



CORPORATE GOVERNANCE REPORT

2017 Financial Year

For MVV, responsible and transparent corporate governance with a focus on long-term value creation forms the basis for the company's sustainable success. Not only that, high-quality corporate governance is indispensable for ensuring a relationship of trust with our shareholders, customers, business partners, employees and the general public.

In what follows, the Executive and Supervisory Boards report on corporate governance at MVV Energie AG in accordance with Point 3.10 of the German Corporate Governance Code. We combine this with our Corporate Governance Declaration pursuant to § 289f of the German Commercial Code (HGB). The report includes disclosures on our corporate governance practices and the Declaration of Conformity requiring submission each year pursuant to § 161 of the German Stock Corporation Act (AktG).

REPORT OF EXECUTIVE AND SUPERVISORY BOARDS

The Executive and Supervisory Boards dealt extensively with corporate governance at MVV once again in the 2017 financial year. Key focuses included the revisions made to the Code itself and the topics of “diversity” and “independence of supervisory board members”. In line with the new recommendations made by the German Corporate Governance Code, we have published the curricula vitae of the Supervisory Board members, as well as an overview of their material activities, on our website. Like in previous years, MVV Energie AG complied with all of the Code's recommendations in the period under report. The same applies with just one exception to the suggestions made in the Code. Point 2.3.3 of the Code suggests that the company should enable shareholders to follow the entire Annual General Meeting via communication media such as the internet. We merely broadcast the introductory words by the meeting chairman and the presentation by the CEO live on our website at www.mvv.de/investors. After the Annual General Meeting, we also publish a video of the CEO's presentation and the voting results on this website.

Shareholders and Annual General Meeting

Shareholders in MVV Energie AG exercise their voting and control rights at the Annual General Meeting. Each shareholder is entitled to participate in the Annual General Meeting if he or she registers within the relevant deadline and meets the conditions governing participation in the Annual General Meeting and the exercising of voting rights. Shareholders may make statements on all agenda items at the meeting and submit relevant questions and motions. For voting purposes, each share entitles its holder to one vote. By casting their votes, shareholders may participate in all decisions of material relevance to the company taken at the Annual General Meeting. Shareholders may cast their votes either in person or via a proxy of their choice. Shareholders also have the option of being represented by a voting proxy appointed by MVV Energie AG to act in line with their instructions, a bank or a shareholders' association. Furthermore, shareholders may also submit their votes by post in advance of the Annual General Meeting. To do so, they are required to register within a specified deadline.

In the run-up to the Annual General Meeting, we publish the invitation to the meeting and all reports and information necessary for the respective resolutions in accordance with the requirements of stock corporation law. This information is published on our website at www.mvv.de/investors.

Transparent communications

We attach great value to informing all stakeholders of MVV Energie AG about significant matters of current relevance and about the company's situation promptly, comprehensively, simultaneously and in such a way as to ensure equal treatment of all of the company's stakeholders. Alongside our PR activities, we chiefly use our websites – and here in particular www.mvv.de and www.mvv.de/investors – for this purpose. We always meet the reporting duties incumbent on us under the German Stock Corporation Act (AktG), the German Commercial Code (HGB) and the German Securities Trading Act (WpHG).

Disclosures on auditor

The Annual General Meeting held on 10 March 2017 elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) as auditor for the 2017 financial year. Prior to this, the Supervisory Board convinced itself of PwC's independence. PwC has acted as auditor to MVV Energie AG and group auditor since the 2009 financial year. We fully comply with the statutory requirements resulting from the Auditor Regulation (Regulation (EU) No. 537/2014) and from § 316 et seq. HGB. These concern the selection, appointment and rotation of the auditor. The same applies for the commissioning of non-audit services from the auditor.

Reporting and audit of financial statements

MVV Energie AG prepares its annual financial statements on the basis of the German Commercial Code (HGB). We prepare the consolidated financial statements and the interim financial statements in accordance with International Financial Reporting Standards (IFRS) in the form requiring application in the European Union. We present the situation of MVV and of MVV Energie AG in a combined management report.

The auditor, currently PwC as already mentioned, audits the annual financial statements of MVV Energie AG as prepared by the Executive Board. Once they have been reviewed by the Audit Committee, these financial statements are examined, approved and adopted by the Supervisory Board. The consolidated financial statements are also prepared by the Executive Board, audited by the auditor and discussed in detail by the Audit Committee before being submitted to the Supervisory Board for its own review and approval. Within its audit of the financial statements, PwC also audits the combined management report and the early-warning risk identification system.

