ANNUAL REPORT 2003/2004




CONSERVING RESOURCES. SHAPING THE FUTURE.

techem

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GROUP STRUCTURE

Techem AG[1]

- **Techem Geschäftsführungs GmbH** 100%
- **Techem Energy Services GmbH & Co. KG** 99,975% (Techem Geschäftsführungs GmbH: 0,025%)

Subsidiaries of Techem Energy Services GmbH & Co. KG:

- Techem Leasing GmbH & Co. oHG i.L. 95%
- Techem Energy Contracting GmbH 100%
  - Techem Energy Contracting GmbH, Innsbruck i.L.[2] 51%
  - EMS Energie Management Service GmbH 33%

- Techem AB, Sweden 100%
- Techem Energy Services B.V., The Netherlands 100%
- "Techem" Techniki Pomiarowe Sp.z o.o., Poland 100%
- Techem (Schweiz) AG, Switzerland 100%
- Techem Hellas E.P.E., Greece 75%
- Techem Calorlux S.à.r.l., Luxembourg 100%
- Techem spol. s.r.o., Slovakia 100%
- Techem Energy Services S.R.L., Romania 100%

- Techem Services e.o.o.d., Bulgaria 100%
- Techem Kft., Hungary 100%
- Techem spol. s.r.o., Czech Republic 100%
  - I.G.B. Data spol. s.r.o., Czech Republic[3] 100%
  - Heitech spol. s.r.o., Czech Republic[4] 50%
- Techem S.r.l., Italy 100%
- Techem Messtechnik Ges.m.b.H., Austria 100%
  - Techem Wassertechnik Ges.m.b.H., Austria 100%
- Caloribel S.A., Belgium 100%

- Veridis Software Systeme GmbH 70%
- Techem IT Services GmbH 100%

1) Interest relating to Techem AG
2) 49% interest of Techem Messtechnik Ges.m.b.H., Austria
3) Merger being prepared
4) Heitech Prague/Czech Republic – not an operating entity

As at: September 2004

AT A GLANCE

Techem is one of Europe's leading providers of services to the housing and real estate industries. Our competencies are:

- **Energy Services** – The measuring and billing of energy and water consumption as well as equipment sales, rentals, maintenance and home automation
- **Energy Contracting** – The planning, financing, installation and operation of energy-producing facilities
- **IT Services** – Software solutions for the housing industry

(EUR million)	1999/2000[1]	2000/2001[1]	2001/2002[1]	2002/2003[2]	2003/2004[2]
Revenue	322.7	355.1	379.3	408.5	432.0
EBIT	43.1	53.2	38.9	44.6	85.9
EBITDA	87.3	102.4	100.1	98.1	138.4
Net income	18.0	13.1	12.4	15.3	44.3
Operating Cash flow	53.2	59.0	91.3	102.2	108.6
Depreciation of plant and equipment, rental equipment and capital leases	36.0	37.3	45.7	40.4	40.5
Capital expenditure on plant and equipment, rental equipment and capital leases	46.8	59.7	70.3	48.1	44.0
Shareholders' equity	86.1	98.4	111.5	125.4	166.6
Equity ratio in %	20.0	21.7	19.9	23.5	31.0
Total assets	429.7	452.6	559.0	532.8	537.8
Customers (approx.)	301,000	375,000	565,000	605,000	611,000
Number of homes serviced (million)	5.8	6.0	6.6	6.7	6.7
Number of devices installed – billing base (million)	32.3	33.4	36.5	36.6	36.9
Germany	26.9	27.3	28.0	28.0	28.1
International	5.4	6.1	8.5	8.6	8.8
Employees[3]	1,958	2,146	2,370	2,371	2,153

1) According to U.S.-GAAP
2) According to IFRS (see Notes on page 46)
3) Employees excluding domestic commercial representative offices

Who sets limits for us?
Nature.
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Much more than a consumer good.
Water.
Page 12

Equipping the real estate industry for the future with intelligent energy management.

The economical and effective use of energy and water is becoming increasingly important in view of the growing scarcity of resources. New solutions are needed – Techem provides some answers in this annual report.

As a leading international provider of services to the housing and real estate industries, we already offer our customers a range of services that is expected by people who are conscious of energy issues and who look to the future. Our services and products cover growth areas with an importance that is continually growing as a result of rising energy and water prices. This orientation on our part makes us a valued business partner both nationally and internationally.

An essential part of wellbeing.
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Accepting challenges.
Techem.
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Horst Enzelmüller
Chairman of the Board of Directors

Foreign Sales, Marketing, Business Development, Legal Affairs/Mergers & Acquisitions, Personnel, Investor Relations, Service Quality

DEAR SHAREHOLDERS, EMPLOYEES, BUSINESS PARTNERS AND FRIENDS OF THE TECHEM GROUP

In last year's annual report, I wrote that we have succeeded in placing our Company on course again. To retain that image, I can state that we remain on course and have gained even more speed. You can see this in black-and-white in the form of the figures contained in the financial statements presented. However, of more importance than bare figures is the fact our Company has become leaner and more flexible, and Techem's culture is shaped by a clear orientation towards the customer and service. We are a Company that has to prove itself in the market place day by day and to meet the challenge of being "No. 1" – not only with respect to market share but also in terms of quality, service and technology. This enables us to achieve returns over the longer term that are satisfactory for our shareholders.

We are proud of what we have accomplished, but, at the same time, we see no reason to rest on our laurels. On the contrary: The environment in which we operate is constantly changing and competition is intensifying. Internationally, numerous business opportunities are appearing and they should be exploited. To accomplish this and take advantage of those possibilities that are emerging, we have defined five paths leading to success that we will follow in a consistent manner:

1. **Germany:** In our home market, we are consistently enhancing the position of Techem as the market leader through organic growth in the core business of measuring and billing the consumption of energy and water. The interaction of our three business areas Energy Services, Energy Contracting and IT Services is a unique position when compared with our competitors. This strategic market advantage should be used to exhaust our customers' potential.

2. **Internationalization:** In foreign countries, a key component of our growth strategy, we are focusing on the core business. Depending on the country, local business is growing organically through methodical investment in the development of companies of our own or in cooperation with trading partners. In doing so, we take account of national characteristics and take a far-sighted view of new markets, as we have already done successfully in the past.

Rainer Schamoni
Deputy Chairman of the Board of Directors

Sales Germany, Energy Contracting, Technology and Services

Stefan Pattberg
Member of the Board of Directors

IT, IT Services

Peter Wunderlich
Member of the Board of Directors

Finance, Accounting, Controlling, Receivables Management, Logistics & Infrastructure, Audit

3. **Quality:** We have set ourselves the goal of being the clear industry leader in terms of quality. In this respect, we are banking on excellent product and service quality. Our customers and their needs determine our priorities and the actions of our employees. Regional customer proximity and service-oriented structures for the provision of customer care are the basis of our long-term success in selling and a pricing policy requirement.

4. **Costs:** We have reduced our cost base in a lasting manner. We are continually optimizing processes by methodically using information technology. This is because compelling technical solutions create conditions for revenue growth along with cost increases that are disproportionately lower. They also constitute an instrument for raising productivity and flexibility, both of which our customers expect.

5. **Innovation:** We are the first company providing measuring services to place consistent reliance on radio-controlled measurement. Our medium-term and long-term goal is comprehensive use of this technology of the future. By means of a systematic innovation process, we will further enhance our lead and become a pioneer in the fully-automated taking of remote readings.

Following the successful restructuring of the past two years, we can now again devote our undivided strength and attention to the market and thus, to our customers. We are on a very good path. I am therefore convinced that our successful work will be reflected in the result achieved for the current fiscal year, too.

I would like to express my personal thanks and that of all my fellow members on the Board of Directors to all our employees, employee representatives, business partners, customers and to you, our shareholders, for the confidence placed in us and for the fine way in which we have been able to work together.

Horst Enzelmüller
Chairman of the Board of Directors

Eschborn, January 2005

CORPORATE GOVERNANCE

INTRODUCTION

Techem attaches great importance to the issue of corporate governance. The Supervisory Board and the Board of Directors work together closely and feel duty bound to increase the value of the Company. Techem always acts in the knowledge that the shareholders of the company have made the necessary equity available and thus shoulder the related entrepreneurial risk. By pursuing a policy of open, timely and ongoing information, Techem seeks to strengthen the confidence of private and institutional investors, employees, business partners and the public in the Company. The Board of Directors – doing so on behalf of the Supervisory Board also – reports on Corporate Governance in accordance with Item 3.10 of the German Corporate Governance Code as follows:

DECLARATION OF COMPLIANCE

On December 10, 2003, the Board of Directors and the Supervisory Board had submitted a declaration of compliance pursuant to Section 161 of the German Joint Stock Corporation Act (AktG) in which they had stated that the recommendations contained in the German Corporate Governance Code in the version of May 21, 2003, had been complied with, save for four exceptions (D&O insurance deductible, special remuneration for committee work, performance-related remuneration for the Supervisory Board, the timing of the publication of the annual financial statements and interim reports). On November 3, 2004, the Board of Directors and the Supervisory Board submitted a declaration pursuant to Section 161 of the German Joint Stock Corporation Act stating that the recommendations contained in the German Corporate Governance Code have been complied with and will continue to be complied with, save for the aforementioned exceptions. The declaration of compliance can be found at www.techem.de in the Investor Relations section.

The D&O liability insurance (liability insurance for damage to assets) taken out by Techem for the members of the Supervisory Board and the Board of Directors does not provide for any deductible in deviation from the recommendation contained in Item 3.8, par. 2 of the Code. When the D&O insurance was taken out, no deductible was agreed, because it was considered unnecessary for the purpose of influencing behavior. This view is upheld by the Supervisory Board and the Board of Directors.

Chairmanship and membership of committees of the Supervisory Board is not currently accounted for in the remuneration of the members of the Supervisory Board. Techem does not comply with the recommendation contained in Item 5.4.5, par. 1, sentence 3 of the Code, because the remuneration of the members of the Supervisory Board was fixed by the 2001 Ordinary General Shareholders' Meeting in the form of an amendment to the Articles of Association, taking into account work performed in the committees. Should it transpire that committee work is not adequately compensated, the Supervisory Board and the Board of Directors will propose an appropriate change in the level of remuneration to the Ordinary General Shareholders' Meeting.

In deviation from Item 5.4.5, par. 2 of the Code, no performance-related bonus is envisaged in the remuneration due to the Supervisory Board. The Supervisory Board and the Board of Directors are of the opinion that Techem should not create any kind of performance-related incentive system for members of the Supervisory Board. The existing system of remuneration is better able to guarantee the impartiality of the Supervisory Board in the effective performance of its supervisory duties. It prevents the senior management of the Company from focusing one-sidedly on just a few parameters of relevance to remuneration, and consequently, in our opinion, the existing system provides better guarantee for the Company's long-term success.

The consolidated annual financial statements are not published within 90 days of the end of the fiscal year and the interim reports are not published within 45 days of the end of the reporting period. Techem prepares its consolidated annual financial statements within 90 days of the end of the fiscal year. However, in view of the end of the calendar year and the related public holidays, the publication of the financial statements only takes place after the end of the 90-day period in deviation from Item 7.1.2 of the Code. The same applies to the interim reports, which are currently still published within 60 days of the end of a quarter in accordance with Frankfurt Stock Exchange rules. Techem is working intensively on further speeding up the publication of its financial statements and interim reports.

There were no conflicts of interests in which members of the Board of Directors or the Supervisory Board are parties. A cooperation agreement was in force with the university institute headed by Professor Dr. Horst Ziegler until his retirement on August 1, 2004. A consultancy agreement was concluded with Professor Dr. Horst Ziegler on May 19, 2004. License agreements have been in force with Professor Dr. Horst Ziegler for many years and those were replaced by a new license agreement on May 19, 2004. Details of the remuneration paid by Techem are provided in the Notes to the Consolidated Financial Statements (page 90). The Board of Directors and the Supervisory Board are equally convinced that the consultancy services provided by Professor Dr. Horst Ziegler and the licensing arrangements are in the interest of Techem AG. The know-how possessed by Professor Dr. Horst Ziegler is of great importance for Techem and gives Techem a competitive advantage in the case of new developments in particular. As announced, Professor Dr. Horst Ziegler resigned from his membership in the Advisory Commitee of Hydrometer GmbH, Ansbach, with effect from June 30, 2004. The many years of research for Hydrometer GmbH conducted by him at the University of Paderborn will be continued. It ensures that innovative heat and consumption meters are available to Techem AG.

Given Techem's interest in seeing a continuation of the successful management team over the next five years, the Supervisory Board has, after careful consideration, decided to reappoint Mr. Enzelmüller chairman of the Board of Directors for a further five years while simultaneously approving his resignation, by mutual consent, as chairman of the Board of Directors with effect from September 30, 2004. Techem has therefore acted in accordance with Recommendation 5.1.2, par. 2, sentence 2 of the German Corporate Governance Code. The remaining members of the Board of Directors were reappointed in accordance with Section 84, par. 1, sentence 2 of the German Joint Stock Corporation Act (AktG).

SHAREHOLDINGS OF CORPORATE BODY MEMBERS AND RELATED PARTIES

The shareholdings of members of the Board of Directors and of the Supervisory Board as well as related parties are specified in the Notes to the Consolidated Financial Statements (page 91). As of December 31, 2004, the Company has not been notified in accordance with Section 15a of the German Securities Trading Act (WpHG) of any disposal of Techem shares by corporate body members and related parties. Only acquisitions of shares were notified.

BOARD OF DIRECTORS' REMUNERATION

The remuneration received by the Board of Directors is determined by the Supervisory Board Personnel Committee. The Supervisory Board, in plenary sessions, discusses and reviews the structure of remuneration on a regular basis. Insofar as members of the Board of Directors are remunerated in connection with the holding of offices in group companies, such remuneration is transferred to the Company. Members of the Board of Directors are entitled to retain in full remuneration received in connection with the holding of offices in non-group companies approved by the Supervisory Board.

The remuneration received by the members of the Board of Directors consists of fixed and variable components. The level of fixed emoluments primarily depends on the function or responsibility held and also includes additional benefits in form of a company car.

The variable components for fiscal year 2003/2004 consist in bonuses contingent on EBIT and ROCE and which are payable in two partial amounts following the end of the fiscal year. If consolidated EBIT or ROCE for the respective fiscal year, as budgeted by the entire Board of Directors and approved by the Supervisory Board, are attained, the contractually agreed bonus is payable in the full amount. If consolidated EBIT or ROCE are not attained or are exceeded, the bonus is decreased or increased by five times the difference; an increase amounting to more than 100 percent of the contractually agreed target bonus is excluded.

Undertakings have been made to provide support benefits (retirement, disability and survivor pensions) to members of the Board of Directors (with the exception of Mr. Enzelmüller). These have been secured through the pension fund and insurance companies.

In fiscal year 2003/2004, remuneration was structured as follows:

Remuneration components	Parameters	Form of payment	Varia-bility	Proportion upon target [1]
Fixed emoluments (basic salary, benefits)	Function, area of responsibility	Monthly	Fixed	52% [2] (46–58%)
Variable emoluments	Techem Group EBIT and ROCE	Annually, two installments in the following year	0–200%	38.5% [2] (29–50%)
Support benefits (pensions, etc.)	Length of service	Event conferring eligibility occurs		9.5% [2] (0–13%) [3]

1) Proportion upon target being attained in full (100%)
2) Average
3) Expenditure

As of fiscal year 2004/2005, the members of the Board of Directors will receive a further variable remuneration component that is essentially based on the extent to which the price of the Techem share deviates from the M-DAX over a two-year (approximately 18-month for stage 1) reference period. Percentage outperformance in relation to the M-DAX multiplied by a factor of three yields the percentage rate of the contractually agreed target bonus that is payable on the basis of share performance. The ceiling on this share performance bonus, which will become payable two months following the annual report press conference for fiscal year 2004/2005, is 200 percent of the contractually agreed target bonus.

As of October 2004, remuneration is structured as follows:

Remuneration components	Parameters	Form of payment	Varia-bility	Proportion upon traget [1]
Fixed emoluments (basic salary, benefits	Function, area of responsibility	Monthly	Fixed	40% [2] (37–43%)
Variable emoluments I	Techem Group EBIT	Annually, two installments in the following year	0–200%	33% [2] (30–38%)
Variable emoluments II	Outperformance in relation to the M-DAX	Annually, May 2006 for the first time	0–200%	19% [2] (17–23%)
Support benefits (pensions, etc.)	Length of service	Event conferring eligibility occurs		8% [2] (0–11%) [3]

1) Proportion upon target being attained full (100%) or 20% outperformance in relation to the M-DAX
2) Average
3) Expenditure

Details of the level of remuneration drawn by members of the Board of Directors in fiscal year 2003/2004 are provided on pages 88–89 of this annual report.

To help make it possible to look to the future calmly …

Who sets limits for us? Nature.
Water and energy are becoming increasingly scarce and expensive. Anyone who is able to deal with these finite resources in a way that stresses conservation acts with the future in mind.

Techem is an international provider of services to the real estate industry. For over 50 years, we have been billing energy and water on the basis of actual consumption through our Energy Services core business segment – in this way, we have been making a key contribution to the responsible use of these resources.

TECHEM SHARE

The German stock market has been experiencing an upturn that began in March 2003. However, the beginning of 2004 saw a process of consolidation set in; a trend that was mainly driven by speculation about interest rate hikes in the United States. The mood during the rest of 2004 was marked by fears that the economy would only experience a modest recovery and that it would then be adversely affected by the sharp rise in the price of oil.

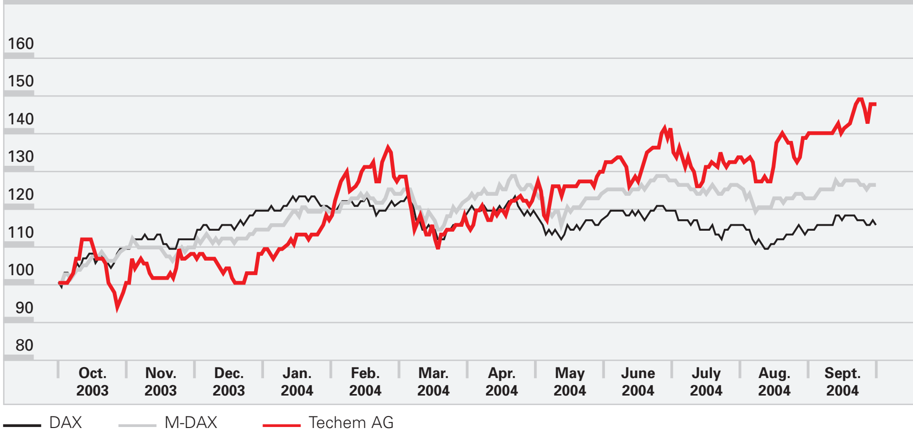
This was reflected in sideways movement on the German stock market. During the latter part of 2004, the stock market was still influenced by the trend in the price of oil as well as a weak economic outlook.

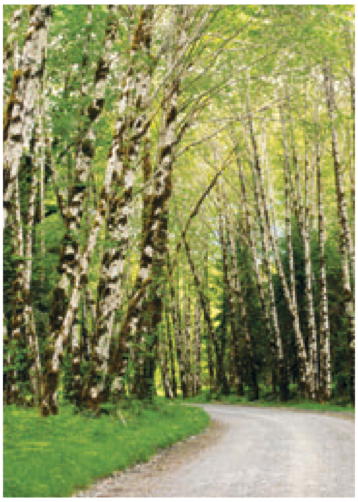
TECHEM SHARE RECOVERS

During the period under review, October 1, 2003 through September 30, 2004, the Techem share rose from EUR 15.00 to EUR 22.15. This corresponds to an increase of 47.7 percent. Over the same period, the DAX rose by 16.9 percent and the M-DAX by 25.8 percent.

The Techem share has also performed well during the first quarter of fiscal year 2004/2005.

Relative share performance in fiscal year 2003/2004
(Basis = 100)





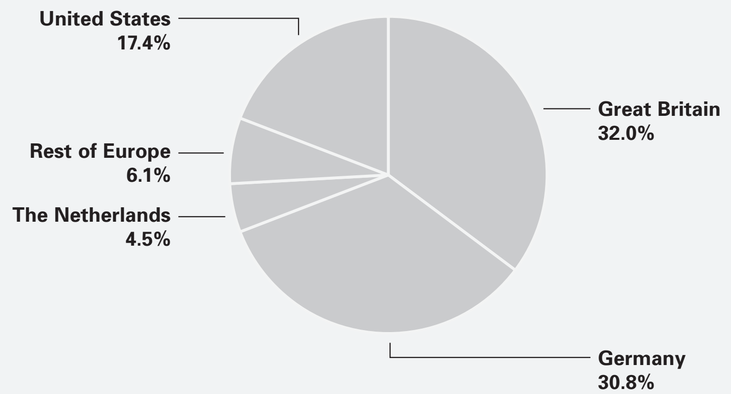
SHAREHOLDER STRUCTURE

On September 30, 2004, we conducted a survey of shareholders, enabling us to identify 90.8 percent of the approximately 24.7 million no-par value shares of the common stock outstanding.

A total of 25.2 percent of the share capital is held by family shareholders Ms. Ursula Felten and Dr. Martin Ott, mainly through Felten Vermögensverwaltungs GmbH and Ott Vermögensverwaltungs GmbH. International institutional investors hold 65.3 percent of the share capital identified.

The geographical distribution of the share capital identified was as follows:

Geographical distribution of the share capital identified as of 30. 09. 2004



The members of the Supervisory Board – excluding Ms. Felten and Dr. Ott – and the members of the Board of Directors of Techem AG jointly hold Techem shares representing significantly less than 1 percent of the share capital. The virtual stock options held by members of the Board of Directors as well as the nature of the stock option program for first and second tier management are discussed on pages 74–77 and of the Notes.

