

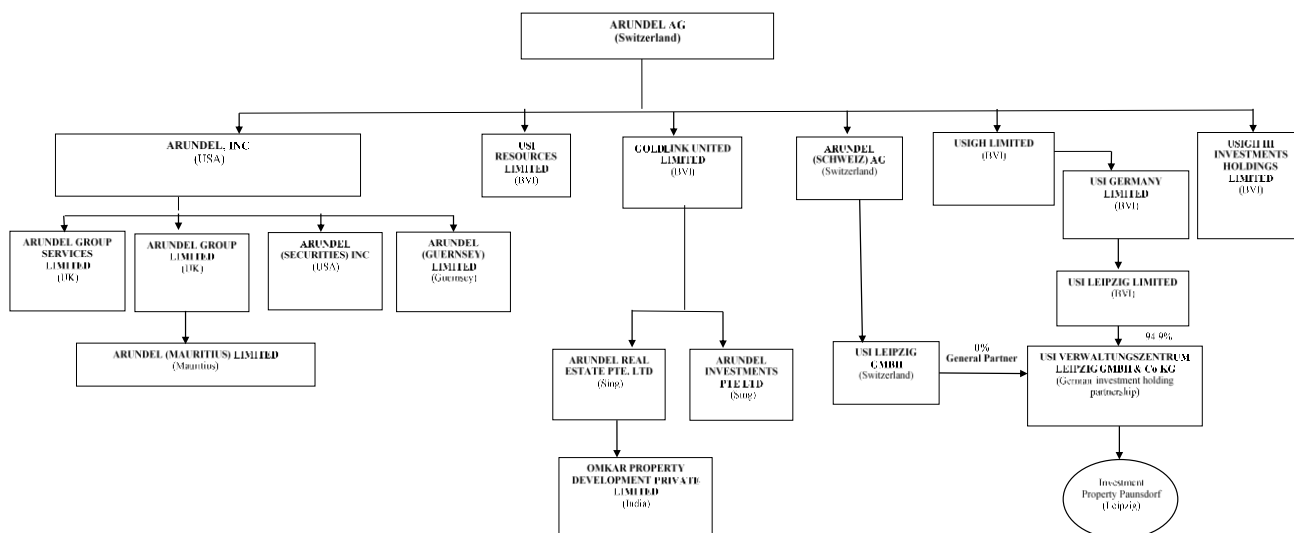
**I Corporate Governance**

This report describes certain key information relating to corporate governance at Arundel AG (the "Company"). The report's content is structured along the disclosure items of the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange currently in force.

**1 Group Structure and Shareholders**

**1.1 Group Structure**

At 31 December 2019, the corporate structure of the group of companies controlled by the Company (the "Arundel Group") was as follows (for the internal organizational structure, refer to section 3.4 and for segment reporting, to Note 26 to the Consolidated Financial Statements)



All holdings are 100% unless otherwise stated.

The Company has its address at Gotthardstrasse 21, CH-8002 Zurich, Switzerland and its registered shares are listed on the SIX Swiss Exchange under the International Reporting Standard. For its ISIN, Security Number and SIX Swiss Exchange Symbol see section 9. The Company's market capitalization as at 31 December 2019 was CHF 31,439,541.

At 31 December 2019, the shareholdings of the Arundel Group were in the following non-listed companies:

Company and Domicile	Number of Shares Owned	Type of Shares and Nominal Value	Share Capital in issue	Direct/ Indirect Ownership %	Voting Rights %
USIGH Limited <sup>1</sup> Registered number: 1039705	10,000	Ordinary US\$ 0.01	US\$ 100	100	100
Arundel (Schweiz) AG Gotthardstrasse 21, CH-8002 Zurich, Switzerland, Registered number: CH-020.3.927.468-9	11,000	Ordinary CHF 100	CHF 1,100,000	100	100
USI Germany Limited <sup>1</sup> Registered number: 1440436	1	Ordinary US\$ 1.00	US\$ 1.00	100	100
USI Leipzig Limited <sup>1</sup> Registered number: 1417877	1,000	Ordinary No nominal value	-	100	100
USIGH III Investments Holdings Limited <sup>1</sup> Registered number: 1531975	2	Ordinary US\$ 1.00	US\$ 2.00	100	100
Goldlink United Limited <sup>1</sup> Registered number: 1774044	40,000	Ordinary US\$ 1.00	US\$ 40,000	100	100
Arundel Real Estate Pte Ltd 100D Pasir Panjang Road #03-04 Meissa, Singapore 118520 Registered number: 201503006R	1,000	Ordinary US \$1.00	US\$ 1,000	100	100
Arundel Investments Pte Ltd 100D Pasir Panjang Road #03-04 Meissa, Singapore 118520 Registered number: 201503006R	1,000	Ordinary US \$1.00	US\$ 1,000	100	100
USI Resources Limited <sup>1</sup> Registered number: 1683484	1	Ordinary US \$1.00	US\$ 1.00	100	100
Omkar Property Development Private Limited 37 Krishnaswamy Avenue, Mylapore, Chennai 600004, Tamil Nadu, India, Registered number: U70100TN2015PTC099260	600,000	Indian rupees ("INR") 10	INR 6 million	100	100
Arundel Inc <sup>2</sup>  Registered number: 819194	1,115	Ordinary No nominal value	-	100	100
Arundel Group Services Limited <sup>3</sup>  Registered number: 10190006	100	Ordinary GBP 1.00	GBP 100	100	100
Arundel Group Limited <sup>3</sup>  Registered number: 02722984	20,000	Ordinary GBP 1.00	GBP 20,000	100	100
Arundel (Securities) Inc <sup>2</sup>  Registered number: 01446223	1	Ordinary US\$ 1.00	US\$ 1.00	100	100
Arundel (Guernsey) Limited PO Box 308, 15/21 Commercial Arcade St Peter Port, Guernsey GY1 1JX Registered number: 31345	2	Ordinary GBP 1.00	GBP 2.00	100	100
Arundel (Mauritius) Limited 33 Edith Cavell Street, Port Louis, Mauritius, Registered number: C20170 C1/GBL	10,000	Ordinary US\$ 1.00	US\$ 10,000	100	100
USI Leipzig GmbH Brühl 10, 04109 Leipzig	25,000	Ordinary €1.00	€25,000	100	100

Registered number: HRB206969					
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<sup>1</sup> Registered office at Nerine Chambers, Road Town, Tortola, BVI.