The quarterly statements for the 1st quarter and 1st nine months are prepared by the Executive Board and discussed with the Audit Committee prior to publication, as is the half-year financial report. These publications are not subject to any audit review requirement.

CORPORATE GOVERNANCE DECLARATION WITH DECLARATION OF CONFORMITY

We published the following Corporate Governance Declaration on our website at www.mvv.de/investors on 3 November 2017 and thus met the requirements of § 289f HGB.

Declaration of Conformity with the German Corporate Governance Code (§ 161 AktG)

The Executive and Supervisory Boards adopted the following Declaration of Conformity with the German Corporate Governance Code in September 2017:

The Executive Board and Supervisory Board of MVV Energie AG hereby declare that the company has complied with and continues to comply with the recommendations made by the German Corporate Governance Code Government Commission in the version of the Code dated 7 February 2017, which was published in the Federal Gazette on 24 April 2017 and subsequently published in corrected form in the Federal Gazette on 19 May 2017.

Compliance and risk management

We aim to ensure that our interactions with individual stakeholders are always characterised by transparency, trust, fairness and integrity. We work with a compliance management system (CMS) to safeguard compliance with applicable legal requirements, in-company guidelines and ethical standards. The CMS is intended on the one hand to ensure that our managers and employees understand and adhere to the aforementioned requirements, guidelines and standards and on the other hand to monitor all relevant business activities and processes within our Group.

We have laid down the most important requirements and all necessary organisational structures and processes, including the relevant personnel responsibilities, in our Compliance Management Handbook, in which we also present the details of our reporting system. This handbook is binding for all of the limited liability companies at the Mannheim subgroup of MVV Energie AG and is permanently available for downloading to all of the employees at this subgroup. The other subgroups have introduced equivalent compliance management systems. The Compliance Management Handbook is also available in English (also for the Czech subgroup).

We have structured our CMS in such a way as to ensure that breaches of compliance are basically avoided – above all by working with preventative measures. We already check relevant processes in sensitive areas in advance, for example, and act early to take corrective measures. Donations and payments to parties and political organisations are strictly prohibited. Payments to equity providers are made exclusively in the form of dividends. We were notified of nine suspected compliance infringements in the period under report. Five of these were reported via our “Whistleblower Hotline”, with only one such report being made anonymously. These mostly involved cases of immaterial significance. Following careful internal reviews, we were unable to detect any noteworthy breaches of legal requirements or of our own internal guidelines.

MVV’s Compliance Officer is the head of our group legal, compliance and materials division. In liaison with the various business units affected, the Compliance Officer compiles the relevant compliance regulations. He documents these and monitors their implementation and is also responsible for ensuring that employee training measures are implemented and that due account is taken of all CMS processes. His duties also include offering advice and support for those measures intended to prevent and, where necessary, investigate any violations of the law, corruption or deliberate acts harmful to the company. The Compliance Officer reports to the Executive Board and the Audit Committee.

We make every effort to avert all criminal or grossly incorrect actions by implementing active prevention measures. We operate a zero-tolerance approach towards bribery and all other forms of corruption. To this end, we provide extensive corruption prevention training, particularly to employees working in sales, related areas and procurement. Employees also receive precise instructions on how to deal with gratuities and invitations. We record and check any gratuities offered and invitations. This way, we reduce the risk of so-called “soft bribery”. In the 2017 financial year, around 250 employees took part in corresponding training sessions. We also continually monitor adherence to compliance requirements – and that in all business fields, specialist divisions, group departments and subsidiaries. Employees and third parties can also contact the Compliance Officer or an external confidence lawyer directly. Via “Whistleblower Hotlines”, they can provide anonymous tip-offs concerning potential misconduct. We have also published the telephone number of the confidence lawyer externally on our website at www.mvv.de.

We also provide regular training to all of MVV’s managers. They have to be well informed about general compliance requirements and familiar with the legal requirements relevant to their respective business units. These may refer, for example, to the requirements of capital market, securities and stock market law, competition and cartel law and energy industry law. We provide extensive training to new management staff. For this, all newly appointed managing directors and all upcoming management staff take part in a seminar held over several days, with attendance obligatory for all management staff from section manager upwards. All management staff are required to submit a Compliance Management Declaration (CMD) at the end of each financial year. In this, they must state whether the relevant compliance regulations and legal requirements set out in detail in the declaration have been complied with in their respective areas of responsibility. Among other issues, we also enquire whether the employees of the respective manager have received the required instruction and suitable training on the CMS. Furthermore, in the context of the CMD the managers also respond in detail to questions specifically tailored to circumstances at their respective business units.

