

# DECLARATION ON CORPORATE GOVERNANCE

**[INDUS]**

## — DECLARATION ON CORPORATE GOVERNANCE

### **THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD ARE COMMITTED TO CONFORMING WITH THE GERMAN CORPORATE GOVERNANCE CODE, ALLOWING TWO JUSTIFIED EXCEPTIONS**

The conduct of the management and supervisory bodies of INDUS Holding AG is governed by the principles of good and responsible corporate governance. In this declaration the Board of Management and Supervisory Board report on the company's governance in line with Item 3.10 of the German Corporate Governance Code and Section 289a (1) of the German Commercial Code (HGB). INDUS's actions are geared toward long-term success. The Board of Management and Supervisory Board have therefore followed German Corporate Governance Code recommendations for many years.

The government commission for the German Corporate Governance Code adopted the amended version of the Code from May 5, 2015. In the year under review, the Supervisory Board and the Board of Management jointly provided an updated declaration of conformity in accordance with Section 161 (1) of the German Stock Corporation Act (AktG) on December 16, 2015. This declaration has been published on the company's website.

With the exception of two recommendations (no announcement of concrete targets regarding the composition of the Supervisory Board and no limits to the terms of office for the Supervisory Board, not publishing annual reports within 90 days of the end of the fiscal year, or interim reports within 45 days of the end of the quarter), INDUS Holding AG complies with all of the recommendations made by the government commission for the German Corporate Governance Code and will continue to comply in future.

### **SUPERVISORY BOARD**

The Supervisory Board of INDUS Holding AG appoints the Board of Management, provides guidance regarding company management, and monitors management activities. Information regarding the focal points of Supervisory Board activity last year is available in the Supervisory Board's report. The Supervisory Board consisted of six members in the year under review. The next appointment date is at the 2017 Annual Shareholders' Meeting.

No member of the Supervisory Board performs or has performed executive, supervisory, or consulting functions at any significant competitors of INDUS. The Code recommendation is followed that no more than two former Board of Management members should be allowed on the Supervisory Board. There are currently no former Board of Management members on the Supervisory Board.

The Supervisory Board has set an age limit for its members: the member may not be above the age of 70 at the time of appointment.

### **WORKING METHODS AND COMPOSITION OF THE SUPERVISORY BOARD AND COMMITTEES**

The INDUS Holding AG Supervisory Board has formed a Personnel and an Audit committee. The Nomination Committee is identical to the Personnel Committee. The Personnel Committee comprises three members. Its duties are to deal with personnel matters relating to the Board of Management, in particular the employment contracts and other contracts with members of the Board of

Management. Decisions are only made by the full Supervisory Board if this is required by law. This applies in particular to Supervisory Board decisions regarding compensation models for Board of Management members and, since the German Act on the Appropriateness of Management Board Remuneration (VorstOG), regarding determination of overall compensation for the individual Board of Management members. The committee must present proposals on these points and submit them to the full Supervisory Board for resolution. The Audit Committee currently consists of two members.

The committees generally convene in in-person meetings. Outside of meetings, resolutions in writing are permissible if called for by the Supervisory Board Chairman. As with the Supervisory Board itself, committee decisions require a simple majority, unless the law provides otherwise. The effectuation of resolutions by the Supervisory Board and its committees is the responsibility of the Supervisory Board Chairman.

The Supervisory Board is in favor of filling management positions at INDUS Holding AG with candidates that fulfill INDUS's high standards while also taking into account diversity criteria (gender, age, religion, ethnic origin, sexual orientation, disability, etc.). The Supervisory Board is particularly committed to achieving an appropriate ratio of women on committees at INDUS Holding AG in the medium to long term. Both the Board of Management and the Supervisory Board of INDUS Holding AG are aware that this view is shared by the INDUS Holding AG portfolio companies.

The Supervisory Board has determined a target of 16.6% for the ratio of women on the Supervisory Board. This target represents the current status, and is valid until June 30, 2017. The Supervisory Board is open to raising the target. The Supervisory Board will discuss and make a decision before June 30, 2017, regarding the new target that will apply from July 1, 2017, for the ratio of women on the Supervisory Board.

