

Corporate Governance

Report of the Executive and Supervisory Boards

The legal framework for corporate governance is provided by German stock corporation law. Furthermore, the German Corporate Governance Code first presented by the Government Commission on the German Corporate Governance Code in February 2002 also includes standards of good and transparent company management, some of which go beyond existing legal requirements. The Code is intended to raise the level of trust placed by international and national investors, customers, employees and the general public in the management and supervision of German publicly listed stock corporations. The Code was most recently amended on 2 June 2005.

MVV Energie AG also accords great significance to responsible and value-based company management. The Executive and Supervisory Boards support the principles of value-based company management and control formulated in the German Corporate Governance Code and base their activities on these principles. The recommendations in the Code therefore form part of the way we see ourselves and have been implemented virtually in full. The Statement of Compliance provides information as to why we have deviated from the recommendations in a few exceptional cases.

The latest amendments to the Code primarily focused on improving the activities of the supervisory board and on achieving even greater levels of transparency for company-internal incentive systems.

The remuneration of Supervisory Board members is commensurate to their duties and to the responsibility they assume. The members of the Supervisory Board were paid annual remuneration of Euro 10 thousand each in the year under report, with the Chairman receiving twice this amount and his deputy one and a half times this figure. Moreover, a meeting allowance of Euro 300 was paid per person per meeting. No performance-related remuneration is paid to the members of the Supervisory Board.

The performance-related remuneration of members of the Executive Board and of all other employees is an issue of great importance to MVV Energie AG. The remuneration of Executive Board members thus consists of fixed and variable components, which have been reported on an individual basis in the notes to the consolidated financial statements for the first time this financial year. The remuneration of the Executive Board has this year been depicted with the claims acquired in the year under report, including bonuses. In the previous year, these figures were reported on the basis of the accrual principle. The remuneration of division heads at MVV Energie AG and of members of the executive boards or directors of the shareholdings also include performance-related components. Moreover, we are planning to grant our employees a share in the performance of the company. An employee share option programme is to be established for this purpose in 2006.

The major concerns of the German Corporate Governance Code involve enhancing the transparency of publicly listed companies and the ongoing improvement of communications between such companies and their environment. In the past, MVV Energie AG has always fulfilled the transparency obligations resulting from the Securities Trading Act (WpHG) and complied in full with the Code's recommendations in this respect and will continue to do so in future. Our transparent, comprehensive, timely and open communications serve the purpose of reinforcing the trust placed in the company by existing and future shareholders, business partners, customers, employees and the general public and at strengthening such trust on an ongoing basis. We make particular use of our website www.mvv-investor.de to provide information on latest developments at the Group in terms of its financial situation and strategic orientation.

The accounting of the Group is undertaken in accordance with International Financial Reporting Standards (IFRS), while the individual financial statements of MVV Energie AG are compiled in line with the German Commercial Code (HGB).

Statement of Compliance

The Executive and Supervisory Boards of MVV Energie AG hereby confirm that the company has complied with and continues to comply with the recommendations made by the Government Commission on the German Corporate Governance Code.

In respect of the past, this Statement refers to the version of the German Corporate Governance Code dated 21 May 2003 and published by the Federal Ministry of Justice in the official section of the electronic Federal Official Gazette on 30 June 2003. With regard to the future, it refers to the recommendations of the new version of the Code dated 2 June 2005 and published in the official section of the electronic Federal Official Gazette on 12 July 2005.

The following recommendations were not and are not complied with:

— **Retention for D&O insurance – Point 3.8 (2):** *“If the company takes out a D&O (directors and officers’ liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed.”*

The D&O insurance policy concluded by MVV Energie AG, which protects the insured parties against possible claims for damages, does not provide insurance cover for intentional wrongdoing or wilful negligence on the part of the members of the Executive and Supervisory Boards, neither does it cover against their knowingly committing any dereliction of duty. The issue of retention therefore only applies to negligent behaviour. We were and remain convinced that our efforts to attract outstanding individuals to assume responsibility on our Supervisory and Executive Boards would be impeded if such individuals also had to bear the risk of liability claims in the event of negligent behaviour.

— **Remuneration of the members of the executive board – Point 4.2.3. (2) Sentence 4** (variable remunerative components of a long-term incentive nature and involving risk): *“For extraordinary, unforeseen developments a possibility of limitation (Cap) shall be agreed by the Supervisory Board.”*

We will comply with this recommendation in future insofar that a cap (upper limit) is to be agreed to cover exceptional, unforeseen developments

in the redesign of employment contracts for members of the executive board due to be undertaken in March 2006.

— **Performance-related remuneration for members of the supervisory board – Point 5.4.7 (2) Sentence 1:** *“Members of the Supervisory Board shall receive fixed as well as performance-related compensation.”*

The articles of incorporation of MVV Energie AG only provide for the fixed remuneration of the Supervisory Board, plus a meeting allowance. We have already commented in the past that we were not convinced by models based on linking supervisory board remuneration to the level of the dividend or to the share price. Our reservations were affirmed by the ruling of the Federal High Court in 2004 in respect of the admissibility of share option programmes for supervisory board members. This ruling is interpreted in some legal commentaries as meaning that only fixed remuneration is permissible for supervisory board members. We have therefore refrained from introducing any performance-related remunerative components for members of the Supervisory Board.