

## **Report of the Supervisory Board 2017**

Dear Shareholders,

In fiscal 2017, the Supervisory Board of Pfeiffer Vacuum Technology AG correctly fulfilled all the duties vested in it by law, the Articles of Association and the Supervisory Board's rules of procedure. It monitored the work of the Management Board within the scope of its legal duties, accompanied and advised on the strategic further development of the Company and satisfied itself about the legality and expediency of the managerial work on the basis of the Management Board's reports. Furthermore, the Supervisory Board continuously monitored the organization of the Company and Corporate Group and the cost-effectiveness of corporate management. In addition, a regular exchange of information took place between the Supervisory Board and/or the Supervisory Board chairman and the Management Board.

### **Cooperation between Supervisory Board and Management Board**

In the view of the Supervisory Board, the Management Board informed the Supervisory Board and/or the Supervisory Board chairman regularly, comprehensively and in a timely manner about the competitive environment, planned business policy and all strategic and crucial operational decisions in the course of the past fiscal year. In the same way, the Management Board discussed key financial figures with the Supervisory Board as a basis for evaluating the economic situation of the Company.

The Management Board reported during Supervisory Board meetings in oral or written form and replied within this setting to questions from the Supervisory Board. Outside of the meetings, the exchange of information with the Supervisory Board was also ensured with regular reports on the economic development of the Company and the Corporate Group and on the key occurrences within Pfeiffer Vacuum Technology AG. The Supervisory Board is satisfied that Management Board reporting met the statutory and Supervisory Board's requirements.

In fiscal 2017, business transactions requiring approval were decided by the Supervisory Board and, under certain conditions, also by individual committees, after these had adequately reviewed and discussed the issues with the Management Board.

### **Personnel changes in Supervisory Board and Management Board**

With effect from October 25, 2017, both Dr. Michael Oltmanns (up until then chairman of the Supervisory Board) and Dr. Wolfgang Lust stepped down from the Supervisory Board by resigning from their office.

Ayla Busch was appointed as new member of the Supervisory Board with effect from October 26, 2017 by the Local Court of Wetzlar and was then elected as chairwoman of the Supervisory Board by the members.

With effect from March 19, 2018, Henrik Newerla was appointed as new member of the Supervisory Board by the Local Court of Wetzlar.

In the Management Board, the previous Chief Executive Officer Manfred Bender was recalled for good cause with effect from November 27, 2017. The Supervisory Board appointed Dr. Eric Taberlet as his successor with effect from November 27, 2017. Furthermore, the Supervisory Board appointed Dr. Ulrich von Hülßen with effect from August 1, 2017 and Nathalie Benedikt with effect from November 27, 2017 to the Management Board. Nathalie Benedikt assumes the role of Chief Financial Officer (CFO). This appointment fulfills the requirements of good corporate governance with regard to the exercise of departmental responsibility for finances in a role that is separate from the chairmanship of the Management Board.

With the appointment of Ayla Busch on October 26, 2017, this was the first time that a woman was appointed to the Supervisory Board and, moreover, was elected as Supervisory Board chairwoman. Until March 19, 2018, the Supervisory Board recorded a 20 % proportion of women; from this date on, the percentage is 16.7 %. On the Management Board of the Company, with the appointment of Nathalie Benedikt, the proportion of women is 25 % as of November 27, 2017.

### **Supervisory Board meetings and issues of Supervisory Board work**

During 2017, the Supervisory Board informed itself about the current situation of the Company and the Corporate Group in a total of 20 meetings and discussed this in detail with the Management Board.

The meetings on January 9, February 14, March 22, May 12, May 23, June 21 and August 1, 2017 focused on the corporate acquisitions made in Europe and the U.S. in the year under review. Other issues were the new construction of the production location in Cluj, Romania, and the overreaching global production strategy – Global Footprint. The focus of discussions during the first half-year were the acquisition of additional equity in Dreebit GmbH in Dresden and the acquisitions of Advanced Test Concepts, Inc. in Indianapolis, Indiana, USA, as well as of Nor-Cal Products Holdings, Inc. in Yreka, California, USA. A total of five of these seven meetings attended by all members of the Supervisory Board were held in the form of a telephone conference.

At the meetings held on January 26, February 24, March 6, March 31, April 3, April 11, April 13, April 19 and April 25, 2017, the Supervisory Board dealt with the voluntary takeover bids from Pangea GmbH and particularly focused on evaluating the bid documents, the wording of the responses and the fairness opinions of the financial advisors engaged. All of these meetings were held in the form of a telephone conference. All members of the Supervisory Board were present at these nine meetings.

During the telephone conference meetings held on May 26 and September 15, 2017, the Supervisory Board addressed the issue of extending the term of office of the Management Board member Dr. Matthias Wiemer and the contract of employment of the former Chief Executive Officer Manfred Bender. Here, also, all members attended the meetings.

