

Basler Aktiengesellschaft

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Corporate Governance

The management board and the supervisory board of Basler AG are committed to responsible, long-term and substantial development of the company. Good Corporate Governance is one key component of this. The following Declaration of Conformity refers to the recommendations of the Government Commission for the German Corporate Governance Code as amended on May 5, 2015.

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's 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.

Leadership Structure and Company Structure

Basler AG has a two-part management and monitoring structure with the two bodies of the management board and the supervisory board.

Management Board

Compared to the previous year, in 2016 the composition in terms of personnel remained unchanged. 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 the strategic direction of the company and implements this strategy. The management board ensures the adherence to legal provisions and company-internal guidelines, and works to achieve compliance throughout the group. The management board 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 which may materially affect the net asset situation, financial situation, 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.

Der Aktienbesitz der Aufsichtsräte ist im Anhang des Geschäftsberichts aufgeführt.

Supervisory Board

The supervisory board consists of three members. It 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 is 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 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.

You will find the individual supervisory board mandates of the supervisory board members as well as the shareholdings of the supervisory and the management board in the notes of the annual report.

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 to fringe benefits. 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.

You will find a detailed overview of the remuneration of the management board and the supervisory board in the notes of this annual report.

Opportunities and Risks Report as well as Compliance

The growth strategy pursued by Basler for market leadership for industrial cameras in the coming years with group sales above € 150 million, can only be implemented if opportunities are seized and, at the same time, measures are taken in order to minimize threatening 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
- 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 risks management system are the risk strategy, the risk atlas, the risk matrix, and the risk coping. In 2013, 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 9000/2000 and DIN ISO 9000 / 2008.

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 2016 fiscal year. On March 29, 2017, 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.

Shareholders and the Annual General Meeting

Shareholders can assert their rights and exercise their voting rights at the annual 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.

Transparency and Communication

Basler makes 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.

Directors' Dealings and Voting Rights

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 is included in the notes.

Gender Quota

In the context of implementing the law for equal participation of women and men in executive positions in the private industry and public services of March 6, 2015, the supervisory board should set objectives for reaching the gender quota in the supervisory board and the management board. The supervisory board decided not to increase the women quota until June 30, 2017. Further information on this subject are given in the declaration of conformity (5.4.1).

DECLARATION OF CONFORMITY 2016 WITH THE CORPORATE GOVERNANCE CODE PURSUANT TO § 161 OF THE GERMAN STOCK CORPORATION ACT (AKTIENGESETZ – AKTG)

The management board and the supervisory board declare that in the elapsed fiscal year 2016 Basler AG complied with the recommendations for conduct as amended on May 5, 2015, by the „Government Commission of the German Corporate Governance Code” (hereinafter called “code”) with the following exceptions:



Clause 5.4.1 – Composition of the Supervisory Board

For nominations to the general meeting, the supervisory board will also in the future continue to align itself to all necessary legal requirements and will give preference to women with equal qualifications. Consideration will also be given to the international activities of the company, to potential conflicts of interest, and to diversity. However, the supervisory board must make its decision insofar as the best suitable candidate is concerned from its perspective whenever a new election is waiting. The supervisory board – in agreement with the management board – does not consider it to be pertinent if it is bound by abstract objectives formulated in advance with respect to its selection of a candidate, instead of being able to freely decide on the persons available in their specific decision scenario which it deems to be best suited for the position. For this reason, the supervisory board does not name specific objectives as provided by clause 5.4.1 paragraph 2 GCGC, nor will it determine a regular limit of length of the membership to the supervisory board as recommended by clause 5.4.1, paragraph 2, sentence 1 as of May 5, 2015. Consequently, such objectives will also not be taken into account for the nominations directed at the responsible election bodies and no report will be given about them and the state of their implementation.

Clause 7.1.2 – Financial Reporting and Audit of the Annual Financial Statements

The supervisory board regularly discusses the quarterly and half-year figures with the management board. In terms of lean processes, half-year, quarterly or monthly figures are being made available to the supervisory board but not discussed again with the management board after the completion of the reports.

Ahrensburg, March 29, 2017



Dr. Dietmar Ley
CEO

John P. Jennings
CCO

Arndt Bake
CMO

Hardy Mehl
CFO/COO

Norbert Basler
Chairman of the
Supervisory Board

Prof. Dr. Eckart Kottkamp
Vice Chairman of the
Supervisory Board

Horst W. Garbrecht
Supervisory Board