



3.

October 1, 2003 – June 30, 2004

Quarterly Financial Report

3<sup>rd</sup> Quarter and the First Three Quarters of 2003/2004



# Key Economic Indicators for the First Three Quarters of 2003/2004

October 1, 2003 – June 30, 2004

<b>MVV Energie Group<sup>1</sup></b> In Euro Mill.	<b>Unadjusted 2003/2004</b>	Unadjusted 2002/2003	<b>Adjusted<sup>2</sup> 2003/2004</b>	Adjusted <sup>3</sup> 2002/2003	Adjusted In %
Sales <sup>4</sup>	1 251	1 143	1 251	1 143	+ 9
EBITDA	199	344	221	215	+ 3
EBITA	99	262	137	133	+ 3
EBIT	86	252	127	123	+ 3
EBT	46	211	88	83	+ 6
Net earnings after taxes for the period	8	175	49	44	+ 11
Net earnings after taxes after deducting minority interests for the period	0	168	41	37	+ 11
Earnings <sup>5</sup> per share in Euro	0.00	3.32	0.80	0.73	+ 10
Cash flow in acc. with DVFA/SG	141	135	147	147	—
Total assets <sup>6</sup> (as of 30/6)	2 636	2 553			+ 3
Equity (as of 30/6)	772	823			- 6
Investments	239	133			+ 80
No. of employees <sup>7</sup>	5 513	5 752			- 4

<sup>1</sup> In accordance with International Financial Reporting Standards (IFRS)

<sup>2</sup> Without expenditures for portfolio adjustments and restructuring measures in 2003/04

<sup>3</sup> Without profits from sale of our GVS shares, the remaining income from GVS as a participation and the expenditures for measures to strengthen our competitiveness

<sup>4</sup> Net sales from energy trading, i.e., only showing the margin actually realised (last year's sales were updated accordingly)

<sup>5</sup> In accordance with IAS 33

<sup>6</sup> Last year's figures have been updated accordingly.

<sup>7</sup> Including non-MVV personnel at MVV Energie's energy from waste plant (MHKW) in Mannheim

# Letter from the Executive Board

## Dear Shareholders, Sirs and Madams,

We have set a lot in motion over the last few months. We are currently in the midst of the implementation phase following fundamental decisions by the Executive and Supervisory Boards on a new strategic initiative and concentration on our most important business divisions.

In fiscal year 2003/04, we intend to create the basis to continue successfully developing our corporate Group and to achieve long-term, stable economic growth for our shareholders. The MVV Energie Group is and will continue to be a sound and healthy enterprise.

After the rapid growth of the last five years since the beginning of liberalisation and since our IPO in 1999, we are now concentrating on improving our profitability and financial strength. MVV Energie AG's Executive Board has been pursuing a clear strategy that is supported by the Supervisory Board and is aiming at selective organic growth in its core business divisions. For this purpose, we will consistently and purposefully clear our participations portfolio of lossmakers while continuing to develop our lucrative business in utility services, which include electric power, district heating, gas and water. Moreover, as before, we will invest in value-added energy services as well as in our environmental business with energy from waste incineration and biomass utilisation that offer growth and profitability. It is of particular importance for us to integrate the participations in public utilities acquired in recent years in Offenbach, Ingolstadt, Solingen, Köthen and Kiel. We intend to promote networking of our public utilities and to utilise it for additional growth.

We announced early on that our focusing process would lead to one-off charges against 2003/04's earnings of Euro 52 million during the current fiscal year. Euro 41 million thereof have already been taken into account in the results presented here for the first three quarters of fiscal year 2003/04. Euro 20 million thereof were incurred in the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2003/04. We will cover one-off charges incurred during the current fiscal year with profits from the sale of our shares in Gasversorgung Süddeutschland GmbH (Euro 148 million) carried forward from last year and will thus once again be able to propose an attractive dividend for fiscal year 2003/04 at the next General Shareholders' Meeting.

In the first three quarters of this fiscal year, the MVV Energie Group achieved earnings before interest and taxes of Euro 127 million when adjusted for the one-off charges. Our results have thus improved by 3% compared to the adjusted results for the same period last year.

Rumours in the Press regarding a certain need for value corrections with some of our participations in municipal utilities, which could lead to additional charges against earnings for the current fiscal year, have sent a wave of uncertainty through the capital market and have put our stock under pressure in recent months. This was triggered not least by the comparatively reasonably priced acquisition of the shares in the Kiel public utility (Stadtwerke Kiel), by which we have been able to benefit from the positive developments on German energy markets. Conversely, MVV Energie AG acquired its participations in the public utilities in Offenbach, Solingen and Ingolstadt from 2000 to 2002 during a period of higher prices. However, this does not automatically mean that there is a need for value corrections. In order to provide clarification on the sustainability of value of our participations as quickly as possible, we have moved up an annually scheduled impairment test for our financial statements for fiscal year 2003/04 by several weeks. The results should be available by September 2004.

In conjunction with restructuring of the E.ON Group, a 15-percent interest in MVV Energie AG previously owned by the RGE Holding GmbH was transferred to the Thüga Aktiengesellschaft effective June 9, 2004.

We would like to express our gratitude for the confidence placed in us by the shareholders, employees and friends of MVV Energie.

Sincerely,



Dr. Rudolf Schulten  
CEO

# MVV Energie's Stock

## Share Price Drops after Press Conference on 1<sup>st</sup> & 2<sup>nd</sup> Quarters

Following publication of our quarterly report for the first two quarters of fiscal year 2003/04 on May 17, 2004, our share price of Euro 15.12 fluctuated to Euro 13.45 as of June 30, 2004. Compared to last year (June 30, 2003), it thus lost 8.5% (SDAX + 36.3%, Prime Utilities + 41.0%). In a generally more volatile market, we attribute this drop in share price, inter alia, to the uncertainty caused by press reports about losses to be expected because of one-off restructuring expenditures in the current fiscal year. It was also noticeable that funds invested in MVV Energie have reduced their commitments in stock. Nevertheless, there was significant interest in purchasing MVV Energie's stock at the lower price, in particular on the part of dividend-oriented investors.

## Trading Volume Continues to Increase

We are encouraged by the further increase in the number of MVV Energie's shares traded on the stock market. At over Euro 33 million, the volume sold has more than doubled value-wise compared to last year. Higher volume makes it easier for investors to trade our stock, which thus makes it more attractive on capital markets.

