

## **VERBIO Vereinigte BioEnergie AG**

### **Corporate governance declaration and corporate governance report for the financial year 2016/2017 (from July 1, 2016 to June 30, 2017)**

**Corporate governance report by the Management and Supervisory Boards pursuant to Section 3.10 of the German Corporate Governance Code and § 289a German Commercial Law (Handelsgesetzbuch – HGB)**

The work of the management and supervisory bodies of VERBIO Vereinigte BioEnergie AG (VERBIO) is based on ethical principles and on individual responsibility for behaviour, and is driven in accordance with the principles of responsible, transparent and value-driven corporate governance. In doing so, the management and supervision of the Company are designed to ensure the Company's long-term success, to be achieved by following sustainable value added policies. The Company follows the appropriate legal obligations and the recommendations of the German Corporate Governance Code (Deutscher Corporate Governance Kodex – DCGK) in its current revised version. In addition to issuing internal Group guidelines, which provide details of the application of corporate governance principles, VERBIO communicates about the development of the Company's business in a transparent, comprehensive and timely manner.

#### **Management and Supervision of the Group**

VERBIO is a Company constituted under German law. A basic requirement of German stock corporation law is the application of the dual management system. Under this system the Management Board is responsible for the management of the Company and the Supervisory Board has a supervisory function. VERBIO has a Management Board consisting of four members, and a Supervisory Board consisting of three members. In addition, a replacement member of the Supervisory Board has been specified. VERBIO's Management and Supervisory Boards have a close and trusting working relationship and their objective is to increase the value of the Company for its shareholders on a sustainable basis

#### **Management Board**

The Management Board of VERBIO consists of four members who manage the Company with the objective of creating sustainable value added. The Management Board does this under its own responsibility and in the interest of the Company; this also applies to the determination of corporate objectives and strategies. The Management Board develops the Company's strategic plan, agrees this with the Supervisory Board, and is responsible for its implementation. It discusses the progress of its implementation with the Supervisory Board on a regular basis. In addition, it is responsible for the appropriate management of risks and risk controlling, as well as meeting obligations set out by law and by internal guidelines, and takes measures to ensure they are respected by Group companies (compliance).

In making appointments to management positions the Management Board pays attention to diversity in a manner consistent with the needs and the industrial sector structure of the Company. A target of 25 percent was set by the Management Board for female participation in the first management level on September 21, 2015, to be achieved by June 30, 2017. This target has been achieved. It was not necessary to set a quota for female participation in the second management level as VERBIO acts in a purely holding company function with a flat management structure, so that there is only one relevant management level with personnel and management responsibility below the Management Board. In its meeting on June 20, 2017 the Management Board extended its resolution beyond its expiry date of June 30, 2017, extending it for a further five years up until June 30, 2022.

The Supervisory Board has provided the Management Board with internal rules of procedure which describe the responsibilities of the members of the Management Board, the scope of the responsibilities assigned to the Management Board as a whole, the required majority votes necessary to approve Management Board resolutions, as well as a catalogue of transactions requiring prior approval. The catalogue of transactions which require prior approval includes decisions and measures which have a significant effect on the net assets, financial position or results of operations of the Company, as well as transactions between VERBIO group companies and members of the Management Board or their related persons or entities. The normal retirement age set out in the internal rules of procedure for members of the Management Board is 67 years of age. No current members of the Management Board exceed this limit.

The Management Board usually meets every fourteen days. All significant decisions and measures are discussed at these meetings. Resolutions are approved with a simple majority of actual votes cast. In the event of a tied vote, the Chairman of the Management Board shall have the casting vote.

The Management Board provides the Supervisory Board with regular and comprehensive information in management reports and meeting papers, both orally and in writing, about the Company's situation, regarding company strategy and the implementation thereof, and about business planning and the course of business, including the Company's financial situation and profitability as well as concerning risk positions, the management of risks and compliance issues. When significant events occur the Chairman of the Supervisory Board informs the Supervisory Board, and if necessary an extraordinary meeting of the Supervisory Board is convened. The Chairman of the Management Board and the Chairman of the Supervisory Board are in regular contact between the dates of the meetings held by the Supervisory Board.

