

## SUPERVISORY BOARD REPORT

During the past financial year, the Supervisory Board unconditionally fulfilled its duties according to statutory law, the articles of association and rules of procedure. It continuously and diligently monitored the management activities of the Board of Management. The Board of Management kept the Supervisory Board updated on a regular basis and in a timely and coherent manner by means of written and oral reports on all matters, which were of fundamental importance to the Company. This also includes information on decisions not requiring the consent of the Supervisory Board. In particular, the Board of Management informed the Supervisory Board of key business figures. Matters relevant for the Company mainly include issues relating to the planning, business performance, strategic development, human resources- and succession planning, risk situation and risk management. The Board of Management has, where the business development deviated from the planning, comprehensively explained such deviations and at all times involved the Supervisory Board in the decision on the strategy and status of the implementation thereof in the Company.

In addition to the Supervisory Board meetings, the Chairman of the Supervisory Board had intensive personal contact, also via telephone, with the Chairman of the Board of Management on a monthly basis to obtain information on the business development and material business transactions. Moreover, the Chairman of the Supervisory Board and the Chairman/Chairwoman of the Audit Committee automatically received all Internal Audit reports. No conflicts of interest involving members of the Board of Management or Supervisory Board, which require immediate disclosure to the Supervisory Board and must be reported to the Annual Shareholders' Meeting, arose during the financial year.

Of great importance to the discussions in the Supervisory Board in the financial year 2017 were the preparations and the implementation of a public takeover by Tiancheng (Germany) Pharmaceutical Holdings AG, Munich, Germany, an affiliated company of Creat Group Co. Ltd., Nanchang, People's Republic of China (Creat). The takeover was finally settled on 31 January 2018 after the approval of the US Committee on Foreign Investment in the United States ("CFIUS") had been given on 19 January 2018. Moreover, the discussions in the Supervisory Board were characterised by consultations on refinancing. At the Annual Shareholders' Meeting 2017, elections of the new Supervisory Board also took place.

During the financial year 2017, the Supervisory Board held nine regular meetings. Three of the resolutions were adopted by way of a written circular procedure. In relation to the performance of their duties, members of the Supervisory Board received sufficient opportunity to critically and thoroughly assess all reports and draft resolutions provided by the Board of Management. They had the opportunity during discussions to introduce their own proposals.

## MAIN FOCUS AT SUPERVISORY BOARD DELIBERATIONS

The subject matters of the regular discussions in the Supervisory Board in the financial year 2017 were, in addition to the topics mentioned previously, planning and current business development of the Company, in particular, the consequences of the voluntary albumin recall, the strategic orientation and financial situation. The Supervisory Board was continuously updated by the Board of Management on the situation and current developments with regard to all these matters. Any questions arising were discussed immediately and comprehensively. Thus, the Supervisory Board always received the most up-to-date information.

In a circular resolution on 6 January 2017, the Supervisory Board approved of the conclusion and execution of the master purchase and sale agreement with ADMA Biologics, Inc. and the termination of the distribution agreement between Biotest Pharmaceuticals Corporation (BPC), Boca Raton, USA, and Kedrion Biopharma Inc.

In the meeting on 25 January 2017, the Supervisory Board discussed the current business developments presented by the Board of Management and the budget for 2017. After the strategic orientation for the years 2017 to 2026 had been discussed, the Supervisory Board approved of the Budget 2017. In a further meeting, the Board of Management gave an overview of the material developments in the event of a possible takeover. Together with an investment bank, a management presentation was prepared within the framework of the project and potential investors were contacted. After an intensive review, the Supervisory Board approved of the proposed schedule and authorised the Board of Management to go ahead with the due diligence process and preparation of a business combination agreement (“BCA”) with regard to two strategic investors. The subject matter of the discussions was also the composition of the new supervisory board. Thereby, the Supervisory Board discussed about qualification profiles of possible candidates for the chair of the audit committee and chair of the supervisory board as well as requirements for the other supervisory board members of a corporation operating internationally and took possible conflicts of interests, an age limit as well as diversity within the company into account. Furthermore, the Board of Management proposed the reorganisation of the sales and marketing organisation.