## Award for Superior Investor Relations (IR)

MVV Energie has once again been able to place at the top in a competition for the "Best Investor Relations" sponsored by the investor magazine *Börse Online*. We took 3<sup>rd</sup> Place among the 50 SDAX stocks and 5<sup>th</sup> Place among all 160 stocks involved from the DAX, TecDAX, MDAX and SDAX. Our annual report, our clearness, and the quality of the contacts to investor relations were evaluated as particularly positive. Thanks to this award, we feel confirmed in our mission to advertise for MVV Energie by means of a transparent information policy. In addition, our annual report received a "Gold Award" from the League of American Communications Professionals (LACP) in San Diego, California.

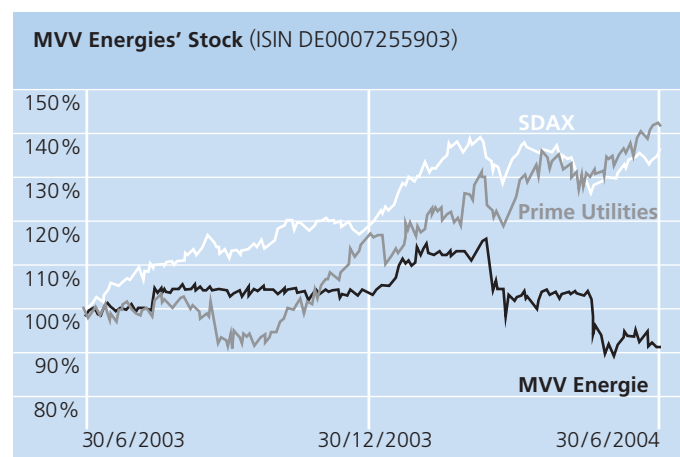
## Greater Presence on Capital Markets

During the period reported here, analysts' commentaries were published about our stock by five banks. We have also presented MVV Energie at an investors' conference on the issue of "Sustainability" in order to increase our company's public exposure. Additional road shows and investors' conferences have been scheduled.

Since July 1, 2004, MVV Energie's stock has been a member of the Gate-M service platform on the Stuttgart Stock Exchange. The objective is to make the stocks of small and medium-sized businesses increasingly the focus of investors' attention and to enhance the tradability of these stocks by means of a guaranteed narrow margin between purchasing and selling prices.

## Significant Fluctuations in Share Price after End of Quarter

In mid-July 2004 in particular, our share price came under renewed pressure because of rumours about an alleged need for value corrections in our portfolio of public utilities. We are convinced that our focusing strategy and our taking effective advantage of growth potential will have a positive impact on our key economic indicators and on our share price as early as the coming fiscal year.



# Corporate Situation

## Market Climate and Conditions

On May 1, 2004, the European Union was expanded by ten new member states. As a consequence, the political and economic situations were also changed for the German energy industry. The economic impulses to be expected from EU expansion will improve the market opportunities in our foreign target markets, Poland and the Czech Republic.

At mid-year of 2004, the German economy is currently on a slightly upturning, cyclical growth course. Growth estimates for 2004 range from 1.5% to 2.1%. Risks have been identified in the persistently weak domestic demand and in the high prices for primary energy.

New legislation governing the energy industry, which is intended to determine the future regulatory framework for the German energy markets, has finally been submitted as a cabinet draft because the various government ministries involved required sufficient time to give their approval. This has thus delayed the starting date for the regulating authorities for telecommunications and the post office (RegTP) to begin overseeing access to electric power and gas grids in future. This was originally scheduled for July 1, 2004.

The amended Renewable Energy Act (REA) was passed by the *Deutscher Bundesrat* on June 9, 2004. The REA forms an important basis for long-term securing of investments in technologies to supply renewable energy, such as for example using biomass as fuel to generate electric power that is so important for MVV Energie.

Germany has agreed to reduce its carbon-dioxide (CO<sub>2</sub>) emissions between 2008 – 2012 by 21% compared to emission levels in 1990. The EU Commission has fundamentally approved the arrangements worked out at the German national level after protracted negotiations. In the German national allocation plan, it has been set forth how the emissions certificates that are free of charge will be apportioned among the 2 400 industrial facilities and powerplants—in light of certain guidelines for mandatory reductions. Consequently, a Europe-wide market for carbon dioxide (CO<sub>2</sub>) will be created at the beginning of next year. MVV Energie has now been intensively preparing for trading emissions certificates in order to be ready for business when trading begins early next year.

## Highlights of the First Three Quarters of 2003/04

- ▶ MVV Energie has been consistently accelerating reorganisation and a new strategic initiative for the corporate group
- ▶ Sales up by 9%
- ▶ Adjusted earnings before interest and taxes (EBIT) improves by 3% despite continuing difficult conditions

## Important Occurrences in the 3<sup>rd</sup> Quarter 2003/2004

### Participation in Stadtwerke Kiel

One of the milestones of the quarter reported here was the acquisition of a 51% participation in the Kiel public utility (SWK) on April 30, 2004. SWK is an additional, important hub in the public utility network of the MVV Energie Group. In fiscal year 2003, SWK as a corporate subgroup had earnings before interest and taxes (EBIT) of Euro 34 million on approx. Euro 400 million in sales. SWK will be fully consolidated as of September 30, 2004. SWK will fit very well into our value-based growth strategy with its core business divisions including electric power, gas, district heating and water, its value-added energy services segment with its high potential for growth and its joint power-generation plant. By integrating SWK's powerplant, the percentage of generation in our own facilities will be significantly increased.

### Streamlining the MVV Energie Group's Organisation

A new organisational structure and a new business-distribution plan were implemented as of July 1, 2004. They will take the MVV Energie Group's future strategic initiative into account while at the same time considering the demands of liberalised energy markets. With our autonomously managed network and sales divisions, we have already started complying with the EU's unbundling stipulations in accordance with corporate law that will have to be implemented by 2007. The new organisational structure will permit efficient implementation of our new strategic initiative as well as target-oriented and earnings-based management of our business divisions.

## Earnings of the MVV Energie Group

In the first three quarters of fiscal year 2003/04, the MVV Energie Group increased its **total sales** by 9% compared to last year to Euro 1.3 billion. This increase is mainly attributable to hikes in sales in our electric power, gas and value-added services business. Our new renewable energy segment, which particularly comprises our biomass powerplants, achieved sales of Euro 4 million for the first time in the period reported here.

On the domestic market, both our parent company MVV Energie AG as well as our consolidated participations in public utilities such as Energieversorgung Offenbach AG, Stadtwerke Solingen GmbH and Köthen Energie GmbH were able to achieve higher sales than for the same three quarters in 2002/03. Conversely, our foreign sales prior to consolidation decreased by 13% compared to last year to Euro 116 million. This decrease was primarily caused by weather- and currency-related drops in sales in Poland and the Czech Republic.

