

# Declaration of Corporate Governance

## **Management and control structure – working practices of the Executive Board and the Supervisory Board**

As a European corporation (Societas Europaea – “SE”), FUCHS PETROLUB SE, with its registered office in Mannheim, is subject in particular to the provisions of the SE Regulation and of the German Stock Corporation Act (AktG), on the basis of which the German Corporate Governance Code was also developed. A basic principle in German stock corporation law is the two-tier board system with the Executive Board as a management body and the Supervisory Board as a monitoring and advisory body, each of which has independent responsibilities. This two-tier board system was also retained following the transformation into a SE. Sound corporate governance requires continuous further development of this two-tier board system, with all divisions being included.

## **Corporate Management by the Executive Board**

As a management body acting on its own responsibility, the Executive Board has a commitment to the company’s interests and to increasing the company’s enterprise value. The members of the Executive Board are jointly responsible for all management activities. Notwithstanding the overall responsibility of the Executive Board, the individual members of the Executive Board also manage the divisions assigned to them under their own responsibility within the scope of Executive Board resolutions. The Rules of Procedure govern the work of the Executive Board in more detail. The distribution of responsibilities among the individual members of the Executive Board is regulated by the schedule of responsibilities. For certain business processes – such as annual planning or major acquisitions – the company’s Articles of Association and the Rules of Procedure of the Executive Board stipulate the need for approval of the Supervisory Board.

The Executive Board makes decisions on fundamental issues of business policy, strategy and annual and multi-year planning. The Executive Board ensures appropriate risk and opportunity management in the company. It works towards compliance with legal provisions, official regulations and internal policies (compliance), taking diversity and the appropriate participation of women into account when filling management positions in the company.

The composition of the Executive Board and the allocation of duties within the Executive Board (organization of responsibilities, regions and divisions) are shown in detail in the section on [organization](#) on page 7 seq. of the annual report. The main features of the remuneration system and the individual remuneration of members of the Executive Board are described in the [compensation report](#) on page 68 seq.

The Supervisory Board is responsible for appointing the Executive Board in accordance with Section 84 AktG. It ensures long-term succession planning together with the Executive Board. The Supervisory Board has assigned responsibility for preparing decisions to the Personnel Committee. The size of the Executive Board is based on the requirements resulting from the division of work in the Executive Board.

As a global innovation-driven company in the lubricants industry, FUCHS PETROLUB SE's systematic management development and long-term succession planning for the Executive Board is geared towards

- the early identification of suitable candidates of different disciplines and varied professional and personal experience,
- proven strategic and operating creative drive, and
- a proven role model function as a manager in the implementation of the FUCHS mission statement.

However, the crucial factor for appointment to the Executive Board at FUCHS PETROLUB SE comes down to the assessment of the individual character. Overall, the composition of the Executive Board is expected to ensure comprehensive compliance with the duties required of the executive board of a listed company.

It must also be ensured that the Executive Board as a whole has the following profile in line with a diversity concept:

- years of experience in scientific, technical and commercial areas
- majority of the Executive Board has international experience due to background or professional activity
- at least one female member of the Executive Board (target until December 12, 2021: one female member)
- balanced age structure

In accordance with the recommendations of the German Corporate Governance Code , there is a standard age limit of 65 years.

All of the above criteria have been met.

### **Monitoring and advising of the corporate management by the Supervisory Board**

The Supervisory Board appoints the members of the Executive Board, and both advises and monitors the Executive Board in its management of the company. It is included in strategy and planning, and in all issues of fundamental importance for the company. The Chairman of the Executive Board maintains regular contact with the Chairman of the Supervisory Board. The continuous dialog between the Executive Board and Supervisory Board, which is based on mutual trust, forms an important foundation for success at FUCHS PETROLUB SE.

The Supervisory Board reaches its decisions through resolutions, which are passed by a simple majority of those members of the Supervisory Board participating in the vote. In the event of a tied vote, the Chairman has the casting vote.

The Supervisory Board at FUCHS PETROLUB SE is made up of four shareholder members, who are elected by the Annual General Meeting, and two members who are elected by the European Works Council (SE Works Council) of FUCHS PETROLUB SE, which represents the company's European employees.

The Supervisory Board at FUCHS PETROLUB SE must be composed in a way that ensures compliance with the duties of a listed company, in particular providing qualified advice to the Executive Board and the performance of the Supervisory Board's monitoring duties. Based on their knowledge, skills and specialist experience, integrity, motivation, independence and character, the candidates to be proposed for election to the Supervisory Board should be capable of performing the duties required of a member of the Supervisory Board at an international group operating in the lubricants industry and preserving the reputation of the FUCHS PETROLUB Group in the public. The Supervisory Board has set targets for its composition and regularly focuses on the issue for long-term succession planning.