INVESTOR RELATIONS ACTIVITIES

The Techem share is listed in the Prime Standard segment of the Frankfurt Stock Exchange and included in the M-DAX.

The task of the Investor Relations department is to provide comprehensive and timely information to shareholders of and potential investors in Techem AG. We have organized roadshows and individual meetings for institutional investors and analysts in the most important financial centers in Europe and the United States as well as at our company headquarters in Eschborn. In addition, the financial community has been briefed on quarterly results by means of conference calls that were simultaneously carried on the Internet. For our private investors, the Ordinary General Shareholders' Meeting held on March 18, 2004, was undoubtedly the most important event, one enabling them to form a personal picture of the Techem AG economic situation and strategy. Our Investor Relations website provides a comprehensive overview of Techem AG. It is a source for current data at all times as well as a place where historical information can be called up.

DIVIDEND POLICY

The Techem AG Supervisory Board and Board of Directors will propose to the Ordinary General Shareholders' Meeting scheduled to be held on March 3, 2005, that no dividend should be paid for fiscal year 2003/2004. Instead, profits are to be retained within the Company in order to develop new business areas and penetrate new markets. In addition, a further reduction of net debt is a major priority.

Annual and quarterly reports (German & English), analyst and investor presentations (English) as well as much more concerning the Techem share are available on the Investor Relations pages of the Techem AG website at www.techem.com.

Share financial ratios

Securities Identification Number: 547160 ISIN: DE0005471601	2000/01	2001/02	2002/03	2003/04
Earnings per share in EUR	0.53	0.50	0.60	1.77
Dividend in EUR	0.00	0.00	0.00	0.00[1]
Price-earnings ratio in EUR[2]	37.74	13.52	24.62	12.51
High 01.10.–30.09. in EUR[3]	36.25	26.50	15.28	22.35
Low 01.10.–30.09. in EUR[3]	19.61	5.90	5.65	14.00
Price on 30.09. in EUR[3]	20.00	6.76	14.77	22.15
Stock market capitalization at 30.09. in EUR million[2]	493.6	166.8	364.5	546.7
Number of shares outstanding	24,681,139	24,681,139	24,681,139	24,681,139

1) Proposed by Supervisory Board and Board of Directors
2) Based on Xetra closing price of 30.09.
3) Xetra closing price

How many drops make up 129 liters . . .

Much more than a consumer good. Water.
A German used an average 129 liters of drinking water per day in 2000. Part of the credit for consumption falling to this level over the past decade is due to Techem. Now, a growing number of people in Eastern Europe and the rest of the world are thinking about consumption-based billing and not just in relation to water.

Techem too continues to think. With intelligent radio-controlled measuring systems, we have succeeded in combining classic Techem services with future living requirements.

BUSINESS AREAS

Techem AG is one of Europe's leading providers of services to the housing and real estate industries. We meet the needs of our customers in a comprehensive manner through three business areas.

Our core business of Energy Services enables us to provide customers in 19 European countries, and now China too, with services consisting in the exact measurement of the consumption of energy and water. Through the Energy Contracting business area, Techem supplies heat, cold and electricity-based energy sources to residential and commercial property. The IT Services business area offers specialized software solutions and advisory services to professional property managers.

Percentage shares of total revenue

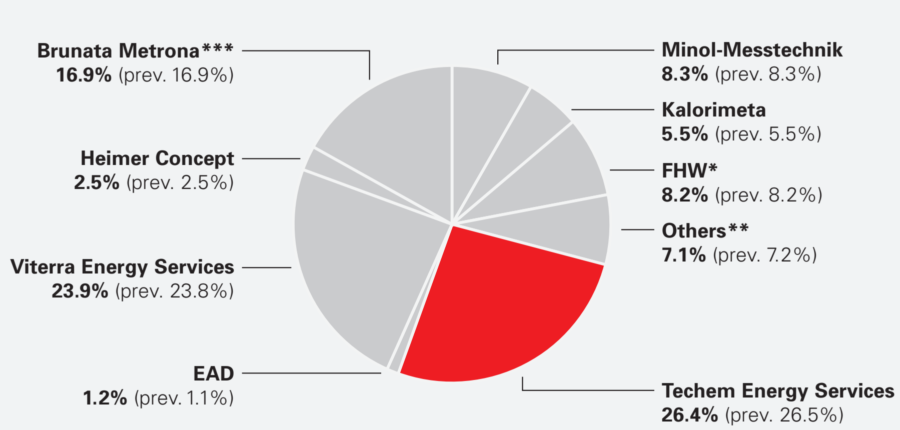
	EUR 432.0 million = 100%	Sales revenues (EUR million)
Energy Services	87.2%	376.7
Energy Contracting	11.1%	47.8
IT Services	1.7%	7.5
Total	100.0%	432.0

ENERGY SERVICES

As at the reporting date of September 30, 2004, employees of the Energy Services business area provided services to about 611,000 customers with about 6.7 million apartments and 36.9 million measuring devices throughout Europe.

At present, about 291,000 customers with approximately 4.7 million apartments use Techem's services in Germany. They are served by 5 regional head offices, 78 branch offices and 22 field offices. Techem defended its leading position in the German market for heat metering services with a market share of 26.4 percent. As a result of the low volume in new construction, there were no meaningful changes in the competitor structure. The overall installed base in Germany, too, increased only moderately.

Market share of companies in Germany as of 30. 09. 2004



Source: Techem

Total 106.1 million (prev. 105.7 million)

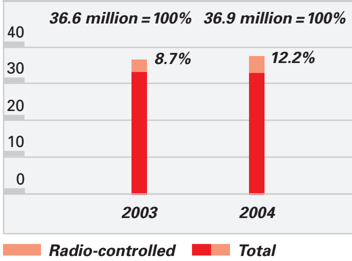
* FHW (Fachvereinigung Heizkostenverteiler Wärmekostenabrechnungen e.V. – c.15 companies)
** Others – c.130 companies
*** Consortium of three (legally) independent companies

Energy Services comprises the provision of metering and billing services, the equipment necessary for the exact measurement of energy and water consumption and various forms of consumption analyses. On the basis of our portfolio of services, customers are able to compose an individual service package tailored to their needs. Techem has succeeded in gaining for itself a leading market position that places it well ahead of its competitors in the use of future-oriented radio-controlled measuring devices. We have been using such devices since 1996 and service about 80 percent of all the radio-controlled devices in use in Germany. However, we offer a much broader range of devices: It extends from the customary heat cost allocator that operates on the evaporation principle, the already-mentioned radio-controlled heat cost allocators, the water and heat meters to the also radio-controlled home automation system assisto, which in addition offers individual room temperature control and can be expanded in stages.

Installed base

(installed, invoiced and billed devices)

Radio-controlled device share of total installed base as at Sept. 30 (Europe)



Installed base Europe

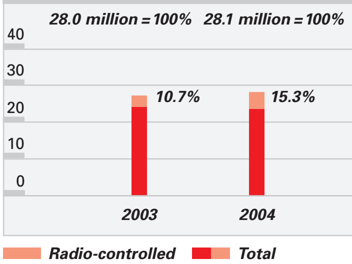
	September 30 2003	2004
Radio-controlled devices	3.2	4.5
Electronic devices	12.8	12.6
Water meters	6.6	6.7
Evaporators	14.0	13.1
Total (million)	**36.6**	**36.9**

Techem's billing business is based on three stable pillars: close customer relationships extending over many years, widespread acceptance of consumption-based billing by the public – something that is increasing even more rapidly as a result of rising energy prices – and EU legislation in the field of energy that is being extended to encompass an even greater number of states as a result of EU expansion.

The billing base comprising future-oriented, radio-controlled devices has been increased by more than 40 percent.

In fiscal year 2003/2004, it was possible to increase the installed base for radio-controlled devices by just under 41 percent. Radio-controlled devices now account for 12.2 percent (previous year: 8.7 percent) of the total installed base. As a result of the pressure that exists for conventional evaporators to be upgraded, we expect to see an increase in sales revenue and a strengthening of our relationships with customers. This is because radio-controlled technology not only creates opportunities for us to acquire new customers but also to tie existing customers to us over the long term as a result of its user-friendly character and capacity for enhancement and integration.

Radio-controlled device share of total installed base as at Sept. 30 (Germany)



Installed base Germany

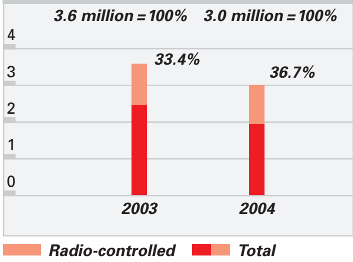
	September 30 2003	2004
Radio-controlled devices	3.0	4.3
Electronic devices	9.7	9.3
Water meters	5.8	5.8
Evaporators	9.5	8.7
Total (million)	**28.0**	**28.1**

As the volume of new construction projects in Germany almost came to a halt, we see opportunities for growth in the field of modernization above all. The replacing of conventional heat cost allocators and water meters with modern radio-controlled systems offers two key advantages from a qualitative perspective: First, virtually no meter-reading mistakes can occur and second, meter readers no longer have to enter the home, which avoids the time-consuming arrangement for second and third appointments. Both these factors facilitate even faster billing. In Germany alone, the installed base in radio-controlled devices rose by about 43 percent in the past fiscal year, with its share of the total installed base rising to 15.3 percent (previous year: 10.7 percent). The market share of radio-controlled meter-reading devices of the new business is well in excess of 70 percent.

Equipment sales

(invoiced devices, not yet billed)

Radio-controlled device share of total sales as at Sept. 30 (Europe)

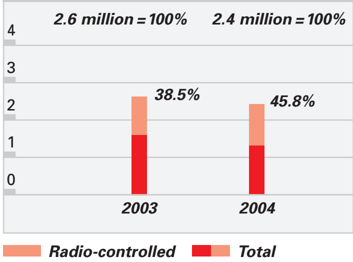


Equipment sales Europe	2002/2003	2003/2004
Radio-controlled devices	1.2	1.1
Electronic devices	1.2	0.8
Water meters	0.9	0.9
Evaporators	0.3	0.2
Total (million)	**3.6**	**3.0**

Fiscal year 2003/2004 saw about 3.0 million new devices sold across Europe (previous year: 3.6 million). The share of total equipment sales in Europe accounted for by radio-controlled devices was 36.7 percent as at September 30, 2004 (previous year: 33.4 percent).

Equipment sales for fiscal year 2002/2003 outside Germany had been driven by heat cost allocator equipping for the first time on the Bulgarian market. As this process has been largely completed now, sales during fiscal year 2003/2004 were on the decline.

Radio-controlled device share of total sales as at Sept. 30 (Germany)



Equipment sales Germany	2002/2003	2003/2004
Radio-controlled devices	1.0	1.1
Electronic devices	0.6	0.4
Water meters	0.8	0.8
Evaporators	0.2	0.1
Total (million)	**2.6**	**2.4**

The past fiscal year saw about 2.4 million new devices sold in Germany (previous year: 2.6 million). Radio-controlled devices accounted for 45.8 percent of domestic equipment sales as at September 30, 2004 (previous year: 38.5 percent).

In Germany, the drop in sales is primarily due to the fall in the number of new construction projects completed as well as to a temporary decline in the regular volume of units exchanged in connection with the transition from 8-year to 10-year contracts in the case of heat cost allocators.

About 923,000 households (previous year: about 743,000 households) have been equipped with the radio-controlled system across Europe. The number of radio-controlled devices delivered as at September 30, 2004, was 5.4 million. The difference of 0.9 million between the number of devices delivered and the billing base stems from the fact that not all the devices delivered were included in the billing base on that date.

The trend towards the long-term rental of measuring devices is continually growing.

Rental and maintenance services

Techem recommends long-term equipment rentals to its customers. It was possible to increase the number of domestic rental contracts by 6.1 percent to 385,363 (previous year: 363,254). They cover a base comprising 13.5 million devices, which corresponds to 48.0 percent of the 28.1 million devices installed in Germany. This clearly illustrates that the trend toward renting equipment is still growing. The number of maintenance contracts in Germany for devices sold rose by about 3.0 percent, from 165,750 to 170,673. Techem covers 16.7 percent of its domestic installed base by means of the 4.7 million devices serviced under these contracts. Outside Germany, Techem currently only offers rental and maintenance contracts in Austria, Switzerland and Belgium on a modest scale.

ENERGY CONTRACTING

The Energy Contracting business area proved to be a growth driver in the past year, too. It was once again possible to achieve double-digit sales revenue growth of the order of about 22 percent. The Techem Energy Contracting business model covers the supplying of heat, cold and electricity-based functional energy under long-term contracting agreements. The range of services we offer is primarily directed at the real estate industry as the owners or managers of residential and commercial property.

Fiscal year 2003/2004 also saw double-digit growth in long-term contracting agreements for the real estate industry.

In order to supply energy, we operate our own as well as leased facilities for the production of heat, cold and electricity. In addition to advising on, planning, installing and financing facilities, our modular range of services also covers the operation and servicing of such facilities, including regeneration and maintenance, as well as consumption billing and energy management. As one of the most experienced providers on the market, we guarantee our customers the safe and cost-effective supply of energy and uninterrupted plant operation.

The Energy Contracting market is being shaped by two fundamental trends in the real estate industry: the need to conserve energy while continuing to cut ancillary costs in a consistent manner and the demand for higher yields. Additional further demands of the real estate industry, such as the possibility of third-party finance, the divesting of administrative tasks and repair-related risks encourage demand for contracting services.

Possessing a range of products and services that is tailored to market needs, Techem Energy Contracting is optimally prepared in order to offer customized solutions for these demands. The market potential is undoubtedly present, as the extent to which the German market has been tapped is still well under 10 percent.

As at September 30, 2004, a total of 770 thermal supply contracts (previous year: 647 contracts), corresponding to a thermal connection capacity of about 510 megawatts, were in effect.

IT SERVICES

Techem IT Services offers highly specialized software solutions and consultancy services to the real estate industry. The detailed incorporation of real estate industry processes in software has enabled Techem to achieve a comprehensive understanding of processes and requirements in customer businesses, and this has had a positive impact on the core business. This is why IT Services is a business area of strategic importance for Techem as a service provider.

The modular software solution wodis is presently used by more than 300 customers, who provide 6,000 jobs and service more than one million residential and commercial property units. wodis was specially designed for small and medium-sized residential property companies, servicing between 500 and 20,000 units. In addition to being offered as an in-house solution, wodis is also available in an ASP (Application Service Provider) version, which is operated at the data processing center located at Techem's headquarters in Eschborn. This allows the customer to choose from the whole range of Techem services, starting from hosting and extending all the way to full outsourcing, including the outsourcing of business processes. In the coming fiscal year, we will place a greater emphasis on synergy effects for those customers that work together with Techem across business areas.

In the market for real estate industry standard software, two important competitors are about to experience the end of a product cycle. Thus, a far-reaching change can be expected with regard to their customers, corresponding to about two thirds of the market. Techem IT Services offers these companies a functional and mature software solution that meets the latest technological standards on an attractive price-performance basis. We are therefore convinced that we will be able to achieve a significant expansion of the wodis customer base over the coming years.

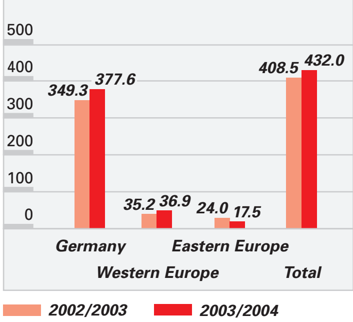
REGIONS

Techem operates a comprehensive service network in many countries where there is a reliable basis for our business in the form of appropriate legislation. Outside Germany, we provide services in a total of 19 countries to about 320,000 customers with 2 million apartments.

We will continue to pursue our internationalization strategy in the future, too, while focusing on selected Eastern European markets, such as Romania, and on China.

The international presence of Techem AG

Sales revenues Germany, Eastern and Western Europe
(EUR million)



WESTERN EUROPE

In the markets of Western Europe (excluding Germany), Techem was once again able to post an increase in sales revenue, with sales revenue for fiscal year 2003/2004 growing by 4.8 percent to EUR 36.9 million (previous year: EUR 35.2 million). We are already present in the following ten countries in the region through subsidiaries, equity interests or trading partners: Belgium, Denmark, France, Greece, Italy, Luxembourg, the Netherlands, Austria, Sweden and Switzerland. More information about the course of business in the individual countries can be found from page 25 onward in the section entitled "Industry Trends: Energy Services".

EASTERN EUROPE

In the year under review, we were again able to boost our sales revenue in most Eastern European countries. The first-time equipping of heat cost allocators in the Bulgarian market, which was already completed in the past fiscal year, enabled us to achieve a very high market share of about 60 percent there. However, extensive market saturation is now causing equipment sales to decline temporarily and has thus resulted in a tangible decrease in sales revenue for fiscal year 2003/2004. Consequently, total sales revenue declined by 27.1 percent to EUR 17.5 million (previous year: EUR 24.0 million). Nevertheless, the Eastern European markets remain particularly interesting for Techem, as many of these countries are only gradually beginning to approach their natural resources with a view to conserving them. Thus, July 2004 saw the entry into force in Romania of an energy law prescribing the consumption-based billing of heating by the middle of 2007. Techem has had a subsidiary of its own in Romania since November 2002 and has already seen a sharp rise in the number of its customers since the heating period 2002/2003. Romania aside, we have established subsidiaries or work with local trading partners in the following seven countries: Bulgaria, Poland, Russia, Serbia, Slovakia, the Czech Republic and Hungary. More detailed information on the Eastern European market can be found from page 24 onward in the section entitled "Industry Trends: Energy Services".

ASIA

After the end of the fiscal year a subsidiary was established in the City of Dalian, China. Techem is also present in Hong Kong trough a trading partner. In the context of a pilot project we equipped buildings in three Chinese cities with heat cost allocators in November 2004.

Maintaining a balance …

An essential part of wellbeing. Heat.
At home, expensive resources are being wasted whenever room temperature is too high by one degree. With its measuring technology, Techem helps millions of people in Europe to maintain a balance between comfort and economy.

Economy is also a key term for our customers in the Energy Contracting business segment. The optimized supply of heat, electricity and cold on the basis of contracting agreements makes it possible to increase property yields in the real estate industry over the long term.

MANAGEMENT REPORT

INDUSTRY TRENDS: ENERGY SERVICES

Germany

The German market for residential and commercial property has reached a saturation point to a large degree. The year under review saw no fundamental change in the general economic environment as the volume of new construction projects remained low and a tangible recovery is still not in sight. Approval was received for a total of 152,400 apartments in new construction projects during the first half of 2004 and thus, according to the Federal Statistical Office Germany, this means that 6,300 or 4 percent fewer construction permits were issued than during the same period last year. Permits issued for apartments in residential buildings also fell during the first half of 2004, declining by 4.8 percent compared with same period last year, but falling by 5.9 percent in the case of single and two-family homes in particular. By contrast, permits for apartments in multi-family units were down only slightly, falling by 0.3 percent. In Germany's new laender, the potential for modernization is only on a low level. The projected vacancy rate in Eastern Germany as at December 31, 2003, was 16 percent. About one third of those empty apartments are to be removed from the market as a result of demolition: A new use can be found for some apartments as a result of other measures, e.g. the combining of apartments or re-designation. A start was made on this with the "Stadtumbau Ost" program, which was launched by 197 municipalities in 2002 and provides for the elimination of 350,000 apartments over a subsequent eight-year period. Residential property companies in the new laender are exposed to considerable strains as a result of the loss of rental income, past liabilities, high own contributions to modernization, declining rental receipts and the incurring of operating costs for empty apartments. The reduction that is being sought means that these apartments will disappear from our billing base. On the other hand, real estate companies are employing numerous measures to try to make prefabricated block developments more attractive in particular and to improve the quality of life for tenants. Technical innovations play a significant role in this respect.

The use of measuring devices for cold and hot water consumption is continuing to increase.

The volume of modernization projects in the Western part of the country has increased slightly once again. On average, about 80,000 apartments a year receive central heating systems for the first time and are simultaneously equipped with heat cost allocators and water meters in most cases. This is further proof of there being no change in the increasingly widespread adoption of the consumption-based measuring and billing of hot and cold water. We have also achieved growth through comprehensive re-equipping with modern radio technology in the case of heat cost allocators operating on the evaporation principle and of electronic heat cost allocators.

Our product range

Market leadership maintained
Competition within the entire industry remains fierce. Eight companies, which are grouped together in the Arbeitsgemeinschaft Heiz- und Wasserkostenverteilung e.V. association, account for about 85.5 percent of the market. The rest is divided up among approximately 150 mainly regional providers.

As a result of the development of technology, smaller providers are finding it increasingly difficult to finance the requisite high investment in technical know-how. However, what is taking place is not just price competition. In this regard, the quality of our services and our superiority in equipment technology provide us with competitive advantages, enabling us to defend our position of market leadership as a flexible, innovative service provider. As the positive trend in sales shows, the market is receptive to technical innovation. Techem's growth in the Energy Services business area continues to be based on equipping and billing connected with newly built or modernized apartments, subsequent fitting with water meters as well as cutting out competition. In Germany, growth is largely been driven by the replacing of conventional heat cost allocators and water meters with technologically more advanced devices. In this regard, we have been able to profit from our existing customer relationships. In addition, the positive trend in equipment rentals has continued. Most of our devices are rented on a long-term basis, with contracts lasting ten years in the case of heat cost allocators and five or six years in the case of water meters.

International

Eastern Europe
(Bulgaria, the Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia)

In view of the relatively low incomes in the region, the measurement and billing of heating and water is becoming a reliable means of saving on costs for households. As these countries come up to European standards, the energy services sector, which is as such continually growing, will receive a further boost. Techem is well positioned in these markets and thus in a position to react flexibly to any change in general conditions.

