

Corporate Governance Report of the Basler Group

Basler Aktiengesellschaft

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The management board and the supervisory board of Basler AG and the Basler group are committed to responsible, long-term and sustainable development of the company. Good Corporate Governance is one of the key components. The following Declaration of Conformity refers to the recommendations of the Government Commission for the German Corporate Governance Code as amended on December 16, 2019.

Open and transparent corporate communication, observance of shareholder interests, forward-looking handling of opportunities and risks, as well as efficient and trustful cooperation between the management board and the supervisory board, are major aspects of good Corporate Governance. These are conducive to Basler AG and Basler group in gaining the trust of shareholders, business partners, employees, and the general public. At the same time, these principles are important orientation standards for both committees. In the following, the management board and the supervisory board jointly report on Corporate Governance at Basler AG.

MANAGEMENT BOARD

With the expiration of John Jennings' management board contract on December 31, 2020, the composition of the management board changed. John Jennings is succeeded by Alexander Temme. Since Alex joined Basler AG in 2002, he performed several management functions as well as the management of a business unit.

The four-member management board leads the company under its own responsibility. In line with corporate interests, the management board performs its leadership role with the objective of sustainably increasing the company value. The management board agrees with the supervisory board on the strategic direction of the company and implements this strategy. It ensures the adherence to legal provisions and company-internal guidelines and works to achieve compliance throughout the group. It establishes an appropriate risk management and risk controlling system in the company.

The supervisory board is promptly involved and provided with complete information concerning all decisions that may materially affect the net asset situation, financial and earnings situation of the company. The management board reports to the supervisory board regularly, quickly and comprehensively in written and verbal form about all relevant topics relating to business development, company planning, strategic alignment, the opportunity and risk situation, risk management, and compliance. Members of the management board are appointed by the supervisory board.

The members of the management board do not hold other mandates in other statutory supervisory boards or in comparable domestic or foreign supervisory committees.

SUPERVISORY BOARD

Since the annual meeting 2018 the supervisory board consists of six members. Two of them are representatives of the employees and are directly elected by the staff. The other four members are directly elected by the annual general meeting. The election of the supervisory board is in compliance with the recommendations of the Corporate Governance Code; all members of the supervisory board are elected individually.

The supervisory board serves the management board in an advisory capacity, monitors the management board in its management of the company and verifies all significant business transactions for the management board by examining the documents in question in terms of the German Stock corporation Act (AktG), the company's articles of incorporation and the supervisory board's and management board's rules of procedure. Also, outside of regular supervisory board meetings the supervisory board is provided with information on the business development. In this way, it can follow and support business operations by giving advice and recommendations on an appropriate information basis.

The supervisory board complements the rules of procedure of the management board by determining a catalogue of transactions requiring consent. The supervisory board acts on the basis of its own rules of procedure. Moreover, the supervisory board declares the annual financial statements, and approves the consolidated financial statements. Every year, the chairman of the supervisory board presents the activities of the supervisory board in his report to the shareholders as part of the annual report. In addition, he is available for discussion as chairman at the annual general meeting. You will find additional information on the management board, and the supervisory board, particularly regarding their working methods and further mandates performed by the members in the supervisory board's report, in the notes, as well as in the management report.

The individual supervisory board members' supervisory board mandates and shareholdings as well as the shareholdings of the management board are shown in the notes.

The duration of the supervisory board membership can be seen on the following website:

<https://www.baslerweb.com/de/unternehmen/management/aufsichtsrat/>

The rules of procedures for the supervisory board foresee the formation of two committees. Both of them have been formed and work in line with the contents of the rules of procedures of the supervisory board:

The audit committee's function is to prepare negotiations and resolutions of the supervisory board regarding accounting and the effectiveness of the risk management system the internal control systems as well as the internal audit system with the necessary independence of the auditor the issuing of the audit mandate to the auditor the determination of focal points of the audit, and the fee agreement compliance issues.

