# MVV Energie
# Financial Report 3rd Quarter of 2007/2008

1 October 2007 – 30 June 2008

07/08

MVV Energie

# Key Figures

## 1 October 2007 – 30 June 2008

| Key Figures of the MVV Energie Group[1] Euro million | 2007/2008 | 2006/2007 | % change |
|---|---|---|---|
| Sales[2] | 2 042 | 1 769 | + 15 |
| EBITDA | 546 | 310 | + 76 |
| EBITDA before IAS 39 | 358 | 303 | + 18 |
| EBITA | 439 | 205 | + 114 |
| EBITA before IAS 39 | 251 | 198 | + 27 |
| EBIT | 439 | 205 | + 114 |
| EBIT before IAS 39 | 251 | 198 | + 27 |
| EBT | 387 | 148 | + 161 |
| EBT before IAS 39 | 199 | 141 | + 41 |
| Net surplus for the period | 270 | 90 | + 200 |
| Net surplus for the period after minority interests | 247 | 78 | + 217 |
| Earnings per share[3] in Euro | 3.80 | 1.40 | + 171 |
| Cash flow before working capital and taxes | 354 | 312 | + 13 |
| Cash flow before working capital and taxes per share[3] in Euro | 5.44 | 5.59 | – 3 |
| Free cash flow[4] | 26 | 130 | – 80 |
| Total assets (as of 30. 6. 2008/30. 9. 2007) | 4 166 | 3 278 | + 27 |
| Equity (as of 30. 6. 2008/30. 9. 2007) | 1 365 | 914 | + 49 |
| Investments[5] | 166 | 185 | – 10 |
| Number of employees[6] | 6 296 | 6 872 | – 8 |

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

[2] excluding electricity and natural gas tax

[3] increase in number of shares (weighted nine-month average) from 55.8 million to 65.1 million as a result of capital increase

[4] cash flow from operating activities less investments in intangible assets, property, plant and equipment and investment property

[5] 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

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

# Contents



07/08

# Interim Group Management Report

## Major Events in the 3rd Quarter of 2007/2008
## 1 April to 30 June 2008

| Highlights in the 3rd Quarter |
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| Energy efficiency as market of the future |
| Extension to large Mannheim power plant secures district heating supply |
| New projects at MVV Energiedienstleistungen |

### Opportunities for MVV Energie from energy and climate programme

In June 2008, the German government passed key implementation measures for the "Integrated Energy and Climate Programme" adopted by the Federal Government in August 2007. New laws and legal amendments are intended to reduce emissions of greenhouse gases in Germany by up to 40 % by 2020 compared with 1990. To achieve this ambitious target, the share of electricity generated from renewable energies is to be raised over the same period from its current level of 14 % to 30 %, while the share of cogeneration is to be increased from around 12 % currently to approx. 25 %. The MVV Energie Group was early to begin expanding its district heating supply and exploiting renewable energies in its electricity, district heating and energy-related services divisions. Following the decisions taken by the Federal Government, we see our group of companies as being superbly positioned in the future markets of energy efficiency and renewable energies (please also see Page 4).

### Mannheim City Council supports extension of the large power plant in Mannheim (GKM)

On 24 June 2008, a large majority at Mannheim City Council expressed its support for extending the large power plant in Mannheim (Grosskraftwerk Mannheim – GKM). The decision was preceded on 11 June 2008 by the first public meeting held on this topic, attended by around 1 200 people, at which proponents and opponents of the extension were able to air their views. The new Block 9 (electricity output: 911 MW; district heating output: 500 MWth) planned to be built by 2013 will replace two blocks with a combined output of 440 MW due to be taken from the grid for reasons of age. Approval for the building application from Grosskraftwerk Mannheim AG should be granted by the regional council in Karlsruhe in spring 2009, thus enabling construction work to begin shortly after. MVV Energie AG will participate in this project in line with its shareholding in GKM (28 %). The extension to the power plant will secure the expansion we are planning in the district heating supply in the Rhine/Neckar metropolitan region.

### New projects at MVV Energiedienstleistungen

MVV Energiedienstleistungen is now operating with around 100 employees based in Berlin alone. The company successfully expanded its market position in the federal capital during the quarter under report, with heating energy supply agreements concluded with Axel Springer AG, Deutsche Oper Berlin and Deutsche Immobilien Versorgung (DIV).

The company is also pressing ahead with its expansion in Bavaria. The foundation stone was laid in April 2008 for a new cogeneration plant at the industrial park in Gersthofen, which will supply the park's twelve companies with an annual total of 280 000 MWh of steam from July 2009 onwards (cost of investment: Euro 30 million). Operations began in May 2008 at the new biomass cogeneration plant in Pfalzgrafenweiler. In 2008, the first year of operations, it is planned to generate around 13 000 MWh of heating energy and 2 400 MWh of electricity from wood chips available in the region. The dairy company Großmolkerei Zott GmbH & Co. KG will be procuring its production steam from MVV Energiedienstleistungen until at least 2028. For this, MVV Energiedienstleistungen will be investing together with the Bavarian State Forestry Commission in a new biomass cogeneration plant (cost of investment: Euro 9 million). From December 2008, the plant will use untreated wood chips to supply an annual total of around 51 000 MWh of steam to the dairy and 9 400 MWh of electricity for the public grid.

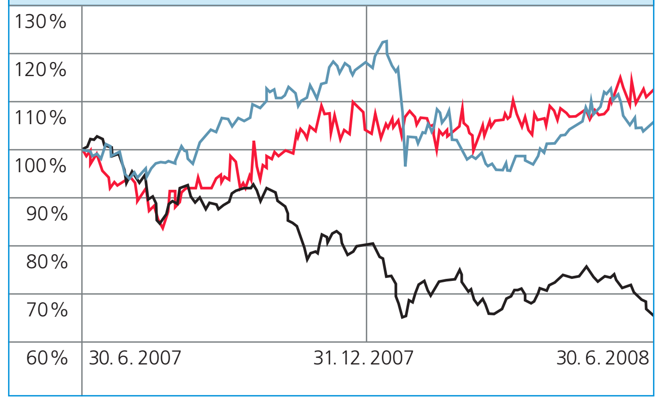
### Withdrawal from Polish market

As previously announced, MVV Energie AG sold its shares in the Polish district heating company KPEC in Bydgoszcz during the quarter under report. The sale generated proceeds of around PLN 70 million (equivalent to approx. Euro 21 million), compared with a purchase price of PLN 56 million in 2001 (please see Page 8).

### First waste deliveries from Italy

Since mid-June 2008, waste volumes from Naples have been delivered in sealed containers by rail to the waste-to-energy plant MVV TREA Leuna GmbH. In response to the request made by the Italian government, the Federal Government and several federal states have declared themselves willing to import the waste to help alleviate the waste emergency in Naples. A total of 12 600 tonnes is to be delivered over a period of ten weeks.

**Performance Comparison of the MVV Energie AG Share (ISIN DE000A0H52F5)**




MVV Energie AG
SDAX
DAXsector Utilities

## The Share of MVV Energie AG

### Share unaffected by ongoing turbulence on capital markets

International financial markets continued to be negatively affected by a whole series of adverse business and economic news during the quarter under report from April to June 2008. Markets were correspondingly volatile, with a clear downward trend. The implications of the subprime crisis and resultant fears of recession in America, high commodities prices, new all-time highs in the oil price of around $ 140 per barrel and high rates of inflation in the euro area – all these factors contributed towards the DAX German stock index losing around 20 % of its value since the beginning of 2008. The share of MVV Energie AG has maintained its ground extraordinarily well in this difficult market climate.

Our share price rose year-on-year to Euro 32.91 as of 30 June 2008, an increase of 5.5 % compared with the quarterly reporting date on 30 June 2007. Including the calculative subscription right discount of Euro 1.09 per share due to the capital increase in October 2007 and the distribution of a dividend of Euro 0.80 per share in March 2008, the performance of our share during the period under report even amounted to 12.5 % (see share performance chart). The comparative indices showed disparate developments: while the DAXsector Utilities (previously Prime Utilities) improved by 5.8 %, the SDAX fell by 34.5 %.

At Euro 33.75 in XETRA trading, our share reached its highest closing price during the quarter under report – also marking its all-time high to date – on 9 June 2008, while the lowest closing price was recorded on 14 April 2008 at Euro 30.09. Trading volumes in the shares of MVV Energie AG declined from an equivalent value of Euro 78 million in the third quarter of the previous year to Euro 25 million in the 3rd quarter of 2007/08 (– 68 %).

The increase in the share price and thus in the market capitalisation of MVV Energie AG to more than Euro 2 billion reflects the high degree of trust placed by the capital market and shareholders in the growth strategy of the MVV Energie Group. The market capitalisation amounted to Euro 2 169 million on 30 June 2008 and was thus Euro 430 million (+ 25 %) higher than at the equivalent date in the previous year.

### Share coverage extended

In June 2008, DZ Bank, the central bank for the cooperative banking association, included MVV Energie's share in its share coverage. DZ Bank began its research coverage with a "buy" investment recommendation and a fair value of Euro 36 for the share. This means that our share is now regularly monitored by eight banks in total. Our Investor Relations department is working continually on extending research coverage for the share of MVV Energie AG.

# Business Framework

## Market climate

The North Sea Brent oil price continued to rise in the second quarter of 2008, reaching a new record high of \$ 137.97 per barrel. Average prices rose by 27 % to \$ 121.98 per barrel, up from \$ 96.02 per barrel in the previous quarter. Compared with the equivalent quarter in the previous year, the price increase even amounted to 78 % (average price in second quarter of 2007: \$ 68.64 per barrel). Natural gas was quoted at Euro 42.89/MWh on the Zeebrugge market at the end of the quarter (30 June 2008). This corresponds to a 53 % price increase compared with the previous quarter. The gas price is thus following the course taken by the oil price with a certain displacement in time. The EEX gas price tracked the development in Zeebrugge prices, albeit at a somewhat lower overall level. The price of hard coal (anthracite) rose by more than 70 % since the beginning of April 2008 to reach peak values of \$ 211.75 and \$ 209.25 per tonne for deliveries in the 2009 and 2010 calendar years respectively. Among other factors, this price increase is due to increased global demand, coupled with limited production and transport capacities in some of the most important producer countries.

The price of $CO_2$ emissions certificates for 2008 rose by 28 % to Euro 28.75 per tonne of $CO_2$ in the quarter under report. The development in $CO_2$ prices is currently being driven in particular by political developments, such as the prospects for an international post-Kyoto agreement.

The rise in prices on the commodities and $CO_2$ markets led electricity prices for the 2009 and 2010 calendar years to increase massively in the second quarter of 2008. Electricity prices reached record highs of Euro 88.00/MWh and Euro 87.20/MWh at 30 June 2008 and were thus around 39 % higher than at the end of the previous quarter. Average spot market electricity prices rose by almost 16 % to Euro 65.54/MWh during the quarter under report.

## Energy policy developments

In June, the German government passed legislation for key parts of the implementation measures resulting from the "Integrated Energy and Climate Programme" (IECP) adopted by the Federal Government in August 2007. By providing considerable pressure to achieve greater energy efficiency and $CO_2$-reduced generation, the IECP will significantly accelerate the process of structural change within the energy industry in the coming years. With the new renewable energy subsidy regulations for the electricity business (Amendment to German Renewable Energy Act – EEG), the government intends to provide strong incentives for the construction of small-scale plants and development of offshore wind farms and geothermal projects. By explicitly legislating for the intermittent sale of renewable energy volumes on the regular electricity markets, the amended Renewable Energy Act also provides incentives to enhance the integration of renewable energy forms within the overall energy markets. Further major issues, however, especially the reform of the Renewable Energy Act allocation mechanism, still have to be conclusively clarified by way of ordinance.