### Comparison of Results Affected by One-off Factors

Our focus on our profitable core competencies led to expenditures of Euro 21 million in the 3<sup>rd</sup> quarter. These one-off charges stemmed particularly from losses incurred in selling AWATECH GmbH, a subsidiary engaged in the business of wastewater and treatment plants, due to book-value write-offs in MVV's innovations portfolio as well as devaluation of projects in the wind-turbine business and in Portugal. In the first 3 quarters of 2003/04, one-off charges of Euro 41 million have thus included one-off expenditures of Euro 20 million already taken into account for the 2<sup>nd</sup> quarter.

This one-off factor has been offset by a profitable one-time factor of Euro 129 million net for the first three quarters of last year that resulted from the sale of our GVS shares on the one hand and expenditures for measures to enhance our competitiveness on the other hand.

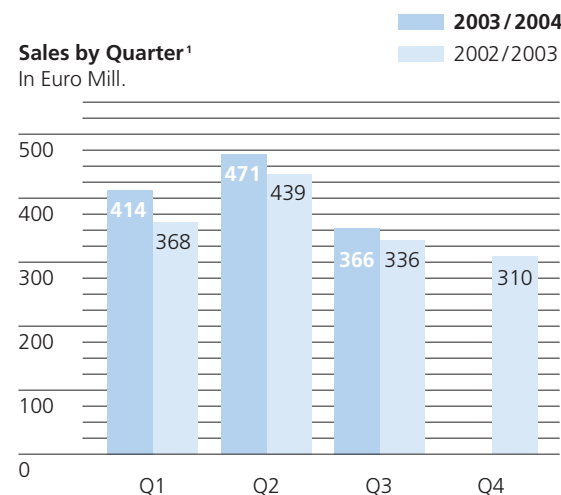
The economic indicators published in the income statement must be adjusted by the above mentioned one-off factors for a viable comparison of results with those of last year:

- ▶ **Adjusted earnings before interest, taxes, depreciation and goodwill amortisation (EBITDA)** improved from Euro 215 million to Euro 221 million (+ 3%) in the first three quarters of 2003/04 in comparison to the same period last year.

- ▶ After deducting depreciation and goodwill amortisation, **adjusted earnings before interest and taxes (EBIT)** of Euro 127 million would result. We have thus had an EBIT that was Euro 4 million higher than for a comparable period last year (Euro 123 million) despite mounting competition, to which we have been subjected in our electric power and gas business.
- ▶ **Net earnings after taxes for the period** adjusted for one-off factors rose compared to last year from Euro 44 million to Euro 49 million (+ 11%).
- ▶ **After deducting minority interests, adjusted net earnings after taxes for the period** were Euro 41 million for the first three quarters of 2003/04 compared to Euro 37 million last year.
- ▶ Based on these key economic results, we had **adjusted earnings per share** in accordance with IAS 33 of Euro 0.80 for the first three quarters of 2003/04 and have thus improved on our adjusted results of last year by 10%.

### 3<sup>rd</sup> Quarter of 2003/2004

Developments in results in the 3<sup>rd</sup> quarter of 2003/04 were marked by the above mentioned one-off charges for the focusing process. Adjusted for this one-off factor of Euro 21 million and the adjustment for measures to enhance our competitiveness (Euro 2 million) undertaken in the 3<sup>rd</sup> quarter of 2002/03, earnings before interest and taxes (EBIT) for the 3<sup>rd</sup> quarter of 2003/04 improved from Euro 18 million to Euro 22 million compared to the 3<sup>rd</sup> quarter of 2002/03. The rise in our operative business has mainly stemmed from our district-heating and gas segments.



<sup>1</sup> Energy-trading sales shown as net figure, i.e., only with the margin actually realised (last year's figures updated accordingly)

## Segment Reporting

### Electric Power Segment—Sales and EBIT Improve despite Mounting Competition

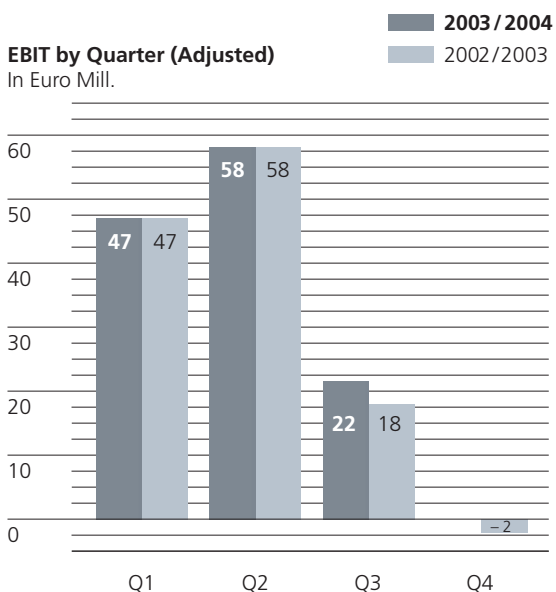
In the highly competitive electric power business, we were able to increase our total sales by 18% to Euro 595 million in the first three quarters. Key factors for this were rises in sales at MVV Energie AG, which resulted from increases in volume and rate hikes in our power wholesaling and in our interregional power business as well as from price adjustments in our business with household and small-business customers. Energieversorgung Offenbach (EVO) and Stadtwerke Solingen (SWS) were also able to increase their electric power sales.

As in the first two quarters of 2003/04, we have carried power-trading sales solely from our proprietary trading business, i.e., only with the difference between the purchase price and the sale price, hence the margin actually realised in order to present business developments more transparently. For purposes of comparison, the figures for last year's sales were updated accordingly. This change has had no impact on results.

In the first three quarters of 2003/04, our power volume increased by 12% to 9.6 billion kWh. In our power wholesaling, we sold 3.6 billion kWh—less the amount from proprietary trading—in the first three quarters of 2003/04 after 2.4 billion kWh in the same period last year.

In our marketing business with small businesses and households as well as industrial and commercial customers, which accounts for 63% of our total power volume, this was slightly below last year's level. In Mannheim, we had a drop in volume with our industrial and regular rate-paying customers. In Ingolstadt competition for key accounts has also become noticeably tougher. The marketing success achieved by MVV Energie AG and EVO has not quite been sufficient to offset the drops in volume in other customer segments to date.

