

1.2 SUPERVISORY BOARD REPORT



Dr. Gerald Hommel, Aufsichtsratsvorsitzender

Dear shareholders,

The Supervisory Board is pleased to report to you in this annual report on its work during the first full financial year after the company's IPO. The year was again a very eventful year for the va-Q-tec Group and continued to be characterised by strong growth. In the 2017 reporting year, the Supervisory Board fulfilled with care the tasks incumbent upon it pursuant to the law, the company's bylaws and its rules of business procedure, on behalf of all shareholders, taking into consideration the claims of other stakeholders.

The shares of va-Q-tec have been traded on the Frankfurt Stock Exchange since 30 September 2016. With the listing in the Prime Standard segment, the company is subject to stringent transparency and publicity requirements. These listing obligations also affect work in the Supervisory Board. New regulations are in place that have a direct bearing on the Supervisory Board and its collaboration with the Management Board. In cooperation with the Management Board, the Supervisory Board ensures that processes and structures are established with the company that meet the stock exchange requirements.

The Supervisory Board's main task is to consult with and supervise the Management Board. Focus areas of such activities in the reporting period especially included the international orientation of va-Q-tec for further profitable growth, corporate planning overall, corporate finance and the considerable investments in the new Group headquarters in Würzburg, the expansion of the location in Kölleda, as well as in the container and box fleets. The company's first Annual General Meeting (AGM) after its IPO was held on 19 June 2017. This encountered significant interest among investors, with more than 70% of the capital being represented at the AGM.

The Supervisory Board consulted with and supported the Management Board in the related implementation work, as well as in the legal and organisational duties arising from the IPO. The Supervisory Board was involved in all Management Board matters and decisions of central importance to the company at an early stage and on an intensive basis. The collaboration between the Management and Supervisory boards was always trusting, constructive, appropriate, helpful and efficient.

Following indepth examination and consultation, the Supervisory Board passed resolutions where required by the law, the company's bylaws or the rules of business procedure.

The Supervisory Board also maintained close contact with the Management Board between the regular meetings during the 2017 financial year. The Chairman and individual Supervisory Board members were also in constant bilateral contact with Management Board members, consulting with them on various business transactions. The Management Board fully complied with information duties arising from the law and the rules of business procedure. The Management Board informed the Supervisory Board regularly, promptly and comprehensively concerning the business position, business trends, corporate planning, the financial position and results of operations, significant business transactions of the company and the Group, as well as concerning the risk position and risk management.

As shown in this annual report, the development and growth of va-Q-tec is to be appraised positively. The Supervisory Board conducted a critical evaluation of business transactions central to the company's development, and contributed corresponding suggestions and ideas for discussion with the Management Board. Measures and transactions requiring approval were consulted upon between the Management and Supervisory boards, with appropriate decisions being taken.

Personnel changes in the Supervisory and Management boards

No personnel changes arose in the Supervisory Board in the reporting period. Dr. Roland Caps, Management Board member with responsibility for Research and Development, stepped down from office as of the end of his regular appointment on 30 June 2017. He continues to be available to the company as Head of the Research and Development Area, an area he founded together with Dr. Joachim Kuhn. As of 01 July 2017, the Supervisory Board appointed Mr. Stefan Döhmen to be the new Chief Financial Officer of the va-Q-tec Group. Mr. Döhmen has many years of management experience at listed internationally active groups. Until the end of his appointment as a Management Board member of va-Q-tec AG (31 December 2017), Mr. Christopher Hoffmann assumed the tasks of International Business Development.

The Supervisory Board extended its thanks to Dr. Caps and Mr. Hoffmann for their committed work as well as their constantly trusting collaboration with the Supervisory Board. Dr. Joachim Kuhn remains Management Board Chairman (CEO). His appointment as Management Board Chairman currently runs until 31 December 2018. Mr. Döhmen has been appointed as a Management Board member until 31 December 2019.

Due to the small number of Management Board members, the Supervisory Board has set the ratio of women on the Management Board at 0%. For itself, the Supervisory Board set a proportion of women at 16.66% from 30 June 2017 (fulfilment date), corresponding to one out of six members.

