



# CORPORATE GOVERNANCE REPORT

## 2018 Financial Year

For MVV, high-quality corporate governance, i.e. managing and supervising the company's activities in accordance with the principles of responsible and sustainable value creation, is an objective we pursue in all of its facets and across all areas of our company. Basic features of our corporate governance include trust-based cooperation between the Executive and Supervisory Boards and among the company's employees, consideration of the interests of all stakeholders, transparent reporting and corporate communications and compliance with all applicable laws. We view high-quality corporate governance as an indispensable basis 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); this contains disclosures on our corporate governance practices and the Declaration of Conformity with the German Corporate Governance Code required by § 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 our company once again in the 2018 financial year. Like in previous years, in the period under report MVV Energie AG complied with all of the Code's recommendations. The same applies with just one exception to the suggestions made in the Code. Point 2.3.3 of the Code suggests that shareholders should have the possibility of watching the entire Annual General Meeting via communication channels 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](https://www.mvv.de/investors), where we also publish a corresponding video subsequent to the Annual General Meeting.

### 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 satisfies the conditions for participating in the meeting and exercising 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. Shareholders may participate in the adoption of all resolutions by casting their votes before or during the meeting. In this respect, shareholders can draw on a range of options – they can vote in person or have their votes cast by a proxy of their choice. Alternatively, they may be 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 line with the requirements of stock corporation law, we publish all documents relating to the Annual General Meeting on our website at [www.mvv.de/investors](http://www.mvv.de/investors). These particularly include the invitation to the meeting and all reports and information necessary for the respective resolutions.

### Transparent communications

We attach great priority to informing all stakeholders of MVV Energie AG about significant matters of current relevance and about the company's situation. This information, which is provided promptly, comprehensively and in a way which ensures equal treatment of all stakeholders, is published in our PR activities and on our websites – and here in particular [www.mvv.de](http://www.mvv.de) and [www.mvv.de/investors](http://www.mvv.de/investors). We always meet our reporting obligations 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 of MVV Energie AG on 9 March 2018 elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) as auditor for the 2018 financial year. Prior to this, the Supervisory Board convinced itself of the auditor's independence. PwC has acted as auditor to MVV Energie AG and as group auditor for the consolidated financial statements since the 2009 financial year. We comply with the statutory requirements resulting from the Audit Regulation (Regulation (EU) No. 537/2014) and from § 316 et seq. HGB. These concern the selection, appointment and rotation of the auditor and of the individuals responsible for the actions of such, as well as the commissioning of non-audit services.

### Reporting and audit of financial statements

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

The auditor audits the annual financial statements of MVV Energie AG as prepared by the Executive Board. Once they have been discussed 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. In 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 1<sup>st</sup> quarter and the 1<sup>st</sup> 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](http://www.mvv.de/investors) on 5 November 2018 and thus satisfied the requirements of § 289f HGB.

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### 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 2018:

The Executive and Supervisory Boards of MVV Energie AG hereby declare that the company has complied and continues to comply with the recommendations of 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 republished in corrected form in the Federal Gazette on 19 May 2017.

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### Compliance and risk management

We accord great priority to ensuring that our interactions with each individual stakeholder are characterised by transparency, trust, fairness and integrity. Our compliance management system (CMS) helps us to safeguard compliance with applicable laws, as well as with in-company guidelines and the ethical standards to which we are committed. The CMS is intended on the one hand to ensure that our managers and employees understand and adhere to these and on the other hand to monitor all relevant business activities and processes within our Group.

In our Compliance Management Handbook, we have summarised the most important requirements and all necessary organisational structures and processes, listed the relevant personnel responsibilities and presented 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. Our Compliance Management Handbook is also available in English, for example for our British and Czech subgroups.

We have structured our CMS in such a way as to ensure that breaches of compliance are basically avoided in advance – above all by working with preventative measures in the respective business processes (so-called systemic compliance). We already check relevant processes in sensitive areas during the respective operating process, for example, and act early to take corrective measures where necessary. Donations and payments to parties and political organisations are strictly prohibited. Payments to equity providers are made exclusively in the form of dividends.