#### **WORKING METHODS AND COMPOSITION OF THE BOARD OF MANAGEMENT**

The INDUS Holding AG Board of Management runs the company and manages its business activities. The Board determines the company's strategic orientation, coordinates this with the Supervisory Board, and ensures its implementation. The Board of Management also outlines business goals, annual and multi-year projections, determines the internal control and risk management system, and the business segments' controlling practices. The Board of Management's duties also include preparation of the quarterly, semi-annual, and annual financial statements of INDUS Holding AG and the INDUS Group. The Board of Management consisted of three members in 2015. The Board's members are Jürgen Abromeit (CEO), Dr. Johannes Schmidt, and Rudolf Weichert. The age limitation policy adopted by the Supervisory Board for members of the Management Board, which provides for their stepping down upon reaching the age of 68, was complied with.

The Supervisory Board expects a ratio of women on the Board of Management of 25% in the medium term. However, as it seems unlikely that the target 25% ratio of women will be met at such short notice, that is, by the date set by the lawmakers of June 30, 2017, for the first fixed target, the Supervisory Board has decided on a target of 0% for the ratio of women on the Board of Management until the date mentioned above. The Supervisory Board will discuss and make a decision before June 30, 2017, regarding the new target that will apply from July 1, 2017, for the ratio of women on the Board of Management.

The Board of Management is in favor of filling management positions at INDUS Holding AG with candidates that fulfill INDUS's high standards while also taking into account diversity criteria (gender, age, religion, ethnic origin, sexual orientation, disability, etc.). The Board of Management is particularly committed to maintaining an appropriate representation of women among the INDUS Holding AG workforce. Women currently make up 38% of the holding company's workforce.

There are no management levels below the Board of Management in INDUS Holding AG's organizational structure. It was not the lawmaker's intention to interfere with management's authority in listed companies when it comes to its own organization with the "Law for equal rights of women and men to participate in management positions in the private and public sector." That is why the Board of Management is under no obligation to define new management levels (for the first time) as a result of this law. For this reason, the Board of Management has decided against applying a target for a ratio of women in management positions below the level of the Board of Management at INDUS Holding AG.

#### **COLLABORATION BETWEEN THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD**

The composition of the Board of Management, Supervisory Board, and Board committees is described in the section Governance Bodies. The Board of Management has no committees. The Board of Management informs the Supervisory Board in a regular, timely, and comprehensive manner of all relevant issues, including particularly those pertaining to the corporate budget, strategic development, earnings and financial position, risk situation, risk management, and compliance. Deviations from targets and planning in the company's course of business are also elucidated, as well as the Group's strategic approach and development. Decisions of material significance for the Group require Supervisory Board approval according to the rules of procedure.

#### **AVOIDING CONFLICTS OF INTEREST**

There were no consulting, service or work contracts in place between individual Supervisory Board members and the company. In the year under review, members of the Board of Management and Supervisory Board had no conflicts of interest requiring immediate reporting to the Supervisory Board. See the chapter 'Further information' regarding additional offices held by Board of Management or Supervisory Board members on legally mandatory supervisory boards or comparable domestic or foreign oversight bodies. See the Notes for related party disclosures.

#### **D&O INSURANCE DEDUCTIBLE**

The company has taken out directors and officers (D&O) insurance for members of the Board of Management and Supervisory Board with an appropriate deductible in accordance with Section 93 (2) Sentence 3 of the German Stock Corporation Act (AktG) regarding Board of Management members and in accordance with German Corporate Governance Code regarding Supervisory Board members.

#### **DISCLOSABLE SECURITIES TRANSACTIONS AND SHAREHOLDINGS OF BOARD OF MANAGEMENT AND SUPERVISORY BOARD MEMBERS**

In 2015, no reportable purchases were disclosed by members of the Supervisory Board or their reportable relatives. The three members of the Board of Management disclosed share purchases in August 2015. All disclosed securities transactions are reported on the company website. The

total shareholdings of all Board of Management and Supervisory Board members exceeded the 1 % threshold of shares issued as of December 31, 2015 at 1.6 %. Of this total, Supervisory Board member Hans Joachim Selzer holds 385,033 shares (1.5 %), Supervisory Board member Dr. Jürgen Alerkamp holds 4,000 shares, Board of Management Chairman Jürgen Abromeit holds 3,000 shares and the Board of Management members Dr. Johannes Schmidt and Rudolf Weichert each hold 500 shares.