## **Supervisory Board**

The VERBIO Supervisory Board consists of three members in accordance with the Company's articles of association. The task of the Supervisory Board is to appoint the Members of the Management Board, to supervise their management of the Company and to advise them in their management role. The Supervisory Board has established internal rules of procedure, which are based on both the legal requirements as well as the recommenda-

tions of the DCGK. Detailed information on the work of the Supervisory Board in the financial year 2016/2017 is included in the Report from the Supervisory Board (AR 2016/2017).

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, manages their meetings and is responsible for external matters concerning the Supervisory Board. Within reason, he is available to enter into discussions with investors concerning specific issues concerning the Supervisory Board.

The Supervisory Board is required to take account of diversity when making appointments to the Management Board, and to set a target for female participation. The Supervisory Board is of the opinion that VERBIO's success is evidence that the current management team has proved itself. The current members of the Management Board have been appointed to office until December 31, 2020. There has been and continues to be no question of changing the composition of the Management Board for the sole purpose of increasing the female participation rate. There is also no question of VERBIO increasing the size of the Management Board in order to meet a quota for female participation. In view of the successful work performed by the current Management Board and under consideration of the remaining term of their service contracts the Supervisory Board does not, at the current time, see any practical necessity or legal possibility of improving the female participation in the Management Board. Also, in future the Supervisory Board wishes to continue to select the candidates, male or female, who possess the necessary qualifications and personal integrity and who, in its opinion, are most suited to the position, irrespective of their gender. Accordingly, at its meeting held on September 21, 2015, the Supervisory Board set a target for female participation in the Management Board up until June 30, 2017 at zero, indicating its intention to maintain the status quo. In its meeting on May 8, 2017 the Supervisory Board extended its resolution beyond its expiry date of June 30, 2017, extending it for a further five years up until June 30, 2022.

The members of the Supervisory Board have the required knowledge, skills and professional experience to be able to carry out the work assigned to them. The current election period of the Supervisory Board ends at the end of the annual general meeting which approves the activities of the Board for the financial year 2019/2020. Elections to the Supervisory Board are conducted on an individual basis. The members of the Supervisory Board ensure that they have sufficient time available for the performance of the duties expected of them. The Supervisory Board obtains assurances that candidates for new election presented to the annual general meeting as potential members of the Supervisory Board have sufficient time available for the performance of the duties expected of them.

The Supervisory Board set a target of 33 percent female participation in the Supervisory Board at its meeting held on September 21, 2015, with an implementation period up to and including June 30, 2017. As the Supervisory Board already consists of one female and two male members, this target has already been met. In its meeting on May 8, 2017 the Supervisory Board extended its resolution beyond its expiry date of June 30, 2017, extending it for a further five years up until June 30, 2022.

The Supervisory Board has established independence rules as part of its internal rules of procedure. None of the members of the Supervisory Board has a private or business relationship with VERBIO or its management bodies which could give rise to a conflict of inter-

est. Further, none of the members of the Company's management bodies is a member of the management of, or has accepted an advisory function with, a significant competitor to VERBIO. VERBIO has no controlling shareholder whose relationship with a member of the Supervisory Board could endanger his or her independence. Accordingly, all members of the Supervisory Board are sufficiently independent.

The Supervisory Board examines the efficiency of its work on a regular basis. The last examination was performed in the financial year 2015/2016 in line with the planned cycle.

The members of the Supervisory Board are individually responsible for taking part in further education and training, with appropriate support from VERBIO.

The Supervisory Board has approved the service agreement between the Company and Ulrike Krämer, extending the term of this agreement until June 30, 2018. In addition to the performance of her duties as a member of the Supervisory Board, she will support VERBIO during ongoing external tax audits. Ulrike Krämer abstained from voting on this resolution.

#### **Independence of board members**

Potential conflicts of interest can be avoided in advance by ensuring that members of the Supervisory and Management Boards disclose any possible conflicts of interest to the members of the Boards as a whole, abstain from involvement in relevant matters, and abstain from votes on resolutions on such subjects.

