

Corporate Governance Report

High-quality corporate governance involves managing and supervising companies in a responsible and transparent manner that focuses on long-term value creation. On the one hand, this creates a basis for sustainable business success. On the other hand, we see high-quality corporate governance as an indispensable means of maintaining stable and trusting relationships with our shareholders, customers, business partners, employees and the general public. The Executive and Supervisory Boards report below on corporate governance at MVV Energie AG in accordance with Point 3.10 of the German Corporate Governance Code. This Corporate Governance Report is being published in conjunction with the Corporate Governance Declaration pursuant to § 289a of the German Commercial Code (HGB). In addition to the annual Declaration of Conformity, it also includes disclosures on our corporate governance practices.

REPORT OF EXECUTIVE AND SUPERVISORY BOARDS

The Executive and Supervisory Boards dealt very closely with corporate governance at MVV Energie once again in the 2016 financial year and also addressed the requirements of the German Corporate Governance Code. Like in the previous year, MVV Energie complied with all recommendations contained in the Code in the year under report. The same applies to the suggestions made in the Code – with the exception of Point 2.3.3, which suggests that the company should enable its shareholders to follow the Annual General Meeting in its entirety via modern communication media. During the Annual General Meeting, our stakeholders can follow the introductory words by the meeting chairman and the presentation by the CEO live on our website. Furthermore, after the Annual General Meeting we also make the CEO's presentation and voting results available on our website at www.mvv-investor.de.

Dual management system

MVV Energie AG is a listed stock corporation with its legal domicile in Mannheim and is governed by German stock corporation law. One basic principle of German stock corporation law relates to the dual management system comprising the Executive and Supervisory Boards. The Executive Board is responsible for managing the company, while the Supervisory Board advises and monitors the Executive Board. The Executive and Supervisory Boards of MVV Energie AG, which thus have their own respective duties and competencies, work together closely and on a basis of trust in the interests of the company.

Supporting shareholders in exercising their rights

Shareholders in MVV Energie AG exercise their rights at the Annual General Meeting. This also involves exercising their voting rights – whether in person or by 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. Moreover, our shareholders may also submit their votes by way of a postal ballot provided that they register within the respective deadline. Each share entitles its holder to one vote. By casting their votes, our shareholders participate in all resolutions at the Annual General Meeting that are of material significance for the company.

We publish all relevant documents and information about our Annual General Meeting on our website at www.mvv-investor.de. These include the invitation to the Annual General Meeting, proposals concerning the resolutions to be adopted and all relevant reports and information.

Transparent communications

We accord priority to ensuring that all stakeholders of MVV Energie AG – retail and institutional investors, financial analysts, customers, employees and the general public – are informed simultaneously, promptly and comprehensively about significant matters and about the company's situation. On our websites, we publish all information, such as press releases, ad-hoc announcements, presentations accompanying analysts' conferences, all financial reports and the financial calendar.

We comply at all times with the reporting obligations resulting from the German Stock Corporation Act (AktG), the German Commercial Code (HGB) and the German Securities Trading Act (WpHG).

Reporting and audit of financial statements by PricewaterhouseCoopers

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. In the combined management report we present the management report of MVV Energie AG and the group management report of the MVV Energie Group in combined form.

The Annual General Meeting held on 4 March 2016 elected PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC), Mannheim, as auditor for the 2016 financial year. Prior to this, the Supervisory Board convinced itself of the independence of the auditor. PwC has acted as the auditor of MVV Energie AG and as group auditor since the 2009 financial year. We comply with statutory requirements concerning the selection, appointment and rotation of the auditor as set out in the Audit Regulation (EU 537/2014) and § 318 et seq. (HGB). We also comply with the requirements of the Audit Regulation and the German Commercial Code concerning the commissioning of non-audit services from the auditor. PwC audits the annual financial statements of MVV Energie AG prepared by the Executive Board. Following an advance review by the Audit Committee, the financial statements are subsequently examined, approved and thus adopted by the Supervisory Board. Following detailed examination by the Audit Committee, the consolidated financial statements prepared by the Executive Board and audited by the auditor are also 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 interim financial statements for the first quarter, first half and first nine months are prepared by the Executive Board and discussed with the Audit Committee prior to publication. These financial statements are not subject to any audit review requirement.

