

**The Board of Management and the Supervisory Board submit the following Report on Corporate Governance in SURTECO SE in accordance with Section 3.10 of the German Corporate Governance Code:**

## **PREAMBLE**

The German Corporate Governance Code in the version dated 5 May 2015 presents essential statutory regulations for the management and controlling of the company and includes nationally and internationally recognized standards for good and responsible corporate management. The code aims to make the German Corporate Governance System transparent and understandable. Its purpose is to promote the trust of international and national investors, customers, employees and the general public in the management and supervision of listed German stock corporations.

The Board of Management and the Supervisory Board engaged intensively with the regulations of the German Corporate Governance Code during the business year 2016. On the basis of these deliberations, the Board of Management and the Supervisory Board submitted at 22 December 2016 the Declaration of Compliance with explanations in accordance with § 161 Stock Corporation Act (AktG).

## **SHAREHOLDERS AND ANNUAL GENERAL MEETING**

The shareholders of SURTECO SE exercise their rights at the Annual General Meeting and are entitled to cast their votes at the meeting. Each of the no-par-value bearer shares is entitled to one vote.

The Board of Management submits the annual financial statements, the management report, the consolidated financial statements and the consolidated management report to the Annual General Meeting. The Annual General Meeting decides on the appropriation of profit and the discharge of the Board of Management and the Supervisory Board. The Annual General Meeting also elects the representatives of the shareholders on the Supervisory Board, appoints the auditor and votes on the content of the Articles of Association and – if required by law – any significant structural measures.

Each shareholder is authorized to participate in the Annual General Meeting, to speak on the items listed in the agenda, and to ask relevant questions and put forward appropriate motions. The Chairman of the Supervisory Board is responsible for chairing the Annual General Meeting. He is responsible for ensuring the smooth-running of the Annual General Meeting.

The Annual General Meeting is convened by the Board of Management at least once every year and an agenda is provided for the meeting. The ordinary Annual General Meeting is held within the first six months of a business year, as defined in the statutory regulations for European companies. Minority shareholders are entitled to convene an Annual General Meeting and to request an extension to the agenda. The Board of Management will draw up the documents required under statutory regulations, including the Annual Report, and shall provide such documents to the shareholders on request. These reports and documents are also published on the Internet site of the company ([www.surteco.com](http://www.surteco.com)), together with the agenda for the meeting.

In order to make it easier for shareholders to exercise their rights, the Board of Management appoints a representative so that shareholders can exercise their right to cast votes by issuing instructions for proxy voting, and this representative can also be reached during the Annual General Meeting.

## **INTERACTION OF BOARD OF MANAGEMENT AND SUPERVISORY BOARD**

SURTECO SE has a dual management system which has separate officers for the management and monitoring bodies.

The Board of Management and the Supervisory Board of SURTECO SE work closely together to promote the well-being of the company. The Board of Management agrees the strategic direction with the Supervisory Board and discusses the status of strategy implementation with the Supervisory Board at regular intervals.

It is the Board of Management's responsibility to keep the Supervisory Board informed. The Supervisory Board for its part, however, must ensure that it is kept appropriately informed. To this end, the Supervisory Board has determined in more detail for the Board of Management the information and reporting obligations of the Board of Management under the rules of procedure. The Board of Management provides the Supervisory Board with regular, timely and comprehensive reports on all issues of strategy, planning, business development, risk position, risk management and compliance relevant to the company. The Board of Management addresses all deviations in the current business situation from the plans and goals that have been prepared and provides reasons for such deviations.

If the Chairman of the Supervisory Board decides to convene a meeting, the Supervisory Board may meet without the Management Board.

The Members of the Board of Management and the Supervisory Board observe the rules of proper corporate management. If they culpably breach the duty of care incumbent on a prudent and conscientious Board of Management or Supervisory Board, they shall be liable in respect of the company for compensation for damages. When entrepreneurial decisions are made, there shall be no breach of the duty of care if the Member of the Board of Management or Supervisory Board was entitled to reasonably assume on the basis of appropriate information that he or she was acting in the interests of the company (business judgement rule).

In the annual Declaration of Compliance pursuant to Article 161 Corporation Act (AktG) of the Board of Management and the Supervisory Board, deviations from the recommendations of the code are explained. Declarations of Compliance on the code that are no longer current are kept accessible on the Internet site of SURTECO SE.