Depending on the technology involved, the Federal Government has further stipulated proportionate obligations to cover heating requirements from renewable energies, amounting to between 15 % (solar thermal energy) and 50 % (geothermal, ambient heat). These apply to new buildings and larger-scale renovations; federal states may introduce their own regulations for existing buildings. The state government in Baden-Württemberg has indicated its intention of upholding the regulations already in place for existing buildings in the state.

The IECP has led to a political renaissance in the use of district heating in conjunction with the resource-saving process of cogeneration. The programme recognises the supply of heating energy from cogeneration/district heating as a substitute measure when meeting renewable energy use requirements. The Federal Government has also set aside a budget of up to Euro 750 million per year to promote the construction and modernisation of cogeneration plants and to expand the district heating grids connected to such. Additional new regulations include stipulations for the feed-in of biogas, increasing the requirements placed in the energy efficiency of new buildings, liberalising metering and introducing intelligent meters for new buildings.

The MVV Energie Group already relied in the past on the resource-efficient cogeneration process to produce electricity and heating energy and has consistently extended its commitment to renewable energies and energy-related services. Based on this longstanding experience in those areas now benefiting from political promotion, we see ourselves as being well-prepared to meet future challenges.

**External Sales and EBIT of the MVV Energie Group by Segment First Nine Months, 1.10. – 30.6.**

| | External Sales | | | EBIT | | |
|---|---|---|---|---|---|---|
| Euro million | **2007/2008** | 2006/2007 | % change | **2007/2008** | 2006/2007 | % change |
| Electricity | 1013 | 833 | + 22 | 252 | 47 | + 436 |
| District heating | 265 | 229 | + 16 | 56 | 58 | – 3 |
| Gas | 306 | 298 | + 3 | 43 | 18 | + 139 |
| Water | 77 | 78 | – 1 | 10 | 12 | – 17 |
| Value-added services | 216 | 186 | + 16 | 12 | 14 | – 14 |
| Environmental energy | 147 | 139 | + 6 | 65 | 56 | + 16 |
| Other/consolidation | 18 | 6 | + 200 | 1 | — | + 100 |
| | **2 042** | **1769** | **+ 15** | **439** | **205** | **+ 114** |

# Earnings Position

## Substantial sales and earnings growth

The *external sales* of the MVV Energie Group (excluding electricity and natural gas tax) rose by Euro 273 million (+ 15 %) to Euro 2 042 million in the first nine months of 2007/08. Third-quarter sales also showed double-digit growth of + 13 %. We achieved substantial growth in nationwide electricity sales to industrial and commercial customers. Cooler weather conditions in the 2007/08 winter period and April 2008 compared with unusually mild weather in the previous year led to strong volume growth in the district heating business. This was countered in the gas business by a decline in volumes due to competition, resulting in reduced sales in the secondary distribution and key account businesses. Sales growth in the value-added services segment was driven in particular by success in the industrial and real estate contracting market.

It should be noted that the earnings performance of the electricity segment includes substantial positive extraordinary items due to the revaluation of energy trading transactions and $CO_2$ certificates following the drastic increase in electricity prices in the period under report. The development in earnings in the value-added services segment was affected by the high one-off income of around Euro 6 million arising upon the initial consolidation of Industriepark Gersthofen Servicegesellschaft mbH & Co. KG (IGS) in the previous year. The positive performance of the environmental energy segment was mainly due to the new Leuna II waste-to-energy plant. Of total sales in the first nine months of 2007/08, 95 % were generated in Germany and 5 % in other countries.

*Cost of materials* rose year-on-year by Euro 180 million (+ 15 %) to Euro 1 374 million in the first nine months. This marked increase was due to higher energy procurement costs in the electricity, district heating and gas businesses. In terms of materials procurement, part of the overall increase in market prices could be absorbed, notably by intensifying supplier management and by pooling procurement activities across the locations in our municipal utility network.

*Personnel expenses* fell year-on-year by Euro 8 million (– 3 %) to Euro 223 million. This was mainly due to the discontinuation of prorated charges for provisions stated in the previous year for the socially responsible reduction in the workforce at the Kiel, Mannheim and Solingen locations (Euro 13 million). Moreover, this item no longer includes personnel expenses at the Polish shareholding in Bydgoszcz (KPEC), which was deconsolidated in July 2007. These factors more than offset the additional costs resulting from wage and salary increases.

**Sales Volumes of the MVV Energie Group[1]**

**First Nine Months, 1.10. – 30.6.**

| | **2007/2008** | 2006/2007 | % change |
|---|---|---|---|
| Electricity in kWh million | 18131 | 18150 | — |
| of which wholesale[2] | 9739 | 10407 | – 6 |
| of which retail[2] | 8392 | 7743 | + 8 |
| District heating in kWh million | 6344 | 5427 | + 17 |
| Gas in kWh million | 8115 | 8122 | — |
| Water in $m^3$ million | 41.6 | 41.7 | — |
| Combustible waste delivered in tonnes 000s | 1170 | 1025 | + 14 |

[1] total volumes of all segments

[2] corrections in previous year's figures

## Key items in the income statement

Alongside the pleasing operating business performance, the development in key operating earnings figures was affected by positive extraordinary items resulting from the recognition of derivative financial instruments under IAS 39 (2004). These relate in particular to the valuation at the reporting date of energy trading transactions (commodities futures) requiring physical delivery by means of supplies in the coming months. The rapid rise in commodities and energy prices meant that this factor had an unusually marked impact in the 3rd quarter of 2007/08. The net positive impact under IAS 39 of valuation-dependent, non-cash income *(other operating income)* and valuation-dependent, non-cash expenses *(other operating expenses)* on the EBITDA, EBIT and EBIT figures amounted to Euro 144 million in the 3rd quarter (previous year: Euro 14 million) and Euro 188 million in the first nine months of 2007/08 (previous year: Euro 7 million). To enhance transparency, the key figure overview for the year under report and the previous year also includes these earnings figures stated before IAS 39. These adjusted figures represent for us the most meaningful indication of our earnings performance.

**Operating earnings before interest, income taxes, depreciation and goodwill amortisation (EBITDA) before IAS 39** rose year-on-year by 35 % to Euro 91 million in the 3rd quarter and by 18 % to Euro 358 million in the first nine months.

**Operating earnings before interest and income taxes (EBIT) before IAS 39** increased from Euro 32 million to Euro 57 million in the 3rd quarter and from Euro 198 million to Euro 251 million in the first nine months of 2007/08.

The improvement in earnings was due in particular to the electricity, gas and environmental energy segments. Further information can be found in the explanations provided on Page 5, developments in the business segments (Page 16 onwards) and the notes to the interim consolidated financial statements for the first nine months of 2007/08 (Page 27 onwards).

The negative **net financing expenses** figure (net balance of financing income and financing expenses) improved by around Euro 1 million to Euro – 14 million in the quarter under report and by around Euro 5 million to Euro – 52 million in the first nine months. This was mainly due to reduced financial liabilities and to increasing numbers of contracting transactions being treated as finance leases.

**Earnings before taxes (EBT)** rose by Euro 157 million to Euro 187 million in the 3rd quarter and by Euro 239 million to Euro 387 million in the first nine months of 2007/08. These figures also benefited from the IAS 39 valuation item. The improvement in EBT led to an income tax charge of Euro 117 million in the first nine months of 2007/08, compared with Euro 58 million in the same period in the previous year. The effective tax rate amounted to 30.3 % in the first nine months of 2007/08, as against 39.0 % one year earlier. This decline was chiefly due to the reduction in corporate income and trade tax rates in the year under report on account of the 2008 corporate tax reform.

After income taxes and higher minority interests, the MVV Energie Group posted a **net surplus for the period after minority interests** (share of earnings allocable to shareholders in MVV Energie AG) of Euro 128 million in the 3rd quarter (previous year: Euro 20 million) and of Euro 247 million in the first nine months of 2007/08 (previous year: Euro 78 million).

On this basis, the MVV Energie Group generated **earnings per share** of Euro 1.95 in the 3rd quarter (previous year: Euro 0.35) and of Euro 3.80 in the first nine months of 2007/08 (previous year: Euro 1.40). Alongside the positive IAS 39 valuation item, it should be noted that the average weighted number of individual shares rose from 55.8 million to 65.9 million in the 3rd quarter and from 55.8 million to 65.1 million in the first nine months of 2007/08 as a result of the capital increase in October 2007.

The Group's future earnings will continue to be affected by fluctuations in the fair value of energy trading transactions, depending on developments in the price and volumes of transactions requiring recognition under IAS 39. Our energy trading department does not expect the high prices seen at the end of the quarter (June 2008) to remain so permanently. The impact of the IAS 39 item may therefore lessen over time. Irrespective of these valuation items, seasonal factors mean that weaker earnings are expected across the entire Group in the remaining 4th quarter of 2007/08. This is due to the virtual absence of sales contributions from the heating energy business and to our companies focusing their inspection and construction measures on the summer months of July to September.

## Earnings position of major shareholdings

Our municipal utility shareholdings in Germany and district heating shareholdings in Poland and the Czech Republic generated combined sales of Euro 917 million prior to consolidation (previous year: Euro 795 million) and operating earnings (EBIT) of Euro 143 million (previous year: Euro 88 million) in the first nine months of 2007/08.

At **Stadtwerke Kiel AG (SWK),** sales rose year-on-year by 14 % to Euro 328 million in the first nine months. This growth was chiefly driven by a weather-related upturn in district heating and gas turnover and by higher electricity sales. Operating earnings (EBIT) increased by Euro 18 million to Euro 45 million, of which Euro 4 million involved the reporting date valuation of energy trading transactions under IAS 39. The sharp rise in EBIT excluding IAS 39 was due in particular to the positive impact of weather conditions and the discontinuation of personnel provisions stated in the previous year. Moreover, the accrual of consumption also had a beneficial impact on earnings. Farreaching regulatory intervention will require ongoing strict cost management and further efficiency enhancements. The company is continuing to implement its "SWK 2015" project aimed at boosting its competitiveness. The systematic expansion of sales to key account and business customers outside the company's own grid region has shown initial success. The investment decision for the construction of a joint coal-fired power plant with E.ON has been postponed by three years. Stadtwerke Kiel has thus complied with the recommendation made by independent investigations on the construction of the new power plant.

Sales at **Energieversorgung Offenbach AG (EVO)** rose by 16 % to Euro 312 million, while EBIT rose year-on-year by Euro 15 million to Euro 49 million in the first nine months. Of this improvement, Euro 14 million involved the reporting date valuation of energy trading transactions under IAS 39. Higher earnings contributions excluding IAS 39 in the electricity segment were countered by reduced district heating earnings due to an unscheduled prolonged inspection at the cogeneration plant. Since beginning to supply natural gas in the district in January 2008, EVO's Gasversorgung Offenbach GmbH subsidiary has acquired more than 500 new customers, who will obtain their electricity and natural gas from a single source in future. Starting in July 2008, further municipalities will be able to procure natural gas from EVO. The business customer campaign launched in the quarter under report and the extension of the online service, which provides customers with rapid access to information on their energy consumption and costs via EVO's homepage, have been warmly received.

