

Report of the Supervisory Board



Dr. Jost A. Massenberg
Chair of the Supervisory Board

In the financial year 2018, the Supervisory Board of VTG Aktiengesellschaft duly and thoroughly performed its duties under the Law, the Articles of Association and the rules of procedure. We monitored and, in an advisory capacity, accompanied the Executive Board in its management of the company's business.

Cooperation between the Supervisory Board and the Executive Board

In the reporting year, the Executive Board timely and comprehensively provided the Supervisory Board with detailed verbal and written reports on a regular basis. Subjects of the 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 Executive Board also consulted with us and agreed with us on the strategic orientation of the company.

The Supervisory Board was also involved in all decisions of importance for the company. Subjects of the consultations in the reporting year were, in particular, issues regarding the refinancing of the acquisition of the Nacco Group by means of a possible capital increase or alternative financial instruments as well as the takeover offer of Warwick Holding GmbH. With regard to all measures requiring the approval of the Supervisory Board under the rules of procedure for the Executive Board adopted by the Supervisory Board, we discussed in detail before passing a resolution.

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 Supervisory Board was kept at all times informed about the situation of the company and the Group.

Meetings of the Supervisory Board and subjects of the Supervisory Board's work

In the reporting year, there were four ordinary meetings as well as three additional meetings and several conference calls of the Supervisory Board. Additionally, if required, resolutions were adopt-

ed by written procedure. The members of the Supervisory Board who were members of the Supervisory Board for only a part of the reporting year 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.

During the month of January 2018, the Executive Board informed us in a total of three conference calls about the respective progress of the coordination with the competent antitrust authorities in the merger control procedures regarding the acquisition of the Nacco Group.

In February 2018, 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 pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz) on compliance with the recommendations of the German Corporate Governance Code as well as stipulating target values for the quota of women on the Executive Board and the Supervisory Board pursuant to section 111 para. 5 of the German Stock Corporation Act.

At the accounts meeting of 22 March 2018, the Executive Board provided us with a summary of the earnings and financial situation and the key business events of the company, the VTG Group and the joint ventures in the 2017 financial year. Subsequently, after detailed discussion with the Executive Board and the auditor and in accordance with the recommendation of the audit committee (Prüfungsausschuss), we approved the annual and consolidated group financial statements for 2017 along with the management reports. The meeting also included the approval of the agenda and resolution proposals for the 2018 annual general meeting. Furthermore, the Executive Board informed us in the meeting that conditional approval had been granted by the competent antitrust authorities for the acquisition of the Nacco Group.

Another meeting of the Supervisory Board was held immediately prior to the annual general meeting on 6 June 2018. At this meeting, the Executive Board provided additional information on the development of the business to date in 2018 and the progress of the implementation of the conditions imposed by the antitrust authorities in connection with the acquisition of the Nacco Group.

Following the annual general meeting, in an additional meeting, the Supervisory Board held supplementary elections of members of the executive committee (Präsidentsausschuss) and the audit committee that were required due to members of the Supervisory Board ceasing to hold office and the election of new Supervisory Board members. Furthermore, the appointment of the auditor elected by the annual general meeting for the financial year 2018 was approved.

In two additional meetings held on 3 July and 13 August 2018, the Executive Board informed us about the progress of the implementation of the conditions imposed by the antitrust authorities in connection with the acquisition of the Nacco Group as well as the progress of the intended refinancing of the acquisition. The meeting also addressed the measures taken by the company in order to monitor compliance with sanctions imposed on Russia in current business operations. In the meeting on 13 August 2018, the Executive Board also informed us about the development of business in the first half of the reporting year.

In a conference call on 4 September 2018, the Supervisory Board discussed and adopted the joint reasoned opinion of the Supervisory Board and the Executive Board pursuant to section 27 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz) on the voluntary public takeover offer of Warwick Holding GmbH that had been prepared by a takeover committee (Übernahmeausschuss) of the Supervisory Board, which was formed on the occasion of the proposed acquisition of Warwick Holding GmbH, together with the Executive Board. The Supervisory Board members Dr. Markus Hottenrott and Karl Gernandt did not participate in the discussion and in the resolution with reference to potential conflicts of interest. Karl Gernandt submitted a dissenting opinion (Sondervotum) that was enclosed to the reasoned opinion.

