in the consolidated financial statements for the previous year. This retrospective adjustment by about Euro 10 million has led to changes in all subsequent earnings figures compared with the figures reported in the previous year.

Earnings before tax (EBT) amounted to Euro 128 million in the year under report, compared with Euro 80 million (adjusted) or Euro 90 million (as reported) in the previous year. Without the interest expenses resulting from the initial recognition of the put option we would have generated EBT of Euro 137 million in the year under report and thus also exceeded our forecast (Euro 133 million).

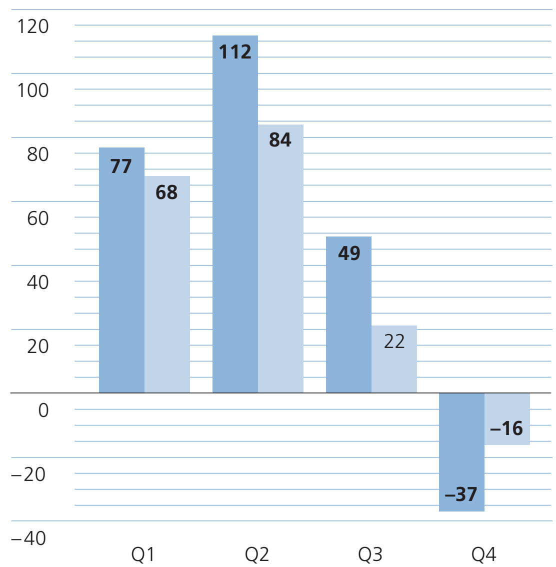
Taxes on income rose from Euro 39 million in the previous year to Euro 64 million. This sharp increase was mainly driven by earnings. The effective tax rate amounted to 50.3 % (previous year: 48.9 % of adjusted EBT). The fact that the tax rate is higher than the nominal tax rates of around 39 % is mainly due to goodwill write-downs and write-downs on shareholdings valued at equity, which are not tax-deductible, as well as to the effects of the put option, which also have no impact on the tax charge.

Following taxes on income and a slightly higher share of minority interests in the annual net surplus, the MVV Energie Group reported **an annual net surplus**

Sales by Quarter
Euro million



EBIT by Quarter
Euro million



after minority interests of Euro 50 million in the 2005/06 financial year, compared with Euro 28 million (adjusted) or Euro 34 million (as reported) in the previous year.

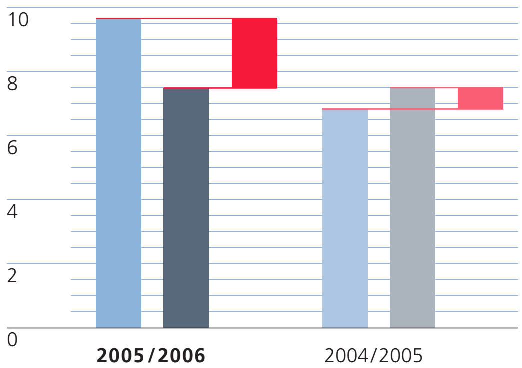
On this basis, the MVV Energie Group generated **earnings per share** calculated pursuant to IAS 33 of Euro 0.91 in the 2005/06 financial year, as against Euro 0.55 per share based on the adjusted earnings for the previous year or Euro 0.67 per share based on the previous year's earnings as reported. The number of shares (weighted average for the financial year) increased from 50.7 million to 55.8 million, mainly as a result of the capital increase in November 2005.

The multi-year overview on Pages 66 to 69 of this annual report illustrates the positive development in the company's key figures over the past financial years.

Quarterly performance

Our sales in the 4th quarter of 2005/06 (July to September 2006) rose by 12% compared with the previous year to reach Euro 479 million. This growth was attributable to the value-added services, electricity (nationwide electricity sales), environmental energy and water segments. The earnings of the MVV Energie Group in the 4th quarter are traditionally weak, given that no earnings contribution is generated by the heating energy business in the summer months and that maintenance and revision measures are undertaken more frequently during this period. Earnings in the 4th quarter of 2005/06 were further negatively affected in the year under report by the extraordinary depreciation, impairment losses and personnel provisions outlined above. However, the positive operating earnings performance in the previous quarters enabled us to compensate for these factors. The figures for the 4th quarter of the previous year included personnel provisions of Euro 13 million in connection with the FOKUS efficiency enhancement programme.

Key Figures
in %



	2005/2006	2004/2005
	ROCE 9.7 %	ROCE 6.9 %
	WACC 7.5 %	WACC 7.5 %
	Value spread 2.2 %	Value spread – 0.6 %

Value-based company management

The most important key figure used in value-based company management at the MVV Energie Group is the value spread. This key figure is equivalent to the difference between the period-specific return on capital employed (ROCE) and the weighted average cost of capital (WACC).

ROCE expresses operating earnings before financing items (interest), taxes and goodwill amortisation (EBITA) as a percentage of the capital employed to achieve such earnings. The increase in the ROCE from 6.9 % in the previous year to 9.7 % shows that more efficient use has been made of the capital employed.

The WACC figure, the second component in our key value spread figure, represents the long-term lower economic limit for the return generated on operations. As in the previous year, the WACC indicator has been based on a cost of capital of 5.0 % and a risk-free rate of return of 4.5 %. The other parameters used for calculating the WACC figure have also been left unchanged (ß factor 0.7; market risk premium 5.0 %; tax shield 40 %; equity ratio 30 %). As a result, our weighted costs of capital amounted to 7.5 % in the year under report and were thus at the same level as in the previous year.

The subtraction of the WACC of 7.5 % (previous year: 7.5 %) from the ROCE of 9.7 % (adjusted figure for previous year: 6.9 %; as reported: 7.0 %) produces a value spread of 2.2 %, and thus for the first time positive, for the 2005/06 financial year. At – 0.6 % (adjusted) and – 0.5 % (as reported), the value spread in the previous year was still negative.

Earnings Position of Major German Shareholdings

The municipal utility network of the MVV Energie Group consists of the MVV Energie AG parent company, seven municipal utility companies in Germany and ten district heating providers in Poland and the Czech Republic (please see Overview of Shareholdings on Page 21). The strengthening of the links between the companies, as well as the generation of further synergies and the exploitation of efficiency potential within the Group, made a major contribution to the growth of our companies during the year under report. Our domestic portfolio of fully and proportionately consolidated municipal utility shareholdings in Kiel, Offenbach, Solingen, Ingolstadt and Köthen increased their sales prior to consolidation from Euro 823 million in the previous year to Euro 897 million (+ 9 %) and their operating earnings (EBIT) contribution from Euro 88 million to Euro 91 million (+ 3 %).

Stadtwerke Kiel AG (51.0 % shareholding)

With sales of Euro 370 million (previous year: Euro 336 million) and operating earnings (EBIT) of Euro 35 million (previous year: Euro 22 million), the Stadtwerke Kiel AG (SWK) subgroup contributed to our pleasing performance in the year under report. The sales growth (+ 10 %) was chiefly driven by the gas and district heating segments, which are highly dependent on weather conditions. The 59 % jump in earnings is mainly due to the discontinuation of the one-off charge on earnings resulting from provisions for litigation risks. The reaching of a settlement with ares Energie AG enabled SWK to finally settle all of the legal disputes surrounding its previous participatory interest in ares Energiedirekt GmbH, Berlin, during the year under report, with the result that this issue now harbours no financial risks. Over and above these factors, the improvement in earnings is due to the success of cost-saving measures.

SWK began work on the construction of a third gas cavern in June 2006. With a volume of Euro 29 million, this represents the subgroup's largest investment project. Drilling work was already completed before the end of the year under report. This new underground reservoir, which will have a capacity of 500 000 m^3, is to be used to optimise procurement costs.

Energieversorgung Offenbach AG (48.78 % shareholding)

The Energieversorgung Offenbach AG (EVO) subgroup succeeded in increasing its sales from Euro 306 million in the previous year to Euro 311 million (+ 2 %). The significant increase in sales from value-added services and contracting projects is particularly pleasing in this respect.

EVO generated operating earnings of Euro 34 million in the year under report and thus significantly improved on the comparable earnings figure of Euro 31 million in the previous year (excluding the one-off income on the sale of shares in 3T Telekommunikationsgesellschaft mbH, Offenbach). This improvement was primarily driven by the improvement in the EBIT margin in the district heating and waste incineration businesses. The entry into force of the Technical Guidelines for the Disposal of Municipal Solid Waste (TASi) and optimised materials flow management enabled EVO's waste-to-energy plant to achieve a further increase in incineration volumes in the year under report. EVO's waste-to-energy plant thus makes a notable contribution towards alleviating the shortage in disposal capacities in the Rhine/Main region.

In June 2006, the supervisory boards of EVO and MVV Energie AG approved the establishment of a joint grid company based in Mannheim, 24/7 Netze GmbH, as of 1 October 2006. 24/7 Netze GmbH, 70 % of the shares in which are held by MVV Energie AG and 30 % by EVO, will have around 120 employees. The total grid length amounts to around 11 000 kilometres.

Stadtwerke Solingen GmbH (49.9 % shareholding)

Stadtwerke Solingen GmbH (SWS) increased its proportionately consolidated sales from Euro 94 million to Euro 105 million in the year under report (+ 12 %). Its operating earnings (EBIT) nevertheless fell from Euro 11 million to Euro 10 million. This decline is chiefly due to the sharp rise in energy procurement costs, which could not be passed on to customers in full.

In September 2006, SWS launched the "Impuls" project aimed at optimising processes and realigning the strategy of individual business fields. In this way, SWS intends to compensate for the downturn in earnings expected from the reduction in the level of grid utilisation fees submitted for approval.

Investments and restructuring measures, coupled with the optimisation of operating process at two waterworks, are intended to generate annual savings of Euro 1 million from 2009. We expect the merging and streamlining of the two waterworks, which are working at only 30 % capacity, to produce savings of more than Euro 20 million in the long term.

Stadtwerke Ingolstadt Beteiligungen GmbH (48.4 % shareholding)

The sales of our proportionately consolidated shareholding Stadtwerke Ingolstadt Beteiligungen GmbH (SWI) rose from Euro 75 million to Euro 96 million during the 2005/06 financial year (+ 28 %). The growth in electricity and gas sales is attributable to the charging on of procurement price increases and to an increase in volumes due to weather conditions.

In spite of higher sales, proportionate operating earnings (EBIT) fell by Euro 2 million compared with the previous year to Euro 10 million. This was due in particular to it not being possible to pass on the full extent of the increase in procurement prices to end customers.

SWI's electricity and gas sales activities succeeded in acquiring new customers in both the private and the large-scale customer segments. Its shareholding in the new trading company, 24/7 Trading GmbH, will provide SWI with efficient access to the wholesale market and support the shareholding's product development and sales activities.

Moreover, SWI was also affected during the year under report by interventions from politicians and the wider community. The public debate surrounding gas prices was heated up by a local campaign called "Reduce gas prices now". Two lawsuits intended to establish the inequity of the gas price have been filed and are due to be decided at the district court. However, targeted press activity has resulted in a more objective discussion of the issues involved in the media.

Köthen Energie GmbH (100 % shareholding)

Sales at Köthen Energie GmbH rose from Euro 12 million to Euro 15 million during the year under report (+ 25 %). This growth is attributable to the gas business and to new energy-related services orders. Operating earnings (EBIT) improved by 8 % to Euro 2 million. The construction of a direct and storage pipe link to the European long-distance grid will enable our shareholding to optimise its procurement costs and to access alternative sources of gas procurement.

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

During the 2005 financial year (balance sheet date: 31 December 2005), Stadtwerke Buchen (SWB) generated sales of Euro 22 million (previous year: Euro 18 million) and an annual net surplus of Euro 1 million (previous year: Euro 2 million) which is reported as income from shareholdings in line with our level of shareholding. With a 36 % share of sales, gas is the business division with the highest sales at SWB, followed by electricity (34 %). The expansion of the value-added services business enabled this division to achieve an 18 % share of sales and thus to overtake the water division (12 %).

Earnings Position of Major Foreign shareholdings

Our international business is focused on our shareholdings in district heating companies in Poland and the Czech Republic. The two subgroups combined generated sales of Euro 95 million (previous year: Euro 84 million) and operating earnings (EBIT) of Euro 4 million (previous year: Euro 7 million) to the overall sales and earnings of our group of companies in the year under report.

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

The sales of our Czech subgroup, which currently comprises seven district heating companies and one service company, rose by 14 % to Euro 48 million in the year under report. At 0.7 billion kWh, the district heating turnover was unchanged on the previous year. Operating earnings (EBIT) declined due to the discontinuation of one-off effects in the previous year and a massive increase in fuel costs. As a result of a complaint submitted by our subsidiary, MVV Energie CZ s.r.o., the cartel authority imposed a fine on the gas importer Transgas for market abuse.

Our Czech group made further progress with its restructuring measures. The shareholdings held in Děčín and Vsetín were both increased to more than 90 %. We are currently examining interesting investment opportunities in the Czech Republic and in neighbouring Slovakia.

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

Our shareholdings in the municipal district heating companies in Bydgoszcz, Szczecin and Skarzysko-Kamienna, as well as in two service companies, are pooled at our Polish holding company MVV Polska Sp. z o.o., Warsaw.

Sales increased by 12% compared with the previous year to reach Euro 47 million. At 1.2 billion kWh, the district heating turnover remained virtually unchanged on the previous year. In spite of its sales growth, our Polish subgroup reported negative operating earnings (EBIT) of Euro – 2 million for the year under report (previous year: Euro –1 million). The decline in earnings is attributable to a one-off charge resulting from an impairment test at our shareholding in SEC Szczecin Sp. z o.o. The political changes in Poland in the past year have also made the underlying conditions in the district heating market more difficult. In the past two financial years, the new management in Poland has reacted to the resultant change in development prospects by undertaking write-downs in the carrying amounts of existing shareholdings. Following adjustment for this one-off item, operating earnings amounted to almost Euro 3 million.

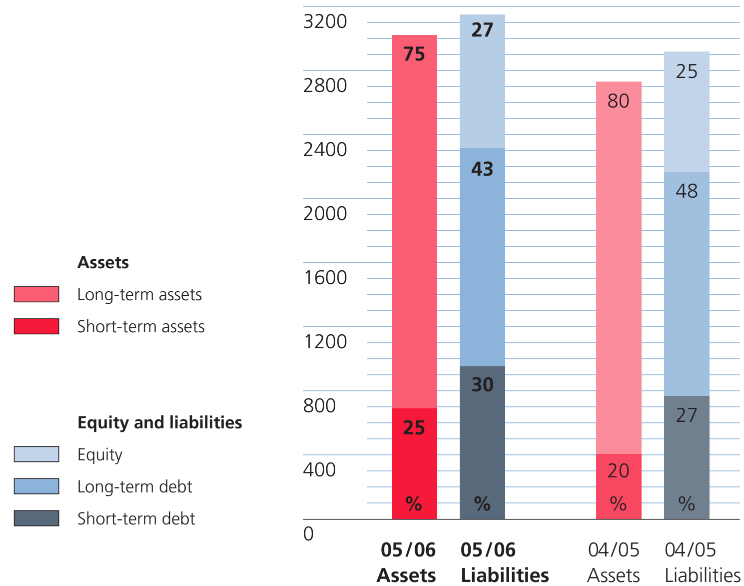
Net Asset and Financial Position

New balance sheet structure pursuant to IFRS

The consolidated financial statements of the MVV Energie Group are compiled in accordance with International Financial Reporting Standards (IFRS). We have applied a series of new standards for the first time as of the balance sheet reporting date on 30 September 2006. We have also taken account of those changes in standards requiring mandatory application for the first time in financial years beginning on or after 1 January 2005. This has resulted in changes in the composition and structure of the balance sheet and in the statement of individual items compared with the previous year. Detailed information concerning these changes and their impact has been provided in the notes to the 2005/06 consolidated financial statements.

As a result of IAS 1 (2003), from the 2005/06 financial year we have structured the asset and liability sides of our balance sheet in terms of maturities and have accordingly reported assets and liabilities either as short-term or as long-term items.

Balance sheet structure
Euro million, shares in %



Asset and capital structure

The *total assets* of the MVV Energie Group rose by 8 % compared with 30 September 2005 to reach Euro 3.15 billion. This increase is mainly attributable to two factors:

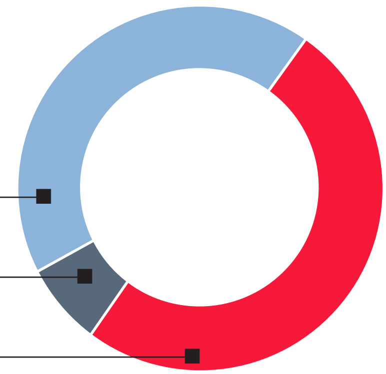
Long-term assets rose by 1 % to Euro 2.36 billion. The largest share of long-term assets relates to property, plant and equipment, whose value showed a net increase of almost 2 % to Euro 1.87 billion as a result of investments, deconsolidation and depreciation. At 59 %, the share of property, plant and equipment as a proportion of total assets underlines the intensity of investment typical to our industry as a result of the high level of capital committed. Intangible assets declined by 3 % to Euro 309 million. This reduction was primarily due to goodwill write-downs of around Euro 22 million undertaken in connection with the annual impairment tests in view of the new regulatory and pricing framework.

Financial assets include shareholdings valued at equity amounting to Euro 15 million (previous year: Euro 91 million) and other financial assets of Euro 134 million (previous year: Euro 52 million). ENERGY InnovationsPortfolio AG & Co. KGaA, Mannheim, which was previously fully consolidated, was included in the consolidated financial statements at equity as of 1 January 2006, given that it is no longer controlled by MVV Energie AG. In the previous year, this item included eleven associated companies which have been deconsolidated and stated as other financial assets in the year under report. Moreover, this item also includes further shareholdings, as well as loans and securities. Details concerning changes in the reporting entity have been provided in the notes to the consolidated financial statements.

The development in *short-term assets* is mainly affected by accounts receivable, which rose by 13 % to Euro 370 million. This increase is chiefly due to a higher level of deferrals for energy and water sales not yet metered or invoiced at the reporting date.

Investments of the MVV Energie Group[1] in the 2005/2006 financial year

Euro 190 million



[1] Investments in intangible assets, property, plant and equipment and investment property at the MVV Energie Group

The depiction of energy trading transactions in accordance with IAS 39 (2004), which requires mandatory application for the first time, represents the main reason for the increase in other *short-term assets* from Euro 60 million to Euro 229 million. Overall, short-term assets rose by Euro 213 million to Euro 791 million.

On the liabilities side, the *equity* of the MVV Energie Group rose by Euro 100 million to Euro 837 million. This increase is mainly due to the capital increases undertaken in November 2005 and in connection with the employee share programme on the one hand, and to the increase in capital reserves and improvement in annual earnings on the other. Minority interests amounted to Euro 105 million as of 30 September 2006. The figure of Euro 231 million reported in the previous year was retrospectively adjusted in connection with the initial recognition of the Kiel put option.

Chiefly as a result of the lower level of financial liabilities, *long-term debt* declined by Euro 32 million compared with the reporting date in the previous year to Euro 1.37 billion. Long-term debt would have increased if it had not been for the Kiel put option, which was retrospectively reported under long-term debt as of 30 September 2005 and has been reported under short-term debt as of 30 September 2006.

The reclassification of the put option, which had an analogous impact on the development of *short-term debt*, is responsible for part of the increase in this item from Euro 784 million in the previous year to Euro 950 million. Apart from this, the increase was also due a higher level of other liabilities resulting from the amended accounting treatment of energy trading transactions, which had to be valued for the first time pursuant to IAS 39 (2004). Short-term financial liabilities rose by Euro 44 million to Euro 417 million.

The MVV Energie Group reported an equity ratio of 26.5 % as of 30 September 2006, which is adequate when compared with peer-group companies. The equivalent equity ratio in the previous year amounted to 25.3 % (previous year excluding put option: 29.4 %).

The *long-term assets* are covered to a total of 93 % by equity and long-term debt capital (previous year: 91 %).

Major investments in high-growth businesses

The volume of investment rose from Euro 214 million in the previous year to Euro 219 million (+ 2%). A total of Euro 190 million was invested in intangible assets, property, plant and equipment and investment property (previous year: Euro 162 million), while Euro 29 million was invested in the acquisition of fully and proportionately consolidated companies and other financial assets (previous year: Euro 52 million). The increase in investment in intangible assets, property, plant and equipment and investment property is due in particular to investments in the high-growth environmental energy and value-added services segments.

Investments in the environmental energy segment focused on the construction of the second line at the non-recyclable waste incineration plant in Leuna (Leuna II), as well as on the purchase of waste-fired boiler No. 4 in Mannheim following the expiry of lease financing. Further focuses of investment included the replacement of a condensing turbine and a heat exchanger at the waste-to-energy plant in Mannheim, as well as capacity optimisation measures at the incineration plant at the same location. An air capacitor was renewed at the waste-to-energy plant in Offenbach.

Investments of the MVV Energie Group[1]

Euro million	2005/2006	2004/2005	% change
Electricity	18	22	– 18
District heating	19	24	– 21
Gas	22	17	+ 29
Water	12	13	– 8
Value-added services	18	8	+ 125
Environmental energy	81	64	+ 27
Other	20	14	+ 43
	190	**162**	+ 17

[1] intangible assets, property, plant and equipment and investment property

The investments made in the value-added services segment primarily related to the optimisation of the biomass heat and power plant at Altenstadt, as well as to contracting projects.

The main focuses of investment in the core business fields chiefly involved optimising supply facilities and distribution grids at MVV Energie AG and at shareholdings in Germany and abroad. Work was begun in Kiel on the construction of a third gas cavern.

The investments made in the area of joint facilities focused on the acquisition and launch of the new SAP R/3 IS-U consumption invoicing software in Mannheim.

Financial investments related in particular to capital increases at MVV Umwelt GmbH and MVV Energiedienstleistungen GmbH, as well as to the acquisition of IVB Immobilien Versorgung GmbH Berlin and of shares in Stadtwerke Schwetzingen GmbH. Moreover, Stadtwerke Solingen GmbH contributed its share of equity to Trianel Power Projektentwicklung GmbH & Co. KG (TPPE), thus securing procurement rights to 20 MW of electricity at the gas and steam turbine power plant currently under construction at Hamm-Uentrop.

Cash flow statement

The cash flow statement shows the origin and use of flows of funds in the 2005/06 and 2004/05 financial years and can be found in detailed form in the consolidated financial statements on Page 76 of this annual report.

The cash flow based on DVFA/SG rose from Euro 188 million (adjusted) or Euro 195 million (as reported) in the previous year to Euro 246 million. This increase is attributable both to earnings and to a higher level of depreciation.

Following the inclusion of changes in other asset and liability items, the cash flow statement reported an inflow of funds from operating activities of Euro 138 million in the year under report, compared with Euro 216 million (adjusted) in the previous year. The decline of Euro 78 million was mainly due to a higher level of accounts receivable resulting from price increases and from volume and invoicing factors. The outflow of funds for investments in property, plant and equipment and in intangible assets amounted to Euro 190 million in the year under report. Of these investments, around Euro 108 million related to expansion/growth investments which will only result in inflows of funds in subsequent years.

As a result of this high level of growth investment and the comparatively low inflow of funds from operating activities, the difference between the inflow of funds from operating activities and the investments in intangible assets, property, plant and equipment and investment property produced a negative free cash flow of Euro 52 million in the year under report. At Euro 53 million (adjusted) or Euro 60 million (as reported), the free cash flow had been positive in the previous year.

Financial position and financial management

Short-term and *long-term financial debt*, including the Kiel put option stated for the first time, rose to Euro 1.43 billion in the year under report, compared with Euro 1.41 billion in the previous year (+ 1 %). The net financial liabilities of the MVV Energie Group (financial liabilities less cash and cash equivalents) rose by 2 % to Euro 1.31 billion in the 2005/06 financial year.

In spite of the high outflow of funds for investments, loan repayments and the dividend payment, the inflow of funds from financing activities during the year under report amounted to Euro 41 million. This was mainly due to the capital increases. An outflow of funds amounting to Euro 96 million (adjusted) or Euro 89 million (as reported) had been reported in the previous year.

MVV Energie AG manages a cash pool for itself and seven further companies in the MVV Energie Group. In this function, it procures and safeguards its own liquidity, as well as the financial funds of the shareholdings included in the cash pool, including the capital required for investments.

The financing policies in place at MVV Energie AG are intended to provide the company with extensive financial flexibility and with access at all times to short-term and long-term sources of financing.

Overall Summary of Business Performance and Financial Position

The MVV Energie Group performed successfully in a difficult competitive climate in the course of the 2005/06 financial year. The Group achieved its strategic and operating targets, and even managed to surpass them.

A higher level of revenues in our new high-growth fields of non-recyclable waste incineration and energy-related services, coupled with cost savings, enabled us to compensate for the write-downs required on our electricity and gas grids as a result of regulation, as well as the decline in margins which we faced in our electricity business as a result of massive increases in procurement costs.