<sup>2</sup> Registered office at 45 Rockefeller Plaza, Suite 2000, New York, NY 10111, USA.

<sup>3</sup> Registered office at 31a St James's Square, London, SW1Y 4JR.

The Arundel Group also owns a 94.9% interest in a German partnership named USI Verwaltungszentrum Leipzig Limited & Co KG, Leipzig, Germany.

## 1.2 Significant shareholders

The Company had the following major shareholders (3% or more of voting rights) as at 31 December 2019 (information based on latest disclosure notices made to the Company and the SIX Swiss Exchange's Disclosure Office pursuant to art. 120 of the Swiss Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading ("FMIA") and, in certain cases, on more recent information available to the Company from other sources (such as entries in the Company's share register, transactions in which the Company was involved, etc.)):

Name of Holder (Beneficial Owner)	No of Shares	Percentage ownership of total equity capital and voting rights
Nallan Chakravarthy Rangesh <sup>1</sup> 03-20, 3 Colman Street Peninsula Shopping Centre, 179804, Singapore	1,924,451	12.73%
David and Kathleen Quint Avallon, East Road, St. Georges Hill, Weybridge, Surrey, KT13 0LF, United Kingdom	1,638,075	10.84%
Doraiswamy Srinivas and Usha Kumar 63 Ashley Gardens, Ambrosden Avenue, London SW1P 1QG, United Kingdom	1,510,000	9.99%
Fides Trust Limited as trustee of the Linga Trust, PO Box 308,15/21 Commercial Arcade, St Peter Port, Guernsey GY1 1JX <sup>2</sup>	1,510,000	9.99%
Mrs Beatrix Lanfranconi 6045 Meggen, Switzerland	1,506,704	9.97%
Mr Thirupathur Lakshmanan Chandran <sup>3</sup> 11 Tg Rhu Rd 14-02 436896, Singapore	1,231,687	8.15%
YRC Worldwide, Inc. Master Pension Plans Trust 10990 Roe Avenue, Overland Park, Kansas 66211, USA	1,085,229	7.18%
Venus Global Macro Fund Limited c/o Catamaran Corp Ltd, A-1C Sector 16, Noida, U.P. 201301, India	650,604	4.30%
Ralph Beney August Pitts Farmhouse, Churn Lane, Horsmonden Kent TN12 8HW, United Kingdom	542,091	3.59%

Other shareholders	3,516,323	23.26%
<b>Total</b>	<b>15,115,164</b>	<b>100%</b>

- 1 The shares are held by NCR Developments Limited ("NCR") (a BVI corporation with registered address at Nerine Chambers, Road Town, Tortola, BVI). NCR is beneficially owned 100% by Mr Rangesh, a UK citizen living in the United States of America, Singapore and the UK.
- 2 The shares are held by Ewok Capital Management Limited ("Ewok") (a BVI corporation with registered address at Nerine Chambers, Road Town, Tortola, BVI). Ewok is beneficially owned 100% by Fides Trust Limited as trustee for the Linga Trust.
- 3 The shares are held by Green Street Global Investments Limited ("GS") (a BVI corporation with registered address at Nerine Chambers, Road Town, Tortola, BVI). GS is beneficially owned 100% by Mr Chandran, a non-resident Indian domiciled in Singapore.

Disclosure notices of significant shareholdings made to the Company and the SIX Swiss Exchange's Disclosure Office during the financial year under review pursuant to art. 120 FMIA may be viewed on the Disclosure Office's electronic publication platform at the following address:

<http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>

### **1.3 Cross-shareholdings**

There are no cross-shareholdings between the Company and any other entity that would exceed 5% of capital or voting rights on both sides.

## **2 Capital structure**

### **2.1 Capital**

As at 31 December 2019:

- 2.1.1 The Company's issued share capital amounted to CHF 15,115,164, divided into 15,115,164 registered shares with a par value of CHF 1.00 each, fully paid in.
- 2.1.2 The Company's conditional capital for board members, management and advisers amounted to CHF 1,511,516 and the conditional capital for bondholders and other creditors amounted to CHF 6,046,066.
- 2.1.3 The Company's authorized capital amounted to CHF 7,557,582 and expires on 12 June 2020.

### **2.2 Authorized and conditional capital**

#### **2.2.1 Authorized capital**

Pursuant to an authorization in Article 3c of the Company's articles of incorporation (the "**Articles**") the Company's board of directors (the "**Board**") may increase the share capital in the amount of up to CHF 7,557,582 until 12 June 2020 through the issuance of up to 7,557,582 fully paid-in additional registered shares with a nominal value of CHF 1.00 each (corresponding to 50.00% of the current issued share capital). An increase in partial amounts is permitted. The date of issuance, the issue price, the payments with regard to the issue price, the dividend entitlement as well as the allocation of not-exercised subscription rights shall be determined by the Board. The Board may restrict or withdraw subscription rights in connection with mergers, acquisitions of interests, financing and/or re-financing of mergers or acquisitions of interests, or other investment projects, national or international placements of shares, conversion of loans or other equity securities into shares and for the broadening of the shareholder basis. The new registered shares are subject to the restrictions specified in Article 4 of the Articles (see section 2.6.1).

#### **2.2.2 Conditional capital**

According to Article 3a of the Articles the share capital may be increased by a maximum amount of CHF 1,511,516 through the issuance of up to 1,511,516 fully paid registered shares with a nominal value of CHF 1.00 each (corresponding to 10.00% of the current issued share capital) through the exercise of option rights granted to the members of the Board or of the management and to advisers of the Company or its subsidiaries. The subscription rights of the shareholders are excluded. The conditions of the option rights, the issue price, the dividend entitlement as well as the type of contribution shall be determined by the Board. The acquisition of registered shares through the exercise of option rights as well as every subsequent transfer of shares are subject to the restrictions set forth in Article 4 of the Articles (see section 2.6.1).

