



# CORPORATE GOVERNANCE REPORT 2018

Excerpt from the Annual Report



## Corporate Governance Report including Corporate Governance Statement

The disclosures to be made within the framework of the Corporate Governance Statement in accordance with sections 289f para. 2 and 5, 315d Handelsgesetzbuch (HGB – German Commercial Code) do not form part of the annual audit pursuant to section 317 para. 2 sentence 6 HGB.

Transparent, responsible corporate governance and control aimed at long-term value enhancement are given high priority by GEA Group Aktiengesellschaft. In doing so, we align our actions with the generally accepted principles of corporate governance while implementing the suggestions and recommendations of the German Corporate Governance Code as amended on February 7, 2017 (published in the Federal Gazette on April 24, 2017) to the greatest possible extent.

### Declaration of Conformity

GEA Group Aktiengesellschaft complies with the recommendations of the German Corporate Governance Code (GCGC) as amended on February 7, 2017, and published by the Federal Ministry of Justice in the official section of the Federal Gazette and will continue to do so after issuing this Declaration of Conformity, in each case with the exception of the following deviations all of which relate to the remuneration of the members of the Executive Board. This Declaration of Conformity refers to November 15, 2018.

The Company has comprehensively revised its remuneration system for the members of the Executive Board in the fiscal year 2018. With effect from November 15, 2018, the company concluded a service agreement with Mr. Klebert, the newly appointed Executive Board member, which already complies with the revised remuneration system for Executive Board members (the “New Remuneration System”). In addition, the service agreements of the reappointed members of the Executive Board, Steffen Bersch and Niels Erik Olsen, which were renewed with effect from January 1, 2019, will be in line with the New Remuneration System. The other service agreements are still

based on the Executive Board remuneration system approved by the Annual General Meeting held in April 2012 (the “Old Remuneration System”). All service agreements to be concluded in connection with future first-time appointments or reappointments will implement the New Remuneration System.

Regarding the Old Remuneration System, the following deviation from the GCGC is declared:

- The recommendation set forth in section 4.2.3 para. 2 sentence 3 GCGC, which provides that variable remuneration components generally have a multiple-year assessment basis that shall have essentially forward-looking characteristics, is not complied with.

The multi-year variable remuneration granted to the members of the Executive Board under the Old Remuneration System comprises two components that are weighted and account for 20 and 40 percent of total variable remuneration, respectively. The assessment basis underlying the 40 percent component of multi-year variable remuneration takes into account the current as well as the two previous fiscal years and is, thus, not forward-looking. As a consequence, taken as a whole, the assessment bases governing multi-year variable remuneration do not have essentially forward-looking characteristics.

In addition, the following deviation from the GCGC is declared:

- For the period from November 15, 2018, to December 31, 2018, the recommendation set forth in section 4.2.3 para. 2 sentence 2 GCGC, which provides that monetary remuneration shall comprise fixed and variable components, is not complied with as regards the Executive Board service agreement concluded with Mr. Klebert.

Mr. Klebert was appointed as a member of the Executive Board with effect from November 15, 2018. The performance targets set in relation to the variable remuneration components in line with the New Remuneration System under Mr. Klebert’s service agreement will not apply until fiscal year 2019. For the transition period from November 15, 2018, to December 31, 2018, a target achievement level of 100 percent is assumed, which solely equals a fixed remuneration

for the respective period. Setting performance targets for such a brief period of time following his initial appointment was not considered to be reasonable by the Supervisory Board.

After issuing the previous Declaration of Conformity on December 15, 2017, until November 15, 2018, GEA Group Aktiengesellschaft complied with the recommendations of the GCGC as amended on February 7, 2017, and published by the Federal Ministry of Justice in the official section of the Federal Gazette, with the exception of the recommendation set forth in section 4.2.3 para 2. sentence 3 GCGC as outlined above.

