

Corporate Governance Report

In the interests of responsible and transparent corporate governance and control, Nabaltec AG has made a voluntary commitment to comply with the recommendations of the German Corporate Governance Code (the "Code") since 2007. In the year 2019 as well, the company will follow the recommendations of the Code, as amended on 7 February 2017, with the exception of a few deviations, which are disclosed and explained in the joint Declaration of Compliance of 1 March 2019 by the Management and Supervisory Boards. The exceptions result primarily from the effort to adhere to the requirements for good and sustainable corporate governance with particular regard for the size and structure of mid-sized companies.

In accordance with the joint Declaration of Compliance of 2 March 2018 by the Management Board and Supervisory Board, Nabaltec AG complied with the guidelines of the German Corporate Governance Code in Financial Year 2018.

The Articles of Association of Nabaltec AG were amended on 15 September 2017 in connection with the successful capital increase. The current version of the Articles of Association can be found on Nabaltec AG's website in the Corporate Governance section.

Interaction of the Management and the Supervisory Boards

As a joint-stock company, Nabaltec AG is subject to the provisions of the German Stock Corporations Act, which provides for a dual management system. Under this system, managing the company is the responsibility of the Management Board, which is advised and supervised by the Supervisory Board in the performance of its tasks, and in turn reports to the Supervisory Board on key developments. In its capacity as a supervisory body, the Supervisory Board ensures regular contact with the Management Board and meets to consider questions relating in particular to strategy, planning, business development, compliance, risk management and the company's risk situation, either alone or together with the Management Board. The two bodies work closely together in the company's interest, although there are strict separations between the two bodies with regard to their respective membership and responsibilities. The interaction of the two bodies is presented in an explicit manner in the Report of the Supervisory Board.

The Management Board

The Management Board manages the company on its own responsibility.

The members of the Management Board do not serve on the supervisory boards of publicly traded companies outside the Group or in other supervisory bodies of non-Group companies which have comparable requirements. No conflicts of interest arose in the past Financial Year.

In making appointments to executive positions, the Management Board looks for the best possible suitability and abilities as well as diversity and adequate inclusion of women.

The Supervisory Board

The Supervisory Board of Nabaltec AG appoints, supervises and advises the Management Board. It consists of three members and therefore does not form committees. The Supervisory Board was last elected by the shareholders in the General Meeting on 27 June 2017. On that occasion, Dr. Dieter J. Braun and Professor Dr. Jürgen G. Heinrich were reelected to five-year terms in the Supervisory Board. Mr. Gerhard Witzany, formerly of the Nabaltec AG Management Board, was also elected to the Supervisory Board, in which he will serve as Chairman. Dr. Dieter J. Braun serves as Deputy Chairman.

Detailed information about the Supervisory Board's work and consultations in Financial Year 2018 can be found in the Report of the Supervisory Board (printed as part of the 2018 Annual Report). No conflicts of interest arose in the reporting year.

Goals for the composition of the Supervisory Board

The goals for the composition of the Supervisory Board were first published in the 2010 Corporate Governance Report and are routinely reexamined and revised if necessary. Most recently, the Supervisory Board adapted the objectives for its composition in December 2018 to the international developments in the company. In accordance with the specifications in Section 5.4.1 of the German Corporate Governance Code, the Supervisory Board has adopted a detailed profile of skills and expertise for the entire Supervisory Board. Supervisory Board members are chosen based primarily on their qualifications, professional suitability and experience. The introduction of term limits or age limits is not deemed by the Supervisory Board to be necessary and suitable, as a purely formal criterion, for the Supervisory Board to perform its deliberative and supervisory tasks in a comprehensive manner. Rather, the expertise of particularly experienced Supervisory Board members is to remain at the disposal of the Supervisory Board and the company without a formal term or age limit. Due to the focus on qualifications, professional suitability and experience, no specific targets have been defined by the Supervisory Board with regard to diversity. This factor is given due consideration by the Supervisory Board when searching for suitable successors for departing Supervisory Board members and when making nominations to the shareholders.

In its estimation, the Supervisory Board has an adequate number of independent members. All three members are presently to be classified as independent. The Supervisory Board has taken into account the ownership structure in its composition, consistent with the recommendation in the German Corporate Governance Code.

Shareholders and the General Meeting

Attendance at the General Meeting of 26 June 2018 in Amberg was 81.2%. The General Meeting adopted all of the proposed resolutions. The individual voting results may be viewed in the Investor Relations section of the company's website, www.nabaltec.de, under Annual General Meeting 2018.

For several years, Nabaltec AG has offered its shareholders the option of using a company-appointed proxy to exercise their voting rights on their behalf. As a result of this option, even shareholders who do not personally take part in the General Meeting can cast their vote.

Compensation of corporate officers

The compensation of corporate officers can be found in the consolidated notes. The basic elements of the compensation systems were presented in the compensation report in the Consolidated Management Report.

Accounting and auditing

On 26 June 2018, the General Meeting chose Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Nuremberg, as auditor for Financial Year 2018. The audit mandate was issued by the Supervisory Board. Before recommending the auditor's selection to the General Meeting, the Supervisory Board obtained a declaration from the designated auditor with respect to the personal and commercial circumstances of the firm, and this declaration gave no cause for objections. As in prior years, the Supervisory Board agreed with the auditor that the Supervisory Board Chairman would be immediately notified if any grounds for exclusion or prejudice are discovered during the audit or if any circumstances come to light which might imply the inaccuracy of the declaration issued by the Management and Supervisory Boards pursuant to § 161 of the German Stock Corporations Act.