Events After the Balance Sheet Date

The five joint subsidiaries established by MVV Energie AG and its shareholdings (shared service companies) largely took up operations on 1 October 2006. The companies act on the market under the umbrella brand “24/7”, which stands for 24-hour service, 7 days a week, thus underlining the service orientation of these companies. This measure has not only enabled us to meet the new unbundling requirements in terms of legal structures in the grid division, but has also opened up considerable synergy potential as a result of the pooling of internal services between the companies. We have thus strengthened the MVV Energie Group for future competition and helped to compensate for the increased pressure on costs resulting from grid regulation.

Karl-Heinz Trautmann, the member of the Executive Board of MVV Energie AG responsible for sales, marketing and environmental energy, has retired from office and left the company at his own request. The Supervisory Board assented to his request that his contract, which ran until the end of September 2008, be prematurely terminated as of 15 October 2006. His previous responsibility for sales at MVV Energie AG has since been assumed by the CEO, Dr. Rudolf Schulten, while responsibility for the environmental energy and trading divisions has been taken over by the board member Dr. Werner Dub.

None of the companies within the MVV Energie Group was affected by the entry into effect of grid utilisation fee approval notifications during the 2005/06 financial year. Only after the end of the year under report, on 13 October 2006, did the Federal Networks Agency reduce the electricity grid utilisation fees submitted by Stadtwerke Kiel AG by around 17 % with effect from 1 October 2006. New electricity grid utilisation fees have also been in place since 1 October 2006 at Stadtwerke Ingolstadt. The cost base submitted was basically confirmed. The gas grid utilisation fees submitted by Köthen Energie were approved. No approval notifications had been received by MVV Energie AG, Energieversorgung Offenbach, Stadtwerke Solingen or Stadtwerke Buchen as of the end of November 2006.

Risk Report

The continuous and reliable assessment, minimisation and avoidance of potential risks is of crucial significance to the solidity of the company's performance in the long term. It is equally important for the company to identify and act on entrepreneurial opportunities and to exploit these for its further development.

The systematic risk management system in place across the MVV Energie Group ensures that risks and opportunities are controlled effectively. As such, this system forms an integral component of company management across the Group.

The implementation of risk policies is safeguarded by means of a risk management handbook adopted by the Executive Board, which sets out guidelines concerning the handling of risks. A limit handbook documents budget/actual variances and enables risks to be identified at an early stage. These handbooks are valid across the Group and are binding for all companies and shareholdings in Germany and abroad. Each of these risk carriers submits monthly reports on its risk situation to the central risk control unit on the basis of a standardised procedure. The risk control unit analyses this data, identifies measures to avoid, reduce or transfer risks and reports to the members of the Executive Board on a monthly basis and to the Supervisory Board on a quarterly basis. In special cases, the Executive Board is informed immediately.

Our early warning risk identification system reacts very sensitively, enabling us to identify risks, especially any risks to the Group's continued existence, at an early stage. We compare the risks reported with budget and forecast data in order to achieve an even greater density of information and to manage our company efficiently. The effectiveness and efficiency of the risk management system we have developed are audited by our group internal auditing department. The assessment of the early warning risk identification system also forms part of the annual audit.

Our risk aggregation procedures make a distinction between six principal areas of risk which could affect our business performance and our net asset, financial and earnings position. This process takes no account of macroeconomic risks, given that the development of the overall economy is of less significance to the earnings of our electricity, district heating, gas and water segments than weather conditions.

Strategic risks

We define strategic risks as those factors preventing the Group from achieving earnings as a result of it being inadequately aligned to its political, economic, technological, social or ecological environment.

Given that the MVV Energie Group is pursuing a growth strategy, it could be faced with strategic risks resulting from the inadequate assessment of municipal utility shareholdings, company takeovers, joint ventures, alliances, disinvestments, projects or of new markets and technologies. We have taken precautions in order to reduce these risks. The implementation and monitoring of the strategic framework set by the Executive Board is undertaken by the Group Strategy department and is subject to regular review. Moreover, new investments have to be approved by the Investment Committee, which includes members from various specialist departments.

Legal risks

Legal risks include legislative and regulatory risks which could potentially have a negative impact on the business activities of the MVV Energie Group. Legal risks, which may arise on account of court proceedings, disadvantageous or unenforceable contracts, or supply obligations and product liability, are limited on a centralised basis by the Group legal department. This department is responsible for the correct drafting of contracts in terms of their contents and for managing any legal proceedings. While the entry into force of the amended Energy Act (EnWG) and of its related ordinances has increased the security of the legal framework, thus enhancing budgeting reliability, the presence of the Federal Networks Agency and state regulatory authorities means that new players with increasing powers of intervention have also come onto the scene. The assessment of the future development of fee assessment notices from the Federal Networks Agency, and thus of the level of grid utilisation fees, is subject to a corresponding level of regulatory risk. We monitor these developments closely, while also analysing our possible courses of action. In order to counter future regulatory risks adequately and in good time, we play an active role in the energy policy opinion-forming process and are involved on a political level in the further development of the system of regulation.

Financing risks

Financing risks include liquidity and foreign currency risks, although the latter play a subordinate role at the MVV Energie Group. Information concerning foreign currency conversion has been provided in the notes to the consolidated financial statements on Page 85. To optimise our liquidity position, we undertake internal group cash pooling, which is intended to have a positive impact on our net interest expenses. 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.

Price risks

The liberalisation of the energy markets has led to price risks, which the MVV Energie Group limits by means of its energy trading activities. The risks relating to electricity, gas and coal prices, as well as to CO_2 emissions certificates are optimised using portfolio management.

MVV Energie AG makes use of derivative instruments in order to minimise those price and volume risks which could arise on the various energy markets, such as electricity, coal and gas, or for CO_2 emissions certificates, as well as interest rate changes arising on the financial markets which could affect the financing of our business activities. These derivative transactions are undertaken exclusively with counterparties of optimal creditworthiness and for the sole purpose of hedging underlying transactions.

Volume risks

Volume risks may arise on the procurement side as a result of supply shortages and on the sales side on account of the increase in competition in liberalised markets and due to weather conditions. The MVV Energie Group draws on its entire spectrum of risk management instruments in order to reduce such volume risks. These instruments include energy trading and the design of new, competitive products (e.g. Electricity Fund).

Operating risks (performance risks)

We define IT, operational, organisational, personnel-related and security risks as representing operating 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. IT risks are limited by means of high security requirements and a proprietary backup computer centre.

Qualified employees represent a key success factor in the achievement of our company objectives. We therefore view personnel risks as involving the unavailability or loss of personnel. Our successful personnel management takes all measures necessary to minimise personnel risks or to avoid them completely. Numerous personnel development programmes, which support our employees on all levels and provide them with ongoing further training, enable us to develop a number of potential internal successors to fill any positions becoming vacant. We therefore see only a low risk of it not being possible to find suitable replacements in the event of the departure of key personnel. The structuring of efficiency enhancement measures resulting in personnel reductions represents a challenge, given the company agreements in place in some cases within the Group, which exclude the possibility of any redundancies, and in view of our own standards in terms of the socially responsible implementation of such measures. We manage this challenge by drawing on natural fluctuation, the potential for partial early retirement, cutting vacant positions, internal relocations and compensation agreements within the framework of the FOKUS programme.

Overall risk

The assessment of our 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.

Outlook

In the coming years we expect to see a further intensification in the competition in our sector and the increasing pressure on costs resulting from the regulation of grid utilisation fees. We prepared for the new challenges facing the energy market at an early stage. The measures we have initiated will take full effect in the 2006/07 financial year and the subsequent 2007/08 financial year. We therefore expect to achieve further improvements in our sales and earnings figures in the coming years as well.

Macroeconomic developments

The forecasts as to the ongoing development of the overall economy are more reserved. Given the VAT increase from 16 % to 19 % as of 1 January 2007, price increases and higher wage and salary agreements are to be expected starting in the 2007 calendar year. These could fuel inflationary risks and lead the European Central Bank to raise interest rates. Economic research institutes now only expect economic growth to amount to 1.8 % in 2007. However, the earnings performance of our group of companies is less dependent on economic developments than on weather conditions.

Sector developments

Competitive pressure is intensifying in our sector, as is the pressure on costs. The reduction in grid utilisation fees imposed by the regulatory authorities will force grid operators to improve their efficiency on an ongoing basis.

Strategic alignment

Our business policies focus on generating profitable growth. Alongside our core competence in the distribution of energy and water, our high-growth fields of non-recyclable waste incineration and biomass utilisation will contribute to increased earnings, as will the expansion of our energy-related services. We also aim to generate profitable growth with further municipal utility shareholdings.

In our core business – the distribution of electricity, district heating, gas and water – all of the companies in our municipal utility network have a mature high degree of technical expertise and traditionally close links to their customers in their local and regional sales markets. However, there are only limited opportunities for growth in the core business, i.e. for acquiring additional market share by means of product differentiation. We therefore intend to enhance our efficiency and reduce costs in all of our processes to enable us to maintain our economic success in spite of the further intensification in pricing competition in future.

In the nationwide sale of electricity, we see our innovative "Electricity Fund" product as offering considerable opportunities in the market. We have already concluded numerous new electricity supply agreements with customers. These will first impact on earnings in 2007 and 2008.

Given the high demand for incineration capacities in Germany resulting from the entry into force of the Technical Guidelines for the Disposal of Municipal Solid Waste (TASi) on 1 June 2005, we expect market prices for the incineration of industrial and commercial waste to remain high in subsequent years as well.

We also expect to see strong growth in the German market for energy-related services. We are well positioned in this market via our wholly-owned subsidiary MVV Energiedienstleistungen GmbH, its subsidiaries and the shareholdings acquired in the 2005/06 financial year.

Synergy potential from task pooling and process optimisation

In addition to the sustainable cost savings of Euro 18 million already achieved in the 2005/06 financial year, the FOKUS efficiency enhancement programme in place at the administration departments of MVV Energie AG in Mannheim will generate further cost savings of around Euro 5 million in the 2006/07 financial year. We will thus already have realised almost 80 % of the savings potential which we intend to achieve by the 2007/08 financial year. We expect the reorganisation of the technical facility management division due to be implemented from January 2007 to generate further savings. Cost reduction programmes have also been launched at our shareholdings, especially in Kiel and Solingen.

Together with our shareholdings, we have laid the foundations for further synergy potential by pooling internal services within the Group. The five new shared service companies largely took up operations at the beginning of the 2006/07 financial year.

Expected earnings position

We aim to increase our operating earnings before interest and taxes (EBIT) to Euro 220 million in the 2006/07 financial year. We also expect to achieve a positive value spread figure in the subsequent 2007/08 financial year as well.

Our confident assessment is primarily based on the performance of our environmental energy and value-added service segments, as well as on the effect of our cost-saving measures. We will thus be able to compensate for the negative impact on earnings expected to result from grid regulation.

We aim to increase our sales to Euro 2.5 billion in the 2006/07 financial year. We expect to generate further savings in the expenses section of our income statement by means of reductions in material resources. Pooling intra-company services at the new shared service companies will also lead to material and personnel savings.

The positive development in our earnings power provides us with the scope required for our dividend decision. The Executive Board and Supervisory Board will propose an increase in the dividend for the 2005/06 financial year to Euro 0.80 per share for approval by the Annual General Meeting on 9 March 2007. We are confident that we will be able to propose an attractive dividend for the following year as well.

Expected financial position

Alongside our organic growth, we also aim to achieve external growth by acquiring shareholdings in further municipal utility companies, as well as in our environmental energy and energy-related services business fields. We will obtain the necessary capital by means of a capital increase of almost 20 % from existing authorised capital planned to be undertaken with subscription rights in the first half of 2007. The Supervisory Board of MVV Energie AG has commissioned the Executive Board to make all necessary preparations for the capital increase.

Investments of Euro 278 million and Euro 199 million have been budgeted for the 2006/07 and 2007/08 financial years respectively. These investments will focus on the high-growth environmental energy and value-added services segments.

We expect to see a continuous increase in the cash flow in the 2006/07 and 2007/08 financial years, from which it will be possible to cover both the investments and the dividend payments.

Future investments in electricity generation capacity

The generation of electricity at proprietary power plants and at jointly owned power plants in which we hold shareholdings represents an important pillar of our business model. Together with our partners in Mannheim and Kiel, we therefore intend to renew and expand the electricity generation capacities at these well-developed locations in the coming years, provided that such projects meet the necessary investment criteria. Our shareholding in Solingen has secured electricity procurement rights for 20 MW of the 800 MW gas and steam turbine power plant in Hamm-Uentrop scheduled to commence operations in autumn 2007.

Growth opportunities due to market consolidation

We expect numerous municipal utility companies in Germany to witness increasing pressure on their margins as a result of grid regulation. Given that many municipalities have extremely limited financial scope, it will become increasingly difficult for them to retain their shareholdings. We intend to exploit this change in underlying conditions in the energy sector to drive the further profitable growth of our company. Given our proven track record in the successful further development of our municipal utility shareholdings and the antitrust restrictions on large vertical players, we believe that we have good prospects of being allowed to purchase any companies put up for sale. The value-based management of municipal utility companies has now become one of our core competencies. We see further growth potential in Eastern Europe, where we took part in a tender process for district heating companies in Slovakia in October 2006 via our profitable shareholding in the Czech Republic.

Opportunities in the environmental energy and value-added services segments

Given our superb position in the market, we also see our environmental energy and value-added services segments as offering good opportunities for growth.

We expect to operate our non-recyclable waste incineration plants in Mannheim, Offenbach and Leuna at full capacity throughout the whole of the 2006/07 financial year and beyond. We are following developments in the waste market closely and are examining the viability of further opportunities of acquiring shareholdings and possible locations for non-recyclable waste incineration plants. In Mannheim, we are planning the construction of a new waste-fired boiler No. 6 as a replacement for older waste-fired boilers. We expect this measure to enhance the economic efficiency and competitiveness of the waste-to-energy plant in Mannheim. The contract is scheduled to be awarded in spring 2007, with operations scheduled to begin in autumn 2009.

We also intend to grow more rapidly than the market in our energy-related services business. This is particularly the case for our industrial and municipal contracting business. We also see our new shareholdings in the real estate and housing sectors as offering good market opportunities.

Securing the future by means of sustainable action

We will continue to assume social, entrepreneurial and ecological responsibility, thus playing an active role in shaping the future of the cities and regions in which we operate. The companies of the MVV Energie Group will uphold their commitment to society, their measures to protect the environment and to promote their employees, as well as their local and regional customer retention activities in the 2006/07 financial year.

The image campaign launched by MVV Energie AG in 2006 will therefore be maintained in 2007 and 2008. We are actively addressing our customers with advertisements, posters, media advertising and campaigns underlining the importance of the services we provide in Mannheim and the Rhine/Neckar region.

Overall summary of expected developments

Our group of companies is well prepared for the changes and further increase in competition on the energy markets. Given the shortage of incineration capacities in the waste disposal market, the double-digit growth expected in the energy-related services market in Germany and the consolidation expected in the German municipal utility market, we therefore expect to maintain our course of profitable and sustainable growth in the coming years as well.

This external growth, coupled with the positive impact of the cost-saving measures initiated, which will take full effect in the 2006/07 financial year and the subsequent 2007/08 financial year, provide us with a solid foundation for maintaining our value spread in positive territory.

We have been pleasantly surprised by the progress made by MVV Energie on an operational level. We see the publicly listed company MVV Energie AG as the first port of call for municipal utility companies interested in cooperating in the wave of consolidation which we expect to see in the energy sector following the regulation of electricity and gas grid utilisation fees. With a dividend yield of between 3 and 4 percent, the MVV Energie AG share is well-suited to the needs of long-term investors.

Matthias Heck,
Analyst, Sal. Oppenheim

Business Segments

4

Business Segments

4

Developments in the Business Segments

Grid Lengths at the MVV Energie Group

in km	2005/2006	2004/2005	% change
Electricity	14 713	14 544	+ 1
District heating	1 801	1 889	– 5
Steam	102	105	– 3
Gas	5 695	5 608	+ 1
Water	4 119	4 101	—

The amended German Energy Act (EnWG) and the establishment of the Federal Networks Agency as the central regulatory authority has brought the performance and costs of the technical divisions of German energy supply companies firmly into focus. The regulatory authorities are exerting pressure on grid utilisation fees, thus obliging energy suppliers to achieve greater cost effectiveness in their technical divisions as well.

With the "Optimisation of Operating Processes" project at its Mannheim location, MVV Energie AG is proactively fulfilling this requirement to achieve cost savings in its technical facility management. This project focuses on the production facilities and distribution grids involved in the supply of electricity, district heating, gas and water. A new, competitive organisational structure with a total of 275 employees is due to be launched at the technical facility management division on 1 January 2007 already. Streamlined work processes, the deployment of employees across various divisions, a reduction in administrative tasks and a lower number of management staff will enable the technical service provider to react to changes in the market with greater cost effectiveness and flexibility.

One initial visible sign of the cost-effective enhancement of efficiency and competitiveness at the technical facility management division is the conclusion of several service agreements at competitive conditions with 24/7 Netze GmbH. The Mannheim-based shared service company has itself leased its grids from MVV Energie AG and from Energieversorgung Offenbach AG. 24/7 Netze GmbH, which was founded on 1 October 2006, is 70 % owned by MVV Energie AG, with the remaining 30 % owned by Energieversorgung Offenbach AG.

In the long term, the technical facility management division aims to become the leading technical service provider for the supply of energy and water in the Rhine/Neckar region and to secure its position in the market on a permanent basis by acquiring new customers.

Electricity Segment

Our electricity segment faced especially intense competition in the 2005/06 financial year. We nevertheless succeeded in increasing our sales by 10 % to Euro 1 069 million. The MVV Energie AG parent company accounted for 71 % of this total, with 29 % attributable to our municipal utility shareholdings. With a 47 % share of overall sales, the supply of electricity is the most important business segment in our group of companies in terms of sales.

As announced at the beginning of 2006, MVV Energie AG did not increase its electricity rates any more before the end of the 2005/06 financial year in spite of a further rise in procurement costs. This competitive pricing policy enables us to strengthen our position in the market for private customers.

Successful trading activities

Sales volumes in the electricity segment of the MVV Energie Group (excluding the electricity turnover reported in the environmental energy and value-added services segments) rose by 9 % compared with the previous year to 19.8 billion kWh. Of this total, 51 % related to the electricity trading business, which grew by 9 %.

The wholesale market witnessed enormous price fluctuations during the year under report. The sharp rise in prices on the futures market was followed by substantial temporary reductions in the price of electricity, mainly as a result of the massive decline seen in the price of CO_2 emissions certificates. Our proactive electricity trading activities enabled fluctuations on the wholesale market to be successfully exploited on the sales side.

The increasing dovetailing of the markets for electricity, CO_2 emissions certificates and primary energy sources such as gas and coal also left its mark on the trading activities of the MVV Energie Group. The close cooperation within our group of companies will also be reflected in organisational terms in the 2006/07 financial year with the foundation of a joint trading company which will facilitate the pooling of competencies and the exploitation of synergies.

Notable market success with innovative products

The turnover of electricity in our end customer business rose by 9 %. According to information released by the Electricity Industry Association (VDEW), German electricity consumption in the general supply field showed only a slight increase of 0.4 % in the 1st half of 2006. The sharp growth in our sales volumes is primarily due to turnover with industrial and commercial customers (business customers). In the nationwide sale of electricity, we succeeded in acquiring numerous major new customers to which we began supplying electricity on 1 January 2006.

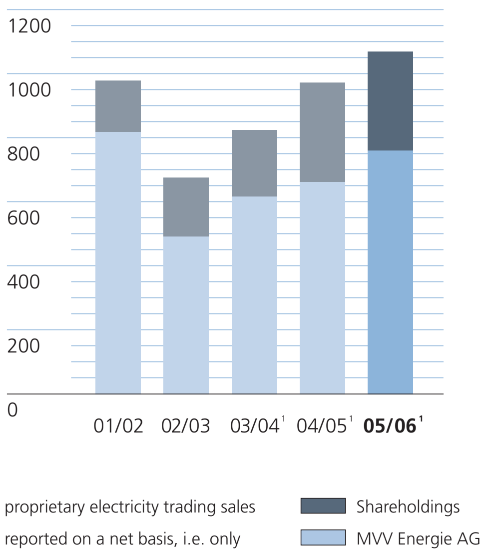
Our innovative "Electricity Fund" product aimed at medium-sized industrial and commercial customers is now also being marketed by our shareholdings in Kiel, Offenbach and Köthen in their respective catchment areas. During the year under report, we supplied sales volumes of 675 kWh to 87 customers, some of which had switched from special agreements to the Electricity Fund. An electricity fund volume of 1.9 billion kWh has already been acquired for the 2007 calendar year.

In late April/early May 2006, we exploited the decline in electricity wholesale prices resulting from the major decline in prices for CO_2 emissions certificates to achieve a notable sales success. In less than two weeks, our sales, trading and market analysis experts procured electricity volumes of 2.7 billion kWh at favourable conditions on behalf of numerous large customers and medium-sized industrial and commercial customers in our Electricity Fund. We have passed on these short-term favourable conditions for supplies scheduled for 2007 and 2008 to our customers.

We are making efforts to further enhance the attractiveness of our electricity products for private and business customers. Our "Ökostrom futura" products enable MVV Energie AG customers to receive electricity from 100 % ecological sources in return for a small premium. MVV Energie AG has expanded its "classica" and "futura" rates to include "Electricity Emergency Service" and "Help in Financial Need" service offerings.

The product development and marketing already initiated across the Group are enabling us to exploit synergies and to generate cost savings.

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	**2005/2006**	2004/2005	% change
Wholesale electricity trading (including secondary distributors)	10 186	9 334	+ 9
Business customers[2]	7 478	6 734	+ 11
Private customers[2]	2 134	2 056	+ 4
	19 798	**18 124**	+ 9

[1] excluding electricity turnover in environmental energy and value-added services segments
[2] correction in previous year

Decline in segment earnings

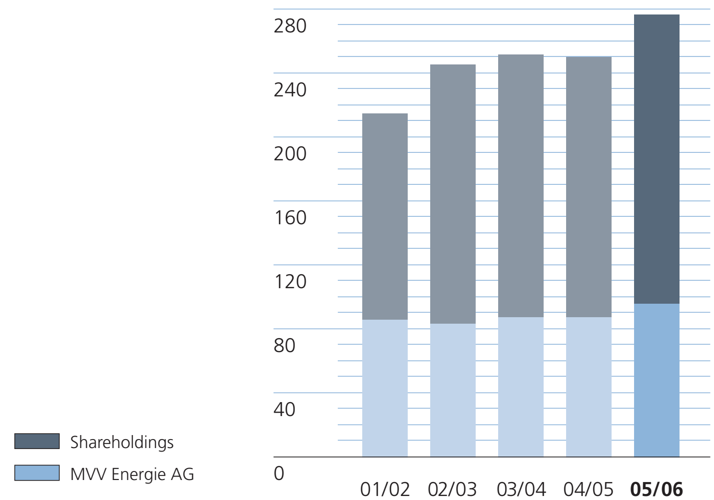
The earnings before interest, tax, depreciation and goodwill amortisation (EBITDA) of the electricity segment declined from Euro 63 million in the previous year to Euro 52 million. This decline is due on the one hand to one-off revenues in the previous year resulting from refunds and retrospective payments made by customers in connection with the German Cogeneration Act (KWKG) and the German Renewable Energies Act (EEG). On the other hand, the rejection and reduction of rate adjustments at our Offenbach and Solingen shareholdings respectively led to a decline in margins in view of the fact that it was thus not possible to pass on the substantial rise in procurement costs to customers.

Following depreciation and proportionate one-off charges incurred in connection with the amortisation of goodwill at the Ingolstadt and Solingen shareholdings due to the change in the regulatory and pricing framework (Euro 9 million), operating earnings before interest and tax (EBIT) amounted to Euro 20 million. The equivalent figure for the previous year, which was not affected by goodwill write-downs, was Euro 39 million.

District Heating Segment

Sales in the district heating segment rose by 10 % to Euro 276 million. Of this sum, Euro 95 million related to MVV Energie AG (35 %), Euro 86 million to our municipal utility shareholdings in Germany (31 %) and Euro 95 million to our Polish and Czech subgroups (34 %). District heating is our third-largest segment in terms of sales and, with an EBIT contribution of Euro 51 million, our second-largest segment in terms of operating earnings.

District Heating Sales
Euro million



Substantial sales growth in the district heating business

The marked rise in sales is chiefly attributable to the district heating business (heating water). This growth is largely the result of price adjustments enabling our companies to pass on the increase in procurement prices mainly attributable to primary energy prices. Moreover, the growth was also the result of cooler weather conditions in the high-volume months of January to April 2006. The degree day figures – the weather indicator we use – were 1.4 % above the previous year's figures at the Mannheim location for the 2005/06 financial year as a whole. All of the companies in our group with district heating activities reported year-on-year sales growth. The sales generated by the supply of heating water and steam in the environmental energy and value-added services businesses are reported in their respective segments rather than in this segment.

Our heating water turnover rose by 2 % to 5.7 billion kWh. Turnover in the German market increased by 2 % to 3.9 billion kWh. At 1.8 billion kWh, the heating water turnover in our foreign markets of Poland and the Czech Republic was at the same level as in the previous year.