Düsseldorf, December 19, 2018

For the Supervisory Board

Dr. Helmut Perlet

For the Executive Board

Jürg Oleas

Dr. Helmut Schmale

## Code of Conduct

The Code of Conduct of GEA Group Aktiengesellschaft stipulates that the group's business activities are to comply with all existing laws and high ethical standards. This Code of Conduct applies to all GEA employees and corporate bodies worldwide. It is supplemented by guidelines on individual topics, in particular anti-corruption, anti-trust and competition law as well as conflicts of interest. This Code of Conduct is supplemented by a Code of Conduct for Suppliers and Subcontractors that obliges these groups to adhere to key regulations and standards. In addition, there are general principles of social corporate responsibility ("codes of conduct") jointly agreed with the European Works Council; they lay down ethical, social and legal standards that are binding on all GEA employees. The Codes of Conduct and the general principles of social corporate responsibility constitute a globally applicable and uniform policy governing the areas of Quality, Health, Safety & Environment ("QHSE"). The Code of Conduct, the QHSE policy and further information are

published on GEA's website under Investors/Corporate Governance. For further information see page 109 of this Annual Report.

## Compliance

Compliance in terms of measures designed to ensure adherence to legal, statutory and internal corporate policies, as well as group companies' compliance therewith, is considered to be a key management and supervisory task at GEA. Group-wide compliance activities focus on the prevention of corruption and money-laundering, conflicts of interest, antitrust law as well as data protection. The Chief Compliance Officer coordinates and ensures the implementation of compliance measures, in particular in the aforementioned areas. In this capacity, he/she reports to both the Executive Board and the Audit Committee of the Supervisory Board. Moreover, the compliance organization is involved in processing any and all compliance incidents carrying the risk of criminal proceedings or a fine. The Chief Compliance Officer is assisted by the extended legal compliance organization and the internal audit department. Central legal compliance activities are bundled in the "Compliance & Principle Legal Matters" unit that forms part of the group's corporate legal department. Apart from that, the Business Area Compliance Officers, who also belong to corporate legal, support the compliance activities undertaken at operational business level. Each operating entity is assigned a Local Compliance Manager. In addition, further functions for the purpose of counselling and supporting the Chief Compliance Officer are involved, if need be. GEA's Compliance Management System has been audited by the auditing company KPMG regarding the suitability and implementation of its anti-corruption and anti-trust law subsections in accordance with the IDW PS 980 auditing standard. The audit was completed without any complaints.

In parallel to the compliance organization described above, GEA has a worldwide operational export control organization. Key export control activities fall within the remit of the Business Area Export Control Managers. Furthermore, each operating entity is assigned a Local Export Manager. Finally, a Quality, Health, Safety & Environmental (HSE) organization is in place to develop and implement group-wide guidelines, programs and procedures in this specific field.

The members of the compliance organization meet at regular intervals to discuss the latest developments and the potential impact of and/or need to supplement GEA's compliance program. Since December 1, 2014, GEA has in place the so-called Integrity System that was implemented on a global level. This Integrity System allows GEA employees and independent third parties to report suspected compliance infringements or violations of the GEA codes of conduct – the general principles of social responsibility – via an internet-based system. To the extent permitted by law, the individuals reporting a violation may remain anonymous, as the case may be. This anonymity is guaranteed by the technical set-up of the Integrity System. The Compliance Organization rigorously investigates all suspected cases, if necessary by involving group internal audit. Moreover, the group employees relevant for compliance regularly receive face-to-face and web-based training covering current issues and regulations relative to the law, the Code of Conduct and GEA's additional compliance guidelines. GEA's compliance program is rounded off by a close cooperation between the compliance organization and the group's internal audit department as well as on-site talks between representatives of the compliance organization and local managers for evaluating best practices within the group.

### **Responsible risk management**

Sustainable growth can only be achieved if both the opportunities and the risks associated with business activities are identified and adequately taken into account. For this reason, an effective control and risk management system represents one of the core elements of corporate governance at GEA. For further details see page 115 ff. of this Annual Report.

