

Supervisory Board report

Dear Sir or Madam,

The Supervisory Board of LEONI AG dealt in depth with the situation and performance of the group of companies in fiscal 2017. We diligently and dutifully fulfilled our tasks in accordance with statutory requirements, the provisions of the Company's Articles of Association, the German Corporate Governance Code and our rules of procedure. We advised the Board of Directors in its management of the Company and continuously oversaw its work.

The collaboration between the Supervisory Board and the Board of Directors was at all times constructive, open and defined by mutual trust. The Board of Directors informed us regularly, immediately and comprehensively, both in writing and verbally, about all matters pertinent to LEONI. In particular, this included the strategy, planning, operating performance as well as the Group's current situation including its risk situation. The Board of Directors explained any deviation in business performance from the prepared planning in detail and involved the Supervisory Board in decisions of material importance.

We discussed all important matters thoroughly during our meetings of the Supervisory Board. The Board of Directors provided us with comprehensive written reports in this regard prior to these meetings. The Supervisory Board's approval was obtained so far as this was required for certain measures in accordance with the rules of procedure. Key matters subject to approval included the 2017 planning (2017 budget, medium-term planning from 2018 through 2021 and the 2017 investment plan) as well as the 2018 planning (2018 budget, medium-term planning from 2019 through 2022 and the 2018 investment plan). There was furthermore the approval for an M&A project and authorisation for various organisational changes at both the divisional and LEONI AG levels. These decisions were on each occasion preceded by in-depth discussions, which were normally based on a corresponding submission or presentation from the Board of Directors.

The Board of Directors and the Supervisory Board at all times also kept in close touch outside their meetings. The chairmen of both boards consulted regularly, also at short notice and as warranted by events, on any matters requiring agreement. The entire Supervisory Board was informed in detail of the content of these discussions during its next meeting at the latest.

Main topics of discussion by the Supervisory Board

The Supervisory Board held six scheduled and five extraordinary meetings during the 2017 financial year. The Supervisory Board met for regular meetings on 31 January, 22 March, 11 May, 25 July, 25 September and 12 December 2017. Extraordinary meetings were held on 6 February, 14 March, 7 April, 28 April and 23 October 2017; those in February and early April were held by means of telephone conferencing.

The employee representatives held a preliminary discussion prior to each Supervisory Board meeting.



Dr.-Ing. Klaus Probst

The Supervisory Board was quorate on each occasion. One member excused their absence from one regular meeting. On each occasion of the extraordinary meetings, one member was unable to attend for important reason; two members were excused from one particular meeting. All members of the Board of Directors attended each of the meetings so far as these did not cover topics requiring that they absent themselves. This included deliberations on changes in the membership of the Board of Directors and the Supervisory Board as well as the measures initiated by the Supervisory Board to clear up the fraud case uncovered in August 2016.

The matters discussed during the scheduled meetings regularly included the general business situation of the Group and both divisions, the financial situation based on the income statement and the balance sheet as well as key investments and development in terms of the number of employees. During several of our meetings, we also considered the composition of the Board of Directors.

Continuation of the work begun by the Supervisory Board in 2016 to clear up the fraud case of July/August 2016, in which a senior employee of a LEONI subsidiary in Romania was induced by sham facts to transfer approx. EUR 40 million to non-Group bank accounts in foreign countries, was a topic in most of the Supervisory Board's meetings in fiscal 2017.

Again in 2017, there was ongoing and constructive discussion on the status of clearing up the case between the Supervisory Board and the Board of Directors as well as their respective consultants. The subject matter discussed was particularly the report on the facts of the fraud case commissioned by the Board of Directors, which the Baker & McKenzie law firm prepared, and the analysis of LEONI AG's financial organisation (CFI) including the Internal Control System (ICS) and the Risk Management System (RMS) likewise commissioned by the Board of Directors and conducted by auditors PricewaterhouseCoopers (PWC). The Supervisory Board had already commissioned the DLA Piper law firm in September 2016 to support it in clearing up the fraud case and examining any possible responsibility on the part of members of the Board of Directors. In April 2017, the Supervisory Board decided to commission its own review of the appropriate structure of CFI, ICS and RMS so far as relevant to clearing up the fraud case to be conducted by the BDO auditing firm.

