

# Corporate Governance

## Report of the Executive and Supervisory Boards

The term “corporate governance” describes the entire system of corporate management and supervision, including its organisation, underlying business policy principles and mechanisms of internal and external supervision.

The German Corporate Governance Code presented by the German Corporate Governance Code Government Commission for the first time in 2002 and continuously enhanced since then sets out nationally and internationally recognised standards of high-quality, transparent and responsible corporate management and recommends that publicly listed companies should adopt these standards. The latest new version of the German Corporate Governance Code dated 18 June 2009 with the amendments to the Code adopted by the German Corporate Governance Code Government Commission was published in the official section of the electronic Federal Official Gazette on 5 August 2009.

Good corporate governance ensures that corporate management and supervision focus on safeguarding the company's ongoing existence and generating sustainable value growth. For us, it provides a foundation for gaining and retaining the trust of our shareholders, customers and employees, as well as of the general public, on a permanent basis. The Executive and Supervisory Boards of MVV Energie AG therefore accord high priority to good corporate governance and explicitly endorse the appeal contained in the Code to manage the company in such a way as to secure its continued existence and sustainably increase its value in line with the principles of the social market economy.

We see the recommendations made by the German Corporate Governance Code as representing an important instrument in further developing corporate management and supervision in line with the needs of the capital market. The Executive and Supervisory Boards of MVV Energie AG comply with the overwhelming majority of the Code's recommendations. In our Declaration of Conformity we explain why we have deviated from the recommendations in a few cases.

### Transparency

In the past, we have always met the relevant transparency requirements in the German Commercial Code (HGB) and the German Securities Trading Act (WpHG) and also complied in full with the Code's recommendations in this respect. In future, we will continue to ensure that all of our stakeholders have access to the same information at the same time. To this end, we provide information about our company and the latest developments at our Group on our website at [www.mvv-investor.de](http://www.mvv-investor.de), where we also publish a financial calendar with the dates for our regular financial reporting.

Group accounting is based on International Financial Reporting Standards (IFRS), while the separate financial statements of MVV Energie AG are prepared in accordance with the German Commercial Code (HGB).

## Compensation Report (Component of Group Management Report)

The Executive Board was paid compensation totalling Euro 1 901 thousand in the year under report. This was structured as follows:

### Compensation

Euro 000s	Fixed <sup>1</sup>	Variable	Supervisory Board compensation <sup>2</sup>	Total
Dr. Georg Müller <sup>3</sup>	336	174	11	521
Matthias Brückmann	274	181	9	464
Dr. Werner Dub	263	181	16	460
Hans-Jürgen Farrenkopf	266	181	9	456
<b>Total</b>	<b>1 139</b>	<b>717</b>	<b>45</b>	<b>1 901</b>

<sup>1</sup> 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 of Euro 131 thousand for Dr. Georg Müller

<sup>2</sup> supervisory board activities at shareholdings

<sup>3</sup> from 1 January 2009

The members of the Executive Board of MVV Energie AG also acted as executive board members of MVV RHE AG. Since that company's conversion into a limited company (GmbH), entered in the Commercial Register on 13 January 2009, they have acted as managing directors of MVV RHE GmbH. Moreover, Dr. Werner Dub was managing director of MVV GmbH from 1 October 2008 until 31 December 2008. The costs of the work performed in these functions were charged on to the associate companies.

Variable compensation is calculated on the basis of two components – the annual net surplus of the MVV Energie Group after minority interests pursuant to IFRS adjusted for extraordinary items under IAS 39, and the ROCE (Return on Capital Employed). A suitable cap is in place. No compensation components of a long-term incentive nature were granted in the year under report.

No further payments were either committed or made by third parties.

Upon reaching retirement age, the members of the Executive Board are entitled to receive pension benefits amounting to a certain percentage of their fixed compensation. This percentage rises by 2 % for every full year of service up to a maximum value of 70 % of fixed compensation. Pension payments are reduced by income earned elsewhere, benefits received under the state pension scheme and any other pension benefits attributable at least in half to employers' contributions. If the pension benefits are claimed prematurely, then the monthly pension paid is reduced by 0.5 % for every month by which the claimant falls short of the applicable retirement age.

In the event of any partial reduction in the employee's working capacity, partial reduction in working capacity due to occupational disability or total inability to work, the pension benefit amounts to 55 % of the employee's fixed compensation and rises by 1 % for every full year of service up to a maximum of 70 %.

One component of the pension scheme involves a claim to provision for surviving dependents.

The pension obligations are structured as follows:

**Pension obligations**

Euro 000s	Value of final pension <sup>1</sup>	Benefit percentage <sup>2</sup>	Benefit percentage <sup>3</sup>	Allocation to pension provision	
				Service cost	Interest expenses
Dr. Georg Müller	192	36 %	68 %	160	—
Matthias Brückmann	144	52 %	70 %	106	12
Dr. Werner Dub	98	58 %	66 %	104	53
Hans-Jürgen Farrenkopf	111	60 %	66 %	162	56
<b>Total</b>	<b>545</b>			<b>532</b>	<b>121</b>

1 achievable claim to retirement pension aged 63, taking due account of amounts deducted

2 total percentage pension rate achieved for retirement pension

3 benefit percentage achievable by the age of 63

Former members of the Executive Board received benefits of Euro 332 thousand in the year under report. Provisions totalling Euro 5 488 thousand have been stated for pension obligations towards former members of the Executive Board. A total of Euro 291 thousand was allocated to this item in the financial year.