#### **TRANSPARENCY**

INDUS provides shareholders, shareholder associations, analysts, the media, and the interested public with information on the company's current business and position in a regular and timely manner. The company notifies these groups simultaneously and they receive equal treatment. During the course of its Investor Relations work, INDUS has regular contact with analysts and institutional investors. The most recent presentations are freely available on the website. A financial calendar, published in the annual report, interim reports, and on the company's website, provides information regarding regular events, such as the date of the Annual Shareholders' Meeting or the publication dates of interim reports. The website also provides information regarding recent developments. All INDUS press releases and ad-hoc releases are published on the website in both English and German, and images and information are also available. The articles of incorporation, annual reports, interim reports, and declaration on corporate governance can also be downloaded. Interested persons can also subscribe to an electronic newsletter via the website, which provides news about the Group

#### **SHAREHOLDERS AND ANNUAL SHAREHOLDERS' MEETING**

Shareholders and potential investors can find information about the company's current position online at any time. The shareholders of INDUS Holding AG exercise their rights within the framework of the Annual Shareholders' Meeting. Each share carries one vote. Shareholders whose shares amount to a total of twenty percent of the capital stock or EUR 500,000 may have issues placed on the agenda and announced. The shareholders must reach the lower of either quota system, that is, based on capital stock amounting to EUR 63,571,323.62, 24,450,509 shares would correspond to 5 % of the capital stock of 1,222,525 shares. The alternative quota of EUR 500,000 corresponds to 192,308 shares (approx. 0.8 % of capital stock). All INDUS shares are bearer shares; there are no other classes of shares. INDUS publishes all documents required for decision-making in good time on its website. INDUS helps shareholders exercise their voting rights by nominating proxies who cast votes at the Annual Shareholders' Meeting in accordance with the instructions they receive from the shareholders. Voting instructions can be given to the proxies both before and during the Annual Shareholders' Meeting up until the end of the general debate. Shareholders can submit their instructions online up until the start of the Annual Shareholders' Meeting. Shareholders are also able to vote by absentee ballot without appointing a proxy. In the year under review, the Annual Shareholders' Meeting, held in Cologne on Wednesday, June 03, 2015, had an attendance of roughly 400.

#### **ACCOUNTING AND FINANCIAL STATEMENT AUDITING**

Since the beginning of 2005, the consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS), as applicable for the EU. The INDUS Holding AG financial statement, on the other hand, on which dividend distribution is based, is prepared in accordance with HGB (German commercial code) regulations. At the Annual Share-

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holders' Meeting held on June 3, 2015, Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Cologne, was chosen as auditor for the Group and the financial statements based on the Supervisory Board's suggestion. The auditor is chosen in line with the legal requirements for a period of one fiscal year by the Annual Shareholders' Meeting. Ebner Stolz has been the auditor of INDUS Holding AG's financial statements and the consolidated financial statements since fiscal 2013.

The individual and consolidated financial statements are signed by the auditors Dr. Werner Holz-mayer and Marcus Lauten (both since fiscal 2013). The legal requirements and rotation obligations laid out in Sections 319 and 319a of the HGB are met. The corresponding statement of independence in accordance with Item 7.2.1 of the German Corporate Governance Code was obtained by the Supervisory Board. The audit assignment for the individual and consolidated financial statements was issued by the Supervisory Board following the resolution passed by the Annual Shareholders' Meeting. The Supervisory Board and auditor of the financial statements agreed that the Chairman of the Supervisory Board is to be informed immediately of any grounds for exclusion or bias during the audit. Furthermore, the auditor of the financial statements is to immediately report on any findings and events material to the Supervisory Board's tasks.

## — COMPENSATION REPORT

The German Management Board Remuneration Disclosure Act (VorstOG) provides for individualized disclosure of compensation paid to Board of Management members. The Act stipulates that this compensation is to be itemized by fixed and performance-based components, as well as components with a long-term incentive effect.

### **COMPENSATION SYSTEM COMPLIES WITH MANAGEMENT BOARD REMUNERATION DISCLOSURE ACT (VORSTOG)**

The Board of Management compensation system was reviewed in 2009 and presented by the Supervisory Board at the 2010 Annual Shareholders' Meeting. In accordance with legal requirements, the compensation system consists of three elements: Fixed salary, short-term incentives and long-term incentives. Variable components account for more than 40 % of compensation; components with a multi-year measurement base and short-term variable components are weighted accordingly. A sustainability component will be introduced for the first time in the 2016 fiscal year.