As Dr Klaus Probst was himself a member of the Board of Directors until 7 May 2015, he did not participate in discussions and voting in connection with clearing up the fraud case and the possible asserting of claims for damages to rule out any conflict interest. There were otherwise no conflicts of interest involving Supervisory Board members in relation to the exercise of their office during the reporting period.

During the reporting period's first meeting on 31 January 2017, the Supervisory Board dealt in depth with the planning for 2017, the medium-term planning for 2018 through 2021 and the investment planning for 2017 alongside the regular agenda items. We approved the Board of Directors' planning following comprehensive

discussion. In addition to authorising the planning for 2017 and the medium-term planning for 2018 through 2021, the target agreement for short and medium-term compensation for members of the Board of Directors was also determined. The Supervisory Board deliberated and voted accordingly. The Supervisory Board sought comprehensive information on the projects to digitalize and automate processes at Group level as well as in the two divisions and decided on a change to its rules of procedure, which exclusively involved the provision that the Personnel Committee shall in the future decide on approval of the appointment of managing directors at LEONI Kabel GmbH and LEONI Bordnetz-Systeme GmbH. The findings of the last audit of the Supervisory Board's work, which was generally rated as good by the members, was another focal point of the meeting. The Supervisory Board decided to improve staffing support for preparing, holding and following-up the Supervisory Board meetings and again to commission an external review of the efficiency of its work in 2017. The nomination proposals for Supervisory Board members on the shareholder side at the Annual General Meeting as well as the dividend proposed for the past year were also discussed. The Supervisory Boards furthermore discussed PwC's presentation on the fraud case and their answers to a list of detailed questions, which the Supervisory Board had prepared to analyse the CFI, ICS and RMS areas of LEONI AG.

During the conference call on 6 February 2017, there was a more in-depth discussion of the proposed dividend as well as further consideration of the status on clearing up the fraud case.

During the meeting of the Supervisory Board on 22 March 2017, the focus was on the presentation and adoption of the consolidated financial statements and of the annual financial statements of LEONI AG for fiscal 2016. Both sets of statements were approved without any objection after detailed deliberation. We furthermore covered the agenda for the Annual General Meeting on 11 May 2017 and decided on the Supervisory Board's proposed resolutions at the Annual General Meeting. The Supervisory Board furthermore asked the Board of Directors to provide information on the risk aggregation for the years 2017 through 2021, the strategic human resource planning and staff loyalty as well as the status of the financial organisation. In addition, we dealt with our organisation of risk management and especially the processes applied to identify risks, but also the measures and methods to prevent and avoid risks. With respect to the status of the financial organisation, we considered especially the ongoing organisational, process-related and staffing changes as well as the status of the transformation process.

During the extraordinary meetings and conference calls on 14 March, 7 April and 28 April 2017, the focus was on personnel changes and the pending elections to the Supervisory Board. Specifically, it was a matter of finalising the proposals for the election of the shareholder representatives at the Annual General Meeting on 11 May 2017 and the resignation of Dr Werner Rupp. In its meetings on 14 March and 28 April 2017, the Supervisory Board furthermore continued to clear up the fraud case and decided in its meeting on 28 April 2016 to commission BDO with review of the appropriate structure of the CFI, ICS and RMS areas.

Changes in personnel
» page 11

Work of the committees
 >> page 9

The Supervisory Board held its constituent meeting after the new elections of the shareholder representatives during the Annual General Meeting on 11 May 2017. In addition to the report on current business performance, the agenda included the election of the Supervisory Board chairman and his deputies as well as the formation of the committees.

During its meeting on 25 July 2017, the Supervisory Board discussed, among other topics, the target quota for women on the Board of Directors, for which an unchanged 15 percent was set for 30 June 2022. We furthermore authorised an adjustment to the allocation of duties on the Board of Directors. This was due to the transfer of responsibility for the Wiring Systems Division from Mr Dieter Bellé to Mr Martin Stüttem as well as Mr Karl Gadesmann taking charge of the Corporate Investor Relations department, which was previously part of the CEO's remit. Based on an organisational chart for the LEONI Group, we furthermore approved a number of personnel and organisational changes. The Supervisory Board also obtained information on the status of the strategy development process. Clearing up the fraud case was again a focal point of the meeting. The consultants DLA Piper and BDO, who were commissioned by the Supervisory Board, reported on the status of their respective examinations concerning possible directors' liability (DLA Piper) and with respect to the appropriate structure of CFI, ICS and RMS (BDO).