The performance of the steam business was affected by the discontinuation of the Portuguese business (– 19 million kWh) and the gradual transfer of business customer contracts from MVV Energie AG to MVV Umwelt GmbH (and thus to the environmental energy segment). This transfer involves steam volumes generated at the waste-to-energy plant in Mannheim, which are supplied to industrial customers. However, the effects of this transfer do not impact the overall earnings of the MVV Energie Group. Of the steam turnover of 0.4 billion kWh sold in the district heating segment, 71 % related to our shareholding in Kiel and 29 % to our Czech subgroup and to EVO.

By far the largest share of the heating water supply relates to the end customer business with private households. The rise in sales volumes in this area was largely due to weather conditions. The fall in sales volumes with business customers (especially industry, commercial customers, public sector institutions) was mainly due to production factors or cost-savings measures.

District heating sales at our Polish subgroup, MVV Polska Sp. z o.o., Warsaw, grew by 12 % to Euro 47 million, while sales at our Czech subgroup, MVV Energie CZ s.r.o., Prague, rose by 14 % to Euro 48 million. The increase in sales in Poland was the result of volume growth, price adjustments and exchange rate effects. Our Czech group of companies was obliged to raise its district heating prices as a result of the substantial increase in the price of gas, its primary energy source, by the dominant gas importer in the market.

Together with its shareholdings, the MVV Energie Group currently supplies around 370 000 customers (including residential units) with district heating. More than half of all flats in Mannheim are heated by means of district heating, compared with a national average of 12 %.

District Heating Turnover of the MVV Energie Group[1]

kWh million	2005/2006	2004/2005	% change
Heating water			
Secondary distributors	712	705	+ 1
Business customers[2]	1 595	1 620	– 2
Private customers[2]	3 405	3 299	+ 3
	5 712	5 624	+ 2
Steam			
Business customers	362	408	– 11
	6 074	6 032	+ 1

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

[2] correction in previous year

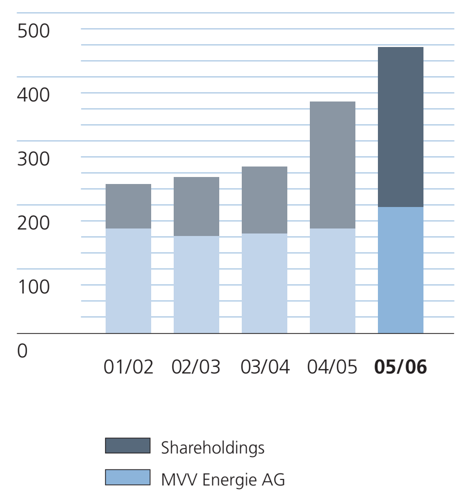
District heating earnings account for 25 % of total EBIT

Segment earnings before interest, tax, depreciation and goodwill amortisation (EBITDA) rose by Euro 18 million to Euro 81 million. Following the deduction of a higher level of depreciation, as well as of goodwill amortisation for the first time (Euro 3 million), the district heating segment of the MVV Energie Group generated earnings before interest and tax (EBIT) of Euro 51 million (previous year: Euro 40 million). Of the segment EBIT prior to consolidation (Euro 49 million), 61 % related to the MVV Energie AG parent company, 31 % to shareholdings in Germany and 8 % to the Polish and Czech subgroups. The earnings growth is due in particular to our shareholdings in Offenbach and Kiel, as well as to MVV Energie AG. Earnings at these companies were positively affected by price factors, weather-related volume factors and cost savings.

Around 57 % of our district heating volumes are generated at the large power plants in Mannheim and Kiel, in which MVV Energie AG and Stadtwerke Kiel AG hold shareholdings of 28 % and 50 % respectively. District heating is produced by means of cogeneration, a process which saves resources and reduces emissions.

Gas Segment

Gas Sales
Euro million



Sales in the gas segment rose by 23 % compared with the previous year to reach Euro 449 million. Gas sales accounted for 20 % of the Group's sales. The gas segment is therefore our second-largest business segment after electricity. The contribution to the total operating earnings (EBIT) of the MVV Energie Group amounted to Euro 31 million (15 %).

Strong sales growth at all companies

The high level of sales growth compared with the previous year is due to growth at all of our companies with activities in the gas business. This was due to price adjustments and to increased turnover in the end customer business on account of weather conditions during the 2005/06 heating period. Of total gas sales, 44 % (Euro 199 million) related to MVV Energie AG and 56 % (Euro 250 million) to our shareholdings in Kiel, Offenbach, Ingolstadt, Solingen and Köthen. Of the gas sales generated by the shareholdings, Euro 123 million (49 %) was attributable to the subgroup in Kiel.

As a result of weather conditions, our companies' gas turnover reported in this segment (excluding the volumes relating to contracting projects reported in the value-added services segment) rose by 4 % to 11.3 billion kWh. Of the total gas turnover, 30 % was attributable to the secondary distribution business and 70 % to the end customer business with business and private customers. The growth in the secondary distribution business was principally due to the first full-year supply of gas by SW Kiel to ZVO Versorgungs GmbH of the Ostholstein special purpose association, in which SW Kiel holds a 49.9 % shareholding. Our group of companies supplied eleven other gas supply companies in its secondary distribution business and around 228 000 business and private customers (including residential units) in a total of 89 towns and municipalities in its business with end customers. In addition to weather-related growth, the increase in sales volumes with business customers was mainly attributable to the first full-year supply of gas to an industrial customer by our shareholding in Ingolstadt. The growth in our private customer business, which accounts for 39 % of our total gas turnover, was due to weather conditions and to an increase of almost 2 % in the number of our customers. Our gas business is thus supported by the high share of private customers.

Positive earnings performance

The earnings of our companies were negatively affected by quarterly increases in gas procurement prices, which track the developments on the oil market following a certain delay. Cost-saving measures in particular, coupled with a higher level of other operating income at our shareholding in Kiel, nevertheless enabled us to increase our operating earnings before interest, tax, depreciation and goodwill amortisation (EBITDA) by Euro 3 million to Euro 53 million.

This improvement and the slight reduction in depreciation was more than offset by proportionate one-off charges due to impairment losses at Stadtwerke Ingolstadt and Solingen (Euro 8 million). The MVV Energie Group thus generated earnings before interest and tax (EBIT) of Euro 31 million in its gas business in the year under report, compared with Euro 35 million in the previous year.

Gas Turnover of the MVV Energie Group[1]

kWh million	2005/2006	2004/2005	% change
Secondary distributors (including wholesale)	3 434	3 381	+ 2
Business customers	3 438	3 128	+ 10
Private customers	4 406	4 315	+ 2
	11 278	**10 824**	+ 4

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

Water Segment

Gas trading

The year under report witnessed huge changes in the regulatory framework. The amended regulations governing grid access and grid utilisation fees, which in some cases only entered force at the beginning of the new gas industry year on 1 October 2006, have led to far-reaching changes which also affect gas procurement. The coming years are expected to see an increase in the range of procurement options available on the wholesale level. The MVV Energie Group has positioned itself in good time to exploit the resultant opportunities across the Group. As well as actively optimising the portfolio by means of trading transactions, using existing storage capacity and other planning resources, the most important tasks in the field of gas trading include the customised enhancement of product and service offerings.

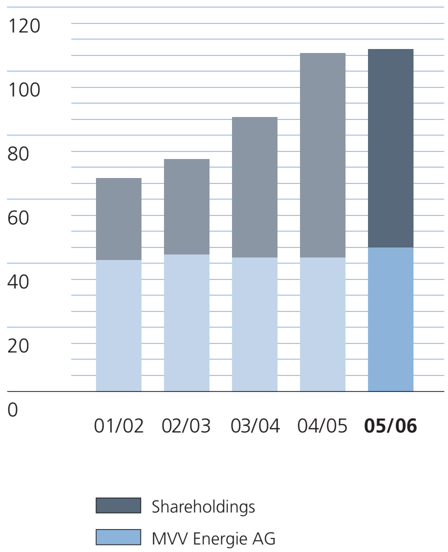
Sales in the water segment rose by 1 % to reach Euro 107 million, thus accounting for 5 % of the consolidated sales of our group of companies. The water segment generated operating earnings (EBIT) of Euro 21 million in the year under report, equivalent to a 10 % share of the consolidated earnings of the MVV Energie Group.

Sales stagnate – cost savings take effect

Of the segment sales, Euro 45 million (42 %) related to the MVV Energie AG parent company in Mannheim and Euro 62 million (58 %) to our municipal utility shareholdings in Kiel, Offenbach and Solingen. With sales of Euro 33 million, the Kiel subgroup is the shareholding with the highest sales in the water segment. The slight sales growth reported for the segment was chiefly driven by price adjustments in Mannheim and Kiel. Water prices were reduced, by contrast, at our EVO shareholding.

Our water turnover declined by 1 % compared with the previous year. Water volumes supplied in the context of contracting projects are reported in the

Water Sales
Euro million



Water Turnover of the MVV Energie Group[1]

m³ million	2005/2006	2004/2005	% change
Secondary distributors	5.5	5.7	–3
Business customers	4.4	4.4	—
Private customers	46.8	47.1	–1
	56.7	**57.2**	–1

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

value-added services segment. The sharp rise in water turnover in the summer months of June and July 2006 due to weather conditions was more than offset by lower volumes in the other months of the year under report. The private customer business, which accounts for 83 % of total water turnover, provides a solid foundation for the earnings of our water segment.

The earnings before interest, tax, depreciation and goodwill amortisation (EBITDA) of the water segment rose from Euro 25 million to Euro 33 million (+ 32 %). Following the deduction of slightly higher depreciation and proportionate goodwill amortisation (Euro 1 million), our group of companies generated earnings before interest and tax (EBIT) of Euro 21 million in the year under report (previous year: Euro 15 million). This significant improvement in earnings is mainly attributable to MVV Energie AG and its shareholdings in Kiel and Solingen. Cost structures in the water business are characterised at all companies by a high proportion of fixed costs.

The MVV Energie Group currently supplies drinking water to ten other water supply companies (secondary distributors) and to around 415 000 end customers (including residential units) in 37 towns and municipalities.

Developments in the German water market

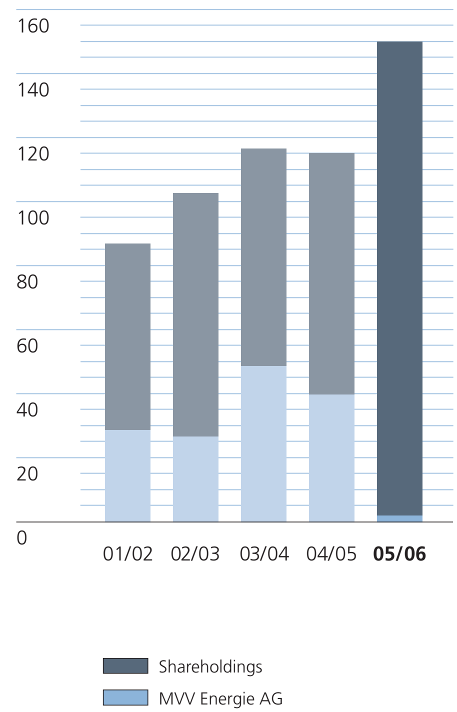
The liberalisation of the water market aimed at by the European Commission in the past years has been rejected in several statements adopted by the European Parliament. The opening up of water markets is currently not being pursued any further on an EU level. Measures to modernise and enhance the efficiency of the water industry have nevertheless been demanded. We are positively disposed towards the modernisation and possible privatisation of the German water industry.

Clean drinking water is not simply a commodity – it forms an indispensable foundation for our everyday life. The importance of a clean supply of drinking water is apparent wherever it is in short supply or does not function properly. The careful treatment of this valuable asset is therefore extremely important. The companies in the MVV Energie Group operating in the water segment guarantee high standards of quality and supply reliability.

Value-Added Services Segment

Value-Added Services Sales

Euro million



We maintained our successful growth course in our energy-related services business. The acquisition of further companies enabled us to strengthen our acquisitions structure and sales activities in the Rhine/Neckar metropolitan region, as well as in Nordrhein-Westfalen, Berlin, Bavaria and Schleswig-Holstein. Our successful performance in the 2005/06 financial year shows that we have come significantly closer to achieving our objective of becoming one of the three largest providers of energy-related services in Germany. Our value-added services segment generated sales of Euro 150 million and operating earnings (EBIT) of Euro 12 million during the year under report.

New structures

The energy-related services division at MVV Energie AG was hived off to MVV Energiedienstleistungen GmbH with economic effect as of 1 October 2005. The integration of shareholdings into MVV Energiedienstleistungen GmbH has created lean and transparent structures. Our value-added services segment comprises the activities of the MVV energy-related services subgroup, which are subdivided into industrial and municipal contracting services, national and international consulting, and industrial and railway switchgear equipment. Furthermore, the segment also includes the value-added service businesses at our municipal utility shareholdings in Kiel, Offenbach, Ingolstadt and Köthen, which in turn are subdivided into technical services and telecommunications and contracting services. Starting in the 2005/06 financial year, MAnet GmbH and ENERGY InnovationsPortfolio AG & Co. KGaA have been reported in the other/consolidation segment, given that the business activities of these companies do not correspond to the traditional energy-related services business. The previous year's figures have been adjusted for reasons of comparability.

Strong sales growth

Segment sales rose by Euro 42 million (+ 39 %) compared with the previous year to reach Euro 150 million. Excluding the sales generated by other value-added services and the revenues from the Portuguese business up to its disposal and not accounting for consolidation effects, our energy-related services generated sales of Euro 160 million (previous year: Euro 101 million). Of this sales growth, Euro 28 million was the result of external growth. The companies Biomasseheizkraftwerk Altenstadt GmbH, MVV Energiedienstleistungen Industrial Solutions Bayern GmbH, ENSERVA GmbH, MVV Energiedienstleistungen GmbH Berlin and the value-added service activities at Stadtwerke Ingolstadt were consolidated for the first time in the year under report.

The value-added services segment generated operating earnings (EBIT) of Euro 12 million in the year under report (previous year: Euro 16 million). Following adjustment for one-off items in the previous year resulting from the sale and deconsolidation of 3T Telekommunikationsgesellschaft mbH, Offenbach, (Euro + 7 million), operating earnings (EBIT) showed a year-on-year improvement of Euro 3 million.

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

Euro million	**2005/2006**	2004/2005	% change
Municipal solutions	58	33	+ 76
Industrial solutions	47	30	+ 57
Consulting	17	19	– 11
Industrial and railway switchgear equipment	3	1	+ 200
MVV energy-related services	**125**	**83**	+ 51
Energy-related services at municipal utility shareholdings	35	18	+ 94
Energy–related services	**160**	**101**	+ 58
Other value-added services/ consolidation	– 10	7	—
	150	**108**	+ 39

Expansion of business in the product areas

In our **Municipal Solutions** product area, we further reinforced our position as a strong and sought-after partner for towns, municipalities, municipal and welfare institutions in our focus regions. We succeeded in acquiring 18 new contracting projects with sales volumes of around Euro 6 million. One major success involved being awarded the contract for the Rosengarten Congress Centre in Mannheim. We supply the congress centre with electricity and district heating and have taken on the centre's facility management with an external partner for a period of 20 years. Our subsidiary ENSERVA GmbH, Solingen, maintained its successful development with ten new projects, as well as commencing operations in the year under report at the largest non-industrial biomass heating plant in Nordrhein-Westfalen. In the field of construction land improvement and development, we acquired seven new projects with a combined area of more than 230 hectares and sales volumes totalling Euro 18 million, including "Blaue Adria" in Altrip, at 130 hectares the largest land development project in Rheinland-Pfalz, for which we will take over the project management.

One particular focus in the year under report involved extending our activities in the field of **Real Estate Utilities**. The purchase of IVB Immobilien Versorgung GmbH Berlin enabled us to significantly strengthen our position in and around Berlin. IVB was merged with our outlet in Berlin in September 2006. The company now acts under the name MVV Energiedienstleistungen GmbH Berlin. Its initial consolidation during the year under report led sales to increase by around Euro 5 million. We further expanded our market position in the field of real estate utilities by concluding a cooperation agreement with ista Deutschland GmbH. This is a subsidiary of the world's leading company for consumption-based energy and water invoicing, ista International GmbH. This cooperation led to the establishment of the joint sales company e:duo GmbH, which is based in Essen.

Contracting: Energy and Water Turnover of the MVV Energie Group

	2005/2006	2004/2005	% change
Electricity turnover in kWh million	159	74	+ 115
Heating water turnover [1] in kWh million	165	160	+ 3
Steam turnover in kWh million	271	281	– 4
Gas turnover in kWh million	235	272	– 14
Water turnover in m^3 million	1.2	1.1	+ 9

[1] correction in previous year

In the field of **Industrial Solutions**, the trend which we forecast on the part of manufacturing companies towards outsourcing and energy optimisation is noticeably gaining in momentum. During the year under report, MVV Energiedienstleistungen GmbH acquired 100 % of the shares in Industriepark Gersthofen Servicegesellschaft mbH & Co. KG (IGS), which operates the industrial park in Gersthofen near Augsburg and provides twelve companies with around 1 600 employees with an optimal mix of infrastructure and services. The biomass heat and power plant in the Bavarian town of Altenstadt (11.2 MW electric output) has recommenced full-time operations following its renovation.

We also achieved some notable strategic successes in the field of **Consulting**. Our consulting subsidiary DECON GmbH has considerably strengthened its position by merging with BEA Consulting GmbH, a renowned German engineering firm in the field of high-voltage and medium-voltage facilities, thus improving its national and international market position. During the year under report, DECON GmbH was commissioned by the KfW Development Bank to undertake a feasibility and technical study for the 2 000 MW "Gulf of El Zayt" wind farm planned in Egypt.

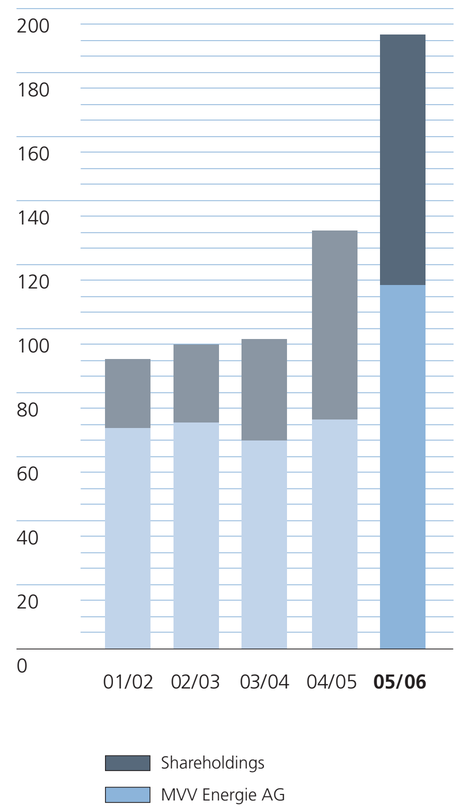
Having successfully completed several large-scale consulting projects in the water and wastewater sector in Rumania, MVV Consulting GmbH has now opened a permanent establishment in the capital city Bucharest. Sales have risen sharply in the Balkan region, accounting for around one quarter of total sales at MVV Consulting GmbH in the financial year. This business is to be expanded further.

A further highlight related to the order received from the Afghan energy and water ministry to hive off and restructure the state energy supplier Da Afghanistan Breshna Moassesa – DABM. This order, which is financed by the World Bank, has a volume of almost US$ 11 million. Highly positive developments were also reported in the new North American business, which provides industrial and real estate companies with energy-saving solutions based on integrated energy concepts, as well as the necessary engineering work.

Our subsidiary BFE Institut für Energie und Umwelt GmbH has further strengthened its position as the German market leader in the field of energy optimisation, achieving year-on-year growth of more than 10 % in its sales with new customers, including follow-on orders.

Environmental Energy Segment

Environmental Energy Sales
Euro million



The environmental energy segment reported the strongest growth of all business segments in the year under report both in terms of sales and of operating earnings. Sales rose by 47 % to Euro 193 million, while earnings before interest, tax, depreciation and goodwill amortisation (EBITDA) doubled from Euro 53 million in the previous year to Euro 108 million. After the deduction of depreciation, the environmental energy segment reported operating earnings before interest and tax (EBIT) of Euro 68 million, as against Euro 27 million in the previous year. The environmental energy segment contributed 34 % of the overall EBIT of the MVV Energie Group in the year under report (previous year: 17 %) and has thus become the strongest earnings driver in our group of companies.

Sharp growth in sales and earnings

The substantial sales and earnings growth is chiefly due to the generation of the first sales at the new non-recyclable waste incineration plant in Leuna and to increased waste deliveries from the Karlsruhe region. The development of the market following the entry into force of the Technical Guidelines for the Disposal of Municipal Solid Waste (TASi) as of 1 June 2005 and successful materials flow management meant that our waste incineration plants in Mannheim, Offenbach and Leuna worked at full capacity in the year under report. One further reason for the sales and earnings growth, resulting from the rise in energy prices in the overall market, was the high level of revenues generated both from industrial and commercial waste following the landfill ban and from the electricity and district heating sales volumes generated at our non-recyclable waste incineration plants. In line with the respective contracts, the disposal prices for the volumes delivered by towns and local authorities in the Rhine/Neckar region were not increased in the year under report. In total, 1.2 million tonnes of non-recyclable waste and old wood were delivered (previous year: 0.9), equivalent to an increase of 41 %.

Revenues from the waste business rose by 55 % on the previous year. The revenues from the electricity and steam volumes generated at our waste-to-energy plants grew by 58 %. Sales at our biomass power plants in Mannheim (20 MW) and Königs Wusterhausen near Berlin (20 MW) increased by 7 % on the previous year. The biomass power plant at Flörsheim-Wicker near Wiesbaden (15 MW) is consolidated at equity as an associated company.

Well positioned strategically

The dynamic performance shows that we were correct in our assessment of the growth potential harboured by the decentralised generation of energy from waste. We strategically linked our disposal and supply activities at an early stage in an extremely effective growth environment. This meant that our group of companies was already superbly positioned when the entry into force of the TASi guidelines fundamentally changed the waste industry in Germany. The age of waste incineration began at the latest upon the banning of landfill methods.

Environmental Energy Turnover of the MVV Energie Group and Incineration Volume	**2005/2006**	2004/2005	% change
Electricity turnover (including secondary distributors) in kWh million	380	204	+ 86
Steam turnover in kWh million	833	973	– 14
Combustible waste delivered in tonnes 000s	1 229	872	+ 41

The environmental energy segment currently has total waste incineration capacities of around 1 million tonnes per year at its three locations in Mannheim, Offenbach and Leuna. Annual incineration capacities will grow by a further 0.2 million tonnes to about 1.2 million tonnes in mid-2007 following the launch of operations at the second incineration line in Leuna. Further capacity of around 0.4 million tonnes per year is available at the three biomass power plants in Mannheim, Königs Wusterhausen and Flörsheim-Wicker for the generation of electricity from mature timber pursuant to the German Renewable Energies Act (EEG). Our waste incineration plants currently treat the non-recyclable waste of 25 municipalities in five federal states with more than 4.3 million inhabitants. Moreover, MVV Umwelt is also a reliable waste disposal partner for around 400 industrial and commercial customers.

Orders were won from two further municipalities in the 2005/06 financial year. Our plants in Mannheim and Leuna have concluded long-term disposal agreements with the town of Pforzheim and the Upper Elbe Valley Waste Industry special purpose association.

By generating electricity on a sustainable and CO_2 neutral basis, our environmental energy segment makes a significant contribution towards protecting the environment. The waste incineration plants and biomass power plants enable CO_2 emissions of around 408 000 tonnes per year to be avoided compared with the generation of electricity in conventional power plants.

Investments

The largest investment in the environmental energy segment involves the construction of the second incineration line at the waste-to-energy plant in Leuna (investment volume: Euro 70 million). Operations are scheduled to begin at this plant, which is identical in terms of its construction to the existing first line, in summer 2007. The waste-to-energy plant in Mannheim invested in a new turbine which took up operations in October 2006.

We aim to extend our position in the waste disposal market. Based on our proven, efficient process organisation, our comprehensive expertise and intelligent waste and energy management system, the environmental energy segment is currently investigating several large-scale projects in the waste market.

In view of my tight budget, I need to be sure that I am getting value for money from my energy supplier. I am in good hands in this respect at MVV Energie AG. The two things I appreciate most about MVV Energie are its dependable supply and its reliable customer service.