Bulgaria | In Bulgaria, apartments have been extensively fitted with heat costs allocators as a result of the 2001 Energy Act. With a market share of more than 50 percent, Techem is the market leader. We expect stable economic development to yield further business opportunities for water meters and the connecting of buildings to district heating networks.

Poland | With 21 million radiators installed in multi-family residences, Poland's market potential is great, as only about 8 million radiators have been fitted with heat cost allocators. The market is continually developing at a constant pace. Techem continues to occupy second place in the industry. About 15 companies in total provide billing services.

Poland's EU entry will provide a further stimulus to the market and our business. In addition, according to estimates from Poland's Main Statistical Office, about 3.5 million apartments are to be built by 2010.

Romania | Individual billing was scarcely known in Romania until now. The entry into force of the Energy Act in July 2004 means that demand can be expected to rise over the next three years. Through its Romanian subsidiary, Techem Energy Services S.R.L., which was founded in 2002, Techem has already secured itself a very good starting position.

Czech Republic | Techem has in the meantime become the market leader in the Czech Republic. The further increase in the equipment level resulted in an intensification of crowding out competition in the fiscal year just ended. However, compulsory thermostatication stimulated business further. The self-billing announced by some suppliers of heating in the past has not come about so far. As a result of our market position and given the extent of our proximity to the customers, we continue to take a calm view of these developments.

Western Europe
(Austria, Belgium, Denmark, Greece, Italy, Luxembourg, the Netherlands, Sweden and Switzerland)

During the year under review, the situation in the construction industry and in the housing industry in particular has not improved in most European countries. Nevertheless, our industry has managed to stabilize development in the energy services sector. Despite the fact that the volume of new construction projects in some countries has fallen, in part dramatically, Techem has nevertheless been able to grow its base in those countries as a result of crowding out competition. In established markets, Techem's focus is on further increasing the proportion of electronic and radio-controlled heat cost allocators. In markets such as Italy or Greece, for example, the first step is to convince target groups of the advantages of heat cost billing.

Belgium | The generally difficult economic situation of Belgium is also impacting on our industry. Nevertheless, Techem succeeded in achieving its targets for the fiscal year just ended and maintained its clear leadership position with a market share of over 50 percent. We see radio technology offering opportunities in the Belgian market, primarily in the replacement business as it relates to our equipment base and in sales of home technology.

Austria | The absence of new residential construction projects in Austria caused price competition over existing customers to further intensify during the fiscal year just ended. Nevertheless, our organization there was able to post a clearly higher success, mainly as a result of sales of heat meters. Techem has held a market share of more than 60 percent for more than 10 years and as the market leader is exposed to particularly high competitive pressure, given that market volume will decline further over the coming years. In Austria, Techem will therefore exploit potential for synergies available in the two business areas of measuring technology and water technology for constantly improving processes and billing software in order to have an advantage over the competition in the future, too.

Switzerland I Techem is exposed to strong price competition in Switzerland, too. The quality of customer service, planning advice and billing base preservation are of increasing importance against such a backdrop. The process of reorganizing and combining individual companies has been completed, thus aiding profitability. With its new marketing structure and its innovative radio system, Techem sees itself well prepared for future challenges of the market.

INDUSTRY TRENDS: ENERGY CONTRACTING

The situation in which the German economy finds itself as a whole remains tense and has not resulted in the upturn that was hoped for and the investment that was expected to entail. Moderate growth, weak domestic demand, stagnating real incomes as well as a slight decline in prices have increasingly come to weigh on the real estate market too, discouraging new construction projects and the modernization that is urgently needed. Given this situation, real estate companies are compelled to examine their real estate portfolios with a view to finding areas where efficiency gains can be obtained.

The housing industry in particular sees itself confronted with completely new challenges. People are becoming older, more mobile and more and more demanding. Some regions are shrinking on a massive scale as a result of declining population levels. This negative trend is persisting and is increasingly in evidence in the new laender in particular. The hidden strains being experienced in Eastern Germany are being accompanied by urban regeneration in preferred regions. In this regard, towns and cities are coming to differ to a greater extent than ever before. Residential property companies are thus being exposed to enormous pressure with regard to change and costs, especially against a backdrop of continually growing ancillary costs. The significant increase in energy prices, combined with the regulations contained in the Germany Energy Conservation Decree (EnEV) and the EU building directive, are compelling residential property companies to already address needs-based solutions today, in, for example, the field of energy services.

The German commercial real estate market is experiencing its longest crisis in postwar history. Since 2001, rents in the important office space segment have been declining, while vacancy levels have been rising. There is still no end in sight to the crisis. The tight economic situation has resulted in a considerable readiness and need to implement measures aimed at reducing operating costs. At the same time, real estate companies are coming under increasing pressure with respect to yields.

This trend on the German real estate market has resulted in growing demand for economic and modular solutions to energy supply needs. Professional real estate companies in particular are increasingly registering the advantages of using external energy service providers.

Utilization and market penetration levels in Germany are still well under 10 percent. Clear confirmation of this was provided in a recent study prepared by trend:research, an independent trend and market research institute: A representative poll taken within the commercial and municipal real estate sectors as well as in the industry showed that 30 percent of the companies and organizations surveyed currently use contracting. However, when viewed in relation to the number of suitable facilities, the level of market penetration is only 5 percent. This also indicates that there is still considerable potential for generating higher revenue with existing customers, too.

There is still considerable revenue potential given that market penetration remains low.

In addition to the main advantages (savings and avoidance of capital expenditure), a reduction in the work required is seen as a further important advantage. Against this backdrop, we expect a utilization level of a maximum of 10 to 15 percent by the end of 2006.

Leading market position retained

Techem is a leading market participant when compared with the direct competition from the private sector and providers operating nationally. Techem prepared itself early on for the current situation and for future trends in the real estate industry by means of special models. We expect to see marked growth in the case of models designed to save on energy costs in particular. Techem Energy Contracting is represented in this segment of the market under the slogan of "professional asset management with innovative products designed to lower operating costs and raise yields".

In the commercial real estate segment (functional buildings), there is a growing demand for full-range services, covering energy, utilities, and security as well as additional facilities. Alongside the core elements of procuring energy for the end user and the operation of facilities, this mainly applies to the supply of process energy as well as further multi-utility services such as energy management and controlling.

INDUSTRY TRENDS: IT SERVICES

During the year under review, most residential property companies once again displayed noticeable restraint with regard to IT investment. The industry is waiting for new products to become available in order to be able to make a realistic price and performance comparison with the solutions already available on the market and then to reach a decision on whether to switch over to different software. We assume that the investment backlog will gradually disappear. It is already noticeable that many companies are in the midst of decision-making processes and will decide on a software changeover in 2005. In this regard, Techem IT Services finds itself in a very good starting position.

Techem sees the great chance of winning over numerous customers from competitors and to attack the market leader. Because we have a technologically up-to-date and mature product in the form of wodis that offers an attractive price to performance ratio and is particularly suited for medium-sized residential property companies. The ASP (Application Service Provider) version of wodis, which has been available for the past two years, has already established itself on the market.

There is no basis for expecting the entry of further competitors as the barriers to market entry are very high. The development of special software for a relatively small market segment such as housing presupposes a readiness to incur high investment outlays. Such outlays are a particularly important factor given that there are no indications that any new companies with significant property holdings will be established in the near future. This means that competitors will be vying among themselves within the sector; a form of competition that Techem IT Services is well equipped to deal with.

COURSE OF BUSINESS

The very good market position in the Energy Services core business is being enhanced further.

The course of business has been more than satisfactory for Techem despite economic conditions that remained unchanged. We were able to further enhance our already strong market position in the core business of Energy Services. As in previous years, the Energy Contracting business area developed positively, with the result that we were able to increase our market share. The course of foreign business was in line with our expectations, and we were also able to bolster our market share outside Germany.

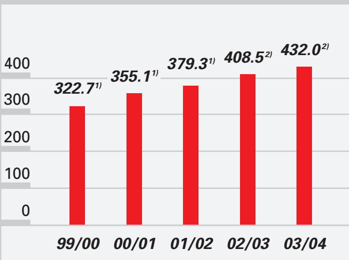
The financial statements presented have been prepared in accordance with IFRS for the first time. Significant differences in relation to U.S.-GAAP are described in item B. of the Notes.

Earnings position

Revenue for fiscal year 2003/2004 rose to EUR 432.0 million: This represents an increase of 5.8 percent in relation to last year's figure of EUR 408.5 million.

The classic Energy Services business activities centering on the provision of consumption-based measuring and billing services for energy and water remain the Techem Group's core business. However, Energy Services business outside Germany and Energy Contracting are making contributions to growth that are continually increasing.

Revenues as at 30. 09.
(EUR million)



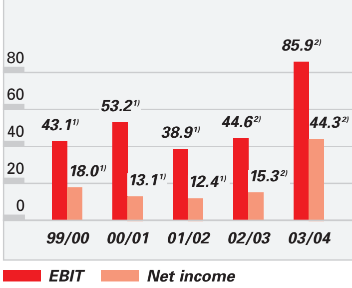
1) according to U.S.-GAAP
2) according to IFRS

The revenue (in EUR million) posted by the individual business segments were as follows:

Revenue	2002/2003	2003/2004	Change
Energy Services	360.9	376.7	+4.4%
Billing Services	180.7	190.0	+5.1%
Equipment rentals	107.7	118.9	+10.4%
Sales	48.0	41.7	–13.1%
Maintenance	24.5	26.1	+6.5%
Energy Contracting	39.2	47.8	+21.9%
IT Services	8.4*	7.5	–10.7%
Total	**408.5**	**432.0**	**+5.8%**

* Fiscal year 2002/2003 includes the revenue generated by HausPerfekt GmbH

EBIT/Net income as at 30.09.
(EUR million)



1) according to U.S.-GAAP (EBIT including net share of profit of associates)
2) according to IFRS

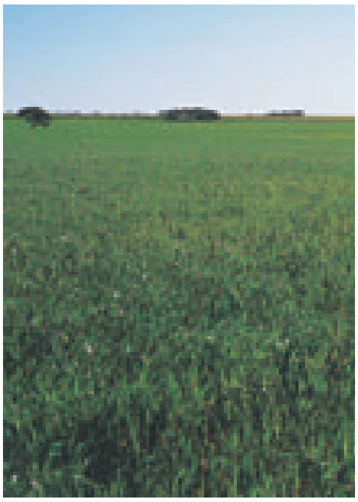
Group EBIT rose from EUR 44.6 million last year to EUR 85.9 million for fiscal year 2003/2004, which represents an increase of 92.6 percent. This is attributable to higher revenue along with a simultaneous reduction in the cost base.

Over the same period, net income rose from EUR 15.3 million to EUR 44.3 million, which means that the Group achieved an increase of 189.5 percent.

CAPITAL EXPENDITURE

Group investment outlays (changes in the scope of consolidation accounted for) in fiscal year 2003/2004 totaled EUR 59.9 million (previous year: EUR 54.2 million). The outlays comprised:

Capital expenditure EUR million	2002/2003	2003/2004	Change
Intangible assets	5.9	15.9	+169.5%
Tangible assets	13.0	14.4	+10.8%
Rental equipment	35.1	29.6	–15.7%
Financial assets	0.2	0	–100%
Total	**54.2**	**59.9**	**+10.5%**



RESEARCH AND DEVELOPMENT

Techem's leading position as a service provider to the housing and real estate industry is based on innovative products and the latest in technology. It therefore goes without saying for us that we should accord particular attention to the field of research and development. Outlays for R&D projects, according to IFRS, for just ended fiscal year 2003/2004 totaled EUR 6.8 million and were thus slightly up year-on-year. In addition to our own engineers, who are exclusively involved with working on R&D projects, we also make use of external know-how, from both scientific circles as well as industrial partner companies. We have been cooperating closely with university departments at Dresden, Paderborn and Stuttgart for many years. Cooperation with external specialists provides us with support for basic research as well as for the development of specific products.

The focus of development work in fiscal year 2004/2005 will be the optimization of technology for the taking of meter readings remotely with the aim of making on-site radio-controlled manual meter reading unnecessary in the future.

Sales of radio-controlled devices are being promoted through the development of a new product line.

New generation of radio-controlled systems launched successfully
The development of a new line of radio-controlled systems was the focal point of the year under review and was successfully concluded on September 1, 2004, with the comprehensive release of the product. The ease with which the radio-controlled devices can be installed and the simple, secure means by which readings can be taken will make it possible to actively promote sales of radio-controlled devices. This will also lay the groundwork for the subsequent, fully-automated remote taking of readings for entire neighborhoods.

In a parallel process, we have optimized field data recording to such an extent that readings can be taken from all electronic measuring devices without any contact and without any errors. As a result, billing quality is improved while the costs of taking readings are reduced at the same time.

By continuing to develop electronic devices, we will also create optimal conditions for consistently enhancing our superiority in radio technology. Our strategy for the future is aimed at only offering radio-controlled devices to those customers also that have devices replaced at regular intervals. This is possible thanks to a new type of heat and water meter product that has been in use since October 1, 2004: It records data electronically with readings taken inside the apartment by an employee using an optical interface, but it also possesses a radio function that can be activated. Thus, the customer can switch over to radio at any time without it being necessary to install a new device.

PROCUREMENT

We have tied our main suppliers of heat cost allocators as well as water and heat meters to us by means of long-term agreements; this ensures price security and availability at all times. To avoid becoming dependent on one supplier, we always work with two suppliers in the case of our mass products.

A high degree of supply capacity means that smooth supply can be assured in the future, too.

During the fiscal year just ended, our suppliers' ability to deliver remained on a very high level. The same applies to delivered quality, which we have traditionally secured by means of extensive agreements concerning quality with our suppliers.

Procurement prices fell further during the year under review, as can also be seen from our internal procurement price index. Price arrangements that have already been agreed will ensure that this long-term trend will continue.

CORPORATE STRUCTURE

Techem AG is a holding company with interests in businesses in Germany and abroad. Its corporate purpose consists in holding and managing interests in other companies, including company property. The Company has its registered office in Eschborn. The Company has been listed in official trading on the Frankfurt Stock Exchange since February 2000 and has been included in the M-DAX midcap index since September 18, 2000.

Capital structures have been reorganized as part of the cost-cutting program.

Operational management of the Group is the responsibility of Techem Energy Services GmbH & Co. KG, Eschborn, around 99.975 percent of which is held by Techem AG as a limited partner. Techem AG has consolidated its capital structures as part of its cost-cutting program. During fiscal year 2003/2004, Techem Development GmbH, Techem International GmbH and assisto Leasing GmbH were merged into Techem Energy Services GmbH & Co. KG. In addition, WIB Consult GmbH für Wohnungs-, Immobilien- und Bauwirtschaft was merged with Techem IT Services GmbH. We sold our shares in EL-ME AG and Techem Drecount Utility Service GmbH during the year under review.

Techem Energy Services GmbH & Co. KG also acquired the remaining shares of Techem Messtechnik Ges.m.b.H., Innsbruck/Austria, in the fiscal year just ended.

LAUNCH OF THE NEW FISCAL YEAR AND STRATEGIC OUTLOOK

The Techem Group needed to implement a difficult restructuring process over the past two years. The key elements of this process have been completed and the foundations for the lasting and dynamic development of the Group have been laid. The start of the process saw the Company imbued with a new spirit – a commitment on the part of all employees and management to the pursuit of a strictly customer-oriented approach coupled with cost consciousness and efficiency. The Techem Group does not "manage" apartments, but offers its customers in the real estate industry fast, exact and friendly services that meet the highest technical standards.

Techem is the market leader in Germany and many other European countries not just because of its size but also thanks to the creativity and wealth of ideas possessed by its employees, who offer excellent services with the most advanced technologies and innovative products. Techem was one of the first companies to use radio technology to measure heat and water consumption. Today, with more than 4.4 million radio-controlled systems installed, Techem is not only the market leader but also the leader in technology. We will maintain and gradually enhance this lead that we have gained over the competition. Over the next few years, Techem will further bolster sales-based measures aimed at increasing the use of radio-controlled recording devices. Over the long term, that is, a period of about ten years, we will seek to convince all Energy Services customers of this technology. We will make the transition easier for customers in that we will only deploy devices that have a radio capability as of fall 2004. Our new electronic heat cost allocators possess an interface that can be activated and converted for radio operation at any time.

There is considerable room for expansion internationally, especially in the former Soviet republics.

Considerable room for further expansion is also offered by international markets. We see there being good opportunities in Romania following the introduction of a heating cost decree there in July 2004. We are already represented there through a subsidiary. A subsidiary is currently being established in China. Further enormous potential for development is also offered by former CIS states such as Ukraine. These are areas where Techem may be able to achieve tomorrow's growth.

However, growth is not an end in itself for Techem; it only makes sense if the returns and thus earnings for our shareholders are commensurate. We have deliberately set ourselves a very high benchmark and expect to increase revenue by between six and seven percent over the coming years. This means that we can expect revenue of between EUR 458 million and EUR 461 million for fiscal year 2004/2005. EBIT will be further increased. The requisite investment outlays will amount to between EUR 64 million and EUR 70 million.

We will attain these demanding goals with the combined strengths of all our employees. We want to raise revenue by means of new customers, the gradual re-equipping of households with radio-controlled measuring devices and above-average growth in our Energy Contracting and IT Services business areas.

Alongside our Energy Services core business, these two business areas place us in the position of being able to offer real estate companies comprehensive services on a one-stop basis. That is something that none of our competitors can offer today. We are optimistic that the Energy Contracting business area and the Energy Services foreign business will post above-average growth in the future, too.

Group net debt was further reduced during the past fiscal year.

A further key component of our strategy is the consistent scaling back of net debt. With net debt reduced by about EUR 49 million to approximately EUR 216 million in the fiscal year just ended, this strategy will be continued in the current fiscal year and treated as a top priority. We want to reduce net debt to between EUR 175 million and EUR 190 million in 2004/2005. This means that we will be placing the Group on a solid financial footing.

We have every reason to be confident and to be proud of our accomplishments: Today, Techem is one of the most modern service companies operating in the real estate and housing industries. The Group is efficient, strong on earnings, flexible and innovative. These qualities have to be demonstrated anew each day through hard work and creativity – for our customers, employees and shareholders.

Major events occurring after the reporting date

There have been no major events apart from those already mentioned since the close of the 2003/2004 fiscal year, which are of any great significance for the Techem Group and which may lead to an altered assessment of the company.

RISK MANAGEMENT

The Techem Group companies are by the very nature of their business operations exposed to risks that are inseparable from entrepreneurial activities. A risk management system is in operation within all Techem AG Group companies to facilitate the identification of risks at an early stage, to conduct risk evaluations and to ensure that existing risks are dealt with appropriately. A uniform guideline defines responsibilities, processes, limits and thresholds in an clear-cut manner. An ad hoc reporting system forms an integral part of the risk management system to ensure immediate measures to be applied to events that occur during the course of the year. The Board of Directors and the Supervisory Board are briefed at regular intervals about risks that could have a material effect on the course of business.

In conducting its business operations, Techem is confronted with various areas of risk. They are as follows:

General economic risk
To minimize and control macroeconomic risk, we constantly monitor economic trends in markets of relevance to us. With respect to risks arising from trends in vacancy rates, especially on the Eastern German real estate market, please refer to the details provided in the section "Industry Trends: Energy Services". We do not perceive from the macroeconomic trends any lasting risk to us in terms of the current economic and sociopolitical situation. We will continue to monitor legal developments intensively.

Industry risks
Billing base growth is related to modernization of buildings on the one hand and to the volume of new construction projects of multi-family residences on the other. Studies that we have, however, indicate that the number of new construction projects will stagnate over the coming years. Building modernization and the installation of central heating systems will remain on about the present level in Western Germany. By contrast, building modernization in Eastern Germany can be expected to decline further. Providers of housing industry software want to integrate billing in the future and equip apartments and take measuring device readings themselves in the future.

Business risks

Sales risks
To identify impending decreases in sales early on, sales evaluations are prepared and analyzed on a monthly basis. The sales risk to which Techem is exposed is limited by the fact that it is not dependent on any major customer or individual region, although Germany generates the largest share of revenue.

Procurement risks
We have concluded long-term agreements with our main suppliers of heat cost allocators as well as water and heat meters to ensure a high degree in guarantee of supply. To avoid becoming dependent on any one supplier, we always work with two suppliers in the case of our mass products.

As our largest single supplier has also started to supply large parts of our new radio-controlled measuring system as of September 2004, we are currently reviewing the possibility of transferring assortment components hitherto supplied by this supplier to other business partners.

A comprehensive quality assurance system, which already starts with our suppliers, has ensured that the failure rate for our devices has stayed on a very low level for years.

Financing risks

Our liquidity is precisely monitored and controlled by means of financial planning, forecasting and analysis instruments. Techem Group refinancing is carried out through a syndicate of internationally renowned commercial banks and is secured contractually until 2008. We have obtained adequate hedging against possible interest rate fluctuations by means of interest rate cap/swap transactions in the form of cap agreements concluded with a major German credit institution. The bulk of Group revenue is generated within the euro area and hence no exchange rate risk is involved. Trends in accounts receivable and their structure form an integral part of our periodic reporting. As there are a large number of customers, no single instance of default would be of material significance for the Techem Group.

The Techem Group's main revenue are not affected by foreign currency risk.

Capital expenditure in the Energy Contracting business area is secured on a long-term basis by means of supply rights in rem that are recorded in the land and mortgage registers for the properties being supplied. The refinancing of such investment outlays primarily takes the form of the sale of energy on the basis of contractually agreed prices. In general, if property owners become insolvent, lien holders levy the execution of the property which ensures that further receivables are paid. In addition, the priority interest of property users to be supplied with energy essentially remains intact. The quick suspension of supply can thus also impact on a contractual partner's readiness to discharge its financial obligations.

Legal risks

We are not aware of any pending or threatened court or arbitration proceedings that could have a material impact on the economic position of our companies. With the entry into force of the first "Law on Social Insurance Adjustments and the Securing of Employee Rights", Techem restructured its sub-contracting agreements.