Due mainly to higher electricity and gas revenues, sales at our share-holding **Stadtwerke Solingen GmbH (SWS)** increased year-on-year by 16 % to Euro 86 million in the first nine months, while EBIT rose by Euro 6 million to Euro 13 million. The reporting date valuation of energy trading transactions with 24/7 Trading GmbH under IAS 39 benefited earnings to the tune of Euro 1 million. The gas price increases on the procurement side were passed on to fixed-rate customers with a price adjustment as of 1 June 2008. Final, positive decisions were taken by the relevant bodies during the quarter under report in connection with the planned Rheinisch-Bergisch municipal utility association due to be launched as of 1 January 2009.

Sales at Stadtwerke Ingolstadt Beteiligungen GmbH (SWI) rose year-on-year by 10 % to Euro 74 million in the nine-months under report, while EBIT grew by Euro 4 million to Euro 11 million. The reporting date valuation of energy trading transactions with 24/7 Trading GmbH under IAS 39 resulted in a positive earnings item of Euro 1 million. The improvement in earnings was driven by the electricity and gas segments. Earnings at the gas segment benefited from weather conditions and from increased demand for gas from large industrial customers. By order dated 20 June 2008, the Antitrust Senate of the Munich Appeals Court rejected the appeal filed by gas price opponents as unfounded. The verdict passed by Ingolstadt District Court on 22 January 2008 is thus legally binding.

At Köthen Energie GmbH, sales rose by 19 % to Euro 11 million and EBIT by 27 % to Euro 1.6 million in the first nine months of 2007/08. This growth was chiefly due to increased gas turnover due to weather conditions. Given the development in the heating oil price, natural gas, district heating and contracting rates were raised as of 1 April 2008.

Sales at the Czech subgroup grew by Euro 26 million to Euro 79 million (+ 50 %) in the first nine months of 2007/08, while EBIT improved by 79 % to Euro 18 million. The district heating company Teplárna Liberec a.s. and district heating systems in the neighbouring towns of Litomerice, Louny und Mimon, which have been consolidated since January 2007, generated EBIT of Euro around 4 million in the first nine months of 2007/08. New management and reporting structures are being put in place and working processes standardised in the course of the further integration of this company and the district heating systems. The shareholdings of the wholly-owned subsidiary MVV Energie CZ s.r.o. have raised their district heating prices to account for the new ecological tax and increase in VAT on district heating supplies from 5 % to 9 % as of 1 January 2008. Exchange rate fluctuations mean that the sharp rise in natural gas and oil prices seen in 2008 have impacted only in part on the district heating generated in natural gas and oil-fired boilers.

The year-on-year comparison of sales and earnings at the Polish subgroup in the first nine months is impeded by the transitional consolidation of the shareholding in Bydgoszcz (KPEC) from July 2007. In the quarter under report, the City of Bydgoszcz bought back the shares acquired by MVV Energie in the municipal district heating company KPEC in 2001. MVV Energie generated proceeds of around PLN 70 million (equivalent to around Euro 21 million) on the sale, compared with a purchase price of PLN 56 million in 2001. We expect to be able to complete our withdrawal from the Polish markets before the end of the current financial year.

## Shared service companies

As a grid operator, 24/7 Netze GmbH is responsible for the sustainable operation of the grids leased from the MVV Energie AG and EVO parent companies. As well as assuring the quality of the grids, the company also has to meet the rate of return expected by its shareholders. The Federal Networks Agency has granted approvals for the second fee applications for the electricity grids in Mannheim and Offenbach with effect from 1 April 2008, as well as for the local gas distribution grid in Mannheim from 1 June 2008. The approvals granted in the first cost approval round have been extended for the regional gas distribution grid in Mannheim and the gas distribution grid in Offenbach. The costs thereby approved also form the basis for the incentive regulation due to begin on 1 January 2009.

Given its strategic positioning as the exclusive energy trading unit for the MVV Energie Group, from its locations in Mannheim and Kiel 24/7 Trading GmbH plays the key role in the Group's energy procurement and marketing activities in the wholesale market. The sharp rise in primary energy prices has also affected electricity and emissions rights. In view of this development, price hedging contracts are continuing to gain in significance. The company's product range includes electricity trading, certified green electricity products, natural gas, emissions rights, environmental certificates and financial products. Gas trading activities will be significantly expanded in future.

**24/7 Metering GmbH** continues to develop positively in terms of its business performance. We expect new business to result from the liberalisation of the metering business by the Federal Government. Strategic, process-related and technical foundations are being laid within the “Metering” project to enable the company to offer marketable metering products and services across all divisions within and outside its own grid region from 2009 onwards.

The main task of **24/7 IT-Services GmbH** involves structuring the IT costs of the MVV Group on a sustainable basis. This objective is to be achieved on the one hand by pooling expertise and technology and on the other by consolidating and standardising the Group’s IT infrastructure and applications.

MVV Energie AG has pooled all of its customer services activities at **24/7 United Billing GmbH,** which currently handles more than 1.1 million customer agreements. Its product portfolio covers the entire customer management process, from initial installation to invoicing to ongoing telephone and personal support. Within the framework of a strategy project, the company is currently working together with its clients to optimise not only internal operating processes, but also all core customer-relevant business processes across all companies. This will generate further efficiency enhancements and quality improvements, thus doing justice to both market and customer requirements.

The insurance services of MVV Energie AG, Stadtwerke Kiel AG and EVO are pooled at **24/7 Insurance Services GmbH.** In the first months of its business operations, 24/7 Insurance Services GmbH has established itself as the exclusive provider and broker of insurance services within the MVV Energie Group.

# Net Asset and Financial Position

## Asset and capital structure

The *total assets* of the MVV Energie Group rose to Euro 4.16 billion as of 30 June 2008, up Euro 888 million (+ 27 %) on the reporting date at the end of the past 2006/07 financial year (30 September 2007).

On the asset side, *non-current assets* increased by Euro 366 million to Euro 2.85 billion (+ 15 %), while *current assets* rose by Euro 522 million to Euro 1.32 billion (+ 65 %). The marked increases since the reporting date on 30 September 2007 are due in both cases to positive fair values of energy trading transactions requiring recognition under IAS 39. These in turn were chiefly the result of the sharp rise in market prices up to the end of the quarter. We have reported derivative financial instruments as current or non-current in line with their respective maturities for the first time in the year under report. In view of the data available, no corresponding adjustments have been made to the previous year’s figures. *Property, plant and equipment*, which account for 69 % and thus the major share of non-current assets (previous year: 78 %), rose by Euro 16 million to Euro 1.95 billion.

Alongside the positive fair values under IAS 39, reported under *other receivables and assets*, the rise in *current assets* was also attributable to higher *accounts receivable*. Mainly as a result of higher sales volumes, these rose to Euro 571 million, up Euro 141 million on 30 September 2007. The volume of receivables has reduced by Euro 57 million compared with the previous quarter (31 March 2008). The “assets held for sale” item includes those assets of the Polish subgroup remaining after the sale of the KPEC shares. These are also due to be sold in the current 2007/08 financial year.

On the liabilities side, the *equity* of the MVV Energie Group rose to Euro 1.36 billion, up Euro 451 million (+ 49 %) on 30 September 2007. As a result of the capital increase in October 2007, the *share capital* and the *capital reserve* have risen by Euro 26 million and Euro 200 million respectively. Moreover, the higher volume of *equity* is also due to the significant improvement in nine-month earnings in 2007/08.

Compared with the reporting date on 30 September 2007, *non-current debt* rose by Euro 142 million (+ 10 %) to Euro 1.52 billion, while *current debt* grew by Euro 295 Mio Euro (+ 30 %) to Euro 1.28 billion. In this case as well, the development in both current and non-current debt was affected by energy trading transactions recognised under IAS 39 (negative fair values). The equity ratio rose from 27.9 % as of 30 September 2007 to 32.8 %. Further details have been provided in the notes to the interim consolidated financial statements from Page 27 onwards.

## Investments

The MVV Energie Group invested a total of Euro 166 million in the first nine months of 2007/08 (previous year: Euro 185 million). Of this sum, Euro 142 million was invested in *intangible assets, property, plant and equipment and investment property* (previous year: Euro 105 million), while Euro 24 million was channelled into the *acquisition of fully and proportionately consolidated companies* and *other financial assets* (previous year: Euro 80 million).

*Investments in intangible assets, property, plant and equipment and investment property* mainly involved investments in the high-growth environmental energy and energy-related services divisions. Investments in the environmental energy segment focused on the construction of the new waste-fired boiler 6 at the waste incineration plant in Mannheim. One focus of investment in the value-added services segment was the construction of the industrial power plant in Korbach, where trial operations are currently underway. Investments in the core business fields mainly focused on optimising utility plants and distribution grids. Work continued at the Kiel subgroup on the construction of the third gas cavern. The renovation of the head office building of MVV Energie AG in Mannheim was completed on schedule in February 2008.

## Financial position

Non-current and current *financial liabilities* fell to Euro 1.27 billion, down Euro 145 million on the previous year's reporting date (30 September 2007). The net financial liabilities (financial liabilities less cash and cash equivalents) of the MVV Energie Group fell by Euro 150 million to Euro 1.16 billion in the nine months under report.

Starting in the 1st quarter of the 2007/08 financial year, we have reported *interest received, interest paid, net interest expenses and income taxes paid* as separate line items in the cash flow statement. Unlike the procedure adopted in the previous year and at the reporting date on 30 September 2007, within the *cash flow from operating activities* we have reported the item *cash flow before working capital and taxes* for the first time. To facilitate comparison, we have adjusted the figures for the first nine months of the previous year. The cash flow as per DVFA/SG is no longer reported.

The *cash flow before working capital and taxes* rose year-on-year from Euro 312 million to Euro 354 million in the first nine months. This was due in particular to the higher level of net income for the period, while other non-cash income and expenses showed opposing developments. The sharp changes in *other asset and liability items*, caused in particular by the positive and negative fair values of energy trading transactions recognised under IAS 39 and by the increase in *accounts receivable*, resulted in a *cash flow from operating activities* of Euro 168 million in the first nine months, as against Euro 235 million in the comparable period in the previous year. The deduction of *investments in intangible assets, property, plant and equipment and investment property* leads to a *free cash flow* of Euro 26 million for the first nine months of 2007/08 (previous year: Euro 130 million).

In spite of the inflow of funds of Euro 226 million from the capital increase in October 2007, the *cash flow from financing activities* was negative once again at Euro – 43 million in the nine months under report, but less so than in the previous year (Euro – 115 million). This was due on the one hand to a lower volume of loans being taken up and on the other to a year-on-year increase in loan repayments and dividend payments.

Detailed information about the company's financial position can be found in the cash flow statement in the interim consolidated financial statements (Page 25) and the notes to the interim consolidated financial statements (from Page 27).

| Personnel Totals | **2007/2008 30. 6. 2008** | 2007/2008 31. 3. 2008 | 2006/2007 30. 6. 2007 | Change on 30. 6. 2007 |
|---|---|---|---|---|
| MVV Energie AG [1] | 1 495 | 1 497 | 1 524 | – 29 |
| Fully consolidated shareholdings | 3 762 | 3 739 | 3 749 | + 13 |
| **MVV Energie AG with fully consolidated** | **5 257** | 5 236 | 5 273 | – 16 |
| Proportionately consolidated shareholdings | 1 010 | 1 025 | 1 556 | – 546 |
| **MVV Energie Group [2]** | **6 267** | 6 261 | 6 829 | – 562 |
| External personnel at Mannheim waste-to-energy | 29 | 34 | 43 | – 14 |
| | **6 296** | 6 295 | 6 872 | – 576 |

[1] including 53 employees of MVV RHE AG (previous year: 55)

[2] including 342 trainees (previous year: 358)

# Employees

## Year-on-year decline in personnel

The total workforce of the MVV Energie Group declined year-on-year by 576 to 6 296 employees. This reduction is chiefly attributable to KPEC, the Polish shareholding in Bydgoszcz proportionately consolidated until 30 June 2007 and then deconsolidated as of 1 July 2007. The Kiel and Offenbach subgroups also reported reduced personnel totals. This development was countered in line with our strategy by growth in the workforces in our two high-growth fields of environmental energy and energy-related services. The companies SECURA Energie GmbH and MVV Energiedienstleistungen GmbH & Co. KG IK (Industriekraftwerk) Korbach have been reported for the first time with proprietary employees. The number of external personnel at the Mannheim waste-to-energy plant declined on schedule. At 30 June 2008, the MVV Energie Group had a total workforce (including external personnel) of 5 217 employees in Germany and 1 079 employees abroad.