Ulrike Schröder,
Student in Mannheim, Private Customer

Information

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Information

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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 Welfare Services,
IT and Real Estate Management

Karl-Heinz Trautmann
until 15 October 2006
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 Networks

Hans-Georg Hägele
Finance and Accounting

Michael Homann
Materials Management,
IT and Applied Computer Science

Dr. Simon Kalvoda
from 15 January
until 30 September 2006
Networks

Gunter Kühn
Personnel, Social and Welfare Services

Dr. Reiner Lübke
Plant Management

Christian Mehl
Trading

Ralph Rischmüller
Real Estate Management

Dr. Frieder Schmitt
from 1 March
until 31 December 2006
(provisional head of division)
Engineering

Bernhard Schumacher
Sales

Dr. Thomas Stephanblome
until 28 February 2006
Engineering

Frank Zeeb
until 31 December 2006
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

Johannes Böttcher [1]
since 10 March 2006
Chairman of the Works Council of
Energieversorgung Offenbach AG

Holger Buchholz [1]
since 10 March 2006
Trade Union Secretary at ver.di Kiel

Peter Dinges [1]
until 10 March 2006
Works Council of MVV Energie AG

Werner Ehret [1]
Works Council of MVV Energie AG

Dr. Rudolf Friedrich
since 10 March 2006
Retired Job Centre Director

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

Reinhold Götz
since 14 December 2005
Teacher of Economic Studies
2nd Authorised Representative
IG Metall Mannheim

Rosi Haus [1]
until 10 March 2006
Managing Director of
ver.di Offenbach

Dr. Karl Heidenreich
Former Member of the
Executive Board of
Landesbank Baden-Württemberg

Michael Homann [1]
since 10 March 2006
Head of Materials Management,
IT and Applied Computer Science
Division at MVV Energie AG

Prof. Dr. Egon Jüttner
University Professor

Helfried Krope [1]
until 15 January 2006
Head of Networks Division
at MVV Energie AG

Egon Laux [1]
until 10 March 2006
Deputy Chairman of the
Works Council of
Energieversorgung Offenbach AG

Klaus Lindner [1]
Trade Union Secretary
at ver.di Rhein-Neckar

Prof. Dr. Norbert Loos
since 10 March 2006
Managing Partner of
Loos Beteiligungs-GmbH

Dr. Frank Mentrup
Medical Doctor
Member of the State Parliament
of Baden-Württemberg

Manuel Mertes [1]
since 10 March 2006
Deputy Chairman of the
Works Council of
Stadtwerke Kiel AG

Dr. Rolf Neuhaus
until 25 October 2005
Management Consultant

Barbara Neumann [1]
since 10 March 2006
Chairman of the Works Council
of Stadtwerke Kiel AG

Dr. jur. Sven-Joachim Otto
until 10 March 2006
Judge

Wolfgang Raufelder
since 10 March 2006
Architect and Town Planner

Konrad Schlichter
until 10 March 2006
Businessman

Sabine Schlorke [1]
Trade Union Secretary
at ver.di Rhein-Neckar

Rolf Schmidt
until 10 March 2006
Mayor of the City of Mannheim

Bernd Sendzik [1]
until 31 January 2006
Commercial Assistant at
Energieversorgung Offenbach AG

Uwe Spatz [1]
since 10 March 2006
Works Council of MVV Energie AG

Christian Specht
Financial Mayor of
the City of Mannheim

Christa Spohni [1]
until 10 March 2006
Commercial Assistant at
MVV Energie AG

[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 can be found on Pages 121 to 125.

Report of the Supervisory Board

Ladies and Gentlemen,

During the 2005/06 financial year, the Supervisory Board performed its duties in accordance with the requirements of the law and of the company's articles of incorporation, monitoring the work of the Executive Board on an ongoing basis and assisting it in an advisory capacity. We were provided by the Executive Board with regular, prompt and comprehensive information about major events and developments at the company and were involved at an early stage in all decisions of significance.

The Supervisory Board met on ten occasions during the period under report. The Audit Committee held three meetings and the Personnel Committee met twice during the year under report. In view of current developments, we established committees to deal with the capital increase and the employee share programme, each of which met on one occasion.

The Executive Board informed us on a regular basis of the business performance of MVV Energie AG and its principal shareholdings. The Executive Board also provided us with information concerning the course of business in the individual segments, and on the development of the net asset, financial and earnings position. We were also briefed on the company's risk situation and its risk management, as well as on its financial, investment, personnel and strategic planning. At our meetings, we questioned the Executive Board in detail as to all major business transactions and then discussed these at suitable length. In the case of all decisions and actions requiring its consent, the Supervisory Board inspected the draft resolutions, which in some cases were prepared by its committees, and was involved in the resultant decision. In addition to the presentations and documents pertaining to the meetings, we were also provided with quarterly reports and further oral and written reports concerning events of significance and the resolutions thereby required.

Gerhard Widder,
Chairman

Main topics of discussion

At the beginning of the year under report, the details of the capital increase successfully executed in November 2005 were discussed by the full Supervisory Board. The preparations for the 2006 Annual General Meeting were also of significance in view of the pending elections to the Supervisory Board. One further important focus of our deliberations related to the strategy of MVV Energie CZ s.r.o. and to discussing opportunities in terms of acquiring further shareholdings in the Czech Republic and Slovakia. In March 2006, we approved the sale of MAnet GmbH.

Starting in mid-2006, the Supervisory Board dealt in detail with the planning and preparations for the shared service companies. We are convinced that the pooling of comparable services across the companies will provide a solid foundation for achieving internal efficiency enhancements. It was important to us in this respect that the interests of the employees should be safeguarded to the greatest possible extent. In view of the importance we attach to employee participation in the company, we supported the employee share programme introduced in September 2006. In September 2006, the Supervisory Board also discussed the 2006/07 business plan and the medium-term planning for the group of companies in great depth and dealt in detail with risk management and risk analysis. Furthermore, we also addressed the implementation of the German Corporate Governance Code. Further information about corporate governance at the MVV Energie Group, as well as the Statement of Compliance adopted in December 2006, can be found on Pages 17 to 19 of this Annual Report and have also been made available on an ongoing basis at the company's homepage at www.mvv-investor.de.

Composition of Supervisory and Executive Boards

The composition of the Supervisory Board changed during the year under report as a result of the election of employee representatives held in January 2006 and the election of shareholder representatives at the Annual General Meeting in March 2006. The following members departed from the Supervisory Board in the 2005/06 financial year: Peter Dinges, Rosi Haus, Helfried Krope, Egon Laux, Dr. Rolf Neuhaus, Dr. Sven-Joachim Otto, Konrad Schlichter, Rolf Schmidt, Bernd Sendzik and Christa Spohni. We should like to thank the departing members of the Supervisory Board for their constructive participation in the work of our body.

Gerhard Widder (Chairman) and Christian Specht retain their appointments as shareholder representatives. The following individuals were re-elected to the Supervisory Board: Manfred Lösch (Deputy Chairman), Werner Ehret, Dr. Manfred Fuchs, Reinhold Götz, Dr. Karl Heidenreich, Prof. Dr. Egon Jüttner, Klaus Lindner, Dr. Frank Mentrup and Sabine Schlorke. The following individuals were elected to the Supervisory Board for the first time: Johannes Böttcher, Holger Buchholz, Dr. Rudolf Friedrich, Michael Homann, Prof. Dr. Norbert Loos, Manuel Mertes, Barbara Neumann, Wolfgang Raufelder and Uwe Spatz.

There were no changes in the composition of the Executive Board during the year under report.

Events after the balance sheet date

In two extraordinary meetings held at the beginning of the new 2006/07 financial year, the Supervisory Board held in-depth discussions concerning the company's management. Karl-Heinz Trautmann, responsible for the sales, trading and environmental energy divisions, retired at his own request from his position on the Executive Board of MVV Energie AG as of 15 October 2006. The Supervisory Board assented to his request that his contract, which ran until the end of September 2008, be prematurely terminated. Karl-Heinz Trautmann had been a member of the Executive Board of MVV Energie AG since October 2003. We should like to thank him for his contribution towards the successful development of the company in the past years. Irrespective of the board resolutions, responsibility for sales will in future be assumed by the department of the CEO, Dr. Rudolf Schulten, and that for the environmental energy and trading divisions by the technology, networks and energy-related services board division, for which Dr. Werner Dub is responsible.

There was speculation in the press in October 2006 as to the future structure of the MVV Energie Group. At this time, the Supervisory Board was only at the beginning of its discussion and decision-making process. It will address and pass resolution on this topic without any preconceptions or predetermined results during the 2006/07 financial year.

Approval of the annual financial statements

The auditing company Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Mannheim, audited the consolidated financial statements and group management report of the MVV Energie Group for the 2005/06 financial year pursuant to the resolution passed by the 2006 Annual General Meeting and the subsequent mandate by the Supervisory Board. The consolidated financial statements and the group management report, both of which were compiled in accordance with International Financial Reporting Standards (IFRS), 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 2005/06 financial year were also audited by the auditor and 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 to the Supervisory Board in good time for its respective meeting. These documents were carefully inspected by the Audit Committee and the Supervisory Board and were discussed in detail in the presence of the auditor. The Supervisory Board raised no objections and concurred with the findings of the audit. At our meeting on 14 December 2006, we approved the consolidated financial statements and group management report of the MVV Energie Group and the annual financial statements and management report of MVV Energie AG. The annual financial statements are thus adopted. We endorse the proposal made by the Executive Board in respect of the appropriation of earnings.

The Executive Board further compiled a report for the 2005/06 financial year on the company's relationships with closely related companies (dependent company report). This report demonstrates that MVV Energie AG received commensurate compensation for and was not disadvantaged by the legal transactions with affiliated companies outlined therein. The dependent company report was audited by the auditor, who granted the following audit opinion:

"Following the audit and assessment carried out by us in accordance with our professional obligations, we confirm:

- *that the factual disclosures made in the report are accurate*
- *that the compensation of the company in the transactions listed in the report was not incommensurate based on the circumstances known at the time of such transaction being executed."*

We were provided in good time with copies of the dependent company report and of the audit report compiled by the auditor. Following its own review, the Supervisory Board concurred with the assessment made by the auditor and thus approved this report.

Moreover, Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Mannheim, also audited the early warning risk identification 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, as well as all employees and employee representatives, for their great dedication and successful work during the 2005/06 financial year. All of these groups have demonstrated a high degree of commitment, courage to accept change and the ability to work together constructively and responsibly, even in difficult situations. Thanks to all of their efforts, the MVV Energie Group is well prepared to address the challenges facing the energy industry.

Mannheim, December 2006
Supervisory Board

Gerhard Widder
Chairman

Multi-Year Overview

Income Statement (Euro million)	2001/2002	2002/2003 [1]	2003/2004 [2]	2004/2005 [3]	**2005/2006**
Sales	1 679	1 438 [4]	1 652 [4]	1 958 [4]	2 276
Cost of materials	1 178	873	1 041	1 235	1 373
Personnel expenses	182	215	250	295	280
EBITDA	258	359	209	287	370
Depreciation	103	102	154	131	147
EBITA	155	257	55	156	223
Goodwill amortisation	11	13	14	– 2	22
EBIT	144	244	41	158	201
EBT	100	184	– 23	80	128
Annual net surplus	57	159	– 38	41	64
Annual net surplus after minority interests	50	152	– 44	28	50

External Sales (Euro million)	2001/2002	2002/2003 [1]	2003/2004 [2]	2004/2005 [3]	**2005/2006**
Electricity	983	680 [4]	828 [4]	975 [4]	1 069
District heating	215	246	252	250	276
Gas	234	240	263	366	449
Water	67	73	86	106	107
Value-added services	87	103	117	108 [5]	150
Environmental energy	91	95	97	131	193
Other/consolidation	2	1	9	22 [5]	32
MVV Energie Group	**1 679**	**1 438**	**1 652**	**1 958**	**2 276**

EBIT (Euro million)	2001/2002	2002/2003 [1]	2003/2004 [2]	2004/2005 [3]	**2005/2006**
Electricity	26	27	32	39	20
District heating	38	38	32	40	51
Gas	52	163	17	35	31
Water	10	11	12	15	21
Value-added services	– 9	– 8	– 63	16 [5]	12
Environmental energy	27	13	12	27	68
Other/consolidation	—	—	– 1	– 14 [5]	– 2
MVV Energie Group	**144**	**244**	**41**	**158**	**201**

Assets (Euro million)	2001/2002	2002/2003 [1]	2003/2004 [2]	2004/2005 [3]	**2005/2006**
Electricity	783	581	716	734	845
District heating	522	393	601	474	505
Gas	423	379	377	331	318
Water	266	218	309	288	273
Value-added services	213	185	162	145	159
Environmental energy	308	414	438	445	468
Other/consolidation	251	178	274	230	395
Unallocated (balance sheet)	—	—	—	273	190
MVV Energie Group	2 766	2 348	2 877	2 920	**3 153**

Investments (Euro million)	2001/2002	2002/2003 [1]	2003/2004 [2]	2004/2005 [3]	**2005/2006**
Electricity	39	17	21	22	18
District heating	29	17	27	24	19
Gas	12	19	17	17	22
Water	12	10	12	13	12
Value-added services	27	22	10	8	18
Environmental energy	18	52	62	64	81
Other/consolidation	31	24	17	14	20
Investments in property, plant and equipment	168	161	166	162	**190**
Investments in financial assets	378	20	141	52	29
MVV Energie Group	546	181	307	214	**219**

R&D Expenses (Euro million)	2001/2002	2002/2003 [1]	2003/2004 [2]	2004/2005 [3]	**2005/2006**
Process optimisation	1	3	1	1	1
Product development	2	3	2	2	1
Technical enhancement	—	—	1	1	1
MVV Energie Group	3	6	4	4	**3**

Balance Sheet Figures (Euro million)	2001/2002	2002/2003 [1]	2003/2004 [2]	2004/2005 [3]	**2005/2006**
Long-term assets	1924	1864	2331	2339	2361
Short-term assets	661	484	546	579	792
Share capital	130	130	130	130	143
Capital reserve	178	178	178	178	255
Retained earnings	236	222	197	246	237
Net earnings as reported in balance sheet	46	168	104	78	97
Minority interests	109	108	240	105	105
Equity	699	806	849	737	837
Long-term debt	607	722	1147	1397	1366
Short-term debt	1279	820	881	784	950
Total assets	2585	2348	2877	2918	3153

Key Balance Sheet Figures and Ratios

Cash flow pursuant to DFVA/SG [6] (Euro million)	161	150	158	188	246
Free cash flow [7] (Euro million)	– 68	– 61	– 18	53	– 52
Equity ratio [8] in %	25.3	34.3	29.5	25.3	26.5
Capital employed [9]	1538	1838	2055	2263	2293
ROCE [10] in %	10.1	14.0	2.7	6.9	9.7
WACC [11] in %	9.3	8.8	8.0	7.5	7.5
Value spread [12] in %	0.8	5.2	– 5.3	– 0.6	2.2

Employees (at 30.9.)

MVV Energie AG including MVV RHE AG	1789	1821	1769	1728	1569
Fully consolidated shareholdings	2044	2122	3492	3114	3156
MVV Energie AG with fully consolidated shareholdings	**3833**	**3943**	**5261**	**4842**	**4725**
Proportionately consolidated shareholdings	1251	1711	1632	1550	1562
MVV Energie Group	**5084**	**5654**	**6893**	**6392**	**6287**
External personnel at Mannheim waste-to-energy plant of MVV Energie AG	86	73	64	57	51
	5170	**5727**	**6957**	**6449**	**6338**

[1] including income from sale of GVS shares and expenses on measures to enhance competitiveness

[2] including expenses for streamlining of portfolio and restructuring measures

[3] previous year's figures adjusted to account for initial recognition of put option at Stadtwerke Kiel AG

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

[5] starting in the 2005/06 financial year the companies MAnet GmbH und ENERGY Innovations-Portfolio AG & Co. KGaA have been reported in the other/consolidation segment rather than in the value-added services segment, given that the business activities of these companies do not correspond to the traditional energy-related services business (previous year's figure adjusted)

Share and Dividend	2001/2002	2002/2003 [1]	2003/2004 [2]	2004/2005 [3]	2005/2006
Closing price at 30. 9. (Euro)	14.90	15.30	14.40	19.29	23.23
Annual high [13] (Euro)	16.75	15.95	17.16	19.50	25.40
Annual low [13] (Euro)	14.00	13.50	11.67	13.90	17.40
Market capitalisation at 30. 9. (Euro million)	755	776	730	978	1 295
No. of individual shares at 30. 9. (million)	50.702	50.702	50.702	50.704	55.767
No. of shares entitled to dividends (million)	50.702	50.702	50.702	55.704	55.767
Dividend per share (Euro)	0.75	0.75	0.75	0.75	0.80 [14]
Total dividend (Euro million)	38.0	38.0	38.0	41.8	44.6 [14, 15]
Earnings per share pursuant to IAS 33 (Euro)	1.00	3.01	– 0.86	0.55	0.91 [16]
Cash flow per share pursuant to DVFA/SG (Euro)	3.18	2.96	3.11	3.71	4.47 [16]
Equity per share [17] (Euro)	11.64	13.76	12.02	12.46	13.29 [16]
Price/earnings ratio pursuant to IAS 33	15.0	5.1	—	35.1	25.5 [16]
Price/cash flow ratio	4.7	5.2	4.6	5.2	5.2 [16]
Dividend yield [18] in %	5.0	4.9	5.2	3.9	3.4 [14]

Sales Volumes [19]	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
Electricity (kWh million) of which:	28 436	10 972	14 539	18 402	20 338
wholesale, including secondary distributors (kWh million)	22 472	2 678 [20]	5 587 [20]	9 454 [20]	10 478 [20]
retail (kWh million)	5 964	8 294	8 952	8 948	9 860
District heating (kWh million)	6 381	7 370	7 504	7 446	7 343
Gas (kWh million)	8 626	8 422	8 906	11 096	11 513
Water (m³ million)	39	42	48	58	58
Combustible waste delivered (tonnes 000s)	464	486	518	872	1 229

6 pursuant to the German Association for Financial Analysis and Asset Management/Schmalenbach-Gesellschaft
7 inflow of funds from ongoing business activities, less investments in intangible assets, property, plant and equipment and investment property
8 equity as a proportion of total assets
9 equity plus financial liabilities plus provisions for pensions and similar obligations plus accumulated goodwill amortisation (calculated on an annual average)
10 return on capital employed (EBITA as a percentage of capital employed)
11 weighted average cost of capital
12 value spread (ROCE less WACC)
13 variable XETRA trading
14 pending approval by the Annual General Meeting on 9 March 2007
15 entitled to dividend: 57 767 290 individual shares
16 weighted number of individual shares 55 088 082
17 excluding minority interests
18 basis: closing price in XETRA trading on 30 September
19 total volume for all segments
20 reported on a net basis and excluding group-internal supplies

It is pleasing to note that shareholders have also benefited from the positive earnings performance at MVV Energie. The announcement that the dividend for the 2005/06 financial year is to be increased shows me that I made the right choice with my shares.

Doris Dörr,
Private Investor

Consolidated Financial Statements

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Consolidated Financial Statements

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Balance Sheet

as of 30. 9. 2006

Balance Sheet of the MVV Energie Group Euro 000s	**30. 9. 2006**	30. 9. 2005	Notes
Assets			
Long-term assets			
Intangible assets	308 760	317 485	1
Property, plant and equipment	1 870 793	1 843 290	2
Investment property	5 654	—	3
Shareholdings valued at equity	15 433	90 897	4
Other financial assets	134 450	52 142	5
Receivables and other assets	7 336	4 094	6
Deferred tax assets	18 948	31 508	19
	2 361 374	**2 339 416**	
Short-term assets			
Inventories	49 142	45 348	8
Accounts receivable	370 156	327 123	9
Other short-term assets	228 755	59 658	6
Tax receivables	24 073	18 454	7
Cash and cash equivalents	119 368	127 975	10
	791 494	**578 558**	
	3 152 868	**2 917 974**	
Equity and liabilities			
Equity			11
Share capital	142 764	129 802	
Capital reserve	255 523	178 293	
Retained earnings	236 537	245 693	
Total net earnings of the MVV Energie Group	97 240	78 204	
Capital of the MVV Energie Group	**732 064**	**631 992**	
Minority interests	104 912	105 044	
	836 976	**737 036**	
Long-term debt			
Provisions	118 729	117 427	12, 13, 14
Financial liabilities	1 014 113	1 033 677	15
Other liabilities	29 125	27 052	16
Deferred tax liabilities	203 572	219 269	19
	1 365 539	**1 397 425**	
Short-term debt			
Provisions [1]	209 023	177 253	12, 14
Financial liabilities	417 400	373 578	15
Accounts payable	139 139	151 464	17
Other liabilities	169 749	71 416	16
Tax liabilities	15 042	9 802	18
	950 353	**783 513**	
	3 152 868	**2 917 974**	

[1] of which: tax provisions of Euro 49 032 thousand (previous year: Euro 17 109 thousand)

Income Statement

from 1. 10. 2005 to 30. 9. 2006

Income Statement of the MVV Energie Group Euro 000s	**2005/2006**	2004/2005	Notes
Sales[1]	2 276 121	1 957 592	22
Capitalised own-account services	26 539	64 540	23
Other operating income	84 064	65 604	24
Cost of materials	1 372 598	1 234 611	25
Personnel expenses	280 132	294 515	26
Other operating expenses[2]	372 085	274 217	27
Income from shareholdings valued at equity	– 6 812	7 115	28
Other income from shareholdings	14 870	– 4 932	29
EBITDA	**369 967**	**286 576**	
Depreciation	147 406	130 858	30
EBITA	**222 561**	**155 718**	
Goodwill amortisation	21 602	– 1 793	31
EBIT	**200 959**	**157 511**	
Financing income	3 997	4 577	32
Financing expenses	76 984	82 604	33
EBT	**127 972**	**79 484**	
Taxes on income	64 372	38 885	34
Annual net surplus	**63 600**	**40 599**	
Minority interests	13 590	12 697	
Share of earnings allocable to shareholders in MVV Energie AG	**50 010**	**27 902**	35
Basic and diluted earnings per share (Euro)	0.91	0.55	35

[1] of which: energy tax of Euro 105 883 thousand (previous year: Euro 92 441 thousand)

[2] of which: energy tax of Euro 106 473 thousand (previous year: Euro 93 698 thousand)

Statement of Changes in Equity

Statement of Changes in Equity 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: Fair value 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. 2004 – as reported in financial statements for previous year	129 797	178 270	201 831	– 3 390	– 870	104 034	609 672	239 788	849 460
Retrospective application of IAS 32 (2003)	—	—	—	—	—	15 312	15 312	– 128 458	– 113 146
Balance at 1.10.2004	**129 797**	**178 270**	**201 831**	**– 3 390**	**– 870**	**119 346**	**624 984**	**111 330**	**736 314**
Earnings recognised directly under equity	—	—	5 396	11 757	981	—	18 134	3 912	22 046
Annual net surplus	—	—	—	—	—	27 902	27 902	12 697	40 599
	—	**—**	**5 396**	**11 757**	**981**	**27 902**	**46 036**	**16 609**	**62 645**
Distribution of dividend	—	—	—	—	—	– 38 027	– 38 027	– 6 546	– 44 573
Capital increase	5	23	—	—	—	—	28	—	28
Change in retained earnings	—	—	31 017	—	—	– 31 017	—	—	—
Change in reporting entity	—	—	– 1 029	—	—	—	– 1 029	– 16 349	– 17 378
Balance at 30. 9. 2005	**129 802**	**178 293**	**237 215**	**8 367**	**111**	**78 204**	**631 992**	**105 044**	**737 036**
Earnings recognised directly under equity	—	—	—	997	611	—	1 608	1 302	2 910
Annual net surplus	—	—	—	—	—	50 010	50 010	13 590	63 600
	—	**—**	**—**	**997**	**611**	**50 010**	**51 618**	**14 892**	**66 510**
Distribution of dividend	—	—	—	—	—	– 41 779	– 41 779	– 15 537	– 57 316
Capital increase	12 962	77 230	—	—	—	—	90 192	—	90 192
Change in retained earnings	—	—	– 10 805	—	—	10 805	—	—	—
Change in reporting entity	—	—	41	—	—	—	41	513	554
Balance at 30. 9. 2006	**142 764**	**255 523**	**226 451**	**9 364**	**722**	**97 240**	**732 064**	**104 912**	**836 976**

Segment Reporting

Income Statement by Segment

Euro 000s	External Sales 2005/2006	External Sales 2004/2005	Intercompany Sales 2005/2006	Intercompany Sales 2004/2005	Scheduled Depreciation 2005/2006	Scheduled Depreciation 2004/2005	Extraordinary Depreciation 2005/2006	Extraordinary Depreciation 2004/2005
Electricity	1 069 084	975 113	33 314	16 701	16 861	22 617	15 242	1 593
District heating	276 533	249 892	28 846	13 848	25 413	24 455	4 323	– 1 385
Gas	449 237	366 134	24 296	19 679	11 245	14 424	11 037	598
Water	106 816	106 014	6 920	407	10 487	10 467	1 638	173
Value-added services	149 853	107 849	41 449	20 325	5 862	6 151	1 214	176
Environmental energy	192 934	131 022	33 149	21 580	38 265	25 944	1 185	214
Other/consolidation	31 664	21 568	– 167 974	– 92 540	25 297	25 182	8 671	37
MVV Energie Group	**2 276 121**	1 957 592	**—**	—	**133 430**	129 240	**43 310**	1 406

Balance Sheet by Segment

Euro 000s	Investments 30. 9. 2006	Investments 30. 9. 2005	Assets 30. 9. 2006	Assets 30. 9. 2005	Liabilities 30. 9. 2006	Liabilities 30. 9. 2005
Electricity	18 374	22 226	845 404	733 458	130 858	124 494
District heating	19 071	24 123	505 438	474 161	66 278	56 342
Gas	22 379	17 027	318 066	331 080	41 488	50 125
Water	11 667	12 671	273 037	288 258	34 571	37 245
Value-added services	18 254	8 596	158 808	144 959	37 454	23 390
Environmental energy	80 667	63 719	467 900	445 331	96 422	68 367
Other/consolidation	19 560	13 946	394 475	230 017	215 426	170 014
Unallocated (balance sheet)	—	—	189 740	272 710	1 693 395	1 650 961
MVV Energie Group	**189 972**	162 308	**3 152 868**	2 919 974	**2 315 892**	2 180 938

Further information about Segment Reporting has been provided under Note 37

EBIT		Non-Cash Expenses	
2005/2006	2004/2005	**2005/2006**	2004/2005
19 946	38 940	7 659	8 500
51 171	40 213	1 981	2 178
30 723	34 770	3 219	3 192
20 943	14 634	765	924
11 690	15 569	1 074	940
68 564	26 998	1 382	1 142
– 2 078	– 13 613	11 288	13 088
200 959	157 511	**27 368**	29 964

Cash Flow Statement

Cash Flow Statement of the MVV Energie Group Euro 000s	**2005/2006**	2004/2005
Annual net surplus	63 600	40 599
Amortisation of intangible assets, depreciation of property, plant and equipment and investment property	178 583	134 353
Change in long-term provisions	1 302	12 465
Other non-cash income and expenses	2 712	670
Cash flow as per DVFA/SG	**246 197**	**188 087**
Change in short-term provisions	17 899	54 597
Result generated from disposal of intangible assets and property, plant and equipment	– 423	2 816
Result generated from disposal of financial assets	– 11 017	299
Change in other assets	– 200 138	– 96 965
Change in other liabilities	85 279	66 881
Cash flow from operating activities	**137 797**	**215 715**
Investments in intangible assets, property, plant and equipment and investment property	– 189 972	– 162 308
(Free cash flow)	**(– 52 175)**	**(53 407)**
Proceeds from disposal of intangible assets, property, plant and equipment and investment property	12 434	6 272
Proceeds from subsidy payments	12 519	13 388
Proceeds from sale of fully and proportionately consolidated companies	—	28 376
Proceeds from sale of other financial assets	6 288	46 129
Payments for acquisition of fully and proportionately consolidated companies	– 9 322	– 2 294
Payments for other financial assets	– 19 312	– 49 863
Cash flow from investing activities	**– 187 365**	**– 120 300**
Proceeds from taking up of loans	235 663	670 625
Payments for redemption of loans	– 228 014	– 457 019
Change in financial liabilities from cash pooling	—	– 264 826
Proceeds from capital increases	90 192	28
Dividend payment	– 57 316	– 44 573
Cash flow from financing activities	**40 525**	**– 95 765**
Cash-effective changes in cash and cash equivalents	– 9 043	– 350
Change in cash and cash equivalents due to currency conversion	436	3 158
Cash and cash equivalents at 1. 10. 2005 (2004)	127 975	125 167
Cash and cash equivalents at 30. 9. 2006 (2005)	**119 368**	**127 975**

Further information about the Cash Flow Statement has been provided under Note 38

Cash flow – aggregate depiction Euro 000s	**2005/2006**	2004/2005
Cash and cash equivalents at 1. 10. 2005 (2004)	**127 975**	125 167
Cash flow from operating activities	137 797	215 715
Cash flow from investing activities	– 187 365	– 120 300
Cash flow from financing activities	40 525	– 95 765
Change in cash and cash equivalents due to currency conversion	436	3 158
Cash and cash equivalents at 30. 9. 2006 (2005)	**119 368**	127 975

Notes to the Consolidated Financial Statements

of the MVV Energie Group for the 2005/2006 Financial Year

General principles

The consolidated financial statements of the MVV Energie Group have been compiled pursuant to Section 315a of the German Commercial Code (HGB) in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU. Application has been made of all of the standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) requiring mandatory application as of 30 September 2006.