Claus Sauter and Bernd Sauter, both members of the Management Board in the reporting period, held office as the director of companies with which VERBIO has commercial relationships. The transactions with these companies were entered into on terms and conditions consistent with those of third parties. VERBIO is of the opinion that these activities do not affect the independence of Claus Sauter and Bernd Sauter as members of the Management Board.

The remaining members of the Management Board and natural persons related to them have not entered into any significant transactions with VERBIO or its subsidiary entities. Transactions with companies related to members of the Management Board were conducted in accordance with standards typical in the industry and are disclosed in full in the Notes to the consolidated financial statements 2016/2017 in section 11.2 "Disclosures concerning related persons and entities".

The members of the Management Board only accept secondary employment after receiving the prior approval of the Supervisory Board. No members of the Management Board have held a position in the financial year 2016/2017 as a member of a Supervisory Board of a third party company listed on a stock exchange, or in a supervisory committee of a third party company with a similar role.

### **Share dealings of members of the Management and Supervisory Board (director's dealings)**

In accordance with Art. 19 of the European Market Abuse Directive (Marktmissbrauchsverordnung – MAR) persons with management responsibilities, as well as those closely related to such persons, are subject to notification and disclosure requirements requiring them to disclose to the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and to the Company any purchases and sales of shares in the Company, or of instruments based on such shares, when the sum of such transactions amounts to or exceeds the amount of EUR 5,000. Such transactions are made public by VERBIO in accordance with the applicable statutory requirements.

The transactions reported for the financial year just ended can be viewed using the following link: <https://www.verbio.de/investor-relations/corporate-governance/directors-dealings/>.

The total interests attributable to all members of the Management and Supervisory Boards are presented in the annual report 2016/2017 in the section "The VERBIO share".

### **Transparency in communications**

Our communication with the capital market is aimed at ensuring that all target groups are provided with comprehensive information, on an equal and timely basis, on the development of the Group and the acts of corporate government, thereby providing the best possible quality of valuation-relevant information. We provide details of regular events such as the date of the annual general meeting or the date of publication of financial reports in the form of a financial calendar, which is published in the annual report, in the half-year reports, in quarterly statements and on the Company's website.

Shareholders and other interested parties can also inform themselves about current developments at the Group by referring to our internet website. All editions of Corporate News and the ad hoc reports issued by VERBIO AG are available at [www.verbio.de](http://www.verbio.de) in both German and English on a timely basis, within the time frame recommended by the DCGK. The Company's articles of association can also be accessed on the website together with the annual reports, half-year financial reports, quarterly statements and company presentations.

Announcements made by VERBIO are published in the Federal Gazette, as required by law. The annual financial statements are published annually in September, and presented at a financial reporting press and analysts' conference. In addition, the VERBIO management hosts individual meetings with analysts and investors.

### **Annual general meeting**

VERBIO's shareholders exercise their rights at the Company's annual general meeting, which is hosted by the Chairman of the Supervisory Board in accordance with the Company's articles of association. The ordinary annual general meeting is held once annually. The

annual general meeting is responsible for resolutions concerning certain issues which are binding on VERBIO and on all its shareholders. Shareholders can exercise their voting rights at the annual general meeting either personally, by appointing a power of attorney of their choice, or by instructing a proxy appointed by the Company to vote on their behalf in accordance with their instructions. Each share entitles its holder to one vote. All shareholders are entitled to participate in the annual general meeting, to comment on the respective agenda matters, and to request information on VERBIO's affairs to the extent that it is necessary in order to make an assessment of a matter included on the agenda.

VERBIO publishes the invitation to the annual general meeting, all documents relevant for the meeting agenda, and reports and information needed for the resolutions in accordance with the relevant company law requirements. In addition, these documents are made available on the Company's website; the voting results are also published on the website following the completion of the annual general meeting.

