

Corporate Governance Report of Basler AG as well as of the Basler group

Basler Aktiengesellschaft

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Corporate Governance

The management board and the supervisory board of Basler AG and the Basler group are committed to responsible, long-term and substantial 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 February 7, 2017.

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 of 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 / the Basler group have a two-part management and monitoring structure shared between the bodies of the management board and the supervisory board.

Management Board

In 2017, 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 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

The supervisory board consists of four 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.

The rules of procedures of 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 should be independent and should not have been a member of the company's management board in the past two years. The chairman of the supervisory board is not the chairman of the audit committee. At least one member of the audit committee is independent and has expert knowledge in the fields of accounting and final audits.

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.



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 Conception

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 under <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. Since the beginning of 2014, the members of the management board have been working together on a basis of trust. For the time being no changes in this body are planned.

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. In doing so, the company's international activities, potential conflicts of interest as well as diversity will be considered. 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, no increase of the women quota has to be achieved in the supervisory board and the management board. Due to this a gender quota of 0 % is defined for the management board. Therefore, the supervisory board does not give concrete targets according to clause 5.4.1, paragraph 2, DCGK (Deutscher Corporate Governance Kodex, German Corporate Governance Code) nor does it set a limit for the length of service or an age limit for members of the supervisory board as recommended in clause 5.4.1 paragraph 2, sentence 21, DCGK, in the version dated May 5, 2015.

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 € 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 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 9001:2015.

Status informations of the compliance management system can be found in the declaration of conformity 2017 under 4.1.3.

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 2017 fiscal year. On March 19, 2018, 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 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 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.

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 are 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. In its meeting in March 2018, the supervisory board decided that for the time being, no increase of the women quota has to be achieved in the supervisory board and the management board. Due to this a gender quota of 0% is defined for the management board.

With the election of Prof. Dr. Mirja Steinkamp as a member of the supervisory board in the general meeting 2017, as well as the recently elected Dorothea Brandes as employees representative member of the supervisory boards, the women's quota in the supervisory board of Basler AG is currently more than 30 %. There is no intention to



change the current staffing of the very well cooperating management board and the supervisory board.

Further information on this subject is given in the declaration of conformity (5.4.1).

In March 2018, the management board and the supervisory board decided that until the end of 2021 at the latest a women quota of 30 % should be achieved in executive functions as well as on head of department level at Basler AG. On September 30, 2017, 25 % of the company's executive functions as well as 28 % of the head of departments were female. On January 1, 2018, the quota of female executive employees increased to 30 %. The first management level below the management board is the divisional management followed by the department heads.

DECLARATION OF CONFORMITY 2017 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 2017, Basler AG complied with the recommendations for conduct as amended on February 7, 2017 by the „Government Commission of the German Corporate Governance Code” (hereinafter called “code”) with the following exceptions:

Clause 4.1.3. – Compliance Management System

Due to the risk situation of the company resulting from the size and nature of business, in accordance with its function, the management board ensured that all provisions of law and the company's internal policies are complied with and endeavored to achieve their compliance by the group entities, without having set up a formal compliance management system so far. This has been achieved inter alia by the company organization and the existing procedural landscape as well as the active shaping of the company culture. By the end of 2018, a compliance management system will be implemented.



Clause 5.4.1 – Composition of the Supervisory Board

For nominations to the general meeting, the supervisory board will in the future also 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 the 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 completing the reports.

Ahrensburg, March 19, 2018

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	Prof. Dr. Mirja Steinkamp Supervisory Board