The consolidated financial statements have been compiled as of the reporting date for the annual financial statements of MVV Energie AG and refer to the 2005/06 financial year (1 October 2005 to 30 September 2006). MVV Energie AG has its legal domicile in Mannheim, Germany. The MVV Energie Group acts as an energy distributor and service provider in the fields of electricity, district heating, gas, water, environmental energy and value-added services. The consolidated financial statements have been compiled in euros. Unless otherwise indicated, all amounts have been stated in thousand euros (Euro 000s).

In addition to the balance sheet and income statement, the statement of changes in equity, the segment reporting and the cash flow statement have been presented separately. The income statement has been compiled in accordance with the total cost method. In the interests of clarity, individual items have been presented in summarised form in the balance sheet and income statement and broken down and outlined separately in the notes.

The consolidated financial statements and group management report were compiled by the Executive Board and approved to be forwarded to the Supervisory Board on 27 November 2006. They were subsequently presented to the Supervisory Board for inspection.

Changes in accounting and valuation methods

The IASB has adopted a series of amendments to existing IFRS as well as several new IFRS requiring mandatory application in financial years beginning on or after 1 January 2005. Initial application has been made of the following IFRS at the MVV Energie Group in the 2005/06 financial year, taking due account of the respective transition regulations:

IAS 1 (2003):	"Presentation of financial statements"
IAS 2 (2003):	"Inventories"
IAS 8 (2003):	"Accounting policies, changes in accounting estimates and errors"
IAS 10 (2003):	"Events after the balance sheet date"
IAS 16 (2003):	"Property, plant and equipment"
IAS 17 (2003):	"Leases"
IAS 21 (2003):	"Effects of changes in foreign exchange rates"
IAS 24 (2003):	"Related party disclosures"
IAS 27 (2003):	"Consolidated and separate financial statements"
IAS 28 (2003):	"Investments in associates"
IAS 31 (2003):	"Interests in joint ventures"
IAS 32 (2003):	"Financial instruments: disclosures and presentation"
IAS 33 (2003):	"Earnings per share"
IAS 39 (2004):	"Financial instruments: recognition and measurement"
IAS 40 (2003):	"Investment property"
IFRS 2:	"Share-based payment"
IFRS 5:	"Non-current assets held for sale and discontinued operations"
SIC-12 (2004):	"Consolidation – special purpose entities"

The initial application of the aforementioned IFRS had the following principal implications for the financial statements of the MVV Energie Group as of 30 September 2006:

As a result of the initial application of IAS 1 (2003) "Presentation of the Financial Statements", the balance sheet is structured in terms of maturities. Assets and liabilities have accordingly been reported as short-term or long-term. In addition to cash and cash equivalents, short-term assets involve assets expected to be sold, utilised or realised within twelve months or within the usual course of a business cycle. Liabilities are reported as short-term in cases where they are to be redeemed within twelve months or within the usual course of a business cycle. Accordingly, inventories, accounts receivable and accounts payable are generally allocated to the short-term section. Other assets are reported as short-term or long-term in accordance with their respective maturities. Shareholdings valued at equity and investment property are reported separately as long-term assets. Other long-term financial assets principally involve other shareholdings, loans to non-consolidated subsidiaries and shareholdings, other loans and long-term securities. Deferred taxes are generally classified as long-term in the balance sheet. Income tax claims are reported separately under short-term assets. In line with their long-term nature, provisions for pensions and similar obligations are reported in full under long-term debt. Other liabilities are classified in accordance with their respective maturities.

The initial application of IAS 39 (2004) "Financial Instruments: Recognition and Measurement" as of the beginning of the financial year and the resultant specification of the "own use exemption" have resulted in amendments in the depiction of energy trading transactions. Accordingly, pending transactions intended to secure the market price in the field of energy trading increasingly fall under the scope of IAS 39 (2004) and have to be recorded as financial instruments, while the underlying transactions thereby secured (sales contracts) are generally not affected by IAS 39 (2004). The accounting treatment pursuant to IAS 39 (2004) particularly affects energy trading commodity future transactions which require physical performance and which have to be resold in the context of adjustments to actual loads. The initial application of IAS 39 (2004) resulted in an increase of Euro 16 628 thousand in short-term other assets compared with their previous depiction, as well as in an increase of Euro 20 467 thousand in short-term other liabilities. The valuation of these contracts at market values has resulted in a reduction of Euro 3 839 thousand in earnings before tax. Given that the initial application of IAS 39 (2004) has resulted in a reclassification of energy trading transactions in line with accounting requirements, the adjustment of the previous year's figures is not possible.

The revised version of IAS 32 (2003) requires mandatory application for the first time in the consolidated financial statements of the MVV Energie Group as of 30 September 2006. According to this requirement, contracts involving an obligation to purchase own equity instruments represent a financial liability amounting to the present value of the purchase price, irrespective of whether such obligation only requires fulfilment upon the exercising of an option right by the contractual partner and of the probability of the exercising of such rights. In line with the development in national and international accounting practice, the MVV Energie Group has applied this requirement to put options held by minority shareholders. These minority interests have accordingly been reported under short-term or long-term liabilities in line with the respective contractual provisions. Pursuant to the regulations set out in IAS 39, these financial liabilities have been valued at fair value. The difference between the exercise price and the carrying amount of the minority interests is treated as a purchase price obligation dependent on future events with analogous application of the requirements governing the depiction of business combinations. The earnings distributed to minority shareholders and the changes in the present value of the potential payment obligations are reported as financing expenses.

The previous year's figures have been adjusted retrospectively. The implications for the consolidated financial statements for the 2004/05 financial year are as follows:

Balance sheet	Change in Euro 000s
Equity	– 116 567
Long-term debt	116 567

Income statement	Change in Euro 000s
Financial expenses	10 499
Earnings allocable to minority interests	– 4 415
Earnings allocable to shareholders in MVV Energie AG	– 6 084
Earnings per share	– 0.12

Change in cash flow statement	Change in Euro 000s
Cash flow from operating activities	– 7 078
Cash flow from financing activities	7 078

The method of accounting for CO_2 emissions certificates has changed since the previous year. This change is due to the circumstance that the net method of accounting for the obligation to submit CO_2 emissions certificates pursuant to Section 6 (1) of the German Greenhouse Gas Emissions Trading Act (TEHG) has proven to be more suitable and widespread within the sector. Accordingly, CO_2 emissions certificates allocated free of charge are valued at Euro 0. Emissions certificates acquired in return for payment are measured at cost. A provision is stated for the obligation to submit CO_2 emissions certificates and is basically measured on the basis of the carrying amounts of the certificates available at the balance sheet reporting date. In the event of the emissions caused not being covered in full by available CO_2 emissions certificates, the fair value of the CO_2 emissions certificates still required is included in the measurement of the provision. Pursuant to IAS 8, the change in the accounting method has been applied retrospectively. This has resulted in the short-term other assets reported in the previous year being reduced by Euro 12 626 thousand, short-term other provisions by Euro 7 491 thousand and short-term other liabilities by Euro 5 135 thousand. In the income statement, this change in the accounting method led other operating income and other operating expenses to be reduced in each case by Euro 7 491 thousand.

The initial application of the other IFRS did not have any notable implications.

Implications of new accounting standards not yet requiring application

The IASB and the IFRIC have adopted the standards and interpretations listed below which did not yet require mandatory application for the 2005/06 financial year and of which no premature voluntary application has been made:

IAS 1:	2005 amendment "Presentation of financial statements"
IAS 19:	2004 amendment "Actuarial gains and losses, group plans and disclosures"
IAS 21:	2005 amendment "Net investment in a foreign operation"
IAS 39:	2005 amendment – The amendments in IAS 39 relate to the option of classifying financial instruments in the "Financial assets or financial assets measured at fair value through profit and loss" category. The amendments also affect the options concerning the accounting treatment of cash flow hedges intended to cover exchange rate risks for highly probable intragroup forecast transactions and the accounting treatment of financial guarantees issued which will in future fall within the scope of IAS 39.
IFRS 6:	"Exploration for and evaluation of mineral resources"
IFRS 7:	"Financial instruments: disclosures"
IFRIC 4:	"Determining whether an agreement contains a lease"
IFRIC 5:	"Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds"
IFRIC 6:	"Liabilities arising from participating in a specific market – waste electrical and electronic equipment"
IFRIC 7:	"Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies"
IFRIC 8:	"Scope of IFRS 2"
IFRIC 9:	"Reassessment of embedded derivatives"
IFRIC 10:	"Interim financial reporting and impairment"
IFRIC 11:	"IFRS 2 group and treasury share transactions"

The amendments to IAS 19 (2004), IAS 21 (2005) and IAS 39 (2005), as well as those to IFRS 6, IFRIC 4 and IFRIC 6, are applicable for the first time in the financial year beginning on or after 1 January 2006.

IFRIC 8 is applicable for the first time in financial years beginning on or after 1 May 2006. IFRIC 9 is applicable for the first time in financial years beginning after 1 June 2006. IFRIC 10 is applicable for the first time in financial years beginning on or after 11 November 2006.

The amendments to IAS 1 (2005) and to IFRS 7 and IFRIC 7 are applicable for the first time in the financial year beginning on or after 1 January 2007.

IFRIC 11 is applicable for the first time in the financial year beginning on or after 1 March 2007.

IAS 19 (2004) could have possible implications for the accounting treatment of restructuring funds levied by municipal supplementary pension funds. It is currently not yet possible to reach any conclusive assessment in this respect.

Apart from the required extension in the notes to consolidated financial statements, the initial application of the other regulations is not expected to have any significant impact on the consolidated financial statements of the MVV Energie Group.

Reporting entity and changes in the reporting entity

In addition to MVV Energie AG, 42 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 consolidated financial statements of the MVV Energie Group for the 2005/06 financial year (previous year: 43). The relevant control concept requires the parent company to exercise a controlling influence in the case of fully consolidated companies. This is the case for all companies fully consolidated.

100 % of the shares in IVB Immobilien Versorgung GmbH Berlin (now: MVV Energiedienstleistungen GmbH Berlin) were acquired as of 1 January 2006. With the exception of goodwill amounting to Euro 12 346 thousand, the assets and liabilities are of subordinate significance both prior to and subsequent to the execution of the purchase price allocation.

In addition to this company, the companies Biomasseheizkraftwerke Altenstadt GmbH, Altenstadt, ENSERVA GmbH, Solingen and MVV Energie Industrial Solutions Bayern GmbH, Ingolstadt, were fully consolidated for the first time during the past financial year as of 1 October 2005. The companies MAnet GmbH, Mannheim, Cogebar – Cogeração de Barcelos, Lda., Barcelos, Portugal, Cogesac – Cogeração do Ave, Lda., Oliveira S. Mateus, Portugal, and MVV Energie Portugal – Serviços de Racionalização Energética, Lda., Lisbon, Portugal, were deconsolidated as a result of their disposal. The deconsolidations were not cash-effective in the year under report. The assets and liabilities thereby no longer consolidated are of subordinate significance.

Eight joint ventures (previous year: six) have been included in the consolidated financial statements by means of proportionate consolidation based on the respective level of shareholding. Stadtwerke Solingen Netz GmbH, Solingen, and reginova GmbH, Ingolstadt, were proportionately consolidated for the first time.

One company (previous year: eleven) has been accounted for using the equity method in view of the fact that the business policy of the associated company is subject to a controlling influence, but that the company in question does not fulfil the requirements for a subsidiary or joint venture. ENERGY InnovationsPortfolio KGaA, Mannheim, which was previously fully consolidated, has been included in the consolidated financial statements at equity as of

1 January 2006, given that it is no longer controlled by MVV Energie AG. The deconsolidation of eleven associated companies previously included at equity and now valued in accordance with IAS 39 is attributable to their failure to meet the extended reporting obligations required by IFRS.

The changes in the reporting entity have not had any significant influence on the balance sheet and income statement of the MVV Energie Group. Those subsidiaries, joint ventures and associated companies 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 in accordance with IAS 39 in the consolidated balance sheet.

Those companies included in the consolidated financial statements which have different balance sheet reporting dates have compiled interim financial statements as of the reporting date for the consolidated financial statements. The annual or interim financial statements of the companies included in the consolidated financial statements of the MVV Energie Group have been based on uniform accounting and valuation principles.

The companies included in the consolidated financial statements of the MVV Energie Group as of 30 September 2006 have been listed in the following overview. An extensive list of holdings, which also includes the non-consolidated subsidiaries and other shareholdings reported as financial assets, has been deposited in the Mannheim Commercial Register (HRB 1780).

Reporting Entity of the MVV Energie Group as of 30. 9. 2006	Share of capital pursuant to Sec. 16 (2 and 4) AktG %
Companies fully consolidated	
Germany	
AbeG Abwasserbetriebsgesellschaft mbH, Offenbach [4]	51.00
BFE Institut für Energie und Umwelt GmbH, Mühlhausen [4]	100.00
Biomasseheizkraftwerke Altenstadt GmbH, Altenstadt [3, 4]	67.00
Energieversorgung Offenbach AG, Offenbach [2]	48.78
ENSERVA GmbH, Solingen [3, 4]	74.90
eternegy GmbH, Mannheim	100.00
Gasversorgung Offenbach GmbH, Offenbach [4]	74.90
GeTeBe Gesellschaft für Technologieberatung mbH, Berlin [4]	100.00
Köthen Energie GmbH, Köthen	100.00
KSG Kommunikations-Service-Gesellschaft mbH, Offenbach [4]	100.00
MVV BioPower GmbH, Königs Wusterhausen [4]	100.00
MVV BMKW Mannheim GmbH, Mannheim [4]	89.80
MVV Consulting GmbH, Mannheim [4]	100.00
MVV Energie Industrial Solutions West GmbH, Solingen [4]	100.00
MVV Energiedienstleistungen GmbH, Berlin [3, 4]	100.00
MVV Energiedienstleistungen GmbH, Mannheim	100.00
MVV Energiedienstleistungen Industrial Solutions Bayern GmbH, Ingolstadt [3, 4]	100.00
MVV Energiehandel GmbH, Mannheim	100.00
MVV Industriekraftwerk Ludwigshafen GmbH, Mannheim [4]	100.00
MVV O&M GmbH, Mannheim [4]	100.00
MVV RHE AG, Mannheim	100.00
MVV TREA Leuna GmbH, Leuna [4]	100.00
MVV Umwelt GmbH, Mannheim	100.00
Stadtwerke Kiel AG, Kiel [4]	51.00
SW Kiel Beteiligungsgesellschaft mbH, Mannheim	100.00
SWKiel Erzeugung GmbH, Kiel [3, 4]	100.00
SWKiel Netz GmbH, Kiel [4]	100.00
SWKiel Service GmbH, Kiel [4]	100.00
ZEDER Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Pullach [5]	0.00
24sieben GmbH, Kiel [4]	100.00
24solution GmbH, Kiel [3]	100.00

Reporting Entity of the MVV Energie Group as of 30.9.2006	Share of capital pursuant to Sec. 16 (2 and 4) AktG %
Companies fully consolidated	
International	
CTZ s.r.o., Uherské Hradiště, Czech Republic [4]	50.96
EC Skarzysko-Kamienna Sp. z o.o., Skarzysko-Kamienna, Poland [2, 4]	46.06
Jablonecká teplárenská a realitni a.s., Jablonec, Czech Republic [4]	65.78
Mestské inzenyrské site Studénka a.s., Studénka, Czech Republic [4]	100.00
MVV Energie CZ s. r. o., Prague, Czech Republic	100.00
MVV enservis s.r.o., Ceská Lipá, Czech Republic [4]	100.00
MVV EPS Polska S.A., Warsaw, Poland [4]	100.00
MVV Polska Sp. z o.o., Warsaw, Poland	100.00
Opatherm a.s., Opava, Czech Republic [4]	100.00
Termo Děčín a.s., Děčín, Czech Republic [4]	96.91
Zásobování teplem Vsetín a.s., Vsetín, Czech Republic [4]	97.95
Companies proportionately consolidated	
Germany	
Stadtwerke Ingolstadt Beteiligungen GmbH, Ingolstadt [7]	48.40
Stadtwerke Ingolstadt Energie GmbH, Ingolstadt [4, 6]	100.00
Stadtwerke Ingolstadt Netze GmbH, Ingolstadt [4, 6]	100.00
Stadtwerke Solingen GmbH, Solingen	49.90
Stadtwerke Solingen Netz GmbH, Solingen [3, 4, 6]	100.00
reginova GmbH, Ingolstadt [3, 4, 6]	100.00
International	
KPEC Komunalne Przedsiebiorstwo Energetyki Cieplnej Sp. z o.o., Bydgoszcz, Poland [1, 4]	54.96
SEC Szczecin Sp. z o.o., Szczecin, Poland [4, 7]	32.06
Companies valued at equity	
Germany	
ENERGY InnovationsPortfolio AG & Co. KGaA, Mannheim [8]	99.64

[1] voting rights limited to 40 %
[2] majority of voting rights
[3] additions in current financial year
[4] indirect shareholding
[5] special purpose entity
[6] Stadtwerke Ingolstadt Beteiligungen GmbH and/or Stadtwerke Solingen GmbH own 100 % of the shares in each case
[7] joint management on the basis of a contractual agreement
[8] Not subject to control as defined by IAS 27

Joint ventures account for the following shares of the balance sheet and income statement of the MVV Energie Group:

Balance Sheet Euro million	**30. 9. 2006**	30. 9. 2005
Assets		
Long-term assets	290.9	316.7
Short-term assets	40.4	38.6
	331.3	**355.3**
Equity and liabilities		
Equity	8.6	16.8
Long-term debt	287.5	307.4
Short-term debt	35.2	31.1
	331.3	**355.3**

Income Statement Euro million	**2005/2006**	2004/2005
Sales	237.7	202.7
Capitalised own-account services	0.2	3.4
Other operating income	6.7	5.8
Cost of materials	157.2	123.3
Personnel expenses	21.8	21.1
Other operating expenses	31.5	31.3
Income from shareholdings	0.0	0.1
EBITDA	**34.1**	**36.3**
Depreciation	11.1	10.5
EBITA	**23.0**	**25.8**
Goodwill amortisation	19.3	0.0
EBIT	**3.7**	**25.8**
Financing income	0.4	0.7
Financing expenses	2.0	2.1
EBT	**2.1**	**24.4**
Taxes on income	8.1	8.8
Annual net deficit/surplus	**– 6.0**	**15.6**

Consolidation methods

The annual financial statements included in the consolidated financial statements have been compiled on the basis of uniform accounting and valuation methods as of 30 September 2006.

Subsidiaries have been fully consolidated upon acquisition, i.e. from the time at which the Group gains control. Their inclusion in the consolidated financial statements ends upon their no longer being controlled by the parent company. The consolidation of capital is basically undertaken in accordance with the acquisition method. This involves the costs of acquisition incurred by the business combination being allocated to the identifiable assets thereby acquired and the identifiable liabilities and contingent liabilities thereby assumed on the basis of their fair values at the time of acquisition. Any remaining credit difference is reported under intangible assets as goodwill. Capitalised goodwill is not subject to scheduled amortisation, but rather undergoes an impairment test undertaken once per year or upon there being any indications of impairment in value. Any goodwill remaining upon deconsolidation is accounted for in the treatment of the proceeds from the disposal. Any debit differences thereby arising are recorded with a direct impact on earnings.

Receivables, provisions and liabilities, as well as sales, income and expenses between the consolidated companies have been offset against each other. Intercompany results have also been eliminated in cases where they are substantial. Tax deferrals have been undertaken.

The proportionate consolidation of joint ventures has been undertaken in accordance with the same principles.

Shares in associated companies have been accounted for using the equity method in cases meeting the relevant requirements.

Currency conversion

Transactions undertaken in foreign currencies have been recorded in the separate financial statements of the consolidated companies at the spot rate applicable at the time of such transaction. Monetary assets and liabilities whose value is stated in a foreign currency are converted at each reporting date at the rate valid on the reporting date. Non-monetary items valued at historic cost in a foreign currency are converted at the rate valid on the date of such transaction. Non-monetary items valued at fair value in a foreign currency were converted at the rate valid upon the fair value being determined. Any resultant exchange rate gains and losses have been recorded as other operating income or other operating expenses with a direct impact on earnings.

The annual financial statements of foreign group companies have been converted into euros (the functional currency of the Group) in accordance with the functional currency concept. This involves 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. Modified reporting date rates have been used as the method of conversion for the financial statements of foreign companies. This involves assets and liabilities being converted from their respective national currencies into euros at the mean exchange rate valid on the reporting date (reporting date rates). Income and expense items have been converted using annual average exchange rates. Currency differences resulting from the conversion of 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 reported under equity as retained earnings (differential amount from currency conversion) without any impact on earnings.

The currency conversion has been based on the following exchange rates:

1 Euro	Rate on reporting date		Annual average rate	
	30. 9. 2006	30. 9. 2005	**2005/2006**	2004/2005
Polish zloty (PLN)	3.971	3.918	3.913	4.103
Czech crowns (CZK)	28.326	29.553	28.655	30.242

(Source: European Central Bank)

Accounting and valuation principles

Assets and liabilities have been valued at updated cost of acquisition or manufacture in all cases with the exception of certain financial assets and financial instruments where IAS 39 requires valuation at fair value and where this can be reliably determined. Long-term debt has been stated at its present value.

Since 1 January 2005, the MVV Energie Group has been subject to the requirements of the European emissions trading system. Within the framework of this system, the companies thereby affected receive CO_2 emissions rights which have to be returned to the respective authority within four months of the expiry of each calendar year stating the actual volume of CO_2 emissions in the respective year. In cases where the actual CO_2 emissions exceed the rights allocated per year, the missing rights have to be purchased. CO_2 emissions certificates acquired on the market are reported in the consolidated financial statements at cost as short-term intangible assets within other assets. Rights allocated free of charge are accounted for at Euro 0.