Meetings of the Supervisory Board and its committees

The Supervisory Board consulted about the operative and strategic position of va-Q-tec as part of its regular consultations, with written and verbal reports by the Management Board providing it with extensive information about business and financial developments. Consultations in 2017 focused on the high level of Group capital expenditure, including on the acquisition and renovation of the new headquarters of va-Q-tec AG in Würzburg and the expansion of the Kölleda site. The Supervisory Board convened for a total of six plenary meetings in accordance with the company's bylaws, and for an extraordinary meeting. All meetings were held in Würzburg. Four Supervisory Board members attended all meetings. Two Supervisory Board members were excused from the regular Supervisory Board meeting in April 2017 and two Supervisory Board members were unable to attend the extraordinary meeting at the end of April 2017. Of the Management Board members, Mr. Hoffmann was unable to attend due to the business meetings, and Dr. Caps was excused from one meeting.

At the **first meeting on 15 February 2017**, the Management Board reported on the status of the preparation and auditing of the 2016 financial statements for both the parent entity and the Group as well as on business trends during the first two months of 2017. The Supervisory Board concerned itself with the fundamentally revised, optimised and formalised risk management system of the va-Q-tec Group including the early risk identification process. The corporate governance statement and the statement of conformity with the German Corporate Governance Code were also discussed and approved. Moreover, following in-depth discussion by the Supervisory Board, the investments to build a new central location in Würzburg and to expand the Kölleda site, for which the Management Board had applied, were approved.

The Supervisory Board convened for its second meeting on **07 April 2017**. Along with the report of the Management Board and the audit committee concerning the status of the separate annual financial statements and consolidated financial statements as well as current business trends, especially the newly arisen possibility to purchase an existing property close to the previous headquarters instead of the new construction at Heuchelhof was discussed intensively, and approved unanimously given the significant benefits in terms of size, time and cost. The Management Board also informed the Supervisory Board about the status of the foreign subsidiaries, including the successful formation of the Swiss and Japanese Group companies at the start of the 2017 financial year. At the same time, options for greater involvement in the Asian region were discussed with the Supervisory Board.

An extraordinary meeting of the Supervisory Board was held on **24 April 2017**. The only item on the agenda was the presentation, discussion and approval of the annual report, annual financial statements, management report and notes to the financial statements for both the separate and consolidated financial statements for va-Q-tec AG for the 2016 financial year. Following in-depth discussion and numerous questions, the Supervisory Board passed a unanimous resolution concerning the approval and adoption of the 2016 separate annual financial statements as well as the approval of 2016 consolidated financial statements, including the management reports.

The **third ordinary meeting on 18 May 2017** focused on discussing the development of the UK subsidiary. For this purpose, the two managing directors Dominik Hyde and Sven Larsen had been invited to give a report to the Supervisory Board. The announced audit by the DPR (German Financial Reporting Enforcement Panel/FREP) formed a further focus of the Supervisory Board meeting. Mrs. Maaß and Mr. Rattler from Rödl & Partner, who had also been invited to attend the meeting as guests, informed the Supervisory Board about the background and prospective audit process, and gave comments and recommendations relating to the approach in this project. Moreover, the status of preparations for the forthcoming first Annual General Meeting after the IPO was presented to the Supervisory Board, and the preliminary results for the first quarter 2017 as well as the current business trends in the second quarter were presented.

The **fourth meeting on 10 July 2017** focused on an explanation by the Management Board of the current business and financial position, as part of which it also presented the 2017 half-year figures for va-Q-tec AG. The Management Board also provided information about personnel changes in the management team at the UK subsidiary, va-Q-tec UK Ltd, as well as concerning the status of the DPR audit and the realignment and internationalisation of the insurance concept. Moreover, the Supervisory Board approved the signing of a kEUR 450 convertible loan with the "SUMTEQ GmbH" investment.

