

## 1.2 SUPERVISORY BOARD REPORT



Dr. Gerald Hommel, Chairman of the supervisory board

### Dear shareholders,

The past financial year proved to be particularly eventful and challenging for the va-Q-tec Group. In the 2018 reporting year, the Supervisory Board continued to fulfil 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 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 va-Q-tec's international orientation to 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 second Annual General Meeting (AGM) after its IPO was held on 28 June 2018. More than 300 participants gathered in the Würzburg Congress Center to be informed in detail by the Management Board about developments and trends in the 2017 financial year and the further outlook. A very high presence of shareholders also attended this year, representing 73 % of the share capital. All resolutions were passed with approval rates between 94 % and 99 %. In particular, all Supervisory Board members were re-elected for a further period of office. The elections were held as individual elections in accordance with the recommendation of the German Corporate Governance Code (DCGK). Dr. Gerald Hommel will continue to act as Supervisory Board Chairman.

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 in-depth 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 2018 financial year, conferring concerning various business transactions. The Management Board complied with its information obligations under the law and its rules of business procedure, and informed the Supervisory Board regularly, comprehensively and promptly in written and verbal form of all measures and events relevant to the company. In this context, the Management Board also dealt with deviations in the course of business from the plans and targets drawn up, stating the reasons. The Supervisory Board was thereby always informed about the business situation and development, the intended business policy, the short-, medium- and long-term corporate planning including investment, financial and personnel planning as well as the profitability of the company, organizational measures and the Group situation as a whole. In addition, a regular flow of information occurred on the risk situation and risk management as well as on compliance and corporate governance.

As described in this annual report, with the investments it has realized, va-Q-tec has created a strong foundation for the company's further development and growth. 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. Joachim Kuhn continues as Management Board Chairman (CEO). During the course of the financial year under review, his appointment as Management Board Chairman was extended until 31 December 2023. Mr. Stefan 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 in 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. For va-Q-tec, the beginning of the 2018 financial year was initially marked by unexpected reductions in revenue in the container rental sector, which presented the company with particular challenges. Their effects and the measures subsequently initiated by the Management Board consequently formed a regular focus of the Management Board's reporting as well as particularly intensive monitoring and advisory support provided by the Supervisory Board. Further focal points of the consultations in 2018 included the financing and liquidity situation and the medium-term strategy.

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. The following table shows the individual participation of each member of the Supervisory Board:

Name	1. Meeting	2. Meeting	3. Meeting	4. Meeting	5. Meeting	6. Meeting	Extraordinary meeting
Dr. Gerald Hommel	✓	✓	✓	✓	✓	✓	✓
Uwe Lamann	✓	✓	✓	✓	✓	✓	✓
Winfried Klar	✓	✓	✓	✓	✓	✓	✓
Uwe Andreas Kraemer	✓	✓	✓	✓	✓	✓	✓
Dr. Barbara Ooms-Gnauck	✓	✓	✓	✓	✓	✓	✓
Dr. Eberhard Kroth	✓	✓	✓	✓	✓	✓	✓

The following table shows the individual attendance of the meetings of the Management Board members:

Name	1. Meeting	2. Meeting	3. Meeting	4. Meeting	5. Meeting	6. Meeting	Extraordinary meeting
Dr. Joachim Kuhn	✓	✓	✓	✓	✓	✓	✓
Stefan Döhmen	✓	✓	✓	✓	✓	✓	✓

At the **first meeting on 2 and 3 March 2018**, the Management Board reported on the status of the preparation and auditing of the 2017 financial statements for both the parent entity and the Group as well as on business trends during the first two months of 2018. The corporate governance statement and the statement of conformity with the German Corporate Governance Code were also discussed and approved. Furthermore, after extensive discussion by the Supervisory Board, the Supervisory Board approved the application by the Management Board to establish a subsidiary in Uruguay and discussed a patent infringement by a competitor. In addition, the risk inventory for 2017 was discussed.

A separate, detailed section was also dedicated to strategy considerations and new business areas of va-Q-tec. These include future markets and new application areas such as aircraft and vehicle insulation, supplies to pharmacies, and the TempChain 4.0 initiative. These are intended to drive growth in the medium and long term. In addition, the Supervisory Board discussed the financial strategy, which is intended to support and facilitate va-Q-tec's investment plans, which are now almost complete and which have been high overall.

The Supervisory Board convened for its second meeting on **9 April 2018**. After the auditor's report, the topic of the meeting was the presentation, discussion and preparation of the resolution to approve the annual report, separate 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 2017 financial year. Following in-depth discussion and numerous questions, the Supervisory Board passed a unanimous resolution concerning the approval and adoption of the 2017 separate annual financial statements as well as the approval of 2017 consolidated financial statements, including the management reports. Finally, options for greater involvement in the Asian region were discussed with the Supervisory Board. In addition, on the basis of the recommendation of the Nomination Committee, the necessary resolutions on the future composition of the Supervisory Board were passed on the occasion of the upcoming elections of all Supervisory Board members at the Annual General Meeting.

The **third ordinary meeting on 5 June 2018** focused on the development of the UK subsidiary after discussing the current business development of the Group with the figures for the first four months of 2018. For this purpose, the two managing directors Roland Rapp and Sven Larsen had been invited to give a report to the Supervisory Board. The management explained the reasons for the decline in revenue in the first quarter of 2018, including a comparison with the competition (market share, technology), the current trends of individual customers and operational measures. Measures were discussed and defined with the aim of providing even better support for core customers in their ramp-up. A further focus of the Supervisory Board meeting was the financing strategy and the status of investments in 2018. Against the backdrop of the sustained high pace of investment in 2018, it was agreed that the refinancing of long-term property, plant and equipment, which was initially financed from the company's own funds, should now occur gradually. In addition, the preparations for the forthcoming Annual General Meeting were presented to the Supervisory Board.