### **Financial loss and liability insurance**

VERBIO has entered into financial loss and liability insurance (known as D&O insurance) for the benefit of the members of the Management and Supervisory Boards. In accordance with legislation, the excess (or deductible) to be borne by members of the Management Board is 10 percent of the damages incurred, limited to one and half times the fixed annual remuneration of the respective members of the Management Board. An appropriate excess is agreed for members of the Supervisory Board in accordance with the recommendations of the DCGK.

### **Own shares**

VERBIO does not hold any of its own shares at the balance sheet date.

Under a shareholders' resolution approved at the annual general meeting of shareholders held on January 24, 2014, the Management Board is authorised, subject to the approval of the Supervisory Board, to acquire own shares of up to 10 percent of the share capital (EUR 63,000 thousand). This approval, which is valid until January 23, 2019, may not be used for the purpose of trading in the Company's own shares.

### **Remuneration report**

VERBIO explains the amounts and structure of the remuneration payable to members of the Management Board in the remuneration report, which is part of the audited Group management report 2016/2017.

On January 29, 2016 the annual general meeting of VERBIO resolved that the details of the remuneration and other agreed and paid benefits of each member of the Management Board shall not be disclosed for a period of five years, i.e. for the annual financial state-

ments for the financial years from 2015/2016 to 2019/2020 (inclusive), either in the Company's annual financial statements or in the consolidated financial statements. Accordingly, the remuneration report does not include disclosure of the remuneration attributable to individual members of the Management Board.

The total amounts of remuneration payable to the members of the Management Board are disclosed in section 11.4 of the Notes to the consolidated financial statements, "Executive bodies and executive remuneration".

### **Supervision and risk management system**

Continuous and systematic management of commercial opportunities and risks is of fundamental importance in ensuring VERBIO's professional corporate governance. It enables the early identification of risks, as well as their evaluation and management of measures taken to manage those risks. The Management Board reports on existing risks and on their developments to the Supervisory Board on a regular basis.

VERBIO develops its risk management system further on an ongoing basis, amending it in response to the changing framework conditions. Detailed information on risk management is presented in the opportunities and risk report, which is included in the Group management report and which is subject to audit by the auditor of the financial statements. This includes the report on the internal control systems of the Company related to financial reporting, required by the Balance Sheet Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

In addition, VERBIO maintains an insider list as required under Art.18 MAR. The affected persons are informed of their legal obligations under Art. 17 et seq. MAR and penalties in accordance with Articles 30 and 31 MAR.

### **Compliance**

Compliance with legal obligations and with the Group's internal rules and regulations is an essential basis of successful and sustainable business activities. It is intended to ensure that the Company, its management committees and its employees behave in accordance with the relevant legal requirements. The objective is to prevent employees and management from contravening laws and regulations, and to support them in applying the requirements of law and of internal regulations in a correct and proper manner.

VERBIO places a high value on having a group-wide compliance structure which is binding on all employees and members of management, and which is subject to an ongoing improvement process. The compliance activities are focussed on cartel legislation, corruption and fraud prevention, and data protection.

The compliance officer coordinates and manages the implementation of compliance measures, reporting directly to the Chairman of the Management Board. The compliance committee is responsible for consensus-building, for enabling an exchange of experience,

and for the ongoing development of the structures needed for an effective compliance management system. The committee consists of the compliance officer and the heads of the individual departments who are responsible for their specific subject area on an independent basis.

VERBIO works to improve the compliance programme on an ongoing basis in order to address the demands and compliance risks arising from the change in the business and regulatory environment, the Group's global business activities and the development of the business in an effective and appropriate manner.

The Management and Supervisory Boards are informed about the status of developments of the compliance programme on a regular basis, including the associated measures taken to communicate the issues, training programmes and the revision of existing rules of conduct.

### **Financial reporting and audit**

The consolidated financial statements and the interim consolidated reports are prepared in accordance with International Financial Reporting Standards (IFRS). The annual statutory financial statements of VERBIO are prepared in accordance with the German Commercial Law (Handelsgesetzbuch – HGB). The annual financial statements of VERBIO and the Group's consolidated financial statements have been audited by the Company's auditor and approved and adopted, respectively, by the Supervisory Board. The consolidated financial statements are published within ninety days of the end of the financial year, and half-year financial reports and interim statements are published for public inspection within forty-five days of the quarter end.