CORPORATE GOVERNANCE DECLARATION WITH DECLARATION OF CONFORMITY

We published this Corporate Governance Declaration on our website at www.mvv-investor.de on 4 November 2016 and thus met the requirements of § 289a 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 2016:

The Executive and Supervisory Boards 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 5 May 2015 and published in the official section of the Federal Gazette on 12 June 2015.

Compliance and risk management

Transparency, cooperation on a basis of trust and integrity are values that we aim to live each and every day. Our compliance management system (CMS) is intended to ensure that our managers and employees adhere both to legal requirements and to our in-company guidelines and those ethical standards to which we are committed.

With our CMS, we safeguard and monitor the statutory and legal conformity of all key business activities and processes within our Group. The most important requirements and all necessary organisational structures and processes are summarised in our Compliance Handbook. These also include personnel responsibilities and details of our reporting system. The Management Handbook is binding for all of the limited liability companies at the Mannheim subgroup of MVV Energie AG and can be downloaded at any time by all employees of this subgroup at any time. The other subgroups have introduced equivalent CMS processes. An English translation of the Compliance Management Handbook has been prepared for the MVV Energie Group's British companies, which are being supported and trained by MVV Energie.

We have structured our compliance management system so that relevant processes in sensitive areas can already be checked in advance, thus enabling us to avoid infringements and take corrective measures on a preventative basis. Donations and payments to political organisations are strictly prohibited at the MVV Energie Group. Payments to capital providers are made exclusively in the form of dividends. In the year under report there were no notable infringements of laws or of our internal guidelines.

The MVV Energie Group's Compliance Officer is the head of our group legal, group compliance and materials division. His duties include compiling the relevant compliance regulations in liaison with the business units thereby affected, documenting these regulations and monitoring their implementation. Furthermore, he is also responsible for ensuring that employee training measures are implemented and that due account is taken of all CMS processes. The Compliance Officer reports to the Executive Board and the Audit Committee. Over and above this, he also offers advice and support with preventative measures to avoid and investigate any infringements of the law, corruption or deliberate acts harmful to the company.

We aim to avert all criminal or grossly improper actions by means of active prevention and have a zero-tolerance approach towards bribery and all other forms of corruption. We pay particular attention to informing employees working in sales, sales-related areas and procurement about corruption and explaining to them how to respond when they are offered gratuities or invitations. These measures serve to minimise the risk of so-called "soft bribery". In the 2016 financial year, around 220 employees took part in corresponding training sessions each lasting more than two hours. We record and check gratuities and invitations. We also consistently monitor adherence to compliance requirements in all business fields, specialist divisions, group departments and subsidiaries. Employees and third parties can also contact an external confidence lawyer or the Compliance Officer via anonymous "Whistleblower Hotlines" and thus directly report any misconduct.

All management staff at the MVV Energie Group receive regular training and are familiar with general compliance requirements and the legal requirements relevant to their business units. The relevant requirements are specifically detailed for each area of responsibility at the company units and refer, for example, to the requirements of capital market, securities and stock market law, competition and cartel law and energy industry law. We require our managers to submit a declaration at the end of each financial year stating whether compliance requirements and legal provisions have been adhered to. This confirmation is provided in the context of a Compliance Management Declaration (CMD). Among other matters, the CMD also ascertains whether the employees of the respective manager have been instructed and received suitable training as stipulated in the CMS. Not only that, in the context of the CMD managers are required to respond in detail to questions specifically tailored to circumstances at the relevant business unit.

We provide new management staff with a detailed explanation of the basis for assuming management responsibility at the MVV Energie Group. At a seminar held over several days, we provide structured instruction to all newly appointed managing directors and all upcoming management staff on all aspects of their responsibility. Attendance of this seminar is obligatory for all management staff from section manager upward.

Compliance is not least a core element of our cooperation with suppliers. Our central procurement department therefore questions suppliers and service providers to our key company locations about their compliance. For major tenders and contracts, we obtain supplier self-registration and supplier information. The aim here is to ascertain:

- Which compliance and anticorruption regulations are in place at the respective supplier and whether these also apply for its upstream suppliers and subcontractors and are actively lived in each case
- Whether working conditions are consistent with the relevant national laws and ordinances and whether internationally recognised labour standards are complied with

- Which non-monetary company objectives, such as voluntary environmental protection measures or education, cultural or sports sponsorship activities, are pursued by suppliers.

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).