Pursuant to IAS 24, related parties also include management staff performing key functions. Alongside the Executive Board, this group of persons at the MVV Energie Group also includes active heads of division and authorised company representatives of MVV Energie AG. This group of persons receives its compensation exclusively from MVV Energie AG. Compensation totalling Euro 2 473 thousand was paid to this group of persons in the year under report, with the predominant share (Euro 2 381 thousand) involving payments with current maturities. Senior employees receive a company pension amounting to up to 8.6 % of their fixed compensation. This exclusively takes the form of a defined contribution plan. Within the channels of execution offered within the Group, senior employees can determine which biometric risks they would like to cover. Total expenses incurred for the aforementioned compensation schemes amounted to Euro 93 thousand in the year under report.

### Compensation of Supervisory Board members

The compensation of our Supervisory Board members is commensurate to their duties and to the responsibilities they assume.

The members of the Supervisory Board received annual compensation of Euro 10 thousand each in the 2008/09 financial year, with the Chairman of the Supervisory Board receiving twice and his deputy one and a half times this figure<sup>1</sup>. The Chairman of the Audit Committee received additional annual compensation of Euro 5 thousand and the other members of this committee received additional annual compensation of Euro 2.5 thousand. Moreover, until March 2009 a meeting allowance of Euro 300 was paid per person per meeting of the full Supervisory Board and of the committees. By resolution date 13 March 2009, the Annual General Meeting raised the meeting allowance to Euro 1 000. In line with the resolution adopted by the Annual General Meeting on 13 March 2009, the Chairman of the Supervisory Board receives double the meeting allowance for meetings of the Supervisory Board, as does the Chairman of the Audit Committee for meetings of the Audit Committee.

Total compensation amounted to Euro 358 242<sup>2</sup> and was distributed as follows:

#### Supervisory Board compensation

Euro	Supervisory Board compensation	Meeting allowance		Supervisory Board compensation	Meeting allowance
Dr. Peter Kurz	20 000	11 300	Prof. Dr. Norbert Loos	12 500	9 100
Johannes Böttcher	12 500	8 400	Manfred Lösch	17 500	10 600
Holger Buchholz	10 000	4 500	Dr. Reiner Lübke	10 000	4 500
Peter Dinges	6 667	4 200	Bodo Moray	972	2 000
Werner Ehret	10 000	5 700	Barbara Neumann	10 000	4 500
Detlef Falk	10 000	4 200	Wolfgang Raufelder	10 000	4 200
Dr. Rudolf Friedrich	10 000	3 500	Sabine Schlorke	10 000	3 500
Dr. Manfred Fuchs	15 000	13 400	Dr. Rolf Martin Schmitz	5 833	1 500
Dr. Stefan Fulst-Blei	10 000	5 700	Uwe Spatz	3 333	1 500
Reinhold Götz	12 500	8 400	Christian Specht	10 000	4 500
Prof. Dr. Egon Jüttner	10 000	5 400	Dr. Dieter Steinkamp	2 278	1 000
Klaus Lindner	11 458	6 100			

<sup>1</sup> Supervisory Board members joining or retiring from the Supervisory Board during the financial year receive prorated compensation in line with the duration of their membership

<sup>2</sup> the amount reported corresponds to the precise settlement of compensation for current Supervisory Board members and for those members who retired in the year under report

## Declaration of Conformity

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 German Corporate Governance Code Government Commission. In respect of the past, this Declaration refers to the version of the German Corporate Governance Code dated 6 June 2008 and published by the Federal Ministry of Justice in the official section of the electronic Federal Official Gazette on 8 August 2008. With regard to the future, it refers to the recommendations of the new version of the Code dated 18 June 2009 and published in the official section of the electronic Federal Official Gazette on 5 August 2009.

The following recommendations were not and are not complied with:

**Deductible for D&O insurance – Point 3.8 (2) (in the version dated 6 June 2008):** “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.” **Point 3.8 (3) (in the version dated 18 June 2009) until 1 July 2010:** “A similar deductible must be agreed upon in any D&O policy for the Supervisory Board.”

The D&O insurance policy at MVV Energie AG, which protects the insured parties against possible claims for damages, previously did not provide any insurance cover for intentional wrongdoing or wilful negligence on the part of members of the Executive and Supervisory Boards, neither did it cover against their knowingly committing any dereliction of duty. The issue of deductibles therefore only applied to negligent behaviour. To date, the Executive and Supervisory Boards saw themselves as being committed without qualification to the motivation and responsibility with which they performed their duties and did not believe that this required clarification in the form of a deductible. MVV Energie AG will of course comply with the legal requirements governing deductibles in D&O insurance policies for Executive Board members from 1 July 2010 onwards. In line with the recommendation made in Point 3.8 (3), we will also agree a deductible for members of the Supervisory Board from 1 July 2010 onwards.

**Nomination committee – Point 5.3.3:** “The Supervisory Board shall form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting.”

The Supervisory Board sees no need to form a nomination committee, which would oblige it to forego its proven procedure of nominating candidates for the Supervisory Board at meetings of the full Supervisory Board.

**Performance-related compensation for members of the Supervisory Board – Point 5.4.6 (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 compensation of the Supervisory Board, plus a meeting allowance. MVV Energie AG already commented in the past that it was not convinced by models linking the compensation of Supervisory Board members to the level of dividend or to the share price. We have therefore refrained from introducing any performance-related compensation components for members of the Supervisory Board.

This Declaration of Conformity is also available at our company’s website at [www.mvv-investor.de](http://www.mvv-investor.de).