The annual general meeting held on January 27, 2017 approved the proposal made by the Supervisory Board to appoint KPMG AG Wirtschaftsprüfungsgesellschaft, Leipzig as auditor for the annual financial statements and the consolidated financial statement for the financial year 2016/2017. The auditor reports to the Supervisory Board without delay on significant findings made during the audit of the financial statements. KPMG confirmed its independence in writing to the Supervisory Board on September 19, 2016. In addition, the auditor is required to inform the Supervisory Board and to report in its audit report on any findings revealed in the course of performing its audit which indicate any inaccuracy in the declaration of conformity issued by the Management and Supervisory Boards in accordance with § 161 AktG. No such findings arose during the audit for the financial year 2016/2017.

### **Declaration of conformity**

The government commission appointed by the German Justice Minister in September 2001 approved the German Corporate Governance Code on 26 February 2002; the code has been provided with a legal basis through the declaration of conformity pursuant to § 161 of the Stock Corporation Act (AktG).

The German Corporate Governance Code is intended to make the rules governing corporate governance and supervision in Germany transparent for national and international investors, in order to increase the trust in the management of German companies.

Under § 161 AktG the Management Board and the Supervisory Board of VERBIO Vereinigte BioEnergie AG are obliged to issue an annual declaration of conformity with the recommendations of the Government Commission on the German Corporate Governance Code.

The current declaration of conformity is published on the Company's website ([www.verbio.de](http://www.verbio.de)) together with the declarations of conformity for the last five years.

The Management Board and the Supervisory Board of VERBIO Vereinigte BioEnergie AG have issued the following declaration of conformity in their meeting on September 22, 2017:

### **Wording of the Declaration of Conformity**

"The Management Board and the Supervisory Board of VERBIO Vereinigte BioEnergie AG (VERBIO) hereby declare, in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG), that VERBIO has met and will in future continue to meet the recommendations of the 'Governmental Commission on the German Corporate Governance Code' announced by the Federal Ministry of Justice in the official section of the German Federal Gazette in the version dated February 7, 2017, with the following exceptions:

**Section 4.1.3** of the DCGK recommends that a whistle-blower system be established as part of a Company's Compliance Management System. In the opinion of the Company, the disadvantages of such a system outweigh the advantages it confers. In addition, a whistle-blower system is not appropriate for the Company in view of the manageable scale of the Company and its flat hierarchical structure. Should there be indications of contraventions of law, VERBIO employees are able to speak to the compliance officer or compliance representatives in confidence, or to speak to members of the Management Board in person.

**Sections 4.2.4 and 4.2.5** of the DCGK recommend the disclosure of the total remuneration of each member of the Management Board, including the name of the respective member and the split of the remuneration in fixed and variable elements. In the Company's view, the advantages of such disclosure for the general public and for shareholders are not of such significance that the associated disadvantages – including the impact on the privacy of the individual members of the Company's corporate boards – should be disregarded. In accordance with the "opt-out" resolution approved at the shareholders' meeting held on 29 January 2016, the remuneration of the Management Board has been disclosed in accordance with the legal requirements. Accordingly, in accordance with the legal requirements, the disclosures made in the annual and consolidated financial statements for the financial years 2015/2016 to 2019/2020 (inclusive) do not include an analysis of the remuneration by individual Management Board members. The disclosures recommended under section 4.2.5 sentences 5 and 6 of the DCGK will not be made for as long as the opt-out resolution of the shareholders' meeting is in force. Accordingly, the remuneration report does not include disclosure of the remuneration attributable to individual members of the Management Board.

