

Report of the Supervisory Board

Dear Sir or Madam,

Earnings generated by the Semperit Group in 2017 are not satisfying – even considering the burdens due to the very volatile raw material prices at the beginning of 2017. In addition to the restrained operational business development, the year was also characterised by numerous one-off effects. The positive one-off effect from the termination of almost all joint business activities with the Thai joint venture partner Sri Trang was up against several negative one-off effects. In total, EBITDA and EBIT increased, but earnings after tax remained negative. The Supervisory Board has drawn a conclusion from the unsatisfying performance and has reorganised the Management Board. Under the new management, the Management Board discussed the issue with the Supervisory Board in autumn 2017 and hence initiated an analysis and transformation process for the entire Group.

The **Supervisory Board** held eight meetings during 2017, fulfilling its duties required by law and the company's statutes. The meetings focused primarily on business performance, the reorganisation of the Management Board, the discussion of opportunities for the further strategic development of the group as well as the discussion on and resolution for key business events and measures.

The Management Board reported to the Supervisory Board on the development of business on a monthly regular basis. Prior to Supervisory Board meetings, detailed written documents about the group were made available. Beyond the meetings, the Management Board reported regularly to the Chairman of the Supervisory Board and his deputies on the business development and the group's situation.

In four meetings held during the business year, the **Audit Committee** dealt in particular with the 2016 annual and consolidated financial statements, risk management, the internal control system (ICS), internal auditing, the compliance organisation, corporate governance and the preparation for the 2017 audit of the annual and consolidated financial statements.

The **Remuneration Committee** held thirteen meetings dealing particularly with the following issues: the performance review talks for 2016 and the agreement of targets of the Management Board members for 2017, the remuneration model for newly appointed Management Board members, the termination agreements with Management Board members, the monitoring of the execution of the employment agreements of the Management Board as well as the bonus system for blue-collar and white-collar workers.

The **Nominating Committee** held five meetings to deal with the definition of qualification profiles for Management Board members, the appointment procedure for Management Board positions, the selection process for board members and the preparation of the nomination of board candidates as well as the Talent Development and Succession Planning Process, the assessment of candidates for the Executive Committee and succession planning for the Management Board within the company.

The **Strategy Committee** held no meetings in 2017 due to the newly started corporate transformation. Instead, a separate Supervisory Board meeting with a focus on strategy was held in the first quarter of 2018.

The **Committee for the Profit Improvement Programme** held seven meetings and dealt primarily with the monitoring of the project for the sustainable increase of the operational results in the Sempermed segment as well as the improvement of operational results in the Sempertrans, Semperform and Semperflex segments. Since the subjects treated in the Strategy Committee and the Committee for the Profit Improvement Programme are of central importance for the entire Supervisory Board, they will be discussed and decided in the entire Supervisory Board from now on. Therefore, these two committees were dissolved in February 2018.

The **Committee for Urgent Issues** did not hold any meetings.



Veit Sorger,
Chairman of the
Supervisory Board

The now dissolved **Joint Ventures Committee** held one meeting, at which it dealt with the termination of almost all joint venture activities with the partner Sri Trang Agro-Industry Public Co Ltd. in Thailand.

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, was appointed to serve as the auditor of the financial statements and consolidated financial statements for the 2017 fiscal year. The financial statements and consolidated financial statements of Semperit AG Holding were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, which issued an unqualified audit opinion. The management report and the group management report are in accordance with the financial statements and consolidated statements.

In its meeting held on 17 March 2018, the Audit Committee of the Supervisory Board dealt in particular with the annual financial statements, the consolidated financial statements, the group management report, the corporate governance report, the sustainability report and the auditor's report. Moreover, the Committee discussed the results of the audit in detail with the auditor. On the basis of its own audit, the Audit Committee concurred with the auditor's results and reported them to the Supervisory Board. Based on the efficient auditing process for the consolidated financial statements of 2017, the Audit Committee recommended to the Supervisory Board to propose to the Annual General Meeting the reappointment of Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, as auditor for 2018.

The Supervisory Board has examined the annual financial statements, the consolidated financial statements, the management report, the group management report, the corporate governance report and the sustainability report, and concurs with the conclusions of the auditor. The Supervisory Board formally approves the annual financial statements for 2017, which are consequently adopted in accordance with Section 96 (4) of the Austrian Stock Corporation Act. The Corporate Governance report, the sustainability report, the management report and consolidated financial statements for 2017 have been approved by the Supervisory Board. The Supervisory Board follows the recommendation of the Audit Committee and proposes to the Annual General Meeting to reappoint Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, for auditing 2018.

The Supervisory Board accepts the Management Board's proposal on the distribution of profits. Due to the transformation phase, no dividend payment to the shareholders will be proposed.

I am convinced that the implemented measures allow Semperit to equal the performance of previous years.

After almost 14 years and 10 years as Chairman of the Supervisory Board and on behalf of the entire Supervisory Board, I would like to thank the Management Board and all members of the staff for their commitment in the past year and wish the best for the coming decades. I would also like to thank the shareholders and customers of the Semperit Group for the confidence they have placed in us.

Vienna, 15 March 2018

Veit Sorger m.p.

Chairman of the Supervisory Board