

## Corporate Governance

The principles of corporate governance and Articles of Association of PWO correspond to the standards of good corporate governance embraced by the German business community. All shareholders receive fundamentally equal treatment. The unrestricted purchase and disposal of PWO shares is guaranteed.

### Legal framework

As a stock corporation under German law, Progress-Werk Oberkirch AG is subject to the relevant statutory provisions pertaining to the management and supervision of such entities. Its management and control structure is divided into a Management Board consisting of at least two members and a six-member Supervisory Board. The Supervisory Board is composed of both shareholder and employee representatives, in accordance with the One-Third Participation Act for Supervisory Boards. The Supervisory Board has formed the committees set out in its Rules of Procedure and reports on their activities in its report on the financial year.

The Management Board is solely responsible for the operational management and strategic development of the company. The Supervisory Board monitors and advises the Management Board in these matters. The company's principles of corporate management and supervision are based on the German Corporate Governance Code. The Declaration of Compliance relating to this Code has been published on the PWO web site at [www.progress-werk.de](http://www.progress-werk.de) under Investor Relations/Corporate Governance and is included at the end of this chapter.

### Principles of Corporate Governance

The Management Board is committed to a policy of extensive public communication that observes and surpasses the statutory requirements and stock exchange regulations governing timely reporting in observance of the principle of shareholder equality (annual and interim reports as well as ad hoc announcements, directors' dealings and any changes to shareholder voting rights necessitating disclosure upon receipt of information by the company).

Accordingly, it has continuously expanded its communication activities within the capital markets. Management takes questions at capital market conferences and promptly publishes information that PWO views as important and necessary for the assessment of the company's prospects. All reports and releases are documented at [www.progress-werk.de](http://www.progress-werk.de). You can also find information there regarding the Annual General Meeting, the Articles of Association and professional activities and other offices of the Supervisory Board members.

The Management Board feels a special obligation to the company's shareholders. As owners of the company, they act as entrepreneurs by providing the capital needed to maintain and extend PWO's market position. The Management Board is committed to continually strengthening the competitiveness of Progress-Werk Oberkirch AG and its subsidiaries, while generating the most attractive return possible on the capital provided, at a level that is sustainable in the long-term. This also means taking measures to minimise corporate risk, including the implementation of a modern and efficient risk management system, which is regularly upgraded. This risk management system is continually adapted and developed to adhere to changing legal requirements and to factor in the changed risk situation of the company due to its international expansion.

The Management Board and Supervisory Board firmly believe that the best interests of all stakeholders in PWO and its subsidiaries, in particular the employees of these companies, are best served by strengthening the company's competitive position, managing risks responsibly and achieving an attractive return on equity to secure its financial needs.

#### **Interaction between the Management Board and Supervisory Board**

The Management Board and Supervisory Board work in close cooperation for the benefit of the company. The duties of the Boards and guidelines for their interaction are set out in separate Rules of Procedure for each of the two bodies. These Rules are written in accordance with those specified in the German Corporate Governance Code. This pertains in particular to the rights and duties of Board members – insofar as the company has not departed from specific recommendations – and the assignment of responsibilities.

#### **Offices held by Management Board members**

Outside of PWO Group, Karl M. Schmidhuber currently holds the office of Chairman of the Advisory Board at Beru-Eichenauer GmbH, Hatzenbühl. The other two Management Board members do not currently hold positions outside of the Group.

#### **Contract terms of the Management Board members**

Karl Schmidhuber: until May 17, 2012  
Bernd Bartmann: until December 31, 2012  
Dr. Winfried Blümel: until April 18, 2012

### **Compensation Report**

#### **Management Board compensation**

The Supervisory Board of Progress-Werk Oberkirch AG has held the view for many years that employees' wages and salaries and the compensation of the Management Board members should have a balanced relationship. The Management Board supports this view entirely because it holds the same belief.

Even during the severe slump in 2009, there was no risk of an inappropriate divide between the average pay for employees and the compensation of Board members. The members of the Management Board forewent a much higher percentage of income.

Compensation of the Management Board members contains fixed and performance-based elements. They also receive non-cash compensation and compensation in the form of post-employment benefits. Variable income includes annually recurring components based on profit after tax. An absolute limit has been defined for these components to ensure that external events cannot cause extraordinary increases in certain years. There are no components with a long-term incentive such as share options or comparable instruments. Consequently, it is not necessary to implement a system limiting these long-term variable income components.

In the 2009 financial year, total Management Board compensation amounted to EUR 648 thousand (prev. year: EUR 746 thousand). Variable income totalled EUR 0 (prev. year: EUR 117 thousand) reflecting the negative net profit of PWO in the 2009 financial year. Benefits for insurance and company cars accounted for EUR 67 thousand (prev. year: EUR 64 thousand). In addition, from their second term of office, members of the Management Board are covered by a provision for retirement, invalidity and widow's pensions. Individual details regarding pension expenses are given in the table "Management Board compensation".

Pensions are paid to members of the Management Board who have reached the current pensionable age of 65 or, in the event that they leave the company having reached the age of 60, as long as they have also been granted a full retirement pension under statutory retirement pension rules. Based on an individual contractual arrangement, one former member of the Management Board received a pension before the age of 65.

In order to qualify for a retirement pension, members of the Management Board must have completed an uninterrupted period of service of at least three years (waiting period until the benefits vest) on commencement of the period of pension provision unless a non-cancellable pension entitlement was already established prior to commencement of the period of pension provision.