Investment risks

The acquisition of new companies and the entry into new areas of business can always entail certain risks. No new companies were acquired during the year under review. As a result of the limited use of capital, expansion outside Germany does not expose Techem to any substantial risks.

Techem will step up the attention paid to the young IT Services business area with its strategically important investment during the course of ongoing risk monitoring in the future, too.

Other risks and IT risks

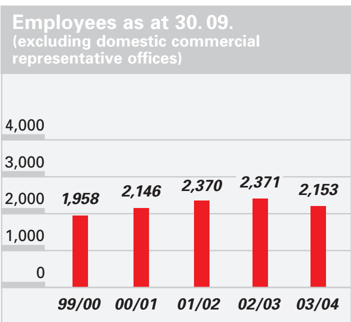
Techem uses an integrated and uniform IT infrastructure. By using modern hardware and software and cooperating with competent service partners, we respond to any IT risks that may arise.

To protect itself against the unauthorized accessing of data, Techem employs various measures, which relate to employees, organization, applications, systems and its IT network. The protective measures include standard activities such as the use of virus scanners, firewall systems as well as entry and access controls. Existing software applications are continually checked with respect to existing documentation and improved if need be. The transfer of billing software to a modern IT platform entails high risks during the implementation phase. These risks are reduced through close project monitoring by management, employee training and the gradual introduction of the software within Techem's external organization.

Significant business transactions and changes in earnings are analyzed on an ongoing basis and feedback is provided. Proceeding from a market-oriented, decentralized form of planning within individual companies, projections are prepared on a quarterly basis and coordinated with the plans.

Overall risk
In conclusion, it can be stated that there is no risk to the continued existence of the Techem Group, neither in terms of substance nor liquidity. No risks that might place the Company in jeopardy are identifiable for the foreseeable future. To continue by looking at the causes of risks in the future, too, in order to be able to identify risks but also opportunities early on, Techem attaches central importance to risk management, implementing it actively in all corporate areas and functions. An assessment of the internal control system and of risk management is also an integral part of the auditing of the annual financial statements.

EMPLOYEES



As at September 30, 2004, Techem had 2,153 employees. The number of employees in Germany fell by 182 once again and stood at 1,639 on the reporting date.

The change in employee figures at the end of the fiscal year is a result of a careful approach to hiring, the consequences of the personnel measures implemented in the preceding year, such as early retirement and fixed-term employment contracts as well as structural and technological changes.

The focus of the past fiscal year was on customer-orientation and enhancing quality of service. To this end, a 40-hour week was already introduced in March and a flexible annual working hours model launched in July.

In addition, a variable bonus and compensation system based on Company targets was implemented for various groups of employees. This coordinated incentive and direction-setting system makes an important contribution to ensuring that corporate strategy and goals are defined, communicated and attained.

Education

During the past fiscal year, too, the Company continued to help young people gain a sound start into their professional lives by providing appropriate training. A total of 34 new trainees – 16 more than last year – were hired nationwide. This means that as at September 30, 2004, a total of 86 trainees were employed at 36 sites of the Group. The percentage of those hired was once again about 63 percent.

Employee qualifications

Our quality requirements call for professional and committed employees.

Qualified and committed employees form the basis of our awareness of quality. By offering varied qualifications tailored to specific target groups, we already ensure competence on the part of our employees at the stages of seeking, selecting and integrating new employees as well as by consistently promoting the professional advancement of our employees of many years standing.

A total of 1,526 employees have brought their Techem-specific knowledge up to date by attending 204 internal seminars comprising a total of 2,970 training days.

New knowledge was acquired by 190 employees at 429 external events.

Eschborn, November 23, 2004

Horst Enzelmüller

Rainer Schamoni

Stefan Pattberg

Peter Wunderlich

An area full of opportunities …

Accepting challenges. Techem.
Energy is becoming an increasingly pressing issue. Techem has provided a whole host of intelligent answers during the course of its history.

Today, IT solutions that are certain for the future increasingly constitute the central element of every comprehensive range of services offered. Techem is aware of this challenge too and offers highly specialized software solutions and consultancy services for the real estate industry through its IT Services business sector.

TECHEM AG, CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 2004 AND 2003

Assets

	Note	30. 9. 2004 KEUR	30. 9. 2003 KEUR
Cash and cash equivalents		**14,439**	**16,038**
Trade accounts receivable	1	159,129	154,159
Other receivables	2	11,329	7,510
Inventories	3	17,611	21,247
Tax receivables	4	2,379	2,375
Total current assets		**204,887**	**201,329**
Rental equipment	5	134,999	138,106
Property, plant and equipment	6	55,847	53,321
Intangible assets	7	125,297	121,497
Shares in associated companies	8	20	1,049
Non-current receivables and other non-current financial assets	9	6,213	6,014
Deferred tax assets	10	10,556	11,489
Total non-current assets		**332,932**	**331,476**
Total assets		**537,819**	**532,805**

Liabilities

	Note	30. 9. 2004 KEUR	30. 9. 2003 KEUR
Trade accounts payable	11	16,409	11,085
Other liabilities	12	19,365	18,150
Financial liabilities	13	36,936	37,949
Provisions	14	52,200	45,797
Tax liabilities	15	4,817	15,481
Total current liabilities		**129,727**	**128,462**
Financial liabilities	16	190,637	239,403
Other liabilities	17	1,097	695
Pension provisions	18	12,936	13,082
Provisions	19	32,406	21,986
Deferred tax liabilities	10	4,454	3,795
Total non-current liabilities		**241,530**	**278,961**
Share capital	20	24,681	24,681
Capital reserves		59,711	59,711
Retained earnings		81,680	37,948
Minority interest		490	3,042
Total shareholders' equity		**166,562**	**125,382**
Total liabilities and shareholders' equity		**537,819**	**532,805**

(The accompanying notes are an integral part of these financial statements)

TECHEM AG, CONSOLIDATED STATEMENT OF EQUITY FOR THE YEARS ENDED 2003/2004 AND 2002/2003

	Share Capital No. of Shares	Share Capital Amount KEUR	Capital Reserves KEUR
Balance at 1. 10. 2002	**24,681,139**	**24,681**	**59,711**
Currency translation adjustments			
Changes in the minority shareholdings			
Dividends			
Net income			
Balance at 30. 9. 2003	**24,681,139**	**24,681**	**59,711**
Currency translation adjustments			
Changes in the minority shareholdings			
Dividends			
Net income			
Balance at 30. 9. 2004	**24,681,139**	**24,681**	**59,711**

Attributable to Shareholders of Techem				
Retained Earnings KEUR	Currency Translation Adjustments KEUR	Total Shareholders' Equity KEUR	Minority Interests KEUR	Total Equity KEUR
23,350	**0**	**107,742**	**2,663**	**110,405**
	–276	–276		–276
			113	113
			–145	–145
14,874		14,874	411	15,285
38,224	**–276**	**122,340**	**3,042**	**125,382**
	101	101		101
			–3,106	–3,106
			–80	–80
43,631		43,631	634	44,265
81,855	**–175**	**166,072**	**490**	**166,562**

(The accompanying notes are an integral part of these financial statements)

TECHEM AG, CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 2003/2004 AND 2002/2003

	Note	2003/2004 KEUR	2002/2003 KEUR
Revenue	21	432,014	408,478
Cost of sales	22	236,083	237,554
Gross profit		**195,931**	**170,924**
Distribution costs	23	55,758	61,061
General and administrative expenses	24	49,340	59,571
Other operating income	25	6,006	5,070
Other operating expenses	26	4,148	5,583
Research and development expenses	27	6,799	5,214
EBIT		**85,892**	**44,565**
Net share of profit of associates	28	–182	13
Other financial results		16	–87
Net interest expense	29	–14,886	–18,736
Result before income tax (and minority interest)		**70,840**	**25,755**
Income tax expense	30	26,575	10,470
Net income		**44,265**	**15,285**
attributable to Techem shareholders		43,631	14,874
attributable to minority shareholders		634	411
Earnings per share in Euro	31	1.77	0.60
Diluted earnings per share in Euro	31	1.77	0.60

(The accompanying notes are an integral part of these financial statements)

TECHEM AG, CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 2003/2004 AND 2002/2003

	2003/2004 KEUR	2002/2003 KEUR
Net income	**44,265**	**15,285**
Cash flows from operating activities		
Depreciation	51,031	50,023
Impairments	1,502	3,505
Deferred taxes	314	–1,836
Gains/losses on sales of assets	2,881	689
Changes in long term receivables	–198	61
Changes in long term liabilities	400	–1,995
Changes in pension provisions and other long-term provisions	10,275	1,772
Unrealized losses from financial instruments	379	1,699
Debt acquisition costs	832	328
	111,681	**69,531**
Changes in accounts receivable, short-term	1,399	15,226
Changes in unbilled receivables	–6,369	–8,093
Changes in other receivables	–3,824	6,815
Changes in inventories	3,636	4,632
Changes in trade accounts payable	5,324	–2,884
Changes in other current liabilities	–9,686	8,164
Changes in short-term provisions	–27	11,495
Changes in tax accruals	6,430	–2,719
Cash provided by operating activities	**108,564**	**102,167**
Cash flows from investing activities		
Proceeds from sale of subsidiaries, net of cash	0	–29
Changes in minority interest	0	119
Acquisition of subsidiaries, net of cash acquired	–6,351	–139
Proceeds from sale of associates	838	0
Purchase of fixed and intangible assets	–55,147	–54,043
Proceeds from sale of fixed and intangible assets	1,476	4,764
Net cash used in investing activities	**–59,184**	**–49,328**
Free Cash Flow	**49,380**	**52,839**
Cash flows from financing activities		
Changes in finance lease liabilities	–2,997	3,514
Net repayment of borrowings	–47,902	–53,926
Dividends paid	–80	–145
Net cash provided by financing activities	**–50,979**	**–50,557**
Net changes in cash and cash equivalents	**–1,599**	**2,282**
Cash and cash equivalents at beginning of period	16,038	13,756
Cash and cash equivalents at end of period	14,439	16,038
Additional information		
– Interest payments	*12,339*	*12,578*
– Income taxes paid	*30,498*	*5,141*

(The accompanying notes are an integral part of these financial statements)

TECHEM AG

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2004

A. THE COMPANY

In November 1999, the former Techem Beteiligungs GmbH was reorganized into a joint stock company, Techem AG, by means of a resolution of the shareholders. The shares of Techem AG are traded on the German stock exchange (Deutsche Börse) since February 2000 and are included in Deutsche Börse's mid cap index, the "M-DAX", since September 2000.

The registered office of the Company is located in Eschborn, Germany, since March 1, 2002. Techem AG is a service company providing measuring, cost allocation and billing services for energy and water consumption to the housing and real estate industries. The business operations of the Company comprise the segments ENERGY SERVICES, ENERGY CONTRACTING and OTHER, which includes IT Services. The Group's area of business operations essentially consists of the German market, although foreign markets are increasingly gaining in importance. Further information concerning segments can be found in Section G, "Segment Reporting", of these Notes.

B. GENERAL PRINCIPLES

The accompanying consolidated annual financial statements incorporate the financial statements of Techem AG and its subsidiaries (hereinafter also referred to as the "Company" or the "Techem Group"). Unless stated otherwise, all sums are in thousands of euros (KEUR).

The consolidated financial statements of Techem AG have been prepared in accordance with the "International Accounting Standards" (IASs) and "International Financial Reporting Standards" (IFRSs) of the "International Accounting Standards Board" (IASB) for the first time as at and for the year ended September 30, 2004. The figures for preceding fiscal year (FY) 2002/2003 have been prepared in accordance with IFRSs. The accounts prepared under "United States Generally Accepted Accounting Principles" (U.S.-GAAP) have been reconciled to IASs/IFRSs in accordance with the provisions of IFRS 1 "First-Time Adoption of International Financial Reporting Standards". The use of IFRS 1 is obligatory for the first time for a fiscal year beginning on or after January 1, 2004. Techem AG, however, has made use of the possibility of adopting IFRS 1 earlier.

All published IASB standards have been applied. The Company has exercised all elective rights in respect of the early adoption of the standards. The consolidated financial statements have been prepared in compliance with the 7th EC Directive as based on the interpretation of the directive by the German Accounting Standards ("GAS") "Exempting Consolidated Financial Statements in accordance with Section 292a of the German Commercial Code (HGB)" issued by the German Accounting Standards Committee.

The German accounting standards deviate from IFRSs in some respects. The adjustments essentially relate to deferred taxes (temporary differences and loss carry-forwards), accounting for finance leases, pension provisions, financial instruments, business combinations, the use of the "percentage of completion method", accounting for intangible assets and internally developed software, as well as the discounting of non-current receivables and non-current provisions (especially maintenance service provisions).

The consolidated annual financial statements were prepared in accordance with U.S.-GAAP for the last time as at and for the year ended September 30, 2003 and the last interim report prepared in accordance with U.S.-GAAP was published as at and for the period ended June 30, 2004. Insofar as differences exist between the accounting, measurement and consolidation methods applied under U.S.-GAAP and IASs/IFRSs, appropriate adjustments have been made in respect of the provisions applicable under IASs/IFRSs. This applies to both the period under review as well as the preceding period cited for comparative purposes.

The reconciliation between U.S.-GAAP and IFRS/IAS of the Group's equity and the Group's profit and loss, as required by IFRS 1 is set forth in section E of these Notes.

To illustrate the differences between IASs/IFRSs and U.S.-GAAP, a reconciliation of the accounts for fiscal year 2003/2004 is also provided in addition to the IFRS 1 requirements.

In accordance with IASs/IFRSs, the consolidated annual financial statements have been prepared on the basis of historical cost. This principle was deviated from in respect of the measurement of financial instruments in accordance with IASs/IFRSs.

The estimates and assumptions underlying the preparation of the consolidated annual financial statements in accordance with IASs/IFRSs affect the measurement of assets and liabilities, the disclosure of contingent claims and liabilities as at the respective reporting dates as well as reporting of income and expenses for the period. Although the estimates and assumptions have been prepared to the best knowledge of the senior management of the Company, the result actually obtained may ultimately deviate.

C. ACCOUNTING POLICIES

Principles of Consolidation. The consolidated financial statements include Techem AG as well as material domestic and foreign subsidiaries over which Techem exercises direct or indirect control. Subsidiaries are companies in which the Group holds more than one half of the voting rights or where it can control the financial and business policies. Shares in associated companies on which the Company can exercise a significant influence (20% to 50%) are accounted for at equity. All fully consolidated financial statements included in the Techem Group are prepared in accordance with the same accounting policies.

Business combinations are accounted for using the purchase method. The cost of acquisition is set off against the entire equity of the consolidated subsidiary as at the time of acquisition. All hidden reserves and liabilities are allocated to the appropriate assets and liabilities. Any remaining excess amount (difference between cost of acquisition of the shares and proportionate amount of equity after hidden reserves and liabilities have been accounted for) is recognized as goodwill. In accordance with IFRS 1, the requirements for business combinations are applied on a prospective basis. Thus, goodwill arising in earlier periods, ist not affected fundamentally.

Intra-group profits and losses, revenue, income and expenses as well as receivables, liabilities and provisions that are within the scope of consolidation are eliminated. In accordance with IAS 12, deferred taxes are recognized for consolidation procedures affecting net income.

Scope of Consolidation and Shareholdings

(all figures in accordance with IFRS)	**Share of equity %**	**Equity EUR**	**Net income EUR**	**Revenue EUR**	**EBIT EUR**
Techem Energy Services GmbH & Co. KG, Eschborn/Germany	100	118,309,982	52,134,344	333,574,850	73,167,101
Techem Geschäftsführungs GmbH, Eschborn/Germany	100	876	–14,390	0	–15,725
Techem Energy Contracting GmbH, Eschborn/Germany	100	4,230,551	2,706,134	46,493,390	6,622,913
Techem IT Services GmbH, Dortmund/Germany	100	13,384,100	–1,760,060	7,086,155	–1,592,637
Veridis Software Systeme GmbH, Bielefeld/Germany	70	1,594,191	1,240,898	3,692,503	1,975,402
WIB Consult GmbH, Dortmund/Germany [3]	100	0	33,659	180,570	34,240
Techem Leasing GmbH & Co. OHG, Grünwald/Germany (i.L.) [1]	95	–	–	–	–
EMS Energie Management Service GmbH, Stuttgart/Germany [2]	33	60,445	566	0	–203
BFL Gesellschaft des Bürofachhandels mbH & Co. KG, Eschborn/Germany [1]	0.33	–	–	–	–
Techem Messtechnik Ges.m.b.H., Innsbruck/Austria	100	10,265,306	1,996,891	12,900,368	2,898,869
Techem Wassertechnik Ges.m.b.H., Wels/Austria	100	263,714	61,725	1,534,483	100,191
Energy Contracting Ges.m.b.H., Innsbruck/Austria	100	740,560	299,033	138,739	292,297
Techem Energy Services B.V., Breda/Netherlands	100	551,271	201,382	2,527,441	341,669

(all figures in accordance with IFRS)	Share of equity %	Equity EUR	Net income EUR	Revenue EUR	EBIT EUR
Techem (Schweiz) AG, Urdorf/Switzerland	100	3,721,493	1,380,899	9,892,863	1,379,576
"Techem" Techniki Pomiarowe Sp.z.o.o., Poznan/Poland	100	1,437,011	324,712	3,050,251	43,866
Inwestor, Glogow/Poland 1)	2	–	–	–	–
Techem S.r.l., Bolzano/Italy	100	99,597	41,728	860,393	59,327
Techem Kft., Budapest/Hungary	100	525,285	1,761	1,408,345	48,753
Techem Services e.o.o.d., Sofia/Bulgaria	100	1,319,735	–1,105,815	3,279,768	–1,243,218
Techem spol s.r.o., Prague/Czech Republic	100	2,417,996	672,167	8,275,024	1,151,587
Heitech spol s.r.o., Prague/Czech Republic 1)	50	–	–	–	–
I.G.B. Data spol s.r.o., Ostrava/Czech Republic	100	7,242	411	94,602	594
Techem MätService AB, Malmö/Sweden	100	574,758	–383,423	955,355	–470,498
Techem spol s.r.o., Bratislava/Slovakia	100	553,560	179,082	1,066,580	238,665
Techem Hellas E.P.E., Athens/Greece	75	45,496	5,600	630,477	17,227
Techem Calorlux S.à.r.l., Bereldange/Luxembourg	100	47,646	22,894	444,485	50,298
Caloribel S.A., Brussels/Belgium	100	2,804,894	1,268,626	7,091,408	1,892,593
Techem Energy Services S.R.L., Bucharest/Romania	100	–28,473	–79,626	356,191	–79,814

1) no significant influence
2) at equity
3) merged into Techem IT Services GmbH in FY 2003/2004

Changes in the Consolidated Group. In fiscal year 2003/2004, the following interests were acquired or the following changes were made to the consolidated group:

- The shares held in EL-ME AG and Techem Drecount Utility Service GmbH (TDUS) were sold during the current fiscal year. Both companies were hitherto accounted for at equity. For further details refer to notes 8 and 28.

- Techem Messtechnik Ges.m.b.H., Innsbruck/Austria: On January 21, 2004 and May 25, 2004, the Company increased its share by 16.67% on each occasion to total 100%. The purchase price for the two transactions was KEUR 6,345. The resulting difference of KEUR 3,241 was recognized in other intangible assets as a result of existing long-term customer relationships. The valuation of customer relationships is based on projected cash flows. The useful life of this capitalized intangible asset has been set at 10 years. Amortization as at September 30, 2004 amounted to KEUR 197.

- On October 7, 2003, the Company increased its share in WIB Consult GmbH by 12% to 100% for a purchase price of KEUR 6. The company was merged into Techem IT Services GmbH with retroactive effect from April 1, 2004.

- In connection with the restructuring of the Techem Group, assisto Leasing GmbH, Techem International GmbH and Techem Development GmbH were merged into Techem Energy Services GmbH & Co. KG with retroactive effect from October 1, 2003.

In fiscal year 2002/2003, the following interests had been acquired or the following changes made to the consolidated group:

- On December 6, 2002, Techem International increased its share in Techem Energy Services B.V., Breda/Netherlands, by 51% to 100% for a purchase price of KEUR 231. Accordingly, it was no longer accounted for using the equity method but was fully consolidated as of the first quarter of 2003.

- TDUS is a joint venture formed by Techem Energy Services and Drecount GmbH & Co. KG, Dresden, that was entered into on January 8, 2003. Each partner holds 50% of the shares, i.e. KEUR 150. TDUS offers services nationwide to small and medium-sized supply and waste management companies in the areas of meter readings, billing, receivables management, call center services, measurement data and meter management as well as the billing of operating costs. TDUS was accounted for at equity within the Group until the sale of Techem's interest in fiscal year 2003/2004.

- Since March 31, 2003, the consolidated financial statements have included the assets and earnings of Techem Energy Services, Romania, which was formed in that fiscal year.

- The shares held by the Techem Group in HausPerfekt GmbH & Co. KG and HausPerfekt Software Verwaltungs GmbH were sold to the minority shareholder of the Company effective April 9, 2003. The transaction purchase price amounted to EUR 1 in each case.

Foreign Currency Translation. The functional currency of the subsidiaries is the respective local currency. Accordingly, the balance sheets of the foreign subsidiaries are converted to euro applying the mid exchange rates as at the balance sheet date and income statements are converted applying annual average rates. Any resulting gains or losses are recognized directly in equity.

Operating gains or losses arising from transactions in foreign currencies increase or reduce earnings for the current fiscal year.

In the light of the positive trend in the economic environment in Romania, the assets and earnings of Techem Energy Services, Romania, were no longer revalued in accordance with IAS 29 as at the end of the fiscal year.

D. ACCOUNTING POLICIES

Cash & Cash Equivalents. The Company treats all highly liquid financial investments with an original maturity of up to three months as cash equivalents.