On 25 September 2017, we looked closely at the oneLEONI project, which pools Group-wide skills and responsibility and serves, in division-overarching initiatives, to harmonise and standardise key processes within the LEONI Group. The market and product strategy of the two divisions for the automotive business with the aim of becoming a full-service provider and development partner in energy and data management was also thoroughly discussed. The Board of Directors furthermore reported on the implemented changes to the financial organisation and on the topic of licensing fees. We furthermore considered the future composition of the Board of Directors. In addition, DLA Piper and BDO again reported on the status of their respective investigations and presented their preliminary findings as well as the aspects still to be examined.

During its extraordinary meeting on 23 October 2017, the Supervisory Board again dealt with the future composition of the Board of Directors and, after thorough discussion, accepted the decision by mutual agreement of Mr Bellé to resign from office effective 31 January 2018 as well as to terminate his service contract effective 31 January 2018. The Supervisory Board furthermore considered the requirements profile for the search for a new CEO.

The main focus of the Supervisory Board's meeting of 12 December 2017 was on the planning for fiscal 2018, the medium-term planning for 2019 and the subsequent years as well as the investment planning for 2018. The respective planning prepared by the Board of Directors was approved following comprehensive discussion. The Supervisory Board also addressed an M&A project, corporate co-determination as well as the agenda for the Annual General Meeting on 3 May 2018 and decided on the update to its declaration pertaining to the German Corporate Governance Code pursuant to Section 161 of the German Public Stock Corporation Act (AktG). This is included in the Corporate Governance report and statement on Corporate Governance. We also decided to engage a working group to define a new way for questionnaires, to set up, execute and schedule the efficiency audits of the Supervisory Board's work. The next efficiency audit is to take

Corporate Governance
 report and statement on
 Corporate Governance
 >> page 20

place when the new concept has been adopted. Based on an organisational chart, we furthermore approved staffing and organisational changes in the Wiring Systems Division. We also decided to plan the rotation of the auditors for the 2019 financial year and to start the consequently required selection process now. Finally, we sought information on the outcomes of previous meetings of the Audit Committee, particularly on the compliance status report, as well as of the Strategy Committee, especially on the Group strategy as well as the related vision and mission.

We furthermore had a final discussion on the fraud case with respect to possible responsibility on the part of the Board of Directors. Based on the appraisals by DLA Piper and BDO, it was decided to assert claims for damages for the loss LEONI incurred as well as to commence talks with LEONI AG's D&O insurers. The Supervisory Board also again dealt with the search for a suitable candidate for the position of CEO.

Work of the committees

The Supervisory Board of LEONI AG formed an Audit Committee, a Personnel Committee, a Nomination Committee and a Strategy Committee. These governance bodies prepare the topics to be addressed by the entire Supervisory Board and the resolutions on which the Board is to vote during its meetings. The composition of the committees is described in the section headed Supervisory Board and Board of Directors. The Corporate Governance report provides information on the duties of the committees. Decision-making powers of the Supervisory Board are transferred to the committees to the extent permitted by law. In addition, there is the Arbitration Committee in compliance with Section 27 (3) of Germany's Co-determination Act (MitbestG). The committee chairmen reported regularly on the work of their committees during the Supervisory Board meetings.

Supervisory Board and Board of Directors
[» page 14](#)

Corporate Governance report and statement on Corporate Governance
[» page 20](#)

- **The Audit Committee** met five times during the year under report. It dealt in depth with the 2016 financial statements and consolidated financial statements, the management reports as well as the auditor's report and it prepared for nomination of the auditors for the 2017 financial year. Upcoming quarterly reports as well as the half-year report were also thoroughly discussed. Other topics involved oversight of the extent of non-auditing services performed by the auditors and limiting the value of such services, the transfer pricing system within the LEONI Group, further development of risk and compliance management as well as the effectiveness of internal auditing. The committee also discussed the pending rotation of the external auditors for the 2019 financial year and obtained information on amendments to the International Financial Reporting Standards, the financing strategy as well as harmonisation of the LEONI Group's IT processes within the framework of the oneSAP project, whose purpose is to unify the IT landscape and to develop an IT strategy for a viable system architecture that is geared to the Group's business growth.
- **The Personnel Committee** held six meetings, one of which by conference call, in 2017. It dealt primarily with the composition and compensation of the Board of Directors, Mr Bellé's early retirement as well as the requirements profile and candidate search for the new CEO .

