

Corporate Governance

Report of the Executive and Supervisory Boards

Corporate governance involves the entire system of responsible company management. In addition to internal and external supervisory mechanisms, it also encompasses the company's business policies, guiding principles and organisational structure. The legal framework for corporate governance is provided by German stock corporation law. Furthermore, the German Corporate Governance Code presented by the Government Commission on the German Corporate Governance Code 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 12 June 2006. The latest amendments to the Code also focused on achieving an even greater degree of transparency for internal company incentive systems.

The Executive and Supervisory Boards of MVV Energie AG support the principles of value-based company management and control formulated in the German Corporate Governance Code. The recommendations in the Code are recognised by them as guiding principles for their activities and have been implemented virtually in full. Our Statement of Compliance provides information as to why we have deviated from the recommendations in a few exceptional cases.

The members of the Supervisory Board were paid annual remuneration of Euro 10 thousand each in the 2005/06 financial year, with the Chairman of the Supervisory Board receiving twice and his deputy one and half times this figure. Moreover, a meeting allowance of Euro 300 was paid per person per meeting of the full Supervisory Board and of the committees. This remuneration amounted to Euro 284 thousand in total. No performance-related remuneration is paid to the members of the Supervisory Board.

The members of the Executive Board of MVV Energie AG simultaneously act as executive board members of the group company MVV RHE AG; the Chairman of the Executive Board simultaneously acts as the managing director of MVV GmbH. The remuneration for their activities at these companies is included in the remuneration paid by MVV Energie AG and is reimbursed by MVV RHE AG and MVV GmbH. MVV RHE AG reimburses MVV Energie AG for 15 % of the fixed remuneration of the members of the Executive Board for their activities on behalf of MVV RHE AG (excluding the supplementary CEO allowance in

the case of the Chairman of the Executive Board). MVV GmbH reimburses MVV Energie AG for 2 % of the fixed remuneration of the Chairman of the Executive Board (excluding the supplementary CEO allowance) for his activity on behalf of MVV GmbH.

The Executive Board was paid total remuneration amounting to Euro 1 881 thousand during the year under report. This was structured as follows:

Remuneration Euro 000s	Fixed ¹	Variable ²	from supervisory board positions	Total
Dr. Rudolf Schulten	404	209	9	622
Dr. Werner Dub	239	170	5	414
Hans-Jürgen Farrenkopf	242	170	5	417
Karl-Heinz Trautmann	253	170	5	428
Total	1 138	719	24	1 881

¹ including allowances for pension insurance, health insurance, nursing care insurance, voluntary contributions to employers' mutual insurance association and non-cash benefits, as well as the CEO allowance

² provision, including final settlement amounts from 2004/05

No remuneration components of a long-term incentive nature were granted during the year under report. No further payments were made by third parties. The pension commitments made to members of the Executive Board represent defined benefits. The service cost amounts to Euro 393 thousand. The present value of the total defined benefit obligation amounted to Euro 2 840 thousand at the reporting date. Former members of the Executive Board received benefits of Euro 199 thousand during the year under report. The present value of the total obligation relating to defined benefit pension commitments amounted to Euro 2 917 thousand at the reporting date.

The heads of division at MVV Energie AG and members of the management bodies of the shareholdings also receive performance-related remuneration. Senior employees participate in a defined contribution pension plan at an average of 8.6 % of their fixed remuneration. Within the channels of execution offered within the Group, senior employees are able to determine which biometric risks they would like to cover. Total expenses amounted to Euro 159 thousand during the year under report.

At the end of the financial year we introduced an employee share programme in order to enable our employees to participate in the performance of the company as well. The shares were made available to employees at a price of Euro 17.50 per share. The price was set on the basis of the average price of the MVV Energie share in the period from 21 to 25 August 2006. The average price during this period amounted to Euro 22.50. The employees were granted a discount of Euro 5.00 on this share price and were able to order shares in the period from 28 August to 19 September 2006. Of the 2 876 employees across the Group entitled to participate, a total of 324 employees made use of this opportunity. This is equivalent to a participation rate of 11.3 %. The average order calculated in terms of all participants amounted to 195 MVV Energie shares per employee. The company therefore generated proceeds of around Euro 1.1 million and incurred costs of around Euro 35 000.

In the past, MVV Energie AG has always fulfilled the transparency obligations resulting from the German Securities Trading Act (WpHG) and complied in full with the Code's recommendations in this respect and will continue to do so in future. We make particular use of our website www.mvv-investor.de to provide information about our company and on latest developments at the Group.

Group accounting is based on International Financial Reporting Standards (IFRS), while the separate financial statements of MVV Energie AG are compiled in accordance 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 2 June 2005 and published by the Federal Ministry of Justice in the official section of the electronic Federal Official Gazette on 20 July 2005. With regard to the future, it refers to the recommendations of the new version of the Code dated 12 June 2006 and published in the official section of the electronic Federal Official Gazette on 24 July 2006.

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 members of the Executive and Supervisory Boards, neither does it cover against their knowingly committing any dereliction of duty. The Executive and Supervisory Boards are absolutely committed to performing their duties in a motivated and responsible manner and are not of the opinion that this requires underlining in the form of a deductible.

Compensation report – Point 4.2.5 (2) Sentence 2: “In the case of pension plans, the allocation to accrued pension liabilities or pension funds shall be stated each year.”

The compensation report includes detailed individualised information concerning the current remuneration of members of the Executive Board. The encroachment of the private sphere of members of the Executive Board and their families resulting from the individualised disclosure of pension plans is far greater than any benefit such disclosure may have for investors. We have therefore only disclosed the pension plans in aggregate form.

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 already commented in the past that we were not convinced by linking supervisory board remuneration to the level of the dividend or to the share price. We have therefore refrained from introducing any performance-related remunerative components for members of the Supervisory Board.

This Statement of Compliance is also available at our company's website www.mvv-investor.de.