Earnings before interest and taxes (EBIT) in our electric power division increased by 15% to Euro 30 million in the first three quarters of 2003/04 compared to last year's EBIT adjusted for proportional restructuring measures. Operative improvements were achieved at the parent company MVV Energie AG, at EVO and at Stadtwerke Ingolstadt Beteiligungen GmbH.



### Sales of the MVV Energie Group by Segment

1<sup>st</sup>, 2<sup>nd</sup> & 3<sup>rd</sup> Quarters, 1/10 – 30/6

In Euro Mill.	2003/2004	2002/2003	In %
Electric power <sup>1</sup>	595	503	+ 18
District heating	211	217	- 3
Gas <sup>2</sup>	219	208	+ 5
Water	54	54	—
Energy from waste (MHKW) <sup>3</sup>	67	69	- 3
Value-added services <sup>3</sup>	87	83	+ 5
Renewable energy	4	—	—
Other/Consolidation	14	9	- 56
	<b>1251</b>	<b>1143</b>	<b>+ 9</b>

<sup>1</sup> Energy-trading sales shown as net figure, i.e., only with the margin actually realised (last year's figures updated accordingly) and including an electricity tax of Euro 65 million (Euro 57 million last year)

<sup>2</sup> Including a natural gas tax of Euro 41 million (Euro 35 million last year)

<sup>3</sup> Last year without sales from business with projects/transfer of biomass power-plants in Mannheim, Flörsheim-Wicker (MHKW) and Königs Wusterhausen (value-added services) to project companies, which were offset by a corresponding consolidation item

<sup>1</sup> Total volume from all segments

<sup>2</sup> Only net power-trading volume carried as well as without intercompany deliveries (last year's figures updated accordingly)

<b>Volume of the MVV Energie Group by Segment</b>			
<b>1<sup>st</sup>, 2<sup>nd</sup> &amp; 3<sup>rd</sup> Quarters, 1/10 – 30/6</b>	<b>2003/2004</b>	<b>2002/2003</b>	<b>In %</b>
Electric power <sup>1</sup> in Mill. kWh	9649	8615	+ 12
Thereof wholesaling <sup>2</sup> in Mill. kWh	3563	2426	+ 47
Thereof retailing in Mill. kWh	6086	6189	– 2
District heating <sup>1,3</sup> in Mill. kWh	6597	6720	– 2
Gas <sup>1</sup> in Mill. kWh	7474	7404	+ 1
Water <sup>1</sup> in Mill. m <sup>3</sup>	29,8	30,5	– 2
Incinerated waste in 1 000 tonnes	377	355	+ 6

### District-Heating Segment—Improvements in EBIT despite Weather-Related Drops in Sales

In our district-heating business, we were able to increase our volume by 6% in the 3<sup>rd</sup> quarter 2003/04 compared to last year because of the comparatively cool weather. However, this growth was not sufficient to offset the drop in volume that we had suffered due to relatively mild temperatures in Eastern Europe during the first two quarters of 2003/04. At 6.6 billion kWh, our district-heating volume altogether was 2% below last year's figure after the first three quarters of 2003/04. Of this total volume, district heating accounted for 79% (heating water) and 21% for steam.

Developments in sales were affected to a large extent by our Polish and Czech participations. Compared to last year, foreign sales, which in the meantime account for 54% of our total district-heating sales of Euro 211 million, decreased by 8% to Euro 113 million in the first three quarters of 2003/04. Key factors for this were weather- and exchange rate-related drops in sales. Conversely, sales on the domestic district-heating market rose by 4% to Euro 98 million compared to the same three quarters last year. This growth resulted from higher sales related to hikes in quantities and rates at MVV Energie AG and the Ingolstadt public utility (SWI). SWI succeeded in gaining several new bulk-rate customers that will contribute to substantial increases in volume well beyond the current fiscal year.

Earnings before interest and taxes (EBIT) in our district-heating segment improved by 2% compared to last year to Euro 49 million. EBIT adjusted for one-off factors remained at last year's level. After the first three quarters of 2003/04, the results of our district-heating business represent—seasonally considered—39% of the total adjusted EBIT of the MVV Energie Group.

### Gas Segment—Sales and EBIT Rise

In our gas business, we were able to raise our volume by 1% to 7.5 billion kWh despite altogether unfavourable weather conditions in the first three quarters of 2003/04. This growth in volume is attributable to MVV Energie AG's business with secondary distributors and regular rate-paying customers as well as the end-consumer business of our participations in Offenbach, Ingolstadt and Solingen. Sales in our gas segment rose 5% compared to last year to Euro 219 million. This growth is attributable to higher volume and to rate adjustments.

Developments in EBIT in our gas segment were affected by the sale of our GVS shares last year. Without this one-off factor, EBIT improved by 12% compared to last year's adjusted EBIT. Higher margins and cost-cutting measures have both contributed to this result.

### Segment Water—Affected by Weather

In our water segment, our volume decreased by 2% to 29.8 million m<sup>3</sup> as a result of the comparatively bad and rainy weather in the first three quarters of 2003/04. We were able to offset this drop in volume with rate hikes and thus achieved sales of Euro 54 million as in 2002/03.

At Euro 8 million, earnings before interest and taxes (EBIT) were Euro 2 million below last year's EBIT when adjusted for proportional restructuring measures at EVO, which benefited additionally from credits related to billing.



<b>EBIT of the MVV Energie Group by Segment</b>					
<b>1<sup>st</sup>, 2<sup>nd</sup> &amp; 3<sup>rd</sup> Quarters, 1/10 – 30/6</b> In Euro Mill.	<b>Unadjusted 2003/2004</b>	Unadjusted 2002/2003	<b>Adjusted 2003/2004</b>	Adjusted 2002/2003	Adjusted In %
Electric power	30	24	30	26	+ 15
District heating	49	48	49	49	—
Gas	28	167	28	25	+ 12
Water	8	9	8	10	– 20
Energy from waste (MHKW)	19	15	19	23	– 17
Value-added services	– 31	– 5	– 6	– 4	– 50
Renewable energy	– 8	– 6	– 2	– 6	+ 67
Other/Consolidation	– 9	—	1	—	+ 100
	<b>86</b>	<b>252</b>	<b>127</b>	<b>123</b>	<b>+ 3</b>

### Energy from Waste Plants (MHKW) Segment

At Euro 67 million, sales from our waste disposal and energy business were slightly below last year's level. In the first three quarters of 2003/04, earnings before interest and taxes (EBIT) increased by Euro 4 million compared to last year to Euro 19 million. EBIT decreased by Euro 4 million when adjusted for one-off factors incurred last year (expenditures for obligations within the framework of the take-over of facility management at MHKW in Mannheim from the Mannheim central powerplant [GKM] and proportional restructuring expenditures at EVO). This decrease mainly resulted from lower profits from our project business in conjunction with our biomass powerplants. In addition, organisational changes also had an impact with respect to allocating the business with process steam, which has been plagued by deficits, from our district-heating segment to our MHKW segment.