Furthermore, according to Article 3b of the Articles the share capital may be increased by a maximum amount of CHF 6,046,066 through the issuance of up to 6,046,066 fully paid registered shares with a nominal value of CHF 1.00 each (corresponding to 40.00% of the current issued share capital) through the exercise of conversion rights, warrant rights or option rights which have been or will be granted to bondholders or other creditors of the Company or its subsidiaries. The subscription rights of the shareholders are excluded. The conditions of the option rights and of the conversion rights, the issue price, the dividend entitlement as well as the type of contribution shall be determined by the Board. The Board may restrict or withdraw the right for advance subscription (*Vorwegzeichnungsrecht*) of the shareholders in connection with (i) the financing (refinancing inclusively) of acquisitions of enterprises or parts thereof, participations or other investment projects of the Company and/or its subsidiaries or (ii) the issuance of bonds with option or conversion rights on national or international capital markets. If the right of advance subscription (*Vorwegzeichnungsrecht*) is excluded, (i) the bonds or bonds with warrants (*Anleihen oder Optionsanleihen*) have to be offered at market conditions, with (ii) the period of time for exercising the conversion and the options rights being not more than 10 years from the issue date (or from the time of any reset of their terms), and (iii) the exercise price of the new registered shares corresponding to the market conditions at the time of issue (or reset of terms). The acquisition of registered shares through the exercise of conversion and/or option rights as well as every subsequent transfer of these shares is subject to the restrictions set forth in Article 4 of the Articles (see section 2.6.1).

Part of this conditional capital (namely, a maximum number of 4,204,000 shares) has been reserved for issues of shares pursuant to the securities referred to in section 2.7.

### **2.3 Changes in capital in the past three years**

At the Annual General Meeting of the Company on 19 September 2017, the shareholders resolved to reduce the issued share capital by CHF 7'557'582 (from CHF 143,594,058 to CHF 136,036,476), by reducing the nominal value of each of the Company's registered shares from CHF 9.50 to CHF 9.00 and repaying CHF 0.50 per share to the shareholders. The capital reduction was registered in the Commercial Register on 29 November 2017 and the repayment effected on 10 January 2018.

At the Annual General Meeting of the Company on 11 June 2019, the shareholders resolved to reduce the issued share capital by CHF 120,921,312 (from CHF 136,036,476 to CHF 15,115,164), by reducing the nominal value of each of the Company's registered shares from CHF 9.00 to CHF 1.00. Of the reduction amount of CHF 120,921,312, a partial amount of CHF 117,935,864 was used to eliminate losses carried forward, and the balance of CHF 2,985,448 was allocated to legal capital reserves. The capital reduction was registered in the Commercial Register on 28 August 2019.

Other than as identified above, there were no changes to the Company's issued share capital in the past three years.

### **2.4 Shares and participation certificates**

As at 31 December 2019, the Company had 15,115,164 registered shares with a par value of CHF 1.00 fully paid in. The shares rank equally among each other in all respects (including in respect of entitlements to dividends and liquidation proceeds). Each share confers one vote in the shareholders' meeting (subject to limitations on approval as a shareholder with the right to vote, see below section 2.6.1).

The Company has not issued any participation certificates.

### **2.5 Profit sharing certificates**

The Company has not issued any profit sharing certificates.

## **2.6 Limitation on transferability and nominee registrations**

### **2.6.1 Limitations on transferability for each share category; indication of statutory group clauses and rules for granting exceptions**

Article 4 of the Articles provides that:

- 2.6.1.1 Acquirers of registered shares shall be registered in the share register as shareholders with the right to vote upon request if they expressly declare to have acquired the registered shares in their own name and for their own account. If an acquirer of shares is not prepared to provide this declaration, the Board may refuse to register him as a shareholder with the right to vote.
- 2.6.1.2 If registered shares are acquired by inheritance, division of an estate, or marital property law, the acquirer may not be refused as a shareholder with the right to vote.
- 2.6.1.3 After hearing the shareholder concerned, the Board may cancel, with retroactive effect as of the date of registration, entries in the share register as a shareholder with the right to vote, if these were made because of wrong information provided by the acquirer. A shareholder shall be immediately informed of such cancellation.

### **2.6.2 Reasons for granting exceptions in the year under review**

Not applicable.

### **2.6.3 Nominee registration**

Pursuant to Article 4 of the Articles, the Board can register nominees as shareholders with the right to vote, based on separate regulations or individual agreements. No separate regulations have been adopted and the Board makes discretionary decisions on whether to register nominees as shareholders with the right to vote on a case by case basis, depending on the underlying beneficial owner and proposed nominee. Depending on the circumstances of each case, the Board may require the beneficial owners and/or nominees to enter into a separate agreement with the Company. There are no such agreements currently in place.

### **2.6.4 Procedure and conditions for cancelling statutory privileges and limitations on transferability**

The Articles do not provide for any privileges. The limitations on the transferability of shares (see section 2.6.1) may be abolished by a vote of the absolute majority of the shares represented at a shareholders' meeting.

## **2.7 Convertible bonds and warrants/options**

The Company has issued the following convertible bonds, warrants or options.

### **2.7.1 CHF 42,040,000 of 6.25% Guaranteed Secured Convertible Notes Due 2019 (“2019 Bonds”)**

As at 31 December 2019, USIGH Limited had CHF 42,040,000 of 2019 Bonds in issue. The 2019 Bonds had a coupon of 6.25% per annum, a conversion price of CHF 10.00 and a maturity of 31 March 2022. In order to convert the 2019 Bonds, conversion notices must be received by the conversion agent by the fifth business day prior to the date of maturity. As at 31 December 2019, 2019 Bonds in the aggregate principal amount of CHF 26,448,749 were held by third parties and the remainder by USIGH Limited. Assuming all of the 2019 Bonds were converted, 4,204,000 registered shares with a nominal value of CHF 1.00 each of the Company would have to be issued (corresponding to 27.81% of the current issued share capital).

By 31 December 2019, no shares had been issued under the 2020 Bonds.

## **3 Board of Directors**

The members of the Board are responsible for the strategic direction and oversight of the Company. As at 31 December 2019, the Board consisted of four individuals.

	Nationality	Function	Member (Executive Member) since
<b>Executive members</b>			
Dr. Volkert Klaucke	German	Executive Chairman and Group Chief Executive Officer	2005 (2016)
Dr. Doraiswamy Srinivas	U.S./UK	Executive Deputy Chairman	2005 (2016)
David Quint	U.S./UK	Executive Member	2005 (2016)
<b>Non-executive members</b>			
Markus Müller	Swiss	Member	2016

### 3.1 Members of the Board

**Dr Volkert Klaucke** (1944), German citizen, has been the Company's Chairman and Group Chief Executive Officer since 2011 and 2016, respectively. He has over 30 years of experience in investment banking, having worked for nearly 20 years at Deutsche Bank in Luxembourg, Tokyo, New York and Frankfurt where he was primarily responsible for corporate finance and mergers and acquisitions. Dr Klaucke joined Price Waterhouse, Frankfurt in 1991-1994 as a Partner and Member of the Corporate Finance Executive Committee for Europe. From 1994-1995, he was Managing Director of Mees Pierson, Germany. Dr Klaucke has served on the boards of directors and/or advisory committees of various European and American corporations including Tarkett AG, listed on the Frankfurt Stock Exchange, Caisse Depot et Consignation GmbH in Frankfurt, Deutsche Börse in Düsseldorf, Vespucci Income Shares Inc. (a subsidiary of Munich Re) in New York and Doolan Steel Corporation of New Jersey. Dr Klaucke holds a MBA in Business Management from the University of Hamburg and a doctorate in Philosophy. Dr Klaucke is also a member of the board of the German Foundation against World Hunger.