The head of our group legal, compliance and materials division acts as MVV's Compliance Officer. Together with the various organisational units involved, the Compliance Officer compiles the relevant compliance regulations, documents them and sees to their implementation within business processes. He is responsible for ensuring that employee training measures are implemented and that due account is taken of all CMS processes. Furthermore, he also acts in an advisory and supportive capacity to accompany measures intended to prevent and, where necessary, investigate any violations of the law, corruption or deliberate acts harmful to the company. He reports to the Executive Board and the Audit Committee.

By actively implementing prevention measures within the relevant business processes themselves, we make every effort to avert all criminal or grossly incorrect actions or violations of the law. MVV has a zero-tolerance policy towards bribery and all other forms of corruption. To help prevent corruption, we therefore provide extensive 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 or invitations received. These measures enable us to minimise the risk of "soft bribery". 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 contact the Compliance Officer or an external confidence lawyer directly. Via "Whistleblower Hotlines", they can provide anonymous tip-offs on potential misconduct. The telephone number of the confidence lawyer is also published on our website at [www.mvv.de](http://www.mvv.de).

In the period under report, we received individual tip-offs about suspected compliance infringements both via our internal whistleblower hotline and directly by our Compliance Officer. Only one notification was provided on an anonymous basis. None of these involved cases of material significance.

To make sure that all of MVV's managers and all of its employees with contact to customers or suppliers are well informed of general compliance requirements and familiar with the legal requirements relevant to their respective business units, we also provide regular training. The topics covered by this training include 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. In the 2018 financial year, 169 employees at the Mannheim subgroup and 65 employees at the other subgroups took part in this training. During this period, a further 418 individuals completed an online training programme provided by our Stadtwerke Kiel subsidiary. At the end of each financial year, all senior managers are required to submit a Compliance Management Declaration (CMD) in which they must state whether the relevant compliance regulations and legal requirements have been complied with. The matters covered by the CMD include an enquiry as to whether, as required, the employees of the respective manager have received instruction and suitable training for the CMS. Moreover, in the context of the CMD the managers also respond in detail to questions specifically tailored to circumstances at their respective business unit.

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 also attach great value to compliance in our cooperation with them. 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. The basis for our cooperation with suppliers and service providers in Germany and the EU is provided by the applicable laws and regulations, as well as by 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 the UN Global Compact.

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

### **Dual management system**

As a listed stock corporation with its legal domicile in Mannheim, MVV Energie AG is governed by the requirements of German corporate law. One basic principle of this legislation involves the dual management system comprising the Executive and Supervisory Boards. These two boards are strictly separate in terms of their composition and function. 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 and with the aim of generating 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 as well as those duties and decisions incumbent on the overall Executive Board. Furthermore, it defines the responsibilities of the Chief Executive Officer (CEO), the ways in which Executive Board resolutions are adopted and those transactions which require Supervisory Board approval. The Executive Board must comprise at least two members and currently has three positions/divisions: CEO/Commercial Affairs, Sales and Technology. The CEO also performs the function of Labour Director.

The CEO coordinates the work within the Executive Board and also represents the Executive Board externally. Other than this, Executive Board members enjoy equal rights and are jointly responsible for managing the company. They manage their divisions under their own responsibility, but are nevertheless required to subordinate the specific interests of their divisions to the overriding interests of the company.

### **Diversity concept for composition of Executive Board**

In 2018, the Supervisory Board compiled and adopted a diversity concept which formulates the targets and criteria underlying the composition of the Executive Board.

The composition of the Executive Board is consistent with MVV's entrepreneurial approach. The Executive Board of MVV Energie AG should be composed in such a way that qualified leadership, control and business management is guaranteed at all times for MVV Energie AG and the MVV Group. Candidates for the Executive Board of MVV Energie AG have to be able to correctly assess the economic situation and technical framework of a listed energy supplier with municipal roots and to successfully shape its sustainable development. Individual members of the Executive Board are not expected to have the full range of specific specialist skills, competencies and experience required. However, their individual skills, competencies and experience should complement each other and, where appropriate, overlap in such a way that the Executive Board as a whole has the necessary specialist skills and variety of experience. The members of the Executive Board bear joint responsibility for managing the company and the Group. They should therefore have sufficient expertise to be able to supervise each other's activities and represent each other.