The chairman of the **audit committee** is independent and has in-depth expertise in the areas of accounting and auditing of financial statements. It should not have been a member of the company's management board in the past two years. The chairman of the supervisory board is a member but not the chairman of the audit committee.

COMPOSITION OF THE AUDIT COMMITTEE:

Prof. Dr. Mirja Steinkamp, Chairman of the Audit Committee
Norbert Basler, Member of the Audit Committee
Prof. Dr. Eckart Kottkamp, Member of the Audit Committee

The nominating committee searches for suitable candidates for the work of the supervisory board, proposes them to the supervisory board for its election proposals to the general meeting. The nominating committee is exclusively staffed by shareholder representatives.

COMPOSITION OF THE NOMINATING COMMITTEE:

Norbert Basler, Chairman of the Nominating Committee
Horst W. Garbrecht, Member of the Nominating Committee
Prof. Dr. Eckart Kottkamp, Member of the Nominating Committee

When composing the supervisory board, the election by the annual general meeting is prepared by evaluating candidates, who bring industry knowledge, experience and specialist expertise to the table. The proposals to the annual general meeting for the election of Supervisory Board members are based on the competence profile of the Supervisory Board and the objectives for the composition of the entire body. Against this background, the Supervisory Board has not set an age limit for Supervisory Board members.

INDEPENDENCE OF THE MEMBERS OF THE SUPERVISORY BOARD

The shareholder representatives in the supervisory board have determined what they consider to be an appropriate number of independent shareholder representatives in the supervisory board, taking into account the ownership structure of the company. The supervisory board in its current composition complies with this determination. The number and names of the shareholder representatives are shown under

<https://www.baslerweb.com/de/unternehmen/investoren/corporate-governance/aufsichtsrat/>.

The supervisory board bases its assessments of independence on the indicators mentioned in the current version of the Corporate Governance Code dated December 16, 2019. Aspect requiring further explanation are the classification of the supervisory board chairman Norbert Basler as “independent“ of the company and its management board. Norbert Basler is regarded as independent by the other shareholder representatives in the supervisory board despite having been a member of the company’s supervisory board for twenty-one years and his (indirect) shareholder position. In his activities as a member of the supervisory board, he has never given cause to doubt that he has always fulfilled his duties in the supervisory board in a dutiful and proper manner. The other shareholder representatives in the supervisory board are therefore convinced of its independence. There were and are no significant business relationships between Norbert Basler and the company or any of its dependent companies. Nor is Norbert Basler a close family member of a member of the management board of Basler AG.

The classification of the supervisory board member Prof. Dr. Eckart Kottkamp as „independent“. Prof. Dr. Eckart Kottkamp is regarded as independent by the other representatives of the shareholders in the supervisory board, despite his 15 years on the supervisory board. In his activities as a member of the supervisory board, he has never given cause to doubt that he has always performed his duties in a dutiful and proper manner. The other shareholder representatives on the supervisory board are therefore convinced of his independence. There were and are no significant business relationships between Prof. Dr. Eckart Kottkamp and the company or any of its dependent companies. Prof. Dr. Eckart Kottkamp is also not a close family member of a member of the management board of Basler AG.

SELF-ASSESSMENT OF THE SUPERVISORY BOARD WORK

The supervisory board regularly assesses the effectiveness of the performance of its duties as entire body and in its committees. The assessment is based on a catalogue of criteria developed by the supervisory board.

RELEVANT INFORMATION ON CORPORATE GOVERNANCE PRACTICES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

In addition to legal requirements, the company's articles of incorporation, the rules of procedures of the supervisory board and the management board, the supervisory board's competence profile as well as the recommendations of the German Corporate Governance Code form the basis for practices of corporate management at Basler AG.

DIVERSITY CONCEPT

For several years, Basler AG relies on the diversity principle shown in the composition of the employees, the high rate of female participation as well as the age structure of the company.