At the fifth meeting at the end of September, Group business trends in the first half the year and up to the end of August were analysed and discussed intensively. The fact that revenues and total income continued to register very strong year-on-year growth was noted positively. The cost of materials ratio was at the previous year's level due to the revenue mix, however, and other operating expenses also increased at a slightly faster rate than total income. A further important discussion point of the fifth Supervisory Board meeting was again the progress achieved with the new construction in Kölleda and renovation work at the new site in Würzburg. Mr. Kuhn explained that the company was now operating close to its capacity limits and that the investments in buildings and plant were urgently required to cover the expected demand for VIPs for the coming years. Dr. Kuhn also reported on a potential co-investor for the equity investment in SUMTEQ GmbH as well as about potential partnerships with Asian companies. Finally, Mr. Andreas Stein reported to the Supervisory Board about his experiences and approach as the new compliance officer, as he had assumed this responsibility from Management Board member Dr. Caps, who had stepped down as of 30 June 2017.

The **sixth and final ordinary meeting** of the plenary Supervisory Board in the 2017 financial year was held on **15 December 2017**. The focus was on the presentation and explanation of the planning figures for 2018 by the Management Board. After in-depth discussion, the Supervisory Board approved the Group budget including the investment budget for the 2018 financial year. A resolution relating to strengthening the equity of the UK subsidiary was also passed at the meeting.

In the reporting year, all members of the Supervisory Board participated at more than half of the Supervisory Board meetings; all Supervisory Board members also participated in more than half of the meetings of committees to which they belonged (section 5.4.7 DCGK). The Supervisory Board met regularly together with the Management Board, apart from when consulting about its compensation (section 3.6 DCGK). For more information, please refer to the corporate governance report that forms part of this annual report.

Committees

The Supervisory Board has formed subcommittees in accordance with the German Corporate Governance Code. Specifically, these are the Nomination, Audit and General committees.

Establishing a new compensation scheme for the Management Board members formed a topic that the General Committee covered in the financial year elapsed, in order to anchor the long-term components of bonuses and even better reflect the German Corporate Governance Code. This compensation scheme is to be valid for all financial years from 01 January 2018. The current Management Board contracts are to be adjusted accordingly.

No conflicts of interest occurred within the Supervisory Board in the reporting period.

Audit of the separate and consolidated financial statements

Pursuant to Section 315a of the German Commercial Code (HGB), the consolidated financial statements were prepared based on International Financial Reporting Standards (IFRS) as applicable in the European Union. The auditors elected by the AGM, Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Jena, audited the separate financial statements of va-Q-tec AG as well as the consolidated financial statements, both for the financial year ending 31 December 2017, together with the respective management reports for va-Q-tec AG and the va-Q-tec Group, including the financial bookkeeping, and in each case awarded them unqualified audit certificates on **09 April 2018**. The auditors also assured themselves that the Management Board has established an internal control and risk management system appropriate in its implementation and design to provide early warning of developments jeopardising the company as a going concern.

At the Audit Committee meeting on 23 March 2018 and at the Supervisory Board meeting on 09 April 2018, the Supervisory Board discussed with the auditors and examined in depth the financial statements for va-Q-tec AG and for the va-Q-tec Group, the Management Board's proposal for the application of unappropriated profit, as well as the reports prepared by the auditor. The auditor participated in the consultations on the financial statements at this Supervisory Board meeting and informed the Supervisory Board of its audit findings and its findings concerning the internal control and risk management system.

The Supervisory Board concurs with the recommendation of its Audit Committee and approved the separate financial statements and management report as well as the consolidated financial statements and Group management report of va-Q-tec AG for the 2017 financial year. The separate financial statements of va-Q-tec AG have been adopted as a consequence. The Supervisory Board also concurs with the Management Board's proposal concerning the application of unappropriated net profit.

Thanks and outlook

The Supervisory Board would like to thank the Management Board for their good collaboration during the 2017 financial year. The very special thanks of the Supervisory Board are due to all staff at va-Q-tec. Year "One" after the IPO was again characterised by many important milestones and strong growth. This would not have been possible without the commitment, positive attitude and quality awareness of all employees.



Dr. Gerald Hommel
Chairman of the board