Receivables. Receivables are stated at nominal value, less appropriate allowances for defaults and doubtful accounts depending on the receivables' ageing structure. In addition, a general allowance of 1 percent is accounted for.

When accounting for payment by installments, besides an account receivable deferred interest is recognized for subsequent periods. Deferred interest is recorded in interest income over the term of the contract. Within the Techem Group, installment sales mainly originate in Eastern Europe.

Inventories. Inventories are reported at the lower of cost or net realizable value, applying a full cost absorption method using a standard cost approach. The standard costs are reviewed and adjusted on the purchase of new goods, if need be. A reserve is provided for potential losses on obsolete and slow-moving inventories. Cost is primarily determined on a weighted-average basis.

Property, Plant and Equipment. Property, plant and equipment are carried at cost less depreciation. Gains/losses on disposals of items of property, plant and equipment are recognized as income/expense when realized. Public subsidies are deducted from the items concerned and thus amortized over the useful life of the respective asset.

Depreciation is calculated using the straight-line method over the following estimated useful lives in years:

	Expected Useful Life in Years
Machinery and equipment	3 to 13
Buildings	20 to 25
Leasehold improvements	5 to 10 or the lower of life of lease
Other	1 to 8

Leasing. Leases in which the Group bears substantially all the risks and rewards incidental to the use of the leased asset are classified as finance leases. At the date of inception of the lease term leases are to be capitalized either at the fair value of the leased asset or at the present value of the minimum lease payments, whichever is lower. A corresponding liability is recorded. The capitalized leased assets are depreciated over the lease term or their economic useful life. A portion of the lease payments is allocated to interest expense, with the remaining portion reducing leasing liabilities.

In addition to finance leases, the Company concluded lease contracts that are to be classified as operating leases. The leasing installments are expensed in the income statement.

In the case of rental equipment, Techem is the lessor. The respective assets are capitalized; depreciation and proceeds of rental equipment are accounted for affecting net income. Depreciation periods range between six and twelve years, based on the useful life of the corresponding asset.

Other Intangible Assets. Purchased intangible assets are carried at acquisition cost.

If the criteria for recognition set forth in IAS 38 are met, internally generated intangible assets are also capitalized and carried at development cost.

Intangible assets are principally amortised using the straight-line method of amortization over their useful life.

Amortization is calculated mainly over the following expected useful lives:

	Expected Useful Life in Years
Licenses	3 to 4
Software	4 to 10
Customer relations/customer contracts	10 to 20

Amortization is reported under “cost of sales”, “distribution costs” and “administrative expenses”.

Recoverability of Long-Lived Assets. Items of property, plant and equipment and other long-lived assets, including intangible assets, are tested for impairment as soon as events or indications suggest that their carrying amount exceeds their recoverable amount. An impairment loss is recognized for the amount by which the carrying amount of an asset exceeds its recoverable amount which is defined as the higher of the net selling price or the value in use of the respective asset. Value in use is defined as the present value of the estimated cash flows that can be expected to be generated by an asset or a cash-generating unit. In determining impairments, assets are to be grouped together at the lowest level for which separate cash flows can be identified.

In compliance with IFRSs 1 and 3, goodwill is no longer amortised using the straight-line method of amortization since the end of fiscal year 2002, but tested for impairment at least once a year. The test is conducted on the basis of cash-generating units, whereby each individual subsidiary is defined as a cash-generating unit with the exception of Techem AG, Techem Energy Contracting GmbH and Techem Geschäftsführungs GmbH.

The results of the impairment test conducted at the time of transition and in fiscal year 2003/2004 are explained in Section E "Reconciliation" and note 7 "Intangible assets" of these Notes.

Non-current Receivables and Other Non-current Financial Assets. Non-current non-interest bearing receivables are carried at present value. Other non-current financial assets are carried at amortized cost if fair value cannot be determined.

Shares in Associated Companies. Associated companies are recorded at equity in accordance with IAS 28.

Deferred Taxes. Deferred taxes are determined using the liability method. Deferred tax assets or liabilities are recognized as a result of temporary differences arising from differences in the carrying amounts in the consolidated financial statements and the corresponding tax base that will result in a tax liability or refund in the future. Deferred taxes are also recognized for loss carry-forwards. Deferred tax assets and liabilities are calculated on the basis of the tax rates that can be expected to apply to taxable income in those years in which the temporary differences can be expected to be settled. In the event of a change in the tax rates, the respective effects on the deferred tax assets or liabilities are to be recognized in a manner affecting net income in the period in which the new tax rate acquires legal effect.

Provisions. Provisions for pensions and similar obligations are computed using the actuarial projected unit credit method in accordance with IAS 19. Under this procedure, particular account is taken of present non-current capital market interest rates and of current assumptions concerning future increases in salaries and pensions in addition to biometric bases of calculation. The "10% corridor" approach is applied. The interest component of pension expenses is reported under net finance costs.

With the exception of other personnel-related provisions calculated in accordance with IAS 19, all other provisions are recognized on the basis of IAS 37 insofar as a legal or actual external obligation exists. They are carried at full cost to the amount of the probable obligation. Non-current provisions are discounted; the interest component is reported under net finance costs.

Stock Option and Virtual Stock Option Programs. In accordance with IFRS 2, the fair value method is applied in determining the carrying amounts of stock option and virtual stock option programs.

Liabilities. Liabilities are carried at their nominal value. Non-current non-interest bearing liabilities are discounted. Liabilities denominated in foreign currencies are translated at the closing rate.

Derivative Financial Instruments and Hedging Transactions. In accordance with IAS 39, all derivative financial instruments are recognized at fair value. Even though the instrument that the Techem Group uses economically hedges the interest rates, it does not meet the criteria set forth in IAS 39 for the recognition as a hedging instrument. Thus, a change in the fair value of this derivative is recognized in net income.

Present Value of Financial Instruments. The fair value of liquid assets as well as current receivables and liabilities corresponds to their carrying amount. The fair value of non-current financial liabilities approximates their carrying amounts. The fair value of derivatives corresponds to their replacement cost as at the reporting date.

Borrowing Costs. Borrowing costs are recorded against net income.

Revenue and Expense Recognition. Rental and maintenance contracts are performed as fixed-price contracts in accordance with IAS 18 and are deferred on a straight-line basis over the respective contract term.

Billing services are recognized as revenue to the amount of the costs incurred, and upon final billing, the total profit realized at the time of rendering the service is recognized ("zero profit method").

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer, economic benefits can be expected to flow from them and the amount of revenue can be measured reliably.

Revenue from the supply of heat is recognized to the amount of the services already rendered while taking account of a profit margin. Unbilled services are accrued.

Provisions are recognized for anticipated sales deductions (e.g., discounts, rebates, non-contractual reductions).

Revenue represents net amounts realized, excluding value-added tax and sales deductions. Shipping and handling costs are recognized as cost of sales.

E. RECONCILIATION U.S.-GAAP – IAS/IFRS
(in EUR million)

Reconciliation of the consolidated balance sheet FY 2003	U.S.-GAAP	Effect of transition to IFRSs	IFRSs
Cash and cash equivalents	16.0	0.0	16.0
Trade and other receivables	159.1	5.0 [1]	164.1
Inventories	26.2	–5.0 [1]	21.2
Current assets	**201.3**	**0.0**	**201.3**
Property, plant and equipment	190.5	0.9 [7]	191.4
Intangible assets	125.1	–3.6 [5]	121.5
Non-current receivables and other financial assets	7.3	–0.2	7.1
Deferred taxes	15.8	–4.3 [9]	11.5
Non-current assets	**338.7**	**–7.2**	**331.5**
Assets	**540.0**	**–7.2**	**532.8**
Financial liabilities	277.4	0.0	277.4
Trade and other payables	9.7	1.3 [8]	11.0
Other liabilities	31.4	2.9 [8]	34.3
Provisions	84.7	–3.8 [4][6][8]	80.9
Deferred taxes	7.8	–4.0 [9]	3.8
Total liabilities	**411.0**	**–3.6**	**407.4**
Share capital	24.7	0.0	24.7
Capital reserve	59.7	0.0	59.7
Retained earnings	41.6	–3.6	38.0
Minority interest	3.0	0.0	3.0
Equity	**129.0**	**–3.6**	**125.4**
Equity and liabilities	**540.0**	**–7.2**	**532.8**

Reconciliation of the consolidated balance sheet FY 2004	U.S.-GAAP	Effect of transition to IFRSs	IFRSs
Cash and cash equivalents	14.4	0.0	14.4
Trade and other receivables	167.9	5.0 [1)]	172.9
Inventories	22.0	–4.4 [1)]	17.6
Current assets	**204.3**	**0.6**	**204.9**
Property, plant and equipment	190.0	0.8 [7)]	190.8
Intangible assets	128.9	–3.6 [5)]	125.3
Non-current receivables and other financial assets	6.4	–0.2	6.2
Deferred taxes	13.8	–3.2 [9)]	10.6
Non-current assets	**339.1**	**–6.2**	**332.9**
Assets	**543.4**	**–5.6**	**537.8**
Financial liabilities	227.6	0.0	227.6
Trade and other payables	16.4	0.0	16.4
Other liabilities	22.4	2.8 [8)]	25.2
Provisions	103.2	–5.7 [4)6)]	97.5
Deferred taxes	5.8	–1.3 [9)]	4.5
Total liabilities	**375.4**	**–4.2**	**371.2**
Share capital	24.7	0.0	24.7
Capital reserve	60.4	–0.7 [2)]	59.7
Retained earnings	82.4	–0.7	81.7
Minority interests	0.5	0.0	0.5
Equity	**168.0**	**–1.4**	**166.6**
Equity and liabilities	**543.4**	**–5.6**	**537.8**

Reconciliation of the consolidated income statement FY 2003	U.S.-GAAP	Effect of transition to IFRSs	IFRSs
Revenue	407.6	0.9 [1)]	408.5
Cost of sales	172.7	64.9 [1)3)4)]	237.6
Other functional areas	190.9	–64.6 [3)4)6)]	126.3
EBIT	44.0	0.6 [4)6)]	44.6
Net income*	**15.1**	**0.2** [4)5)6)]	**15.3**

* including minority interest

Reconciliation of the consolidated income statement FY 2004	**U.S.-GAAP**	**Effect of transition to IFRSs**	**IFRSs**
Revenue	432.2	–0.2 1)	432.0
Cost of sales	181.2	54.9 1)3)4)	236.1
Other functional areas	170.3	–60.3 2)3)4)6)	110.0
EBIT	80.7	5.2 2)4)6)	85.9
Net Income*	**41.6**	**2.7** 2)4)6)	**44.3**

* including minority interest

The reconciliation of net income and equity in accordance with IFRS 1 is as follows:

	Net income		**Equity**		
	2003	**2004**	**2002**	**2003**	**2004**
U.S.-GAAP*	**15.1**	**41.6**	**114.2**	**129.0**	**168.0**
PoC accounting [1]	0.0	0.0	0.0	0.0	0.0
Stock options/Stock appreciation rights [2]	0.0	0.6	0.0	0.0	–0.1
Maintenance service provisions [4]	0.4	0.8	2.9	3.3	4.1
Goodwill [5]	1.1	0.0	–4.7	–3.6	–3.6
Pension provisions, semi-retirement [6]	–1.1	1.3	–0.6	–1.7	–0.2
Other adjustments	–0.2	0.0	–1.4	–1.6	–1.6
IFRSs*	**15.3**	**44.3**	**110.4**	**125.4**	**166.6**

* including minority interest

1) **"Percentage-of-Completion – Accounting" (PoC)**
In accordance with IAS 18, the stage of completion of services that have yet to be completed is recognized as accrued revenue. Accordingly, the stage of completion is recognized as an unbilled receivable.

2) **Stock options/Stock appreciation rights**
As at September 30, 2003, the stock options were not in the money and were therefore not expensed. Under current IAS rules in conjunction with IFRS 2, the stock options had to be expensed for the last time as at September 30, 2003. Thus, no expense was incurred under IASs in fiscal year 2003/2004. In accordance with U.S.-GAAP, in fiscal year 2003/2004 an expense of KEUR 786 was charged to capital reserve as the stock options were in the money as at September 30, 2004.
Under IFRSs, an expense for stock appreciation rights is calculated on the basis of fair value, whereas intrinsic value is applied in the case of U.S.-GAAP. This results in an expense that is KEUR 133 higher under IFRSs than under U.S.-GAAP.

3) **Structural adjustments**
In connection with the transition to IFRSs, the structure of the income statement was placed on a basis that is optimized from a business management and system support perspective.

4) **Maintenance service provisions**
Under IASs, non-current provisions are carried at present value. The period interest cost of compounding is reported in net interest expense.

5) **Goodwill**
In accordance with IFRS 1, goodwill was tested for impairment in accordance with IAS 36 at the time of the transition to IFRSs (October 1, 2002). The resulting impairment losses were charged to equity in the IFRS opening balance sheet. The test was based on the circumstances that existed at the time of the transition to IFRSs. The impairments result from the differences in the units of measure under U.S.-GAAP and IFRSs: The "reporting unit" to be measured under U.S.-GAAP was replaced by the smaller "cash-generating unit" used under IFRSs.
This resulted in the need for a goodwill impairment of KEUR 3,583 in the case of Caloribel S.A., Belgium. In contrast to U.S.-GAAP rules, which require proof of value for the "reporting unit", the value of each "cash-generating unit" is to be tested under IFRSs.
Under U.S.-GAAP (SFAS No. 142), amortization resulting from the first-time application of the new standard were recorded as a "result of changes in accounting principles". This resulted in a charge of KEUR 1,077 (after taxes) to Techem's result under U.S.-GAAP for fiscal year 2002/2003. In accordance with IFRSs, the impairment was already recognized in the opening balance sheet as at October 1, 2002.

6) **Pension provisions, semi-retirement**
Techem Group pension provisions under IFRSs were calculated for the first time for the opening balance sheet. At that time, the obligations were recognized to the amount of their full present value. Under U.S.-GAAP, actuarial losses arose which were correctly only recognized in part.
In contrast to U.S.-GAAP, provisions for semi-retirement were recorded immediately, including all severance pay components.

7) **Rental equipment**
Rental equipment is capitalized to a greater extent under IFRSs.

8) **Structural balance sheet adjustment**
In connection with the transition to IFRSs, accounting methods and presentation were adjusted to correspond to business conditions.

9) **Deferred taxes**
The differences in deferred taxes caused by the transition to IFRSs result from the calculation of deferred taxes on reconciliation effects as well as from a structural change in presentation under IFRSs (off-setting of deferred tax assets and liabilities in accordance with IFRSs).

F. NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

1 Trade accounts receivable

KEUR	30.9.2004	30.9.2003
Trade accounts receivable	47,441	46,998
Allowance for doubtful accounts	–9,100	–8,828
Unbilled rental and maintenance service receivables	116,398	110,993
Unbilled service receivables	4,390	4,996
Trade receivables	**159,129**	**154,159**

Unbilled receivables comprise revenue from rental, billing and maintenance contracts that are billed once a year. The services have been rendered, but not yet invoiced at the time of preparing the consolidated financial statements.

In FY 2003/2004, receivables totaling KEUR 4,665 (FY 2002/2003: KEUR 3,449) were written off.

2 Other receivables

KEUR	30.9.2004	30.9.2003
GETEC and Montana contract purchases	2,760	0
Ecology tax	1,511	808
Creditors with debit balances	1,500	99
Prepaid expenses	1,284	881
Semi-retirement insolvency insurance	1,120	0
Advance payments	749	1,409
Receivables from associated companies	127	25
Receivables from employees	51	95
Other	2,227	4,193
Other receivabels	**11,329**	**7,510**

During the year under review, Techem Energy Contracting GmbH acquired contracts for the supply of heat and cold as well as heating plants from GETEC AG and Montana Energie-Handel GmbH & Co. KG. The full allocation of the purchase price to assets will only take place after an appropriate estimate is performed in the new fiscal year.

As at July 1, 2004, insolvency insurance to cover semi-retirement obligations is required by law.

3 Inventories

KEUR	30. 9. 2004	30. 9. 2003
Raw materials and supplies	770	600
Finished goods	18,227	22,212
Inventories, gross	**18,997**	**22,812**
Valuation adjustments	–1,386	–1,565
Inventories, net	**17,611**	**21,247**

A total of KEUR 95 (FY 2002/2003: KEUR 114) was written off with an effect on net income.

4 Tax receivables

KEUR	30. 9. 2004	30. 9. 2003
Germany	1,527	2,069
Rest of Europe	852	306
Tax receivables	**2,379**	**2,375**

5 Rental equipment

KEUR	30. 9. 2004	30. 9. 2003
Acquisition cost		
Beginning balance	**268,233**	**252,440**
Additions	29,563	35,035
Transfers	–6	0
Disposals	–26,453	–19,242
Ending balance	**271,337**	**268,233**
Depreciation		
Beginning balance	**130,127**	**115,259**
Additions	29,113	30,278
Transfers	–1	0
Disposals	–22,901	–15,410
Ending balance	**136,338**	**130,127**
Net book value rental equipment	**134,999**	**138,106**

As the net currency translation differences are not material for this item, they are included in the disposals.

6 Property, plant and equipment

KEUR	Property/ Plant	Technical Equipment	Office Equipment	Work in Progress	Subsi- dies	Total
Acquisition costs						
Balance acquisition costs 1. 10. 2002	**8,040**	**33,632**	**75,596**	**3,140**	**–288**	**120,120**
Additions	80	2,478	10,514	3,249	–3,268	13,053
Change in scope of consolidation	0	0	–114	0	0	–114
Transfers	15	3,563	246	–3,824	0	0
Disposals	–77	–832	–2,329	–81	0	–3,319
Balance acquisition costs 30. 9. 2003	**8,058**	**38,841**	**83,913**	**2,484**	**–3,556**	**129,740**
Additions	11	3,776	7,732	3,608	–671	14,456
Transfers	0	3,086	215	–3,334	0	–33
Disposals	0	–170	–3,144	–108	0	–3,422
Balance acquisitions costs 30. 9. 2004	**8,069**	**45,533**	**88,716**	**2,650**	**–4,227**	**140,741**
Depreciation						
Balance depreciation 1. 10. 2002	**2,900**	**10,749**	**54,833**	**1**	**0**	**68,483**
Additions	220	3,070	6,531	0	–703	9,118
Additions impairment	678	374	0	0	0	1,052
Change in scope of consolidation	0	0	–59	0	0	–59
Transfers	2	–161	159	0	0	0
Disposals	–4	–262	–1,909	0	0	–2,175
Balance depreciation 30. 9. 2003	**3,796**	**13,770**	**59,555**	**1**	**–703**	**76,419**
Additions	221	3,060	8,295	0	–197	11,379
Transfers	0	–116	116	0	0	0
Disposals	0	–46	–2,857	–1	0	–2,904
Balance depreciation 30. 9. 2004	**4,017**	**16,668**	**65,109**	**0**	**–900**	**84,894**
Book values						
Net book value property, plant and equipment 30. 9. 2003	4,262	25,071	24,358	2,483	–2,853	**53,321**
Net book value property, plant and equipment 30. 9. 2004	4,052	28,865	23,607	2,650	–3,327	**55,847**
Thereof finance leases						
Net book value of finance leases 30. 9. 2003		1,050	7,730			**8,780**
Net book value of finance leases 30. 9. 2004		976	5,066			**6,042**

As the net currency translation differences for property, plant and equipment are not material, they are included in the disposals.

Based on an appraisal report and the negative trend in property prices in Berlin, the value of the Company's building in Berlin was adjusted by KEUR 678 in fiscal year 2002/2003.

A heat providing facility in the Czech Republic, originally recorded at a book value of KEUR 440, was adjusted by 85 percent due to the insolvency of the main customer.

A land charge in favour of Berliner Bank to the amount of KEUR 2,429 is recorded in the land register for the real estate held in Berlin.

Subsidies include investment subsidies, investment grants and construction cost aid provided to Techem Energy Contracting GmbH.

7 Intangible assets

KEUR	Software and Licences	Goodwill	Other intangible assets	Software work in progress	Total
Acquisition costs					
Balance acquisition costs 1. 10. 2002	**50,288**	**126,026**	**6,783**	**6,304**	**189,401**
Additions	3,226	480	0	2,224	5,930
Change in scope of consolidation	–6	72	72	0	138
Transfers	7,918	0	0	–7,918	0
Disposals	–250	–4,572	0	0	–4,822
Balance acquisition costs 30. 9. 2003	**61,176**	**122,006**	**6,855**	**610**	**190,647**
Additions	8,581	1,238	3,241	2,833	15,893
Transfers	263	0	0	–224	39
Disposals	–241	0	0	0	–241
Balance acquisition costs 30. 9. 2004	**69,779**	**123,244**	**10,096**	**3,219**	**206,338**
Amortization					
Balance amortization 1. 10. 2002	**17,424**	**42,302**	**124**	**0**	**59,850**
Additions	9,988	0	506	0	10,494
Additions impairments	1,973	480	0	0	2,453
Change in scope of consolidation	–2	0	0	0	–2
Disposals	–57	–3,588	0	0	–3,645
Balance amortization 30. 9. 2003	**29,326**	**39,194**	**630**	**0**	**69,150**
Additions	9,836	0	703	0	10,539
Additions impairments	1,502	0	0	0	1,502
Transfers	1	0	0	0	1
Disposals	–151	0	0	0	–151
Balance amortization 30. 9. 2004	**40,514**	**39,194**	**1,333**	**0**	**81,041**
Book value					
Net book value intangible assets 30. 9. 2003	31,850	82,812	6,225	610	**121,497**
Net book value intangible assets 30. 9. 2004	29,265	84,050	8,763	3,219	**125,297**

Internally generated intangible assets amounted to KEUR 2,080 as at September 30, 2004 (additions 2003/2004: KEUR 1,351; amortization 2003/2004: KEUR 365; cumulative historical cost: KEUR 2,564).