As in the previous years, a closed-door meeting was held ahead of the additional ordinary meeting of the Supervisory Board on 9 September 2018, at which the Executive Board explained to the Supervisory Board the medium- and long-term strategic orientation of the company and the measures required for this. These measures were discussed in detail and agreed upon with us. At the meeting, the Executive Board informed us about the successful final negotiation of the agreements to be concluded in order to comply with the conditions imposed by the antitrust authorities in connection with the acquisition of the Nacco Group and the con-

clusion of the overall transaction that was then foreseeable for the beginning of October 2018, as well as the progress of the preparation of the integration of the parts of the Nacco Group to be acquired by VTG. Further, at this meeting, we approved two financing measures proposed by the Executive Board. Additionally, the Supervisory Board passed a resolution to have the non-financial report of VTG Aktiengesellschaft for the financial year 2018, as in the previous year, reviewed by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft.

In an additional conference call on 6 November 2018, the Supervisory Board discussed and adopted the supplementary reasoned opinion of the Supervisory Board and the Executive Board on the takeover offer of Warwick Holding GmbH that had been prepared by the takeover committee of the Supervisory Board together with the Executive Board, and which had become necessary due to an amendment to the takeover offer. The Supervisory Board members Dr. Markus Hottenrott and Karl Gernandt again did not participate in this discussion and in the resolution with reference to potential conflicts of interest.

In the meeting on 21 November 2018, the Executive Board presented and explained to the Supervisory Board the annual planning, including the financial and investment plans for the financial year 2019, as well as the investment plan for the forecast years. After detailed discussion, we approved these. Furthermore, the Executive Board informed us about the commenced integration of the acquired Nacco Group activities as well as the progress and the forthcoming final phase of the takeover offer of Warwick Holding GmbH.

Meetings of the committees and subject of the committees' work

The executive committee held a total of six meetings in the reporting year. The subjects 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 of the company. Additionally, approval was given for the assumption of offices requiring the consent of the Supervisory Board pursuant to section 88 of the German Stock Corporation Act. Except for the potential conflicts of interest communicated by the Supervisory Board members Dr. Markus Hottenrott and Karl Gernandt

in connection with the takeover offer of Warwick Holding GmbH, no conflicts of interest of members of the Executive Board or the Supervisory Board had to be disclosed to the executive committee in the reporting year.

The audit committee held five meetings during the reporting year (one in the form of a conference call). Among other things, the subjects of these meetings included the discussion of the annual and consolidated group financial statements with the auditor and of the non-financial report with the auditor appointed by the Supervisory Board for this purpose, the recommendation regarding the appointment of the auditor for the financial year 2018, receipt and discussion of the reports on the risk and compliance management in the VTG Group and the internal audit, the discussion of the quarterly reports and of the half-yearly report as well as of a report on the hedging transactions in the VTG Group. The audit committee acknowledges that the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung, DPR) has completed its audit of the 2017 financial statements without having detected any errors. The committee furthermore discussed in advance with the Executive Board the scheduled plan for the financial year 2019 and also specified the key areas for review in the audit for the financial year 2018. It also passed three resolutions on non-audit services provided by the auditor.

The takeover committee, which was formed on the occasion of the proposed acquisition of Warwick Holding GmbH, held a total of seven meetings, mostly in the form of conference calls. The subjects of the meetings covered, inter alia, the preparation of the joint reasoned opinion of the Supervisory Board and the Executive Board on the takeover offer, the discussion of possible contents of a potential investor agreement, questions regarding the admission of a potential due diligence as well as the discussion of compliance with the conditions imposed under the takeover offer, in particular, regarding potential conflicts with U.S. sanctions

Audit of the annual financial statements, the consolidated group 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 reporting year. 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 (Handelsgesetzbuch) and on the consolidated group financial statements for the financial year 2018 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 audit committee of the Supervisory Board – before the audit committee’s resolution on the election proposal to the annual general meeting – 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 which could call its independence into question. The files and records relating to the annual and consolidated group financial statements and the appropriation of net profits were discussed and explained in depth at the meeting of the audit committee on 27 February 2019 in preparation of examining and discussing these files and records with the Supervisory Board and the Executive Board in the presence of the auditor, who reported on the findings of its audit and the key areas reviewed in the audit. The audit committee was convinced of the correctness of the audit and the auditor’s report and recommended to the Supervisory Board that it accepts and approves the auditor’s findings and approves the annual financial statements as well as the consolidated group financial statements.

The Supervisory Board itself also reviewed the annual financial statements, the consolidated group financial statements, the management report and the group management report. The audit reports, including the annual and consolidated group financial statements and the management reports, were made available to all members of the Supervisory Board in a timely manner and were discussed in detail at today’s meeting with the Executive Board and the auditor being present at the meeting. The Supervisory Board endorsed the findings of Ernst & Young’s audit of the annual financial statements, the consolidated group financial statements and the management reports and approved the annual and consolidated group financial statements for the financial year 2018 at today’s meeting. After completing its review of the annual financial statements, the consolidated group financial statements and the management reports, the Supervisory Board has no objections.