The meeting on 14 February 2017 was further characterised by strategic considerations. The Board of Management presented an updated business strategy plan for the years 2017 to 2026 to the Supervisory Board, which was approved by the Supervisory Board. The engaged law firm presented the assigned compliance report. The Supervisory Board then discussed possible consequences in detail. It announced to continue monitoring the developments closely and requested the Board of Management to report on a regular basis. The latest developments with regard to a possible takeover were discussed and the Supervisory Board was informed of the contents of a joint meeting of the Governance and Personnel Committees. The Board of Management notified the Supervisory Board of current discussions with the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung).

The Board of Management informed the Supervisory Board in the meeting on 20 and 21 March 2017 of the current business situation of the group until February 2017, in particular, on possible measures to reach the budget targets. It also presented the statutory financial statements as well as the consolidated group financial statements for the financial year 2016. The auditor present was given the opportunity to explain the results of his audit. Upon the recommendation of the Chairman of the Audit Committee, the Supervisory Board unanimously adopted the annual financial statements for the group and for Biotest AG. Further items on the agenda included, among others, the passing of a resolution on the appropriation of profits, the approval of the declaration of compliance, the corporate governance report and the report of the Supervisory Board. The agenda for the Annual Shareholders' Meeting 2017 was adopted. The Supervisory Board was given an update on the takeover project by the investment bank. Following comprehensive reporting and consideration of all circumstances in favour of and against, the Supervisory Board decided to authorise the Board of Management to conduct negotiations on the details of a BCA. The Supervisory Board also approved of the new conditions of the long-term incentive programme and the targets for 2017.

By circular resolution dated 29 March 2017, the Supervisory Board approved of the negotiation and the intended conclusion of the BCA previously discussed in detail by the Board of Management subject to the condition that the material terms of the letter of intent are included in the BCA.

In a circular resolution on 7 April 2017, the Supervisory Board consented to the conclusion of the BCA based on the final draft.

A further meeting of the Supervisory Board took place on 10 May 2017 which mainly dealt with the upcoming public takeover offer by Tiancheng (Germany) Pharmaceutical Holdings AG, Munich, Germany. Following intensive discussions of many refinancing options, the Supervisory Board agreed to include the proposal on a capital increase in the invitation to the Annual Shareholders' Meeting and to engage in talks with Tiancheng regarding the refinancing. The business results of the first quarter were presented to the Supervisory Board. The Supervisory Board then extensively discussed the contamination of human albumin due to a leaky welding seam of a vessel and possible consequences of the incident and necessary measures. As proposed by the Board of Management, the Supervisory Board approved the acquisition of CaraPlasma s.r.o., Prague, Czech Republic. Also, the Supervisory Board adopted the prolongation of the Service Agreement of Dr Bernhard Ehmer.

The Supervisory Board comprehensively reviewed the joint reasoned statement of the Supervisory Board and Board of Management and discussed it intensively with all parties involved in the meeting on 30 May 2017. Thereafter, the Supervisory Board and Board of Management approved the joint and reasoned statement.

The Board of Management informed the Supervisory Board in the meeting on 22 June 2017 that the German Financial Reporting Enforcement Panel had no findings as result of its review of the Financial Statements 2014. The Board of Management then presented the business results until May 2017 and reported on the measures taken with regard to the albumin case. The Supervisory Board was told that the sale of the therapy

business of Biotest Pharmaceuticals Corporation (BPC), Boca Raton, USA, to ADMA Biologics Inc. has been closed. With a view to the election of the Supervisory Board members at the Annual Shareholders' Meeting, the Governance Committee reported on personnel meetings with Tiancheng (Germany) Pharmaceutical Holdings AG, Munich, Germany. The Supervisory Board agreed on the new Supervisory Board members to be put up for election at the next Annual Shareholders' Meeting. The qualification profiles for the chair of the supervisory board and for the chair of the Audit Committee as well as the requirements set by the Supervisory Board for the other supervisory board members were taken into account. The items on the agenda for the Annual Shareholders' Meeting relating to capital measures were discussed and revised. In a further meeting, the Board of Management presented new changes to the long-term incentive programme 2017 which were also unanimously approved of by the Supervisory Board.