## Certificate for family-friendly personnel policies

On 30 June 2008, Hans-Jürgen Farrenkopf, Personnel Director at MVV Energie AG, received a certificate from Ursula von der Leyen, Federal Minister for Families, the Elderly, Women and Young People, and Jochen Homann, Undersecretary of State at the Federal Ministry of Economics and Technology, on behalf of the company for successfully taking part in the "job and family audit". The family-friendly personnel policies at MVV Energie, aimed at enabling employees to better combine their professional and family commitments, have thus been recognised.

# Research and Development

## Smart metering at the MVV Energie Group

The MVV Energie Group aims to proactively exploit the liberalisation of the metering sector adopted by the Federal Parliament to acquire new customers for its metering business outside its own grid regions as well from 2009 onwards. At the same time, we aim to build on innovative concepts to assume product leadership in our own grid regions. With field trials already launched several months ago, we have taken a pioneering role in terms of "smart metering" in German-speaking countries. By July 2008, more than 130 electronic meters were already installed with our field trial customers at our Mannheim, Kiel and Offenbach locations. We are the first company in Germany to offer customers multidivisional visualisation on an hourly basis and the monthly invoicing of actual energy consumption. This trial phase, which is subdivided into several stages, will enable us to meet the strategic, process-related and technical requirements for Germany's first marketable multidivisional metering product.

## Planned construction of biogas plant for the fermentation of non-recyclable material

Major procurement and location issues relating to the planned construction of a biogas plant in the Rhine/Neckar metropolitan region were clarified in a feasibility study during the quarter under report. Our aim is to introduce an additional working step to convert biomass which has already fermented into raw biogas into bio-natural gas and then to supply this to our customers via existing natural gas grids. The feed-in technologies available on the market represent the next key success factor to be reviewed and evaluated.

# Opportunity and Risk Report

### Overall risk situation relaxed throughout first three quarters

The group-wide systematic risk management system in place at the MVV Energie Group represents a key instrument of the company's management. It serves to identify any potential risks to the company's continued existence at an early stage and to optimise our business activities.

The business performance of the MVV Energie Group is affected by the two external factors of weather conditions and regulation, as well as by fluctuations in the prices of primary energy sources on the global markets. Weather-dependent volumes developed virtually on schedule in the course of the heating period up to the end of the 3rd quarter of 2007/08. Only a few assessment notices are still outstanding in the current grid fee regulation round, which means that this factor should also no longer give rise to any major risk items in the current financial year. The rapid increase in global market prices for coal, oil and other primary energy sources is being closely monitored, as is its implications for our business performance figures, with the resultant risks being hedged against. Overall, the company's risk situation during the first three quarters of the 2007/08 financial year can therefore be deemed as relaxed in spite of these three major areas of risk.

No further risk categories were added in the 3rd quarter of 2007/08 to the six categories listed in previous financial reports (strategic risks, legal risks, financial risks, price risks, volume risks and operating risks). As in previous reporting periods, the MVV Energie Group was not exposed during the quarter under report to any risks which could have endangered the continued existence of the company or which could do so in future.

# Events After the Balance Sheet Date

### Electricity grid at Mannheim Commercial Port acquired

Following two years of successful operations management, MVV Energie AG acquired ownership of the medium and low voltage grid at Mannheim Commercial Port, one of Europe's largest inland ports, as of 1 July 2008. The grid operator is our grid company 24/7 Netze GmbH, which will be able to efficiently enhance the grid by completely integrating operations management for the port grid into its processes. The acquisition of the electricity grid, which has a length of 40 kilometres and is located at the heart of our catchment area, is of great strategic importance for us. The total of around 480 companies located at the port consumed around 14 million kWh of electricity in 2007.

### New cogeneration plant at Ludwigshafen South industrial park

On 21 July 2008, MVV Energiedienstleistungen commenced operations at a new gas-driven cogeneration plant at the Ludwigshafen South industrial park (output: 13 MW electrical and 7 MW thermal energy; cost of investment: Euro 7.5 million). The plant will generate an annual total of 40 GWh electricity for the public grid and 15 GWh of steam for three large industrial customers.

### Dr. Rudolf Schulten to leave MVV Energie AG

On 30 July 2008, Dr. Rudolf Schulten, CEO of MVV Energie AG, requested the Chairman of the Supervisory Board, Dr. Peter Kurz, to prematurely terminate his employment contract, which runs until 30 September 2013. He intends to assume a leading role elsewhere in the German energy sector from 1 January 2009. Dr. Kurz will recommend that the Supervisory Board comply with Dr. Schulten's request. At the same time, the Chairman of the Supervisory Board emphasised that the MVV Energie Group had developed superbly in recent years under the management of Dr. Schulten and that it was now a successful, autonomous municipal utility network and a leading player in terms of energy-related services and renewable energies. The MVV Energie Group would maintain this strategy. Dr. Schulten will continue to perform his existing duties up to his departure from the company.

# Outlook

## Future economic framework

The strong euro, high oil and energy prices and the crisis in the USA will not leave the Germany economy, which has been robust to date, entirely unaffected. In view of the marked rise in inflation to 4 %, the European Central Bank raised the prime interest rate in the first week of July 2008, a factor which can also be expected to reduce economic growth in the medium term. However, the earnings performance of the MVV Energie Group is basically less dependent on economic factors than on weather conditions and the development in prices on primary energy markets. According to estimates by the International Energy Agency (IEA), the oil market can be expected to remain tight in the coming five years due to growth in demand from emerging markets, meaning that no reversal in the current high price levels is to be expected in the near future.

The energy sector is in a process of transformation. Alongside increasing competition and grid regulation, the threat of climate change, dependence on increasingly scarce fossil fuels and the resultant rapid rise in commodities and energy prices are currently the dominant topics and key challenges in our sector. The implementation of ambitious political climate protection targets will have a permanent impact on energy supply systems. Viewed realistically, future energy requirements – even if we expand renewable energies, save energy and achieve efficiency enhancements – cannot be covered from renewable energy sources alone. In terms of the mixture of energy sources, we will not be able to do without fossil fuels in the coming decades.

## Regulation and competition

In future, grid operators will be assessed in terms of the most efficient operator and will have revenue targets imposed by regulatory authorities. These strict efficiency requirements will increase the pressure on costs at grid operators. Moreover, all companies in our sector are feeling the effects of a further intensification in competition both in the industrial and commercial customer business and in the private customer business.

## Strategic alignment in the coming years

Competitive and regulatory pressure will promote consolidation in our sector and lead to increased numbers of mergers and strategic partnerships between municipal utility companies. In view of our successful business model, which involves horizontally networking and integrating municipal utility companies, we see this development as harbouring more opportunities for us than risks. We intend to acquire further municipal utility companies should the opportunity arise and to offer partnerships and cooperations, such as those at the shared service companies now successfully established, in the interests of jointly enhancing efficiency and reducing costs.

We will exploit the opportunities arising from the measures adopted in the Federal Government's energy and environment programme. We see superb economic prospects for us as a municipal utility network, especially in the regional and municipal segments. Of the electricity generated at the plant we operate, 20 % already comes from renewable energy sources (notably biomass and biogenous waste) and a further 27 % is produced using cogeneration. The national average, by comparison, was only 14 % for renewable energy and 9 % for cogeneration in 2007.

Due to economic and ecological considerations, and in the light of climate protection targets and high energy prices, we will align our business strategy even more closely to the economical use of energy and commodities. We will focus in this respect on the range of attractive products, services and new technologies with which we support our customers in industry and business, the public sector and private households in their energy saving efforts.

## Expansion of nationwide electricity and gas sales

We intend to exploit the increase in competition to acquire customers from across the whole of Germany with attractive electricity and gas products. With our "SECURA-Ökostrom" product, we are the only national electricity provider to date to offer both 100 % green electricity and an "All-round Carefree Package" with an insurance built into the standard rate, which covers house installation problems and damages up to Euro 250 per year. In addition, all SECURA customers receive a power failure insurance policy covering damages up to a maximum of Euro 2 600 per case of damage, free of charge. When marketing "SECURA-Ökostrom", we are focusing on cooperations with nationwide sales partners. Initial cooperation agreements have already been concluded with Medienclub Bertelsmann, Gardena, Automobilclub von Deutschland (AvD) and SodaClub.

Nationwide marketing activities were launched on 1 March 2008 for our innovative "Gas Fund" product specially designed for medium-sized customers and chain store companies, thus enabling them to benefit in future from our experience in structured procurement. The Gas Fund pools customers' needs and procures the required volumes on the wholesale market. Gas supplies to the customers already acquired are due to start in October 2008.

## Expansion of district heating supply

The Rhine/Neckar metropolitan region already has one of the largest and most modern district heating grids in Germany. Based on the findings of a district heating study, the share of the region's heating market covered by district heating and renewable energies is to be raised over the next 20 years from its current level of 13 % to more than 40 %. It should be possible to reduce heating energy consumption by 21 % over the same period, even though the surface to be heated will rise by 20 %. The construction of the new block 9 at the large power plant in Mannheim (GKM), which received a large majority in the City Council, will form the basis for securing the supply of electricity in the long term and for the planned expansion of the environmentally-friendly district heating supply in Mannheim and the Rhine/Neckar metropolitan region.

GKM has now submitted the necessary approval application for the new block to the respective regional council department in Karlsruhe. A decision is expected in spring 2009. During the approval proceedings, the Lord High Mayor of the City of Mannheim, Dr. Peter Kurz, intends to maintain his policy of openness, transparency and public involvement.

## Market opportunities in the environmental energy and value-added services businesses

With the generation of energy from waste and biomass at our waste-to-energy plants and biomass power plants, we have become one of the market leaders for these renewable energy forms. In the environmental energy business, we assume that we will be operating the waste incineration plants at full capacity at all locations in the coming year as well. Construction work on the new waste-fired boiler 6 at the Mannheim location is running on schedule. The first waste fire is set to burn in the boiler, which will replace two older waste-fired boilers, in November 2009 already. By making acquisitions and entering cooperations, we aim to exploit new market opportunities for generating energy from waste and biomass.

We also see our energy efficiency expertise, which is based on long-standing experience, as representing a clear market advantage in our energy-related services business. The climate protection targets adopted by the Federal Government and high energy price levels have increased the need for efficient, environmentally-friendly energy concepts for industry, business and public sector organisations. When expanding our market position in the field of energy-related services, we will rely on a regional company structure.

## Earnings position and outlook for the remainder of financial year

The business segments not dependent on weather conditions are developing virtually on target. Sales volumes in the weather-dependent district heating and gas segments are up on the previous year, which was characterised by unusually mild weather conditions.