**Dr Doraiswamy Srinivas** (1951), U.S./UK citizen, is Chief Operating Officer of Arundel Inc. (previously RP&C International Inc.) (an investment banking firm established in 1992 to provide specialist advisory services and financial solutions to public and private companies) and is a director of Arundel Inc. and related companies. He has advised the Arundel Group since 1989 and has been a director of various Arundel Group subsidiaries for more than 10 years. Dr Srinivas previously served as Managing Director, Corporate Finance at SBCI Swiss Bank Corporation Investment Bank in New York where he was responsible for private placements and structured finance in North America. He subsequently held similar positions at Leu Securities and Guinness Mahon Capital Markets (now Investec) in London. Dr Srinivas attended the University of St. Gallen and the Columbia Business School. He holds a doctorate in finance and economics. Dr Srinivas is also a member of the boards of Venus India Structured Finance (Offshore) Fund Limited, Venus India Structured Finance Master Limited and Venus India Asset-Finance Private Limited, three India-focused investment funds.

**Mr David Quint** (1950), U.S./UK citizen, is a co-founder and Chief Executive Officer of Arundel Inc. Prior to founding Arundel Inc in 1992, Mr Quint served as Managing Director of Belden & Blake Corporation's UK subsidiary and as an attorney with Arter & Hadden. Mr Quint is a graduate of the University of Notre Dame where he received a degree in Modern Languages and a Juris Doctorate. He is also a non-executive director of Ascension Healthcare Plc (a privately-held British healthcare technology company).

**Mr Markus Müller** (1958), Swiss citizen, is a director of MPM Swiss AG, a Swiss investment management company. Between 2009 and 2019 Mr Müller served on the board of directors and in the executive management of Compass Portfolio Management AG, a Swiss asset management company. From 2000 – 2018 Mr. Müller served in the management of Scherrer & Partner Investment Management AG (Zurich) and of First Equity Securities AG (Zurich), companies involved in asset management for private clients and the management of investment funds. From 1995-2000, Mr. Müller served in the management of Jefferies (Switzerland) Ltd. and as the general manager of Jefferies Asset Management AG (Zug). Mr. Müller finished his bank apprenticeship at SKA Zürich (now CS Zürich) and attended the HWV (now HWZ) University of Applied Sciences in Business Administration in Zürich.

Markus Müller, the sole non-executive director, has not had any executive responsibilities for the Company or any of its subsidiaries, either during the period under review or in the three financial years preceding it. Save that Mr Mueller is a director of USIGH Limited, he does not have any significant business connections with the Company or any of its subsidiaries.

### **3.2 Permissible outside mandates**

Pursuant to Article 31 of the Articles, a member of the Board or of Executive Management may simultaneously hold no more than ten mandates outside the Company's group, in the supreme managing or supervising bodies of other legal entities that are obliged to be entered in the Swiss Commercial Register or a comparable foreign register. Of those, not more than four mandates may be in other listed companies. There are no limits on activities in not-for-profit entities, such as associations, societies and foundations. Several mandates within the same group of companies, and mandates performed at the behest of a company or group (including mandates in pension funds, joint ventures, and legal entities in which a significant interest is held) are counted as one mandate.

### **3.3 Elections and terms of office**

Pursuant to the Articles, the members of the Board hold office for one year. A year is defined as the period from one annual shareholders' meeting to the next.

Members of the Board may stand for re-election to office on an annual basis. A separate vote is taken, at the Company's shareholders' meeting, in respect of each director who stands for election or re-election.

The Articles do not contain any rules that would deviate from statutory law with regard to the appointment of the chairman of the Board (the "**Chairman**") or of the members of the Nomination and Compensation Committee.

### **3.4 Internal organizational structure**

#### **3.4.1 Board**

The Board may take decisions on all matters which by law or the Articles are not allocated to the general meeting of shareholders.

According to the internal organizational regulations of the Company of 27 July 2005, as amended (hereinafter the "**Regulations**"), the Board acts, in principle, as a collective body. Its members may not act alone on behalf of the Company and may not give instructions on their own, except where the Articles, the Regulations or a decision of the Board otherwise permit.

Each year at the annual general meeting of shareholders, the shareholders elect the Chairman. The Board chooses the secretary, who may or may not be a member of the Board.

The Chairman has the following duties:

- chairing meetings of the Board and general meetings of shareholders;
- determining the agenda for meetings of the Board except in cases where proposals are made by other members of the Board;
- representation of the Board to the public, to public authorities and to the shareholders;
- supervision of the execution of measures which have the approval of the Board;
- preparation of amendments to the Articles, conduct of the voting procedures and other matters to be addressed at any general meeting of shareholders;



- in association with the Company's executive management team ("**Executive Management**"), preparation of materials concerning strategic planning, short-term corporate goals, financial planning and budgets to be approved by the Board;
- decisions concerning non-budgeted investments and expenditures up to CHF 2.25 million and up to CHF 100,000 respectively; and
- decisions requiring urgent action or in exceptional circumstances which would otherwise be addressed by the Board, the Nomination and Compensation Committee or the Audit Committee. Such decisions shall be submitted for approval to the responsible bodies as soon as possible.

### **3.4.2 Committees**

There are two committees of the Board, the audit committee (hereinafter the "**Audit Committee**") and the nomination and compensation committee (hereinafter the "**Nomination and Compensation Committee**"). The Audit Committee presently consists of all members of the Board and is chaired by Dr. Volkert Klaucke. The Nomination and Compensation Committee presently consists of Dr. Volkert Klaucke, David Quint and Markus Müller, and is equally chaired by Dr. Volkert Klaucke.