The energy industry supply chain is greatly influenced by fuel trading, which is handled on energy exchanges or in bilateral agreements. A significantly lower share of our total procurement volumes relate to other suppliers who provide us with goods or perform highly qualified services for us. We attach great value to compliance in our cooperation with our suppliers and service providers as well. We work with supplier management systems and request information from our new suppliers, particularly with regard to anti-corruption measures, environmental protection and social responsibility. Our cooperation with suppliers and service providers in Germany and the EU is based on the valid laws and regulations, as well as on those compliance regulations, forms of conduct and work practices relevant to us. These include, for example, the international conventions of the United Nations (UN), the International Labour Organization (ILO) and the Organisation for Economic Cooperation and Development (OECD), as well as of the UN Global Compact, which MVV joined in the 2017 financial year given the growing share of our international business in recent years.

Further major components of our corporate management include our risk management system and the internal control system in respect of the financial reporting process (IKS).

Dual management system

As a listed stock corporation with its legal domicile in Mannheim, MVV Energie AG is subject to German stock corporation law. One basic principle of this legislation involves the dual management system comprising the Executive and Supervisory Boards. The two boards are strictly separate in terms of their composition and functions. The Executive Board is responsible for managing the company and conducting its business, while the Supervisory Board is entrusted with advising and monitoring the Executive Board. The Executive and Supervisory Boards of MVV Energie AG work together closely and on a basis of trust in the interests of the company.

Composition and mode of operation of Executive Board

The Executive Board manages the company under its own responsibility. Its main focus in this respect is the generation of sustainable and profitable growth. It determines the company's strategic alignment and lays down its financial, investment and personnel planning. It assesses whether the strategy is being implemented in a targeted manner and whether the risk management system is fit for purpose. It also monitors risk controlling, the internal control system in respect of the financial reporting process (IKS) and the compliance management system. In its decisions, it takes due account of the interests of the company's stakeholders.

The Supervisory Board has imposed a Code of Procedure governing the activities of the Executive Board, in which it has laid down the divisional responsibilities and the duties and decisions incumbent on the overall Executive Board. Furthermore, it defines the duties of the Chief Executive Officer, the ways in which Executive Board resolutions are to be adopted and those transactions which require Supervisory Board approval. The Executive Board must include at least two members and currently comprises three positions and divisions: CEO/Commercial Affairs, Sales and Technology. The Chief Executive Officer acts as Labour Director.

The Chief Executive Officer coordinates the cooperation between Executive Board members and also represents the Executive Board externally. Other than this, Executive Board members enjoy equal rights and bear joint responsibility for managing the company. They manage the divisions assigned to them under their own responsibility, but are nevertheless required to subordinate the specific interests of their divisions to the overriding interests of the company.

Requirements in composition of Executive Board

The composition of the Executive Board is consistent with MVV's entrepreneurial approach.

We attach great value to general economic, technical and sales expertise supplemented by individual specialist competence. Strategic thinking and farsightedness based on the member's own experience and expertise are further important aspects. Furthermore, an entrepreneurial mindset is crucial. The aim is to ensure the presence of a variety of educational backgrounds and professional experience in the Executive Board so as to enable diverse perspectives, aspects and factors to be accounted for in the company's business approach. Following preparation by the Personnel Committee, the Supervisory Board is responsible for identifying, proposing and appointing new Executive Board members and for extending existing employment contracts. Upon the selection of new Executive Board members, up-to-date requirements profiles based on the qualities referred to above are compiled and referred to and the candidates proposed for vacant positions are examined in detail.

The Supervisory Board aims to increase the share of women on the Executive Board as well in future. Given the composition of the Executive Board, which at the time consisted exclusively of men, in 2015 the Supervisory Board set the target for the share of female members to be achieved by 30 June 2017 at 0%. The Supervisory Board has set the target for the share of women on the Executive Board by 30 September 2021 at 25%.