In order to improve the presentation of the net asset position of the MVV Energie Group, the grants relating to intangible assets and property, plant and equipment have been reported separately from investments in the balance sheet (also for the 2004/05 financial year). Moreover, the following amendments have been made in the interests of improving the presentation of the earnings position in the income statement (also for the 2004/05 financial year):

- Depreciation of inventories has been reported on a uniform basis under cost of materials
- Net interest expenses have been subdivided into the components of financing income and financing expenses and reported separately.

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

Valuation uncertainties

Discretionary decisions have to be made when applying the accounting and valuation methods. Moreover, the compilation of consolidated financial statements in accordance with IFRS requires assumptions and estimates to be made which could impact on the values stated for the assets and liabilities, income and expenses thereby reported, as well as on the disclosure of contingent liabilities.

Discretionary decisions in the application of accounting and valuation methods:

The exercising of discretion in the application of accounting and valuation methods did not have any significant implications for the values stated for the assets and liabilities reported in the financial statements.

Uncertainties involved in estimates:

The following section provides information on the most important forward-looking assumptions and major sources of uncertainty involved in estimates made at the reporting date, as a result of which there is a considerable risk that a major adjustment will be required in the carrying amounts of assets and liabilities in the coming financial year.

The fair values of assets and liabilities and the useful lives of assets have been determined on the basis of management assessment. The same applies to the calculation of any impairment of assets.

The MVV Energie Group reviews whether its goodwill is impaired at least once per year or in the event of any events or changes in circumstances indicating that there might be an impairment of carrying amounts. This requires an estimation of the use value of the cash generating unit to which the goodwill is allocated. In order to estimate the use value, the MVV Energie Group has to estimate the cash flow surpluses expected to be generated by the cash generating unit in future and furthermore to select an appropriate discount rate to calculate the present value of the cash flow. All assumptions and estimates are based on circumstances and assessments as of the reporting date. Any deviation in the development of the underlying framework could result in differences arising between such estimates and actual values. Appropriate amendments are made in such cases to the assumptions and if necessary to the carrying amount of the goodwill. Further details can be found in the "Notes on the balance sheet – Intangible assets" section.

Moreover, assumptions also have to be made when calculating actual and deferred taxes. In particular, the possibility of generating suitable taxable income plays a major role in the assessment as to whether it will be possible to use deferred tax assets.

The principal estimates involved in the valuation of provisions for pensions and similar obligations include the discount factor, biometrical probabilities and trend assumptions. Any deviation in the development of these estimates could result in differences arising between the amounts stated and the obligations actually arising in the course of time. Given that actuarial gains and losses are only recorded in cases where they exceed 10 % of the higher of either the extent of the obligation or the fair value of the plan assets, changes in the discount factor generally do not have any major implications for the carrying amount of the provision stated at the MVV Energie Group in the next financial year.

Reference is always made to the best information available at the reporting date when checking the plausibility of such valuations. Actual amounts may differ from the estimates thereby made. The carrying amounts recorded in the financial statements which are subject to these uncertainties have been stated in the balance sheet and the accompanying information provided in the notes.

No major changes in the assumptions underlying the accounting and valuation policies were to be expected upon the compilation of these consolidated financial statements. In this respect, no noteworthy adjustments are currently to be expected in the assumptions and estimates or in the carrying amounts of the assets and liabilities thereby affected in the 2006/07 financial year.

Notes on the Balance Sheet

1 Intangible assets

Intangible assets have in all cases been acquired in return for payment and have been stated at cost of acquisition. With the exception of goodwill, they have been subject to scheduled straight-line amortisation on the basis of their respective useful lives. There are no intangible assets with useful lives classified as being indefinite.

The requirements governing the capitalisation of development expenses have not been met. Like research expenses, these have therefore also been recognised as expenses in the period in which they were incurred. These expenses amounted to Euro 2 724 thousand in the 2005/06 financial year (previous year: Euro 3 577 thousand). Research and development expenses principally relate to activities aimed at achieving ongoing improvements 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 is not subject to scheduled amortisation, but rather undergoes an annual impairment test in the event of there being any indication that its value is impaired. The goodwill is allocated for this purpose to cash generating units on the level of the legal entities or of subgroups consisting of legal entities belonging together in geographical terms.

The recoverable amount of a cash generating unit is the higher of its use value and its fair value less disposal-related expenses. The fair value represents a best estimate of the amount for which an independent third party would acquire the cash generating unit at the reporting date. The use values of the cash generating units are determined on the basis of cash flow forecasts approved by the management and supervisory bodies. Such cash flow forecasts are based on the experience and results in previous financial years, as well as on expectations as to future market developments. Extraordinary amortisation is undertaken in cases where the recoverable amount of the asset falls short of its respective carrying amount.

The cash flow forecasts have been based on the expected development in key macroeconomic figures derived from economic and financial studies. The key assumptions used in the forecast concern the development of the price of crude oil, gas and coal on the global markets, the price of electricity and gas on the wholesale and end consumer markets and the development of market shares and of the relevant regulatory framework. The cash flow forecasts incorporate a detailed budgeting period of five years. The figures for subsequent financial years are based on an extrapolation of the results of the final year in the detailed budgeting period. The assumed growth rates range from 0.5 % to 1.0 %. These growth rates correspond to the average long-term growth rates on the markets in which the companies operate and are consistent with external sources of information concerning market expectations.

The use value is determined by discounting the expected cash flows with discount rates of between 4.5 % and 4.9 % after tax. These discount rates have been determined on the basis of observable market data.

The carrying amounts stated for goodwill showed the following developments:

Euro 000s	**30. 9. 2006**	30. 9. 2005
Energieversorgung Offenbach subgroup	65 066	65 066
Stadtwerke Solingen subgroup	59 472	68 238
Stadtwerke Ingolstadt subgroup	53 759	64 332
MVV Energiedienstleistungen GmbH Berlin (previously: IVB Immobilien Versorgung GmbH Berlin)	12 346	—
MVV Czech subgroup	4 368	4 368
Biomasseheizkraftwerke Altenstadt GmbH, Altenstadt	3 343	—
MVV Polish subgroup	1 781	4 343
Other	6 996	8 164
	207 131	214 511

The respective use values have been taken as the recoverable amounts for the goodwill write-downs of Euro 21 901 thousand undertaken during the year under report (previous year: Euro 1 387 thousand).

Intangible assets Euro 000s	Concessions, industrial property rights and similar rights and values	Goodwill	Advance payments	**Total**
Gross value at 1. 10. 2004	202 198	249 902	1 933	454 033
Change in reporting entity	– 2 785	3 038	– 30	223
Currency adjustments	226	– 520	4	– 290
Investments	3 520	—	3 840	7 360
Disposals	5 409	—	—	5 409
Transition from IAS 22 to IFRS 3	—	8 232	—	8 232
Reclassifications	1 392	—	– 926	466
Gross value at 30. 9. 2005	199 142	260 652	4 821	**464 615**
Amortisation at 1. 10. 2004	93 574	44 599	2	138 175
Change in reporting entity	– 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**
Net value at 30. 9. 2005	98 156	214 511	4 818	317 485
Gross value at 1. 10. 2005	199 142	260 652	4 821	464 615
Change in reporting entity	– 598	12 735	—	12 137
Currency adjustments	43	– 24	1	20
Investments	10 265	—	1 173	11 438
Disposals	3 622	—	56	3 678
Reclassifications	5 575	—	– 4 240	1 335
Gross value at 30. 9. 2006	210 805	273 363	1 699	**485 867**
Amortisation at 1. 10. 2005	100 986	46 141	3	147 130
Change in reporting entity	– 1 331	– 1 295	—	– 2 626
Currency adjustments	38	– 216	—	– 178
Amortisation	14 561	21 602	—	36 163
Disposals	3 382	—	—	3 382
Amortisation at 30. 9. 2006	110 872	66 232	3	**177 107**
Net value at 30. 9. 2006	99 933	207 131	1 696	**308 760**

2 Property, plant and equipment

Property, plant and equipment have been recognised at cost of acquisition or manufacture, less depreciation. Internally generated property, plant and equipment have been recognised at cost of acquisition or manufacture on the basis of allocable direct costs and a commensurate share of overhead expenses. Debt capital costs have not been capitalised.

The costs of acquisition or manufacture of assets have been reduced 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. Public subsidies have been recognised in cases where it is reasonably certain that such subsidies will be granted and the related conditions have been met. The investment grants relate exclusively to asset-based subsidies.

Property, plant and equipment have been subject to straight-line depreciation on the basis of their economic useful lives. For buildings, the period of depreciation amounts to 50 years. Technical equipment and machines are depreciated over a period of between 8 and 50 years, with grid networks in most cases having useful lives of 30 to 40 years. Plant and office equipment is depreciated over a period of between 4 and 10 years.

Property, plant and equipment have been subject to extraordinary depreciation in cases where the recoverable amount of the respective asset falls short of its carrying value. The depreciation undertaken during the year under report includes extraordinary depreciation amounting to Euro 15 225 thousand (previous year: Euro 3 199 thousand). Of this sum, Euro 6 676 thousand related to land and buildings, Euro 8 532 thousand to technical equipment and machinery and Euro 17 thousand to plant and office equipment. This depreciation was due to a reduction in expected earnings from future utilisation.

There were no major rented or leased items of property, plant and equipment in the financial year in which economic ownership was attributable to the MVV Energie Group as a result of the terms of the respective contracts. Waste-fired boiler No. 4, which had been capitalised as a finance lease transaction in the previous year, was repurchased by the MVV Energie Group during the year under report following the expiry of the lease financing.

Property, plant and equipment up to an equivalent value of Euro 121 million was provided as security for financial liabilities. This mainly involves land and buildings.

Property, plant and equipment 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	657 708	2 952 061	238 069	81 232	3 929 070
Change in reporting entity	– 66 444	– 108 188	– 530	– 2 173	– 177 335
Currency adjustments	12 790	12 413	322	351	25 876
Investments	8 845	61 217	7 261	77 625	154 948
of which subsidy payments	744	12 591	32	21	13 388
Disposals	4 026	19 763	21 211	511	45 511
of which subsidy payments	136	330	68	—	534
Reclassifications	2 551	36 774	1 167	– 33 125	7 367
Gross value at 30. 9. 2005	**610 680**	**2 921 923**	**225 046**	**123 378**	**3 881 027**
Depreciation at 1. 10. 2004	241 060	1 628 859	156 955	280	2 027 154
Change in reporting entity	– 34 364	– 52 619	– 320	—	– 87 303
Currency adjustments	5 205	6 205	242	14	11 666
Scheduled depreciation	12 995	86 931	13 131	—	113 057
Extraordinary depreciation	1 539	1 634	26	—	3 199
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**
Net value at 30. 9. 2005	385 572	1 259 288	75 286	123 144	1 843 290
Gross value at 1. 10. 2005	610 680	2 921 923	225 046	123 378	3 881 027
Change in reporting entity	4 985	– 6 549	– 1 178	5 891	3 149
Currency adjustments	1 680	1 923	– 5	33	3 631
Investments	4 055	52 248	5 589	112 854	174 746
of which subsidy payments	282	11 467	1	769	12 519
Disposals	6 226	15 203	19 003	1 042	41 474
Reclassifications	3 653	94 203	1 680	– 110 462	– 10 926
Gross value at 30. 9. 2006	**618 545**	**3 037 078**	**212 128**	**129 883**	**3 997 634**
Depreciation at 1. 10. 2005	225 108	1 662 635	149 760	234	2 037 737
Change in reporting entity	1 420	– 2 822	– 966	—	– 2 368
Currency adjustments	438	905	– 7	9	1 345
Scheduled depreciation	16 517	89 152	11 849	—	117 518
Extraordinary depreciation	6 676	8 532	17	—	15 225
Disposals	3 859	13 865	17 263	7	34 994
Reclassifications	21	– 7 616	– 27	—	– 7 622
Depreciation at 30. 9. 2006	**246 321**	**1 736 921**	**143 363**	**236**	**2 126 841**
Net value at 30. 9. 2006	**372 224**	**1 300 157**	**68 765**	**129 647**	**1 870 793**

3 Investment property

The land, leasehold rights and buildings, including buildings on third-party land, item includes real estate held for the purpose of generating rental income or long-term value growth and which is not used for production or administrative purposes. Such property has been valued at updated cost. Transaction costs are included in the initial valuation of the property. The property is subject to straight-line depreciation over a period of 33 years.

In view of the recent acquisition of the investment property, its fair value is largely equivalent to its updated cost. There were no indications of any significant change in the fair value of the property since its construction in May 2006. For this reason, no valuation was obtained from an independent surveyor as of the reporting date. The rental income amounted to Euro 170 thousand in the financial year. Direct operating expenses (excluding scheduled depreciation) amounted to Euro 69 thousand.

Investment property	Euro 000s
Gross value at 1.10.2005	—
Investments	3 788
Reclassifications	1 969
Gross value at 30.9.2006	**5 757**
Depreciation at 1.10.2005	—
Depreciation	103
Depreciation at 30.9.2006	**103**
Net value at 30.9.2006	**5 654**

4 Shareholdings valued at equity

The shares held in shareholdings valued at equity are initially recognised at cost of acquisition and in subsequent periods at the updated value of the prorated net assets. Extraordinary depreciation is undertaken in cases where the recoverable amount falls short of the carrying amount.

Shareholdings valued at equity	Euro 000s
Gross value at 1.10.2005	91 804
Change in reporting entity	44 510
Investments/additions	921
Reclassifications	– 91 804
Gross value at 30.9.2006	**45 431**
Depreciation as of 1.10.2005	907
Change in reporting entity	22 265
Depreciation	7 733
Reclassifications	– 907
Depreciation as of 30.9.2006	**29 998**
Net value as of 30.9.2006	**15 433**

The shareholdings valued at equity reported the following key financial figures as of 30.9.2006:

Euro 000s	**2005/2006**
Total assets	23 716
Liabilities	299
Overall performance	2 036
Annual net income (for the 2005/06 financial year)	610

5 Other financial assets

The shares in non-consolidated subsidiaries and other shareholdings, loans and securities reported under other financial assets have in most cases been classified as available for sale and recognised at fair value to the extent that this can be reliably determined. In cases where this is not possible, they have been valued at updated cost, adjusted where necessary to account for write-downs resulting from a decline in expected cash flows or from default risks.

Write-downs undertaken on other financial assets have been reported under Note 29 (Other income from shareholdings) and Note 33 (Financing expenses).

The other loans have fixed interest rates, with an average interest rate of 4.9 % (previous year: 4.5 %). The average period for which the interest rate remains fixed in the case of fixed-rate loans amounts to 11.8 years (previous year: 11 years).

Further details on financial instruments can be found under Note 21.

Other shareholdings mainly relate to the shares held in ZVO Versorgungs GmbH (carrying amount: Euro 28 138 thousand), Grosskraftwerk Mannheim AG (carrying amount: Euro 25 400 thousand), KielNet GmbH Gesellschaft für Kommunikation (carrying amount: Euro 11 570 thousand) and Gemeinschaftskraftwerk Kiel GmbH (carrying amount: Euro 9 768 thousand).

Other financial assets Euro 000s	Non-consolidated subsidiaries	Other shareholdings	Loans general	Loans in connection with finance leases	Securities	**Total**
Gross value at 1. 10. 2005	27 738	30 633	22 055	—	3 804	84 230
Change in reporting entity	– 748	– 125	—	—	—	– 873
Investments/additions	527	4 212	4 451	13 476	1 384	24 050
Disposals	16 549	22 706	6 890	2	3 195	49 342
Reclassifications	– 89	91 893	—	—	—	91 804
Gross value at 30. 9. 2006	**10 879**	**103 907**	**19 616**	**13 474**	**1 993**	**149 869**
Amortisation at 1. 10. 2005	8 910	12 826	7 779	—	12	29 527
Amortisation	—	202	1 675	—	4	1 881
Disposals	4 081	12 414	2 956	—	– 18	19 433
Reclassifications	—	907	—	—	—	907
Amortisation at 30. 9. 2006	**4 829**	**1 521**	**6 498**	**—**	**34**	**12 882**
Net value at 30. 9. 2006	**6 050**	**102 386**	**13 118**	**13 474**	**1 959**	**136 987**
of which long-term	6 050	102 386	11 250	12 805	1 959	134 450
of which short-term	—	—	1 868	669	—	2 537

The MVV Energie Group acts as lessor in several contracting projects within the framework of finance leasing agreements. The reconciliation of the present value of the minimum leasing payments with the gross investments involved in the leasing agreements is structured as follows:

Euro 000s	**30. 9. 2006**
Present value of minimum leasing payments by maturity	
up to one year	669
one to five years	2 672
longer than five years	10 133
	13 474
Financial income not yet recognised	5 441
Gross investments in financial leasing relationships	**18 915**

6 Receivables and other assets

With the exception of derivative financial instruments, receivables and other assets have been recognised at updated cost. The write-downs required (Euro 6 645 thousand) have been based on the actual level of default risk.

Other assets include prepaid expenses amounting to Euro 13 934 thousand (previous year: Euro 10 269 thousand). Moreover, this item also includes the share of loans maturing in the short-term, which amounts to Euro 2 537 thousand (please see Note 5).

Other assets also include derivative financial instruments amounting to Euro 109 652 thousand. These relate to derivative interest and commodity contracts for electricity, gas and coal.

The carrying amounts of the receivables and other assets reported are basically equivalent to their respective fair values.

Further details on financial instruments can be found under Note 21.

Receivables and other assets Euro 000s	**30. 9. 2006** **long-term**	**30. 9. 2006** **short-term**	30. 9. 2005 long-term	30. 9. 2005 short-term
Receivables				
from non-consolidated subsidiaries	5	38 184	121	7 139
from companies valued at equity	—	—	—	1 456
from other shareholdings	—	4 728	—	—
Other assets	7 331	185 843	3 973	51 063
	7 336	**228 755**	**4 094**	**59 658**

7 Tax receivables

This item mainly relates to capital gains tax refund claims, which have been stated at their nominal values.

8 Inventories

Inventories relate to raw materials and supplies, unfinished and finished products and services, as well as to advance payments made for these items. They have been recognised at cost of acquisition or manufacture or, if lower, at their net disposal values. The calculation of the cost of acquisition or manufacture for raw materials and supplies has been based on the average cost method. The costs of manufacture of unfinished and finished products and services include allocable direct costs and a commensurate share of the required material and production overheads and thus include production-related full costs. The amounts stated have been reduced as appropriate to account for any impairment in their utility.

The share of inventories stated at net disposal values is of subordinate significance as a proportion of the total level of inventories reported.

Inventories Euro 000s	**30. 9. 2006**	30. 9. 2005
Raw materials and supplies	21 516	19 034
Unfinished and finished products and services	27 258	25 651
Advance payments	368	663
	49 142	45 348

9 Accounts receivable

Receivables from customers have been recognised at updated cost. Default risks existing at the reporting date have been covered by adequate write-downs (Euro 13 619 thousand). Receivables are derecognised immediately upon becoming uncollectible. The carrying amounts reported are basically equivalent to their respective fair values.

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

Receivables of Euro 49 thousand are due from non-consolidated subsidiaries (previous year: Euro 139 thousand), receivables of Euro 0 thousand from shareholdings valued at equity (previous year: Euro 3 132 thousand) and receivables of Euro 6 756 thousand from other shareholdings (previous year: Euro 933 thousand).

10 Cash and cash equivalents

Cash and cash equivalents primarily consist of credit balances at banks and correspond to the financial funds reported in the cash flow statement. Joint ventures account for a total of Euro 6 827 thousand (previous year: Euro 10 872 thousand). Within the framework of short-term liquidity management structures, credit balances are exclusively deposited at banks of impeccable creditworthiness. As in the previous year, such balances bear interest at an inter-bank level.

11 Equity

Share capital: The share capital of MVV Energie AG amounts to a total of Euro 142 764 thousand and is divided into 55 767 290 individual registered shares of Euro 2.56 each (previous year: 50 704 000). The shares previously listed as bearer shares were converted into registered shares on 20 June 2006. The year-on-year increase in the number of shares is due to the capital increase undertaken in November 2005 and to the capital increase undertaken within the framework of the employee share programme. Further details have been provided under Authorised Capital I and Authorised Capital II.

The City of Mannheim indirectly owned 66.2 % of the share capital as of 30 September 2006 and EnBW Energie Baden-Württemberg AG owned 15.0 %. The remaining 18.8 % of the shares are in free float.

Authorised Capital I: The Annual General Meeting held on 4 March 2005 authorised the Executive Board to increase the share capital by an amount of up to Euro 39 000 000 (Authorised Capital). This was equivalent to around 30 % of the company's share capital at the time of the resolution being adopted.

On 4 October 2005, the Supervisory Board of the company provided its basic consent to an increase in the company's share capital by issuing 5 million ordinary shares to the exclusion of shareholders' subscription rights and to the placing of the new shares on the capital market by means of an accelerated bookbuilding procedure. The Executive Board exercised this authorisation with the consent of the Supervisory Board on 15 November 2005. As a result of the issue of 5 million new shares, the share capital increased by 9.86 % from Euro 129 802 thousand to Euro 142 602 thousand.

Authorised Capital II: On the basis of a resolution adopted on 10 March 2006, the Annual General Meeting of MVV Energie AG authorised the Executive Board to increase the company's share capital on one or several occasions by a total of Euro 3 400 000 within the framework of the employee share programme. This was equivalent to around 2.4 % of the company's share capital at the time of the resolution being adopted. The Executive Board exercised this authorisation with the consent of the Supervisory Board on 20 September 2006. As a result of the issue of 63 290 new shares, the share capital increased by 0.11 % from Euro 142 602 thousand to Euro 142 764 thousand. Shareholders' subscription rights were excluded. Reference is made to Note 36 for further information as to the employee share programme.

Conditional Capital I: The 34 500 convertible bonds existing at the beginning of the financial year have since been repaid in full. They were not converted into shares in MVV Energie AG.

Conditional Capital III and IV: Conditional Capital III and Conditional Capital IV were rescinded by resolution of the Annual General Meeting on 10 March 2006. No use was made of the possibility of issuing options within the framework of these programmes.

Capital reserve: The capital reserve relates to MVV Energie AG. This reserve includes external flows of funds required to be included by Section 272 of the German Commercial Code (HGB). The transaction costs (after taxes) of the capital increase undertaken on 15 November 2006, which have been recognized as a reduction in equity, amount to Euro 1 231 thousand.

Retained earnings: In addition to the prorated retained earnings of MVV Energie AG and of the other companies consolidated, retained earnings also include cumulative changes recorded without any impact on earnings since the time of initial consolidation as a result of the fair value valuation of financial instruments, as well as currency conversion differences resulting from the conversion of foreign financial statements. An amount of Euro 611 thousand was transferred to the fair value reserve during the financial year (previous year: Euro 981 thousand).

Proposed appropriation of earnings: The Executive Board proposes appropriating the net earnings of MVV Energie AG for the 2005/06 financial year as follows:

Distribution of a dividend of Euro 0.80 per individual share for the 2005/06 financial year (total: Euro 44 613 832.00). The dividend is payable on 12 March 2007.

12 Provisions

Tax provisions include provisions for taxes on income and corporate income tax, including the solidarity surcharge and trade tax on income.

Provisions Euro 000s	Balance at 1. 10. 2005	Change in reporting entity	Currency Adjustments	Utilised	Released	Added	Interest share of additions	**Balance at 30. 9. 2006**
Long-term provisions								
Pensions and similar obligations	31 382	—	– 22	3 056	2 019	1 468	1 331	**29 084**
Other provisions								
Early retirement payments	39 064	– 105	—	7 696	1 509	9 646	1 632	41 032
Personnel expenses	28 021	—	—	4 835	254	2 879	1 272	27 083
Restructuring expenses	8 068	—	—	406	—	25	306	7 993
Misc. contingencies	10 892	—	—	598	—	2 693	550	13 537
Other provisions	86 045	– 105	—	13 535	1 763	15 243	3 760	**89 645**
Total long-term provisions	117 427	– 105	– 22	16 591	3 782	16 711	5 091	**118 729**
Short-term provisions								
Tax provisions	17 109	333	1	6 918	30	38 537	—	**49 032**
Other provisions								
Personnel expenses	40 606	17	—	32 069	1 008	34 720	—	42 266
Services not yet invoiced	60 401	467	—	50 011	3 049	57 773	—	65 581
Misc. contingencies	59 137	1 133	134	37 673	8 464	37 877	—	52 144
Other provisions	160 144	1 617	134	119 753	12 521	130 370	—	**159 991**
Total short-term provisions	177 253	1 950	135	126 671	12 551	168 907	—	**209 023**
Total provisions	294 680	1 845	113	143 262	16 333	185 618	5 091	**327 752**

13 Provisions for pensions and similar obligations

The company pension plans consist of defined contribution and defined benefit plans.

An amount of Euro 19 798 thousand was paid to defined contribution plans in the year under report. These contributions have been recorded as expenses and reported under personnel expenses.