The monthly retirement pension payable to a member of the Management Board is specified in the pension agreement. The amount of any early retirement pension is calculated on the basis of the retirement pension sum, which is reduced for the entire period during which the pension is drawn by 0.25 percent for each month remaining before the member reaches the age of 65. Pension payments will be adjusted to reflect future increases in the cost of living for 4-person households of salaried and non-salaried employees on average incomes as reported by the Federal Statistics Office in Wiesbaden.

The company has formed pension provisions in line with IFRS for future pension claims of members of the Management Board. During the reporting year, EUR 182 thousand (prev. year: EUR 175 thousand) was allocated to these pension provisions for active members of the Management Board. This amount includes the service cost without interest cost.

### Management Board compensation

in EUR thousand	Karl M. Schmidhuber (Chairman)		Bernd Bartmann		Dr. Winfried Blümel		<b>Total</b>	
	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008
Basic annual salary	<b>239</b>	223	<b>162</b>	162	<b>180</b>	180	<b>581</b>	565
Other benefits	<b>21</b>	21	<b>23</b>	21	<b>23</b>	22	<b>67</b>	64
Performance-based bonus	<b>0</b>	47	<b>0</b>	35	<b>0</b>	35	<b>0</b>	117
<b>Total compensation</b>	<b>260</b>	291	<b>185</b>	218	<b>203</b>	237	<b>648</b>	746
<b>Pension expenses</b>								
Annual payment on commencement of pension (age 65) as of Dec. 31	<b>96</b>	96	<b>72</b>	72	<b>72</b>	72	<b>240</b>	240
Allocation to pension provisions HGB in financial year	<b>95</b>	193	<b>46</b>	44	<b>35</b>	33	<b>176</b>	270

No commitments have been made to provide any further benefits to Management Board members in the event of termination of their activities. Equally, during the year under review, no members of the Management Board received benefits or corresponding undertakings from third parties in relation to their work on the Board.

The individual levels of compensation for the Management Board members are detailed in the table on page 16.

#### Supervisory Board compensation

Supervisory Board compensation is set out in the Articles of Association of Progress-Werk Oberkirch AG. The board members receive a fixed annual sum of EUR 3 thousand and EUR 500 by way of variable compensation for every percent of dividend in excess of 4 percent. Expenses are also reimbursed.

The chairman of the Supervisory Board receives double, and his deputy one and a half times this amount. No further compensation is granted for committee work carried out by Supervisory Board members. For the 2009 financial year, members of the Supervisory Board received compensation of EUR 23 thousand (prev. year: EUR 86 thousand) calculated according to the profit appropriation proposal to the Annual General Meeting which included foregoing payment of dividends.

The individual levels of compensation for the Supervisory Board members are detailed in the table below.

#### Shares held by the governing bodies

At the end of the 2009 financial year, the Deputy Chairman of the Supervisory Board, Dr. jur. Klaus-Georg Hengstberger, held 55.282 percent of the shares outstanding in PWO via Consult Invest Beteiligungsberatungs-GmbH, Böblingen, of which he is the Managing Director. There were no transactions in the past financial year that oblige reporting under Section 15a of the Securities Trading

### Supervisory Board compensation

in EUR thousand	Fixed compensation		Variable compensation		Total	
	2009	2008	2009	2008	2009	2008
Dieter Maier (Chairman)	6	6	0	17	6	23
Dr. jur. Klaus-Georg Hengstberger (Deputy Chairman)	5	5	0	12	5	17
Katja Hertwig	3	3	0	9	3	12
Herbert König	3	3	0	9	3	12
Ulrich Ruetz	3	3	0	9	3	12
Dr. Gerhard Wirth	3	3	0	9	3	12
<b>Total</b>	<b>23</b>	23	<b>0</b>	63	<b>23</b>	86

## Adjusted Declaration of compliance 2009\*

The Management Board and Supervisory Board hereby declare that Progress-Werk Oberkirch AG will comply with the recommendations of the German Corporate Governance Code from June 18, 2009, as promulgated by the Government Commission, with the following exceptions:

### Point 3.8

The D&O insurance policy does not include a deductible for Management or Supervisory Board members. In line with the Act on the Appropriateness of Management Board Remuneration (VorstAG) regarding mandatory deductibles, a transitional period applies until June 30, 2010. As of July 1, 2010, the legally required arrangement of deductibles will be implemented.

We plan to include a regulation in the Articles of Association stating that the deductible will amount to one half of the annual fixed salary of a Supervisory Board member. The company holds the view that this is an appropriate arrangement.

### Point 5.3.3

The Supervisory Board continues to regard the formation of a Nomination Committee as unnecessary. Since the Supervisory Board comprises only six members, it is agreed that it is appropriate that the entire Supervisory Board should be involved with the nomination of Supervisory Board candidates.

### Point 5.4.1

There is currently no age limit for membership in the Supervisory Board. The company will also refrain from introducing such an age limit because it would unduly limit the pool of qualified candidates.

### Point 5.4.6

There is no separate compensation granted to Supervisory Board members for membership in committees. Section 11 of the Articles of Association excludes such compensation.

The recommendations of the Government Commission German Corporate Governance Code from June 18, 2009 (published on August 5, 2009), and from June 6, 2008 (published August 8, 2008) have been complied with since the issuance of the last Declaration pursuant to Section 161 AktG in December 2008, with the exception of those points specified.

Oberkirch, February, 2010  
Progress-Werk Oberkirch AG

The Supervisory Board      The Management Board

\* Adjusted by the Management Board and the Supervisory Board due to the planned introduction of deductibles to the D&O policy for the Supervisory Board. In the December 2009 version of the Declaration of Compliance, the arrangement of deductibles was not planned.