## **BOARD OF MANAGEMENT**

### **Tasks and Responsibilities**

The Board of Management of SURTECO SE manages the company with the objective of generating long-term organic Economic Value Added. It performs its duty independently and in the interests of the company, and takes into account the requirements of its shareholders, its employees and the Groups affiliated with the company (stakeholders). The Board of Management develops the strategic direction of the company, agrees it with the Supervisory Board and implements the strategy. It ensures compliance with the statutory regulations and internal company guidelines and ensures that they are observed by the Group companies. In addition, it establishes an appropriate system of risk management and risk controlling in the company. The Board of Management has also implemented a Code of Conduct for the SURTECO Group beyond the statutory requirements. The code contains additional regulations governing cooperation within the company and with respect to business partners and third parties. The Board of Management takes account of diversity when making appointments to management positions within the company and, in doing so, seeks to achieve reasonable representation of women. In accordance with Section 76 Paragraph 4 of the German Stock Corporation Act (AktG), the Board of Management has set a target of at least 20% for the proportion of women in the second tier of management. This target has already been achieved within the reporting period. The first tier of management below the Board of Management currently comprises just one person. It is therefore not currently necessary to determine a ratio for this tier of management.

### **Composition and Compensation**

The Board of Management comprises two members. Rules of procedure govern the allocation of business and cooperation in the Board of Management. The Supervisory Board has determined a target of one female member on the Board of Management. 30 June 2017 has been set as the deadline for achieving this target. There has not yet been an opportunity to appoint a suitably qualified woman to the Board of Management of SURTECO SE.

The compensation structure and the level of compensation of the Members of the Board of Management are defined and regularly reviewed at the suggestion of the Personnel Committee of the Supervisory Board in accordance with the provisions set out in § 87 Stock Corporation Act (AktG).

The compensation of the Board of Management is disclosed in the Management Report.

## **Conflicts of interest**

Members of the Board of Management have a duty to act in the interests of the company. They are not permitted to pursue any personal interests in the decisions they reach, are subject to a comprehensive prohibition on competitive activity whilst acting for the company and may not exploit for themselves any business opportunities available to the company. Every member of the Board of Management must disclose to the Supervisory Board any conflict of interest and must inform the other Board of Management members of such conflict.

## **Transactions requiring agreement**

The Supervisory Board has determined for the Board of Management in the rules of procedure certain types of transaction that require the agreement of the Supervisory Board. These include transactions with persons or companies with whom a member of the Board of Management has a close relationship.

# **SUPERVISORY BOARD**

## **Tasks and Responsibilities**

The Supervisory Board regularly advises the Board of Management on the management of the company and monitors its actions. The Supervisory Board is integrated in decisions of fundamental importance for the company, appoints and dismisses Members of the Board of Management, decides on the compensation for individual Members of the Board of Management and the compensation system for the Board of Management, and works together with the Board of Management to establish long-term succession planning. The Supervisory Board takes diversity into account when making appointments to the Board of Management and is seeking to appoint at least one woman until 30 June 2017. The Supervisory Board is governed by rules of procedure. The Supervisory Board must also agree the annual financial plan and approve the annual financial statements of SURTECO SE and the Group. The Supervisory Board defines concrete targets for its composition which take account of the specific situation of the company, the international operations of the company, potential conflicts of interest, the number of independent members of the Supervisory Board pursuant to Article 5.4.2 of the German Corporate Governance Code, an age limit to be defined for the Members of the Supervisory Board and diversity.

## **Tasks and Authorities of the Chairman of the Supervisory Board**

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs its meetings and represents the requirements of the Supervisory Board in the public domain. He is also chairman of the committees with the exception of the Audit Committee. This is chaired by another Member of the Supervisory Board. The Chairman of the Supervisory Board maintains regular contact with the Chairman of the Board of Management between meetings and discusses with the Chairman issues of strategy, planning, business development, risk situation, risk management and compliance of the company.

## **Formation of Committees**

The Supervisory Board of SURTECO SE has a Presiding Board and a Personnel Committee and an Audit Committee. The Chairman of the Audit Committee has specialist expertise and experience in the application of accounting principles and internal controlling procedures. The Audit Committee addresses issues related in particular to monitoring the accounting process, the effectiveness of the internal controlling system, the risk management system and the internal accounting system, the year-end auditing system (here in particular the independence of the auditor), the additional services provided by the auditor, the appointment of the auditor to carry out the audit, the determination of the focuses of the audit, the agreement of the fee, and compliance. The Chairman of the Audit Committee has special knowledge and experience in the application of accounting principles and internal controlling procedures. The Chairman is independent and is not a former Member of the Board of Management of the company.

The relevant committee chairmen report regularly to the Supervisory Board about the work of the committees.

## **Composition**

The composition of the Supervisory Board is based on § 95 sentence 2 of the Stock Corporation Act (AktG) in conjunction with § 8 Section 1 of the Articles of Association and the provisions of the agreement pursuant to §§ 13 Section 1 sentence 1, 21 SEBG between the special negotiating committees and the management of SURTECO AKTIENGESELLSCHAFT relating to the participation of the employees of SURTECO SE dated 13 February 2007. This states that the Supervisory Board of the Company shall be composed of nine members. Six members are elected by the Annual General Meeting. Three members are nominated to the Supervisory Board as employee representatives in accordance with the provisions of the agreement referred to above by the Works Councils of the three German companies of SURTECO SE with the most employees.