Changes in personnel
[» page 11](#)

- **The Nomination Committee** held five meetings, one of which by conference call, during the period under report to prepare the nomination of suitable candidates on the shareholder side for the pending election of Supervisory Board members at the 2017 Annual General Meeting. The committee based this on requirements and targets established for this by the Supervisory Board. In particular, specific technical knowledge that is not yet fully represented on the Supervisory Board but is due to be added because of the defined criteria was decisive in the selection of the external candidates.
- **The Strategy Committee** met three times in the past financial year, on all occasions together with the Board of Directors. It dealt in depth with the strategy of the Group and the two divisions, which was reformulated during the year under report against the backdrop especially of digitalization and major trends in the automotive industry. Other focal topics included the Wiring Systems Division's new strategic alignment and the automation of production processes that is required in this regard, the status of digital transformation and the strategic progress made in the Wire & Cable Solutions Division. The oneLEONI and oneSAP projects were also thoroughly discussed.
- Convening of the **Arbitration Committee** pursuant to Section 27 (3) of Germany's Co-determination Act (MitbestG) was not required in 2017.

Corporate Governance and Declaration of Conformity

The Supervisory Board again dealt in detail with Corporate Governance at LEONI, taking the German Corporate Governance Code as its guide, during the year under report. The Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act was updated in December 2017. With one exception, LEONI fulfils all the recommendations of the Code in its current version. Further details can be found in the current version of the Declaration of Conformity. This is included in the Corporate Governance report and statement on Corporate Governance.

Corporate Governance
report and statement on
Corporate Governance
» page 20

Audit of the annual financial statements

The Annual General Meeting of LEONI AG's shareholders on 11 May 2017 appointed Ernst & Young GmbH auditing company of Stuttgart as auditors for the 2017 financial year. Ernst & Young audited and granted an unqualified certificate for the 2017 financial statements and the management report of LEONI AG as well as the consolidated financial statements and the Group management report. The firm has worked for the LEONI Group since 1987. The auditors responsible pursuant to Section 319a (1) sentence 4 of the German Commercial Code (HGB) were Udo Schuberth (starting with the 2013 financial statements) and Gero Schütz (starting with the 2012 financial statements).

The provisions of the German Commercial Code were applied to prepare the financial statements and the management report of LEONI AG. The consolidated financial statements and the Group management report

were drawn up in accordance with the International Financial Reporting Standards (IFRS) as they apply in the European Union, and additionally in accordance with the commercial law provisions of Section 315e (1) of the German Commercial Code (HGB). The audit was conducted in accordance with Section 317 of the German Commercial Code (HGB) while observing the German principles of true and fair annual accounting of the Institute of Public Auditors in Germany, Incorporated Association (IDW). The auditors stated that the management reports described the situation of LEONI AG and of the Group as well as the future risks. The review of the risk management system as part of the audit found that the Board of Directors has taken suitable measures in keeping with those required under Section 91 (2) of the German Stock Corporation Act (AktG) to set up a monitoring system, and that this monitoring system is suited to early detection of developments that might threaten the Company's continued existence.

As part of its review, the Supervisory Board also reviewed the non-financial Group information statement that was to be prepared pursuant to Section 315b of the German Commercial Code (HGB) and found that this statement of LEONI AG fulfils the existing requirements and no objections are to be raised.