Based on the information currently available, we expect to achieve double-digit year-on-year growth in the sales (excluding energy taxes) and operating earnings before interest and taxes (EBIT before IAS 39) of the MVV Energie Group in the overall 2007/08 financial year.

## Research and development

Increasing competition and political climate protection targets are increasing the requirements placed in the development of innovative technologies, concepts and products. We will therefore be pressing consistently ahead with the "Smart Metering" and decentralised energy management ("Energy Butler") projects, as well as expanding the use of renewable energies in electricity and heating energy generation. The field trials currently underway will be continued, with the resultant findings being factored into the ongoing enhancement and optimisation of our future products. The great success of the consortium led by MVV Energie AG within the "E-Energy" technology competition promoted by the Federal Ministry of Economics and Technology will enable us to network the content of our research and development activities. The long-term vision of a future energy marketplace involved in the "Model City Mannheim" project will play a key role in determining our activities in coming years.

## Future risks

As outlined in the opportunity and risk report (Page 12), there are currently no indications of any risks which could threaten the continued existence of the company in the further course of the 2007/08 financial year.

## Cooperation with Technical College promotes next-generation talent

For growth-oriented companies such as the MVV Energie Group, the promotion of science represents an important means of securing suitable upcoming management staff in an increasingly competitive environment. The company has a successful cooperation in place with Mannheim Technical College, where it has endowed a professorial chair for ten years now. Graduates in the industrial engineering faculty received insights into the structure of energy markets, the optimal energy supply and the efficient use of energy by consumers. New study and research focuses also include practice-related technology and innovation projects undertaken in close cooperation with MVV Energie AG. Following the expiry of the endowed professorship in 2008, these educational modules will in future be integrated into the new master programmes. As a promising prospect for the future, it has therefore been ensured that the energy competence built up at the Technical College will continue to benefit our company and the Rhine/Neckar metropolitan region.

# Business Segments

## Developments in the Segments

| Electricity Segment<br>First Nine Months, 1.10. – 30.6. | 2007/2008 | 2006/2007 | % change |
|---|---|---|---|
| Electricity turnover in kWh million | 17 565 | 17 595 | — |
| of which wholesale/secondary distributors | 9 513 | 10 184 | – 7 |
| of which retail | 8 052 | 7 411 | + 9 |
| External sales in Euro million | 1 013 | 833 | + 22 |
| EBIT in Euro million | 252 | 47 | + 436 |
| EBIT before IAS 39 in Euro million | 68 | 40 | + 70 |

### Electricity segment – successful nationwide electricity sales

The MVV Energie Group has maintained its ground very well in the highly competitive electricity market. We reported year-on-year growth of 9 % in electricity turnover in the end customer (retail) business in the first nine months of the financial year. This was chiefly due to substantial volume growth of 12 % in the industrial and commercial customer business (special contract business) achieved by virtue of further interregional market success with the electricity fund models offered on a nationwide basis. Since 1 March 2008, our Electricity Fund customers have had the opportunity of combining the benefits of structured procurement with the supply of electricity from renewable energy plants. Electricity Fund volumes of 3.9 billion kWh have been acquired to date for the 2008 calendar year, while volumes of 5.5 billion kWh have already been acquired for 2009 and 2010. The electricity turnover of our group of companies with private and business customers (fixed-rate customers) declined by only 2 % to 1 502 million kWh. We are confronting the increasing dynamism in the electricity market by enhancing our electricity products in line with customers' needs.

The volume growth seen in the end customer business was offset by an almost equal decline in volumes in the wholesale electricity and secondary distribution business. Since spring 2007, all new energy trading transactions at our group of companies have been pooled at 24/7 Trading GmbH.

External sales (excluding electricity tax) increased year-on-year by Euro 180 million in the first nine months. This sharp growth of 22 % is chiefly due to price increases in the electricity trading business and in the private customer business at some of the municipal utility company shareholdings. This was supplemented by substantial volume growth and higher prices in the nationwide electricity business.

Operating earnings (EBIT) in the electricity segment include a large positive valuation item of Euro 184 million in connection with IAS 39. Following adjustment for this extraordinary non-cash item, the EBIT of the electricity segment rose by Euro 28 million to Euro 68 million in the first nine months. This marked improvement was driven by a large number of individual factors. Earnings from the generation of electricity at the large power plant in Mannheim (GKM) benefited in particular from non-period credits for grid construction costs saved at the transmissions grid operator in connection with the operation of this decentralised power plant, as well as from higher income from the invoicing of demand charges and the offsetting of generation costs with the district heating segment to secure the supply of heating energy to customers in Mannheim. Moreover, non-period income from the accrual of consumption for the past year and the discontinuation of prorated charges for personnel provisions stated in the previous year led to improved earnings contributions from the Kiel subgroup. The shareholdings in Solingen and Ingolstadt also reported improved segment earnings. These positive factors more than compensated for the downturn in margins due to the curtailing of grid utilisation fees and moderate pricing policies in Mannheim.

| District Heating Segment<br>First Nine Months, 1.10. – 30.6. | 2007/2008 | 2006/2007 | % change |
|---|---|---|---|
| District heating turnover in kWh million | 5134 | 4681 | + 10 |
| External sales in Euro million | 265 | 229 | + 16 |
| EBIT in Euro million | 56 | 58 | – 3 |

| Gas Segment<br>First Nine Months, 1.10. – 30.6. | 2007/2008 | 2006/2007 | % change |
|---|---|---|---|
| Gas turnover in kWh million | 7706 | 7702 | — |
| of which wholesale/secondary distributors | 1395 | 2100 | – 34 |
| of which retail | 6311 | 5602 | + 13 |
| External sales in Euro million | 306 | 298 | + 3 |
| EBIT in Euro million | 43 | 18 | + 139 |
| EBIT before IAS 39 in Euro million | 39 | 18 | + 117 |

## District heating – EBIT falls in spite of sales growth

April 2008 was notably cooler than April 2007, which saw midsummer temperatures in some cases. This led the growth in district heating turnover to accelerate from + 8 % in the 1st half of 2007/08 to + 10 % in the first nine months of 2007/08. This volume growth, coupled with price factors mainly involving clause-related price adjustments, led district heating sales to grow year-on-year by 16 % (Euro + 36 million) in the first nine months.

Notwithstanding this sales growth, operating earnings (EBIT) in the district heating segment declined year-on-year by Euro 2 million to Euro 56 million in the first nine months (– 3 %). The main reasons for this development were the prolonged inspection-related turbine downtime at the Offenbach cogeneration plant and higher charges in connection with the offsetting of generation costs with the electricity segment to secure the supply of district heating to customers in Mannheim. Output at the large power plant in Mannheim (GKM) has to be set aside for the generation of district heating, thus reducing the output available for electricity production. These charges and the increase in procurement prices could not be passed on to the same extent on the sales side.

## Gas segment – improved sales and earnings

Cooler weather conditions compared with the previous year led to volume growth (+ 13 %) in the end customer (retail) business of the gas segment as well. The decline in volumes in the lower-margin wholesale and secondary distribution business (– 34 %) was due, by contrast, to a competition-related downturn in supplies to secondary distribution municipal utility companies. We boosted our trading activities in the natural gas business and could thus compensate for part of this downturn. At 7.7 billion kWh, total gas turnover matched the previous year in the first nine months. Since April 2008, we have also offered our Gas Fund product, modelled on the basic features of the Electricity Fund, to industrial customers with annual consumption of 600 000 kWh upwards. A total of 32 new customers were already acquired during the quarter under report. Supplies are due to begin on 1 October 2008.

External sales rose year-on-year by 3 % to Euro 306 million in the first nine months. Extraordinary items resulting from the valuation of energy trading transactions as of the reporting date pursuant to IAS 39 had to be factored into the development in operating earnings (EBIT) for the first time. Following adjustment for this positive valuation item of Euro 4 million, the EBIT of the gas segment rose year-on-year by Euro 21 million to Euro 39 million in the first nine months. This strong growth was mainly the result of synergy effects and cost savings achieved on the procurement side, notably due to the activities of our trading company 24/7 Trading GmbH. Furthermore, the segment's earnings benefited from clause-related price increases on the sales side and from the discontinuation of prorated personnel provisions stated in the previous year at the Kiel subgroup and MVV Energie AG.

| **Water Segment First Nine Months, 1.10. – 30.6.** | **2007/2008** | 2006/2007 | % change |
|---|---|---|---|
| Water turnover in m³ million | 41.4 | 41.4 | — |
| External sales in Euro million | 77 | 78 | – 1 |
| EBIT in Euro million | 10 | 12 | – 17 |

| **Value-added Services Segment First Nine Months, 1.10. – 30.6.** | **2007/2008** | 2006/2007 | % change |
|---|---|---|---|
| Electricity turnover in kWh million | 275 | 264 | + 4 |
| Heating water turnover in kWh million | 579 | 117 | + 395 |
| Steam turnover in kWh million | 316 | 322 | – 2 |
| Gas turnover in kWh million | 409 | 420 | – 3 |
| Water turnover in m³ million | 0.2 | 0.3 | – 33 |
| External sales in Euro million | 216 | 186 | + 16 |
| EBIT in Euro million | 12 | 14 | – 14 |

## Water segment – decline in sales and EBIT

The development in turnover and sales in the water business was affected by the decline in consumption levels among private customers at MVV Energie AG, as well as in Offenbach and Solingen. This downturn in volumes could be compensated for in part by new sales volumes to private customers of the Czech shareholdings acquired in January 2007. All in all, sales volumes in the first nine months of 2007/08 were at the same level as in the previous year, while sales showed a slight year-on-year decrease of 1%.

Operating earnings (EBIT) in the water segment fell year-on-year by Euro 2 million to Euro 10 million in the first nine months. This was due to reduced sales and earnings contributions from the MVV Energie AG parent company and the Offenbach and Kiel subgroups. Energieversorgung Offenbach was affected by the reduction in water prices as of 1 July 2007.

## Value-added services segment – new contracting and biomass projects

Segment sales increased year-on-year by Euro 30 million to Euro 216 million in the first nine months (+ 16 %). This growth was chiefly attributable to the MVV Energiedienstleistungen subgroup, which boosted its sales in the period under comparison, largely by substantial growth in the municipal contracting business, from Euro 137 million to Euro 177 million. MVV Energiedienstleistungen Wohnen GmbH & Co. KG, Berlin, a company fully consolidated from the 4th quarter of 2006/07, made a major contribution in this respect. We also achieved higher sales in the industrial parks (industrial contracting) division.

In spite of increased sales, the segment EBIT declined year-on-year by Euro 2 million to Euro 12 million in the first nine months. When analysing this development, account has to be taken of the extraordinary income posted in the previous year upon the release of the negative difference from the initial consolidation of IGS Industriepark Gersthofen Service mbH & Co. KG (Euro 6 million). Excluding this extraordinary item in the previous year, the value-added services segment reported a year-on-year EBIT improvement of Euro 4 million in the first nine months.

| **Environmental Energy Segment First Nine Months, 1.10. – 30. 6.** | **2007/2008** | 2006/2007 | % change |
|---|---|---|---|
| Combustible waste delivered in tonnes 000s | 1 170 | 1 025 | + 14 |
| Electricity turnover in kWh million | 291 | 291 | – |
| Steam turnover in kWh million | 315 | 307 | + 3 |
| External sales in Euro million | 147 | 139 | + 6 |
| EBIT in Euro million | 65 | 56 | + 16 |

MVV Energiedienstleistungen maintained its course of rapid growth, especially in Berlin and Bavaria and in terms of new biomass cogeneration plant projects. Four large-scale savings contracting projects have now been implemented as part of the energy partnership with the Berlin Energy Agency (Deutsche Oper, Moabit prison, the FEZ Berlin Children's, Young People's and Family Centre in Wuhlheide and 30 schools and childcare facilities in Friedrichshain). Operations commenced at a new biomass heating plant in the district of Garmisch-Partenkirchen during the quarter under report. This plant, which has heating energy output of 0.850 MW and is fuelled by untreated forest and residual wood from the region, supplies Ettal Monastery and a nearby hotel with environmentally-friendly bioheat. Further information about new projects at MVV Energiedienstleistungen can be found on Page 2 and in the Outlook Report (Page 13 onwards).