Composition and mode of operation of the Executive Board

The Executive Board manages the company under its own responsibility. In this, it pursues the objective of generating sustainable and profitable growth. The Supervisory Board has imposed a Code of Procedure governing the activities of the Executive Board. This sets out divisional responsibilities, the duties and decisions incumbent on the overall Executive Board, the duties of the Chief Executive Officer and the ways in which Executive Board resolutions are adopted. Furthermore, it includes a catalogue of those transactions requiring Supervisory Board approval. The Executive Board comprises at least two members. Four Executive Board positions and divisions are provided for: CEO/Commercial Affairs, Sales, Technology and Personnel and Social Welfare.

The Chief Executive Officer coordinates the activities of the Executive Board members and represents the Executive Board externally. Executive Board members otherwise enjoy equal rights and bear joint responsibility for managing the company. Each Executive Board manages the division assigned to him under his own responsibility. Members are expected to subordinate the specific interests of their divisions to the overriding interests of the company – an expectation that is also met in practice.

The Executive Board determines the company's strategic alignment, agrees this with the Supervisory Board and ensures its targeted implementation. In its decisions, the Executive Board takes due account of the interests of the company's stakeholders. It informs the Supervisory Board regularly, promptly and comprehensively of intended business policy and other fundamental matters of corporate planning. The key focus here is on the company's financial, investment and personnel planning. Furthermore, the Executive Board reports to the Supervisory Board on the company's business performance and its situation, as well as on its risk situation and risk management.

Composition and mode of operation of the Supervisory Board and its committees

The Supervisory Board appoints the Executive Board members, advises the Executive Board in its management of the company and supervises its activities. It is involved in decisions of fundamental significance for the company.

The Supervisory Board of MVV Energie AG consists of 20 members, of which ten shareholder representatives and ten employee representatives. Their terms in office are identical. Shareholder representatives are elected by the Annual General Meeting – apart from two members who 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 the company's share capital. Consistent with the requirements of the German Codetermination Act (MitbestG), ten Supervisory Board members are elected by employees. The Supervisory Board Chairman, the Lord High Mayor of the City of Mannheim, coordinates the work of the Supervisory Board, which is governed by a Code of Procedure.

To enable it to perform its activities efficiently, the Supervisory Board of MVV Energie AG has formed five permanent committees. The Audit Committee meets several times a year. The Personnel, Nomination, Mediation and New Authorised Capital Creation Committees are convened when necessary.

The **AUDIT COMMITTEE** has as its tasks corporate planning, strategy and the performance of individual business fields. Furthermore, it also deals with fundamental financial reporting issues, preparing the selection of the auditor, performing an advance review of and discussing the annual and consolidated financial statements and the interim consolidated financial statements for the three-month, half-year and nine-month reporting periods. Moreover, it monitors the effectiveness of the internal control system (IKS), internal audit and the risk management systems, as well as the effectiveness of the organisational precautions taken to ensure compliance with legal requirements and internal company guidelines (compliance). The Audit Committee also determines the key focuses of the audit and takes any necessary decisions concerning non-audit services provided by the auditor. The Audit Committee includes three shareholder representatives 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. The Supervisory Board Chairman is a permanent guest in this committee.

The **PERSONNEL COMMITTEE** focuses in particular on preparing 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** is responsible for proposing suitable candidates to the Supervisory Board for its own proposals to the Annual General Meeting. In its selection, the committee takes particular account of legal requirements and of the recommendations and suggestions made by the German Corporate Governance Code. The duties of the Nomination Committee also include compiling targets for the composition of the Supervisory Board. This committee has six members: the Supervisory Board Chairman, who also chairs the committee, and five 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** is entrusted with preparing the Supervisory Board resolutions to be adopted concerning the creation of new authorised capital. This committee comprises eight members: the Supervisory Board Chairman, who is also chairs the committee, his deputy and six further Supervisory Board members, of which one employee representative and five shareholder representatives.

Requirements in the composition of the Supervisory Board

The Supervisory Board has compiled a detailed requirements profile for its members in which it has set out the objectives and criteria for its composition. The profile on the one hand specifies the standards expected in respect of specialist knowledge and abilities and on the other hand sets out the standards expected in terms of the experience and personalities of future Supervisory Board members.