At the meetings on March 22, May 23, August 1, October 26 and November 27, 2017, the Board dealt with the general course of business, financial results and the strategic orientation of the Company, measures for continuing to boost profitability and efficiency of the overall company and evaluation of analyses of the consequences in connection with the application of IFRS 15 from the year 2018. All members attended these meetings.

At the meeting on October 26, 2017, the Supervisory Board also dealt with budget planning for the year 2018 and the Management Board's schedule of responsibilities. The final consideration of the Management Board's schedule of responsibilities took place in the meeting on November 27, 2017.

At the meeting on October 26, 2017, the Supervisory Board also deliberated on the Compliance Management System and the Compliance Organization of the Company. It was decided to review the Compliance Management System by an independent appraiser. Due to the results, an enhancement and adaptation of the Compliance Management System is currently taking place with external support.

### **Supervisory Board Committees**

The Supervisory Board in its composition up to and including October 25, 2017 established four committees:

- a Management Board Committee,
- an Administration Committee,
- a Nomination Committee and
- an Audit Committee.

The Supervisory Board also decided in its meeting on October 26, 2017 to dissolve the Administration Committee in order to strengthen teamwork within the Supervisory Board. Measures and business that are subject to approval will in future require the consent of all members of the Board.

After the Supervisory Board members Dr. Michael Oltmanns and Dr. Wolfgang Lust resigned on October 25, 2017 and Ayla Busch joined the Supervisory Board on October 26, 2017, special elections were held, with the result that the composition of the remaining committees from October 26, 2017 is as follows:

#### **Management Board Committee**

- Ayla Busch (chairwoman)
- Filippo Th. Beck
- Götz Timmerbeil

#### **Nomination Committee**

- Ayla Busch (chairwoman)
- Filippo Th. Beck
- Götz Timmerbeil

#### **Audit Committee**

- Götz Timmerbeil (chairman)
- Filippo Th. Beck
- Ayla Busch

The Management Board Committee held its first meeting on May 22, 2017. In this meeting, the Supervisory Board focused principally on the extension of contract and re-appointment of Dr. Matthias Wiemer as well as the enlargement of the Management Board mid-year to include Dr. Ulrich von Hülsen. In its meeting on November 26, 2017, the Management Board committee dealt with the preparation of the overall Supervisory Board meeting held on November 27, 2017 in which, among other things, the former Chief Executive Officer Manfred Bender was recalled for good cause. All meetings of the Management Board Committee were attended by every member.

The first meeting of the Administration Committee in the year under review was held on April 22, 2017. At this meeting, the joint statement of the Management Board and Supervisory Board concerning the voluntary takeover bid by Pangea GmbH was discussed in detail, in consultation with the attorney Dr. Thomas Zwissler from the law firm Zirngibl Rechtsanwälte. At the meeting on May 22, 2017, the Administration Committee dealt with the consulting

services provided for the Company since the year 2010 by the law firm Menold Bezler (of which the former Supervisory Board chairman Dr. Michael Oltmanns is a partner). All members took part in all meetings of the Administration Committee.

The review of the individual Annual Financial Statements and the Consolidated Financial Statements for the fiscal year 2016 took place in the Audit Committee meeting on March 22, 2017. A further meeting was held on November 27, 2017. The Audit Committee was in regular contact with the auditor and discussed and decided upon the audit procedure, the focus of the audit and any special questions about the audit with the independent auditor. The Audit Committee consulted intensively with the auditor in connection with the explanations on the legality, regularity and expediency of the statements and the critical assessment of the concept and risks. All members attended all meetings of the Audit Committee.

No meetings of the Nomination Committee were held in the fiscal year 2017.

### **Corporate Governance**

The Supervisory Board recognizes the principles of good governance and also addressed this issue in fiscal 2017. An essential basis for this is the extensive recognition of the recommendations of the German Corporate Governance Code (GCGC) based on the version of February 7, 2017. This does not preclude deviating from the GCGC recommendations in individual justified cases. As a listed company, Pfeiffer Vacuum Technology AG is subject to the obligation under § 161 (1) of the German Stock Corporation Act ("AktG") to declare the extent to which the recommendations of the German Corporate Governance Code have been and will be complied with, or which recommendations have not been or will not be applied, and to justify deviations from recommendations (statement of compliance). The Management Board and the Supervisory Board defined a statement of compliance on October 26, 2017 (amended with Supervisory Board resolution of January 24, 2018), which can be accessed on the Company's website. At the same time, the efficiency audit of the Supervisory Board was conducted diligently on the basis of extended criteria, compared to previous years, in the meeting held on October 26, 2017.