We have enhanced and optimised internal structures and operating processes at MVV Energiedienstleistungen GmbH to enable us to reliably manage the growth in our energy-related services business.

## Environmental energy segment – sales and earnings growth

Sales in the environmental energy segment rose year-on-year by 6 % to Euro 147 million in the first nine months. The price-related decline in waste incineration revenues at the Mannheim location was more than compensated for, largely by initial sales at the second incineration line at the waste-to-energy plant in Leuna (Leuna II), which commenced operations in September 2007. Since mid-June 2008, the waste-to-energy plant in Leuna has been receiving additional waste deliveries by rail from Naples to help alleviate the waste crisis in that city. Of total segment sales for the first nine months of 2007/08, Euro 121 million (previous year: Euro 113 million) result from the incineration of non-recyclable waste at our locations in Mannheim, Offenbach and Leuna. As in the previous year, we generated sales of Euro 26 million from decentralised energy generation in the first nine months. Of this total, Euro 22 million (previous year: Euro 21 million) was attributable to the biomass power plants in Mannheim and Königs Wusterhausen.

Operating earnings (EBIT) in the environmental energy segment improved year-on-year by Euro 9 million to Euro 65 million in the first nine months. This increase is primarily due to initial earnings contributions from the new Leuna II non-recyclable waste incineration plant, improved earnings contributions from the biomass power plants and cost savings achieved by means of optimisation measures.

# Interim Consolidated Financial Statements

## Balance Sheet

**as of 30. 6. 2008**

| **Balance Sheet of the MVV Energie Group** Euro 000s | **30. 6. 2008** | 30. 9. 2007 | Notes |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Intangible assets | 316 518 | 325 077 | |
| Property, plant and equipment | 1 952 224 | 1 935 903 | |
| Investment property | 6 650 | 6 853 | |
| Other financial assets | 169 891 | 165 883 | 1 |
| Other receivables and assets | 398 171 | 42 784 | 2 |
| Deferred tax assets | 1 621 | 2 529 | |
| | **2 845 075** | **2 479 029** | |
| Current assets | | | |
| Inventories | 46 660 | 53 758 | 3 |
| Accounts receivable | 570 850 | 429 604 | 4 |
| Other receivables and assets | 513 435 | 155 817 | 2 |
| Tax receivables | 24 598 | 45 400 | 5 |
| Securities | 10 832 | 529 | 6 |
| Cash and cash equivalents | 103 820 | 99 583 | 7 |
| Assets held for sale | 50 267 | 13 839 | 8 |
| | **1 320 462** | **798 530** | |
| | **4 165 537** | **3 277 559** | |

| **Balance Sheet of the MVV Energie Group** Euro 000s<br>**Equity and liabilities** | **30. 6. 2008** | 30. 9. 2007 | Notes |
|---|---|---|---|
| Equity | | | 10 |
| Share capital | 168 721 | 142 764 | |
| Capital reserve | 455 241 | 255 523 | |
| Retained earnings | 251 537 | 236 604 | |
| Net earnings | 361 807 | 163 450 | |
| Capital of the MVV Energie Group | **1 237 306** | **798 341** | |
| Minority interests | 127 598 | 115 361 | |
| | **1 364 904** | **913 702** | |
| Non-current debt | | | |
| Provisions | 121 512 | 131 232 | |
| Financial liabilities | 899 010 | 1 044 781 | 11 |
| Other liabilities | 280 951 | 42 164 | 12 |
| Deferred tax liabilities | 217 401 | 159 015 | 13 |
| | **1 518 874** | **1 377 192** | |
| Current debt | | | |
| Other provisions | 156 221 | 206 992 | 14 |
| Tax provisions | 57 591 | 40 049 | 15 |
| Financial liabilities | 368 815 | 368 332 | |
| Accounts payable | 227 431 | 203 737 | |
| Other liabilities | 417 737 | 143 927 | 12 |
| Tax liabilities | 39 941 | 23 628 | |
| Liabilities held for sale | 14 023 | — | 16 |
| | **1 281 759** | 986 665 | |
| | **4 165 537** | 3 277 559 | |

# Income Statement

## from 1.10. 2007 to 30. 6. 2008

| Income Statement of the MVV Energie Group[1] Euro 000s | 3rd Quarter 1. 4. 2008 to 30. 6. 2008 | 3rd Quarter 1. 4. 2007 to 30. 6. 2007 | Nine Months, cumulative 1. 10. 2007 to 30. 6. 2008 | Nine Months, cumulative 1. 10. 2006 to 30. 6. 2007 | Notes |
|---|---|---|---|---|---|
| Sales | 665 355 | 587 012 | 2 168 806 | 1 873 725 | 18 |
| less electricity and natural gas taxes | 35 556 | 29 528 | 126 789 | 105 184 | |
| **Sales after electricity and natural gas taxes** | **629 799** | **557 484** | **2 042 017** | **1 768 541** | |
| Change in inventories | 785 | 1 994 | – 923 | 1 254 | |
| Capitalised own-account services | 3 052 | 859 | 7 466 | 12 170 | |
| Other operating income | 581 175 | 54 583 | 709 572 | 97 016 | 19 |
| Cost of materials[2] | 432 182 | 426 620 | 1 374 356 | 1 193 769 | 20 |
| Personnel expenses | 75 678 | 72 621 | 223 179 | 231 139 | |
| Other operating expenses[2] | 475 194 | 40 008 | 621 047 | 149 864 | 19 |
| Income from shareholdings measured at equity | — | – 868 | — | – 1 575 | |
| Other income from shareholdings | 3 550 | 6 613 | 6 056 | 7 773 | |
| EBITDA | **235 307** | **81 416** | **545 606** | **310 407** | |
| Depreciation | 33 861 | 35 933 | 106 594 | 105 696 | |
| EBITA | **201 446** | **45 483** | **439 012** | **204 711** | |
| Goodwill amortisation | — | — | — | — | |
| EBIT | **201 446** | **45 483** | **439 012** | **204 711** | |
| Financing income | 1 950 | 1 786 | 6 312 | 5 166 | |
| Financing expenses | 16 209 | 17 249 | 58 334 | 61 992 | |
| EBT | **187 187** | **30 020** | **386 990** | **147 885** | |
| Taxes on income | 51 225 | 9 493 | 117 160 | 57 675 | 21 |
| Net surplus for the period | **135 962** | **20 527** | **269 830** | **90 210** | |
| Minority interests | 8 062 | 864 | 22 339 | 11 893 | |
| Share of earnings allocable to shareholders in MVV Energie AG (net surplus for the period after minority interests) | **127 900** | **19 663** | **247 491** | **78 317** | |
| Basic and diluted earnings per share (Euro) | **1.95** | **0.35** | **3.80** | **1.40** | 22 |

[1] Changes in the first nine months of the previous year have been outlined under "Accounting policies"

[2] To ensure that proprietary electricity activities are reported consistently, the comparative figures for the previous year have been adjusted. An amount of Euro 27 million has been reclassified from cost of materials to other operating expenses. This amendment has not impacted on earnings.

# Statement of Changes in Equity

## from 1.10.2007 to 30.6.2008

| Statement of Changes in Equity<br>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 translation | Retained earnings: Fair value valuation of financial instruments | Net earnings | **Capital of the MVV Energie Group** | Minority interests | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1.10.2006** | **142 764** | **255 523** | **226 451** | **9 364** | **722** | **97 240** | **732 064** | **104 912** | **836 976** |
| Earnings recognised directly in equity | — | — | — | 1 280 | 1 814 | — | 3 094 | 1 206 | 4 300 |
| Net surplus for the period | — | — | — | — | — | 78 317 | 78 317 | 11 893 | 90 210 |
| | **—** | **—** | **—** | **1 280** | **1 814** | **78 317** | **81 411** | **13 099** | **94 510** |
| Distribution of dividend | — | — | — | — | — | – 44 614 | – 44 614 | – 11 527 | – 56 141 |
| Change in retained earnings | — | — | – 3 277 | — | — | 3 277 | — | — | — |
| Change in scope of consolidation | — | — | – 1 327 | — | — | — | – 1 327 | 4 583 | 3 256 |
| **Balance at 30.6.2007** | **142 764** | **255 523** | **221 847** | **10 644** | **2 536** | **134 220** | **767 534** | **111 067** | **878 601** |
| **Balance at 1.10.2007** | **142 764** | **255 523** | **219 947** | **13 170** | **3 487** | **163 450** | **798 341** | **115 361** | **913 702** |
| Earnings recognised directly in equity | — | — | — | 13 300 | 6 453 | — | 19 753 | 1 340 | 21 093 |
| Net surplus for the period | — | — | — | — | — | 247 491 | 247 491 | 22 339 | 269 830 |
| | **—** | **—** | **—** | **13 300** | **6 453** | **247 491** | **267 244** | **23 679** | **290 923** |
| Distribution of dividend | — | — | — | — | — | – 52 725 | – 52 725 | – 10 969 | – 63 694 |
| Capital increase | 25 957 | 199 718 | — | — | — | — | 225 675 | — | 225 675 |
| Change in retained earnings | — | — | – 3 591 | — | — | 3 591 | — | — | — |
| Change in scope of consolidation | — | — | – 1 476 | 247 | — | — | – 1 229 | – 473 | – 1 702 |
| **Balance at 30.6.2008** | **168 721** | **455 241** | **214 880** | **26 717** | **9 940** | **361 807** | **1 237 306** | **127 598** | **1 364 904** |

# Segment Report

## from 1.10. 2007 to 30. 6. 2008

| **Income Statement by Segment** | External sales after electricity and natural gas taxes | | Intercompany sales after electricity and natural gas taxes | | EBIT | |
|---|---|---|---|---|---|---|
| Euro 000s | **1.10. 2007 to 30. 6. 2008** | 1.10. 2006 to 30. 6. 2007 | **1.10. 2007 to 30. 6. 2008** | 1.10. 2006 to 30. 6. 2007 | **1.10. 2007 to 30. 6. 2008** | 1.10. 2006 to 30. 6. 2007 |
| Electricity | 1 013 376 | 833 303 | 26 820 | 37 521 | 251 509 | 47 287 |
| District heating | 264 991 | 228 923 | 20 819 | 24 074 | 56 311 | 57 921 |
| Gas | 305 443 | 297 910 | 31 103 | 23 544 | 43 349 | 17 482 |
| Water | 77 300 | 77 817 | 187 | 5 544 | 9 600 | 12 322 |
| Value-added services | 216 278 | 185 518 | 59 862 | 39 550 | 12 277 | 13 981 |
| Environmental energy | 146 927 | 139 275 | 29 957 | 22 138 | 65 173 | 56 213 |
| Other/consolidation | 17 702 | 5 795 | – 168 748 | – 152 371 | 793 | – 495 |
| MVV Energie Group | **2 042 017** | 1 768 541 | **—** | — | **439 012** | 204 711 |