Directly after the general Annual Shareholders' Meeting 2017, the Supervisory Board held its first constituent meeting on 30 August 2017 and elected its Chairman and the members of the committees (see in detail under "Committees").

In the meeting on 6 October 2017, the Board of Management and the Supervisory Board discussed the business results from the months of August and September 2017 and the business forecast 2017. The Supervisory Board then discussed, in absence of the Board of Management, the common understanding of the new Supervisory Board with regard to the corporate principles. The Board of Management informed on the current developments in the public takeover procedure, in particular on the status of the CFIUS clearing procedure. The Supervisory Board was also updated on the refinancing, with the Board of Management proposing several options for action.

The Supervisory Board was presented an overview of the existing compliance system and organisation of the Company by the Compliance Officer in the meeting on 9 and 10 November 2017. The Supervisory Board then discussed with the Board of Management the business results until October 2017. The negative deviation compared to the previous year was attributed to the consequences of the albumin recall and the declined haemophilia sales. The Board of Management informed the Supervisory Board of the latest developments in the CFIUS review procedure.

In the meeting on 6 December 2017, the Supervisory Board discussed with the Board of Management the financial results until October 2017 which had been presented by the Board of Management. The Board of Management made a forecast for the financial year 2017 taking into account the consequences of the albumin recall. The subject matter of the discussions was also considerations on the further steps following the withdrawal of the application for review by CFIUS. The Supervisory Board was made aware of the fact that the sale of the US business (BPC) was being prepared as a condition to gain CFIUS' approval for the takeover. The Board of Management presented financing concepts for different scenarios with regard to the public takeover offer from Tiancheng (Germany) Pharmaceutical Holdings AG, Munich, Germany. The Supervisory Board authorised the Board of Management to engage in talks with potential creditors. Finally, the budget for the financial year 2018 was discussed. The Supervisory Board approved the budget.

## COMMITTEES

To efficiently perform its duties, the Supervisory Board formed three committees in the relevant financial year with the following composition on the reference date 31 December 2017:

### **Personnel and Compensation Committee**

Rolf Hoffmann (Chairman)

Kerstin Birkhahn

Kurt Hardt

### **Audit Committee**

Christine Kreidl (Chairwoman)

Rolf Hoffmann

Jürgen Heilmann

### **Governance Committee**

Dr Cathrin Schleussner (Chairwoman)

Christine Kreidl

Rolf Hoffmann

In the financial year 2017, the Audit Committee held two meetings with the Board of Management. In the first meeting in the financial year 2017 on 20 March 2017, the 2016 individual and consolidated financial statements as well as the determinations of the auditor were the centre of discussions. The auditors from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft were also present. The Audit Committee discussed and confirmed the internal policy on non-audit services. The subject matter of the discussion in the Audit Committee on 5 December 2017 was, in particular, the reporting of the risk management team on the structure and method of operation of the Biotest risk management system. The Board of Management presented in relation to the public takeover offer from Tiancheng (Germany) Pharmaceutical Holdings AG, Munich, Germany, refinancing alternatives for different scenarios. Various topics were discussed in addition with a view to the annual financial statement 2017, amongst others the extent of the audit services, possible effects of the new European legal situation and the independence of the auditor. The key audit topics for 2017 were adopted. Also, the internal auditor reported the results of his audits in 2017 and the audit plan for 2018 was accepted.

In addition to its duties under the German Co-Determination Act (Mitbestimmungsgesetz), the Personnel and Compensation Committee also performs tasks in connection with Board of Management matters. It prepares personnel decisions for the Supervisory Board. It held six meetings in the financial year under review, sometimes together with the Governance Committee. The meeting on 25 Janu-

ary 2017 dealt with a possible extension of an agreement with a Board of Management member. On 14 February 2017, the target achievement of the Board of Management members for 2016 and new targets for 2017 were discussed. In the meeting on 21 March 2017, the Management presented a new long-term incentive programme (LTIP). Moreover, the success factors for the LTIP 2017 were set.

Furthermore, the remuneration structure, selection of candidates for the elections of the Supervisory Board at the Annual Shareholders' Meeting 2017 and personnel issues, mainly in relation to the public takeover offer from Tiancheng (Germany) Pharmaceutical Holdings AG, Munich, Germany, were regularly discussed in these meetings.

