

# REPORT OF THE SUPERVISORY BOARD



DR. JOST A. MASSENBERG,  
CHAIRMAN OF THE SUPERVISORY BOARD

In the year under review, the Supervisory Board of VTG Aktiengesellschaft met the obligations placed on it by the law, the Articles of Association and the Rules of Procedure. On the basis of detailed verbal and written reports provided to us promptly by the Executive Board, we regularly monitored its work and provided continuous support. Additionally, there was a regular exchange of information between the chair of the Supervisory Board and the chair of the Executive Board. Through this contact, the chair of the Supervisory Board was kept continuously informed about the situation of the company and the Group.

Regular subjects of reporting were the current situation of the Group, the development of business in the individual segments, corporate planning and strategy, the profitability of the company, the risk situation, risk management and compliance management. The Executive Board informed us about and discussed with us important business transactions in the company's divisions. Deviations in the course of business from the agreed plans and targets were explained to us in detail.

The Supervisory Board was also included in all decisions of importance for the company. The Executive Board consulted with us and gained our agreement on the strategic orientation of the company. Before passing resolutions, we discussed in depth all measures requiring the approval of the Supervisory Board under the Rules of Procedure for the Executive Board decided by the Supervisory Board.

## Ongoing consultation with and supervision of the Executive Board

In the year under review, there were four ordinary meetings of the Supervisory Board as well as four additional and meetings and two conference calls. Additionally, as required, resolutions were adopted by written procedure. The members of the Supervisory Board who were members of the Supervisory Board for only a part of the year under review each attended more than half of the meetings held during their period of office. All other members of the Supervisory Board attended more than half of all meetings.

In February 2017, the Supervisory Board adopted a resolution by written procedure. The subject of this resolution was the approval of the Corporate Governance Report including the joint declaration of the Executive Board and Supervisory Board under Section 161 of the German Stock Corporation Act on compliance with the recommendations of the German Corporate Governance Code.

To prepare for the accounts review meeting, an additional meeting of the Supervisory Board was held on March 3, 2017, which the auditor also attended. The Executive Board reported first on the course of business in the last quarter of the past financial year and on the earnings and financial situation of the company and the VTG Group as of the balance sheet date. The auditor reported on the course of the audit and submitted his draft report to the Supervisory Board and answered questions on this. We also asked the Executive Board for an explanation

of its position on the company's dividend policy and discussed this with the Executive Board in detail.

At the accounts review meeting of March 30, 2017, the Executive Board provided us with a summary of the earnings and financial situation and the key business events in the company, the VTG Group and the joint ventures in the financial year 2016. Subsequently, after detailed discussion with the Executive Board and the auditor, we approved the annual and consolidated financial statements and management reports for 2016. The meeting also included the approval of the agenda and proposed resolutions for the 2017 Annual General Meeting. Furthermore, the Executive Board submitted the compliance report for 2016 to us in this meeting and also reported to us on risk management and the activities of the internal audit department and the analysis of security issues at the VTG Group. The Supervisory Board also approved the measures proposed by the Executive Board relating to a joint venture and additional budgetary measures. Finally, the Executive Board informed us at this meeting of a fundamental interest in acquiring and the prior submission of an indicative offer for the Nacco Group, which was available for sale.

In a conference call on May 3, 2017, the Executive Board informed the Supervisory Board of the status of the negotiations held in the intervening period with the seller of the Nacco Group and about the performance of due diligence. Furthermore, on this occasion, the Executive Board reported to us on the development of earnings and the key business events in the first quarter of the current year.

In an additional meeting held on May 30, 2017, the Executive Board gave the Supervisory Board further information on the status of the negotiations on the purchase of the Nacco Group, the results of due diligence and the proposed financing structure. The Supervisory Board also approved the extension of the term of an existing line of credit to cover general working capital requirements.

Another meeting of the Supervisory Board was held immediately prior to the Annual General Meeting on June 8, 2017. At this meeting, the Executive Board reported on the development of business to date in 2017 and the progress of the negotiations on the sale of the Nacco Group.

Following the Annual General Meeting, the newly elected Supervisory Board was constituted. In addition to the Executive Committee, an Audit Committee was formed for the first time. In respect of the establishment of the Audit Committee, a

decision to update the declaration of conformity with the German Corporate Governance Code was also approved. Furthermore, the appointment of the auditor elected by the Annual General Meeting for the financial year 2017 was approved.