To provide information about the experience, expertise and skills of our Executive Board members, we have published their CVs on our website at [www.mvv.de/investors](http://www.mvv.de/investors).

Furthermore, the diversity concept for the composition of the Executive Board also accounts for the following aspects:

Due account should be taken of the upper age limit of 65 years when concluding employment contracts. As a general rule, members should not be appointed for the maximum five-year term upon their first appointment. Furthermore, the Supervisory Board should work together with the Executive Board to find long-term succession solutions. The Supervisory Board aims to increase the share of women on the Executive Board. In 2017, it set a target of 25% for the period ending on 30 September 2021.

### **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 of supervising its activities. Its responsibilities also include appointing and dismissing members of the Executive Board. The Supervisory Board is 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 – of which ten shareholder representatives and ten employee representatives, with identical terms of office in each case. Eight of the shareholder representatives are elected by the Annual General Meeting, while 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, i.e. the Lord High Mayor of the City of Mannheim, coordinates the work of the Supervisory Board, whose activities are governed by a Code of Procedure.

To structure its activities efficiently, 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** is tasked with dealing with fundamental financial reporting issues. It is also responsible for 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 1<sup>st</sup> half and the interim financial statements for the 1<sup>st</sup> quarter and 1<sup>st</sup> nine months. It is also required to deal with corporate planning, strategy and the performance of individual business fields, as well as with the development and structure of individual controlling systems. Furthermore, 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 Audit Committee also determines the key focuses of the audit and takes any decisions about commissioning non-audit services. The committee comprises three shareholder representatives and three employee representatives. Professor Heinz-Werner Ufer is the Chairman of this committee. As an independent and expert member, he meets the requirements of § 100 (5) and § 107 (4) of the German Stock Corporation Act (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 the committee. In the 2018 financial year, the Audit Committee implemented the selection procedure for assigning the audit of the annual and consolidated financial statements of MVV Energie AG from the 2019 financial year and prepared the corresponding election proposal to the 2019

Annual General Meeting. The selection procedure was necessary due to the Audit Regulation (Regulation (EU) No. 537/2014). This came into effect on 17 June 2016 and lays down specific requirements in auditing at companies of public interest as well as rescinding Decision 2005/909/EC of the Commission). Specifically, the selection procedure was necessary because, with its audit of the financial statements for the 2018 financial year, the current auditor has reached the maximum ten-year term for audit engagements.

Supervisory Board resolutions concerning the conclusion, amendment and rescission of employment contracts with Executive Board members are prepared by the **Personnel Committee**. Its tasks also include ensuring that the objectives pursued in the diversity concept for the composition of the Executive Board are met. The committee proposes suitable candidates to the Supervisory Board for appointment to the Executive Board. In this, it also takes due account of legal requirements and of the recommendations and suggestions contained in the German Corporate Governance Code. Based on these preparatory measures performed by the Personnel Committee, the Supervisory Board is responsible for appointing new members to the Executive Board and extending existing employment contracts. When selecting new Executive Board members, the Supervisory Board develops and works with current requirements profiles based on the diversity concept for the composition of the Executive Board. The committee comprises the Supervisory Board Chairman, who is also Personnel Committee Chairman, his deputy and four Supervisory Board members, of which two shareholder and two employee members.

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

Consistent with § 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 responsible for preparing the Supervisory Board resolutions required to create new authorised capital. This committee comprises eight members: 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.

### Diversity concept for composition of Supervisory Board

Based on the existing requirements profile for its members, in 2018 the Supervisory Board devised and adopted a diversity concept setting out the targets for and the criteria governing its composition.