**Section 5.1.2** of the DCGK provides that the Supervisory Board gives attention to diversity in the composition of the Management Board. Furthermore, according to **Section 5.4.1** of the DCGK the Supervisory Board must specify concrete objectives regarding its composition which, while considering the specifics of the Company, take into account the Company's international activities, potential conflicts of interest, the number of independent members of the Supervisory Board, an age limit to be specified for membership of the Supervisory Board, and a regular limit of length of membership to be specified for the members of the Supervisory Board, as well as diversity. The Company's opinion is that these criteria are not adequate grounds for making a difference to the appointment of Management Board members and the election of Supervisory Board members. The Company considers that when making appointments to the Management Board, the Supervisory Board should pay primary attention to the competence and qualification of the candidates. The objective of increasing diversity in the Management Board should be of secondary importance. The composition of the Company's Supervisory Board should be determined based on the interests of the Company and should ensure the Management Board is provided with effective supervision and advice. Accordingly, candidates for election proposed at the annual general meeting are selected by the Supervisory Board based on their technical competence and experience; again, increasing diversity should be of secondary importance.

In addition, **Section 5.1.2** of the DCGK provides that the Supervisory Board sets targets for the proportion of positions on the Management Board to be held by women. It is not planned to set targets for women to hold positions on the Management Board when making appointments. The Supervisory Board considers it to be appropriate to make appointments to the Management Board based on the personality and competence of the candidate. For this reason it does not support a quota for women based on equal opportunity grounds only. Appointments to fill these positions should be made independent of the gender of the candidate so that no advantages or disadvantages accrue either to men or women.

**Section 5.3** of the DCGK recommends that the Supervisory Board should establish committees. The Company's Supervisory Board has not, and also will not in future, establish committees. The Company's Supervisory Board comprises only three persons, who have the required knowledge and professional experience to be able to carry out the work of the Supervisory Board effectively without the establishment of committees. As there are no committees, there is no additional remuneration paid to members of Supervisory Board committees, the disclosure of which is recommended in Section 5.4.6 (1) (2) of the DCGK.

**Section 5.4.1 (2)** of the DCGK recommends that the Supervisory Board should prepare a profile of skills and expertise for the entire Board. The members of the Supervisory Board are selected based on the expertise needed when making appointments to that position. The Supervisory Board is of the opinion that skills and expertise in certain specific subject-matters are required. On the other hand, given the size of the Company and the size of the Supervisory Board, it is of the opinion that it is not advisable to adhere to the use of fixed definitions of required skill sets. The use of fixed definitions of formal required skill sets could prevent the Company from making sensible appointments to the Supervisory Board in individual cases.

The recommendations made in **Section 5.4.1 (5 - 7)** of the DCGK concerning the disclosure of particular facts and circumstances relating to election proposals to be put forward to

the shareholders' meeting concerning candidates for the Supervisory Board are not precise and the limits and scope of such recommendations are not specific. The Company is of the opinion that compliance with the statutory disclosures required under § 124 (3) (4) of the German Stock Corporation Act (Aktiengesetz – AktG) and § 125 (1) (5) AktG already provide the information needed by shareholders. The Supervisory Board will comply with all the statutory disclosure requirements provided by law concerning members of the Supervisory Board when presenting candidates to the shareholders' meeting, and will introduce the candidates at the meeting. In addition, shareholders have the opportunity to put questions to the candidates at the shareholders' meeting. In the opinion of the Supervisory Board this provides solid information which is sufficient to make a judgement on proposed candidates. To ensure that there is no uncertainty concerning the legal position when conducting future elections to the Supervisory Board, the Management and Supervisory Boards have made a decision to state that the Company will vary this recommendation.

In accordance with **Section 5.4.6 (1) (2)** of the DCGK, the positions of Chairman and Vice-Chairman of the Supervisory Board and the position of Chairman of committees and membership of such committees should be reflected in the remuneration paid to Supervisory Board members. In contrast to the function-specific, significantly higher workload of the Chairman of the Supervisory Board, the workload of the Vice-Chairman does not differ significantly from the workload of the other members. Accordingly, no additional remuneration is paid to the Vice-Chairman of the Supervisory Board."

VERBIO Vereinigte BioEnergie AG

Leipzig, September 22, 2017

For the Supervisory Board

Alexander von Witzleben  
Chairman of the Supervisory Board

For the Management Board

Claus Sauter  
Chairman of the Management Board