

Supervisory Board Report

Dr. Peter Kurz

Supervisory Board Chairman of
MVV Energie AG



DEAR LADIES AND GENTLEMEN,

In the 2018 financial year, MVV managed yet again to increase its adjusted EBIT compared with the previous year – and that despite the challenges presented to companies by the dynamic developments in the energy market. That gives us reason to be pleased, as it shows once more that MVV has taken the right strategic decisions. Our targeted investments are now bearing fruit. MVV has a forward-looking, competitive structure – also with regard to the increasing digitalisation of the energy world.

Key focuses of Supervisory Board activities

In the year under report, we once again fulfilled all aspects of our duty to advise and supervise the Executive Board. We maintained an ongoing dialogue with the Executive Board throughout the period under report and were kept continuously and comprehensively informed of the latest developments in the energy industry and in energy policy, as well as in the Group's strategic alignment, business performance and situation, including its risk situation and risk management. The Executive Board particularly addressed variances between the business performance and the original planning and provided the reasons for these. Our body discussed investment decisions in great detail. As Supervisory Board Chairman, I was in close contact with the CEO outside of meetings as well in order to discuss current topics and developments.

In the full Supervisory Board and in our committees, we reviewed, questioned and openly discussed all reports and other information provided by the Executive Board. We convinced ourselves of the legality, expediency and correctness of the business management. We were provided with the relevant documents in good time, so that we always had sufficient time to prepare the meetings. Key focuses of our training and development measures included "Heating Vision" and new metering possibilities. Not only that, we visited the grid control room and the trading floor at the Mannheim location. This gave us the opportunity to deepen our knowledge of the associated energy industry topics.

Supervisory Board meetings and attendance

The Supervisory Board held four regular meetings in the 2018 financial year. These were attended by an average of 94% of the members. The German Corporate Governance Code states the expectation that all Supervisory Board members should each attend more than half of the meetings of the full Supervisory Board and its committees; at 91%, our corresponding attendance figure far exceeded this expectation.

Main topics of discussion at Supervisory Board meetings

At our meeting on **7 December 2017**, we prepared the agenda for the Annual General Meeting on 9 March 2018 and voted on the necessary draft resolutions. Apart from that, at this meeting we also reviewed and approved the consolidated financial statements (IFRS) and annual financial statements for the 2017 financial year. We also held detailed discussions concerning the project to build a sewage incineration plant with a phosphorous recovery facility at our CHP plant in Mannheim – we see this as representing a very promising investment.

At the meeting on **8 March 2018**, we extended the appointment of Dr. Georg Müller, Chief Executive Officer, for another five years and thus to the end of 2023. Furthermore, we decided to adapt the business allocation plan for the Executive Board of MVV Energie AG to the new reporting structure.

On **13 June 2018**, we dealt extensively with the CSR Directive Implementing Act. MVV Energie AG is obliged to apply the requirements of this law, which came into force in 2017, for the first time in the 2018 financial year. Among other aspects, these require the company to provide disclosures on its diversity concept for its Supervisory and Executive Boards in its Corporate Governance Declaration. Consistent with this requirement, we devised and adopted diversity concepts for our Supervisory and Executive Boards. Moreover, we decided to commission the auditor to review the contents of the Combined Separate Non-Financial Report in accordance with the International Standard on Assurance Engagements (ISAE) 3000. At this meeting, we also addressed the status of an internal reorganisation project at MVV.

The key focus of the meeting on **20 September 2018** was the company's strategic alignment. Based on its long-term strategy, the Supervisory Board discussed and approved the business plan for the 2019 financial year and the three-year plan. A further topic was the Corporate Governance Report, which we adopted for the 2018 financial year. Moreover, following exhaustive preparation by the Audit Committee the Supervisory Board adopted a resolution for tendering the audit of the annual and consolidated financial statements of MVV Energie AG for the financial years from 2019 to 2023 and prepared the election proposal for the 2019 Annual General Meeting.

Committee work

The topics discussed and resolutions adopted at Supervisory Board meetings are efficiently prepared by the relevant **Supervisory Board committees**  **Page 202**. The committee chairmen inform our full body regularly and promptly about the activities of the committees. Any decisions due to be taken at the next Supervisory Board meeting are also discussed.

The **Audit Committee** held a total of five scheduled meetings and three special meetings in the year under report. Key focuses of its work included the annual financial statements of MVV Energie AG, the consolidated financial statements and combined management report for the 2017 financial year and the situation of the company at the end of each quarter of the 2018 financial year. Moreover, the committee dealt on a quarterly basis with the company's risk situation and risk management.

A further focus of the committee's activities involved selecting the auditor for MVV Energie AG and the Group for the financial years from 2019 to 2023. At three special meetings, the committee first approved the tender documents and assessment matrix. The presentations made by auditing companies were then reviewed, discussed and evaluated in detail. The Audit Committee submitted proposals concerning the selection of the auditor of the annual financial statements and the fee agreement to the full Supervisory Board. Together with the Executive Board, it also discussed the company's 2019 business plan, medium-term planning and strategic alignment. Following careful examination, it recommended that the Supervisory Board should approve the budget for the 2019 financial year. The committee accepted supplementary reports from the company – relating to group internal audit, the internal control system (IKS) in respect of the financial reporting process and the compliance management system – and ascertained that all systems were appropriate, functional and effective. In this context, the committee addressed the management and control systems at the MVV Group. Furthermore, it determined key audit focuses for the 2018 financial year. Other topics addressed by the committee included reporting on Juwi, the progress made with building the gas-powered CHP plant in Kiel, activities in the environmental energy business in the UK and the CSR Directive Implementing Act.