Members of the Supervisory Board should not exercise a total of more than three memberships of Supervisory Boards for companies outside the Group listed on the stock exchange or of Supervisory Board bodies for companies outside the Group which have comparable requirements. The Supervisory Board should not have more than two former members of the Board of Management. Members of the Board of Management may not be appointed as Members of the Supervisory Board before two years have elapsed after they have left the Board of Management, unless their appointment was proposed by shareholders who together hold more than 25 % of the voting rights in the company. Members of the Supervisory Board should not be older than 63 years of age when they take up their office. According to subsection 5.4.2 of the German Corporate Governance Code, the Supervisory Board should have a minimum of 6 independent members and at least one woman. The defined targets were achieved with the exception of the age limit for Members of the Supervisory Board and the membership of one woman. The exception from the age limit related to Member of the Supervisory Board Björn Ahrenkiel, who was again appointed as Member of the Supervisory Board in 2014 on account of his special knowledge and experience in finance and accounting, and his many years of experience as a Mem-

ber and Chairman of the Audit Committee. There has not yet been an opportunity to appoint a suitably qualified woman to the Supervisory Board of SURTECO SE. The Supervisory Board has not determined a regulatory limit on the duration for which a member may belong to the Supervisory Board.

The Supervisory Board is composed of members such that its members have the necessary knowledge, skills and specialist experience to be in a position to perform the necessary functions properly and appropriately.

The German Corporate Governance Code emphasises the obligation of the Members of the Supervisory Board to take responsibility for independently implementing the necessary training and advanced training measures necessary to carry out their functions, and recommends that the companies provide appropriate support for them in complying with these requirements. The Members of the Supervisory Board and SURTECO SE comply with this obligation and recommendation.

The compensation report of the Supervisory Board should be presented as part of the Management Report. The compensation of the Members of the Supervisory Board is disclosed in the Management Report.

### **Resolutions of the Supervisory Board**

The Supervisory Board makes all resolutions by a simple majority vote. If there is parity of voting, the Chairman of the Supervisory Board holds the casting vote.

### **Conflicts of interest**

Every member of the Supervisory Board has a duty to act in the interests of the company. Members of the Supervisory Board are not permitted either to pursue any personal interests in the decisions they reach, nor to exploit for themselves any business opportunities available to the company. Each Member of the Supervisory Board will disclose to the Supervisory Board any conflicts of interest, in particular such conflicts which may arise as a result of consultancy or exercise of official duties with customers, suppliers, lenders or other third parties. The Supervisory Board will provide information on any conflicts of interest that have occurred in its report to the Annual General meeting and on how these conflicts have been dealt with. Any substantial conflicts of interest to which a Member of the Supervisory Board is subject and which are not temporary should lead to termination of membership of the Supervisory Board.

### **Examination of Efficiency**

The Supervisory Board of SURTECO SE will review the efficiency of its activities on a regular basis.

## **TRANSPARENCY**

All new facts made known to financial analysts and similar addressees shall be disclosed to the shareholders by the company without delay. The company's treatment of all shareholders in respect of information shall be equal.

Punctual and consistent information is provided by means of ad hoc communications and press releases. SURTECO SE publishes quarterly and annual reports in German and English within the scope of regular reporting.

All shareholders and other interested parties are able to request the publications of SURTECO SE or have themselves entered on the electronic circulation list. In addition, all publications and press releases are made available on the home page of the company. All important dates for publications and events are also published here (financial calendar). The Internet site has a user-friendly structure. All information is also published in German and English.

At 31 December 2016 2,000 shares (2015: 2,000) of the company were held directly and indirectly by the members of the Board of Management and 238,577 shares (2015: 238,577) were held directly and indirectly by members of the Supervisory Board.

## **ACCOUNTING AND AUDITING**

The consolidated financial statement and the consolidated management report are the main source of information for shareholders and third parties. During a business year, they are kept up to date through regular interim reports. The accounts are drawn up at the SURTECO Group pursuant to the accounting regulations of the International Financial Reporting Standards (IFRS). The annual financial statements of SURTECO SE are prepared in accordance with the German Commercial Code (HGB).

The Annual Financial Statements are drawn up by the Board of Management and audited by the auditor and by the Supervisory Board. The Supervisory Board appoints the auditor and makes the financial arrangements with the auditor for remuneration. The auditor participates in the deliberations of the Supervisory Board relating to the annual financial statements and consolidated financial statements and reports on the main results of the audit. Independently of the audit, the auditor should report immediately on all significant findings and circumstances relevant to the functions of the Supervisory Board which are revealed by the audit. The Supervisory Board audits and approves the annual financial statements and the consolidated financial statements.