There have been no formulated written diversity concepts for the supervisory - board as well as for the management board to date. The management board consists of experienced managers. Before their board activities, all of them were responsible for different areas in the company. Their professional backgrounds and focus complement each other very well. Their individual curricula vitae can be found at

<https://www.baslerweb.com/de/unternehmen/management/vorstand/>.

The management board's employment contracts expire at different times, the age limit for members of the management board is 70 years. The management board did not set up any committees.

In 2014, the supervisory board together with the management board worked out a competence profile including the key topics: professional skills, experiences, competence in the company's key success factors, as well as a personality profile. The purpose of this competence profile is to cover as good as possible all important and trendsetting topics of the company.

In the past years, two new supervisory board members, Mr. Garbrecht and Mrs. Prof. Dr. Steinkamp, were found according to this profile and complete the body with the necessary qualifications.

All members of the supervisory board are elected separately. As the contracts of the management board, those of the supervisory board expire at different times.

The nominating committee ensures the implementation of the diversity concept.

In its proposals to the general meeting, the supervisory board will continue to observe legal requirements and give priority to women in case of equal qualification. The decision on the candidates which the supervisory board considers to be the most appropriate ones, is to be taken whenever a new election is scheduled. The supervisory board and the management board do not consider it as useful to be bound to pre-formulated abstract targets for selecting candidates instead of freely deciding on a person which is available and seems to be most suitable for the position.

In its meeting in March 2018, the supervisory board decided that for the time being, an increase of the female quota in the supervisory board and the management board is desirable, but has not to be achieved. Currently, no position in the management board is occupied by a woman. The female quota in the supervisory board is 33 %.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

In accordance with the recommendations of the German Corporate Governance Code, Basler AG has been reporting the remuneration of each member of the management board and the supervisory board for some time now. The remuneration of the members of the management board consists of diverse components. Based on their employment contracts, the members of the management board are entitled to a fixed and an annually variable remuneration as well as fringe benefits. Part of the variable remuneration is paid in shares. The structure of the remuneration system for the management board and the adequacy of remuneration are regularly checked and defined by the supervisory board.

According to market standards, the company grants all members of the management board additional benefits provided by their executive contracts. They are partly considered as non-cash benefits and are taxed accordingly. This includes mainly the car allowance and the granting of accident insurance coverage. Secondary employment is on principle subject to approval.

The contract periods for the members of the management board are linked to the terms of appointment as member of the management board. The contracts for the members of the management board provide for a post-contractual non-competition clause. The members of the management board are contractually prohibited from supplying services to or for a competitor within the period of one and a half-years after their resignation.

In 2019, Basler AG commissioned a study on the remuneration of the management board and the supervisory board. This confirms the appropriateness of the system and the level of compensation and names comparable companies. Domestic technology companies listed in the Prime Standard with sales of between € 100 million and € 200 million were used as comparative companies. The study also provides suggestions for the further development of the compensation system.

You will find a detailed overview of the remuneration of the management board and the supervisory board in the notes of this annual report. A detailed remuneration report can be found in the company's management report.

OPPORTUNITIES AND RISKS REPORT AS WELL AS COMPLIANCE

The growth strategy pursued by Basler increasing sales to above € 250 million, can only be implemented if opportunities are seized and, at the same time, measures are taken in order to minimize risks in an appropriate way.

The purpose of the opportunity and risk management system at Basler is:

to generate transparency within the executive team about opportunities and risks of our business and to agree within the executive team how the probability of occurrence of relevant risks can be limited and to create scopes of action enabling a deliberate approach to opportunities and risks, in order to avoid risks that are unacceptable and to reduce avoidable risks to an acceptable level.

