



## **Manz AG's Corporate Governance Statement and Corporate Governance Report for the 2013 Fiscal Year**

As a listed company, Manz AG hereby submits the following Corporate Governance Statement for the 2013 fiscal year pursuant to Article 289a of the German Commercial Code (HGB). In addition, the following report contains information from the Managing Board and Supervisory Board about corporate governance at Manz AG pursuant to item 3.10 of the German Corporate Governance Code ("Code").

### **I. Statement Pursuant to Section 161 of the German Stock Corporation Act (AktG)**

Pursuant to section 161 of the German Stock Corporation Act (*Aktiengesetz – AktG*), the Managing Board and Supervisory Board of a listed company must make an annual declaration that they have complied with the recommendations of the "Government Commission on the German Corporate Governance Code" published by the German Federal Ministry of Justice in the official section of the German Federal Gazette (*Bundesanzeiger*) and that they will continue to do so in future or indicate which recommendations have not been, or will not be, applied. Furthermore, any deviations from the recommendations must be justified. This statement must be permanently accessible to the public on the company's Web site.

Pursuant to section 161 of the German Stock Corporation Act, the Managing Board and Supervisory Board of Manz AG submitted, on December 10, 2013, the following "Statement of Compliance for December 2013" relating to the recommendations of the "Government Commission on the German Corporate Governance Code":

"Pursuant to section 161 of the German Stock Corporation Act (*Aktiengesetz - AktG*), the Managing Board and the Supervisory Board of Manz AG hereby declare that, since submission of the last compliance statement on December 13, 2012, Manz AG has complied with the recommendations of the "Government Committee on the German Corporate Governance Code" published by the German Federal Ministry of Justice in the official section of the German Federal Gazette as amended on May 15, 2012, except as stated below, and that Manz AG will, in future, comply with the recommendations set out in the Code in its amended form dated May 13, 2013."

The company has not complied with the recommendation stipulated in item 5.4.6, para. 2, sentence 2 of the Code, which states that performance-based compensation promised to members of a supervisory board should be based on a company's long-term performance. As set out in the company's current Articles of Incorporation, the members of the Supervisory Board receive a profit-sharing bonus based on the company's earnings per share in the previous fiscal year. Calculating the bonus based on the company's success after one fiscal year does not meet the requirements generally set forth when orienting performance-based compensation on a company's long-term performance. The recommendation was added to the Code in its amended form dated May 15, 2012. In order to comply with the recommendation in future, the company's Articles of Incorporation needed to be changed on the basis of a resolution passed at the Annual General Meeting. Based on the resolution altering the company's Articles of Incorporation passed at the Annual General Meeting on July 16, 2013, the compensation of the Supervisory Board was converted to a purely fixed compensation."

## **II. Disclosures on Corporate Governance Practices Applied above and beyond the Legal Requirements**

Manz AG aspires to conduct all business operations in an ethical and legally sound manner. The Managing Board has developed a mission statement for this purpose, designed to help the employees of Manz AG and its subsidiaries to act responsibly and make the right decisions when carrying out their daily activities. This corporate mission statement describes our principles of sustainable and socially responsible economic activity.

The mission statement is available on Manz AG's Web site at [www.manz.com](http://www.manz.com) in the "Company" section under "Profile." The document is named "Vision and Mission – Corporate Philosophy and Long-Term Goals of Manz AG".

## **III. Description of the Mode of Operation of Managing Board and Supervisory Board**

Manz AG is a company incorporated under German law and is subject, in particular, to the provisions of the German Stock Corporation Act (AktG), upon which the German Corporate Governance Code has also been developed. A basic principle of German stock corporation law is the dual management system by the executive bodies of Managing Board and Supervisory Board. According to this principle, the Managing Board

manages the company while the Supervisory Board advises and monitors the Managing Board. Simultaneous membership of both boards is not permitted. The Manz AG Managing Board and Supervisory Board work together in a close and trustful relationship, striving to increase the value of the company for its shareholders in the long term.

### ***Managing Board***

The Manz AG Managing Board consisted of two members in 2013. Information about the members of the Managing Board is available on Manz AG's Web site at [www.manz.com](http://www.manz.com) in the "Company" section under "Group Structure" in the "Management" subsection.

The Supervisory Board has issued rules of procedure for the Managing Board that assign specific central management areas to members of the Managing Board to manage independently. This notwithstanding, all members of the Managing Board bear joint responsibility for the overall management of the company. The Managing Board as a whole decides on matters of particular importance. Furthermore, specific measures of company management also require Supervisory Board approval. The internal rules of procedure also contain stipulations on the procedure for meetings and resolutions of the Managing Board, as well as the tasks of the chairman and his deputy.