As the net currency translation differences are not material, they are included in the disposals.

FISCAL YEAR 2003/2004:

The impairment test conducted for fiscal year 2003/2004 resulted in an impairment loss for the assisto software component to the amount of KEUR 1,502.

No impairment loss for goodwill was recognized in fiscal year 2003/2004.

FISCAL YEAR 2002/2003:

As a result of a strategic change in the IT Services business, the intangible assets allocated to HausPerfekt GmbH & Co. KG were impaired by KEUR 721 in fiscal year 2002/2003. Thereof KEUR 480 related to goodwill and KEUR 241 to software.

In addition, in fiscal year 2002/2003, the software of HausPerfekt GmbH & Co. KG and the software of Online HAUSING AG were fully written off by KEUR 395 and KEUR 237, respectively.

Due to delayed market trends, the targeted earnings of assisto home automation were postponed to the future. Accordingly, the software has been adjusted by KEUR 1,100.

Goodwill is allocated to the following segments:

	FY 2003/2004		FY 2002/2003	
KEUR	Book value	Impairment loss	Book value	Impairment loss
Energy Services Segment	68,121	0	66,883	0
Other Segment	11,793	0	11,793	480
Energy Contracting Segment	4,136	0	4,136	0
Total goodwill	**84,050**	**0**	**82,812**	**480**

The change in goodwill for the Energy Services Segment results from the increase in the shares held in Techem Messtechnik Ges.m.b.H., Austria, by 33.3% to 100%.

In compliance with IFRS 3/ IAS 36, goodwill is tested for impairment once a year as at October 1. The impairment test prescribed and conducted in accordance with IFRS 1 at the time of the transition to IFRSs, is discussed in Section E "Reconciliation" and affects all our subsidiaries.

The impairment test was conducted as follows:

All goodwill is allocated to the appropriate cash-generating units (CGU). As a rule, subsidiaries constitute a CGU.

Future cash flows are calculated for each CGU on the basis of multi-year plan projections. Such multi-year plan projections cover a period of five years. After that, a growth rate of 1.5% is assumed. Then, the present value (hereinafter also "value in use") is computed for these future cash flows. The interest rate applied is calculated based on the Capital Asset Pricing Model (CAPM) and amounts to 14.5% (after taxes) for Techem AG. The interest rate corresponds to the weighted average cost of capital. This cost is based on a risk-free interest rate (5.5%) plus an average market risk premium (5.0%) multiplied by a company-related equity beta (β) of between 0.9 and 1.2. All these values are derived from market data.

If the book value of a respective CGU exceeds the value in use that has been computed, an impairment loss is recognized.

Goodwill is allocated to the following companies:

KEUR	**Book value**
Techem Energy Services GmbH & Co. KG	53,040
Techem IT Services GmbH	10,317
Caloribel S.A., Brussels/Belgium	6,375
Other companies	14,318
Total goodwill	**84,050**

For Techem Energy Services GmbH & Co. KG, an increase in revenue, which is in line with the historical growth rate is taken as a core assumption for the impairment test to be conducted each year. The cost relation was retained.

In the case of Techem IT Services GmbH, above average revenue growth was assumed. The cost relation was retained accordingly.

8 Shares in associated companies

KEUR	FY 2003/2004	FY 2002/2003
Beginning of period	1,049	1,033
Share of profit/loss and addition	32	40
Dividends	0	–63
First-time consolidation/deconsolidation	–1,061	39
End of period	**20**	**1,049**

KEUR	30.9.2004	30.9.2003
Techem Drecount Utility Service GmbH (TDUS)	0	123
EL-ME AG	0	916
EMS Energie Management Service GmbH	20	10
End of period	**20**	**1,049**

The 25% investment held in EL-ME AG was sold for KEUR 768 on January 9, 2004. The loss on disposal amounted to KEUR 170.

The 50% investment held in TDUS was sold on June 9, 2004. The sales price was KEUR 80. This resulted in a loss on disposal of KEUR 44.

9 Non-current receivables and other non-current financial assets

KEUR	30.9.2004	30.9.2003
Non-current receivables	5,951	5,748
Other non-current financial assets	262	266
Total	**6,213**	**6,014**

The non-current receivables mainly result from installment sale transactions in Eastern Europe, which have a term of between two to eight years.

10 Deferred taxes

Deferred taxes comprise the following:

KEUR	30.9.2004	30.9.2003
Deferred tax assets resulting from:		
Tax loss carry-forwards	5,765	4,553
'Step-up' allocation	1,413	3,744
Pension provisions	1,373	1,414
Interest rate hedging transactions	793	644
Finance leases	98	448
Other timing differences	1,918	2,963
Valuation adjustments on net tax loss carry-forwards	–804	–2,277
Total deferred tax assets	**10,556**	**11,489**
Deferred tax liabilities resulting from:		
'Step-up' allocation	–3,644	–2,707
Other timing differences	–810	–1,088
Total deferred tax liabilities	**–4,454**	**–3,795**
Deferred tax assets net	**6,102**	**7,694**

As at the reporting date, the Techem Group has tax loss carry-forwards of EUR 34 million. Current estimates regarding the valuation adjustments on net tax loss carry-forwards may change, depending on the earnings position of the Company as well as tax legislation in future years, and may result in modifications to the valuation adjustments.

11 Trade payables

KEUR	30.9.2004	30.9.2003
Germany	13,370	7,723
Rest of Europe	3,039	3,362
Total	**16,409**	**11,085**

12 Other liabilities – current

KEUR	30. 9. 2004	30. 9. 2003
Deferred income	4,384	3,612
Social insurance contributions	3,188	3,489
Commission	2,925	3,345
Interest liabilities	2,089	1,759
Advance payments received	973	1,214
Salaries and wages	335	361
Liabilities payable to associated companies	0	216
Other	5,471	4,154
Total	**19,365**	**18,150**

13 Financial liabilities – current

KEUR	30. 9. 2004	30. 9. 2003
Loans	35,045	35,809
Finance leasing liabilities	2,516	2,945
Bank overdrafts	219	27
Deferred capital procurement costs	–844	–832
Total	**36,936**	**37,949**

14 Other provisions – current

KEUR	1. 10. 2003	Use	Addition	Reversal	30. 9. 2004
Personnel	12,029	8,395	13,708	1,123	16,219
Taxes	8,091	9,124	15,567	14	14,520
Maintenance	10,032	8,494	9,791	16	11,313
Guarantees	805	925	2,050	5	1,925
Personnel provisions connected with restructuring	5,960	5,750	1,088	43	1,255
Legal costs	330	258	745	19	798
Commission	178	116	203	0	265
Other	8,372	3,479	3,303	2,291	5,905
Other provisions – current	**45,797**	**36,541**	**46,455**	**3,511**	**52,200**

The personnel provisions mainly comprise provisions for vacation obligations, bonuses, semi-retirement obligations as well as the provision for the stock appreciation rights expense.

Provisions for maintenance service account for the exchange of devices within the framework of maintenance contracts. The split into non-current and current provisions refers to the ageing profile of the contracts. The current portion represents the contracts which expire within a year. It is assumed the conventional devices will be completely replaced with radio-controlled devices. The overall effect of this conversion has been set at EUR 10.8 million.

The provision for guarantees is calculated by multiplying the prior year's annual quota by the corresponding revenue. Techem grants two years guarantee on its devices.

Personnel provisions connected with restructuring were recognized to cover employee severance pay entitlements.

The sum of KEUR 5,905 disclosed under "other" includes vacancy costs associated with leased field offices as well as provisions for sham self-employment.

As the net currency translation differences are not material, these have not been disclosed separately.

⓯ Tax liabilities

KEUR	**30.9.2004**	**30.9.2003**
Germany	3,564	14,567
Rest of Europe	1,253	914
Total	**4,817**	**15,481**

⓰ Financial liabilities – non-current

KEUR	**30.9.2004**	**30.9.2003**
Loans	189,074	236,393
Finance leasing liabilities	3,783	6,062
Capital procurement costs	–2,220	–3,052
Total	**190,637**	**239,403**

KEUR	**30.9.2004**	**30.9.2003**
Loans		
Non-current and current loans are to be repaid as follows:		
within one year	35,045	35,809
between one and five years	188,124	234,941
after five years	950	1,452
	224,119	**272,202**
Current loans	35,045	35,809
Non-current loans	**189,074**	**236,393**

The loans mainly comprise the following items:

In the preceding year, the Company concluded a new financing agreement for a total of EUR 350 million covering a period of five years. The financing costs are offset from financial liabilities in the balance sheet and are amortized to interest expense over the term of the contract.

The financing agreement consists of the following three tranches, which will become due end of May 2008 at the latest:

1. A redeemable loan of EUR 150 million; with repayments of EUR 15 million scheduled every six months, starting in November 2003 (book value EUR 120 million (30. 9. 2003: EUR 150 million)).

2. A maturity bullet loan of EUR 70 million.

3. A bullet revolving facility of EUR 130 million maximum, which can be used as needed. EUR 25 million was in use as at September 30, 2004.

The margin for these tranches ranges between 100 to 165 points over EURIBOR depending on the senior leverage, i.e. net senior debt in relation to EBITDA. The rate of interest averaged 4.642% in 2003/2004.

The financing agreement is secured by trade receivables (including unbilled receivables), rental equipment and German inventories.

Interest hedging instruments arranged (with a term until May 2008) in connection with this financing agreement have a total nominal value of KEUR 210,000. Their fair value amounted to KEUR –2,078 on September 30, 2004 (KEUR –1,699 on September 30, 2003).

Techem Energy Contracting GmbH has current loans of KEUR 460 (30. 9. 2003: KEUR 451) and non-current loans of KEUR 2,889 (30. 9. 2003: KEUR 3,348). The loan agreements provide for fixed rates of interest ranging between 5.25% and 7.35%. The loan agreements provide for a fixed-interest period until 2006 and run until 2011.

In addition, Techem Czech Republic has current loans of KEUR 714 (30. 9. 2003: KEUR 2,295) and non-current loans of KEUR 1,185 (30. 9. 2003: KEUR 1,885). The fixed rates of interest provided for in the loan agreements range between 4.99% and 6.27%.

KEUR	**30. 9. 2004**	**30. 9. 2003**
Finance leasing liabilities		
Nominal value of lease payments		
within one year	2,798	3,370
between one and five years	3,882	6,370
after five years	479	497
	7,159	**10,237**
Less: future finance charges	860	1,230
Present value	**6,299**	**9,007**
Current finance leasing liabilities (Note 13)	2,516	2,945
Non-current finance leasing liabilities	**3,783**	**6,062**

The leasing agreements relate to office equipment and hardware at the headquarters as well as technical equipment.

17 Other liabilities – non-current

KEUR	**30. 9. 2004**	**30. 9. 2003**
Deferred income	1,087	592
Other	10	103
Other liabilities – non-current	**1,097**	**695**

Deferred income includes deferred interest on installment sales recorded by Techem Poland to the amount of KEUR 311 (30. 9. 2003: KEUR 383) and by Techem Czech Republic to the amount of KEUR 528 (30. 9. 2003: KEUR 0). The terms range between two and eight years. The remaining amount of KEUR 248 (30. 9. 2003: KEUR 209) includes various deferred income items of the Company.

18 Pension provisions

Techem Group pension plans vary depending on the legal, tax and economic conditions that apply in a given country.

Most of the pension schemes are defined benefit plans, however a distinction needs to be made between funded and unfunded obligations.

The Group sponsors a pension plan covering the management of Techem Energy Services GmbH & Co. KG and Techem AG as well as a welfare fund. The pension plan is based on a separate benefit plan for each member. The pension plan is generally based on the respective employee's pensionable current compensation and the number of the years of service. The pension plan is insured.

In addition, the foreign subsidiaries also have pension plans. These are defined benefit plans.

The pension provisions are recorded based on independent actuarial valuations. Pension provisions for defined benefit plans are calculated using the internationally recognized projected unit credit method in accordance with IAS 19 ("Employee Benefits").

In the case of externally-financed (funded) obligations, the insurance policies are qualified and meet the criteria contained in IAS 19 for plan assets. They are charged to the provisions accordingly.

The following table contains the changes in the pension obligation for the respective reporting periods:

KEUR	FY 2003/2004	FY 2002/2003
Present value of funded obligations	3,994	3,479
Fair value of plan assets	–3,546	–2,967
Deficit	**448**	**512**
Present value of unfunded obligations	12,983	12,502
Unrecognized actuarial gain/(loss)	–495	68
Pension obligations, net	**12,936**	**13,082**
Net obligations, beginning balance	**13,082**	**12,924**
Current service cost	553	421
Interest cost	788	844
Actuarial gain (loss)	4	–
Expected return on plan assets	–103	–104
Pension payments	–857	–679
Contribution to plan assets	–531	–324
Net obligation, ending balance	**12,936**	**13,082**

Techem Netherlands has pension obligations amounting to KEUR 148 in connection with a defined benefit plan. The obligation has been reinsured and is fully covered by plan assets.

The service costs are allocated to the respective functional costs. The interest expense is reported in net interest expense.

As the net currency translation differences are not material, these have not been disclosed separately.

Fundamental assumptions used in determining the pension provisions are as follows (average values):

	FY 2003/2004	FY 2002/2003
Discount rate	5.19%	5.42%
Increase in salaries	2.47%	1.98%
Incease in pensions	1.47%	1.22%
Expected return on plan assets	3.50%	3.50%

19 Other provisions – non-current

TEUR	1.10.2003	Additions	Unwinding of discount	Reversal	30.9.2004
Maintenance	21,085	8,576	1,114	0	30,775
Other	901	1,060	0	330	1,631
Other provisions – non-current	**21,986**	**9,636**	**1,114**	**330**	**32,406**

The provisions are discounted at 5.0%.

The increase in non-current maintenance service provisions results from the planned replacement of all conventional devices with radio-controlled devices. The overall effect of this conversion has been set at EUR 10.8 million.

As the net currency translation differences are not material, these have not been disclosed separately.

20 Shareholders' Equity

Share Capital. The share capital amounts to EUR 24,681,139 divided into 24,681,139 ordinary shares, and is unchanged in comparison to the prior year.

Authorized Capital. Subject to the approval of the Supervisory Board, the Board of Directors is authorized to increase the share capital of the Company until March 26, 2007, on one or more occasions, by an aggregate amount not exceeding EUR 5,365,465 through the issuance of new shares of the common stock against cash contribution or contribution in kind. Under certain defined conditions and with the consent of the Supervisory Board, the Board of Directors may exclude the shareholder's pre-emptive rights.

However, such exclusion of pre-emprive rights is only permitted in the following circumstances:

– to the extent that the shares are issued in order to purchase companies, interests in companies or parts of companies;

– in respect of fractional amounts;

– if the shares are issued at a price that is not significantly lower than the market price and the exclusion of subscription rights only applies to new shares with a theoretical value that does not exceed 10% of the share capital, or EUR 2,468,114 in total. To determine the degree of utilization of the 10% ceiling, the exclusion of subscription rights on the basis of other authorization pursuant to Section 186 (3) sentence 4 of the German Joint Stock Corporation Act is to be taken into account.

Treasury Stock. The Board of Directors is authorized to repurchase Techem AG shares. The authorization, expiring on September 18, 2005, is limited to the repurchase of own shares with a theoretical portion of the share capital of up to EUR 2,468,113 and can be executed in parts or in total, at one time or at various times.

Other than selling the shares on the stock exchange, the Board of Directors, subject to the consent of the Supervisory Board, is authorized to act as follows:

a) to offer such shares to a third party in connection with the acquisition or merger of companies,

b) to withdraw shares from the market, while at the same time reducing the share capital, without requiring the additional approval of a shareholders' meeting.

Payment of Dividends/Distribution of Profits. The basis for payment of dividends are the accumulated retained earnings shown in Techem AG's individual annual statutory financial statements. As at September 30, 2004, the statutory unconsolidated financial statements of the Company state accumulated retained earnings amounting to KEUR 115,349 (30. 9. 2003: KEUR 79,374).

The Board of Directors of Techem AG proposes no payment of dividends for financial year 2003/2004 out of accumulated earnings to the shareholders.

In fiscal year 2002/2003, KEUR 145 were distributed to minority shareholders of Techem Messtechnik Ges.m.b.H., Austria. The minority shareholders of Veridis Software Systeme GmbH received a distribution totaling KEUR 80 in financial year 2003/2004.

Stock Options

In March 2000 and in March 2001, the Company launched variable stock option plans (Stock Option Plan I and II), granting members of the management and key employees in total up to 2,046,340 shares under a conditional capital increase. Under the option plan, the options granted approximate the market value of the shares at the date of the grant. In connection with a voluntary program for the conversion of stock options into stock appreciation rights ("SARs", so-called "virtual stock options") at the beginning of fiscal year 2003/2004, the number of stock options outstanding decreased to 454,180 (355,368 Stock Option Plan I/ 98,812 Stock Option Plan II). Further information on Stock Appreciation Rights can be found in the next section.

Stock Option Plan I. The options vest at the end of a three-year period commencing at the date of grant. The life of the option amounts to a maximum of three years and the term of the option plan is eight years. The options still outstanding were issued in three tranches between March 2000 and April 2002.

Up to fifty percent of the subscription rights may be exercised respectively, if one of the following two performance targets, being independent from each other, are achieved after the three-year vesting period.

- The market price of the Company's shares has increased by an annual average of at least 7 percent between grant and exercise date of the options.
- The market price of the Company's shares develops at least equal to the M-DAX or outperforms the M-DAX between grant and exercise date of the options.

Stock Option Plan II. The options vest at the end of a two-year period commencing at the date of grant. The life of the option amounts to a maximum of three years and the term of the option plan is five years. The option was granted on June 1, 2001.

Up to fifty percent of the subscription rights may be exercised respectively, if one of the following two performance targets, being independent from each other, are achieved after the two-year vesting period.

- The market price of the Company's shares in the XETRA closing auction increases by an annual average of at least 7 percent between grant and exercise date of the options.
- The market price of the Company's shares has – compared with the exercise price – developed at least equally to or outperformed the M-DAX.

Recognition of Stock Option Plans. Due to the conversion of the stock options into virtual stock options (see the section "Stock Appreciation Rights" below) and due to the fact that the employees' service in respect of the remaining stock options was completely rendered up until September 30, 2003, the expenses relating to the stock options should have been recognized for the last time as at September 30, 2003 in accordance with previous IAS rules in conjunction with IFRS 2. As the criteria for exercising the options under the plans were not satisfied on the reporting date of September 30, 2003, no expense was disclosed.

The movement in options granted in the financial years 2003/2004 and 2002/2003 is summarized in the following table:

	Number of options	**Weighted-average exercise in EUR**
Outstanding at September 30, 2002	**1,890,367**	**22.56**
Expired during the period	222,486	21.59
Outstanding at September 30, 2003	**1,667,881**	**22.68**
Returned during the period	1,012,284	22.69
Expired during the period	201,417	22.96
Outstanding at September 30, 2004	**454,180**	**22.54**

No options were granted in fiscal 2003/2004.

Further information on the options outstanding:

	SOP* I, 3rd Tranche	**SOP* I, 1st Tranche**	**SOP* I, 2nd Tranche and SOP* II**	**Total**
Exercise price in EUR	16.31	19.00	29–30	
Number	157,744	98,812	197,624	**454,180**
Weighted-average exercise price in EUR	16.31	19.00	29.28	**22.54**
Weighted-average remaining contractual term (years)	3.51	1.42	3.09	**2.87**

* SOP = Stock Option Plan

Stock Appreciation Rights (virtual stock options). At the beginning of fiscal year 2003/2004, the Company offered the holders of stock options the conversion of their options into so-called "stock appreciation rights". This offer was accepted by the majority of option holders. The basis of computation was the number of stock options granted under the third tranche of Stock Option Plan I converted at a ratio of 1 to 1.2. Some key employees were granted additional "stock appreciation rights".

With the "stock appreciation rights", employees receive variable compensation based on an amount that depends on the performance of the share price without the employees becoming shareholders. Those eligible have the right, within the exercise period, to a payment in cash of the difference between the agreed subscription price and the minimum share price at that given point in time. A condition that has to be met is that the share price exceeds the exercise price, plus a cumulative 5% for each completed financial year starting from the end of the minimum holding period.

The "stock appreciation rights" can only be exercised following the expiration of a lock-up period of two years. The maximum period over which they can be held is five years from the date of grant.

Techem applies IFRS 2 "Share-Based Payment". Accordingly, the fair value of the expense that is to be recognized is to be recalculated for every reporting date in line with the performance of the "stock appreciation rights" and charged to provisions. The respective change in value is to be recognized in net income.

The Black-Scholes model was used to compute the fair value, based on the following parameters:

Risk free interest rate		**3%**
Subscription price	**EUR**	**13.5**
Exercise price	**EUR**	**17.1**
Minimum holding period		**24 Months**
Volatility (based on the preceding two years)		**37%**
Techem share price as at September 30, 2004	**EUR**	**22.15**

The balance of the "stock appreciation rights" outstanding is calculated as follows:

	Number of Stock Appreciation Rights
Outstanding at September 30, 2003	**–**
Granted during the period	459,206
Expired during the period	28,161
Outstanding at September 30, 2004	**431,045**

As at September 30, 2004, KEUR 1,997 were provided for as personnel expense in connection with the "stock appreciation rights".

21 Revenue by segment

KEUR	FY 2003/2004	FY 2002/2003
Energy Services		
Billing Services	190,016	180,623
Rental	118,882	107,673
Sales	41,727	47,985
Maintenance	26,049	24,543
Energy Contracting	47,838	39,218
Other	7,502	8,436
Total	**432,014**	**408,478**

Other revenue includes the revenue generated by Techem IT Services. In the prior year, they included the revenue generated by HausPerfekt GmbH & Co. KG.