### **Accounting and audit transparency**

GEA Group Aktiengesellschaft is committed to transparent reporting. The company's consolidated financial statements and half-yearly financial reports are prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The single entity financial statements of GEA Group Aktiengesellschaft, which are legally required and determine dividend payout, are governed by the German Handelsgesetzbuch (HGB – German Commercial Code). The Supervisory Board engages the external auditor elected by the shareholders at the Annual General Meeting. The Audit Committee gives particular attention to the oversight of the accounting process, the effectiveness of the internal control, risk management and internal audit systems, the audit of the annual financial statements (in this context, notably the selection and independence of the auditor and the additional services provided by the auditor, auditor engagement, the determination of key audit areas as well as the audit fee) as well as compliance. While also taking into account the EU audit reform, it ensures that the auditor's work is not compromised by any conflicts of interest and that the auditor immediately reports any and all findings and events relevant to the Supervisory Board's discharge of duties that have come to the attention of the auditor in the course of the audit. Apart from the consolidated and annual financial statements, the Audit Committee also discusses the half-yearly financial and quarterly statements with the Executive Board.

### **Detailed reporting**

GEA Group Aktiengesellschaft communicates openly, actively and extensively. It regularly and promptly informs shareholders, shareholders' associations, analysts, and interested members of the public on equal terms about the company's situation as well as any material changes to its business. In this respect, the company's website constitutes an important means of communication. It contains the annual and half-yearly reports as well as quarterly statements, press releases as well as other notifications required under the EU Market Abuse Regulation (MAR) and the Wertpapierhandelsgesetz (German Securities Trading Act), the financial calendar and other relevant information. Moreover, analyst meetings, press conferences and events for investors are regularly hosted. The presentations delivered on these occasions can also be downloaded from our website under "Investors".

## **Managers' Transactions and shareholdings held by members of governing bodies**

Under section 19 MAR, Executive Board and Supervisory Board members or persons closely associated with them are obliged to disclose reportable transactions in shares of GEA Group Aktiengesellschaft or related financial instruments if the transactions concluded in one calendar year reach or exceed the threshold of EUR 5,000. The three transactions reported to the company in fiscal year 2018 were duly disclosed and published on the company's website. The total number of shares in GEA Group Aktiengesellschaft held by all Executive Board and Supervisory Board members amounts to less than 1 percent of the shares issued by the company.

## **Securities-based remuneration scheme for company executives**

With effect from July 1, 2006, GEA Group Aktiengesellschaft launched a long-term, share price-based remuneration scheme called "GEA Performance Share Plan" for certain managers below Executive Board level. Details are provided in note 6.3.3 (see page 196 ff.) to the consolidated financial statements.

## **Corporate governance and control: Executive Board and Supervisory Board**

GEA Group Aktiengesellschaft is subject to the German Stock Corporation Act and, therefore, has a two-tier board structure comprising the Executive Board and the Supervisory Board. The Executive Board constitutes the group's management body. The Supervisory Board – which is composed of twelve members, half of whom are shareholder representatives, while the other half comprises employee representatives – appoints and advises the Executive Board while overseeing its work. The Executive Board and the Supervisory Board cooperate closely for the benefit of the company, their common goal being the sustainable increase in enterprise value.

## **Executive Board**

The Executive Board holds overall responsibility for the management of the company in accordance with statutory requirements, the Articles of Association as well as the rules of procedure and the corporate policies that are in place. In line with the Rules of Procedure of the Executive Board, each Executive Board member has overall responsibility for and independently manages the area of responsibility assigned to him/her under the schedule of responsibilities while keeping the entire Executive Board consistently informed of all essential business affairs. Decisions on matters of fundamental importance or particular magnitude must be taken by the entire Executive Board. Executive Board resolutions are adopted at regular meetings or, should no member of the Executive Board raise any objections, in writing, orally (also via telephone), via telefax or by referring to other common means of communication such as emails. Each member of the Executive Board must immediately disclose conflicts of interests to the Supervisory Board and inform the other members of the Executive Board, accordingly.