Accordingly, the Supervisory Board as a whole must

- be familiar with the lubricants sector and its value chains,
- have the required knowledge, skills and specialist experience, which refer in particular to the management of an international company,
- have appropriate knowledge of finance, financial reporting, accounting, legal matters and compliance in addition to a member with expertise in accounting and auditing (financial expert),
- have experience in innovation, research and development, technology, start-ups and
- experience in the areas of human resources, society, communication, IT, digitalization and business models.

With the objective of maximum additional benefits, the Supervisory Board is striving for sufficient diversity in terms of character, in particular gender, internationality, professional backgrounds, specialist knowledge and experience, age distribution and independence:

- at least 30 % women or men (target for female members until December 12, 2021: 17 %)
- at least 50 % different education and professional experience
- at least 50 % international experience due to background or profession
- at least 30 % independent members

Furthermore, each individual member of the Supervisory Board should not usually be a member of the Supervisory Board for longer than 15 years and should not be older than 70 at the time of election.

Corporate co-determination at FUCHS PETROLUB SE in accordance with the agreement on the involvement of employees contributes to diversity in terms of professional experience and cultural background. Employee representatives for the Supervisory Board are appointed in accordance with the provisions of laws on the participation of employees in a European company. The Annual General Meeting is not permitted to select the employee representatives. For employee representatives, the fact of being an employee representative while also being an employee is not an impediment.

All the criteria of the diversity concept have been met.

The Supervisory Board has an appropriate number of independent members. In the Supervisory Board's opinion, Dr. Susanne Fuchs and Dr. Dr. h.c. Manfred Fuchs are not considered independent as they have a personal relationship with the company and its Executive Board and because they hold an appreciable number of shares in the company. By way of resolution of the Annual General Meeting of May 5, 2017, Dr. Susanne Fuchs was elected as a member of the Supervisory Board as the successor to Dr. Dr. h.c. Manfred Fuchs. Dr. Dr. h.c. Manfred Fuchs was a member of the Supervisory Board from 2004 until his resignation on May 5, 2017. In the opinion of the Supervisory Board, all the other five members of the Supervisory Board listed on page 7 are independent in accordance with item 5.4.2 of the Corporate Governance Code.

The term in office of the Supervisory Board is five years. The next term in office starts as of the end of the Annual General Meeting in 2020.

The composition of the Supervisory Board and its committees, the participation in meetings, as well as details on the work undertaken by the Supervisory Board in the reporting year are presented in more detail on pages 12 seq. of the annual report in the [Report of the Supervisory Board](#).

The main features of the remuneration system and the individual remuneration of members of the Supervisory Board are described on pages 68 seq. of the annual report in the [Compensation Report](#).

### **Targets for women in management positions**

In compliance with the law on equal participation of women and men in management positions in both the private and public sector, the Supervisory Board has specified the following minimum targets for the share of women on the Executive Board and the Supervisory Board until December 12, 2021: 17 % female members on the Supervisory Board, one female member on the Executive Board. Since the election of Dr. Susanne Fuchs as a member of the Supervisory Board, FUCHS PETROLUB SE has exceeded its target for the Supervisory Board (33 %). The target of one female member on the Executive Board has been achieved.

The Executive Board has defined the two management levels of FUCHS PETROLUB SE below the Executive Board as follows: The first management level comprises the members of the Group Management Committee and the

division leaders within FUCHS PETROLUB SE; the second management level is made up of the department heads of FUCHS PETROLUB SE. The Executive Board has specified targets for the percentage of women at these management levels as 10 % and 30 % respectively, each valid until December 12, 2021. The target for the percentage of women at the first management level was missed with 7 % as of the end of 2017; the target for the percentage of women at the second management level was achieved (30 %).

### **Committees of the Supervisory Board**

The Supervisory Board at FUCHS PETROLUB SE has formed three professionally qualified committees, which prepare and also supplement its work. The duties, responsibilities and work processes comply with the binding regulations of the German Stock Corporation Act (AktG) and are aligned with the requirements of the Corporate Governance Code.

The Personnel Committee and Audit Committee meet several times a year, while the Nomination Committee only convenes for meetings when these are necessary based on its allocation of duties. The respective Chairmen of the committees regularly report to the Supervisory Board on the work of the committees.