The annual financial statements of the Company and of the Group, the management reports (including the non-financial information statement) and the audit reports were available to all members of the Supervisory Board in good time. The Audit Committee pre-examined these documents during its meeting on 13 March 2018 and reported to the Supervisory Board in this regard during the latter's regular meeting on 15 March 2018. We subsequently discussed the financial statements and reports in depth. The auditing company's representatives took part in both meetings, provided information on the findings of their audits and were available to provide additional information. In particular, the findings of key audit matters for LEONI AG and the Group were presented: (I) recoverability of loans to associated companies and of receivables from associated companies, (II) testing for possible impairment of goodwill as well as intangible assets and property, plant and equipment, (III) recognition and measurement of deferred tax assets as well as (IV) allocation of the price to purchase Wuhan Hengtong Automotive. The audit did not give rise to any objections.

The Supervisory Board approves the findings of the audit of the financial statements. The final result of the audits by the Audit Committee and the Supervisory Board of the annual financial statements and management reports of LEONI AG and the Group did not give rise to any objections. We approved the annual financial statements of LEONI AG and the consolidated financial statements for fiscal 2017 as prepared by the Board of Directors. The financial statements of LEONI AG have thus been duly adopted. The Supervisory Board supports the Board of Directors' proposal to pay out a dividend of € 1.40 per share for fiscal 2017.

Changes in personnel

On 1 April 2017, Mr Martin Stüttem took office as new member of the Board of Directors with responsibility for the Wiring Systems Division. A graduate engineer with experience of the international automotive

supply industry, he was appointed during the meeting on 29 July 2016. His Board of Directors mandate initially expires on 31 December 2020. On 23 October 2017, Mr Dieter Bellé, with the Supervisory Board's understanding, resigned his mandate as member and chairman of the Board of Directors effective 31 January 2018 and left the Board of Directors at the end of January 2018. Mr Dieter Bellé was a member of LEONI AG's Board of Directors since 2000, serving as Chief Financial Officer and Labour Director, and took the Board's chair in 2015. The Supervisory Board thanks him sincerely for his many years of successful work for and his great commitment to the Company. The search for his successor began in October 2017. To find a suitable successor from either the inside or outside, the Supervisory Board defined a corresponding process, drafted a requirements profile and asked a well-known human resource consultancy for support. The search was not yet completed by the end of the year under report. The Supervisory Board has meanwhile decided to fill the CEO position vacant since 1 February 2018 with an outside candidate and to take this recruitment decision in the foreseeable future. Mr Karl Gadesmann will act as spokesperson for the Board of Directors and Labour Director until the future CEO takes office.

Dr Werner Rupp resigned his mandate as Chairman of the Supervisory Board in a letter dated 27 March 2017. His resignation took effect on 3 May 2017. Prof. Dr.-Ing. Klaus Wucherer took over as chairmanship on a temporary basis until the Annual General Meeting. On 11 May 2017, shareholders at the Annual General Meeting newly elected Dr Elisabetta Castiglioni, Mr Wolfgang Dehen and Dr Klaus Probst to the Supervisory Board. Ms Ingrid Hofmann and Prof. Dr.-Ing. Klaus Wucherer did not stand as candidates again. Dr Ulrike Friese-Dormann, Dr Werner Lang and Prof. Dr Christian Rödl were reaffirmed in their offices as shareholders representatives at the Annual General Meeting. For the employee side, the workforce elected Mr Mark Dischner, Mr Karl-Heinz Lach, Mr Richard Paglia, Ms Carmen Schwarz, Mr Franz Spieß and Ms Inge Zellermaier to the Supervisory Board. Ms Gabriele Bauer and Mr Helmut Wirtz did not stand as candidates again. The Supervisory Board sincerely thanks the departed Supervisory Board members for their consistently constructive collaboration. During its constituent meeting on 11 May 2017, the Supervisory Board elected Dr Klaus Probst as its chairman, Mr Franz Spieß as the first deputy chairman and Dr Werner Lang as the second deputy chairman of the Supervisory Board.

Information on the procedure for electing Dr Klaus Probst and the composition of the Supervisory Board, as already announced in the Federal Gazette, is contained in the section of the notes headed Litigation.

Thanks to the Board of Directors and staff

The Supervisory Board thanks all members of the Board of Directors as well as staff for their good work in the 2017 financial year. The previous year's major challenges were successfully mastered and the Company was taken back onto a course of profit-oriented growth. We wish the Board of Directors and employees staff every success for this year.

Nuremberg, 15 March 2018

The Supervisory Board



Dr Klaus Probst

Chairman of the Supervisory Board