Construction of our new Leuna energy from waste plant with an annual capacity of 195 000 tonnes has been proceeding on schedule. Thanks to successful customer acquisition, it will now be possible to operate the facility that is scheduled to go on stream in the summer of 2005 at approx. 80% capacity utilisation contractually from the very first day by means of a solid customer base of publicly funded waste-management authorities. Commercially bound loads beyond this figure that will be delivered by contractual agreement as of January 1, 2006, will then raise capacity utilisation to approx. 100%.

### Value-Added Services Segment

In our value-added services segment, we were able to increase sales by 5% compared to last year to Euro 87 million.

This growth largely stemmed from increased energy services provided by MVV Energie AG as well as by our participations EVO and MVV Dezentrale Industrielle Energieversorgung Rhein-Ruhr GmbH (D.I.E.) in Solingen.

In the first three quarters of 2003/04, earnings before interest and taxes (EBIT) in our value-added services segment were marked by one-off charges of Euro 25 million that resulted from value-based tightening and restructuring our business portfolio. Our Powerline business was particularly affected by this measure as well as MVV Innovationsportfolio and our business in Portugal. Without this one-off factor, our value-added services segment showed a negative EBIT of – Euro 6 million (– Euro 4 million last year) in the first three quarters of 2003/04, mainly because of investment-related start-up losses.

The 50% interest in Power PLUS Communications AG held by MVV Energie was hived off at book value as a non-cash contribution to MVV Innovationsportfolio in conjunction with restructuring our Powerline business in the third quarter of 2003/04. A one-off expense of Euro 6 million in the MVV Energie Group's financial statements for the first three quarters of 2003/04 resulted from write-offs on financial assets at MVV Innovationsportfolio.

Moreover, MVV Energie AG sold its 100-% interest in AWATECH GmbH Abwasser and Technik in conjunction with cleaning out its portfolio in the third quarter of 2003/04; AWATECH had not succeeded in getting out of the red. In this connection, divestment losses of Euro 8 million were incurred, which are carried in the EBIT overview in the item *Other/ Consolidation* on p. 7.

## Renewable Energy Segment

Our renewable energy segment showed sales for the first time in the first three quarters of 2003/04. At Euro 4 million these sales particularly stem from our biomass powerplants in Mannheim, Flörsheim-Wicker and Königs Wusterhausen that began operation at the end of 2003.

In addition to residual start-up costs for our biomass powerplants, developments in results were largely determined by project devaluation and restructuring measures. These were undertaken within the framework of our value-based concentration process at our participation, Eternegy GmbH in Mannheim, which is engaged in the wind-farm business. When adjusted for this one-off charge of Euro 6 million, this segment would have an EBIT of – Euro 2 million for the first three quarters of 2003/04 compared to – Euro 6 million last year. This positive development will continue in the coming months.

We have continued to expand our biomass business with clear objectives. During the third quarter of 2003/04, our wholly owned subsidiary, MVV Energie Dienstleistungen GmbH, took over 67 % of the biomass co-generation plant in Altenstadt in Bavaria for the next 17 years. Following modernisation, which will be completed by the end of 2004, steam that until now has been exclusively used to generate electric power (11 MW) can also be utilised to supply heating to neighbouring industrial facilities.

## Investments and Financing

In the first three quarters of 2003/04 the MVV Energie Group invested Euro 239 million (Euro 133 million last year). Euro 94 million thereof went for tangible assets (Euro 115 million last year) and Euro 145 million for financial assets (Euro 18 million last year). Of total investments in tangible assets, MVV Energie AG accounted for Euro 36 million and its participations for Euro 58 million. Investments in financial assets went primarily to acquire a participation in Stadtwerke Kiel (SWK) via Stadtwerke Kiel Beteiligungsgesellschaft mbH, a wholly owned subsidiary of MVV Energie AG.

Even after financing this acquisition with debt capital, the MVV Energie Group still showed a comparatively high ratio of equity to total capital of 29 % (32 % last year) as of June 30, 2004.

MVV Energie's cash-flow statement, which was marked by the sale of our GVS shares last year, has been determined by financing for the acquisition of Stadtwerke Kiel in the quarter reported here. Cash flow in accordance with DVFA/SG increased by 4% to Euro 141 million in the first three quarters of 2003/04. The write-offs and value adjustments from cleaning out our portfolio did not affect the amount of our cash flow. The difference between cash flow provided by operating activities (Euro 95 million) and investments in tangible assets (Euro 94 million) resulted in a positive free cash flow of Euro 1 million for the first three quarters of 2003/04 compared to a negative free cash flow of Euro 82 million last year. A comprehensive cash-flow statement can be found on p. 13 of this financial report.

## Research & Development

### “Best Innovator” Competition

Every year, A. T. Kearney Management Consultants and the *WirtschaftsWoche* magazine honour the best innovation management practices with a competition entitled “Best Innovator”. In this year's competition, the MVV Energie Group was honoured as an outstanding finalist in the category “Best Innovation Strategy”; the *BMW Group* was the overall winner for 2004.

## Networks of the Future

The energy industry has been going through a number of profound changes over the last six years. Following a period of sweeping transitions, a regulatory framework for networks has become more reliable thanks to new legislation governing the energy industry. Long-term structural and technical planning strategies have once again become the focus of greater attention. Within the framework of a cross-divisional project called "Networks of the Future" the entrepreneurial question will be answered whether new technical-economic target structures will result from the changed regulatory framework. The project began in May 2004 and will work out new optimised cost structures for Mannheim's natural gas and electric power grids until December 2004. Partners in the project will be *RWTH Aachen*, the *Institute for Electrical Systems and the Energy Industry (IAEW)* in Aachen, and MVV Energie AG's subsidiary, EUS GmbH in Dortmund.

## Workforce Management: Mobile SAP via UMTS

Within the framework of a strategic Group project entitled "Work Force Management (WFM)", which we described in our last quarterly report, a subproject known as "Pilot Test: Mobile SAP" was started in June. This project will investigate whether more information can be made available, more pronounced transparency can be created and use of the SAP system can be facilitated for the work flows of technicians involved in network facilities. Moreover, this method should contribute to cutting costs. Data cards in accordance with the new mobile telephone standard

UMTS will be utilised to transmit operational data from the networks to and from MVV Energie AG's SAP system. As the first German energy utility, MVV Energie AG has shown that UMTS is a suitable medium for improving the flow of information during network operations.

