

# Supervisory Board Report

The year 2017 was a year of reorientation for the AIXTRON Group.

After the failed takeover by a Chinese investor who intended to finance the development of the entire product portfolio and the departure of Chief Executive Officer Martin Goetzeler, it was the task of the Supervisory Board was to define and initiate a strategic reorientation together with the Executive Board and appoint a new member of the Executive Board.

First of all, we decided that, in accordance with § 105 (2) of the German Stock Corporation Act (AktG), I would temporarily assume the duties of CEO and CFO. For the duration of my assignment, Prof. Wolfgang Blättchen, Deputy Chairman of the Supervisory Board, was elected to the chairmanship of the Supervisory Board and other Supervisory Board members were elected to my functions in the committees of the Supervisory Board.

A primary task was to align AIXTRON's technology portfolio and related expenses with the generated margins. The Supervisory Board supported Dr. Schulte's and my activities to actively and vigorously pursue the reorientation of the company. The objective was to return AIXTRON to sustainable profitability and success.

With the aim of returning to profitability in 2018, the Supervisory Board's deliberations focused on evaluating AIXTRON's product portfolio for market opportunities and prioritizing its development. This includes not only the freezing of development activities for III-V materials on silicon of future processor generations (TFOS) and the development activities for the thin-film encapsulation of organic materials (TFE), but also the sale of the ALD/CVD production line in the USA, which was announced in Q2/2017. With the aim of entering into a joint venture agreement, we have approved the outsourcing of AIXTRON OLED deposition technology to a separate company, APEVA SE.

On August 14th, 2017, Dr. Felix Grawert joined the AIXTRON Executive Board and the appointment of Dr. Bernd Schulte was extended until March 31st, 2021. I returned to my previous position as Chairman of the Supervisory Board of AIXTRON SE on September 1st, 2017.

Throughout the entire fiscal year 2017, the Supervisory Board, partly under my chairmanship and partly under the chairmanship of Prof. Dr. Wolfgang Blättchen, fully satisfied its responsibilities and duties as stipulated by law, the Articles of Association and by-laws.

## COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD

The Supervisory Board continuously monitored the Board of Management in its management activities and advised it on all matters of importance to the company, so that the Supervisory Board was assured at all times of the legality, regularity, suitability and efficiency of the company management.

The Supervisory Board was directly included in all decisions of fundamental importance for the company in due time. The Executive Board informed the Board regularly, promptly and comprehensively about the course of business, the corporate planning as well as the strategic development of the AIXTRON Group. In addition, the Supervisory Board regularly met with the Executive Board to discuss the risk situation, risk management and compliance in the company. On the basis of the Management's reports, the development of business and important events for the company were discussed in detail. The Supervisory Board approved the resolutions proposed by the Executive Board after thorough review and discussion.

The Supervisory Board did not make use of the option to inspect the books and documentation of the company (§111(2) German Stock Corporation Act (AktG)).

The cooperation with the Executive Board was marked in every respect by responsible and purposeful action. The Executive Board fully fulfilled its reporting obligations vis-à-vis the Supervisory Board both verbally and in writing.

As Chairman of the Supervisory Board, either I or Prof. Dr. Wolfgang Blättchen remained in contact with the Executive Board even beyond the Supervisory Board meetings. In addition to the current business situation and important business transactions, we particularly discussed strategic realignment issues.

## FOCUS OF THE DISCUSSIONS IN PLENARY SESSIONS

In 2017, the Supervisory Board held **four ordinary meetings** on February 22, May 8, September 20 and December 13, which all members of the Supervisory Board attended.

In preparation for these meetings, all members of the Supervisory Board received detailed quarterly reports on the company's situation and other information such as internal control reports, meeting minutes, company presentations, analyst reports, consensus estimates, press releases and AIXTRON's financial reports and financial statements. These are made available via an encrypted digital platform specifically set up for the Supervisory Board. On the basis of current financial figures, as well as updated forecast reports and development plans (orders, sales, competition, market shares), the Supervisory Board was able to form an adequate picture of the business situation during the meetings. Deviations of the business course from the established budget planning were explained and justified in detail.