The Governance Committee has met six times in 2017, on February 14, March 21, May 10 and June 22, 2017 jointly together with the Personnel & Compensation Committee. Amongst other things, the committee mainly dealt with the elections of the new Supervisory Board, the qualification profiles for the chair of the supervisory board as well as for the chair of the Audit Committee and the composition of the Supervisory Board reflecting the existing and future shareholder structure. Also, any questions in relation to the public takeover offer from Tiancheng (Germany) Pharmaceutical Holdings AG, Munich, Germany, were discussed. In the meeting on 5 December 2017, the changes to the German Corporate Governance Code of 7 February 2017 were discussed.

## CORPORATE GOVERNANCE

Also in 2017 the Supervisory Board continuously complied with the further development of corporate governance standards within the Company. In particular, it took into account the amendments to the Corporate Governance Code resolved on 7 February 2017. The Board of Management and the Supervisory Board reported on the corporate governance of the Company in the corporate governance report in accordance with clause 3.10 of the German Corporate Governance Code which was published together with the declaration of compliance regarding the recommendations of the government commission on the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG). In March 2018, the Board of Management and the Supervisory Board of Biotest AG issued a declaration of compliance with the recommendations of the government commission on the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act.

## CHANGES TO THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

Since the term of office of all members of the Supervisory Board ended at the end of the Annual Shareholders' Meeting on 30 August 2017, both the Annual Shareholders' Meeting on 30 August 2017 and the employees carried out elections to elect the new Supervisory Board. The shareholders of the Company elected Dr Cathrin Schleussner, Mrs Christine Kreidl, Mr Rolf Hoffmann and Mr Kurt Hardt onto the Supervisory Board. The shareholders appointed Mr Tan Yang as a substitute member for Mr Kurt Hardt. After successful completion of the takeover offer, Mr Kurt Hardt resigned from his office effective as of February 28, 2018, so that Tan Yang has succeeded as an ordinary member on the Supervisory Board. The employees elected Mrs Kerstin Birkhahn and Mr Jürgen Heilmann as their representatives on the Supervisory Board. Dr Alessandro Banchi,

Dr Christoph Schröder and Mr Thomas Jakob stepped down from the Supervisory Board. The Chairman of the Supervisory Board thanks the Supervisory Board members who have stepped down for their long-standing and trusting working relationship.

In its constituent meeting immediately after the Annual Shareholders' Meeting on 30 August 2017, the Supervisory Board elected Mr Rolf Hoffmann as its Chairman. In the same meeting, the Supervisory Board elected the members of the committees.

There were no changes to the Board of Management.

## FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, audited the consolidated and the end of year statement of Biotest AG by 31 December 2017 as well as the status report and the group management report and provided an unqualified opinion. -During the financial year, the auditor provided to the Company a prohibited non-audit service within the meaning of the European Regulation on specific requirements regarding statutory audit of public-interest entities within the framework of a planned, but not realised M&A transaction. The Supervisory Board has considered the quantitative and qualitative importance of such service and assessed that such service has not jeopardised the independence of the auditor. The abovementioned documents, the auditor's report and the Board of Management's proposal on the appropriation of net profit were submitted to all members of the Supervisory Board in a timely manner. They were discussed in detail at the meeting of the Audit Committee on 12 March 2018 as well as at the meeting of the Supervisory Board on 13 March 2018. In both meetings, the auditor reported on the main results of the audit and was on hand to answer questions and provide additional information.

After reviewing and discussing the single entity and consolidated financial statements, the management report and group management report and the Board of Management's proposal on the appropriation of the net profit, the Supervisory Board raised no objections and approved of the auditor's audit results. The Supervisory Board adopted the single entity and consolidated financial statements as prepared by the Board of Management for the financial year 2017. The annual financial statements are thereby adopted. The Supervisory Board approved the Board of Management's proposal on the appropriation of profit.

The Supervisory Board thanks the Board of Management and all employees for their personal commitment and constructive cooperation, without which the positive performance of the Company in the difficult financial year 2017 would not have been possible.

Dreieich, 13 March 2018



Rolf Hoffmann  
Chairman