In an additional meeting on June 29, 2017, the Executive Board reported to us on the status of the negotiations on the sale of the Nacco Group and informed us of the opportunities and risks at that time from its perspective as well as the planned measures for financing the transaction (credit and hybrid finance and partial refinancing via a capital increase). After detailed discussion, the Supervisory Board gave its approval for the Board to finalize negotiations on the contracts with the seller and the lending bank. It was also decided to delegate the final decision to approve the finalized contracts to the Executive Committee, which then issued this approval directly prior to the signing of the contracts on July 1, 2017. Furthermore, at the meeting on June 29, 2017, the Supervisory Board also approved a financing measure for the Group's North American business.

In another additional meeting on September 1, 2017, the Executive Board discussed with us details of planned financing measures relating to the purchase of the Nacco Group. Furthermore, at this meeting, the Supervisory Board approved the reappointment of Dr. Kai Kleeberg and Mr. Mark Stevenson as members of the Executive Board of the company. As in previous years, a closed-door meeting was held ahead of the further meeting on September 21, 2017, at which the Executive Board explained the medium- and long-term strategic direction of the company and the measures required for this. These measures were discussed with us in detail and agreed upon.

One of the main issues under discussion was the digitization strategy that was at the implementation stage. At the meeting itself, the Executive Board provided an overview of the trend in business in the first eight months of the year as well as a report on the progress of risk reporting in the VTG Group. Furthermore, in respect of the Nacco transaction, the Executive Board informed us about the progress of the merger control proceedings in Germany and Austria. The Executive Board also explained to us that a capital increase was planned to provide part of the finance for the acquisition of the Nacco Group, with the timing and form of this depending, among other things, on the ongoing merger control proceedings and market conditions. To ensure the Supervisory Board's ability to act at any time, the Supervisory Board passed a resolution to establish a capital increase committee that was limited in respect of both time and scope and which, due to the delay in the Nacco transaction, has since become redundant.

On November 23, 2017, in a meeting about the delay in the Nacco transaction, the Executive Board presented and explained to the Supervisory Board the scheduled plan for the year, including the financial and investment plans for the financial year 2018, as well as the investment plan for the coming years. After detailed discussion, we approved these. Furthermore, the Executive Board informed us about the delays that were being experienced in respect of the checks of the Nacco transaction by the competition authorities in Germany and Austria. The IT security measures introduced by the Executive Board were also presented to the Supervisory Board at this meeting. Ultimately, the Supervisory Board passed a resolution to have the very first non-financial report of VTG Aktiengesellschaft for the financial year 2017 reviewed by an independent auditor.

In mid-December 2017, due to further development in the German Federal Cartel Office's main review of the Nacco transaction, the Supervisory Board approved by written procedure a proposal of the Executive Board to submit a voluntary proposal on conditions to the German Federal Cartel Office.

In a conference call on December 29, the Executive Board informed us that, due to the unexpectedly long duration of the competition proceedings, amendment of the contract with the seller of the Nacco Group had become necessary to enable the transaction to go ahead. The Supervisory Board accepted and approved this.

#### **Meetings of the committees**

The Executive Committee held a total of 6 meetings in the year under review. The subjects covered included matters relating to the Executive Board, the remuneration system for the Executive Board, the composition of the Executive Board and long-term succession planning for the Executive Board and management staff. Additionally, approval was given for the taking up of positions requiring the consent of the Supervisory Board in accordance with Section 88 of the German Stock Corporation Act. Furthermore, the remuneration structure and levels of remuneration for the Supervisory Board were reviewed and discussed. The Executive Committee did not have to address any conflicts of interest of members of the Executive Board or the Supervisory Board in the year under review.

In the year under review, in its capacity as a nominating committee, the Executive Committee also drew up proposals to be put forward to Annual General Meeting for the election of members of the Supervisory Board.

The Audit Committee, which was formed for the first time on June 8, held two meetings during the year under review (one in the form of a conference call). Among other things, it discussed the following in advance with the Executive Board: the half-yearly report, the quarterly report at the end of nine months and the scheduled plan for the financial year 2018 and also specified the key areas for review in the audit for the financial year 2017. It also passed two circular resolutions on non-audit services provided by the auditor.

The Capital Increase Committee, which was formed on September 21, 2017, held a conference call on September 27, 2017. In this call, the Executive Board informed the Capital Increase Committee about the status of the preparations for the planned capital increase relating to the Nacco transaction.