As a result of the above-mentioned changes in the Executive Board and Supervisory Board, various resolutions were passed on rules of procedure and distribution-of-business plans. In addition, the Supervisory Board intensively discussed the optimization of the technology portfolio, including various options regarding the reorganization, sale, outsourcing and depreciation of certain areas.

In connection with various personnel and organizational decisions, **four extra-ordinary Supervisory Board meetings** were held on January 20, June 8, July 3 and December 12, partly as conference calls and with one exception with the participation of all Supervisory Board members. Dr. Martin Komischke was merely unable to attend the meeting on January 20, but gave his written consent to the Supervisory Board's resolutions.

### SUPERVISORY BOARD MEETINGS IN 2017

At an extraordinary meeting on **January 20, 2017**, we discussed the contract of Martin Goetzeler, Chairman of the Executive Board, which expired on February 28, 2017. During the meeting, Mr. Goetzeler informed us that he would leave the company for personal reasons at the end of his appointment on February 28, 2017. As a result, the Supervisory Board decided that Mr. Kim Schindelbauer would assume the functions of CEO and CFO as of March 1, 2017 until a successor is found. In this context, resolutions were passed on the provisional composition of the Supervisory Board and its committees.

The focus of the meeting on **February 22nd, 2017** was on the annual and consolidated financial statements for the 2016 financial year and the corresponding discussions and resolutions. In addition, we dealt with the present draft agenda of the Annual General Meeting 2017, which we approved after clarifying outstanding issues. In addition, my appointment to the Executive Board and the appointment of Professor Dr. Blättchen as Chairman of the Supervisory Board to fulfill the position I held in the Supervisory Board and its committees were decided, among other things.

At the meeting on **May 8th, 2017**, which was a combined meeting with the Technology Committee, the Supervisory Board, with a view to realigning the technology portfolio, heard various speeches by those responsible from the following fields of technology: opto- & power electronics, carbon nanotubes and battery technology, storage technology (ALD/CVD), processor technology (TFOS), thin-film encapsulation of organic materials (TFE) and OLED. We were also informed about the current status of the sales efforts of the ALD/CVD product line for memory chips.

At an irregular meeting held on **June 8th, 2017**, the Supervisory Board followed the Nomination Committee's proposal in the form of a conference call and resolved to appoint Dr. Felix Grawert as a member of the Executive Board.

At the irregular meeting on **July 3rd, 2017**, the 100th Supervisory Board meeting of AIXTRON SE, the contract extension of Dr. Bernd Schulte was decided by telephone conference. Furthermore, resolutions were passed with a view to the upcoming entry of Dr. Felix Grawert as a member of the Executive Board and my return to the Supervisory Board. The Supervisory Board discussed the Executive Board's proposal to transpose the AIXTRON OLED deposition technology to an independent company in order to enable a joint venture partner to participate in this technology. The adoption of the proposal and the related formation of two companies, APEVA SE, Herzogenrath and APEVA Co. Ltd., Korea were concluded.

At the ordinary meeting on **September 20th, 2017**, APEVA's management presented us with the business plan for the OLED activities of the German-Korean company. In addition, we were informed by the responsible managers about the status of the transaction for the sale of ALD/CVD activities in the USA. We were provided with an update on the business activities in China and in the field of innovation management. Regarding AIXTRON's obligation to report non-financial information as of fiscal year 2017, we have decided to publish a separate CSR report on our website in February 2018 at the same time as the annual business report. The content shall be audited by the auditing company Deloitte GmbH. Furthermore, retroactively as of July 1, 2017, we have set a new target figure of 16.7% for the proportion of women on the Supervisory Board. The ratio was left at 0% for the Executive Board.

On **December 12, 2017**, we held a special meeting on Corporate Governance.