The specialist and personal requirements set out in the profile – which the Supervisory Board of MVV Energie AG meets in its current composition – are intended to ensure a transparent and systematic selection process for new Supervisory Board members and a suitable and well-balanced composition for the Board as a whole. The aim is to ensure that the Supervisory Board of MVV Energie AG is composed in such a way that it can at all times provide qualified supervision and advice to the Executive Board in its activities on behalf of MVV. Candidates for the Supervisory Board of MVV Energie AG have to be able to correctly assess the economic situation and technical framework of a listed energy supplier with municipal roots and to successfully accompany its sustainable development. Individual Supervisory Board members are not expected to have the full range of specific specialist skills, competencies and experience required. However, their individual skills, competencies and experience should complement each other and, where appropriate, overlap in such a way that the full Board has the specialist skills and variety of experience necessary for it to perform the duties incumbent on the Supervisory Board and its committees.

Furthermore, 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. The Supervisory Board should include an adequate number of independent members.

To provide information about the experience, expertise and skills of our Supervisory Board members, we have published their CVs on our website at [www.mvv.de/investors](http://www.mvv.de/investors).

Furthermore, the diversity concept for the composition of the Supervisory Board also accounts for the following aspects:

When proposing candidates, due account must be taken of the upper age limit of 70 years, which as a general rule should not be exceeded during the term in office. With regard to the length of membership, elected Supervisory Board members should, where possible, remain on the Board for no less than one and no more than three full terms in office.

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 of stipulating that these minimum shares should be met not only for the Supervisory Board as a whole, but also for employee and shareholder representatives respectively. Accordingly, of the positions allocable to shareholder and employee representatives at least three for each group must be held by women and at least three by men.

One task incumbent on the Nomination Committee involves implementing the diversity concept for the composition of the Supervisory Board. It proposes suitable candidates to the Supervisory Board for its election proposals to the Annual General Meeting. In this, it takes due account of legal requirements and of the recommendations and suggestions in the German Corporate Governance Code. Before nominating a proposed 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 the group of companies or its competitors. The selection of employee representatives for the Supervisory Board is governed by the provisions of codetermination law.

The Supervisory Board witnessed one change in its composition in the 2018 financial year. Steffen Ratzel was appointed as a Supervisory Board member as of 1 January 2018 by order of Mannheim District Court dated 21 December 2017. He was subsequently elected to the Supervisory Board by the Annual General Meeting on 9 March 2018. He succeeded Carsten Südmersen, who retired from the Supervisory Board as of 31 December 2017. The election proposal was based on a recommendation made to the Supervisory Board by the Nomination Committee and accounted for the targets set by the Supervisory Board for its composition.

### **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. There are no personal or business, i.e. commercial, links between the company and its management bodies. Any conflicts of interest arising on the part of Executive or Supervisory Board members are disclosed to the Supervisory Board immediately. We also view the Supervisory Board members delegated by the City of Mannheim as being 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. The decisive factor 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. Furthermore, due to both social and economic considerations it makes sense to promote all talents regardless of their gender. Among other benefits, this approach also actively counters the effects of any shortage of specialist and management staff due to demographic changes. To date, female employees have only 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 aim to increase the share of women working at the group of companies on a long-term basis, as this represents a major key to the company's successful further development. We aim to gradually raise the female share of our Group's workforce to 35% by 30 September 2021, up from the equivalent figure of 27% as of 30 June 2015. With a 28% share of female employees as of 30 September 2018, we came slightly closer to reaching this target. We also aim to raise the share of female managers, in this case to 25% compared with 14% as of 30 June 2015. By the end of the 2017 financial year, women already accounted for 16% of management staff. However, reorganisation measures at the Group led this figure to fall to 14% at the balance sheet date on 30 September 2018, thus returning to the level as of 30 June 2015. To enable us to meet our targets by 30 September 2021, we will consistently implement our range of promotional measures and programmes, and in particular our targeted personnel development for women with suitable potential, and will expand these measures and programmes in the years ahead.

For MVV Energie AG, we report on the share of women in both the first and second management tiers. In August 2017, the Executive Board set new targets, namely of achieving a 25% share in the first management tier and a 30% share in the second management tier. Both targets are to be achieved by 30 September 2021. At 11%, the share of female managers in the first management tier was unchanged as of 30 September 2018 (30 September 2017: 11%). In the second management tier, the share of female managers came to 22% as of 30 September 2018 (30 September 2017: 25%). By introducing suitable measures – over and above the measures already in place to promote female employees – we aim to attract more applications from promising external and internal candidates.