22 Cost of sales by cost type

KEUR	FY 2003/2004	FY 2002/2003
Personnel costs	56,396	61,996
External work	42,707	42,384
Depreciation of rental equipment	29,113	30,278
Impairment loss	1,502	2,347
Gas, oil and heating	27,503	23,132
Cost of materials	22,180	26,199
Regular replacement (replacement under rental and maintenance agreements)	22,354	12,680
Other production costs	34,328	38,538
Total	**236,083**	**237,554**

23 Distribution costs

KEUR	FY 2003/2004	FY 2002/2003
Personnel costs	28,547	31,412
Commission	6,324	6,890
Advertising	4,281	5,028
Amortization/depreciation	2,012	2,035
Valuation adjustment on receivables	4,665	3,449
Other	9,929	12,247
Total	**55,758**	**61,061**

24 General and administrative expenses

KEUR	FY 2003/2004	FY 2002/2003
Personnel costs	28,682	27,771
Rental costs	6,440	7,620
Amortization/depreciation	3,434	3,755
Impairment loss	0	1,158
Advisory services	2,541	7,143
Communications costs	1,306	2,401
Other	6,937	9,723
Total	**49,340**	**59,571**

The decrease of KEUR 4,602 in the cost of advisory services was attributable to the Fokus project in fiscal year 2002/2003.

25 Other operating income

The currency exchange gains recognized in other operating income amounted to KEUR 319 in fiscal year 2003/2004 and to KEUR 223 in fiscal year 2002/2003.

26 Other operating expenses

The currency exchange losses recognized in other operating expenses amounted to KEUR 229 in fiscal year 2003/2004 and to KEUR 1,280 in fiscal year 2002/2003.

27 Research and development expenses

KEUR	FY 2003/2004	FY 2002/2003
Personnel	4,368	2,943
Other	2,431	2,271
Total	**6,799**	**5,214**

28 Net share of profit of associates

KEUR	FY 2003/2004	FY 2002/2003
EL-ME AG	–147	174
Techem Drecount Utility Service GmbH (TDUS)	–44	–27
EMS Energie Management Service GmbH	9	–134
Total	**–182**	**13**

The net share of profit of associates includes losses from the sale of EL-ME AG to the amount of KEUR 170 and the sale of TDUS to the amount of KEUR 44.

29 Net interest expense

KEUR	FY 2003/2004	FY 2002/2003
Interest income	1,139	1,717
Interest expenses	–14,814	–17,314
Amortization of deferred capital procurement costs	–832	–328
Gains/losses on financial instruments		
Interest hedging instrument I (realized in FY 2002/2003)	–	–1,112
Interest hedging instrument II (unrealized)	–379	–1,699
Total	**–14,886**	**–18,736**

Deferred capital procurement costs are amortized over the five-year term of the financing arrangement.

The interest hedging instrument I to the amount of EUR 80 million was sold in the third quarter of 2003. The gain amounted to KEUR 198.

Interest income from installment sales amounted to KEUR 796 in fiscal year 2003/2004 (FY 2002/2003: KEUR 651).

30 Income tax

KEUR	FY 2003/2004	FY 2002/2003
Current income tax		
Germany	24,689	9,836
International	1,572	2,470
Total current income tax	**26,261**	**12,306**
Deferred income tax		
Utilization of tax loss carry-forwards	–2,685	–1,097
Tax effect on temporary differences	2,999	–739
Total deferred tax	**314**	**–1,836**
Total income tax expense	**26,575**	**10,470**

Under German tax law, taxes on income consist of the corporation tax, the trade tax and the solidarity surcharge.

Current loss carry-forwards mainly apply to the loss carry-forwards of German companies of the Techem Group. Losses incurred in Germany can be carried forward over an unlimited period of time.

The German statutory tax rate for corporation tax and trade tax amounted to approximately 38.2% for fiscal year 2003/2004 and to about 37.9% and 38.8% for fiscal years 2002/2003 and 2001/2002, respectively. This development was taken into consideration when calculating deferred tax assets, depending on the expected time of realization of the respective deferred taxes.

The reconciliation of the statutory tax rate to the effective tax rate for the Company is as follows:

	FY 2003/2004	FY 2002/2003
Statutory tax rate	38.2%	37.9%
Differences in foreign tax rates	–0.1%	–1.1%
Non-tax-deductible items	2.6%	4.8%
Tax relating to prior periods	0.0%	–2.9%
Change in valuation allowance on capitalized loss carry-forwards	–3.2%	1.6%
Other	0.0%	0.3%
Effective tax rate	**37.5%**	**40.6%**

31 Earnings per share

Earnings per share are calculated by dividing net income after minority interests by the weighted average number of common shares outstanding. Diluted earnings per share are calculated using what is known as the "treasury stock method" and take the number of stock options outstanding into account.

In respect of fiscal year 2003/2004, 296,436 outstanding stock options were not included in the calculation of diluted earnings per share because their inclusion would have had an anti-dilutive effect. In respect of fiscal year 2002/2003, there was no dilutive effect because the shares were not in the money at the time.

The following table presents the weighted average number of the shares and the earnings used to calculate basic and diluted earnings per share for fiscal years 2003/2004 and 2002/2003.

	FY 2003/2004	FY 2002/2003
Net income attributable to Techem AG shareholders (KEUR)	43,631	14,874
Number of average shares outstanding	24,681,139	24,681,139
Earnings per share in EUR, basic	**1.77**	**0.60**
Net income attributable to Techem AG shareholders (KEUR)	43,631	14,874
Number of average shares outstanding	24,681,139	24,681,139
Number of dilutive options	22,333	0
Earnings per share in EUR, diluted	**1.77**	**0.60**

G. OTHER DISCLOSURES

Operating leases

The Group as lessee. The Group has operating leases for buildings, cars and office equipment with renewal options and different lease terms. The expenses in FY 2003/2004 totaled KEUR 13,088.

As at September 30, 2004, minimum lease commitments (mainly for buildings) were as follows:

KEUR	FY 2003/2004	FY 2002/2003
2004/05	21,230	12,309
2005/06	16,441	10,299
2006/07	13,656	9,034
2007/08	10,094	8,161
2008/09	9,261	8,482
After 2008/09	54,016	49,476
Total minimum lease payments	**124,698**	**97,761**

The Group as lessor. Revenue from rental contracts amounted to KEUR 118,882 in FY 2003/2004 (FY 2002/2003: KEUR 107,673). The rental contracts cover measuring and control technology and run from five to twelve years.

Total future minimum lease payments to the Group under operating leases that cannot be terminated were as follows on the reporting date:

KEUR	FY 2003/2004	FY 2002/2003
up to one year	118,706	108,984
one to five years	334,802	307,381
over five years	111,977	102,806
Total minimum lease payments	**565,485**	**519,171**

Contingent liabilities.

Contingencies due to bank guarantees exist in favour of HausPerfekt GmbH & Co. KG to the amount of KEUR 98 (30. 9. 2003: KEUR 447).

There are no more letters of comfort on behalf of EL-ME AG (30. 9. 2003: KEUR 1,116).

Furthermore, the Company has financial commitments under supply contracts to the amount of KEUR 12,170 (30. 9. 2003 KEUR 12,894).

Concentration of Risks

Credit Risk. The Company provides services to a wide range of customers who operate in various industry sectors and geographic areas. The Group grants credits to qualified customers and believes it is not exposed to an undue concentration of credit risk.

Interest rate risk. Interest income and expense are hedged against fluctuations by interest hedging transactions. Even though the use of these instruments economically hedges interest rate risk, the hedging criteria contained in IAS 39 are not met and therefore the financial instruments are recognized in net income. As a result, the interest hedging transactions are included in the balance sheet item "other current liabilities" based on their fair value. For further details, please refer to note 16 and note 29 of these Notes. There are no other financial derivatives.

Currency risk. No currency hedging transactions have been concluded. Most business is concluded within the Euro zone.

Corporate Governance. The Board of Directors and the Supervisory Board declare, pursuant to Section 161 of the German Joint Stock Corporation Act, that the recommendations contained in the "German Corporate Governance Code" are complied with except for a few exceptions. Shareholders have access to the compliance declaration at all times on the Company's website.

Segment Reporting

Segment reporting was prepared in accordance with IAS 14. The business segments in which Techem operates were used as the primary segment reporting format. Geographic segments comprise the secondary segment reporting format.

Primary reporting format – business segments

KEUR	Energy Services FY 2003/2004	Energy Services FY 2002/2003
Third-party revenue	376,674	360,824
Intra-segment revenue	2,986	6,576
Segment revenue	**379,660**	**367,400**
Result		
Segment result/EBIT	81,011	53,213
Net share of profit of associates	–191	147
Other financial results		
Net interest expense		
Result before income tax		
Income tax expenses		
Net income		
attributable to Techem AG shareholders		
attributable to minority shareholders		
Balance sheet		
Assets		
Segment assets	454,242	455,769
Shares in associated companies	0	1,039
Unallocated assets		
Group assets		
Equity and liabilities		
Segment liabilities	165,232	121,551
Unallocated liabilities		
Group liabilities		
Other details		
Amortization/depreciation	44,714	41,167
Impairment losses	1,502	2,152
Capital expenditure*	45,787	45,598
Other non-cash expenses other than depreciation	37,998	31,246

* Energy Contracting segment capital expenditure includes KEUR –671 (FY 2002/2003: KEUR –3,268) in subsidies which in accordance with IFRS are to be offset from the tangible assets.

	Energy Contracting		Other		Techem Group	
	FY 2003/2004	FY 2002/2003	FY 2003/2004	FY 2002/2003	FY 2003/2004	FY 2002/2003
	47,838	39,218	7,502	8,436	432,014	408,478
	406	306	–3,392	–6,882	0	0
	48,244	**39,524**	**4,110**	**1,554**	**432,014**	**408,478**
	7,417	2,477	–2,536	–11,125	85,892	44,565
	9	–134	0	0	–182	13
					16	–87
					–14,886	–18,736
					70,840	25,755
					26,575	10,470
					44,265	**15,285**
					43,631	*14,874*
					634	*411*
	53,985	43,306	18,742	20,911	526,969	519,986
	20	10	0	0	20	1,049
					10,830	11,770
					537,819	**532,805**
	40,615	33,838	–81,138	–37,204	124,709	118,185
					246,548	289,238
					371,257	**407,423**
	3,507	2,453	2,810	6,270	51,031	49,890
	0	0	0	1,353	1,502	3,505
	11,667	2,931	1,220	5,489	58,674	54,018
	1,621	1,619	1,460	1,098	41,079	33,963

Secondary reporting format – regions

	Germany	
KEUR	**FY 2003/2004**	**FY 2002/2003**
Third-party revenue		
– by destination	376,221	348,083
– by origin	377,614	349,337
Segment assets	464,283	480,632
Capital expenditure	53,249	51,478

The characteristic features of the ENERGY SERVICES segment are as follows:

The Techem Group offers its customers, who are mainly from the housing and real estate industries, services consisting in measuring, the taking of meter readings, the allocating and billing of energy and water consumption. The taking of meter readings for and the billing of energy and water consumption are subject to seasonal fluctuations, accordingly affecting the Company's operating profit.

The Company sells heat meters, heat cost allocators and water meters. By using state-of-the-art technology, the market is successfully supplied with meters for which readings can be taken remotely. The devices can either be purchased or rented. Rental contracts for heat cost allocators (mainly electronic heat cost allocators) concluded before 1994 run for eight years; contracts concluded after 1994 generally run for 10 years. Rental contracts for hot water and heat meters run for five years and those for cold water meters for six years.

The Company is also active in the field of equipment maintenance. In the case of rental devices, maintenance is an integral part of the rental contract; in the case of equipment sales, maintenance is provided on the basis of maintenance agreements concluded with the customers.

The characteristic features of the ENERGY CONTRACTING segment are as follows:

The Company supplies energy to its customers. Gas, oil, heat and electricity are supplied, and maintenance work is performed on the facilities on a continual basis. Over the past ten years, Techem has established itself as leading provider of energy contracting for all types of properties in Germany.

	Rest of Europe		Other		Techem Group	
	FY 2003/2004	FY 2002/2003	FY 2003/2004	FY 2002/2003	FY 2003/2004	FY 2002/2003
	55,793	60,395	0	0	432,014	408,478
	54,400	59,141	0	0	432,014	408,478
	72,518	62,217	–9,832	–22,863	526,969	519,986
	5,425	2,540	0	0	58,674	54,018

The column “Other” includes Techem’s IT business (software solutions for the real estate industry), as well as Techem AG items and the effects of consolidation.

In the context of segment reporting by region, the allocation of revenue by destination corresponds to the country where the customer is based and the allocation of revenue by country of origin to the country where the supplier is based. The allocation of segment assets and capital expenditure is based on where the respective subsidiary has its legal seat.

The same accounting and presentation procedures apply to segment information as for the consolidated financial statements. Segment assets comprise property, plant and equipment, intangible assets and current assets. Tax receivables are not allocated to segments. Capital expenditure and depreciation relate to segment assets. Segment liabilities include operational liabilities and provisions. Unallocated liabilities include deferred tax liabilities, provisions for taxes as well as financial liabilities. Change in provisions other than tax provisions are disclosed in non-cash items.

The prices that apply in business relations between Techem Group segment companies are essentially the same as those that would apply in relation to third parties.

Related party transactions

The remuneration received by members of the Board of Directors were as follows:

	FY 2003/2004					
KEUR	**Fixed**	**Variable**	**Other**	**Total remuneration**	**Number of stock appreciation rights**	**Pension provisions**
Mr. Horst Enzelmüller	400	680	27	1,107	–	–
Mr. Rainer Schamoni	350	510	16	876	104,627	984
Mr. Peter Wunderlich	300	340	15	655	–	78
Mr. Stefan Pattberg	180	153	8	341	–	42
Total	**1,230**	**1,683**	**66**	**2,979**	**104,627**	**1,104**

The variable remuneration results from the attainment of EBIT targets for the respective fiscal year. In this fiscal year, Mr. Wunderlich and Mr. Pattberg were assured a pension that is covered by means of a life insurance policy.

Mr. Schmidt left the Company on July 31, 2003. He drew KEUR 1,101 for FY 2002/2003, which included severance pay of KEUR 840.

In addition to the pension provisions referred to above, there are pensions and current pension entitlements relating to former management members and their survivors to the amount of KEUR 6,887 (30. 9. 2003: KEUR 6,498).KEUR 412 (30. 9. 2003: KEUR 385) was paid out to this group of people, related to this.

The provision for the SARs held by Mr. Schamoni amounted to KEUR 485 on 30. 9. 2004.

Mr. Schamoni is a member of the Supervisory Board of EMS Energie Management Service GmbH, Stuttgart. In addition, he was member of the former Advisory Committee of Techem Energy Contracting GmbH, Eschborn.

Members of the Supervisory Board during the period under review:

Prof. Dr. Horst Ziegler, college lecturer, Paderborn (chairman); member of the Advisory Committee of Hydrometer GmbH, Ansbach (until June 30, 2004).

Mr. Harald C. Bieler, consultant, Frankfurt/Main (deputy chairman); member of the Supervisory Board of Märkische Treuhand AG, Heidelberg; Chairman of the Advisory Committee of the Döhler Group, Darmstadt.

		FY 2002/2003			
Fixed	Variable	Other	Total remuneration	Number of stock options	Pension provisions
312	300	–	612	–	–
364	281	250	895	210,324	837
41	27	–	68	–	–
30	15	–	45	–	–
747	**623**	**250**	**1,620**	**210,324**	**837**

Dr. Martin Ott, Diplom-Kaufmann, Elsbethen-Glasenbach, Austria, member of the Rhein-Main Advisory Committee of Dresdner Bank, member of the Advisory Committee of Techem Messtechnik Ges.m.b.H, Innsbruck/Austria.

Mr. Stefan Zuschke, Diplom-Betriebswirt, Hamburg; employee of BC Partner Beteiligungsberatung GmbH, Hamburg; chairman of the Supervisory Board of Finakabel Verwaltungs AG, Hanover; chairman of the Supervisory Board of ImmoMediaNet GmbH & Co. KG; Director of Finakabel S.A.R.L., Luxembourg.

Dr. Wilhelm Bender, chairman of the Board of Directors of Fraport AG, Frankfurt/Main; member of the Supervisory Board of Lufthansa City Line GmbH; member of the Supervisory Board of NOVA Allgemeine Versicherung AG; member of the Supervisory Board of Thyssen Krupp Services AG; chairman of Supervisory Board of Flughafen Hannover-Langenhagen GmbH.

Ms. Ursula Felten, pharmaceutical assistant, Frankfurt/Main (since March 18, 2004).

Mr. Hans-Ludwig Grüschow stepped down as chairman of the Techem AG Supervisory Board with effect from August 12, 2003. Mr. Grüschow held 16.67% of the shares of Techem Messtechnik Ges.m.b.H. (Austria) and has indirectly held 8.17% of Techem Energy Contracting Ges.m.b.H. (Austria) since August 2002. In fiscal year 2003, Mr. Grüschow received a proportionate dividend of KEUR 72.5. In fiscal year 2003/2004, the Company acquired the shares held by Mr. Grüschow in Techem Messtechnik Ges.m.b.H. (Austria) for a purchase price of KEUR 3,173.

On March 18, 2004, the Ordinary General Shareholders' Meeting of Techem AG elected Ms. Ursula Felten, residing in Frankfurt/Main, to replace Mr. Grüschow for the remainder of his original term of office, and to serve as a member of the Supervisory Board.

Prof. Dr. Ziegler, chairman of the Techem AG Supervisory Board, was also, until June 30, 2004, a member of the Advisory Committee of Hydrometer GmbH, Ansbach, a key supplier to the Company. Goods and services received from Hydrometer GmbH in fiscal year 2003/2004 amounted to KEUR 17,024 until and including June 2004 (FY 2002/2003: KEUR 23,697).

During the fiscal year, Prof. Dr. Ziegler received license fees under a license agreement totaling KEUR 370 (30. 9. 2003: KEUR 288). During the period under review, KEUR 13 was paid on the basis of a consultancy agreement entered into between the Company and Prof. Dr. Ziegler that will run from August 1, 2004 until July 31, 2006. There are no other contractual relationships between members of the Supervisory Board and the Company. The university institute at Paderborn headed by Prof. Dr. Ziegler received research and development orders with a value of KEUR 15 in fiscal year 2002/2003.

In accordance with Article 21 of the Articles of Association, members of the Supervisory Board are entitled to remuneration of KEUR 25 per calendar year, with the chairman and the deputy chairman being entitled to KEUR 50 and KEUR 37.5, respectively. In addition, members of the Supervisory Board are reimbursed expenses and any applicable valued-added tax. Membership and chairmanship of Supervisory Board committees does not attract additional remuneration.

In addition to the reimbursement of any outlays incurred in connection with the discharging of office, each member of the Supervisory Board is entitled to remuneration to the amount of:

	FY 2003/2004			FY 2002/2003		
EUR	**Supervisory Board remuneration[1]**	**Reimbursement of outlays[2]**	**Other[3]**	**Supervisory Board remuneration[1]**	**Reimbursement of outlays[2]**	**Other[3]**
Prof. Dr. Ziegler	50,000	2,352	–	39,213	1,677	–
Mr. Bieler	37,500	–	–	26,713	–	–
Mr. Zuschke	25,000	–	–	25,000	–	–
Mr. Dr. Ott	25,000	–	–	25,000	–	–
Mr. Dr. Bender (from March 2003)	25,000	–	–	13,288	–	–
Ms. Felten (from March 2004)	13,494	–	–	–	–	–
Mr. Grüschow (until August 2003)	–	–	–	43,289	19,490	65,067
Mr. Dr. Otto (until November 2002)	–	–	–	2,877	–	–
Total	**175,994**	**2,352**	**–**	**175,380**	**21,167**	**65,067**

1) Remuneration in accordance with Article 21 of the Articles of Association
2) Remuneration in accordance with Article 21 of the Articles of Association (excluding VAT)
3) Remuneration payable under special agreements

If a Supervisory Board member only serves for part of a fiscal year, his remuneration will be payable on a pro rata basis.

As at the reporting date, members of the Board of Directors, the Supervisory Board and persons related to them held Techem AG shares as follows:

	30. 9. 2004	**30. 9. 2003**
Felten Vermögensverwaltungs GmbH, Frankfurt/Main	3,085,143	3,085,143
Ott Vermögensverwaltungs GmbH, Frankfurt/Main	3,085,143	3,085,143
Mr. Schamoni, Frankfurt/Main	59,900	59,900
Ms. Felten, Frankfurt/Main	59,498	68,698
Mr. and Mrs. Enzelmüller, Bad Homburg	12,000	0
Mr. Zuschke, Hamburg	200	200
Total number of shares	**6,301,884**	**6,299,084**

Net Debt

KEUR	**30. 9. 2004**	**30. 9. 2003**
Liabilities towards banks, current	35,264	35,836
Liabilities towards banks, non-current	189,074	236,393
Obligations under finance leases, current	2,516	2,945
Obligations under finance leases, non-current	3,783	6,062
Cash	–14,439	–16,038
Net Debt	**216,198**	**265,198**

Employees

	30. 9. 2004	**30. 9. 2003**
Number of Employees		
Germany	1,639	1,821
International	514	550
Total number of employees	**2,153**	**2,371**

Total personnel expenses amounted to KEUR 118,023 (FY 2002/2003: KEUR 124,123).

Exemption from disclosure requirement

The subsidiaries Techem Energy Services GmbH & Co. KG, Eschborn, and Techem IT Services GmbH, Dortmund, have exercised the option available to them of being exempted from the disclosure of their annual financial statements for fiscal year 2003/2004 in terms of paragraph 264b and paragraph 264 sentence 3 of the German Commercial Code (HGB).

Events occurring after the balance sheet date

A subsidiary is currently being established in China.