The Executive Board reports to the Supervisory Board regularly, promptly and comprehensively on all issues relating to strategy, planning, business progress, risk exposure, the risk management system as well as compliance that are relevant to the company. Should important issues or business matters that may considerably impact on the situation of the company arise, the Executive Board will notify the Chairman of the Supervisory Board without undue delay. The Articles of Association and the rules of procedure specify key transactions that require the Supervisory Board's approval. Further information on the individual members of the Executive Board can be found on pages 12 f. as well as 245 f. of this Annual Report.

## **Supervisory Board**

The Supervisory Board advises the Executive Board on the management of the company and oversees its conduct of the company's business. Between the Supervisory Board meetings, the Chairman of the Supervisory Board maintains regular contact with the Executive Board, in particular the Chairman of the Executive Board, with whom he discusses matters of strategy, planning,

business progress, risk exposure, risk management and corporate compliance. The Supervisory Board usually holds 6 meetings per calendar year that are attended by the members of the Executive Board unless the Chairman of the Supervisory Board determines otherwise. As a rule, the Supervisory Board's resolutions are adopted at these meetings. Unless the majority of the Supervisory Board members immediately object, the Chairman of the Supervisory Board may also determine that resolutions be adopted during a conference call or a video conference or outside of meetings by the members casting their votes in writing, text form or by telephone. Resolutions require a simple majority of the votes cast unless statutory law provides for a different majority. After the notice of the meeting has been given to all members, the Supervisory Board has a quorum when a minimum of half of its members vote on a resolution by attending in person, by telephone or video conference or have cast their votes in writing or text form pursuant to section 108 para. 3 Aktiengesetz (AktG – German Stock Corporation Act).

### **Supervisory Board Committees**

The work of the Supervisory Board is supported by committees. These are primarily the Presiding Committee and the Audit Committee. Besides, there is the statutory Mediation Committee as well as the Nomination Committee recommended by the German Corporate Governance Code. The Audit Committee and the Mediation Committee each comprise four members, while the Presiding Committee is composed of 6 members; each of the above committees features equal representation of shareholder and employee representatives. The Nomination Committee consists of 3 members, who include exclusively shareholder representatives in accordance with section 5.3.3 of the German Corporate Governance Code.

In each calendar year, the Presiding Committee and the Audit Committee usually meet four or five times, respectively. During meetings, Presiding Committee and Audit Committee resolutions are adopted by a simple majority of the votes cast, while outside of meetings, they are passed by a simple majority of the members. If the vote is tied, the respective chairman has a casting vote in

the event of another ballot on the same resolution. The Nomination Committee and the Mediation Committee only hold meetings when required.

The Presiding Committee focuses on Executive Board matters including succession and remuneration topics, corporate governance as well as specific transactions requiring approval. Moreover, the Presiding Committee is also responsible for jointly deliberating on corporate strategy, capital investments and funding operations together with the Executive Board. In this context, decisions on the Executive Board remuneration system, the total remuneration awarded to the individual Executive Board members, as well as their appointment and dismissal are reserved to the full Supervisory Board.

The Audit Committee, whose chairman has a sound knowledge of and experience in applying financial accounting standards as well as internal control systems, primarily focuses on overseeing the financial accounting process, the efficiency of the internal control and risk management systems, the internal audit process, compliance as well as the audit of the annual financial accounts.

The Mediation Committee performs its duties as set out in sections 27, 31 Mitbestimmungsgesetz (MitbestG – German Co-determination Act). The task of the Nomination Committee is to propose suitable candidates to the Supervisory Board based upon which the latter submits its nominations to the Annual General Meeting.

