

REPORT OF THE SUPERVISORY BOARD

Fiscal year 2018

[INDUS]

Dear Shareholders,

I would like to take this opportunity to inform you of the Supervisory Board's work over the past fiscal year.

COOPERATION BETWEEN THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

In the year under review the Supervisory Board diligently fulfilled its duties under applicable law and the company's Articles of Incorporation. The Supervisory Board continually advised the Board of Management, supervised its management of the company, and ensured that all actions taken were legal and proper and served their intended purpose. The Board of Management fulfilled its informational duties at all times and regularly, promptly and comprehensively informed the Supervisory Board, both in writing and orally, of all issues relating to strategy, planning, business performance, risk exposure, risk development, and compliance that were of material importance to the company and the INDUS Group. This included information concerning the straying of actual developments from previously reported goals and of actual business developments from the originally communicated planning.

The members of the Supervisory Board always had sufficient opportunity to critically review, in their committees and plenary sessions, the reports and proposed resolutions presented by the Board of Management and to introduce suggestions of their own. This kept them informed of current business performance and asset development at all times. Matters to which the Supervisory Board devoted its attention included, in addition to financial, investment, and personnel planning, the company's risk exposure and risk management. Where necessary due to the law, the Articles of Incorporation or the rules of procedure, the Supervisory Board provided approval on a case-by-case basis for specific business transactions. Between board meetings, the Supervisory Board Chairman also engaged in an intensive exchange of information and ideas with the Board of Management and kept himself informed of significant company developments.

MEETING FREQUENCY AND ATTENDANCE

In fiscal year 2018 six ordinary Supervisory Board meetings were held up to the extraordinary Annual Shareholders' Meeting on November 29, 2018. The Board of Management attended five of these meetings. In addition, three extraordinary telephone conferences took place.

Following the extraordinary Annual Shareholders' Meeting on November 29, 2018, a constituent meeting was held of the newly elected, equally represented Supervisory Board, now consisting of twelve members. The extraordinary Annual Shareholders' Meeting elected Jürgen Abromeit, Dr. Jürgen Allerkamp, Dr. Dorothee Becker, Isabella Pfaller, Helmut Späth and Carl Martin Welcker to the Supervisory Board as shareholder representatives. The Local Court of Cologne appointed Dorothee Diehm, Pia Fischinger, Gerold Klausmann, Wolfgang Lemb, Sergej Schönhals and Uwe Trinogga to the Supervisory Board effective November 29, 2018, as requested by the company, because the election of employee representatives to the Supervisory Board had not been performed as of the day of the extraordinary Annual Shareholders' Meeting. The request for the court appointments was based on nominees already decided upon through the employee election process. The election process for selecting employee representatives to the Supervisory Board was completed on January 30, 2019, with the meeting of delegates.

At the Supervisory Board constituent meeting held directly following the extraordinary Annual Shareholders' Meeting on November 29, 2018, Jürgen Abromeit and Wolfgang Lemb were elected as Chairman and Deputy Chairman of the Supervisory Board, respectively. Members and a chairman were elected for the Mediation Committee in accordance with Section 27 (3) of the Codetermination Act, and members and chairmen were also elected for the Audit Committee, the Personnel Committee and the Nomination Committee. Details on the composition of the committees can be found on p. 9 of the "Management Bodies" chapter.

The Supervisory Board regards its individualized disclosure of participation in meetings of the full

Supervisory Board and of its committees as an element of good corporate governance.