The **Personnel Committee** met three times in the 2018 financial year. It discussed the reappointment of the CEO, Dr. Georg Müller, and recommended that the Supervisory Board should extend his contract. Furthermore, matters relating to the compensation of Executive Board members also formed part of the committee's discussions.

The **Nomination Committee** met on one occasion. At this meeting, it compiled a proposal for the candidate to be nominated for election to the Supervisory Board by the Annual General Meeting. It based its selection on the requirements profile for the composition of the Supervisory Board – the diversity concept for the composition of the Supervisory Board referred to above was only adopted at a later date.

Neither the **New Authorised Capital Creation Committee** nor the **Mediation Committee** met in the year under report.

Composition of Supervisory and Executive Boards

In the year under report, Steffen Ratzel was appointed as a member of the Supervisory Board of MVV Energie AG as of 1 January 2018 by court order issued by Mannheim District Court on 21 December 2017. He thus succeeded Carsten Südmersen, who stood down from his position as of 31 December 2017. On 9 March 2018, the Annual General Meeting elected Steffen Ratzel as a Supervisory Board member through to the conclusion of the Annual General Meeting in 2021. We would like to thank the former Supervisory Board member Carsten Südmersen for his commitment and the work he performed to the benefit of the company.

Dr. Georg Müller, Chief Executive Officer, was reappointed, with his contract being extended to 31 December 2023. He has been a member of the Executive Board since January 2009.

Corporate governance

As in previous years, in the 2018 financial year we once again dealt closely with the recommendations and provisions of the German Corporate Governance Code (DCGK). We endorse the Declaration of Conformity with the German Corporate Governance Code submitted by the Executive Board. MVV Energie AG complies with all of the Code recommendations. We approved the Corporate Governance Report, which also includes the Declaration of Conformity and the Corporate Governance Declaration, at our meeting on 20 September 2018. This was published on the internet on 5 November 2018 www.mvv.de/corporate-governance and **Page 100**.

Handling conflicts of interest and independence

All members of the Supervisory Board are obliged to disclose any conflicts of interest arising without delay. As in previous years, no such conflicts arose in the year under report. We conducted a review and ascertained that all members of our body are independent in the sense defined in the German Corporate Governance Code.

Audit of annual and consolidated financial statements

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) was elected as auditor of the financial statements for the 2018 financial year by the Annual General Meeting on 9 March 2018. The declaration of independence from the auditor has been submitted to the Supervisory Board.

The annual financial statements of MVV Energie AG for the 2018 financial year have been prepared pursuant to the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). MVV's consolidated financial statements and combined management report have been prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU. The auditor audited the consolidated financial statements and combined management report of MVV and the annual financial statements of MVV Energie AG and granted unqualified audit opinions. Both the annual financial statements and the consolidated financial statements and combined management report for the 2018 financial year are published in the Federal Gazette (Bundesanzeiger).

We were provided in good time with the following documents: the consolidated financial statements, combined management report, annual financial statements of MVV Energie AG, the Executive Board's proposal concerning the appropriation of profits and the auditor's audit reports. Both the Audit Committee and the full Supervisory Board examined these documents carefully and in great detail. Both bodies held in-depth discussions of the documents in the presence of the auditor. No objections were raised. At our meeting on 7 December 2018, we approved the consolidated financial statements and combined management report of MVV and the annual financial statements of MVV Energie AG. The annual financial statements are thus adopted. We endorsed the Executive Board's proposal concerning the appropriation of profits. The auditor also audited the monitoring system established by the Executive Board pursuant to § 91 (2) AktG. The auditor determined that the system was suited to detect at an early stage any developments that could threaten the company's continued existence.

The Executive Board submitted a Combined Separate Non-Financial Report for the first time for the 2018 financial year. We held in-depth advance discussions of this report at the meetings of the Audit Committee and the Supervisory Board, focusing our deliberations on the various concepts and on the internal processes and checks involved. We critically reviewed and assessed the plausibility and expediency of the Non-Financial Report with regard to MVV's business model. The Supervisory Board did not raise any objections to the reporting by the Executive Board.

According to the report compiled by the Executive Board on relationships with affiliated companies (Dependent Company Report) for the 2018 financial year, MVV Energie AG was not disadvantaged by the legal transactions performed with affiliated companies outlined therein. The auditor audited the Dependent Company Report and granted the following audit opinion: "Following our audit and assessment performed in accordance with professional standards, we confirm 1. That the factual disclosures made in the report are accurate and 2. That the company's compensation in the transactions listed in the report was not incommensurately high." Both the Dependent Company Report and the associated audit report compiled by the auditor were submitted to the Supervisory Board in good time. Based on our own review, we concur with the auditor's assessment and approve its report.

Thanks

Notwithstanding the challenging conditions prevalent in the energy market, MVV concluded the 2018 financial year on a successful note. The employees can rightly feel proud of the results, which were only possible because of the efforts made by all involved: from the Executive Board of MVV Energie AG to the executive boards and management teams at subsidiaries through to employees and works council members. On behalf of the entire Supervisory Board, I would like to thank them for their work and for the great dedication they have shown!

Mannheim, December 2018

A handwritten signature in black ink, appearing to be 'P. Kurz', followed by a checkmark and the number '2'.

Dr. Peter Kurz
Chairman