Further information on the composition of the Supervisory Board and its committees can be found on the company's website at [gea.com](http://gea.com), as well as on pages 245 and 246 of this Annual Report. In addition, the Report of the Supervisory Board starting on page 16 of this Annual Report gives further details on the activities performed by the Supervisory Board and its committees in fiscal year 2018 as well as changes in the organizational structure of the committees taking effect in 2019. It also discloses individual attendance of meetings held by the Supervisory Board and its committees. In the fiscal year just ended, all Supervisory Board members participated in well over half of the meetings of the Supervisory Board and the committees of which they are members.

## **Compliance with minimum quotas pursuant to section 96, para. 2 German Stock Corporation Act and commitment to promoting the participation of women in executive positions in accordance with section 76 para. 4 and section 111 para. 5 German Stock Corporation Act**

As early as in 2011, GEA started to encourage the promotion of diversity at group level. A description of the diversity strategy is provided in the chapter on Sustainability at GEA (see 96 f.). Under its diversity strategy, GEA also pursues the aim of attracting more women to join the company while promoting female talent. In the long run, the company seeks to increase the share of women on all management levels. GEA will continue to support this process by means of strategic measures.

The Act on Equal Participation of Women and Men in Executive Positions in the Private and Public Sector, which took effect in April 2015, obliges certain companies in Germany to define targets in relation to the proportion of women represented on the Supervisory Board, the Executive Board and/or the Board of Directors as well as on the two management levels below, and to set target dates for achieving the respective quota of women. Since January 1, 2016, a statutory minimum quota of 30 percent has applied with regard to the underrepresented gender on the supervisory boards of listed and codetermined companies like GEA Group Aktiengesellschaft; this quota has to be observed whenever such companies seek to fill vacant supervisory board positions. Since the 2016 Supervisory Board elections, the Supervisory Board has included 5 female members (previously 4). As a result, the share of women represented on the Supervisory Board of GEA Group Aktiengesellschaft currently amounts to 42 percent.

At its meeting on June 22, 2017, the Supervisory Board of GEA Group Aktiengesellschaft set a new 20 percent target for the proportion of women represented on the Executive Board that will be applicable until December 31, 2021.

In June 2017, the Executive Board of GEA Group Aktiengesellschaft set target quotas for the two management levels below the Executive Board that are to be achieved by December 31, 2021, namely a 25 percent share of women on the first and a 30 percent proportion of women on the second management level.

Targets for the other GEA Group companies affected by this law were also set in due time in relation to the proportion of women represented on the respective Supervisory Board and/or the Board of Directors as well as the two uppermost management levels below the Board of Directors, just like the corresponding deadlines for timely target implementation.

GEA takes the corresponding measures (see page 97 f.) to ensure that the set targets are accomplished.

## **Diversity policy governing the composition of the Executive Board and the Supervisory Board**

Together with the Executive Board, the Supervisory Board engages in long-term Executive Board succession planning. The selection process for Executive Board positions is subject to a structured standard procedure. Apart from a balance between technical qualifications and personal skills, the Supervisory Board and its committees also take into account the criterion of diversity when appointing members to the Executive Board. As GEA is an international technology group and supplier for the food processing industry and various other sectors, appointments to the Executive Board are to specifically meet the following criteria: In terms of its composition, the Executive Board shall fulfill the criterion of internationality. Its members shall include a minimum of 2 different nationalities, with the entire body covering several languages. The proportion of women represented on the Executive Board shall total a minimum of 20 percent. Overall, the Executive Board shall have a balanced age structure. The members of the Executive Board shall, as a rule, not serve office after completing the age of 65. Apart from that, the company seeks to ensure that at least half of all Executive Board members have gained many years of experience in the food sector, while a minimum of 2 Executive Board members have a technical or scientific background. In its current composition, the Executive Board meets the above criteria.