# Cash Flow Statement[1]

## from 1.10.2007 to 30.6.2008

| **Cash Flow Statement of the MVV Energie Group**[1] Euro 000s | **1.10.2007 to 30.6.2008** | 1.10.2006 to 30.6.2007 |
|---|---|---|
| Net surplus for the period before taxes on income | 386 990 | 147 885 |
| Amortisation of intangible assets, depreciation of property, plant and equipment and investment property | 106 594 | 105 860 |
| Net interest expenses | 52 022 | 56 826 |
| Interest received | 4 581 | 6 415 |
| Change in non-current provisions | – 10 200 | 5 396 |
| Other non-cash income and expenses | – 184 089 | – 8 855 |
| Result generated from disposal of non-current assets | – 1 907 | – 1 962 |
| **Cash flow before working capital and taxes** | **353 991** | **311 565** |
| Change in other assets | – 656 716 | – 48 042 |
| Change in other liabilities | 557 877 | – 2 420 |
| Change in current provisions | – 47 825 | – 2 298 |
| Income taxes paid | – 39 369 | – 23 962 |
| **Cash flow from operating activities** | **167 958** | **234 843** |
| Investments in intangible assets, property, plant and equipment and investment property | – 142 306 | – 105 306 |
| **(Free cash flow)** | **(25 652)** | **(129 537)** |
| Proceeds from disposal of intangible assets, property, plant and equipment and investment property | 7 274 | 12 999 |
| Proceeds from subsidy payments | 5 922 | 6 446 |
| Proceeds from sale of fully and proportionately consolidated companies | — | 14 400 |
| Proceeds from sale of other financial assets | 41 138 | 3 070 |
| Payments for acquisition of fully and proportionately consolidated companies[2] | 237 | – 70 619 |
| Payments for other financial assets | – 24 193 | – 9 381 |
| **Cash flow from investing activities** | **– 111 928** | **– 148 391** |
| Proceeds from taking up of loans | 228 836 | 266 236 |
| Payments for redemption of loans | – 377 243 | – 276 342 |
| Proceeds from capital increases | 225 675 | — |
| Dividend payment | – 63 694 | – 56 161 |
| Interest paid | – 56 522 | – 48 782 |
| **Cash flow from financing activities** | **– 42 948** | **– 115 049** |
| Cash-effective changes in cash and cash equivalents | 13 082 | – 28 597 |
| Change in cash and cash equivalents due to currency translation | – 295 | 847 |
| Cash and cash equivalents at 1.10.2007 (2006) | 99 583 | 119 368 |
| **Cash and cash equivalents at 30.6.2008 (2007)**[3] | **112 370** | **91 618** |

| Cash flow – aggregate depiction<br>Euro 000s | **1.10.2007 to 30.6.2008** | 1.10.2006 to 30.6.2007 |
|---|---|---|
| **Cash and cash equivalents at 1.10.2007 (2006)** | **99 583** | **119 368** |
| Cash flow from operating activities | 167 958 | 234 843 |
| Cash flow from investing activities | – 111 928 | – 148 391 |
| Cash flow from financing activities | – 42 948 | – 115 049 |
| Change in cash and cash equivalents due to currency translation | – 295 | 847 |
| **Cash and cash equivalents at 30.6.2008 (2007)** [3] | **112 370** | **91 618** |

[1] Changes in first nine months of the previous year have been outlined under "Accounting policies"

[2] See notes under "Changes in the scope of consolidation"

[3] See Note 24 "Cash flow statement"

# Notes to the Interim Consolidated Financial Statements

## for the First Nine Months of 2007/08

### Disclosures concerning the company

MVV Energie AG has its legal domicile in Mannheim, Germany. The MVV Energie Group acts as an energy distribution company and service provider in the fields of electricity, district heating, gas, water and value-added services. Its activities in the field of environmental energy focus on the incineration of non-recyclable waste.

These abridged interim consolidated financial statements were compiled by the Executive Board and approved on 5 August 2008. The abridged interim consolidated financial statements and interim group management report have not been subject to any audit review.

### Accounting policies

The abridged interim consolidated financial statements for the period from 1 October 2007 to 30 June 2008 have been compiled in accordance with IFRS accounting requirements as applicable in the EU, and in particular with IAS 34 "Interim Financial Reporting". These interim consolidated financial statements do not include all notes and disclosures required of a complete set of annual financial statements and should therefore be read in conjunction with the consolidated financial statements as of 30 September 2007. No application has been made of published standards and interpretations not yet requiring mandatory application.

With the exception of the new provisions outlined below, the accounting polices applied in the interim consolidated financial statements as of 30 June 2008 therefore correspond to those applied in the consolidated financial statements as of 30 September 2007.

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have amended or newly adopted some standards and interpretations which required mandatory application for the first time in the abridged interim consolidated financial statements. The MVV Energie Group has applied the following standards and interpretations for the first time in the 2007/08 financial year:

| | |
|---|---|
| IAS 1 | 2005 amendment "Presentation of Financial Statements" |
| IFRS 7 | Financial Instruments: Disclosures |
| IFRIC 10 | Interim Financial Reporting and Impairment |
| IFRIC 11 | IFRS 2 Group and Treasury Share Transactions |

The disclosures concerning IFRS 7 are not relevant for the compilation of the abridged interim consolidated financial statements for the first nine months of the 2007/08 financial year. However, extended disclosures concerning the type and scope of risks associated with financial instruments can be expected in the 2007/08 consolidated financial statements of the MVV Energie Group.

The initial application of these amendments did not have any notable implications.

The comparative period has been adjusted retrospectively. The impact on the interim consolidated financial statements for the first nine months of 2007/08 can be depicted as follows:

| **Income statement** | Change in Euro 000s |
|---|---|
| Cost of materials | – 27 657 |
| Other operating expenses | 27 657 |

To ensure that proprietary electricity trading activities are reported consistently, a reclassification has been undertaken between cost of materials and other operating expenses. Moreover, capitalised own-account services and changes in inventories have been reported as separate line items in the income statement. The comparative period has been adjusted accordingly. The amendments to the reporting structure have no impact on earnings.

Capitalised own-account services and changes in inventories were not reported separately for all quarters in the 2006/07 financial year. The quarterly figures for the previous year have been adjusted accordingly.

| **Cash flow statement** | Change in Euro 000s |
|---|---|
| Cash flow from operating activities | 48 782 |
| Cash flow from financing activities | – 48 782 |

The reporting structure in the cash flow statement has been amended compared with the first nine months of the 2006/07 financial year and the financial statements at the end of the financial year as of 30 September 2007. From the 1st quarter of the 2007/08 financial year, interest received, interest paid, net interest expenses and income taxes paid have been reported as separate line items. Furthermore, the statement of the cash flow as per DVFA/SG has been omitted. The cash flow before working capital and taxes has been reported within the cash flow from operating activities.

The compilation of the interim consolidated financial statements in some cases requires the use of assumptions and estimates which could impact on the values stated for the assets, liabilities, income and expenses thereby reported. Actual figures could in individual cases deviate at a later point in time from the assumptions and estimates thereby made. Resultant amendments would have a corresponding impact on earnings upon more accurate information becoming available.

## Changes in the scope of consolidation

In addition to MVV Energie AG, 54 German and foreign subsidiaries in which MVV Energie AG directly or indirectly holds a majority of the voting rights are fully consolidated in the interim consolidated financial statements of the MVV Energie Group (30 September 2007: 52). The relevant control concept requires the parent company to exercise a controlling influence for a company to be fully consolidated. This is the case for all fully consolidated companies.

Köthen Energie Netz GmbH, Köthen, a newly established company, was included in the interim consolidated financial statements via full consolidation for the first time in the 1st quarter of the 2007/08 financial year. The inclusion of this company did not have any major implications for the net asset, financial and earnings position of the Group.

SECURA Energie GmbH, Mannheim, was included in the interim consolidated financial statements via full consolidation for the first time in the 3rd quarter of the 2007/08 financial year. This company was newly founded during the current financial year and has the nationwide sale of electricity and gas as its object. The inclusion of this company did not have any major implications for the net asset, financial and earnings position of the Group.

In the 2006/07 financial year, the Czech subgroup acquired companies including Teplárna Liberec a.s., Liberec. Within the framework of the integration, the purchase price was reduced by Euro 237 thousand during the period under report. This factor is reflected in other operating income and the cash flow statement.

## Currency translation

The currency translation in the abridged interim consolidated financial statements has been based on the following exchange rates:

| 1 Euro | Rate on reporting date | | Average rate | |
|---|---|---|---|---|
| | **30. 6. 2008** | 30. 9. 2007 | **1. 10. 2007 to 30. 6. 2008** | 1. 10. 2006 to 30. 6. 2007 |
| Polish zlotys (PLN) | 3.351 | 3.773 | 3.547 | 3.845 |
| Czech crowns (CZK) | 23.893 | 27.532 | 25.742 | 28.117 |

(Source: European Central Bank)

## Seasonal influences on business activities

The seasonal nature of business activities at the companies in the MVV Energie Group means that a higher level of sales and operating earnings is regularly generated in the first half of the year than in the second half of the year.

# Notes on the Balance Sheet

## 1 Other financial assets

The rise in other financial assets compared with 30 September 2007 is mainly attributable to additions to loans in connection with finance leases and loans to associated, unconsolidated companies. Moreover, investments were made in the high-growth energy-related services division. These factors were countered largely by the reclassification of the shareholding KPEC Komunalne Przedsiebiorstwo Energetyki Cieplnej Sp. z o. o., Bydgoszcz, Poland, which was classified as available for sale in the 1st quarter of 2007/08. The company was sold as of 30 May 2008. Reference is made to the notes under "Assets held for sale". SECURA Energie GmbH, Mannheim, which was previously reported as an associated, unconsolidated company, was fully consolidated for the first time in the 3rd quarter of 2007/08.

## 2 Other receivables and assets

The rise in other current and non-current receivables and assets is chiefly due to higher market prices and to increased volumes of energy trading transactions requiring measurement under IAS 39. The disproportionate increase in the 3rd quarter of 2007/08 is chiefly due to the sharp rise in commodities prices. Volume factors only impacted to a subordinate extent. Security deposits provided by the MVV Energie Group in connection with energy trading transactions are of subordinate significance.

## 3 Inventories

The decline in inventories was caused by increased energy turnover during the winter months and the resultant sale of oil and gas stocks. Moreover, inventory management at the Czech subgroup has been converted to a just-in-time policy.

## 4 Accounts receivable

The increase in accounts receivable in the first nine months of the 2007/08 financial year is a customary seasonal phenomenon. As a result of increased energy turnover during the winter months, the corresponding accrual of consumption leads to increased volumes of accounts receivable. The rise in sales in the 2007/08 financial year also led to increased volumes of receivables.

## 5 Tax receivables

The decline in tax receivables is principally due to lower amounts of input tax.

## 6 Securities

The increase in securities results from the acquisition of a short-term federal bond.

## 7 Cash and cash equivalents

As a result of the reclassification of the Polish subgroup to the items "Assets held for sale" and "Liabilities held for sale" the figures reported for cash and cash equivalents in the balance sheet and the cash flow statement are not identical. The cash and cash equivalents at the Polish subgroup, amounting to Euro 8 550 thousand, have been reported under "Assets held for sale" (please also see Note 24 "Cash flow statement"). No cash and cash equivalents are subject to any disposal restraints.