Composition and mode of operation of Supervisory Board and its committees

The Supervisory Board has the task of advising the Executive Board in its management of the company and supervising its activity. The Supervisory Board appoints the members of the Executive Board and is also involved in decisions of fundamental significance for the company. In view of this, the Executive Board informs the Supervisory Board regularly, promptly and comprehensively of its intended strategy and other fundamental matters of corporate planning. Furthermore, the Executive Board reports to the Supervisory Board on the company's business performance and situation, as well as on its risk situation and risk management.

The Supervisory Board of MVV Energie AG consists of 20 members. Ten are shareholder representatives, while ten are employee representatives. Both groups have identical terms in office. Eight shareholder representatives are elected by the Annual General Meeting and two are directly delegated by the City of Mannheim, namely the Lord High Mayor and the relevant specialist head of department. This provision applies to the extent that the City of Mannheim is a shareholder and directly or indirectly holds shares corresponding to more than half of the company's share capital. In accordance with the German Codetermination Act (MitbestG), ten Supervisory Board members are elected by employees to act as employee representatives. The Supervisory Board Chairman coordinates the work of the Supervisory Board, whose activities are governed by a Code of Procedure.

The Supervisory Board of MVV Energie AG has formed five specially qualified permanent committees which prepare and supplement its activities. The Audit Committee meets several times a year, while the Personnel, Nomination, Mediation and New Authorised Capital Creation Committees are convened when necessary.

The **Audit Committee** deals with corporate planning, strategy and the performance of individual business fields, as well as with the development and structure of individual controlling systems. It also deals with fundamental financial reporting issues and is responsible for preparing the selection of the auditor, performing an advance review of and discussing the annual and consolidated financial statements, the interim consolidated financial statements for the first half of the year and the interim financial statements for the 1st quarter and 1st nine months. The committee monitors the effectiveness of the internal control system (IKS), internal audit and the risk management system and checks whether the organisational precautions taken to comply with legal requirements and internal company guidelines (compliance) are sufficiently effective. The tasks incumbent on the Audit Committee also include determining the key focuses of the audit and taking any necessary decisions concerning non-audit services provided by the auditor. The committee comprises three shareholder and three

employee representatives. The Chairman of this committee is Professor Heinz-Werner Ufer. As an independent and expert member, he meets the requirements of § 100 (5) and 107 (4) AktG and of Point 5.3.2 Sentences 2 and 3 of the German Corporate Governance Code (DCGK). The Supervisory Board Chairman is a permanent guest in this committee.

The **Personnel Committee** prepares Supervisory Board resolutions concerning the conclusion, amendment and rescission of employment contracts with Executive Board members. This committee consists of six members: the Supervisory Board Chairman, who is also Personnel Committee Chairman, his deputy and four Supervisory Board members, of which two shareholder and two employee representatives.

The **Nomination Committee** proposes suitable candidates to the Supervisory Board for its own proposals to the Annual General Meeting. In this, it takes particular account of legal requirements and of the recommendations and suggestions made by the German Corporate Governance Code. This committee also determines the targets for the composition of the Supervisory Board. The five committee members include the Supervisory Board Chairman, who also chairs the committee, and four further shareholder representative Supervisory Board members.

Pursuant to § 27 (3) of the German Codetermination Act (MitbestG), the **Mediation Committee** submits further personnel proposals to the Supervisory Board in cases where the two-third majority required to appoint and dismiss Executive Board members is not achieved in the first ballot.

The **New Authorised Capital Creation Committee** prepares the Supervisory Board resolutions necessary for the creation of new authorised capital. Eight Supervisory Board members sit on this committee: the Supervisory Board Chairman, who also chairs the committee, his deputy and six further Supervisory Board members, of which one employee representative and five shareholder representatives.

Requirements in composition of Supervisory Board

The Supervisory Board has compiled a detailed requirements profile for future members in which it has set out the objectives and criteria for the composition of the Supervisory Board. These include a competence profile for the board as a whole as well as the standards which all members are required to meet in terms of specialist knowledge, abilities and experience. The standards in terms of the experience, personalities and integrity of members are also listed.

When selecting candidates to propose for election by the Annual General Meeting, the competence of such candidates is assessed in light of the following aspects, among others: an in-depth understanding of the energy industry and especially of the business fields in which our group of companies operates, an ability to critically assess complex economic and technical matters, secure judgement of business decisions in terms of their correctness, legal conformity, economic rationale and expediency, and the ability to reach a qualified assessment of financial statements, including the management reports and auditor's audit reports. Furthermore, Supervisory Board members should have specialist expertise in select areas of our Group's activities that are significant to the company's business operations.