In the reporting year, the Executive Board again drew up a non-financial report as a separate non-financial group report. By resolution of the Supervisory Board at its meeting on 21 November 2018, 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. The Supervisory Board itself also reviewed the separate non-financial group report, and addressed and discussed the findings of the external audit of the content of the report at today’s meeting, and the Supervisory Board endorsed the findings of the external auditor and found that no objections have to be raised against the Executive Board’s non-financial group report.

We endorse the proposal of the Executive Board for the appropriation of net profits, which provides for the payment of a dividend of € 0.95 per share, with the remaining amount to be carried forward to new account.

Audit of the Executive Board’s report on the relations with affiliated companies

The auditor also reviewed the report on the relations with affiliated companies (dependency report) that has to be prepared by the Executive Board pursuant to section 312 of the German Stock Corporation Act for parts of the reporting period and issued the following auditor’s opinion:

“On completion of our review and assessment in accordance with professional standards, we confirm that

1. the factual statements contained in the report are accurate
2. the consideration paid or received by the company in the transactions listed in the report was not inappropriately high or that disadvantages, if any, have been compensated
3. with respect to the measures listed in the report, there are no grounds for an assessment substantially different from that of the Executive Board.”

In preparation for the Supervisory Board’s review and resolution, at first the audit committee addressed the dependency report and the auditor’s report in its meeting on 27 February 2019 and dis-



cussed the documents with the Executive Board and the auditor attending the meeting. The audit committee came to the conclusion that the auditor's report – as well as the audit carried out by the auditor itself – complies with the legal requirements.

The Supervisory Board itself also reviewed the dependency report as to its completeness and accuracy, and discussed it with the Executive Board and the auditor at today's meeting. In conclusion, it can be said that the Executive Board exercised due care in identifying the affiliated companies. It has put in place the necessary systems for recording legal transactions that the company has entered into, and other measures that the company has taken or refrained from, with the majority shareholder or with its affiliated companies in the course of the past financial year. According to the findings of the audit, there are no indications that legal transactions or measures have not been recorded completely. The Supervisory Board hence agrees with the results of the audit as presented by the auditor. It has no objections against the Executive Board's declaration at the end of the report.

Code recommendations largely met

On 18 February 2019, the Executive Board and the Supervisory Board issued the declaration of conformity pursuant to section 161 of the German Stock Corporation Act and published it on the company's website. Since the issue of the last declaration of conformity on 15 February 2018, VTG Aktiengesellschaft has continued to comply with the recommendations of the Commission of the German Corporate Governance Code as amended on 7 February 2017 to a great extent and will also comply with these recommendations to a great extent in the future.

Composition of Supervisory Board and Executive Board

The deputy chair of the Supervisory Board, Dr. Klaus-Jürgen Juhnke, and the Supervisory Board members Dr. Bernd Malmström and Dr. Christian Olearius have resigned from their offices with effect from the close of the annual general meeting held on 6 June 2018. We would like to thank them for their laudable contribution during their service on the Supervisory Board. In honor of his service, the Supervisory Board appointed Dr. Juhnke as honorary member of the Supervisory Board. As replacement for the

resigning Supervisory Board members, on 6 June 2018, the annual general meeting elected Prof. Dr. Franca Ruhwedel as well as Jens Fiege and Ulrich Müller as members of the Supervisory Board.

At the meeting of the Supervisory Board on 6 June 2018, Dr. Markus Hottenrott was elected as the new deputy chair of the Supervisory Board. Furthermore, at that meeting, supplementary elections were held for the executive committee and the audit committee. Along with myself as the chair of the Supervisory Board, Dr. Markus Hottenrott and Jens Fiege have since been members of the executive committee. Alongside the chair of the audit committee already in office, Karl Gernandt, Prof. Dr. Franca Ruhwedel and Ulrich Müller have since been members of the audit committee as well. Prof. Dr. Franca Ruhwedel, Jens Fiege and I as chair of the Supervisory Board are members of the takeover committee of the Supervisory Board that was temporarily formed in the reporting year with regard to the takeover offer of Warwick Holding GmbH.

As of 31 December 2018, Dr. Kai Kleeberg resigned from the Executive Board. The Supervisory Board would like to thank Dr. Kleeberg for his many years of commendable contribution.

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 2018.

Hamburg, 27 March 2019

The Supervisory Board

DR. JUST A. MASSENBERG
Chair of the Supervisory Board