## Employees

Compared to last year, the number of employees in the MVV Energie Group decreased by 219 (– 4%) to 5 449 as of June 30, 2004. Including non-MVV personnel employed at our energy from waste plant (MHKW) in Mannheim, the MVV Energie Group employed 5 513 men and women at the end of the 3<sup>rd</sup> quarter of 2003/04. After integration of the Kiel public utility, which will not be fully consolidated until September 30, 2004, the number of employees will then climb to a total of 6839 people.

The decrease in employees at MVV Energie AG has largely stemmed from the departure of interns and those writing theses as well as from expiration of early retirement agreements. At MANet GmbH, the work force was downsized through a program of employment-termination indemnities; this method was also used at AWATECH GmbH, which will be consolidated in the MVV Energie Group for the last time because it has been sold.

The number of employees decreased by a total of 70 at our participations in Poland and the Czech Republic; in this connection, Poland accounted for the larger proportion with 56 employees.

Personnel Figures at the End of 3 <sup>rd</sup> Quarter, as of June, 30	2003/2004	2002/2003	+/-
MVV Energie AG <sup>1</sup>	1 746	1 783	– 37
Fully consolidated participations	2 082	2 165	– 83
<b>MVV Energie AG with fully consolidated participations</b>	<b>3 828</b>	<b>3 948</b>	<b>– 120</b>
Proportionately consolidated participations	1 621	1 720	– 99
<b>MVV Energie Group<sup>2</sup></b>	<b>5 449</b>	<b>5 668</b>	<b>– 219</b>
Non-MVV personnel at MHKW in Mannheim	64	84	– 20
	<b>5 513</b>	<b>5 752</b>	<b>– 239</b>

<sup>1</sup> Including 94 employees of MVV RHE AG (96 last year)

<sup>2</sup> Thereof 164 trainees (162 last year)

# Outlook

## Market Climate and Regulation

Instead of taking up its duties on July 1, 2004 as originally planned, the regulating authorities will now first begin their activities presumably in 2005. We assume that they will intervene in shaping access fees both for the end-distributor business as well as for transmission. Moreover, we expect measures to strengthen competition as well as the functionality of the power and gas markets. The impact on the MVV Energie Group's earnings will depend on their concrete resolutions and will involve both risks and opportunities.

## Conditions for Acquiring Additional Public Utilities Improve

Major domestic interregional utilities will hardly be able to acquire participations in additional public utilities because of antitrust restrictions. At the same time, many former potential investors from abroad who were interested in acquiring participations in German public utilities have pulled out of Germany. As a consequence, we foresee excellent chances for MVV Energie AG to benefit from the sharply falling prices for public utilities and to acquire participations in profitable enterprises at bargain prices. We intend to take advantage of these opportunities in order to expand our utility network even further and to strengthen our market position by the multiplication of successful business concepts.

In case of additional acquisitions or major investments, we are still aiming at a second public offering, which will increase both our equity as well as our liquidity on the stock market. Nevertheless, we are assuming that depending on developments on the capital markets we will first be able to undertake this step as of 2005.

## Sales and Earnings Expectations

With sales for fiscal year 2003/04, we are expecting a slight increase compared to last year when adjusted for our power-trading sales. With earnings before interest and taxes (EBIT), we are still anticipating a decrease (in the single-figure percentage range) compared to last year's adjusted figure (Euro 121 million)—without taking one-off expenditures for the focusing process into account. We will not be able to avoid the mounting pressure of competition. Without adjusting for one-off costs from cleaning out our portfolio, we are expecting negative net earnings (after taxes after deducting minority interests) for fiscal year 2003/04. How high the negative figure will be will depend on whether there will be further need for value corrections as a result of examining the value retention of our participations in public utilities. The results should be available by September 2004.

Based on the progress already achieved in cleaning out our portfolio and in restructuring, we are assuming that these measures can be largely completed in fiscal year 2003/04. The measures still to be completed will particularly apply to our business in wind energy. The high profits from the sale of our shares in Gasversorgung Süddeutschland GmbH will be available to cover one-off expenditures incurred in this way and the possible risks. Consequently, we will also be able to propose an attractive dividend for fiscal year 2003/04 at the next General Shareholders' Meeting.

Tightening up of our portfolio as well as the new and more efficient organisational structure will contribute to higher earnings in conjunction with cost-cutting measures. They will also positively affect our corporate results in fiscal year 2004/05. In addition, we will concentrate our investments in order to generate free cash flow.

# Balance Sheet as of 30/6/2004

<b>Balance Sheet of the MVV Energie Group</b> in Euro 1000	<b>30/6/2004</b>	30/9/2003
<b>Assets</b>		
<b>Fixed Assets</b>		
Intangible assets	231 371	247 840
Tangible assets	1 644 820	1 655 102
Financial assets	272 046	139 460
	<b>2 148 237</b>	<b>2 042 402</b>
<b>Current Assets</b>		
Inventories	47 413	50 291
Receivables and other assets <sup>1</sup>	363 119	373 685
Cash and cash equivalents	77 144	64 076
	<b>487 676</b>	<b>488 052</b>
	<b>2 635 913</b>	<b>2 530 454</b>
<b>Passiva</b>		
<b>Equity</b>		
Share capital of MVV Energie AG	129 797	129 797
Capital reserves of MVV Energie AG	178 270	178 270
Retained earnings	204 175	222 098
Total net earnings of the MVV Energie Group for the period	147 778	167 604
<b>Capital of the MVV Energie Group</b>	<b>660 020</b>	<b>697 769</b>
Minority interests	111 899	107 997
	<b>771 919</b>	<b>805 766</b>
<b>Customers' Contributions</b>	<b>182 759</b>	<b>182 832</b>
<b>Provisions</b>		
Provisions for pensions and other obligationsn	24 400	21 380
Provisions for taxes	14 718	11 086
Other provisions	112 589	122 701
	<b>151 707</b>	<b>155 167</b>
<b>Liabilities</b>		
Corporate debt	1 193 696	995 920
Trade payables	112 151	134 517
Advance payments for orders <sup>1</sup>	1 799	11 293
Other liabilities	83 185	107 289
	<b>1 390 831</b>	<b>1 249 019</b>
<b>Deferred Taxes</b>	<b>138 697</b>	<b>137 670</b>
	<b>2 635 913</b>	<b>2 530 454</b>