SUPERVISORY BOARD MEETINGS AND WORK OF THE COMMITTEES IN THE 2018 FISCAL YEAR

	PARTICIPATION	IN %		PARTICIPATION	IN %
Supervisory Board (until 11/29/2018)			Supervisory Board (from 11/29/2018)		
Helmut Späth	6/6	100	Jürgen Abromeit	1/1	100
Dr. Jürgen Allerkamp	6/6	100	Wolfgang Lemb	0/1	0
Dr. Ralf Bartsch	6/6	100	Dr. Jürgen Allerkamp	1/1	100
Dr. Dorothee Becker	6/6	100	Dr. Dorothee Becker	1/1	100
Prof. Dr. Nadine Kammerlander	6/6	100	Dorothee Diehm	1/1	100
Carl Martin Welcker	6/6	100	Pia Fischinger	1/1	100
Personnel and Nomination Committee (until 11/29/2018)			Personnel and Nomination Committee (from 11/29/2018)		
Helmut Späth	4/4	100	Gerold Klausmann	1/1	100
Dr. Jürgen Allerkamp	4/4	100	Isabella Pfaller	1/1	100
Dr. Dorothee Becker	4/4	100	Sergej Schönhals	1/1	100
Audit Committee (until 11/29/2018)			Audit Committee (from 11/29/2018)		
Dr. Jürgen Allerkamp	2/2	100	Helmut Späth	1/1	100
Dr. Ralf Bartsch	2/2	100	Uwe Trinogga	1/1	100
Prof. Dr. Nadine Kammerlander	2/2	100	Carl Martin Welcker	1/1	100

Please note: no committee meetings were held between 11/29/2018 and 12/31/2018.

Between board meetings, the chairman of the Supervisory Board and the chairman of the Audit Committee engaged in an intensive exchange of information and ideas with the Board of Management, ensuring that the Supervisory Board, as the controlling body, was included in all fundamental decisions. There were no indications that members of the Supervisory Board or Board of Management had conflicts of interest, which must be promptly disclosed to the Supervisory Board and of which the Annual Shareholders' Meeting is to be informed.

MAIN TOPICS OF THE MEETINGS

Main topics of the **first meeting, on March 22, 2018**, were the submission and clarification of the annual financial statements for 2017 of the AG and the Group as well as the resolutions taken. The Supervisory Board discussed the Audit Committee's submissions regarding the development of the financial position, the financial statement accounting for Swiss pension plans according to IFRS, the development of the currency result and the appro-

priate consideration of the focal points specified by the German Financial Reporting Enforcement Panel. At the Audit Committee's recommendation and after thorough exchanges with the external auditor, Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne, the Supervisory Board approved the annual financial statements and the consolidated financial statements for the fiscal year 2017.

The Board of Management informed the Supervisory Board of the main investment targets in the past year, provided information on the annual risk management and compliance reports, and the economic position of the INDUS Group as of February 2018. The Board of Management also reported on the progression of the ongoing status proceedings at the Higher Regional Court of Düsseldorf. The Supervisory Board approved the dividend proposed by the Board of Management and the agenda suggested by the Board of Management for the Annual Shareholders' Meeting on May 24, 2018.

Regarding complementary additions, the Board of Management reported on the successful acquisition of ELECTRONIC EQUIPMENT B.V. by AURORA Konrad G. Schulz GmbH & Co. KG on January 25, 2018, and OFA Bamberg GmbH's planned takeover of activities at a retail company for medical aids in Southern Germany.

The Supervisory Board held a **second ordinary meeting on May 23, 2018**, the day before the Annual Shareholders' Meeting. The Supervisory Board dealt in depth with the report concerning business developments in the months from January to April 2018 at this meeting. The Board of Management reported on developments regarding the two repositioning projects in the Metals and Automotive Technology segments and clarified the Forecast I for portfolio companies, which was based on the results in March 2018. The Board of Management also reported on the progression of the ongoing status proceedings at the Higher Regional Court of Düsseldorf.

The Supervisory Board had already approved the acquisition of a renowned supplier of high-quality air conditioners before the meeting via a circulatory written ballot. The Board of Management informed the Supervisory Board in the meeting of the successful signing on the day of the meeting.

As the Chairman of the Board of Management Jürgen Abromeit gave notification of his intention to leave the Board of Management on June 30, 2018, the Supervisory Board resolved to appoint Dr. Johannes Schmidt as Chairman of the Board of Management from July 1, 2018, in line with the recommendation of the Personnel and Nomination Committee.