The **short-term incentive** is determined on the basis of consolidated EBIT (consolidated earnings before interest and taxes prior to goodwill impairment). The target is set annually as part of the corporate planning process with Supervisory Board involvement. If the target is reached in full (100 %), the bonus factor is 100 %. If the target attainment level is below 50 %, the bonus factor is 0. If the target reached is between 100 % and 125 %, the bonus factor increases by two percentage points for each percentage point of growth. If the target reached is over 125 %, a cap (maximum upper limit) applies.

The **long-term incentive** consists of "virtual" stock options (stock appreciation rights). These involve the setting of an exercise price for stock appreciation rights as of the issue date. The contrac-

tually agreed target amount determines the number of virtual stock options. A payout shall only be made if the share price is higher than this exercise price in the exercise period, and defined success hurdles are cleared (minimum price increase of 12 %). The earliest possible date of payout is subject to a four-year blocking period, and an upper limit (cap) applies when 200 % of the target bonus is reached. The number of SARs granted to Board of Management members in annual tranches is determined based on the option price at the grant date and the contractually specified target price. The options are non-forfeitable from the date they are granted.

In fiscal 2015, 65,636 SARs were granted (previous year: 77,200). At the grant date, the total fair value of the SARs was EUR 280,000 (previous year: EUR 280,000). The fair value of previously granted SARs was calculated at a total of EUR 2,248,000 at the reporting date (previous year: pro rata temporis fair value EUR 1,436,000). A provision in this amount was formed in the annual financial statements. Personnel expenses include the EUR 1,486,000 change in fair value before discounting (previous year: EUR 408,000). Fair values were determined using a recognized actuarial option price model, taking account of the cap on payout claims.

The individual report on Board of Management remuneration for fiscal 2014 and 2015 was based on the standardized template recommended by the German Corporate Governance Code.

#### BOARD OF MANAGEMENT REMUNERATION – BENEFITS GRANTED (IN EUR '000)

			JÜRGEN ABROMEIT CHAIRMAN (SINCE 2012; BOARD MEMBER SINCE 2008)				DR. JOHANNES SCHMIDT BOARD MEMBER (SINCE 2006)				RUDDOLF WEICHERT BOARD MEMBER (SINCE 2012)	
	2014	2015	2015 (MIN.)	2015 (MAX.)	2014	2015	2015 (MIN.)	2015 (MAX.)	2014	2015	2015 (MIN.)	2015 (MAX.)
Basic salary	528	539	539	539	370	370	370	370	300	320	320	320
Ancillary benefits	17	19	19	19	15	17	17	17	31	31	31	31
<b>Total</b>	<b>545</b>	<b>558</b>	<b>558</b>	<b>558</b>	<b>385</b>	<b>387</b>	<b>387</b>	<b>387</b>	<b>331</b>	<b>351</b>	<b>351</b>	<b>351</b>
One-year variable remuneration	270	270	0	405	170	170	0	255	170	170	0	255
Multi-year variable remuneration												
Tranche 2014*	140	0	0	0	70	0	0	0	70	0	0	0
Tranche 2015**	0	140	0	280	0	70	0	140	0	70	0	140
<b>Total</b>	<b>410</b>	<b>410</b>	<b>0</b>	<b>685</b>	<b>240</b>	<b>240</b>	<b>0</b>	<b>395</b>	<b>240</b>	<b>240</b>	<b>0</b>	<b>395</b>
Benefit expenses	0	0	0	0	0	0	0	0	0	0	0	0
<b>Full compensation</b>	<b>955</b>	<b>968</b>	<b>558</b>	<b>1,243</b>	<b>625</b>	<b>627</b>	<b>387</b>	<b>782</b>	<b>571</b>	<b>591</b>	<b>351</b>	<b>746</b>

\* Tranche 2014: virtual stock options (Jan. 1, 2014–Dec. 31, 2019)

\*\* Tranche 2015: virtual stock options (Jan. 1, 2015–Dec. 31, 2020)

The Board of Management received the following remuneration in 2015:

<b>BOARD OF MANAGEMENT REMUNERATION – AMOUNTS RECEIVED IN YEAR UNDER REVIEW</b> (IN EUR '000)						
	JÜRGEN ABROMEIT CHAIRMAN (SINCE 2012; BOARD MEMBER SINCE 2008)		DR. JOHANNES SCHMIDT BOARD MEMBER (SINCE 2006)		RUDOLF WEICHERT BOARD MEMBER (SINCE 2012)	
	2014	2015	2014	2015	2014	2015
Basic salary	528	539	370	370	300	320
Ancillary benefits	17	19	15	17	31	31
<b>Total</b>	<b>545</b>	<b>558</b>	<b>385</b>	<b>387</b>	<b>331</b>	<b>351</b>
One-year variable remuneration	296	330	183	209	183	209
Multi-year variable remuneration						
Tranche 2010*	140	0	140	0	0	0
Tranche 2011**	0	140	0	140	0	0
<b>Total</b>	<b>436</b>	<b>470</b>	<b>323</b>	<b>349</b>	<b>183</b>	<b>209</b>
Benefit expenses	0	0	0	0	0	0
<b>Full compensation</b>	<b>981</b>	<b>1,028</b>	<b>708</b>	<b>736</b>	<b>514</b>	<b>560</b>

\* Tranche 2010: virtual stock options (Jan. 1, 2010–Dec. 31, 2015)

\*\* Tranche 2011: virtual stock options (Jan. 1, 2011–Dec. 31, 2016)

Ancillary benefits include taxable non-cash benefits, primarily company cars. Deferred salary plans resulted in the accumulation of pension rights by a former Board of Management member. These were covered by reinsurance policies of corresponding value.

#### UPPER LIMITS OF REMUNERATION

In accordance with item 4.2.3 (2) of the German Corporate Governance Code, the Board of Management's remuneration should include upper limits overall and in regard to variable remuneration. The maximum remuneration for the Board of Management can be found in the table 'Benefits granted.'



## SUPERVISORY BOARD

Supervisory Board compensation is governed by Item 6.16 of the articles of incorporation. In addition to the reimbursement of out-of-pocket expenses incurred in performing their duties in the fiscal year ended, all Supervisory Board members receive basic compensation of EUR 30,000, as well as an attendance fee of EUR 3,000 per meeting. The Chairman receives double the two aforementioned sums, and his deputy receives one-and-a-half times these amounts. An additional fee is not paid to committee members for committee meetings held on the same day as Supervisory Board meetings. Attendance fees are not paid for resolutions by circulating written ballot. The chairman and deputy chairman of the Nomination Committee and Audit Committee do not receive additional fees. Supervisory Board members who do not serve for the entire fiscal year receive pro rata compensation. Compensation is reduced pro rata accordingly for failure to attend Supervisory Board meetings and/or committee meetings.

As in previous years, no loans or advances were granted to Supervisory Board members, nor any liabilities assumed on their behalf.

There are no stock option plans or similar securities-based incentive systems in place for Supervisory Board members. Total compensation paid to Supervisory Board members in the 2015 fiscal year was EUR 322,000 (previous year: EUR 322,000). For consulting services personally rendered to Group companies, Supervisory Board members received EUR 0,000 in the year under review (previous year: EUR 0,000). See 'Further Information' in the chapter of the same name for additional offices held by Board of Management or Supervisory Board members on legally mandatory supervisory boards or comparable domestic or foreign oversight bodies. See the Notes to the Consolidated Financial Statements for related party disclosures.

Supervisory Board members received compensation as follows in the year under review:

<b>SUPERVISORY BOARD MEMBERS' COMPENSATION</b> (IN EUR '000)						
	BASIC COMPENSATION		ATTENDANCE FEE		TOTAL	
	2014	2015	2014	2015	2014	2015
Helmut Späth (Chairman since June 11, 2014)	45	60	18	24	63	84
Burkhard Rosenfeld (until June 11, 2014)	30	0	12	0	42	0
Dr. Jürgen Allerkamp	45	45	22	22	67	67
Dr. Ralf Bartsch	30	30	15	15	45	45
Dr. Dorothee Becker (since June 11, 2014)	15	30	6	12	21	42
Hans Joachim Selzer	30	30	12	12	42	42
Carl Martin Welcker	30	30	12	12	42	42
<b>Total</b>	<b>225</b>	<b>225</b>	<b>97</b>	<b>97</b>	<b>322</b>	<b>322</b>