Provisions for pensions and similar obligations have been stated exclusively for defined benefit plans. Pursuant to IAS 19, these pension provisions have been calculated using the projected unit credit method. In addition to pensions and vested claims known at the reporting date, this method also takes account of salary and pension increases to be expected in future. The survey as of 30 September 2006 has been based on assumed salary and pension trends of approximately 1.23–2.75 % (previous year: 2.0 %). Application has been made of a discount rate of 4.5 % (previous year: 4.25 %), as well of the 2005 G mortality tables published by Prof. Dr. Klaus Heubeck. Given that the Group does not have any plan assets, its pension obligations have been covered in full by provisions. To the extent that they exceed 10 % of the scope of the obligation, actuarial gains and losses resulting from changes in the assumptions underlying the calculation are recorded with a corresponding impact on earnings over the average remaining working life of the employees thereby entitled.

The pension plan for employees of the MVV Energie Group has largely been arranged in line with collective wage and salary agreements specific to the respective companies. This has resulted in indirect pension obligations towards employees which have been covered almost exclusively by municipal supplementary pension companies (ZVK). This requires allocations to be made for retirement periods. The payments made in this respect serve to finance current pension outlays. According to IFRS, this type of pension plan is classified as a defined benefit plan, given that 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 member companies are insured by the ZVK, this type of pension plan is to be considered a multi-employer plan and therefore requires the application of special regulations.

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, IFRS does not permit the statement of any provisions and the obligations involved have to be treated as a defined contribution plan. Current payments to the ZVK thus represent expenses incurred within the respective financial year. These expenses amounted to Euro 13 189 thousand in the past financial year (previous year: Euro 13 234 thousand). The pension obligations of the ZVK as determined within the framework of an approximate calculation pursuant to IFRS for current and former members of the MVV Energie Group are Euro 297 million (previous year: Euro 297 million) above the proportion accruing to the MVV Energie Group from the policy reserve of the ZVK (employment law obligation).

Furthermore, there are direct pension obligations resulting from former collectively agreed provisions (measured in terms of duration of company service and remuneration of employees), as well as individual commitments made towards members of the Executive Board.

The expenses stated for pensions and similar obligations structured as defined benefit plans comprise the following items:

Expences reported for pensions and similar obligations Euro 000s	**2005/2006**
Length of service expenses	1 466
Actuarial gains and losses	2
Interest expenses for vested pension claims	1 331
	2 799

The interest expenses relating to vested pension claims have been reported in the income statement under financing expenses (interest and similar expenses). Other expenses have been reported under personnel expenses.

The transition from the amount stated for claims relating to pensions and similar obligations to the present value of pension claims is structured as follows:

Values stated for pensions and similar obligations Euro 000s	**30. 9. 2006**
Present value of all pension claims	32 444
Actuarial gains/losses as yet unsettled	– 3 360
Provisions for pensions and similar obligations	**29 084**

14 Other provisions

Other provisions account for all legal or factual obligations towards third parties identifiable at the reporting date which result from past events and whose amount or maturity is uncertain. The amount stated is equivalent to the amount which would be necessary to cover all payment obligations and risks of the MVV Energie Group at the reporting date (repayment amount).

The provisions for early retirement expenses mainly relate to actual obligations towards employees as a result of partial early retirement agreements. The actuarial assumptions correspond to those used in the valuation of pensions and comparable provisions. An additional amount of Euro 7.2 million has been added to the provisions for early retirement expenses as a result of the partial early retirement agreements being extended to include employees born in the years 1952 to 1954.

The provision for personnel expenses includes provisions relating to the socially responsible reduction in personnel totals within the framework of efficiency enhancement programmes. Apart from these, this item mainly involves collectively agreed obligations, such as allowances, compensation payments, bonus payments and anniversary bonuses.

Services not yet invoiced principally involve supplies and services to third parties which have already been provided but not yet invoiced. These have been valued on the basis of appropriate estimates.

Furthermore, 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 most likely outcome of the litigation on the basis of the information currently available.

Long-term other provisions have been stated at their respective repayment amounts discounted as of the reporting date.

15 Financial liabilities

Liabilities relating to financial leasing have been stated at the present value of future leasing payments. The fair value of the other financial liabilities is basically equivalent to the carrying amounts reported.

The average rate of interest charged on liabilities to affiliated companies amounted to 4.2 % in the year under report (previous year: 5.4 %).

The fixed-rate liabilities to banks amounting to Euro 716 million (previous year: Euro 744 million) have an average interest rate of 5.0 % (previous year: 4.9 %). The floating-rate liabilities to banks amounting to Euro 469 million (previous year: Euro 358 million) have an average interest rate of 3.4 % (previous year: 2.6 %). 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 stated for the previous year exclusively involved convertible bonds relating to the Conditional Capital I outlined under Note 11 "Equity". The 34 500 convertible bonds (previous year: 34 500) were all repaid in full during the year under report. None of the bonds was converted into shares in MVV Energie AG. Reference is made to Note 11 "Equity" for further details.

The liabilities relating to financial leasing involved the lease financing of waste-fired boiler No. 4, which was sold and leased via MVV GmbH. This waste-fired boiler was repurchased in the year under report (please also see Note 2 "Property, plant and equipment").

Miscellaneous financial liabilities include the present value of the payment obligations resulting from the writer obligation on the part of MVV Energie AG and of SW Kiel Beteiligungsgesellschaft mbH in connection with the put option held by the City of Kiel for its shareholding in Stadtwerke Kiel AG. The put option held by the City of Kiel may be exercised between 6 November 2006 and 6 November 2010. Further details have been provided in the information concerning changes in accounting and valuation policies. Moreover, this item also includes a liability due to MVV GmbH, Mannheim, whose amount remained unchanged at Euro 55 940 thousand.

Of the financial liabilities, Euro 121 million are secured by the pledging of property, plant and equipment (previous year: Euro 139 million).

Further details on financial instruments can be found under Note 21.

Financial liabilities Euro 000s	**30. 9. 2006** **long-term**	**30. 9. 2006** **short-term**	30. 9. 2005 long-term	30. 9. 2005 short-term
Liabilities				
to banks	942 879	242 132	846 071	255 477
in connection with finance leasing	383	242	284	61 902
to non-consolidated subsidiaries	1 182	—	1 279	1 117
to shareholdings reported at equity	—	294	—	28 043
to other shareholdings	—	11 476	—	—
in connection with bonds	—	—	44	44
Other financial liabilities	69 669	163 256	185 999	26 995
	1 014 113	**417 400**	1 033 677	373 578

Maturities in years Euro 000s	< 1 year	1 to 5 years	> 5 years
Liabilities to banks	242 132	565 002	377 877

16 Other liabilities

Other liabilities Euro 000s	**30. 9. 2006** **long-term**	**30. 9. 2006** **short-term**	30. 9. 2005 long-term	30. 9. 2005 short-term
Liabilities				
to third parties	29 125	155 400	25 961	62 489
to non-consolidated subsidiaries	—	625	—	—
to shareholdings reported at equity	—	—	—	13
to other shareholdings	—	10	—	76
advance payments received on orders	—	13 714	1 091	8 838
	29 125	**169 749**	27 052	71 416

With the exception of derivative financial instruments, other liabilities have been recognised at updated cost, which is basically equivalent to their respective fair values.

Liabilities to third parties include derivative financial instruments amounting to Euro 99 926 thousand. These relate to derivative commodity and interest contracts.

Liabilities to third parties also include deferred income of Euro 33 633 thousand (previous year: Euro 33 261 thousand). The principal item in this respect is an advance fee amounting to Euro 19 687 thousand received for the incineration of waste in conjunction with the takeover of a waste-to-energy plant by Energieversorgung Offenbach AG (previous year: Euro 22 402 thousand).

Apart from this, other liabilities mainly involve concession fees and liabilities relating to social security payments for employees.

17 Accounts payable

Accounts payable Euro 000s	**30. 9. 2006**	30. 9. 2005
To suppliers	123 324	134 509
To non-consolidated subsidiaries	4 926	4 305
To shareholdings reported at equity	—	12 630
To other shareholdings	10 889	20
	139 139	**151 464**

Accounts payable have been valued at updated cost. Further details on financial instruments can be found under Note 21.

18 Tax liabilities

This item mainly relates to assessed taxes on income.

19 Deferred taxes

Deferred taxes are stated for temporary 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, as well for consolidation processes with an impact on earnings. Moreover, deferred tax 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 adequate certainty on the basis of existing business plans. Deferred taxes have been calculated on the basis of those tax rates valid or expected in the individual countries at the time of such deferrals being realised.

Account has been taken of all tax regulations valid or already adopted at the reporting date. The calculation of deferred taxes in Germany has been based on a tax rate of 39 % (previous year: 39 %). This results from the corporate income tax of 25 %, the solidarity surcharge of 5.5 % and the average trade tax charge.

Deferred tax assets and liabilities have been stated on a net basis for each company or group of organisation units. The deferred taxes reported for 2005/06 relate to the following items:

Deferred taxes Euro 000s	**2005/2006** **assets**	**2005/2006** **liabilities**	2004/2005 assets	2004/2005 liabilities
Intangible assets	5 280	– 21 983	5 941	– 23 884
Property, plant and equipment, including investment property	1 779	– 171 942	608	– 213 841
Other financial assets	—	– 5 274	—	– 1 695
Inventories	522	– 167	2 397	—
Accounts receivable	238	– 3 057	1 009	– 5 166
Provisions for pensions	1 688	—	1 836	—
Long-term other provisions	13 520	—	15 694	—
Short-term other provisions	2 193	– 490	1 728	– 1 087
Liabilities	2 256	– 12 232	32 699	– 9 816
Losses carried forward and tax credits	6 625	—	9 117	—
Consolidation	1	– 3 201	—	– 2 921
Deferred taxes (gross)	**34 102**	**– 218 346**	71 029	– 258 410
Value adjustment	– 380	—	– 380	—
Netting	– 14 774	14 774	– 39 141	39 141
Deferred taxes (net)	**18 948**	**– 203 572**	31 508	– 219 269

In contrast to the previous approach, which involved all deferred tax assets being netted with deferred tax liabilities, in this set of financial statements the deferred tax asset and liabilities have only been netted for each company or group of organisational units. The adjustments required in comparison with the presentation in the previous year's financial statements resulted in the statement of deferred tax assets amounting to Euro 31 508 thousand for the previous year, with a corresponding increase in deferred tax liabilities.

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 58 million which could not be stated (previous year: Euro 99 million). Of these, Euro 11 million may only be used up to 2010.

No deferred tax liabilities have been stated for temporary differences of Euro 902 thousand (previous year: Euro 744 thousand) between the value of share-holdings in subsidiaries in the tax balance sheet and those in the consolidated financial statements in view of the fact that such differences are unlikely to be reversed by means of dividend distributions or by disposal of the respective companies in the foreseeable future.

Actual and deferred taxes amounting to Euro 997 thousand (previous year: Euro 264 thousand) were recorded directly under equity in the 2005/06 financial year. Moreover, as a result of deconsolidation processes, deferred tax assets reduced by Euro 3.3 million during the year under report (previous year: reduction in deferred tax liabilities by Euro 5.5 million).

The dividend payment for 2004/05 has resulted in a credit of Euro 211 thousand from tax credits relating to the corporate income tax system valid prior to 2001. With regard to future dividend payments, tax reduction claims of Euro 2 751 thousand (previous year: Euro 2 962 thousand) resulting from the previous corporate income tax system can be realised in prorated annual amounts up to the 2019/20 financial year. The dividend payment proposed for 2005/06 results in a corporate income tax reduction claim amounting to Euro 197 thousand.

20 Contingent liabilities and financial obligations

Potential obligations towards third parties or present obligations for which an outflow of resources is unlikely or whose amount cannot be reliably determined are reported as contingent liabilities. The volume of obligations listed below corresponds to the scope of liability pertaining at the reporting date. The company has such obligations in the form of guarantees and bills of exchange amounting to Euro 56.3 million (previous year: Euro 54.6 million). The company has also provided security amounting to Euro 6 035 thousand for third-party liabilities.

Investments in property, plant and equipment and intangible assets amounting to Euro 278 million have been budgeted at the MVV Energie Group for the 2006/07 financial year (previous year: Euro 157 million). The considerable increase is due in particular to replacement and expansion investments budgeted for our high-growth environmental energy and value-added services segments.

The financial obligations in connection with operating leasing primarily relate to the car pool and to IT equipment. The minimum leasing payments have the following maturity structure:

Contingent liabilities and financial obligations Euro 000s	**30. 9. 2006** **Nominal value**
Operating Leasing	
up to one year	3 917
one to five years	4 686
longer than five years	4
	8 607

21 Financial instruments

Primary financial instruments: shareholdings, loans, securities, accounts receivable, other cash receivables and cash and cash equivalents are reported as financial assets on the asset side of the balance sheet. These are initially recognised at cost, with transaction expenses being included in the valuation.

Financial assets are subsequently valued either at fair value or at updated cost. The subsequent valuation of financial assets in the "financial assets available for sale" category is generally based on their fair value. Pursuant to IAS 39 (2004), any changes in the fair value are recorded under equity without any impact on earnings, taking due account of deferred taxes. Upon their retirement, these are accounted for with a corresponding impact on earnings. Should there be any objective indications of an impairment in the value of an asset, then such asset is written down with a corresponding impact on earnings. In cases where the fair value cannot be reliably estimated, the valuation has been based on updated cost. The subsequent valuation of financial assets in the "loans and claims granted by the company" and "financial investments held to final maturity" has been based on updated cost, with application of the effective interest rate method where appropriate. The updated cost of a financial asset is equivalent to the fair 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.

Purchases and sales of financial assets undertaken at customary market conditions are recognised as of the date of such transaction, i.e. as of the day on which the company assumed the liability to purchase the asset. Purchases and sales undertaken at customary market conditions are purchases or sales requiring the transfer of the assets within a period determined by market requirements or conventions.

The fair value of financial instruments traded on organised markets is calculated by reference to the bidding price listed on the stock exchange on the reporting date. The fair value of financial instruments for which there is no active market is estimated with due application of valuation methods. Such methods are based on transactions recently executed at customary market conditions or on the current market value of another instrument which largely constitutes the same instrument, or on the analysis of discounted cash flows and option price models.

Financial assets are cancelled from the books upon the expiry of contractual rights to cash flows from the asset or upon the financial asset being transferred, provided that all major risks and rewards involved in ownership of the respective asset have been transferred and the power to dispose over the asset has been ceded.

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 recognised at updated cost, with application of the effective interest rate method where appropriate. In the case of financial liabilities, the costs of acquisition are equivalent to the outlay. In the case of accounts payable and other liabilities, the costs of acquisition are equivalent to the fair value of the counterperformance received.

Financial liabilities are cancelled from the books upon the obligation underlying such liability being met, terminated or having expired.

No use has been made of the option of allocating financial assets and financial liabilities to the "valued at fair value through profit and loss" category.

Derivative financial instruments: derivative financial instruments and financial instruments held for trading purposes have been valued at fair value. In cases where the derivatives deployed constitute effective hedges of future cash flows within the framework of a hedging relationship as defined by the specific regulations governing hedge accounting, the effective fluctuations in the fair value of the derivatives do not result in any impact on earnings during the term of such derivative, but are recorded in a separate equity reserve without any impact on earnings.

Derivative financial instruments include derivative interest rate contracts and derivative commodities contracts for electricity, gas and coal. The commodity derivatives are in most cases fulfilled by physical performance.

Financial risk management: the MVV Energie Group is exposed to price and financing risks within the framework of its business activities. The price risks faced by the MVV Energie Group result in particular from fluctuations in market prices on the energy markets, as well as from changes in interest rates. Exchange rate risk is of subordinate significance for the MVV Energie Group. The financing risks faced by the MVV Energie Group mainly involve credit risk.

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 defining 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 trading limits also being set for the various business divisions of the MVV Energie Group. The default risk involved in energy trading transactions and new investments is already reduced in advance by means of appropriate framework agreements with the respective trading partners.

The maximum default risk on the financial assets of the Group, comprising receivables, cash and cash equivalents and financial assets available for sale, is equivalent to the carrying amount of the respective assets.

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 and primarily serve to cover against market price risks. The use of derivative commodity contracts for proprietary energy trading purposes is only permitted within narrow limits and is restricted and monitored by separate organisational units.

The depiction of energy trading transactions has been amended since the beginning of the financial year as a result of the initial application of IAS 39 (2004) "Financial Instruments: Recognition and Measurement" and the related specification of the "own use exemption". Accordingly, pending transactions intended to secure the market price in the field of energy trading increasingly fall under the scope of IAS 39 (2004) and have to be recorded as financial instruments, while the underlying transactions thereby secured (sales contracts) are generally not affected by IAS 39 (2004). The accounting treatment pursuant to IAS 39 (2004) particularly affects commodity future transactions which require physical performance and which are resold in the context of adjustments to actual loads.

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

Nominal volumes and Fair values Euro 000s	**30. 9. 2006 Nominal volumes Total**	**of which with a remaining term of more than 1 year**	**30. 9. 2006 Fair values**	30. 9. 2005 Nominal volumes Total	of which with a remaining term of more than 1 year	30. 9. 2005 Fair values
Derivative interest contracts	167 322	126 871	9 637	110 226	77 981	1 109
Derivative commodity contracts	2 227 249	845 379	89	301 347	186 730	45
	2 394 571	**972 250**	**9 726**	**411 573**	**264 711**	**1 154**

The derivative interest contracts almost exclusively involve interest swaps.

The derivative commodity contracts can be subdivided as follows:

Derivative commodity contracts Euro 000s	**30. 9. 2006 Nominal volumes**	**30. 9. 2006 Fair values**	30. 9. 2005 Nominal volumes	30. 9. 2005 Fair values
Electricity	2 179 709	– 1 424	301 347	45
Coal	46 412	1 575	—	—
Gas	1 128	– 62	—	—
	2 227 249	**89**	**301 347**	**45**
Futures transactions	2 179 709	– 1 424	301 347	45
Swaps	47 540	1 513	—	—
	2 227 249	**89**	**301 347**	**45**

Notes on the Income Statement

22 Sales

Sales include all revenues generated by the typical business activities of the Group. They are recognised upon the relevant risks and rewards being transferred to customers or upon the respective service having been provided.

A depiction of sales broken down into their respective segments has been provided in the segment reporting section. The sales for the electricity segment include energy tax amounting to Euro 105 883 thousand, which was charged on to customers (previous year: Euro 92 441 thousand).

23 Capitalised own-account services

Capitalised own-account services are primarily attributable to construction and expansion measures relating to distribution grids and power plants.

24 Other operating income

Other operating income Euro 000s	**2005/2006**	2004/2005
Income		
from the release of provisions	16 310	9 875
from credit notes	2 264	9 411
from agency agreements and personnel supplies	12 715	8 882
from IT services	8 064	6 357
from contractual penalties and the collection of outstanding receivables	1 594	5 048
from benefits to employees	2 037	1 807
from foreign currency effects	683	1 107
Reimbursements from damages claims	2 464	1 925
Rental income	2 347	1 892
Profit on the sale of assets	6 412	1 173
Miscellaneous	29 174	18 127
	84 064	65 604

Rental income is recorded on a straight-line basis over the term of the respective rental or leasing agreement.

25 Cost of materials

Cost of materials Euro 000s	**2005/2006**	2004/2005
Raw materials and supplies and purchased goods	1 201 563	1 061 681
Purchased services	171 035	172 930
	1 372 598	**1 234 611**

The cost of materials includes write-downs on raw materials and supplies amounting to Euro 354 thousand. Write-backs of raw materials and supplies were of subordinate significance.

The rise in cost of materials is primarily due to the sharp increase in energy procurement costs.

26 Personnel expenses

Personnel expenses Euro 000s	**2005/2006**	2004/2005
Wages and salaries	221 649	234 955
Social security expenses and welfare expenses	42 733	43 436
Pension expenses	15 750	16 124
	280 132	**294 515**

The MVV Energie Group had a total of 6 287 employees at the reporting date on 30 September 2006 (previous year: 6 392). This total includes 314 trainees (previous year: 306).

The decline in personnel expenses by Euro 14 383 thousand to Euro 280 132 thousand is mainly due to an addition to the restructuring provision (FOKUS) in the previous financial year. This item no longer impacted on personnel expenses during the year under report.

27 Other operating expenses

Other operating expenses Euro 000s	**2005/2006**	2004/2005
Energy tax	106 473	93 698
Expenses from energy trading load adjustment transactions valued pursuant to IAS 39	61 691	—
Concession fees	59 303	58 092
Contributions, fees and duties	17 918	17 445
Additions to write-downs	16 307	17 064
Legal, consulting and surveyor expenses	10 651	14 979
Rental and leasing expenses	16 629	14 059
Maintenance and repair expenses	14 414	11 326
Personnel and welfare expenses	9 777	8 582
Public relations expenses	8 895	7 867
Losses incurred on the sale of assets	4 489	5 159
Expenses from foreign currency effects	4 769	47
Operating taxes (excluding energy tax)	3 329	2 239
Miscellaneous	37 440	23 660
	372 085	**274 217**

The expenses relating to energy trading transactions reported pursuant to IAS 39 are attributable to the initial application of IAS 39 (2004).

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

Reference is made to Note 12 "Provisions" for further details.

28 Income from shareholdings valued at equity

This item consists of proportionate annual earnings amounting to Euro 921 thousand and to write-down expenses amounting to Euro 7 733 thousand.

29 Other income from shareholdings

Other income from shareholdings Euro 000s	**2005/2006**	2004/2005
Income from shareholdings	9 501	1 908
Income from profit transfer agreements	1 313	—
Expenses resulting from the transfer of losses	– 1	– 291
Depreciation of shareholdings	– 4 173	– 7 673
Write-backs to shareholdings	—	2 445
Amortisation of short-term securities	—	– 1 867
Profit/loss on the sale of shareholdings	8 230	546
	14 870	**– 4 932**

30 Depreciation

Depreciation Euro 000s	**2005/2006**	2004/2005
Depreciation	147 406	130 858

The amortisation of intangible assets and depreciation of property, plant and equipment, as well as of investment property, is undertaken on a straight-line basis in accordance with the respective economic useful lives.

31 Amortisation of goodwill

The amortisation of goodwill includes the following write-downs on the goodwill of subgroups:

Amortisation of goodwill Euro 000s	**2005/2006**	2004/2005
Stadtwerke Ingolstadt subgroup	10 573	—
Stadtwerke Solingen subgroup	8 766	—
MVV Polish subgroup	2 562	1 387
MVV Czech subgroup	– 299	– 3 180
	21 602	**– 1 793**

The increase in the shareholdings in the Czech subgroup resulted in debit differences between the purchase price and the revalued proportionate share of net assets requiring immediate statement under profit and loss. This resulted in an opposing item of Euro 299 thousand (previous year: Euro 3 180 thousand).

32 Financing income

Financing income Euro 000s	**2005/2006**	2004/2005
Income from loans	726	1 507
Other interest and similar income	3 027	3 070
Interest income from finance leases	244	—
	3 997	**4 577**

Other interest and similar income includes interest income on overnight and fixed deposits, as well as interest income generated from current account credit balances.

33 Financing expenses

Financing expenses Euro 000s	**2005/2006**	2004/2005
Amortisation of loans and securities	1 680	60
Amortisation of short-term loans	42	45
Interest and similar expenses	75 262	82 499
	76 984	**82 604**

In addition to the compounding of provisions, interest and similar expenses also include the change in the present value of the payment obligation relating to the Kiel put option, as well as the proportionate annual earnings distributed to the minority shareholders in Stadtwerke Kiel AG, Kiel. Reference is made in this respect to the information provided in changes in accounting and Valuation methods.

Apart from this, interest and similar expenses mainly relate to interest expenses on loan obligations and ancillary loan-related expenses.

34 Taxes on income

Taxes on income Euro 000s	**2005/2006**	2004/2005
Actual taxes	71 630	41 287
Deferred taxes	– 7 258	– 2 402
	64 372	**38 885**

Current tax expenses include the trade and corporate income tax payable, as well as foreign taxes on income.

Actual taxes include net income of Euro 1.4 million relating to previous periods (previous year: Euro 1.5 million).

Of the deferred tax income, an amount of Euro 6.4 million relates to the arising and/or reversal of temporary differences.

The excess residual amount is attributable to changes in deferred tax assets for losses carried forward which have been stated with a corresponding impact on earnings.

The following table depicts the transition from the expected level of tax expenses to the tax expenses actually reported:

Transition to income tax rate Euro 000s	**2005/2006**	2004/2005
Earnings before taxes (EBT)	**127 972**	79 484
Expected tax expenses based on a tax rate of 39 %	**49 908**	30 999
Deviations resulting from the trade tax calculation base	3 155	3 252
Deviations from expected tax rate	– 87	– 9
Change in write-downs for losses and losses for which no deferred taxes are stated	4 335	3 350
Expenses not deductible for tax purposes	3 777	1 917
Tax-exempt income	– 11 401	– 1 829
Earnings of shareholdings valued at equity	– 359	– 2 760
Goodwill amortisation not deductible for tax purposes	10 350	– 641
Non-deductible items resulting from the application of IAS 32 (2003)	3 354	4 360
Taxes for previous years	– 1 429	– 1 511
Effect of expenses relating to procurement of equity	787	—
Miscellaneous	1 982	1 757
Effective tax expenses	**64 372**	38 885
Effective tax rate in %	**50.3**	48.9

35 Share of earnings allocable to shareholders in MVV Energie AG and earnings per share

Share of earnings allocable to shareholders in MVV Energie AG and earnings per share	2005/2006	2004/2005
Share of earnings allocable to shareholders in MVV Energie AG (Euro 000s)	50 010	27 902
No. of shares in 000s (weighted annual average)	55 088	50 702
Earnings per share (Euro) pursuant to IAS 33	0.91	0.55
Dividend per share (Euro)	0.80	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 9 March 2007. The appropriation of earnings proposed for the 2004/05 financial year was approved by the Annual General Meeting on 10 March 2006. Given that no option rights to shares in MVV Energie AG were effective at the reporting date, it is not necessary to account for any dilution effects.