The Supervisory Board of AIXTRON SE held its last ordinary meeting of the year on **December 13th, 2017**. Here, we discussed the budget for 2018 as submitted by the Executive Board in detail and approved it. The 2018 budget includes detailed sales, earnings, financial and investment planning as well as the planned personnel development of the AIXTRON Group, among other things. Finally, with the help of the comprehensive questionnaire distributed to the members of the Supervisory Board in September 2017, we underwent a self-evaluation of our activities, with the result that the Supervisory Board and its committees operate efficiently. We also approved the new distribution of responsibilities submitted by the Executive Board.

## COMMITTEES

The Supervisory Board currently has four committees, an Audit Committee, a Technology Committee, a Nomination Committee as well as a Capital Market Committee. They prepare resolutions and topics to be discussed in the plenary of the Supervisory Board.

The **Audit Committee** addresses, in particular, monitoring of the reporting, the accounting process, corporate governance & compliance, the effectiveness of the internal control system, the risk management system, the internal audit system and the final audit. The Chairman of the Audit Committee, Prof. Dr. Blättchen, is an independent Supervisory Board member whose area of expertise is reporting and audits (as required § 107 (4); §100 (5) AktG) and who has particular knowledge and experience in the application of internal control processes.

In the year under review, the Supervisory Board instructed the auditing firm Deloitte GmbH, as proposed by the Audit Committee, to audit the single-entity financial statements of AIXTRON SE and the consolidated financial statements as of December 31, 2017, to audit the Company's early risk detection system in accordance with § 91 (2) of the German Commercial Code. AktG, to prepare a "Management Letter", to carry out determinations in accordance with Section 7.2.3 of the German Corporate Governance Code and, in accordance with § 111 (2) AktG, to carry out the contextual audit of the non-financial group report to be prepared for 2017. In addition, the key audit matters (KAM), which must be mentioned for the first time in the audit opinion of the AIXTRON Annual Financial Statements and Consolidated Financial Statements for 2017, were determined.

The Audit Committee met four times in 2017 (February 22, May 8, September 19, December 12), with all three members of the committee attending. In addition to the above-mentioned tasks and quarterly accounting matters, it dealt with the following special topics, among others:

- Irregular write-offs of the TFOS development activities
- Providing the subsidiaries with liquidity
- Effects of the delisting in the USA on internal controls
- Conversion of the ADRs on the Genus Trust in AIXTRON's registered shares
- Evaluation of the declaration of independence and the "Management Letter" of the auditors
- Fulfilment of the obligation to report non-financial information
- Compliance Training Plan for 2017
- Internal audits 2017 and audit plan for the following year
- Information security - status and focus in 2017
- Accounting and auditing of the newly founded APEVA
- Expansion of the risk management and compliance to APEVA
- Tax audits, in particular at AIXTRON SE

The **Technology Committee** deals, in particular, with questions surrounding AIXTRON's market positioning in technology, patents, product planning (product roadmaps) and technology development as well as potential technology acquisitions or partnerships and other topics relating to diversification. In addition to the status reports for the future technologies from the areas of optoelectronics, power electronics and OLED, the focus of the Technology Committee's work was on the further development of specific products their critical assessment. The cooperation with an OLED display manufacturer, which was announced in April 2017, was also regularly discussed.

The Committee Chair, Prof. Dr. Denk, regularly reported on the activities of the Technology Committee in the plenary meetings. During 2017, the Technology Committee met in three sessions (February 22, September 19, and December 12) which all three members of the Committee attended. The May meeting was integrated into the plenary session as the presentations there were of great interest to all Supervisory Board members.

The **Nomination Committee**, consisting of three members under the chairmanship of Prof. Dr. von Rosen, provides proposals to the overall board in case a position needs to be filled. In doing so, it also takes into account its own targets defined in 2010 for the first time in its future composition as well as the renewed targets of the reporting year.

In 2017, the Nomination Committee met seven times, on January 19, February 21, May 8 and 22, June 2 and 8, and July 3. These meetings were all held in connection with the election of candidates, replacement, extension of contracts, the appropriate allocation of responsibilities within the Executive Board and the interim assignment, including the associated changes in the Supervisory Board and its committees.