#### **3.4.2.1 Audit Committee**

The responsibilities of the Audit Committee are determined in a special Audit Committee Charter. The Committee's primary duties are to:

- review the semi-annual and annual financial statements and consider whether they are complete and reflect appropriate principles;
- monitor the integrity and effectiveness of the Company's financial reporting process and systems of internal controls regarding finance and accounting, operational processes as well as manual and automatic finance and accounting data processing;
- oversee the qualifications of the public accounting firm engaged as the Company's independent auditor to prepare and issue an audit report on the financial statements of the Company;
- monitor the independence and performance of the Company's external and internal auditors (if any);
- provide for appropriate communication among the independent external auditors, advisers, Executive Management and the Board;
- review and monitor the Company's financial strategies and procedures; and
- report to the Board on the Audit Committee's activities and findings.

The Board has not delegated any decision-making powers to the Audit Committee.

The Audit Committee has the authority to conduct or authorize investigations into any matter within the scope of its duties and responsibilities pursuant to the Audit Committee Charter. It is empowered to:

- retain outside counsel, accountants or other experts to advise the Committee or assist it in the conduct of an investigation;
- seek any information it requires from the Company's executives and employees – all of whom are directed to cooperate with the Audit Committee's requests – or external parties;
- meet with the Company's executives, officers, external auditors, outside counsel and other advisers, as deemed necessary or appropriate.

### **3.4.2.2 Nomination and Compensation Committee**

The responsibilities of the Nomination and Compensation Committee are determined in the Articles and in a special Nomination and Compensation Committee Charter.

Article 27 of the Articles provides that, subject to the powers of the shareholders' meeting, the Company's compensation committee has the following responsibilities:

- monitoring compliance with the compensation principles pursuant to law, the Articles, and regulations, and with the resolutions of the shareholders' meeting on compensation;
- submitting proposals to the Board on the definition of principles, assessment criteria and qualitative and quantitative targets in connection with compensation within the parameters of the law and the Articles;
- submitting calculations and proposals to the Board on the qualitative and quantitative targets for determining variable compensation;
- submitting proposals to the Board regarding the amounts of fixed compensation to be paid to members of the Board, and fixed and variable compensation to be paid to members of Executive Management;
- preparing and submitting to the Board a draft of the remuneration report; and
- all other actions required of it by law, the Articles or regulations.

The Charter for the Nomination and Compensation Committee further specifies that its primary duties are to:

- assist the Board in discharging its responsibilities relating to compensation of directors of the Company and of members of Executive Management;
- approve or establish proposals for all compensation plans, policies and programmes relating to compensation and benefits for directors, Executive Management and direct employees (if any);
- propose to the Board compensation of directors, members of Executive Management and direct employees (if any);
- ensure that newly elected directors receive the appropriate introductions and orientation and the elected directors receive the adequate continuing education and training to fully discharge their obligations;
- assist the Board in identifying individuals who are qualified to become Board or Executive Management members, when vacancies arise;
- recommend to the Board the director nominees for the next annual shareholders' meeting;
- recommend to the Board a set of corporate governance principles to be published in a directive on corporate governance;
- prepare any disclosure statement on compensation and corporate governance required by applicable law, regulations or the rules of a stock exchange on which the Company's shares are listed or traded;
- lead the Board in its annual review of the Board's performance; and
- recommend to the Board director nominees for each committee.

The Board has not delegated any decision-making powers to the Nomination and Compensation Committee.

The Committee has the authority to conduct or authorize investigations into any matter within the scope of its duties and responsibilities pursuant to the Nomination and Compensation Committee Charter. It is empowered to:

- retain outside counsel, accountants or other experts to advise the Committee or assist it in the conduct of an investigation;
- seek any information it requires from the Company's executives and employees – all of whom are directed to cooperate with the Committee's requests – or external parties;
- meet with the Company's executives, officers, external auditors, outside counsel and other advisers, as deemed necessary or appropriate.

### **3.4.3 Work methods of the Board and its committees**

#### **3.4.3.1 Board**

The Chairman, or the secretary, convenes the meetings of the Board as often as business affairs of the Company require, usually not less than four times each year. Meetings are also held by telephone conference and actions may be taken pursuant to circular resolutions, if no member of the Board requests in writing that the item to be resolved or discussed be considered at a physical meeting. The usual length of the meetings is 1-2 hours. In the twelve-month period under review, five meetings were held. At all meetings, at least one member of Executive Management (in addition to the executive members of the Board) was present. External legal consultants may attend meetings at the invitation of the Chairman, however none attended the meetings during the period under review.

The Nomination and Compensation Committee reports its actions at meetings of the Board where relevant. The Audit Committee reports to the Board as required at each Board meeting about its activities, decisions, findings and recommendations. It is required to report at least semi-annually on the interim and final accounts at the board meeting which approves such accounts. The two Committees' primary duties and responsibilities are set out above (see section 3.4.2).

#### **3.4.3.2 Audit Committee**

In the period under review no separate meeting of the Audit Committee was held as all Audit Committee duties were assumed by the Board as a whole.

#### **3.4.3.3 Nomination and Compensation Committee**

In the period under review no separate meeting of the Nomination and Compensation Committee was held as all Nomination and Compensation Committee duties were assumed by the Board as a whole.

### **3.5 Definition of areas of responsibility**

The Board has the responsibilities and duties set forth in the Swiss Code of Obligations (hereinafter "CO"), in particular in Article 716a CO.

Furthermore, the Regulations state that the following matters shall be reserved to the Board:

- passage of resolutions regarding any authorised capital increases as well as any resulting amendments to the Articles;
- determination of the beginning and the end of each financial year of the Company pursuant to the Articles;
- the adoption of any stock option plan and the issuance of shares to option holders on exercise of such options;
- the formation, acquisition, merger, sale and/or liquidation of subsidiaries with a value in excess of CHF 2.25 million;
- the acquisition, sale and hypothecation of assets with a value in excess of CHF 2.25 million;
- the initiation and/or settlement of judicial and administrative proceedings or disputes of any nature with a value in excess of CHF 100,000;