The main purpose of the **extraordinary meeting on 28 June 2018 following the Annual General Meeting** was to elect the Chair of the Supervisory Board as well as the Deputy Chair and to form the General, Audit and Nomination committees. Moreover, the Management Board explained the current business and financial situation and presented the figures for the first five months of 2018 for the va-Q-tec Group. In addition to the high share of revenue accounted for by the lower-margin Products business, EBITDA was negatively impacted by advance investments in additional personnel and internationalization as well as relocation and double costs incurred in connection with the expansion of locations. Furthermore, the Management Board provided information on its current initiatives with financing partners regarding long-term and short-term financing. Moreover, the Management Board explained the idea of establishing a subsidiary in Singapore.

**At the fourth meeting** on 20 September, Group business trends up until the end of July were analyzed and discussed intensively. The fact that especially revenue in the UK segment (Services) was well below expectations compared with the previous year was criticized. The cost of materials ratio was at the previous year's level due to the revenue mix, and other operating expenses also increased at a slightly faster rate than total income growth. A further important discussion point of the fourth Supervisory Board meeting was again the progress with renovation work at the new site in Würzburg. The relocations and double costs had a negative impact on EBITDA, especially in the first half of the year, with the relocations also partly contributing to the precautionary increase in inventories. An important topic of the meeting was again the status of the planned financing measures. The Supervisory Board also discussed the current share price performance. In summary, it was noted that many investors were disappointed after the adjustment of the forecast and had adopted a wait-and-see stance. Dr. Kuhn finally reported on market and competitive trends during the M&A process of a major Swedish competitor. A resolution relating to strengthening the equity of the UK subsidiary was also passed at the meeting.

In the **fifth meeting at the end of October**, the previous activities within the framework of a project to optimize the (sales) structure and internationalization of the organization were discussed. The aim is to clearly define and sharpen the responsibilities and interfaces within the increasingly international organization. In addition, the Supervisory Board discussed business trends during the first nine months. Accordingly, after nine months, total revenue was up compared to the previous year, but well below expectations for this financial year. Furthermore, profitability failed to report a satisfactory trend. At va-Q-tec AG, one-off expenses due to relocations and double costs (e.g. temporary employees) from the first half of the year continued to exert an effect. Mr. Kuhn once again explained the situation in the container rental business on the basis of the meeting document. While service revenues generated with a major pharmaceutical customer decreased year-on-year by almost a half due to the customer's own reduction in business, the revenue contribution generated by other customers grew significantly. Although it was possible to compensate for the decline in business with the key customer, which accounted for around 50% of total revenue in this segment three years ago, this proved to be at the expense of growth. The Management Board also reported that the planned long-term loans to refinance the real estate in Würzburg had been concluded and that further financing measures, particularly for the Kölleda site, are in final negotiations. Possibilities for financing measures from working capital were discussed. Mr. Kuhn informed the Supervisory Board that the founding of va-Q-tec Singapore had been completed and that the company would be operating for the first time from Q4 onwards.

The **sixth and final ordinary meeting** of the plenary Supervisory Board in the 2018 financial year was held on **14 December 2018**. The focus was on the presentation and explanation of the planning figures for 2019 by the Management Board and the management of va-Q-tec UK. Especially given the clear deviation from the revenue and earnings targets for 2018 as well as investor disappointment, the Management Board and management of the UK subsidiary showed in an analysis of root causes that lower revenue in existing business with key customers was responsible for the disappointing trend of the container rental business and that some new customers that were originally planned for the targeted growth had to largely compensate for the lack of "existing business". The managing directors of va-Q-tec UK and the Management Board then explained the measures that had been approved, implemented or initiated in the past months in order to achieve significant revenue growth again in 2019. At the same meeting, the Management Board also explained the initiatives planned and initiated as part of the Power 20+ program in order to improve earnings from the fourth quarter of 2018 onward. After in-depth discussion, the Supervisory Board approved the Group budget including the investment budget for the 2019 financial year as well as the medium-term planning.

The Management Board also provided information on the financing transactions successfully concluded in Q4 2018. The status of investments in 2018 and the expected trend until the end of the financial year had already been addressed as part of the budget discussion.

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 of which they were members (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 (DCGK). Specifically, these are the Nomination, Audit and General committees.

One topic of the Nomination Committee in the past financial year was the future composition of the Supervisory Board. Especially in times of dynamic corporate development, continuous consulting and supervision of the company is important. All members of the Supervisory Board are available for a further term of office. The Supervisory Board passed a corresponding resolution at its 9 April 2018 meeting.

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 accounts, and in each case awarded them unqualified audit certificates on **25 March 2019**. 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 jeopardizing the company as a going concern.

At the Audit Committee meeting on 21 March 2019 and at the Supervisory Board meeting on 25 March 2019, 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, 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 2018 financial year. The separate financial statements of va-Q-tec AG have been adopted as a consequence.

### Thanks and outlook

The Supervisory Board would like to thank the Management Board for their constructive collaboration during the 2018 financial year. The very special thanks of the Supervisory Board are due to all staff at va-Q-tec. The 2018 year was characterized by significant work in relation to the establishment and expansion of the Group. Such achievements are not possible without the commitment and positive attitude of all employees.



Dr. Gerald Hommel  
Chairman of the supervisory board of va-Q-tec AG