Alongside personal integrity, the Supervisory Board takes particular account of the following aspects when selecting candidates to be proposed for election by the Annual General Meeting: a well-founded general understanding of the energy industry, and especially of the business fields in which MVV Energie operates, an ability to assess complex economic and technical matters, the knowledge required to evaluate business decisions in terms of their correctness, legal conformity, economic rationale and expediency, the skills necessary to assess the financial statements, including the management reports and auditor's audit reports. Furthermore, Supervisory Board members should have specialist expertise in select areas of MVV Energie's activities that are significant for 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. An upper age limit of 70 years is to be complied with for Supervisory Board members. Furthermore, a regular limit has been set on the length of membership of the Supervisory Board: where possible, elected members should remain on the Board for no less than one term in office and no longer than three full terms in office. Furthermore, the Supervisory Board should include an adequate number of independent members. Before a candidate is proposed, it is ascertained whether he or she is able to devote sufficient time to the position and whether he or she has any business and/or personal relations with MVV Energie or its competitors.

The objective is for the members of the Supervisory Board to complement each other in such a way as to ensure that the entire range of targeted knowledge, abilities and experience is represented in the Supervisory Board. It is thus acknowledged that not every Supervisory Board member can satisfy the whole spectrum of specialist requirements. The objective also involves complying with the legislation dated 1 May 2015 concerning the equal participation of men and women in private-sector and public-sector management positions. This requires the Supervisory Board of MVV Energie to be composed of at least 30% women and at least 30% men. These minimum quotas basically have to be complied with by the Supervisory Board as a whole. Both the employee and the shareholder representatives have exercised their right under § 96 (2) Sentence 3 AktG to object to this overall compliance provision. To meet the minimum participation requirement pursuant to § 96 (2) Sentence 1 AktG, at least three of the positions allocable to shareholder and employee representatives on the Supervisory Board therefore have to be occupied by women and men respectively for each group.

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

Conflicts of interest and independence of Supervisory Board members

Any conflicts of interest arising on the part of Executive or Supervisory Board members are disclosed immediately to the Supervisory Board. In respect of Point 5.4.2 of the German Corporate Governance Code, we are of the opinion that the Supervisory Board members assigned by the City of Mannheim or potentially attributable to such are independent members in the spirit of the Code. These members do not maintain any personal or business, i.e. commercial, links with the company or its management bodies.

Directors' dealings

Individual ownership of shares in MVV Energie AG and related financial instruments by the Executive Board members, Supervisory Board members, and other senior managers amounts to less than 1% of the shares issued by the company. The same applies for the aggregate holdings of all individuals subject to these disclosure requirements. No announcements concerning directors' dealings were published in the year under report.

Report on the equal participation of women and men

The Supervisory and Executive Boards of MVV Energie AG support the objective of assigning responsibility to women and men on a basis of equality. Particularly in view of demographic change and the resultant shortage of specialist and management staff in Germany, both social and economic factors make it necessary to promote all talents regardless of gender.

In companies operating in the energy industry, female employees traditionally only account for a comparatively small share of the overall workforce. The Supervisory and Executive Boards of MVV Energie AG are nevertheless committed to continually increasing their share of the Group's workforce and to support high-potential female employees even more closely with targeted personnel development measures.

By 2022, we thus aim to gradually increase the female share of our Group's workforce to 35% and the female share of our management staff to 25%. With our short, medium and long-term promotion measures and programmes, we have already made progress in this respect. We will be continually extending these measures in the years ahead.

In the table below we have presented the share of women in the Executive Board of MVV Energie AG and have also stated the number of female managers in the first and second management tiers below the Executive Board at

MVV Energie AG, as well as the targets for 30 June 2017 determined in 2015 by the Supervisory Board and the Executive Board respectively. In addition to the disclosures already made voluntarily in the previous year, the overview also includes the figures for the reporting date on 30 September 2016. Compared with 30 June 2015, the number of positions occupied in the second management tier has decreased significantly, while the share of female managers in this tier has risen to 29%. This development was chiefly due to the reorganisation of our sales units, grid operations, technical services and the generation business.

Share of women in Executive Board and 1st and 2nd management tiers at MVV Energie AG

	Status as of 30 June 2015		Status as of 30 September 2016		Target by 30 June 2017
	No. of positions filled Total	Share of women %	No. of positions filled Total	Share of women %	Share of women %
Executive Board	4	0	4	0	0
1 st management tier	17	12	17	12	20
2 nd management tier	30	20	21	29	25

The Executive Board of MVV Energie AG currently comprises only men. The share of female members in the Executive Board of MVV Energie AG also has to be viewed in connection with the terms of appointment of existing members.