- business decisions of a long-term nature or which involve unusual or extraordinary risks;
- the approval of expenditures or obligations in excess of CHF 100,000 for individual transactions or CHF 1,000,000 in the aggregate in any one financial year, unless such expenditures do not exceed the budget or other Board approved guidelines;
- the entry into any transaction which is not in the ordinary course of business of the Company, including any sale or lease of the Company's assets in excess of CHF 2.25 million;
- the entry into new projects with expenditures or obligations in excess of CHF 2.25 million, unless such projects have been approved in the Company's budget or other Board approved documents;
- the conclusion of any merger arrangements between the Company and any other entity or the decision to wind up or liquidate the Company, including any proposals to be made to shareholders at a general meeting of shareholders regarding the merger, liquidation or winding-up of the Company;
- the formation or acquisition of interests in other companies, irrespective of their legal form, or the purchase of other businesses in whole or in part if the value of any such purchase exceeds CHF 2.25 million;
- regarding subsidiaries of the Company:
  - the execution, alteration or termination of articles of association;
  - the voluntary liquidation, merger or continuation of a subsidiary after the occurrence of any matter requiring its liquidation;
  - the approval of the annual accounts and the distribution of dividends or other distributions to shareholders, or the exercise of any other shareholders' rights;
  - the appointment and/or termination of managers and board members as well as the execution, alteration or termination of employment or pension arrangements with managers or board members;
  - the resolution of matters which, pursuant to law or the articles of association, require the approval of the shareholders;
- any participation in revenues or profits of the Company in any form except commissions which can be viewed as usual in the trade, or the provision of benefits or remuneration to individual employees in excess of CHF 50,000 p.a.;
- the grant of pension entitlements to any employees;
- any decisions concerning the appointment of permanent advisers or administrators to the Company;
- borrowing in excess of CHF 500,000;
- the grant of a loan or the creation of a contingent liability to, or in respect of, third parties in excess of CHF 500,000;
- the approval of any transaction between the Company and members of the Board;
- the adoption and/or alteration of the Regulations.

In accordance with Article 716b CO, and subject to inalienable and reserved matters as described above, the Board has delegated all executive management functions of the Company to its Executive Management, whose responsibilities are set out below (see section 4.1).

### **3.6 Information and control instruments vis-à-vis senior management**

The Executive Management provides the Board with a copy of management accounts on a quarterly basis. In addition, each member of the Board is provided, within 60 days after the end of each interim reporting period, with a provisional half-yearly report and, within 90 days after the end of each financial year, with a provisional annual report.

Furthermore, members of Executive Management who are present inform the Board at each Board meeting (i.e. usually not less than four times a year) of all current matters, important events and deviations from the budget. Extraordinary transactions and issues must be reported by Executive Management to the Board immediately. Each member of the Board is entitled to request and receive information on all matters of the Company and has access to the Company's and the Company's subsidiaries' property, records and personnel. Board members may make use of this right by requesting documents, in particular in the area of financial planning and reporting.

The Audit Committee's primary duties and its authority are set out above (see section 3.4.2.1). The Company has not appointed an internal audit function. Its risk management is described in the notes to the financial statements (see Note 3 to the Consolidated Financial Statements). The Board does not use any IT-based Management Information System (MIS) for its information.

## **4 Executive Management**

For the period under review Dr. Volkert Klaucke continued to perform executive functions as Executive Chairman and Group Chief Executive Officer of the Company, Dr. Srinivas performed the function of Executive Deputy Chairman of the Board (acting as Chief Operating Officer of Arundel Inc) and David Quint performed the function of Executive Director (acting as Chief Executive Officer of Arundel Inc). Ralph Beney and Richard Borg performed functions of the Company's Executive Management, acting as Chief Financial Officer and General Counsel, respectively, of the Arundel Group.

As concerns permissible outside mandates of members of Executive Management, see section 3.2.

### **4.1 Responsibilities**

Executive Management is responsible for the day-to-day management of the Company's business, under the direction of the Group Chief Executive Officer and the overall supervision of the Board. The Board has delegated all executive management functions of the Company that are not reserved to the Board or to the Chairman (please refer to sections 3.4.1 and 3.5 above) to Executive Management.

### **4.2 Composition**

As at 31 December 2019, Executive Management consisted of the following:

	<b>Nationality</b>	<b>Function</b>	<b>In office since</b>
Dr. Volkert Klaucke	German	Executive Chairman and Group Chief Executive Officer	2016
Dr. Doraiswamy Srinivas	U.S./UK	Executive Deputy Chairman (Chief Operating Officer of Arundel Inc)	2016
David Quint	U.S./UK	Executive Director (Chief Executive Officer of Arundel Inc)	2016
Ralph Beney	UK	Chief Financial Officer	2016
Richard Borg	UK	General Counsel	2016

For biographical information on Dr. Volkert Klaucke, Dr. Doraiswamy Srinivas and David Quint, please refer to section 3.1 above.

**Mr Ralph Beney** (1961), UK citizen, the Chief Financial Officer of the Arundel Group, is a Chartered Accountant and has served as CFO of the Arundel Inc group since 1998. He previously worked in the capital markets division at Guinness Mahon in London, after spending seven years as CFO of various Bank Leu subsidiaries. He is a director of a number of Arundel Group companies.

**Mr Richard Borg** (1966), UK citizen, is the General Counsel of the Arundel Group and has been General Counsel of the Arundel Inc group since 1998. He was previously a solicitor in Norton Rose's corporate finance team specialising in investment funds. He read law at Oxford University. He is a director of a number of Arundel Group companies.

## **5 Compensation, shareholdings and loans**

Details on compensation and participation of members of the Board and of Executive Management are disclosed within the Remuneration Report.

### **5.1 Method of determining compensation and share ownership programmes**

The Nomination and Compensation Committee is competent to present proposals, for decision by the Board, regarding the Company's general compensation policy for directors, Executive Management and direct employees (if any). The Board determines the amount of any remuneration payable to its members and to members of Executive Management. Persons whose remuneration is decided upon do not have a right to participate in the relevant meeting, or otherwise to participate in the process. The Company does not employ external advisers or use external benchmarks for fixing compensation.

### **5.2 Rules on compensation in the Company's Articles**

In Articles 33-37 of the Articles, the Company has adopted rules on compensation of members of the Board and of Executive Management, and related matters, in accordance with the Swiss Federal Council's Ordinance against Excessive Compensation in Listed Stock Companies of 20 November 2013.

#### **5.2.1 Principles applicable to performance-related pay; allocation of equity securities, convertible rights and options; and additional amounts for new members of Executive Management**

##### *Board of Directors*

Article 33 of the Articles provides that members of the Board receive a fixed compensation for their work.