Eschborn, November 23, 2004

Horst Enzelmüller

Rainer Schamoni

Stefan Pattberg

Peter Wunderlich

AUDITOR'S REPORT

We have audited the consolidated financial statements of Techem AG, consisting of the balance sheet, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements for the business year from 1 October 2003 to 30 September 2004. The preparation and the content of the consolidated financial statements according to the International Financial Reporting Standards of the IASB (IFRS) are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Techem Group for the business year in accordance with IFRS.

Our audit, which also extends to the group management report prepared by the Board of Managing Directors for the business year from 1 October 2003 to 30 September 2004 has not led to any reservations.

In our opinion, on the whole the group management report together with the other information of the consolidated financial statements, provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 October 2003 to 30 September 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law.

Frankfurt (Main), 23 November 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(P. Lust) Wirtschaftsprüfer [German Public Auditor]	(ppa. Dr. R. Worster) Wirtschaftsprüfer [German Public Auditor]

REPORT OF THE SUPERVISORY BOARD

Professor Dr. Horst Ziegler

In fiscal year 2003/2004, the Supervisory Board carefully oversaw the management of the company and performed the duties imposed on it by law and the company's articles of association. The Supervisory Board was involved in all decisions of fundamental importance for Techem. We requested timely and comprehensive briefings, mainly in the form of written reports prepared by the Board of Directors, on key issues relating to corporate planning and strategic development, the course of business and important transactions on the part of the company and its affiliates. In particular, the Board of Directors explained, provided reasons for and held discussions with us about the way in which the actual course of business deviated from the business plan. The Board of Directors reported to us on the risk management measures that had been implemented and on business risks that had become recognizable. In addition, the chairman of the Supervisory Board was regularly informed about significant business developments by the chairman and by members of the Board of Directors.

During four meetings, the Supervisory Board held in-depth discussions with the Board of Directors about its reports. The future development of the economic position of the Group as well as individual subsidiaries and business areas, the Group's strategic direction and issues relating to corporate, financial and investment planning were examined in detail and formed the subject of consultations held with the Board of Directors. Especially growth opportunities of Techem outside Germany, the future EDP concept and the updating of the bylaws binding on the Board of Directors were discussed.

The Supervisory Board dealt in detail with the implementation of the German Corporate Governance Code within Techem. The Board of Directors and the Supervisory Board jointly report on Corporate Governance in accordance with Item 3.10 of the German Corporate Governance Code on pages 4 to 7 of this annual report.

The Supervisory Board also reviewed its efficiency. In this regard, it dealt with the timely and comprehensive reporting in detail and the flow of information between committees and plenum.

The Supervisory Board advised and oversaw the Board of Directors and in the case of important transactions as set forth in the bylaws binding on the Board of Directors, issued approval in accordance with Section 111 par. 4 of the German Joint Stock Corporation Act (AktG).

The Supervisory Board has formed a personnel committee and an audit committee. The chairman of the Supervisory Board chairs the personnel committee but does not chair the audit committee. Details of the current composition of the committees can be found on page 100 of this annual report.

In the three meetings held during the course of fiscal year 2003/2004, the personnel committee considered personnel matters relating to the Board of Directors as well as prepared and implemented decisions on personnel matters made by the Supervisory Board.

The audit committee met twice in fiscal year 2003/2004 and considered, in particular, the auditing of foreign subsidiaries, the receivables management as well as the changeover to international accounting standards IFRS and discussed the reviewing of them along with the auditors.

The committees regularly reported to the Supervisory Board plenum on their activities.

Professor Dr. Horst Ziegler was a member of the Advisory Committee of Hydrometer GmbH, Ansbach, an important Techem supplier. He ceased to perform such role with effect from June 30, 2004, within the meaning of principles of corporate governance. In addition, the institute that Professor Dr. Ziegler heads at Paderborn University and Hydrometer GmbH work together on scientific R&D projects. The license agreement that has been in force between Professor Dr. Ziegler and Techem for over 20 years has been replaced by a new agreement that is advantageous for Techem overall and has unanimously been approved by the Supervisory Board (without the participation of Professor Dr. Ziegler). Upon a recommendation submitted by the Board of Directors and with the approval of the Supervisory Board (granted at a meeting that was not attended by Professor Dr. Ziegler), a consultancy agreement was concluded with Professor Dr. Ziegler concerning the field of radio communication. The fees are primarily intended to finance further research and development work relating to a future radio-controlled remote meter-reading system being conducted by Professor Dr. Ziegler at the University of Paderborn, following his retirement on August 1, 2004. During the course of the past fiscal year, these activities and contractual relationships have not resulted in any specific or lasting conflict of interest.

Ms. Ursula Felten was appointed a member of the Supervisory Board by a resolution of the Ordinary General Shareholders' Meeting adopted on March 18, 2004.

The appointment of Mr. Rainer Schamoni to the Board of Directors, which expired on September 30, 2004, was extended until September 30, 2006, by a resolution of the Supervisory Board adopted on December 10, 2003. By a resolution of the Supervisory Board adopted on August 18, 2004, the appointments of Mr. Peter Wunderlich and Mr. Stefan Pattberg which expired in August 2005 were extended by a further five years. By a further resolution of August 18, 2004, the Supervisory Board accepted the resignation by mutual consent of Mr. Horst Enzelmüller, chairman of the Board of Directors, with effect from September 30, 2004, and appointed him chairman of the Board of Directors with effect from September 30, 2004, for a further five years. There was no change in the allocation of departmental and other responsibilities within the Board of Directors.

The annual financial statements of the company and the management report according to HGB and the consolidated financial statements and management report according to international accounting standards IFRS as at September 30, 2004, have been inspected by certified auditors PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, who were selected by the Ordinary General Shareholders' Meeting held on March 18, 2004 and engaged by the Supervisory Board on May 27, 2004, and have received an unqualified certificate. With regard to the risk early detection system in Germany, the auditors found that the Board of Directors had implemented the measures required under Section 91 par. 2 of the German Joint Stock Corporation Act (AktG) and that the monitoring system is able to perform its purpose.

The annual financial statements and the consolidated financial statements as well as the management reports and the profit appropriation recommended by the Board of Directors were supplied to each of the members of the Supervisory Board as soon as they were prepared as were the audit reports prepared by the certified auditors.

The Company and consolidated financial statements as well as the respective Company and Group management reports have been carefully examined by us. No basis was found for the raising of any objections. After being examined in depth, the audit reports prepared by the certified auditors were acknowledged and approved by us. The auditors took part in the meeting of the Supervisory Board held on January 11, 2005 for the purpose of ratifying the annual financial statements for 2003/2004 as well as approving the consolidated financial statements for 2003/2004 and reported on the main findings and the main focus of their audit, providing supplementary information during the discussion.

The Supervisory Board has approved and thus ratified the annual financial statements prepared by the Board of Directors. The consolidated financial statements prepared by the Board of Directors were also approved by the Supervisory Board. The Company and Group management reports and the appraisal of future business development in particular received our approval. The Supervisory Board follows the proposal for the appropriation of retained earnings submitted by the Board of Directors.

The Supervisory Board expresses its gratitude to the Boards of Directors, Employee Representative Councils as well as all employees of Techem AG and its affiliates for the work they have performed and the commitment they have displayed over the past year.

Eschborn, January 11, 2005

The Supervisory Board

H. Ziegler

Professor Dr. Horst Ziegler
Chairman

CONTRIBUTING TO THE COMMUNITY

Making a contribution to the community is an integral part of Techem's corporate culture. We therefore provided support again to various areas of public life during the fiscal year just ended. However, the cost-cutting measures implemented in the past fiscal year also impacted on the scope of such activities, especially of sport sponsorship.

Sport

In the field of sports, Techem concentrated on providing support to top-class athletic performance in winter sports, especially in the bobsleigh, toboggan and biathlon events. André Lange once again performed outstandingly, winning the four-man bobsleigh world championship at Königssee, a course with a wealth of tradition, as well as winning several world cup events. Given its growing business presence in Central and Eastern Europe, Techem has, however, also become involved in sport in these countries. Support is being provided to the national biathlon teams of Bulgaria, Romania, the Czech Republic and Slovakia. Thus, the biathlon world championship at Oberhof, with the participation of the aforementioned teams, was the second sporting highlight of the season for Techem after the bobsleigh world championship at Königssee.

Culture

During the past fiscal year, Techem once again provided assistance to the Hochschule für Musik und Darstellende Kunst [University of Music and Performing Arts] in Frankfurt/Main, in connection with the Hochschule für Gestaltung [Academy of Arts and Design], in Offenbach which employs the means to support young talents.

Environmental Protection

The rapid rise in energy prices has made the broad public increasingly aware of the issue of energy conservation once again. This coincides with the objective of German policy on the environment, which is directed at achieving a sustained reduction in energy consumption. At the 1992 Rio de Janeiro summit on the environment, the German Federal Government gave an assurance that by 2005 it would cut carbon dioxide emissions in relation to 1990 by 25 percent. However, only a 16-percent reduction has been achieved so far. A further improvement can only be attained through savings in private energy consumption. Here, contrary to what is widely believed, heating and hot water, rather than the automobile, account for the greatest share, one of just under 60 percent.

Techem and the efficient supply of energy

Thus, it can hardly come as a surprise that Techem's original business, the consumption-based billing of energy, can yield considerable savings for the economy as a whole.

Each year, 13 million megawatt hours of fuel are saved in the buildings that we serve, reducing the burden on the environment by over three million tons of carbon dioxide. Nevertheless, too much heat energy is still being wasted. Thus, Techem has developed a consumption scorecard for apartment owners and property managers; it involves comparing consumption data for a particular property against appropriate reference values contained in Techem's extensive database and against the guidelines contained in the German Energy Conservation Decree [Energieeinsparverordnung]. This benchmarking process in particular enables managers of large property portfolios to identify areas relatively easily where savings can be achieved and where modernization measures may be required. The consumption scorecard is provided to each Techem billing customer at no charge along with the annual heating charge statement of account. In terms of its conceptual basis, the consumption scorecard represents a preliminary stage in active consumption management and to the so-called "energy passport" for residential buildings; an EU directive requires the incorporation of the latter into national law by 2006.

During the past fiscal year, Techem also concluded a series of model projects that attest to the savings that can be achieved by means of individual room temperature control. Like the entire range of services offered by Techem, the Energy Contracting business area also contributes to energy consumption in residential and commercial buildings that conserves resources. Consumption costs for the individual user are reduced and the environment is preserved at the same time. Numerous independent studies confirm that the consumption-based billing of heating, cold and hot water costs yields savings of about 20 percent on energy and water.

Techem product recycling

Techem products that we source from our suppliers have to meet stringent ecological requirements. We set requirements for our suppliers as to the use of environmentally-friendly materials and long-life batteries for meter-reading devices and systems. Also, strict environmental standards are to be observed with respect to product disposal. Thus, the electronic components contained in our measuring devices must have a life span of at least ten years. A separate means of disposal has been established for the batteries used in these devices. A recycling facility also exists for evaporator capsules as well as an own recycling system for the recovery of evaporator fluid and for old electronic heat cost allocators.

In the field of packaging, Techem uses environmentally-friendly materials such as cardboard and uses waste paper for lining rather than polystyrene, which is difficult to dispose of. Tried and tested return systems, such as Euro palettes (Europool system) and box palettes are used for storage and shipment.

Charities

As in preceding years, Techem made donations to various charitable institutions among them four schools in Eschborn, where the Techem's headquarters are located.

THE SUPERVISORY BOARD

Professor Dr. Horst Ziegler
Chairman
College teacher, Paderborn
Member of the Advisory Committee of Hydrometer GmbH, Ansbach
(until June 30, 2004)

Harald C. Bieler
Deputy Chairman
Consultant, Frankfurt/Main
Member of the Supervisory Board of Märkische Treuhand AG, Heidelberg
Chairman of the Advisory Committee of the Döhler Group, Darmstadt

Dr. Wilhelm Bender
Chairman of the Board of Directors of Fraport AG, Frankfurt/Main
Member of the Supervisory Board of Lufthansa City Line GmbH
Member of the Supervisory Board of NOVA Allgemeine Versicherung AG
Member of the Supervisory Board of Thyssen Krupp Services AG
Chairman of the Supervisory Board of Flughafen Hannover-Langenhagen GmbH

Ursula Felten (since March 18, 2004)
Pharmaceutical assistant, Frankfurt/Main
No other offices

Dr. Martin Ott
Diplom-Kaufmann, Elsbethen-Glasenbach, Austria
Member of the Rhein-Main Advisory Committee of Dresdner Bank
Member of the Advisory Committee of Techem Messtechnik Ges.m.b.H., Innsbruck/Austria

Stefan Zuschke
Diplom-Betriebswirt, Hamburg
Employee of BC Partner Beteiligungsberatung GmbH, Hamburg
Chairman of the Supervisory Board of FinaKabel Verwaltungs AG, Hanover
Chairman of the Supervisory Board of ImmoMediaNet GmbH & Co. KG
Director of Finakabel S.A.R.L., Luxembourg/Luxembourg

COMMITTEES

Audit committee
Harald C. Bieler, chairman
Professor Dr. Horst Ziegler
Stefan Zuschke

Personnel committee
Professor Dr. Horst Ziegler, chairman
Ursula Felten
Dr. Martin Ott

THE BOARD OF DIRECTORS

Horst Enzelmüller was born in Grieskirchen (Austria) in 1942. After completing a degree in communications technology at Vienna, he began his professional career at Zuse KG, Bad Hersfeld, and then moved to Hewlett Packard in Frankfurt/Main. He was responsible for setting up the European business of Tandem Computers Inc., California. After working for NORSK DATA Dietz, Germany, and NORSK DATA AS, Oslo, Norway, he was in charge of the German business of the US computer company WANG from 1987 until 1993 and was based in Neu-Isenburg. From 1993 until 2002, Horst Enzelmüller was active in the telecoms industry, initially as director mergers & acquisitions for British Telecom in Paris. He then headed COLT Telecom GmbH, Frankfurt/Main, for seven years. As chairman of the executive management, he evolved COLT into one of Deutsche Telekom's biggest competitors within a few years and during the latter part of his time with COLT, he was responsible for Austria and Switzerland alongside Germany in his capacity as head of the Central Region. Horst Enzelmüller has been chairman of the Techem Board of Directors since January 1, 2003 and is responsible for the areas of Foreign Sales, Marketing and Business Development, Legal Affairs/Mergers & Acquisitions, Personnel and Investor Relations as well as for the newly created area of Service Quality.

Rainer Schamoni was born in Paderborn in 1956. After graduating in business management, he pursued a career as an EDP coordinator/systems developer with Nixdorf AG and Bertelsmann AG and then joined Techem. Since 1989, he has held various managerial positions in marketing and sales and was appointed to the Techem Board of Directors in 1994. Rainer Schamoni was appointed deputy chairman of the Board of Directors on January 1, 2001. He is responsible for the Sales Germany section, Energy Contracting, Technology and Services.

Stefan Pattberg was born in Wuppertal in 1964. After completing a master's degree in industrial engineering at the University of Karlsruhe (technical university), Stefan Pattberg began his career at Michelin Reifenwerke KGaA in Karlsruhe in 1990. Three years later, he headed systems technology, moving to the Michelin headquarters in Clermont-Ferrand in 1996. In 1999, he moved to COLT Telecom GmbH, Frankfurt/Main, to head the company's IT department. After successfully building up the department, he was appointed Chief Information Officer at COLT Telecom Group plc, London. Stefan Pattberg has been a member of the Techem AG Board of Directors since August 1, 2003 and is responsible for IT and IT Services.

Peter Wunderlich was born in Nuremberg in 1959. After qualifying as an Industriekaufmann (industrial/sales/purchase clerk), he held various positions within the Siemens Group in Germany and abroad. From 1998 until 2000, he was a commercial managing director of the Volkswagen Bordnetze GmbH factory in Nitra, Slovakia. In 2000 Peter Wunderlich became head of finance Germany of Colt Telecom GmbH, Frankfurt/Main, and was appointed CFO Central Region Germany/Austria/Switzerland in 2002. In Mai 2003, he moved to Techem AG to head Group Controlling and was appointed to the Board of Directors of Techem AG on August 12, 2003. Peter Wunderlich is responsible for Finance, Accounting, Controlling, Receivables Management, Logistics & Infrastructure as well as Audit.

TECHEM HISTORY

1952	Friedrich Ott establishes Techem GmbH (company for the evaluation of technical and chemical processes and patents).
1976	German Energy Conservation Act (EnEG) enters into force.
1981	German Heating Cost Decree (Heizkostenverordnung) enters into force.
1983	We launch the first electronic heat cost allocators (EHKV).
1990	With the collapse of the Wall, business is extended into Germany's new federal states (Neue Bundesländer) and Eastern Europe.
1992	We enter the Energy Contracting market.
1996	We launch a radio-controlled system for the transmission of billing data; Leveraged buy-out of Techem AG by BC Partner Funds.
2000	IPO of Techem AG.
2002	We acquire Computer Wolff GmbH & Co. KG and rename it WODIS wohnungswirtschaftliche Software GmbH; We move to the new group headquarters in Eschborn.
2003	WODIS is renamed Techem IT Services.
2004	Techem forms a subsidiary in the People's Republic of China.

FINANCIAL AND EVENTS CALENDAR

January 12, 2005	Release of annual financial statements as at September 30, 2004 Annual report press conference DVFA conference Conference call with analysts and institutional investors
February 24, 2005	Release of 3-month report as at December 31, 2004 Conference call with analysts and institutional investors
March 3, 2005	Ordinary General Shareholders' Meeting Congress Center Messe Frankfurt, Frankfurt am Main
May 12, 2005	Release of 6-month report as at March 31, 2005 Conference call with analysts and institutional investors
August 11, 2005	Release of 9-month report as at June 30, 2005 Conference call with analysts and institutional investors

As at: January 2005

GLOSSARY

Application Service Provider (ASP)
Central provision of software applications and program functionality by a provider (here: WODIS) on own servers (Techem data service center) for a large number of users (housing industry).

assisto
Radio-controlled home automation system: Controls heating and alarm systems in apartments and singe family homes – can be controlled remotely by cellular phone or over the Internet – and records energy consumption.

Billing base
Invoiced, installed devices for which billing services are provided.

Billing unit
Building/building complex for which operating costs are incurred and allocated.

CO_2 emissions
Carbon dioxide emissions

Consumption measurement
Measurement of proportionate consumption by users of heating and warm water.

Core business
See Energy Services

Customer
Places orders for the supplying of devices and the preparation of bills (residential property companies, property managers and owners, brokers, building contractors, etc.)

Electronic heat cost allocators
Measuring device that electronically processes and displays metered values in non-physical units.

Energieeinsparungsgesetz (EnEG) – German Energy Conservation Act
Act concerning the conservation of energy in buildings. Encompasses energy conserving insulation in the case of new buildings, requirements applicable to heating and ventilation facilities as well as domestic water facilities and their operation, the allocation of operating costs and special rules and requirements applicable to existing buildings.

Energieeinsparverordnung (EnEV) – German Energy Conservation Decree
Decree concerning energy conserving insulation and energy conserving technology in buildings.

Energy Contracting
The supplying of heat, cold and electricity as well as the planning, construction, financing and operation of energy producing facilities and related measuring and billing of energy costs.

Energy-generating plant
In the context of Energy Contracting, a facility that supplies heat (e.g. boiler).

Energy Services
Techem's core business encompasses the measuring and billing of energy and water consumption as well as equipment sales, rentals and maintenance.

Equipment sales
Invoiced devices, sold as well as rented.

Exchange of data
Exchange of information and data for billing purposes between Techem and customers by data carrier, data telecommunication or the Internet.

Follow-up grants
Since 1972, the state of Berlin provided special support for social housing construction. Following the expiry of a 15-year period of basic support for social housing, it provided for additional grants to housing construction companies. The program ceased on December 31, 2002.

Heat cost allocator
Umbrella term for devices/systems that display consumption in non-physical units.

Heat cost allocator operating on evaporation principle
Device that processes measurement data using fluid evaporation and displays readings in non-physical units.

Heat meter
Measuring device for which calibration is obligatory and which is used to count heat consumption in kilowatt hours (kWh) and megawatt hours (MWh).

Heizkostenverordnung, – German Heat Cost Decree
Decree concerning the consumption-based billing of heating and hot water costs.

Home automation
Included in the core business area of Energy Services, see assisto (radio-controlled home automation system).

IT services
Software and communication services connected with real estate.

Leveraged buy-out
Takeover by external or internal (company) investors with the use of limited own funds. In general, capital is procured by taking out bank loans or by issuing bonds. Payments of interest and redemption payments are financed from the future earnings generated by the company taken over or frequently through the sale of company shares.

Maintenance contract
See rental contracts.

Maintenance of devices for consumption measuring
Regular inspections of functioning and safety aspects, including compliance with the requirements imposed by DIN EN 834 and 835, especially concerning subsequent calibration, replacement of capsules and batteries.

R&D
Research and Development

Radio-controlled (Techem intern: data)
System of devices for consumption measuring and external data storage for recording of consumption values by radio.

Radio reading
The measuring of consumption values using radio and their storage in a central data storage unit.

Reading, read (meter)
Recording and documenting of consumption values.

Remote reading, read (remotely)
The automated measuring and storage of consumption values in a central data storage unit, see radio reading.

Rental contract
Average life spans: heat and water meters, five years; cold water meters, six years; heat cost allocators: ten years.

Thermostatic valve
Device (on a radiator) that allows room temperature to be controlled by influencing the flow of hot water. Each change in temperature requires a manual adjustment.

Usable unit
Usable area (apartment) within a billing unit (building) for which operating costs are computed.

User
Consumer within the usable unit (occupant)

Utilization level
(also referred to as development level)
Building potential of a property already supplied by Energy Contracting (see Energy Contracting).

Water meters; hot, cold
Measuring device, calibration obligatory, for counting water consumption in cubic meters or liters.

IMPRINT

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