### **Shareholders and the Annual General Meeting**

FUCHS PETROLUB SE has issued both ordinary and preference shares. The holders of ordinary shares represented at the Annual General Meeting reach decisions on all tasks assigned to them by law such as appropriation of earnings, amendments to the Articles of Association, election of members of the Supervisory Board, approval of the Executive Board and the Supervisory Board, measures affecting the capital structure and selection of the auditor. Each ordinary share authorizes the holder to one vote. The Schutzgemeinschaft Familie Fuchs holds around 54 % of the ordinary shares. While the preference shares only grant voting rights in the cases prescribed by law, they grant the holders a preference right on the distribution of unappropriated profit and entitle them to an additional (preference) dividend.

The holders of ordinary and preference shares exercise their co-determination and control rights at the Annual General Meeting held at least once a year. In compliance with the legal conditions and those of the Articles of Association, every shareholder is entitled to participate in the Annual General Meeting. Shareholders who do not wish to or are unable to attend the Annual General Meeting in person can have their voting right exercised

by a voting representative (proxy), such as a bank, a shareholders' association or a voting representative appointed by the company, by granting an appropriate power of attorney.

The Annual General Meeting typically takes place in May. The reports, documents and information required by law to be submitted for annual general meetings, including the annual report, can be accessed on the Internet, where the agenda of the Annual General Meeting and any counter-motions or nominations by shareholders to be made public can also be found.

In accordance with the Articles of Association, the Chairman of the Supervisory Board chairs the Annual General Meeting. He determines the order in which proceedings are conducted as well as the type and form of voting. He is also authorized to limit the shareholders' rights to pose questions and to speak to a reasonable period of time.

## **Compliance**

The company understands compliance to mean observing rights, laws and the company's Articles of Association, adherence to internal rules and making voluntary personal commitments. The main guideline for the actions of all employees is observing applicable law. The management and employees are called upon without exception to observe applicable laws, directives and social standards within the scope of their duties, regardless of whether these are international or local regulations. Illegal conduct harbors the risk of damaging the company's image, weakening its market position and even causing financial harm.

The company has set up a Compliance Management System (CMS) for the prevention of the dangers and risks described above. The FUCHS Code of Conduct and the compliance guidelines are essential foundation of the CMS for complying with rules on competition in particular, and on preventing money laundering, corruption and bribery. The Code of Conduct and the compliance guidelines constitute a binding framework for the company to ensure lawful and socially ethical conduct. This is supplemented by information and training activities, a whistleblower portal including a compliance hotline for reporting criminal or antitrust violations, the systematic processing and appropriate sanctioning of compliance violations, regular compliance reporting and a special compliance audit performed by Internal Audit.

The CMS is implemented according to the individual Group structure by a corresponding central and local compliance organization. The Executive Board bears overall responsibility for the tasks relevant to compliance. Within the Executive Board, responsibility for compliance lies with the Chief Financial Officer (CFO). The Chief Compliance Officer (CCO) appointed by the Executive Board, a Compliance Committee and other compliance officers appointed by each subsidiary implement the compliance program together, manage and develop it further, and support and advise employees around the world. The Compliance Committee assists the CCO as an interdisciplinary work group and comprehensively bundles the expertise within the company for compliance management. In addition, it ensures the sharing of information between the central Group and specialist departments that mainly deal with compliance issues, monitors the processing and investigation of events relevant to compliance and proposes sanctions in the event of violations. A digital whistleblower portal gives all employees the chance to initiate a dialog with the Chief Compliance Officer, while remaining anonymous if so desired. The CMS therefore enables the company to eliminate the identified vulnerabilities and to learn from the findings. All employees are explicitly required to immediately report conduct and incidents relevant to compliance to the responsible officers.

### **Corporate Governance Guidelines**

The Articles of Association of FUCHS PETROLUB SE, all Declarations of Compliance, the FUCHS Code of Conduct, the Declaration of Corporate Governance and further documentation on corporate governance, such as the Anti-Corruption Directive, the Anti-Trust Directive or the FUCHS Sustainability Guide, can be called up on the company's website.

### **Commitment to sustainable, success-driven and value-oriented corporate governance**

Trust, creating value, respect, reliability, and integrity. These values are considered to be a benchmark for internal objectives and form the basis for individual actions. Trust, creating value, respect, reliability and integrity define the FUCHS mission statement. The mission statement expresses a common attitude on the part of management and thus provides a general guideline for acting responsibly. At FUCHS, the values are considered a benchmark for internal objectives and form the basis for individual actions.

The company has summarized its basic principles for sustainable activities in a comprehensive Sustainability Guideline. For further information on sustainability at FUCHS, please refer to the combined non-financial declaration and the sustainability report on the company's homepage under [www.fuchs.com/sustainabilityreport](http://www.fuchs.com/sustainabilityreport).