Other Disclosures

36 Employee shares

Within the framework of the employee share programme, employees of the MVV Energie Group were able to order shares in MVV Energie AG at subsidised conditions in the period from 28 August to 19 September 2006. The programme was open to employees of MVV Energie AG and of 15 shareholdings of MVV Energie AG. Each employee was entitled to order between 20 and 300 shares.

The purchase price per share amounted to Euro 17.50 and was based on the average price of the MVV Energie AG share in XETRA trading in the period from 21 August to 25 August 2006, which amounted to Euro 22.50. The employees were thus granted a discount of Euro 5 per share on this price. The employee shares are subject to a lockup period running until 31 December 2008.

A total of 63 290 shares were ordered by employees. These were newly created from Authorised Capital II (please see Note 11). The capital increase of Euro 162 thousand required for this purpose was approved by the Executive Board of MVV Energie AG on 20 September 2006. The Supervisory Board provided its consent on the same day. The execution of the capital increase was entered in the Commercial Register on 28 September 2006. The new shares were subscribed by a bank at a price of Euro 22.50 on 25 September 2006 and bought back by MVV Energie AG at the beginning of the new financial year in order to be sold to employees. Based on a closing price of Euro 23.23 (XETRA trading), the shares thereby ordered had a market value of Euro 1 470 thousand on 30 September 2006. They were transferred to the employees on 11 October 2006.

The employee share programme resulted in personnel expenses of Euro 385 thousand being reported in the consolidated financial statements of MVV Energie AG for the 2005/06 financial year. The resultant personnel expenses were calculated on the basis of the discount of Euro 5 per share and taking due account of social security.

37 Segment reporting

The segmentation of the MVV Energie Group is based on the internal reporting structures to the Executive Board and the Supervisory Board. 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.

The electricity segment includes the value creation stages involved in the generation, trading, distribution and sale of electricity. The gas and district heating segments include the value creation stages involved in the procurement, distribution and sale of gas and of heating water and steam. As well as procurement, distribution and sale, the water segment also includes the value creation stage of production (waterworks).

In addition to the activities of the MVV Energiedienstleistungen subgroup, which are subdivided into industrial and municipal contracting, national and international consulting and industrial and railway equipment, the value-added service segment also includes the value-added services business at the municipal utility companies, which is in turn subdivided into technical services, telecommunications and contracting services.

The environmental energy segment includes the activities relating to the incineration of non-recyclable waste and the operation of biomass power plants.

The other/consolidation section depicts consolidation items, as well as those activities not allocable to individual business segments. The carrying amounts and earnings of shareholdings valued at equity have also been reported in the segment earnings and segment assets of the other/consolidation section, given that it is in most cases not possible to allocate their activities to one of the business segments.

The internal sales represent the amount of sales between the group companies. The transfer prices applied to transfers between the segments correspond to customary market prices. Segment sales are equivalent to the total of internal and external sales.

Extraordinary depreciation includes the write-down expenses recorded for goodwill, shareholdings valued at equity, intangible assets and property, plant and equipment within the framework of the impairment tests undertaken during the financial year.

Operating earnings (EBIT) have been selected to represent segment earnings. We have refrained from depicting the transition to annual net earnings in our segment reporting in view of the fact that such transition has already been depicted in the income statement.

Other non-cash expenses principally relate to additions to write-downs undertaken on receivables and to long-term provisions.

Segment assets and segment liabilities represent the gross assets and gross liabilities of the respective business segments excluding any items which cannot be allocated. The unallocable items mainly involve current and deferred income taxes, cash and cash equivalents, financial receivables and financial liabilities.

The following adjustments have been made to the previous year's figures presented in these financial statements compared with their presentation in the financial statements for the previous year:

- Segment depreciation relates exclusively to the scheduled depreciation and amortisation of intangible assets, property, plant and equipment and investment property. The figure reported therefore no longer includes any extraordinary depreciation or amortisation of goodwill, other intangible assets, property, plant and equipment or inventories.
- Separate disclosures have been made for each segment for the first time for impairments and other major non-cash expenses.
- Segment investments only include investments in property, plant and equipment, intangible assets and investment property. Investments in financial assets are no longer included.
- Unallocable assets and liabilities have been eliminated from segment assets and segment liabilities.

This has resulted in the following changes compared with the presentation in the financial statements for the previous year:

Segments	Depreciation			Extraordinary Depreciation			Other Non-Cash Expenses		
Euro 000s	As reported in previous year	Adjustment	Adjusted figures for previous year	As reported in previous year	Adjustment	Adjusted figures for previous year	As reported in previous year	Adjustment	Adjusted figures for previous year
Electricity	24 008	– 1 391	22 617	—	1 593	1 593	—	8 500	8 500
District heating	23 019	1 436	24 455	—	– 1 385	– 1 385	—	2 178	2 178
Gas	14 946	– 522	14 424	—	598	598	—	3 192	3 192
Water	10 620	– 153	10 467	—	173	173	—	924	924
Value-added services	6 305	– 154	6 151	—	176	176	—	940	940
Environmental energy	26 131	– 187	25 944	—	214	214	—	1 142	1 142
Other/consolidation	25 216	– 34	25 182	—	37	37	—	13 088	13 088
MVV Energie Group	**130 245**	**– 1 005**	**129 240**	**—**	**1 406**	**1 406**	**—**	**29 964**	**29 964**

Segments	Investments			Assets			Liabilities		
Euro 000s	As reported in previous year	Adjustment	Adjusted figures for previous year	As reported in previous year	Adjustment	Adjusted figures for previous year	As reported in previous year	Adjustment	Adjusted figures for previous year
Electricity	30 061	– 7 835	22 226	787 566	– 54 108	733 458	428 333	– 303 839	124 494
District heating	32 936	– 8 813	24 123	507 292	– 33 131	474 161	288 817	– 232 475	56 342
Gas	22 527	– 5 500	17 027	353 680	– 22 600	331 080	196 835	– 146 710	50 125
Water	16 690	– 4 019	12 671	304 484	– 16 226	288 258	173 697	– 136 452	37 245
Value-added services	22 021	– 13 425	8 596	157 265	– 12 306	144 959	85 875	– 62 485	23 390
Environmental energy	67 985	– 4 266	63 719	474 767	– 29 436	445 331	298 382	– 230 015	68 367
Other/consolidation	22 245	– 8 299	13 946	314 038	– 84 021	230 017	83 618	86 396	170 014
Unallocated (balance sheet)	—	—	—	—	270 710	270 710	—	1 650 961	1 650 961
MVV Energie Group	**214 465**	**– 52 157**	**162 308**	**2 899 092**	**18 882**	**2 917 974**	**1 555 557**	**625 381**	**2 180 938**

38 Cash flow statement

The cash flow statement portrays the flow of funds from operating activities, investing activities and financing activities. The cash flows from investing and financing activities have been calculated directly. The cash flow from operating activities, by contrast, has been derived indirectly.

Inflows of funds from the acquisition and disposal of consolidated companies have been included in the cash flow from investing activities. The cash and cash equivalents thereby acquired (disposed of) have been offset against payments made for the acquisition (proceeds from the disinvestment).

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

- Interest income of Euro 4.7 million (previous year: Euro 2.9 million) and interest expenses of Euro 57.6 million (previous year: Euro 56.0 million).
- Paid income taxes of Euro 36.3 million (previous year: Euro 39.4 million) and refunded income taxes of Euro 8.5 million (previous year: Euro 23.0 million)
- Having deducted the non-cash part resulting from valuation at equity, income from shareholdings amounting to Euro 4.8 million (previous year: Euro 6.3 million).

In contrast to the previous approach, grants received have been reported in the cash flow from investing activities and no longer in the cash flow from financing activities. Moreover, payments made for the acquisition (proceeds from the sale) of fully and proportionately consolidated companies have been reported separately from payments for (proceeds from) other financial assets. Furthermore, the amount of funds paid or received as the purchase or sale price has been reported for the first time in the investment section less the cash and cash equivalents thereby acquired or disposed. This has resulted in a reclassification amounting to Euro 15 819 thousand of the figures for the previous year from the “Change in cash and cash equivalents due to changes in reporting entity” item to the “Proceeds from sale of fully and proportionately consolidated companies” item.

39 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 66.2 % shareholding in MVV Energie AG. The City of Mannheim and the companies which it controls therefore represent related parties pursuant to IAS 24.

Numerous contractually agreed legal relationships are in place between companies of the MVV Energie Group and the City of Mannheim and the companies which it controls (electricity, gas, water and district heating supply agreements, rental, leasing and service agreements). Moreover, a concession agreement also exists between MVV Energie AG and the City of Mannheim.

Relationships to related companies, individuals and entities	Goods and services provided		Receivables		Liabilities	
Euro 000s	**2005/2006**	2004/2005	**2005/2006**	2004/2005	**2005/2006**	2004/2005
City of Mannheim [1]	26 418	21 210	5 032	61 105	63 946	170 456
Companies consolidated proportionately	40 233	36 399	2 079	1 801	908	236

[1] including the companies controlled by the City of Mannheim

There were no notable supply and service relationships with shareholdings valued at equity during the year under report.

All business agreements have been concluded at customary market conditions and are basically analogous to the supply and service agreements concluded with other companies.

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 2006.

The members of the Executive Board of MVV Energie AG simultaneously act as executive board members of the group company MVV RHE AG; the CEO also acts as managing director of MVV GmbH. The remuneration for their activities at these companies is included in the remuneration paid by MVV Energie AG and is reimbursed by MVV RHE AG and MVV GmbH. Of the fixed remuneration of the members of the Executive Board, MVV RHE AG reimburses 15 % to MVV Energie AG for their activities on behalf of MVV RHE AG (excluding the supplementary allowance for the CEO). MVV GmbH reimburses MVV Energie AG for 2 % of the fixed remuneration of the CEO for his activity on behalf of MVV GmbH (excluding the supplementary allowance for the CEO).

The Executive Board was paid total remuneration amounting to Euro 1 881 thousand during the year under report. This was structured as follows:

Remuneration in Euro 000s	Fixed [1]	Variable [2]	from supervisory board positions	**Total**
Dr. Rudolf Schulten	404	209	9	622
Dr. Werner Dub	239	170	5	414
Hans-Jürgen Farrenkopf	242	170	5	417
Karl-Heinz Trautmann	253	170	5	428
	1 138	**719**	**24**	**1 881**

[1] including allowances for pension insurance, health insurance, nursing care insurance, voluntary contributions to employers' mutual insurance association and non-cash benefits, as well as the CEO allowance

[2] provision, including final settlement amounts from 2004/05

No remuneration components of a long-term incentive nature were granted in the year under report. No payments were made by third parties.

The pension commitments made to members of the Executive Board represent defined benefit plans. The service cost amounts to Euro 393 thousand. The present value of the total defined benefit obligation amounted to Euro 2 840 thousand at the reporting date.

Benefits amounting to Euro 199 thousand were paid to former members of the Executive Board in the year under report. The present value of the total obligation resulting from defined benefit plans amounted to Euro 2 917 thousand at the reporting date.

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/authorised representatives of MVV Energie AG. These individuals are remunerated exclusively by MVV Energie AG. In the year under report, their remuneration amounted to Euro 3 561 thousand.

Heads of division/authorised representatives receive a company pension consisting solely of defined contribution commitments amounting to an average of 8.6 % of their fixed remuneration. Within the channels of execution available within the Group, senior employees can determine which biometric risks they would like to cover. The total expenses for this amounted to Euro 159 thousand during the year under report.

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 and the deputy chairman one and a half times that amount. Furthermore, a meeting allowance of Euro 300 was paid per member per meeting. The overall remuneration amounted to Euro 284 thousand.

In addition, two members of the Supervisory Board of MVV Energie AG were granted loans totalling Euro 20 thousand. The interest on the loans amounts to 4.9 %.

The members of the Supervisory Board own a total of 1 029 shares in MVV Energie AG.

40 Auditor's fee

The following fees have been recognised as expenses for the services performed by the auditor of the consolidated financial statements, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, in the 2005/06 financial year:

Auditor's fee

Euro 000s	**2005/2006**
Audit	445
Other auditing services	18
Tax advisory services	16
Other services	30
	509

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

The Executive Board and Supervisory Board of MVV Energie AG 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*.

42 Information on concessions

In addition to the concession agreement concluded between the City of Mannheim and MVV Energie AG (please see Note 39 "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.

43 Events after the balance sheet date

On 1 October 2006, the MVV Energie Group acquired 100 % of the shares in IGS Industriepark Gersthofen Servicegesellschaft mbH & Co. KG. The purchase price has not yet been conclusively determined.

The member of the Executive Board of MVV Energie AG responsible for sales, marketing and environmental energy, Karl-Heinz Trautmann, left MVV Energie AG as of 15 October 2006.

Mannheim, 27 November 2006

MVV Energie AG
Executive Board

Dr. Schulten Dr. Dub Farrenkopf

Executive Board of MVV Energie AG

Dr. Rudolf Schulten
Chief Executive Officer
Commercial Director

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

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

Karl-Heinz Trautmann
until 15 October 2006
Marketing, Sales
and Environmental Energy

Supervisory Board of MVV Energie AG

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

Johannes Böttcher [1]
since 10 March 2006
Chairman of the Works Council of
Energieversorgung Offenbach AG

Holger Buchholz [1]
since 10 March 2006
Trade Union Secretary at ver.di Kiel

Peter Dinges [1]
until 10 March 2006
Works Council of MVV Energie AG

Werner Ehret [1]
Works Council of MVV Energie AG

Dr. Rudolf Friedrich
since 10 March 2006
Retired Job Centre Director

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

Reinhold Götz
since 14 December 2005
Teacher of Economic Studies
2nd Authorised Representative
IG Metall Mannheim

Rosi Haus [1]
until 10 March 2006
Managing Director of
ver.di Offenbach

Dr. Karl Heidenreich
Former Member of the
Executive Board of
Landesbank Baden-Württemberg

Michael Homann [1]
since 10 March 2006
Head of Materials Management,
IT and Applied Computer Science
Division at MVV Energie AG

Prof. Dr. Egon Jüttner
University Professor

Helfried Krope [1]
until 15 January 2006
Head of Networks Division
at MVV Energie AG

Egon Laux [1]
until 10 March 2006
Deputy Chairman of the
Works Council of
Energieversorgung Offenbach AG

Klaus Lindner [1]
Trade Union Secretary
at ver.di Rhein-Neckar

Prof. Dr. Norbert Loos
since 10 March 2006
Managing Partner of
Loos Beteiligungs-GmbH

Dr. Frank Mentrup
Medical Doctor
Member of the State Parliament
of Baden-Württemberg

Manuel Mertes [1]
since 10 March 2006
Deputy Chairman of the
Works Council of
Stadtwerke Kiel AG

Dr. Rolf Neuhaus
until 25 October 2005
Management Consultant

Barbara Neumann [1]
since 10 March 2006
Chairman of the Works Council of
Stadtwerke Kiel AG

Dr. jur. Sven-Joachim Otto
until 10 March 2006
Judge

Wolfgang Raufelder
since 10 March 2006
Architect and Town Planner

Konrad Schlichter
until 10 March 2006
Businessman

Sabine Schlorke [1]
Trade Union Secretary
at ver.di Rhein-Neckar

Rolf Schmidt
until 10 March 2006
Mayor of the City of Mannheim

Bernd Sendzik [1]
until 31 January 2006
Commercial Assistant at
Energieversorgung Offenbach AG

Uwe Spatz [1]
since 10 March 2006
Works Council of MVV Energie AG

Christian Specht
Financial Mayor of
the City of Mannheim

Christa Spohni [1]
until 10 March 2006
Commercial Assistant at
MVV Energie AG

[1] elected employee representatives

Additional positions and activities of the members of the Supervisory Board are listed in detail on the following pages.

Members of the Supervisory Board of MVV Energie AG

Name Occupation	Positions held in other statutory supervisory boards of German companies	Membership of comparable German and foreign company supervisory bodies
Gerhard Widder **Chairman** Lord High Mayor of the City of Mannheim Graduate in Engineering	Grosskraftwerk Mannheim AG, Mannheim MVV GmbH, Mannheim MVV OEG AG, Mannheim MVV RHE AG, Mannheim MVV Verkehr AG, Mannheim	BBS Bau- und Betriebsservice GmbH, Mannheim Mafinex-Technologiezentrum GmbH, Mannheim GBG Mannheimer Wohnungsbaugesellschaft mbH, Mannheim Rhein-Neckar-Flugplatz GmbH, Mannheim Rhein-Neckar-Verkehr GmbH, Mannheim Sparkasse Rhein Neckar Nord, Mannheim Stadt Mannheim Beteiligungsgesellschaft mbH, Mannheim
Manfred Lösch **Deputy Chairman** Chairman of the Works Council of the MVV Group	Energieversorgung Offenbach AG, Offenbach MVV GmbH, Mannheim	
Johannes Böttcher since 10 March 2006 Chairman of the Works Council of Energieversorgung Offenbach AG	Energieversorgung Offenbach AG, Offenbach MVV GmbH, Mannheim	
Holger Buchholz since 10 March 2006 Trade Union Secretary at ver.di Kiel	Stadtwerke Kiel AG, Kiel	
Peter Dinges until 10 March 2006 Works Council of MVV Energie AG		
Werner Ehret Works Council of MVV Energie AG	MVV GmbH, Mannheim	

Name Occupation	Positions held in other statutory supervisory boards of German companies	Membership of comparable German and foreign company supervisory bodies
Dr. Rudolf Friedrich since 10 March 2006 Retired Job Centre Director	MVV Verkehr AG, Mannheim	BBS Bau- und Betriebsservice GmbH, Mannheim Fleischversorgungszentrum Mannheim GmbH, Mannheim
Dr. Manfred Fuchs Deputy Chairman of the Supervisory Board of Fuchs Petrolub AG	Fuchs Petrolub AG, Mannheim (Deputy Chairman)	Hilger u. Kern GmbH, Mannheim
Reinhold Götz since 14 December 2005 Teacher of Economic Studies 2nd Authorised Representative of IG Metall Mannheim	Deutz AG, Köln	Rhein-Neckar-Flugplatz GmbH, Mannheim Sparkasse Rhein Neckar Nord, Mannheim Stadt Mannheim Beteiligungsgesellschaft mbH, Mannheim
Rosi Haus until 10 March 2006 Managing Director of ver.di Offenbach	Stadtwerke Offenbach Holding, Offenbach	
Dr. Karl Heidenreich Former Member of the Executive Board of Landesbank Baden-Württemberg	IBB Internationales Bankhaus Bodensee AG, Friedrichshafen until 20 February 2006 K+S Aktiengesellschaft, Kassel	
Michael Homann since 10 March 2006 Head of Materials Management and Applied Computer Science Division at MVV Energie AG	MVV GmbH, Mannheim	
Prof. Dr. Egon Jüttner University Professor	MVV GmbH, Mannheim MVV RHE AG, Mannheim	Sparkasse Rhein Neckar Nord, Mannheim

Name Occupation	Positions held in other statutory supervisory boards of German companies	Membership of comparable German and foreign company supervisory bodies
Helfried Krope until 15 January 2006 Head of Networks Division at MVV Energie AG	Energieversorgung Offenbach AG, Offenbach MVV GmbH, Mannheim	EUS GmbH, Dortmund Fernwärme Rhein-Neckar GmbH, Mannheim MVV Energie Tschechien CZ s.r.o. Prague, Czech Republic MVV Polska Sp. z o.o. Warsaw, Poland
Egon Laux until 10 March 2006 Deputy Chairman of the Works Council of Energieversorgung Offenbach AG	Energieversorgung Offenbach AG, Offenbach until 7 March 2006	KSG GmbH, Offenbach until 7 March 2006
Klaus Lindner Trade Union Secretary at ver.di Rhine-Neckar	MVV GmbH, Mannheim	
Prof. Dr. Norbert Loos since 10 March 2006 Managing Partner of Loos Beteiligungs-GmbH	BHS tabletop AG, Selb (Chairman) Carl Schenck AG, Darmstadt Dürr AG, Stuttgart (Deputy Chairman) LTS Lohmann Therapie-Systeme AG, Andernach (Chairman) Hans R. Schmidt Holding AG, Offenburg (Chairman) TRUMPF GmbH + Co. KG, Ditzingen	LTS Lohmann Therapy Systems Corporation, West Caldwell, NJ, USA (Chairman) m:con – Mannheimer Kongress- und Touristik GmbH, Mannheim Stadt Mannheim Beteiligungsgesellschaft mbH, Mannheim
Dr. Frank Mentrup Medical Doctor Member of the State Parliament of Baden-Württemberg	MVV GmbH, Mannheim	BBS Bau- und Betriebsservice GmbH, Mannheim GBG Mannheimer Wohnungsbaugesellschaft mbH, Mannheim
Manuel Mertes since 10 March 2006 Deputy Chairman of the Works Council of Stadtwerke Kiel AG	Stadtwerke Kiel AG, Kiel	

Name Occupation	Positions held in other statutory supervisory boards of German companies	Membership of comparable German and foreign company supervisory bodies
Dr. Rolf Neuhaus until 25 October 2005 Management Consultant		
Barbara Neumann since 10 March 2006 Chairman of the Works Council of Stadtwerke Kiel AG	Stadtwerke Kiel AG, Kiel	
Dr. jur. Sven-Joachim Otto until 10 March 2006 Judge	Grosskraftwerk Mannheim AG, Mannheim MVV GmbH, Mannheim Zentralwerkstatt für Verkehrsmittel Mannheim GmbH, (ZWM), Mannheim	m:con – Mannheimer Kongress- und Touristik GmbH, Mannheim Sparkasse Rhein Neckar Nord, Mannheim Stadt Mannheim Beteiligungsgesellschaft mbH, Mannheim
Wolfgang Raufelder since 10 March 2006 Architect and Town Planner	MVV Verkehr AG, Mannheim	Mannheimer Parkhausbetriebe GmbH, Mannheim
Konrad Schlichter until 10 March 2006 Businessman	MVV GmbH, Mannheim MVV Verkehr AG, Mannheim	
Sabine Schlorke Trade Union Secretary at ver.di Rhein-Neckar	MVV GmbH, Mannheim	

Name Occupation	Positions held in other statutory supervisory boards of German companies	Membership of comparable German and foreign company supervisory bodies
Rolf Schmidt until 10 March 2006 Mayor of the City of Mannheim	MVV GmbH, Mannheim	Fleischversorgungszentrum Mannheim GmbH, Mannheim Grossmarkt Mannheim GmbH, Mannheim m:con – Mannheimer Kongress- und Touristik GmbH, Mannheim Mannheimer Parkhausbetriebe GmbH, Mannheim Mannheimer Stadtreklame GmbH, Mannheim Rheinfähre Altrip GmbH, Altrip Rhein-Neckar-Flugplatz GmbH, Mannheim Stadt Mannheim Beteiligungsgesellschaft mbH, Mannheim
Bernd Sendzik until 31 January 2006 Commercial Assistant at Energieversorgung Offenbach AG		
Uwe Spatz since 10 March 2006 Works Council of MVV Energie AG	MVV Energie AG, Mannheim MVV Umwelt GmbH, Mannheim	
Christian Specht Financial Mayor of the City of Mannheim	MVV RHE AG, Mannheim MVV Verkehr AG, Mannheim Zentralwerkstatt für Verkehrsmittel GmbH (ZWM), Mannheim	BBS Bau- und Betriebsservice GmbH, Mannheim GBG Mannheimer Wohnungsbaugesellschaft mbH, Mannheim MWS Bauconsult GmbH, Mannheim MWS Grundstücksverwaltungs GmbH, Mannheim Mannheimer Stadtreklame GmbH, Mannheim
Christa Spohni until 10 March 2006 Commercial Assistant at MVV Energie AG		

Audit Opinion

„We have audited the consolidated financial statements prepared by MVV Energie AG, Mannheim, comprising the balance sheet, the income statement, statement of changes in equity, segment reporting, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the fiscal year from October 1, 2005 to September 30, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and supplementary provisions according to § 315a Abs. 1 HGB (German Commercial Code) are in the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and supplementary provisions according to § 315a Abs. 1 HGB (German Commercial Code) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Mannheim, November 27, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Holger Herrwerth
German Public Auditor

Hans-Peter Busson
German Public Auditor

Financial Calendar

11. 1. 2007	Annual financial statements press conference and analysts' conference
14. 2. 2007	Interim report 1st quarter 2006/2007
9. 3. 2007	Annual General Meeting
12. 3. 2007	Payment of dividend
14. 5. 2007	Interim report 2nd quarter 2006/2007
14. 5. 2007	Press conference and analysts' conference 2nd quarter 2006/2007
14. 8. 2007	Interim report 3rd quarter 2006/2007
20.11. 2007	Publication of preliminary results for the 2006/2007 financial year

Imprint

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