The Board may decide that part of the compensation is paid, instead of a cash payment, in Shares (which may or may not be restricted), or in reversionary subscription rights or options for Shares. The Board shall, in that case, specify the time of the grant, the term of the restriction (if any) or vesting period, and any discounts applying in consideration of the term of the restriction (if any) or vesting period. The Board may provide that upon the occurrence of certain events designated in advance, such as the termination of a mandate or a change of control, restrictions or vesting periods shall remain in effect or be shortened or cancelled. The value attributed to compensation paid in the form of Shares or of reversionary subscription rights or options shall be their fair value at the time of the grant, determined in accordance with such valuation methods as the Board considers most appropriate to establish that value.

##### *Executive Management*

Article 35 of the Articles provides that members of Executive Management receive a fixed compensation and a variable compensation for their work.

Pursuant to Article 36 of the Articles:

- variable compensation for members of Executive Management shall be subject to the achievement of qualitative and quantitative targets. The Board shall annually set common and individual targets, which shall be determined so as to promote the long-term interests of the Company and its shareholders, and shall judge the degree to which they have been achieved. In deciding on the award of variable compensation, the Board may also take account of extraordinary achievements unrelated to pre-determined targets;

- the amount of variable compensation may not be higher than 200% of the fixed compensation of the member concerned for the same period;
- At the option of the Board, variable compensation may be paid in cash, in Shares (which may or may not be restricted), or in reversionary subscription rights or options for Shares. The Board shall specify the time of the grant, the term of the restriction (if any) or vesting period, and any discounts applying in consideration of the term of the restriction (if any) or vesting period. The Board may provide that upon the occurrence of certain events designated in advance, such as the termination of an employment or mandate or a change of control, restrictions or vesting periods shall remain in effect or be shortened or cancelled, that compensation shall be paid on the assumption that targets have been met, or that compensation is no longer due. The value attributed to compensation paid in the form of Shares or of reversionary subscription rights or options shall be their fair value at the time of the grant, determined in accordance with such valuation methods as the Board considers most appropriate to establish that value;
- the Board shall issue regulations governing the details.

Pursuant to Article 37 of the Articles, if new members of Executive Management are appointed after approval has been given by the shareholders' meeting of the aggregate maximum amount of the fixed compensation for the members of Executive Management, the additional amount of fixed compensation available for each new member is 120% *pro rata temporis* of the highest fixed compensation paid to a member of Executive Management in the financial year preceding the last ordinary shareholders' meeting. The shareholders' meeting is not required to approve this additional compensation.

### **5.2.2 Loans, credit facilities and post-employment benefits for members of the Board and of Executive Management**

Article 30 of the Articles provides that loans and credit facilities extended to members of the Board or of Executive Management may not exceed a principal amount of CHF 1.5 million (or equivalent amount in another currency) in the case of any member.

The Articles do not provide for the grant of post-employment benefits to members of the Board or Executive Management.

### **5.2.3 Vote on pay at the shareholders' meeting**

#### *Board*

Article 34 of the Articles provides that at each ordinary shareholders' meeting, the meeting shall resolve with binding effect on the approval of the aggregate maximum amount of the fixed compensation for the members of the Board for the one-year term ending at the next ordinary shareholders' meeting.

#### *Executive Management*

Article 37 of the Articles provides that:

- at each ordinary shareholders' meeting, the meeting shall resolve with binding effect on the approval of the aggregate maximum amount of the fixed compensation for the members of Executive Management for the then current financial year;
- at each ordinary shareholders' meeting, the meeting shall resolve with binding effect on the approval of the aggregate amount of the variable compensation for the members of Executive Management for the immediately preceding financial year.

### **5.3 Compensation in the year under review**

During the period under review, Dr. Volkert Klauke acted as Chairman of the Board and had the right to receive an annual fixed fee of USD 30,000 per annum for his service in this capacity, before statutory deductions. Markus Müller was entitled to a fee of CHF 10,000 per annum for his services as non-executive member of the Board. Each of Dr. Doraiswamy Srinivas and David Quint did not receive any separate fee for their services as members of the Board.

Details of compensation paid to members of Executive Management (including executive members of the Board) in that capacity are set out within the Remuneration Report. It consisted of fixed compensation, except as noted below.

The annual compensation provided by the Group to Dr. Klaucke and the other directors for their position as members of the Board, and fixed compensation provided to Dr. Klaucke as Group CEO and the other members of Executive Management in that capacity, was decided by the Board in a discretionary decision in which all members of the Board participated, and applies (to the extent relevant) until modified by the Board (i.e., there is no pre-defined review period).

In a further discretionary decision in September 2019 in which members of the Board (except for the Chairman) participated, the Board decided, subject to shareholders' approval, that the Chairman, Dr. Klaucke, be awarded a cash bonus payment (variable compensation) in respect of the period under review in the amount of CHF 210,869 (equivalent to 176.8 per cent. of his fixed compensation in his capacity as a member of executive management for that period), in recognition of his extraordinary contribution to the securing of the refinancing of debt secured against the Group's investment properties in Leipzig during 2019. The cash bonus was awarded on an exceptional basis, in view of an extraordinary achievement unrelated to pre-determined targets (as permitted by Art. 36 of the Articles, see above section 5.2.1). No other variable compensation was awarded to members of Executive Management.

The compensation noted above is expressed in terms of annual fees and may differ from the actual charge in the financial statements for the period ended 31 December 2019 (disclosed in Note 27 to the Consolidated Financial Statements and the Remuneration Report) due to the effects of foreign exchange and timing differences.

#### **5.4 Share Ownership Programmes**

The Company currently does not have any share ownership programmes for members of the Board or of Executive Management.

### **6 Shareholders' participation**

#### **6.1 Restrictions of voting rights and representation**

Apart from the limitations on the transferability of Shares (see section 2.6.1), there are no restrictions on the exercise of voting rights.

A shareholder may be represented at the shareholders' meeting by his legal representative, by the independent proxy, or by another duly authorized representative who does not need to be a shareholder.

Article 15 of the Articles provides that each ordinary shareholders' meeting shall elect an independent proxy for a term of office of one year, running until the end of the next ordinary shareholders' meeting. Re-election is permitted. A shareholders' meeting may remove the independent proxy with effect from the end of the meeting. If the independent proxy is unable to perform his duties, the Board must appoint an independent proxy for the term up to the end of the next shareholders' meeting. Voting proxies and instructions that have already been issued remain valid, provided that the shareholder does not expressly give other instructions. The Board shall make arrangements to permit shareholders to issue proxies and instructions to the independent proxy also by electronic means, and determine the respective details. The independent proxy can be represented by another person at the shareholders' meeting. He remains fully responsible for the performance of his duties. The independent proxy is obliged to exercise the voting rights represented by him in line with the instructions given. If he receives no instructions, he shall abstain from voting.