<sup>1</sup> Last year's figures have been updated accordingly

# Income Statement

From 1/4/2004 until 30/6/2004  
and from 1/10/2003 until 30/6/2004 (Cumulative)

Income Statement of the MVV Energie Group	3 <sup>rd</sup> Quarter 1/4 – 30/6		1 <sup>st</sup> , 2 <sup>nd</sup> & 3 <sup>rd</sup> Quarters 1/10 – 30/6 (Cumulative)	
	2003/2004	2002/2003	2003/2004	2002/2003
In Euro 1000				
Sales <sup>1</sup>	365 836	335 678	1 251 061	1 143 295
Capitalised assets for internal services rendered/ Fluctuations in inventories	9 723	12 185	24 457	34 949
Other operating income	9 458	9 293	36 731	170 785
Cost of materials <sup>1</sup>	225 821	201 147	764 948	690 012
Personnel costs	55 920	55 981	165 293	162 637
Other operating expenses	57 562	52 836	171 041	158 011
Net income from subsidiaries	3 593	2 361	3 590	4 984
Other participations' earnings	- 13 412	638	- 15 518	748
<b>EBITDA</b>	<b>35 895</b>	<b>50 191</b>	<b>199 039</b>	<b>344 101</b>
Depreciation	29 175	27 339	100 435	82 109
<b>EBITA</b>	<b>6 720</b>	<b>22 852</b>	<b>98 604</b>	<b>261 992</b>
Goodwill-amortisation	5 857	3 379	12 805	10 160
<b>EBIT</b>	<b>863</b>	<b>19 473</b>	<b>85 799</b>	<b>251 832</b>
Net interest expenses	- 12 724	- 12 812	- 39 376	- 40 389
<b>EBT</b>	<b>- 11 861</b>	<b>6 661</b>	<b>46 423</b>	<b>211 443</b>
Income taxes	6 798	5 635	38 024	36 047
<b>Net earnings after taxes for the period</b>	<b>- 18 659</b>	<b>1 026</b>	<b>8 399</b>	<b>175 396</b>
Minority interests	932	1 381	8 461	6 934
<b>Net earnings after taxes after deducting minority interests for the period</b>	<b>- 19 591</b>	<b>- 355</b>	<b>- 62</b>	<b>168 462</b>

<sup>1</sup> Last year's figures have been updated accordingly

# Cash-Flow Statement

From 1/10 until 30/6

<b>Cash-Flow Statement of the MVV Energie Group<sup>1</sup></b> <b>1/10 – 30/6</b>	<b>2003/2004</b>	2002/2003
In Euro 1000		
Net earnings after taxes for the period	8 399	175 396
Depreciation/write backs of fixed assets	129 401	93 965
Changes in long-term provisions and customers' contributions	3 922	5 288
Other changes in cash flow	– 492	—
Profit from the sale of participations	—	– 139 687
<b>Subtotal for cash flow in accordance with DVFA/SG</b>	<b>141 230</b>	<b>134 962</b>
Changes in short-term provisions	– 6 595	– 6 978
Losses (Profits last year) from disposals of tangible assets	1 110	– 1 039
Losses from disposals of financial assets	3 086	—
Changes in other assets <sup>1</sup>	3 590	– 55 852
Changes in other liabilities <sup>1</sup>	– 47 063	– 37 741
<b>Cash flow from operating activities</b>	<b>95 358</b>	<b>33 352</b>
Proceeds from disposals of tangible assets	6 964	22 949
Proceeds from disposals of financial assets	1 689	209 546
Investments in tangible assets/intangible assets	– 93 856	– 115 349
Investments in acquisitions, participations and loans	– 144 982	– 17 681
<b>Cash flow used in (last year cash flow provided by) investment activities</b>	<b>– 230 185</b>	<b>99 465</b>
Proceeds from subsidy payments	20	1 280
Proceeds from new corporate loans	342 108	83 773
Expenditures to retire corporate debt	– 55 130	– 76 327
Changes in financial debt from cash-pooling	– 89 202	– 125 634
Dividend payments	– 45 063	– 46 275
<b>Cash flow provided by (last year cash flow used in) financial activities</b>	<b>152 733</b>	<b>– 163 183</b>
Changes in cash and cash equivalents	17 906	– 30 366
Changes in cash and cash equivalents from changes in the scope of consolidation	– 5 111	4 703
Changes in cash and cash equivalents from foreign currency translation	273	– 2 335
Cash and cash equivalents as of 1/10/2003 (and/or 2002)	64 076	92 930
<b>Cash and cash equivalents as of 30/6/2004 (and/or 2003)</b>	<b>77 144</b>	<b>64 932</b>

<sup>1</sup> Last year's figures have been updated accordingly

# Statement of Changes in Equity

## Including Minority Interests

<b>Statement of Changes in Equity of the MVV Energie Group Including Minority Interests</b>	Share Capital MVV Energie AG	Capital Reserves MVV Energie AG	Legal and other Retained Earnings/Consolidation	Difference in Amounts from Currency Translation	Market Valuation from Financial Instruments	Net Earnings for the Period of the MVV Energie Group	Capital of the MVV Energie Group	Minority Interests	<b>Totals</b>
In Euro 1000									
Status as of 1/10/2003	129 797	178 270	222 486	- 1 394	1 006	167 604	697 769	107 997	<b>805 766</b>
Dividend yield	—	—	—	—	—	- 38 027	- 38 027	- 7 036	- 45 063
Net earnings after taxes for the period	—	—	—	—	—	- 62	- 62	8 461	8 399
Changes in retained earnings	—	—	- 18 263	—	—	18 263	—	—	—
Currency adjustments	—	—	—	304	—	—	304	1 981	2 285
Changes in the scope of consolidation	—	—	- 77	—	—	—	- 77	626	549
Adjustments not affecting earnings (IAS 39)	—	—	—	—	113	—	113	- 130	- 17
Status as of 30/6/2004	<u>129 797</u>	<u>178 270</u>	<u>204 146</u>	<u>- 1 090</u>	<u>1 119</u>	<u>147 778</u>	<u>660 020</u>	<u>111 899</u>	<b><u>771 919</u></b>



## **Supplementary Information**

### **3<sup>rd</sup> Quarter and the First Three Quarters of 2003/2004**

#### **Principles and Methods**

The standards of the International Accounting Standards Board (IASB) in effect on 30/6/04, have been used for these quarterly financial statements of the MVV Energie Group in accordance with International Financial Reporting Standards (IFRS).