The Board must include at least one financial expert with the qualifications called for by the German Stock Corporation Act (AktG) and the German Corporate Governance Code. When proposing candidates, due account should also be taken of the upper age limit of 70 years. With regard to the length of membership, the Supervisory Board has decided that, where possible, elected members should remain on the Board for no less than one and no more than three full terms in office. Not only that, the Supervisory Board should include an adequate number of independent members. Before nominating a candidate, the Supervisory Board ascertains whether the potential candidate has sufficient time to perform the duties associated with the position and whether he or she has any business and/or personal links to our group of companies or its competitors.

Pursuant to § 96 (2) Sentence 1 AktG, the Supervisory Board of a listed company should comprise at least 30% women and at least 30% men. Under § 96 (2) Sentence 2 AktG, this requirement basically applies for the Supervisory Board as a whole. For the Supervisory Board of MVV Energie AG, however, both employee and shareholder representatives have drawn on the possibility provided for in § 96 (2) Sentence 3 AktG, namely that these minimum shares should be met not only for the Supervisory Board as a whole, but also for the employee and shareholder representatives respectively. Accordingly, of the positions allocable to shareholder and employee representatives for each group at least three must be held by women and at least three by men.

In its current composition, the Supervisory Board of MVV Energie AG complies with the above requirements.

Conflicts of interest and independence of Supervisory Board members

In respect of Point 5.4.2 of the German Corporate Governance Code, we are of the opinion that all members of the Supervisory Board are independent in the spirit of the Code. The members do not maintain any personal or business, i.e. commercial, links with the company or its management bodies. Any conflicts of interest arising on the part of Executive or Supervisory Board members are disclosed immediately to the Supervisory Board. In our opinion, the Supervisory Board members delegated by the City of Mannheim are also independent in the sense of this recommendation. The City of Mannheim owns a majority of the shares in MVV Energie AG. Pursuant to the Municipalities Code of the State of Baden-Württemberg, the city council is the topmost political body representing the city. It is therefore consistent that the City of Mannheim, as principal shareholder in MVV Energie AG, should be represented on the company's Supervisory Board by members of the City Council. What counts in determining independence is whether there are any material conflicts of interest. This is not the case for the members thereby delegated.

Report on equal participation of women and men

The Supervisory and Executive Boards of MVV Energie AG are convinced that the company can only generate sustainable business success when responsibility is assigned to both women and men on a basis of equality. Moreover, given demographic changes it makes sense both from a social and from an economic perspective to promote all talents regardless of their gender. This way, the company can actively counter the effects of any shortage of specialist and management staff. In the past, female employees made up a comparatively low share of the overall workforce at companies operating in the energy industry. The Supervisory and Executive Boards of MVV Energie AG therefore believe that raising the share of female employees at the group of companies on a long-term basis provides a major key to the company's successful further development. By 30 September 2021, we aim to gradually raise the female share of the Group's workforce to 35 %, up from the equivalent figure of 27 % as of 30 June 2015. Moreover, we aim to increase the female share of management staff to 25 %, as against 14 % as of 30 June 2015. One key package of measures here involves providing targeted personnel development for women with suitable potential. As of 30 June 2017, we had made progress towards reaching our targets. The share of women rose to 29 % of our Group's workforce and 16 % of our management staff. To meet our targets by 30 September 2021, we will be continually expanding our range of promotional measures and programmes in the years ahead.

For MVV Energie AG, we report on the share of women in both the first and the second management tiers. The Executive Board had set itself the target of raising the share of women in the **first management tier** to 20 % by 30 June 2017. We managed to increase this share to 17 % by the target date (30 June 2015: 12 %). We were unable to meet our target in full and this was due in particular to the fact that we received only few applications from women for the small number of positions that had to be filled in the two-year period. In addition to the measures already in place to promote female employees, we are therefore taking suitable measures intended to attract more applications from promising external and internal candidates. In the **second management tier**, women accounted for 25 % of managers as of 30 June 2017 (30 June 2015: 20 %). For this level, which will play an important role in determining future developments in this respect, we therefore met the target of 25 % set by the Executive Board for 30 June 2017. The Executive Board has now set new targets of 20 % and 30 % for the first and second management tiers respectively, both of which should be met by 30 September 2021.