Essential parts of the opportunities and risk management system are the risk strategy, the risk atlas, the risk matrix, and the measures to overcome risks and to avoid them. In 2014, a risk strategy was adopted and software for a standardized collection and measurement of risks was implemented. Again, in the elapsed fiscal year, the risk inventory was conducted. Here, risks were identified and quantified according to occurrence probability and monetary amounts and measures were defined in order to minimize the risk. The number of identified risks has been compared to the defined risk cover amount (available capital for covering risks). The risk capacity of the group was not exceeded. These measures will be flanked by the internal control system (IKS), the internal quality management system and finally by the annual external audit in the frame of the DIN ISO 9001:2015.

The compliance of the group's business activities with legal requirements and human rights, as well as the rejection of corruption and bribery are self-evident for Basler AG. They are set down within a Code of Conduct and specific corporate guidelines supported by a Compliance Management System. Detailed information on this subject can be found under point 11 of the notes "Non-financial statement".

FINANCIAL REPORTING AND YEAR-END AUDIT

Basler AG prepares its consolidated financial statements as well as the consolidated interim reports as per the International Financial Reporting Standards (IFRS). The annual financial statements of Basler AG (individual financial statements) are prepared in accordance with the provisions of the German Commercial Code (HGB). The consolidated financial statements are prepared by the management board, examined by the auditor and approved by the supervisory board. The annual general meeting selected BDO AG Wirtschaftsprüfungsgesellschaft as auditor and group auditor for the 2020 fiscal year. On March 25, 2021, BDO took part in the deliberations of the supervisory board concerning the annual financial statements and the consolidated financial statements and reported on the results of its audit. Furthermore, the auditor was available to provide the supervisory board with additional information and answer questions concerning the year-end audit.

TRANSPARENCY AND COMMUNICATION

Basler makes an open and trustful communication with the shareholders and other stakeholders a priority and maintains a fair, prompt and reliable dialogue with all stakeholders. All capital market-relevant information is published simultaneously in German and English and made accessible on the company's website. This includes annual and quarterly reports, press releases, ad hoc notifications, information on the annual general meeting and company presentations. The financial calendar with the relevant publication and event dates can also be found there.

Basler AG provides information on the trading of company shares by management board and supervisory board members (directors' dealings) as per § 15a of the German Securities Trading Act (WpHG) as well as on changes in the shareholdings if the voting thresholds defined in the German Securities Trading Act (WpHG) are reached, surpassed or fallen below. Information on the shares held by the management board and the supervisory board are included in the notes.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

Shareholders can assert their rights and exercise their voting rights at the general meeting. The management board presents the consolidated financial statements and annual financial statements, explains the prospects of the company and, together with the supervisory board, answers the shareholders' questions. The invitation to the annual general meeting and the corresponding documents and information are made available on the Basler AG website the day the meeting is called in accordance with stock corporation laws or are made available for viewing in the offices of the company. Basler supports its shareholders in the assertion of their voting rights by appointing voting representatives, who vote according to the instructions of the shareholders.

GENDER QUOTA

The first level of management beneath the management board is the divisional management and below it follows the department management. On December 31, 2020, approximately 27 % of Basler AG's divisional managers were female and 20 % of its department managers were female. There have not yet been defined targets for the group. The definition of a department manager in the subsidiaries differ from the one in the mother company. Therefore, a comparability is currently difficult. This will be reviewed accordingly in the upcoming financial year. The targets for promoting the participation of women in management position have not yet been met at the end of the reporting period. This is due to the M&A transactions of smaller companies which had mostly males in management positions in the past years. The possibilities in the context of organic growth over the short period of time were not sufficient to compensate for this effect.

The company offers a special training program (high potential program) in order to qualify talented employees for leadership roles. The 2020 program sequence focused on the promotion of women in leadership positions. The goal is to identify and promote suitable managers in order to sustainably increase the percentage of women in management positions.

In 2020, for the first time, the winner of the annual innovation competition was a female employee from the Ahrensburg site. In total, 20 employees participated in this competition, 3 of them were female.