#### **Audit of annual and consolidated financial statements, the management reports and of the non-financial report**

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart was appointed by the Annual General Meeting as auditor for the year under review. Ernst & Young examined and gave an unqualified opinion on the annual financial statements of VTG Aktiengesellschaft drawn up in accordance with the principles of the German Commercial Code and on the consolidated financial statements for the financial year 2017 drawn up according to IFRS, including the corresponding management reports. Moreover, the auditor confirmed that the risk management system set up by the Executive Board complies with the legal requirements. The auditor assured the Supervisory Board that no business, financial, personal or other relationships exist between, on the one hand, the auditor and its executive bodies and head auditors, and, on the other hand, the company and the members of its executive bodies that could call its independence into question. The documents relating to the annual and consolidated financial statements and the appropriation of net profit were discussed at the meeting of the Audit Committee on March 2, 2018 in preparation for checking and discussing these documents with the Supervisory Board in the presence of the auditor, who reported on the findings of his audit and the key areas reviewed in the audit as well as discussing and explaining these in depth to the chair. The Audit Committee was satisfied that the audit and the auditor's report had been drawn up correctly and recommended to the Supervisory Board that it accept and approve the auditor's findings and approve the annual financial statements as well as the consolidated financial statements.

The Supervisory Board also itself reviewed the annual financial statements, the consolidated financial statements, the management report and the group management report. The audit reports, including the annual and consolidated financial statements and the management reports, were available to all members of the Supervisory Board in good time and were discussed in depth at today's meeting with the Executive Board and the auditor present at the meeting. The Supervisory Board endorsed the findings of the Ernst & Young audit of the annual financial statements, the consolidated financial statements and the management reports and approved the annual and consolidated financial statements for the financial year 2017 at today's meeting. After completing its review of the annual financial statements, the consolidated financial statements and the management reports, the Supervisory Board has no objections.

Due to the Act to Strengthen Companies' Non-Financial Disclosure in their Management Reports and Group Management Reports of April 11, 2017, (CSR Directive Implementation Act), the Executive Board has drawn up a non-financial report, and not as part of the group management report but as a separate non-financial group report. By resolution of the Supervisory Board at its meeting on November 23, 2017, the content of this report underwent a voluntary external audit to obtain limited assurance. On the basis of this review, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt issued an unqualified opinion.

We endorse the proposal of the Executive Board for the appropriation of net profit, which provides for the payment of a dividend of € 0.90 per share, with the remaining amount to be carried forward.

#### Code recommendations largely met

On February 15, 2018, the Executive Board issued a declaration of conformity in accordance with Section 161 of the of the German Stock Corporation Act and published it on the company's website. VTG Aktiengesellschaft has largely complied with the German Corporate Governance Code as amended on May 5, 2015, which led to the issue of the last declaration of conformity of February 14, 2016 (updated on June 8, 2017). In the future, VTG Aktiengesellschaft will also largely comply with the German Corporate Governance Code as amended on February 7, 2017, published in the Federal Gazette on April 24, 2017.

#### Composition of Supervisory Board and Executive Board

After a vacancy was created by the stepping down of the former chair of the Supervisory Board, Dr. Wilhelm Scheider at the end of December 2016, at the request of the Executive Board, Mr. Karl Gernandt was, by an order of the Local Court of Hamburg of January 13, 2017, appointed as a member of the Supervisory Board until the end of the next Annual General Meeting. At the end of the Annual General Meeting held on June 8, 2017, the term of office of the other members of the Supervisory Board also ended. With the exception of Mr. Andreas Goer, who did not stand for election again, all former members of the Supervisory Board were reelected to the Supervisory Board by the Annual General Meeting. In addition, Dr. Markus Hottenrott was elected a member of the Supervisory Board by the Annual General Meeting. We would like to thank Mr. Goer for his commendable contribution over his several years on the Supervisory Board.

At the constitutive meeting of the Supervisory Board on June 8, 2017, I was confirmed as chair of the Supervisory Board and Dr. Klaus-Jürgen Juhnke was confirmed as deputy chair. In addition, the members of the Executive Committee were reelected at this meeting. Along with myself as chair of the Supervisory Board, Dr. Klaus-Jürgen Juhnke and Dr. Christian Olearius are members of the Executive Committee. An Audit Committee was also formed at this constitutive meeting for the first time. Mr. Karl Gernandt was elected chair of the Audit Committee. The other members are Dr. Christian Olearius and myself. At the meeting of the Supervisory Board of September 21, 2017, a Capital Increase Committee comprising three members was also formed, which has since become redundant. I myself was chair of the Capital Increase Committee and the other members were Dr. Klaus-Jürgen Juhnke and Dr. Bernd Malmström.

By resolution of the Supervisory Board of September 1, 2017, Dr. Kai Kleeberg was reappointed to the Executive Board with effect from May 1, 2018 to December 31, 2018 and Mr. Mark Stevenson from February 1, 2018 until December 31, 2019.

We wish to thank the Executive Board and all employees of the Group for their commitment and the success achieved through their efforts in the financial year 2017.

Hamburg, March 22, 2018

The Supervisory Board

DR. JOST A. MASSENBERG  
CHAIRMAN OF THE SUPERVISORY BOARD