The members of the Supervisory Board of Pfeiffer Vacuum Technology AG are obliged to disclose to the Supervisory Board any possible conflicts of interest, in particular those which could arise through consulting or executive functions at customers, suppliers, lenders or other third parties. With the exception of commissioning the law firm Menold Bezler in connection with the takeover bid by Pangea GmbH, of which company the former Supervisory Board chairman Dr. Michael Oltmanns is a partner, there were no indications of actual or potential conflicts of interest in the fiscal year 2017.

### **Audit of Annual and Consolidated Financial Statements**

In accordance with the resolution of the Annual General Meeting on May 23, 2017, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Eschborn, Germany, was commissioned to audit the Annual Financial Statements of the Company and the Company's Consolidated Financial Statements, with the latter being prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the financial statements of the Company's subsidiaries where prescribed by law. Pursuant to § 315e of the German Commercial Code ("HGB"), consolidated financial statements presented in accordance with the rules of the German Commercial Code were not prepared.

The auditor introduced to the Audit Committee the determined audit focus areas. The key audit matters for the audit of the Consolidated Financial Statements were (i) the acquisition of Nor-Cal Products Holdings, Inc., (ii) the recoverability of goodwill and (iii) the accounting and valuation of current and deferred taxes. For the audit of the Annual Financial Statements, the recoverability of equity investments and loans to affiliates were a key audit matter. The Audit Committee agreed to the audit focus areas and key audit matters as determined by the auditor and had no further amendments.

The Annual Financial Statements and Management's Discussion & Analysis as well as the Consolidated Financial Statements presented in accordance with IFRS, together with the Management's Discussion & Analysis, all for the 2017 fiscal year and all of which prepared by the Management Board, were audited by the independent auditor and received his unqualified endorsement.

The Annual Financial Statements, Management's Discussion & Analysis for the Company and the Corporate Group, as well as the audit reports from the independent auditor were submitted to all members of the Supervisory Board in a timely fashion. They were discussed in detail at the Audit Committee meeting as well as at the Supervisory Board meeting relating to the financial statements on March 20, 2018. The independent auditor attended both meetings, reported on the major findings of his audit and was available to answer additional questions from the Supervisory Board. In particular, the progress of projects and the contents of the report on „non-financial performance“ and „non-financial declaration of the Group“ (NFE) to be published for the first time for the fiscal year 2017 were discussed in detail between the auditors and the Supervisory Board. The review and confirmation of the availability of the NFE by the auditor is the subject of a separate meeting of the Audit Committee prior to the publication of the report on April 30, 2018. The Supervisory Board will inform about the findings of the review on the occasion of the report to the Annual General Meeting on May 23, 2018. On the basis of its own thorough review, the Supervisory Board concurred with the results of the audit conducted by the independent auditor. Given the concluding results of its review, the Supervisory Board raised no objections to the Annual and Consolidated Financial Statements. It has approved the Annual and Consolidated Financial Statements, with the Financial Statements thus being formally adopted. The Supervisory Board discussed in detail with the Management Board its proposal regarding the distribution of a dividend and then concurred with the Management Board's proposal regarding appropriation of the Company's retained earnings.

Additionally, the Management Board of Pfeiffer Vacuum Technology AG has drawn up a report on relationships with affiliated companies for the fiscal year 2017 („dependency report“), in accordance with § 312 Sub-Para. 1 of the German Stock Corporation Act („AktG“) and afterwards presented this report to the Supervisory Board.

Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Eschborn, has audited the dependency report and has issued the following audit opinion:

„According to our professional audit and judgment we confirm that

1. the actual disclosures in the report are correct and
2. the company's payment for legal transactions as included in the report was not inadequately high.“

The Management Board's dependency report as well as the related independent auditor's report were submitted to the Supervisory Board. The Supervisory Board reviewed both, the dependency report as well as the auditor's report. Final review was made in the Supervisory Board meeting on March 20, 2018. The independent auditor attended this meeting, reported on audit of the dependency report and the major findings of his audit and was available to answer additional questions from the Supervisory Board. After the final review the Supervisory Board concurred with the dependency report of the Management Board and the audit report of the auditor and had no objections against the final declaration of the Management Board at the end of the dependency report.

### **Acknowledgments**

The Supervisory Board would like to sincerely thank the Management Board in its present composition, the Employee Council and the entire staff of the Group for their dedication and commitment in the successful 2017 fiscal year.

### **Adoption of this Report**

The Supervisory Board adopted this Supervisory Board Report in the resolution dated March 20, 2018 pursuant to § 171 (2) of the German Stock Corporation Act ("AktG").

Aslar, March 20, 2018

On behalf of the Supervisory Board



Ayla Busch  
Chairwoman of the Supervisory Board