The **third ordinary meeting** took place on **June 17, 2018**. The decision of the Higher Regional Court of Düsseldorf dated June 4, 2018, in the pending status proceeding, was one of the main topics. The Court dismissed the company's appeal against the decision of the Regional Court of Cologne dated April 28, 2018, deciding that the INDUS Holding AG Supervisory Board had to include equal representation. The Board of Management informed the Supervisory Board of both the court ruling and the necessary steps to be implemented. To prepare for the election of the Supervisory Board, the Supervisory Board members made the decision to reject full fulfillment of the gender ratio within the mean-

ing of Section 96 (2) (1) of the Stock Corporation Act (AktG). This means that the gender ratio of the equally represented Supervisory Board must be fulfilled separately by the shareholder representatives and the employee representatives to the Supervisory Board.

The Supervisory Board also dealt with the current status of the search for a fourth Board of Management member, launched in May 2018, to fill the vacant position for a Board member responsible for technology and innovation as swiftly as possible.

In the **fourth ordinary meeting, on September 13, 2018**, the Board of Management reported to the Supervisory Board on the financial performance of the INDUS Group in the first seven months of fiscal year 2018, the current status of both repositioning projects and the development of the Automotive Technology segment as a whole. Taking into consideration the current Forecast II for the portfolio companies, the Board of Management confirmed the annual outlook for the whole of 2018.

Following personal interviews with the candidates and discussions among the full Board, the Supervisory Board resolved to appoint Dr. Jörn Großmann as the fourth member of the Board of Management, effective January 1, 2019, in line with the recommendation of the Personnel and Nomination Committee, and completed the employment contract.

The Supervisory Board also prepared for the extraordinary Annual Shareholders' Meeting on November 29, 2018. The legal firm Kanzlei Luther Rechtsanwaltsgesellschaft mbH, Köln, invited to attend the meeting, outlined the changes that would need to be made to the Articles of Incorporation, particularly in light of the equal representation on the Supervisory Board in future. Following an in-depth discussion, the Supervisory Board resolved to present the new version of the company's Articles of Incorporation at the Annual Shareholders' Meeting. The Supervisory Board also reported on the nomination of the candidates for shareholder representatives on the Supervisory Board that would be suggested for election at the extraordinary Annual Shareholders' Meeting. In light of the fact that the election process for employee representatives to the Supervisory Board would only be complete on January 30, 2019, with the planned meeting of delegates, the Board of Management informed the Supervisory Board of the

option of court-appointed employee representatives to the Supervisory Board.

The main topic of the **fifth ordinary meeting, on October 5, 2018**, and the three **telephone conferences on October 10 and 26, 2018, and November 1, 2018**, was the nomination of candidates to be presented for election to the extraordinary Annual Shareholders' Meeting as shareholder representatives to the Supervisory Board. The Board of Management were not involved with the meeting or the telephone conferences.

The **last ordinary meeting of the year on November 29, 2018**, directly before the extraordinary Annual Shareholders' Meeting, focused on the updated outlook for the 2018 fiscal year and planning for 2019. In this meeting, too, the Board of Management reported to the Supervisory Board on the ongoing repositioning projects in the Automotive Technology and Metals Technology segments, and the reasons for below-expectation development in other portfolio companies in the Automotive Technology segment. The Board of Management explained the details behind the recognition of non-cash impairments mainly on goodwill in the amount of approx. EUR 16 million in the fourth quarter of 2018, as communicated in the ad-hoc release dated November 20, 2018, and presented the end-of-year forecast for the 2018 fiscal year, including impairment, which was based on the actual figures from September 30, 2018. In the discussion that followed, the Board of Management considered the details of the planning process. The Supervisory Board adopted the annual planning without changes.

Another topic at the meeting was the preparations for the extraordinary Annual Shareholders' Meeting that was taking place the same day. The Board of Management and the Supervisory Board also submitted an updated declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG), which is publicly available on the company's website.

The constituent meeting of the newly appointed, equally represented Supervisory Board with its twelve members, was held directly following the extraordinary Annual Shareholders' Meeting on **November 29, 2018**. At this meeting Jürgen Abromeit was elected as Chairman of the Supervisory Board and Wolfgang Lemb as Deputy Chairman.