The **Capital Market Committee** deals with M&A opportunities and strategy options with possible capital market relevance. It consists of two members who met in 2017 on January 16 and 30 as well as September 29. At these three meetings, the committee members discussed the future of ALD/CVD, TFOS, TFE and the future organization of the OLED division.

## CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board regularly follows the development of the Corporate Governance Standards and, together with the Executive Board, issues a joint **Corporate Governance Report**. We will continue to support the Executive Board in its efforts to remain in full compliance with the German Corporate Governance Code recommendations.

In the current **Declaration of Conformity** in accordance with § 161 AktG dated February 2018, full compliance with the recommendations of the German Corporate Governance Code, with the exception of the deviations stated, is certified.

No conflicts of interest were reported by the members of the Supervisory or Executive Board in the fiscal year.

## AUDIT AND ANNUAL FINANCIAL STATEMENT

Following the resolution passed at the Annual General Meeting on May 9, 2017, the Supervisory Board awarded the mandate to audit the Financial Statements of AIXTRON SE and the Consolidated Financial Statements of the AIXTRON Group for the 2017 fiscal year to the auditing company Deloitte GmbH, Düsseldorf.

The **subject of the audit** was also the Executive Board's measures aimed at an early detection of risks that could potentially jeopardize the performance and existence of the company, as well as the legal, proper and productive reporting of non-financial information in the Sustainability Report for 2017. It was also agreed that the auditor would have to inform the Supervisory Board or make a note in the audit report if, when performing the audit of the financial statements, the auditor ascertained facts which indicate that the declaration of conformity issued by the Executive Board and Supervisory Board in accordance with § 161 AktG was inaccurate. As in previous years, the auditors did not make note of any such findings for fiscal year 2017.

The Financial Statements of AIXTRON SE as of December 31, 2017 and the Management Report were prepared in accordance with the requirements of the German Commercial Code (HGB), while the Consolidated Financial Statements as of December 31, 2017 and the Group Management Report were prepared in accordance with Section 315a HGB on the basis of the International Financial Reporting Standards (IFRS). The independent auditing firm Deloitte GmbH audited the Financial Statements and the Consolidated Financial Statements as well as the non-financial group report of AIXTRON SE for fiscal year 2017. All three reports were given an unqualified audit opinion by the auditors. The auditors assert that the Management Reports of the company and the group present a true and fair account of the current business and future development of the company and the group. The audit team above, with the lead auditor Dr. Holger Reichmann, has been employed for the auditing of the accounts of AIXTRON SE since 2012.

The Annual Financial Statement documents (Annual Financial Statements of AIXTRON SE and the Consolidated Financial Statements as of December 31, 2017, including the Management Report of the company and the group), the non-financial group report and the audit reports by the auditors were submitted to the Audit Committee and the Supervisory Board for examination in a timely manner. We **examined these documents in detail**. The Annual Financial Statements of AIXTRON SE, the Consolidated Financial Statements, and the respective Management Reports as well as the non-financial group report were **discussed in detail** at the meeting of the Audit Committee and entire Supervisory Board on February 26, 2018, with due consideration given to the auditor's reports. The auditor, who participated in both the meeting of the Audit Committee as well as the meeting of the Supervisory Board, reported on the key audit results, which also covered the internal control and risk management system as they relate to the accounting process, and was available to answer any additional questions raised by the Audit Committee or Supervisory Board.

Following our own examination, we neither had objections to the non-financial group report nor to the Annual or Consolidated Financial Statements submitted. The Management and Group Management Reports matched our own assessment of the company's and group's situation. We fully concurred with the auditor's results and opinion and consequently, in a resolution passed on February 26, 2018, we approved the Annual Financial Statements and Consolidated Financial Statements of the company as well as the non-financial group report prepared by the Executive Board for fiscal year 2017. The Annual Financial Statements of AIXTRON SE are therefore **formally adopted**.

### Note of thanks from the Supervisory Board

On behalf of the Supervisory Board, I would like to thank the members of the Board and all employees worldwide for their hard work and constructive cooperation throughout the past fiscal year.

Herzogenrath, February 2018

AIXTRON SE



Kim Schindelhauer  
Chairman of the Supervisory Board