The financial statements of the subsidiaries included in the financial statements of the MVV Energie Group are subject to uniform principles for accounting and valuation.

In addition to the balance sheet, the income statement as well as the statement of changes in equity according to IAS 1, the financial statements include the cash-flow statement according to IAS 7 and reporting financial information by segment according to IAS 14 as well as notes to clarify said statements.

To be better able to show the assets and financial situation, advance payments made by customers towards their annual bills were netted against receivables for the first time. Last year's figures were adjusted accordingly. As of 30/6/04, this netted figure amounted to Euro 217 304 000; as of 30/6/03, it was Euro 220 671 000. Moreover, to enhance the transparency of the earnings situation, we have carried power-trading sales from our proprietary trading business as net sales. This means that only the profit margin actually realised from the total of our proprietary power-trading business will be shown—in positive cases as net sales and in negative cases as cost of materials. By comparison, last year's figures have been adjusted accordingly. These figures, which have been reduced by sales revenues as well as by the cost of materials amounted to Euro 89 811 000 as of 30/6/04, and Euro 202 384 000 as of 30/6/03, respectively. However, these changes in the way things are carried have had no effect on earnings.

#### **Scope of Consolidation**

In addition to MVV Energie AG, 36 subsidiaries, in which MVV Energie AG has a majority of the voting rights either directly or indirectly, have been fully consolidated in the financial statements of the MVV Energie Group. The determining control concept for such full consolidation in accordance with IAS 27 calls for the parent company to exercise the power to govern financial and operating policies. Six enterprises have been proportionately consolidated. Seven additional associates have been assessed according to the equity method.

In the current fiscal year, two enterprises were fully consolidated for the first time. Two domestic and two foreign enterprises were each merged into a single domestic and/or foreign enterprise within the framework of a partial corporate reorganisation. One enterprise was given a final consolidation because it was sold. There were no changes in the number of enterprises to be assessed according to the equity method as well as of those to be proportionately consolidated.

The shares in Stadtwerke Kiel (SWK) have been carried as a financial asset in the quarterly financial statements as of 30/6/04, as the information needed for a reliable determination of value in accordance with IFRS 3 was not available when this quarterly report was prepared.

Fully and proportionately consolidated subsidiaries included in the consolidated financial statements have prepared quarterly financial statements as of the balance sheet date.

Moreover, subsidiaries that are of negligible importance as a whole and when individually considered from the standpoint of the Group with respect to sales, total assets and contributions to net earnings are not consolidated but are instead carried as financial assets on the consolidated balance sheet.

#### **Consolidation Methods**

The financial statements integrated in the consolidation have been translated from HGB to IAS in accordance with IFRS based on uniform accounting rules.

Capital consolidation has been performed according to IAS 22 in accordance with the proportional re-evaluation method for participations based on the values assigned at the time of acquisition. A positive balance is carried as goodwill under Fixed assets and amortised in accordance with IAS 22; conversely, a negative balance with regard to the acquisition price is carried as commensurate potential losses forecast for the future.

Intercompany receivables and payables as well as sales, earnings and expenses have been set off against each other according to IAS 27.

Major joint ventures have been proportionately included in the consolidated financial statements according to IAS 31. Consolidation of joint ventures is performed according to the above-mentioned principles.

Key participations in associates have been valued at equity in accordance with IAS 28.

## Foreign Currency Translation

The financial statements of the MVV Energie Group's foreign participations have been translated into Euros according to the concept of functional currency in accordance with IAS 21. This means the respective national currency of the companies involved as they do business in their own currency as financially, economically and organisationally autonomous foreign entities.

The following exchange rates were used in translating the financial statements of individual foreign companies from their national currencies into Euros:

1 Euro	Closing Rates		Average Rates 1/10 – 30/6	
	30/6/2004	31/3/2003	2003/2004	2002/2003
Polish zloty (PLN)	4.524	4.623	4.696	4.150
Czech crowns (CZK)	31.755	31.844	32.327	31.270

Assets and debt items on balance sheets are translated from the respective currency to Euro at the mean exchange rate in effect on the balance sheet date. Expenditures and earnings of consolidated foreign companies are translated at average annual exchange rates.

Differences from translating currencies with respect to the equity of the foreign participations involved as well as to deviating conversion rates between the balance sheet and the income statement are set off against equity without affecting earnings.

## Accounting and Valuation Methods

In general, assets are valued at their acquisition and/or manufacturing costs, decreased by regularly scheduled depreciation. Corporate debt is set at its repayment value. Long-term debt is carried at present value.

Exceptions to this principle are certain financial instruments in accordance with IAS 39, which have been set at market values.

## Earnings per share are calculated as follows:

Earnings per Share 1/10 – 30/6	2003/2004	2002/2003
Net earnings after taxes after deducting minority interests for the period in 1000 Euro	- 67	168 462
Adjusted net earnings after taxes after deducting minority interests for the period in 1000 Euro	40 707	37 063
No. of shares in 1000 (weighted 1 <sup>st</sup> , 2 <sup>nd</sup> & 3 <sup>rd</sup> quarterly average)	50 702	50 702
Earnings per share in Euro in accordance with IAS 33	0.00	3.32
Adjusted earnings per share in Euro in accordance with IAS 33	0.80	0.73

# Events and Dates

1/12/2004	Financial statements for 2003/2004
26/1/2005	Financial results conference and financial analysts' conference
14/2/2005	Financial report 1 <sup>st</sup> Quarter 2004/2005
4/3/2005	General Shareholders' Meeting
7/3/2005	Dividend payments

## **Editorial Responsibility:**

MVV Energie AG  
Department of Group Data and Reporting  
D-68142 Mannheim  
Wilfried Schwannecke, Dipl.-Volkswirt  
Telephone +49-(0)621-290-2392  
Telefax +49-(0)621-290-3075  
w.schwannecke@mvv.de

## Quarterly Financial Report

October 1, 2003 – June 30, 2004

3<sup>rd</sup> Quarter and the First Three Quarters of 2003/2004

### Contact:

MVV Energie AG  
Investor Relations  
Luisenring 49  
D-68159 Mannheim

Telephone +49-(0)621-290-3708  
Telefax +49-(0)621-290-3075  
[www.mvv-investor.de](http://www.mvv-investor.de)  
[ir@mvv.de](mailto:ir@mvv.de)



### Published by:

MVV Energie AG  
Luisenring 49  
D-68159 Mannheim

[www.mvv-energie.de](http://www.mvv-energie.de)  
[energie@mvv.de](mailto:energie@mvv.de)

Postal Address  
D-68142 Mannheim