Declaration of Compliance pursuant to § 161 of the German Stock Corporations Act

The Management Board and Supervisory Board adopted the Declaration of Compliance pursuant to § 161 of the German Stock Corporations Act on 1 March 2019. This Declaration states and cites grounds for any deviations from the recommendations of the German Corporate Governance Code, as amended on 7 February 2017. The text of the Declaration is presented below.

Declaration of Compliance with the German Corporate Governance Code for the 2019 Financial Year

The Management Board and Supervisory Board of Nabaltec AG, with registered office in Schwandorf, hereby declare as follows pursuant to § 161 of the German Stock Corporation Act:

Since filing its first Declaration of Compliance on 26 March 2007, Nabaltec AG has complied with the recommendations of the German Corporate Governance Code (the Code) in Financial Years 2007 to 2018, with the exceptions noted in the Declarations of Compliance for those years. In Financial Year 2019, the Company will comply with the recommendations of the Code as amended on 7 February 2017 and published in the Bundesanzeiger [Federal Gazette], with the following exceptions:

- A directors and officers (D&O) policy is in place for members of the Supervisory Board, but no deductible has been stipulated for insured persons (3.8 of the Code). The Management and Supervisory Boards do not believe that such a deductible would have the effect of improving the motivation and sense of responsibility of the Supervisory Board members in performing their assigned functions.
- The Management Board provides for adequate measures adjusted to the situation of risk of the company with regard to Compliance; the Company, however, does not disclose the main features of such measures as the company generally treats for the company's benefit all matters of the internal organization of the company confidential (4.1.3 of the Code). Both, the employees as well as third parties may at any time inform the Management Board, the Supervisory Board, the Works Council or other persons of trust with regard to legal or compliance violations in the Company; however, from the Management Board's point of view in this respect no particularly protected way of communication is necessary since such information will in any case be treated with the necessary confidentiality and be pursued appropriately (4.1.3 of the Code).
- The compensation report contains no disclosures with respect to the benefits granted to each Management Board member (including fringe benefits and attainable maximum/minimum compensation), the accrual of the compensation and the cost for pensions and other benefits (4.2.5 of the Code), since the company properly discloses the information required by law and since the interest of the shareholders in transparency is adequately satisfied, in the view of the Supervisory Board, by publication of the disclosures in the notes and management report.

- There is no defined age limit for Management Board members (5.1.2 of the Code), in order to give the Company access to the expertise of older and more experienced Management Board members and in order to avoid precluding the optimal composition of the Management Board based on nothing more than formal considerations.
- The Supervisory Board does not form any committees, and in particular, does not have a committee on auditing or nomination (5.3.1, 5.3.2 and 5.3.3 of the Code). The Supervisory Board numbers three persons, which is adequate for the size of the Company. Since any Supervisory Board committee would also require at least three members, the Supervisory Board currently deems the formation of committees to be neither necessary nor expedient, and since it works effectively in the general committee.
- The Supervisory Board has not defined concrete objectives with regard to a regular limit on the length of membership in the Supervisory Board or an age limit for Supervisory Board members because the selection of Supervisory Board members is based primarily on their qualifications, professional suitability and experience (5.4.1 of the Code). The Supervisory Board considers the introduction of a regular limit on the length of membership or an age limit to be a merely formal criterion which is not necessary and suited for the Supervisory Board to perform its deliberative and supervisory tasks in a comprehensive manner. Rather, the expertise of particularly experienced Supervisory Board members is to be available to the Supervisory Board and the company regardless of a formal term limit or age limit. Since qualifications, professional suitability and experience are to be paramount, no specific targets have been defined with regard to diversity in the Supervisory Board. Diversity is to be adequately taken into account by the Supervisory Board when searching for successors for departing Supervisory Board members and presenting respective proposals to the Annual General Meeting.
- The Supervisory Board shall not announce proposed candidates for Supervisory Board chairman (Section 5.4.3 of the Code) so as not to anticipate the discussion in the Supervisory Board following an election.
- The position of deputy chairman of the Supervisory Board does not affect compensation. Supervisory Board compensation is not itemized and disclosed by name in the notes or the management report (5.4.6 of the Code). The Management and Supervisory Boards deem the current level of compensation for members of the Supervisory Board, which is defined by the general meeting, to be reasonable, and disclosure of total Supervisory Board compensation in the consolidated notes to be sufficient.

- The Company will not publish its consolidated financial statements and consolidated management report within 90 days of the close of each financial year and its obligatory financial information during the financial year within 45 days of the close of each reporting period (7.1.2 of the Code). The Company's consolidated financial statements and consolidated management report will be published within four months of the close of each financial year and obligatory financial information during the financial year will be published within two months of the close of each reporting period. In other words, the Company will voluntarily comply with the statutory deadlines for the regulated market and the stock exchange rules for the Prime Standard segment which are deemed reasonable by the Management Board and Supervisory Board.

Schwandorf, 1 March 2019

The Management Board:

The Supervisory Board:

Johannes Heckmann

Gerhard Witzany

Günther Spitzer

Dr. Dieter J. Braun

Dr. Michael Klimes

Prof. Dr.-Ing. Jürgen G. Heinrich