### **Opportunity and risk management**

Sound corporate governance also includes responsible handling of opportunities and risks by the company. The Executive Board ensures appropriate opportunity and risk management in the company. The Supervisory Board is informed regularly by the Executive Board of existing opportunities and risks, their development and any measures that have been taken in this regard. The Audit Committee, set up by the Supervisory Board, monitors the financial accounting process and examines the effectiveness of the internal control system, risk management system and internal audit system and the audit of the financial statements. The internal control system, the risk management system and the internal audit system are developed on an ongoing basis in line with changes in general conditions. Details on this can be found in the [opportunity and risk report](#) on pages 49 seq. in the annual report.

### **High transparency through comprehensive information**

FUCHS PETROLUB SE places great emphasis on keeping capital market participants up-to-date on the economic situation of the Group and key events through regular, prompt, uniform and comprehensive information. This reporting takes the form of an annual report, a half-year financial report and interim reports. All information can be viewed on the Internet at <https://www.fuchs.com/group/>. The website also features a financial calendar that contains the scheduled dates and times of all important events and publications.

Any reportable managers' transactions are published on the website under [www.fuchs.com/directorsdealings](http://www.fuchs.com/directorsdealings).

The Executive Board and the Supervisory Board are committed to the interests of the company. In making their decisions, they must not pursue any personal interests or business opportunities available to the company for their own personal gain. Any conflicts of interest must be declared to the Supervisory Board immediately. If

applicable, the Annual General Meeting must also be informed of conflicts of interest that have arisen and how they are being handled. There were no conflicts of interest in the reporting year.

### **Accounting and audit**

The consolidated financial statements and interim financial reports of FUCHS PETROLUB SE are prepared in accordance with the International Financial Reporting Standards (IFRS) in the way in which they are to be applied in the European Union. The statutory annual financial statements of FUCHS PETROLUB SE, relevant for the distribution of dividends are prepared in accordance with the provisions of the German Commercial Code (HGB). After being prepared by the Executive Board, the annual and consolidated financial statements, as well as the combined management report are audited by the auditor appointed at the Annual General Meeting and approved by the Supervisory Board on the basis of its own examination. The annual financial statements are then adopted.

It has been agreed with the auditor that he will inform the Chairman of the Supervisory Board or the Chairman of the Audit Committee immediately of any issues identified during the audit that might give rise to grounds for exclusion or bias in the auditor's report, unless these issues can be resolved immediately. The auditor must also report immediately on all findings or conclusions significant to the duties of the Supervisory Board that emerge in performing the audit. The auditor must also inform the Supervisory Board or rather make a note in the auditor's report if he detects any facts while performing the audit that suggest any part of the Declaration of Compliance submitted by the Executive Board and Supervisory Board in accordance with Section 161 AktG is inaccurate.

### **Information on the auditor**

Following the proposal of the Supervisory Board, the Annual General Meeting on May 5, 2017, elected KPMG AG Wirtschaftsprüfungsgesellschaft as auditor of the annual and consolidated financial statements of FUCHS PETROLUB SE for the financial year 2017. KPMG has been the auditor of FUCHS PETROLUB SE since the 1991 consolidated financial statements and the 1995 annual financial statements. The auditor responsible has been Hans-Dieter Krauß since the audit for the 2013 financial year.

In 2017, the Audit Committee of the Supervisory Board of FUCHS PETROLUB SE carried out a selection process for the appointment of an auditor for the FUCHS Group from the 2018 financial year onwards. At the end of this process, the Audit Committee submitted a report and recommended two audit firms to the Supervisory Board as the auditor for the separate and consolidated financial statements of FUCHS PETROLUB SE, and stated a preference for one of its two proposals with its reasons. The Supervisory Board adopted a relevant resolution in its December meeting and will propose PricewaterhouseCoopers GmbH as the auditor for the 2018 financial year at the Annual General Meeting on May 8, 2018.

## Declaration of compliance in accordance with Section 162 AktG

### **Declaration of Compliance 2017 of the Executive Board and the Supervisory Board of FUCHS PETROLUB SE in accordance with Section 161 AktG**

FUCHS PETROLUB SE complies with all recommendations of the German Corporate Governance Code dated February 7, 2017, published by the Federal Ministry of Justice on April 24, 2017 in the official section of the Federal Gazette, amended on May 19, 2017 and will continue to comply with them accordingly.

Since the last declaration of compliance dated December 13, 2016, FUCHS PETROLUB SE has complied with all recommendations of the German Corporate Governance Code as amended on May 5, 2015 and published by the Federal Ministry of Justice on June 12, 2015 in the official section of the Federal Gazette.

The declaration of compliance was made available on the company's website at [www.fuchs.com/declaration-of-compliance](http://www.fuchs.com/declaration-of-compliance) on December 11, 2017.