At its meeting held on December 15, 2017, the Supervisory Board revised the targets for its composition by taking into consideration the recommendations of the German Corporate Governance Code and adding a profile of skills and expertise. Accordingly, the Supervisory Board members shall collectively have the knowledge, skills and professional expertise required to

properly perform their duties in consideration of the company-specific situation. This is why, aside from the integrity and commitment of its members, who must have sufficient time to exercise their respective mandate, the Supervisory Board also pays attention to a balanced profile of skills and expertise amongst its members, in particular sufficient industry and sector knowledge relevant to GEA Group Aktiengesellschaft, an adequate number of independent members, international experience as well as diversity. With a view to the benefit of the company, the decisive criterion for filling a position on the board shall in all cases be the professional and individual suitability of the male or female candidate while taking into account the skills and expertise of the other members of the Supervisory Board.

The Supervisory Board seeks to ensure a board composition that takes into consideration the following elements: In terms of the origin, the professional and cultural background as well as the age and gender of its members, the Supervisory Board is to reflect diversity. At least one quarter of the members of the Supervisory Board shall have an international background that ideally covers various regions or cultural areas. Each gender shall account for a minimum of one third of the members of the Supervisory Board. The Supervisory Board shall include – what it considers to be – an adequate number of independent members. For this reason and in consideration of the shareholder structure, the Supervisory Board seeks to ensure that a minimum of two thirds of the shareholder representatives are independent in line with the definition given under section 5.4.2 sentence 2 of the German Corporate Governance Code. At present, all shareholder representatives on the Supervisory Board are independent within the meaning of the German Corporate Governance Code. As a rule, a member's uninterrupted service on the Supervisory Board shall not to exceed three full terms of office and/or a period of 15 years. Generally, nominations shall only consider individuals who have not yet reached the age of 70 at the date of the Annual General Meeting resolving on the election of the proposed candidates. If it is foreseeable that individuals would be subject to permanent or repeated conflicts of interest in the event of their election to the Supervisory Board, such individuals shall not be considered as Supervisory Board candidates. Apart from that, the Rules of Procedure of the Supervisory Board provide for detailed rules and regulations

governing the handling of conflicts of interests that may occur after a member is elected to the Board. According to these regulations, each Supervisory Board member has the obligation to disclose potential conflicts of interest to the Supervisory Board. Conflicts of interest of a material and non-temporary nature in relation to a Supervisory Board member shall result in the termination of his/her mandate.

The profile of skills and expertise the Supervisory Board seeks to establish for the entire body may be summarized as follows: All members of the Supervisory Board are to be familiar with the sector in which the company operates. At least one Supervisory Board member must have expertise in the fields of financial accounting or auditing. Furthermore, the Chair of the Audit Committee shall also have specific knowledge and expertise in applying internal control procedures. The Supervisory Board shall comprise members with a commercial or business background, individuals from the engineering profession as well as members with experience in one or several of the company's customer industries. A minimum of two Supervisory Board members shall have management experience in operational business. All members of the Supervisory Board shall be able to understand and assess the specific nature of the company's business as well as resulting risks and opportunities. They shall be familiar with the basic principles of accounting and risk management.

In its current composition, the Supervisory Board meets the target composition criteria and lives up to the profile of skills and expertise.



## We live our values.

Excellence • Passion • Integrity • Responsibility • GEA-versity

GEA is one of the largest technology suppliers for food processing and a wide range of other industries. The global group specializes in machinery, plants, as well as process technology and components. GEA provides sustainable solutions for sophisticated production processes in diverse end-user markets and offers a comprehensive service portfolio.

The company is listed on the German MDAX (G1A, WKN 660 200), the STOXX® Europe 600 Index and selected MSCI Global Sustainability Indexes.

[GEA Group Aktiengesellschaft](#)

Peter-Müller-Straße 12

40468 Düsseldorf

Germany

Phone: +49 211 9136-0

[gea.com](https://www.gea.com)