WORK OF THE COMMITTEES

The main task of the Supervisory Board committees is to prepare decisions and topics for the complete Board's sessions. Decision-making powers may be transferred to the committees for this purpose insofar as the law permits. The chairmen of the committees reported to the Supervisory Board regularly and in detail on their committees' work. In the past year, two committees met in the constellation that applied until November 29, 2018. The new committees composed in the constituent meeting of the Supervisory Board on November 29, 2018, only began their committee work in 2019. The personnel make-up of the committees is presented in the Annual Report under the heading "Management Bodies".

The **Audit Committee** met twice in the 2018 fiscal year: on **March 22, 2018, and May 23, 2018**. Taking part in the meetings, in addition to members of the Board of Management, were representatives of Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne. The external auditor declared to the Audit Committee that there were no facts or circumstances present that would constitute grounds for assuming a lack of impartiality on his part. The Audit Committee obtained the external auditor's Statement of Independence as required, verified his qualifications, entered into the remuneration agreement and established the focus of the audit. The main topics of the consultation were the 2017 annual financial statements, review of the 2017 risk management and compliance report, development and adoption of an external auditor guideline for the individual and consolidated financial statements and the issue of IT security.

In the 2018 fiscal year, the **Personnel and Nomination Committee** prepared personnel decisions for the Supervisory Board in **three meetings on March 20, 2018, May 23, 2018, and August 22, 2018**, and in **two additional telephone conferences on August 29 and 31, 2018**. Where necessary, decisions were made or resolutions to be taken were recommended to the Supervisory Board. The focal points of the meetings were in particular – in connection with Jürgen Abromeit's decision to leave the Board of Management – the preparation of a suggestion for the appointment of a successor for the position of Chairman of the Board of Management effective July 1, 2018, and the search for another

suitable candidate as fourth member of the Board of Management. Another important topic was the nomination of candidates to represent shareholders on the new Supervisory Board from November 29, 2018. In addition to other contractual business, the committee dealt with Supervisory Board compensation and the compensation system concept, particularly as it regards setting compensation and bonuses. Details regarding compensation for the Supervisory Board members can be found in the remuneration report.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018

The accounting and law firm of Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne, appointed auditor of the separate and consolidated financial statements by resolution at the Annual Shareholders' Meeting of May 24, 2018, audited the annual financial statements, the consolidated financial statements and the combined management report of the Group and of INDUS Holding AG pursuant to the Supervisory Board's instructions. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The external auditor provided the annual financial statements with an unqualified audit certificate. The auditor also confirmed that the risk management system complied with the provisions of law, and that there are no identifiable risks that might jeopardize the company as a going concern. As planned, the interim financial reports were not audited.

Annual financial statements, consolidated financial statements and the combined management report, along with the external auditor's audit report were presented to all members of the Supervisory Board in good time, as was the non-financial group management report. These were discussed in detail at the Supervisory Board meeting held on March 22, 2019, for adoption of the financial statements. This meeting was attended also by the external auditor Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne, which reported on the main results of the audit and remained available to answer additional questions. The Supervisory Board discussed all of the submissions and audit reports in depth.

Following the final review of the documents submitted and the recommendations of the Audit Committee, the Supervisory Board raised no objections to the annual financial statements, the consolidated financial statements or the combined management report, and agreed with the external auditor's findings. The Supervisory Board thus approved the 2018 annual financial statements and the 2018 consolidated financial statements. The annual financial statements for 2018 have therewith been adopted in accordance with Section 172 (1) of the German Stock Corporation Act (AktG). Following its review of the proposal, the Supervisory Board concurred with the Board of Management's proposed appropriation of distributable profit. The Supervisory Board also reviewed the separate non-financial group management report. To form its opinion, it drew on the review performed by the external auditor, Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Cologne. The Supervisory Board raised no objections to the separate non-financial group management report.

The Supervisory Board members Dr. Ralf Bartsch and Prof. Dr. Nadine Kammerlander absolved of her duties from the Supervisory Board with the end of the extraordinary Annual Shareholders' Meeting. The Supervisory Board would like to thank them for their committed cooperation.

The Supervisory Board would also like to thank the managing directors and all employees of the portfolio companies as well as the Board of Management and all employees of INDUS Holding AG for the extraordinary dedication they have displayed in the past fiscal year.

Bergisch Gladbach, March 22, 2019



On behalf of the Supervisory Board,
Jürgen Abromeit
Chairman