#### **6.2 Statutory quora**

Resolutions of the general meeting of shareholders are passed by the majorities set forth in the applicable legal provisions. The Articles do not change the applicable majorities.

#### **6.3 Convocation of the general meeting of shareholders**

The general meeting of shareholders must be called, at the latest, twenty days prior to the day of the meeting.

#### **6.4 Agenda**



One or more shareholders representing together at least ten percent of the share capital or shareholders representing shares with an aggregate par value of one million Swiss Francs may request items to be included in the agenda for a general meeting of shareholders. Items for inclusion in the agenda shall be requested at least 60 days prior to the meeting in written form listing the items and the proposed motions of such shareholder(s).

**6.5 Record date for entry into the share register**

The record date for the inscription of registered shareholders into the share register in view of their participation in the general meeting of shareholders, as set by the Board, is a date falling in between 10 and 20 days prior to the meeting. There are no rules on the granting of exceptions.

**7 Changes of control and defence measures**

**7.1 Duty to make an offer**

According to Article 7 of the Articles, persons acquiring shares of the Company directly, indirectly or acting in concert with third parties shall be exempt from the obligation to make a public purchase offer pursuant to Article 135 FMIA, irrespective of the number of voting rights conferred by the shares acquired ("**opting out**").

**7.2 Change of control clauses**

There are no change of control clauses in place which would trigger any obligations to members of the Board or of Executive Management, or to other officers of the Company, in the event of a change of control.

**8 Auditors**

PricewaterhouseCoopers AG, Zurich ("**PwC**"), are the Company's auditors.

**8.1 Duration of the mandate and term of office of the lead auditor**

PricewaterhouseCoopers AG, Zurich, and its predecessor companies have held the auditing mandate for Arundel AG since 1992. PricewaterhouseCoopers AG was re-elected as auditors for the financial period ending 31 December 2019 by the Annual General Meeting held on 11 June 2019.

The lead engagement partner, Patrick Balkanyi, responsible for the existing auditing mandate took up office in respect of the financial period ending 31 December 2017.

The Board proposes to the annual general meeting due to be held on 26 May 2020 to re-elect PricewaterhouseCoopers AG as auditors for the 2020 financial year. The rotation interval applicable to the lead engagement partner is seven years (art. 730a para. 2 CO).

**8.2 Auditor remuneration**

The total auditor remuneration for the 2019 financial period in respect of all group companies is specified in the table below. In addition, PwC also performs certain tax work for the group companies. This tax work is not performed by the audit team. The estimated fee amount for this tax work is also set out in the table below:

<b>Auditor's remuneration</b>	<b>For the year ended 31 December 2019</b>
<i>in USD</i>	
Audit and audit related services	333,386
Tax compliance and consulting	<u>180,510</u>
	513,896

**8.3 Informational instruments pertaining to the external audit**

The external auditor is accountable to the Audit Committee, the Board and ultimately to the shareholders. The Board reviews the external auditor's professional credentials, assisted in its oversight by the Audit Committee.

***Cooperation and flow of information between the auditor and the Board/Audit Committee***

Most communication between the auditor and the Company is facilitated by Executive Management, including the CFO of the Company. There is an ongoing dialogue and periodic meetings are arranged between the auditors and the CFO, and the auditor is provided with copies of agreements, bank statements and other materials relating to the Arundel Group for the relevant financial period to assist them in their audit work.

The CFO and other officers keep the Board and Executive Management updated on a regular basis about the content of such dialogue and meetings and the progress on the external audit. The CFO attends each Board meeting of the Company to answer any relevant questions the Board and Executive Management may have.

The Board and/or the Audit Committee also liaise directly with the auditor regarding the annual audit work to be carried out and discuss the results of such audits. On request, representatives of the auditor attend meetings of the Board and/or of the Audit Committee in which such matters are discussed. At the relevant Board or Audit Committee meetings, the auditor presents a detailed planning report and a detailed report on the conduct of the audit of the financial statements. This details findings on material financial accounting and reporting issues in addition to findings on the Group's internal control system (ICS).

The Audit Committee (or the full Board) reviews and approves in advance all planned audit services and any non-audit services provided by the external auditor. It discusses the results of annual audits with the external auditor, including reports on the financial statements, necessary changes to the audit plans and critical accounting issues.

The external auditor shares with the Audit Committee (or full Board) its findings on the adequacy of the financial reporting process and the efficacy of the internal controls.

The auditor informs the Audit Committee (or full Board) about any differences of opinion between the external auditor and management encountered during the audits or in connection with the preparation of the financial statements.

For additional information, please see also section 3.4.

#### ***Evaluation of the external auditor, its independence, performance and fees***

The Board annually reviews the selection of the auditor in order to propose its appointment to the shareholders' meeting. The Board or its Audit Committee assess the effectiveness and the quality of the auditor as well as its independence based on the reports received and discussions held.

This assessment measures the external auditor's performance against a number of criteria, including: understanding of Company's business; technical knowledge and expertise; comprehensiveness of the audit plans; quality of the working relationship with management; and clarity of communication. It is compiled based on the input of key people involved in the financial reporting process and the observations of the Audit Committee members.

PricewaterhouseCoopers AG monitors its independence throughout the year and confirms this to the Audit Committee annually.

The Audit Committee (or the full Board) reviews annually the audit fees as well as any fees paid to the external auditor for non-audit services. Please see section 3.4 for further information.

## **9 Information policy**

The Company's financial reporting consists of semi-annual and annual reports. Financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and in compliance with Swiss law. Notifications to shareholders (including invitations to general meetings of shareholders) are published in the Swiss Official Gazette of Commerce (SOGC).

The Company shall publish information according to the following schedule:

Reporting

- April 2020 – Publication of annual report including audited financial statements for the twelve months ended 31 December 2019

- Sept 2020 – Publication of unaudited financial statements for the six months ending 30 June 2020

Meetings of Shareholders

26 May 2020 – Annual General Meeting of shareholders

The news releases of the Company (including releases issued pursuant to ad-hoc publicity rules) are available under [www.arundel-ag.com/News/](http://www.arundel-ag.com/News/), where stakeholders may also subscribe to the Company's e-mail alert service to receive its news releases.

Additional information and all publications (including this annual report) are available under [www.arundel-ag.com](http://www.arundel-ag.com).

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