## 8 Assets held for sale

The asset held for sale reported as of 30 September 2007 included Energy Innovations Portfolio AG & Co. KGaA, Mannheim. The purchase option was exercised in December 2007 and the sale price of Euro 14 000 thousand thereby realised.

The Executive Board of MVV Energie AG decided on 27 December 2007 to dispose of KPEC Komunalne Przedsiebiorstwo Energetyki Cieplnej Sp. z o. o., Bydgoszcz, Poland. This shareholding was reclassified from financial assets to assets held for sale. The shares in the company had previously been recognised at fair value under other financial assets. The company was sold on 30 May 2008 and the sale price of Euro 20 870 thousand thereby realised.

The Executive Board decided in the second quarter to part with all of its activities in Poland. The assets of the Polish subgroup were therefore classified as available for sale (please also see Note 16 "Liabilities held for sale"). The earnings of the Polish subgroup for the period in which it was classified as available for sale amount to Euro 3 133 thousand. Due to the legal requirements set out in IFRS 5, these earnings have to be adjusted by current depreciation and amortisation of Euro 712 thousand for the 3rd quarter of 2007/08. The earnings largely consist of the profit on the disposal of KPEC Komunalne Przedsiebiorstwo Energetyki Cieplnej Sp. z o. o., Bydgoszcz, Poland. This item has not been reported separately, as it does not represent any significant impairment to the income statement of the MVV Energie Group.

## 9 Distribution of dividend

The Annual General Meeting on 14 March 2008 approved the distribution of a dividend of Euro 0.80 per share for the 2006/07 financial year (total distribution: Euro 52 725 thousand). Moreover, a total of Euro 10 969 thousand was distributed to minority shareholders on a subgroup level.

## 10 Equity

A capital increase involving 10 139 506 ordinary registered shares was undertaken in October 2007. The new shares were offered to existing shareholders at a subscription price of Euro 22.50 per individual share. This increased the share capital by Euro 25 957 thousand and the capital reserve by Euro 199 718 thousand. The costs of the capital increase, which were adjusted to Euro 2 464 thousand in the 3rd quarter of 2007/08, were deducted from the allocation to the capital reserve. The new shares already enjoyed full dividend entitlement for the dividend distribution in March 2008.

## 11 Financial liabilities

It has been possible to repay non-current liabilities to banks largely as a result of the funds received from the capital increase undertaken at MVV Energie AG in October 2007.

## 12 Other liabilities

The rise in other current and non-current receivables and assets is chiefly due to higher market prices and to increased volumes of energy trading transactions requiring measurement under IAS 39, as well as to security deposits for energy trading transactions. The disproportionate increase in the 3rd quarter of 2007/08 is chiefly due to the sharp rise in commodities prices. Volume factors only impacted to a subordinate extent.

## 13 Deferred tax liabilities

The rise in deferred tax liabilities is mainly due to the sharp increase in the fair values of energy trading transactions.

### 14 Other provisions

The decline in other current provisions was mainly due to the utilisation of provisions for services and supplies not yet invoiced.

### 15 Tax provisions

The rise in tax provisions mainly involves income taxes resulting from the increase in earnings for the nine-month period.

### 16 Liabilities held for sale

The Executive Board decided in the second quarter to part with all of its activities in Poland. The provisions and liabilities of the Polish subgroup were therefore classified as available for sale (please also see Note 8 "Assets held for sale").

The earnings of the Polish subgroup for the period in which this subgroup was classified as available for sale amount to Euro 3 133 thousand. Due to the legal requirements set out in IFRS 5, these earnings have to be adjusted by current depreciation and amortisation of Euro 712 thousand for the 3rd quarter of 2007/08, but nevertheless include the profit on the disposal of KPEC Komunalne Przedsiebiorstwo Energetyki Cieplnej Sp. z o. o., Bydgoszcz, Poland. This item has not been reported separately, as it does not represent any significant impairment to the income statement of the MVV Energie Group.

### 17 Contingent liabilities

There have been no material changes in contingent liabilities since 30 September 2007.

## Notes on the Income Statement

### 18 Sales

A depiction of sales broken down into their respective segments has been provided in the segment report. The growth in sales compared with the equivalent period in the previous year is largely attributable to weather-related volume factors. In individual cases, price adjustments have also contributed to the increase in sales.

### 19 Other operating income and other operating expenses

The rise in other operating income and other operating expenses is primarily due to the recognition of energy trading derivatives measured pursuant to IAS 39. The disproportionate increase in the 3rd quarter of 2007/08 is chiefly due to the sharp rise in commodities prices. Volume factors only impacted to a subordinate extent. The impact on earnings due to measurement under IAS 39 amounted to Euro 144 316 thousand in the 3rd quarter and to Euro 188 140 thousand in the first nine months of the financial year.

### 20 Cost of materials

The year-on-year rise in cost of materials is mainly due to weather-related volume factors and to price factors.

### 21 Taxes on income

| **Taxes on income**<br>Euro 000s | **1. 10. 2007<br>to 30. 6. 2008** | 1. 10. 2006<br>to 30. 6. 2007 |
|---|---|---|
| Taxes on income | 117 160 | 57 675 |
| Effective tax rate in % | 30.3 | 39.0 |

The decline in the effective tax burden compared with the previous year is principally due to the reduction in corporate income and trade tax rates in Germany to around 30 % as a result of the 2008 corporate tax reform (2006/07 financial year: 39 %). Tax expenses have risen sharply due to the statement of deferred tax liabilities as a result of the fair values of energy trading transactions.

## 22 Earnings per share

| Earnings per share | 3rd Quarter | | Nine Months, cumulative | |
|---|---|---|---|---|
| | **1. 4. 2008 to 30. 6. 2008** | 1. 4. 2007 to 30. 6. 2007 | **1. 10. 2007 to 30. 6. 2008** | 1. 10. 2006 to 30. 6. 2007 |
| Share of earnings allocable to shareholders in MVV Energie AG (Euro 000s) | 127 900 | 19 663 | 247 491 | 78 317 |
| No. of shares in 000s (weighted average) | 65 907 | 55 767 | 65 093 | 55 767 |
| Earnings per share (Euro) | 1.95 | 0.35 | 3.80 | 1.40 |

It was not necessary to account for any dilution effects.

## 23 Segment reporting

The electricity segment includes the value creation steps 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, the value-added services segment also includes the value-added services businesses at the municipal utility companies. The shared service companies 24/7 Metering GmbH, 24/7 United Billing GmbH and 24/7 IT-Services GmbH are also reported in the value-added services segment.

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.

Segment revenues have been reported net of energy taxes in the abridged interim consolidated financial statements.

Intercompany sales represent the volume 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 intercompany and external sales.

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

## 24 Cash flow statement

In contrast to the depiction in the 2006/07 financial year, in the first nine months of 2007/08 interest paid has been reported as a separate line item within the cash flow from financing activities. Furthermore, interest received, net interest expenses and income taxes paid have been reported as separate line items within the cash flow from operating activities.

The cash flow as per DVFA/SG was calculated for the last time at the end of the financial year as of 30 September 2007. The cash flow before working capital and taxes has been calculated for the first time in the 2007/08 financial year.

The cash flow from operating activities is characterised by the sharp increase in accounts receivable, other receivables and assets, and other non-cash income and expenses. This factor was countered by the increase in other liabilities and the higher net surplus for the period compared with the equivalent period in the previous year. Overall, this resulted in a lower level of cash flow from operating activities than in the comparative period.

In spite of the capital increase undertaken in the 1st quarter of 2007/08, the cash flow from financing activities is negative on account of the dividend payment in the 2nd quarter of 2007/08 and of the significant rise in loan repayments. Due to the sale of shareholdings, the negative cash flow from investing activities is lower than in the comparative period in the previous year, which included company acquisitions.

**Reconciliation of cash and cash equivalents**

Euro 000s

| | |
|---|---|
| Cash and cash equivalents at 30. 6. 2008 as reported in balance sheet | 103 820 |
| Cash and cash equivalents at the Polish subgroup classified as held for sale | 8 550 |
| Cash and cash equivalents at 30. 6. 2008 as reported in cash flow statement | **112 370** |

## 25 Relationships to related companies, individuals and entities

| | Goods and services provided | |
|---|---|---|
| | Income | |
| Euro 000s | **1. 10. 2007 to 30. 6. 2008** | 1. 10. 2006 to 30. 6. 2007 |
| Abfallwirtschaft Mannheim | 75 | 603 |
| ABG Abfallbeseitigungs-gesellschaft mbH | 17 020 | 26 696 |
| GBG Mannheimer Wohnungsbau-gesellschaft mbH | 10 785 | 7 881 |
| m:con – Mannheimer Kongress- und Touristik GmbH | 2 860 | 2 498 |
| MVV GmbH | 650 | 699 |
| MVV OEG AG | 334 | 318 |
| MVV Verkehr AG | 1 282 | 1 484 |
| Rhein-Neckar-Verkehr GmbH | 4 878 | 6 372 |
| Stadtentwässerung Mannheim | 2 318 | 1 532 |
| City of Mannheim | 10 768 | 12 939 |
| Proportionately consolidated companies | 58 277 | 41 677 |
| Other companies controlled by the City of Mannheim | 9 314 | 4 089 |
| | **118 561** | 106 788 |

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

**Goods and services provided**

| Expenses | | Receivables | | Liabilities | |
|---|---|---|---|---|---|
| **1. 10. 2007 to 30. 6. 2008** | 1. 10. 2006 to 30. 6. 2007 | **30. 6. 2008** | 30. 9. 2007 | **30. 6. 2008** | 30. 9. 2007 |
| 3 711 | — | 40 | 34 | — | — |
| 2 348 | — | 906 | 3 230 | 106 | — |
| 28 | — | 3 212 | 778 | — | — |
| 3 113 | — | 5 425 | 7 | — | 2 846 |
| 1 688 | 2 527 | 301 | 140 | 39 374 | 41 533 |
| — | — | 3 | 52 | — | — |
| 56 | 71 | 794 | 1 143 | 2 | — |
| — | 196 | 3 214 | 802 | — | — |
| 1 611 | 507 | 660 | 291 | — | — |
| 16 267 | 16 226 | 2 602 | 14 559 | — | 10 509 |
| 18 788 | 4 776 | 5 130 | 1 278 | 6 694 | 10 207 |
| 66 | 3 | 2 732 | 309 | — | — |
| **47 676** | **24 306** | **25 019** | **22 623** | **46 176** | **65 095** |

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

The liabilities towards the City of Mannheim and its affiliated companies mainly relate to loan liabilities towards MVV GmbH.

### 26 Events after the balance sheet reporting date

No events requiring report here have occurred since the balance sheet reporting date.

Mannheim, 5 August 2008
MVV Energie AG
Executive Board

Dr. Schulten Brückmann Dr. Dub Farrenkopf

## Responsibility Statement

"To the best of our knowledge, and in accordance with the applicable accounting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the net asset, financial and earnings position of the Group, and the interim group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group up to the end of the 2007/08 financial year."

Mannheim, 5 August 2008
MVV Energie AG
Executive Board

Dr. Schulten Brückmann Dr. Dub Farrenkopf

# Financial Calendar

| | |
|---|---|
| **20. 11. 2008** | Publication of Preliminary Results for the 2007/2008 Financial Year |
| **27. 1. 2009** | Annual Results Press Conference and Analysts' Conference |
| **13. 2. 2009** | Financial Report 1st Quarter of 2008/2009 |
| **13. 3. 2009** | Annual General Meeting |
| **16. 3. 2009** | Payment of Dividend |

# Imprint

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