According to the rules of procedure, the Managing Board is responsible for preparing a report on future business policy and corporate planning for the respective following year and two additional fiscal years and presenting it to the Supervisory Board for approval. Furthermore, the reporting obligations of the Managing Board vis-à-vis the Supervisory Board are described in detail in the rules of procedure. The rules of procedure stipulate that the Managing Board must inform the Supervisory Board of all issues involving planning and business development, the risk situation and risk management, and compliance with legal regulations and internal guidelines relevant to the company and the Manz Group regularly, promptly, and in full. In particular, it must report on the profitability of the company annually and the company's overall situation at regular intervals.

### ***Supervisory Board***

The Supervisory Board of Manz AG consists of three members, who were elected by the shareholders at the Annual General Meeting. The names of the members of the Supervisory Board can be found on Manz AG's Web site at [www.manz.com](http://www.manz.com) in the "Company" section under "Group Structure" in the "Company Portrait" subsection. No Supervisory Board committees have been formed.

In addition to monitoring and advising the Managing Board, the Supervisory Board's tasks include appointing and dismissing members of the Managing Board and defining the compensation system for the Managing Board and the level of compensation for individual members of the Managing Board. Furthermore, it examines the annual and consolidated financial statements prepared by the Managing Board and reports to the Annual General Meeting on the results of its examination.

The Supervisory Board has given itself rules of procedure that regulate the internal organization of the Supervisory Board. The rules of procedure contain stipulations on the selection and tasks of the chairman of the Supervisory Board and his deputy. Furthermore, they lay down how meetings are convened and chaired as well as how resolutions are passed by the Supervisory Board. As a rule, the Supervisory Board of Manz AG convenes for a planned meeting five times a year, at least once each quarter, and holds additional ad hoc meetings as required. In urgent cases, it can also pass resolutions by means of written correspondence or conference calls.

The rules of procedure stipulate that members of the Supervisory Board must disclose conflicts of interest and that significant and more than just temporary conflicts of interest shall lead to termination of office.

The Supervisory Board has stipulated targets for its composition and, in particular, requirements profiles for Supervisory Board members in its rules of procedure. The Supervisory Board should always be composed of members who, taken as a whole, have the required special skills and experience from different fields that are material to the company

The Supervisory Board examines the efficiency of its own activity on a regular basis by means of a set of questions. According to the rules of procedure, particular elements of this examination include the procedures within the Supervisory Board and the supply of information to the Supervisory Board, in addition to qualitative criteria.

#### **IV. Implementation of the German Corporate Governance Code**

The Code presents essential statutory regulations for the management and supervision (governance) of German listed companies and contains internationally and nationally recognized standards for good and responsible governance. The Code aims to increase the confidence that international and national investors, customers, employees, and the general public have in the management and supervision of listed German companies.

The Managing Board and Supervisory Board of Manz AG are guided by the recommendations set out in the Code. They view themselves as having an obligation to safeguard the company's continued existence and its sustainable creation of value in harmony with the principles of a social market economy. In the 2013 fiscal year, the Managing Board and Supervisory Board once again intensively addressed the recommendations set out in the Code.

### ***Diversity in Executive Positions at the Company***

When filling management positions at the company, the Managing Board pays attention to diversity in accordance with the recommendation in item 4.1.5 of the Code, striving, in particular, to give due consideration to women. These goals should be striven for in addition to a well-balanced level of technical qualifications. As an international company, the Manz Group has a large number of foreign employees and managers, particularly in Asia. Employees and managers from 27 countries work at the Group's various subsidiaries, and employees from 22 countries work at Manz AG alone. The Managing Board has taken further measures to promote a greater degree of international diversity at senior management level. For example, in addition to two annual international strategy meetings, the Managing Board has developed and implemented a wide range of tools for employee management and their development at international level.

At the end of the 2013 fiscal year, women accounted for more than 15 % of all Manz Group employees. However, women are not yet commensurately represented in management positions. The company offers flexible working hours, which make both part-time and flextime schedules possible.

### ***Diversity in the Composition of the Managing Board***

In order to implement the recommendation in item 5.1.2, para. 1, sentence 2 of the Code, the Supervisory Board has passed a resolution stipulating that it will also pay attention to diversity when forming the Managing Board. In this context, the Supervisory Board will particularly strive to give due consideration to women during the selection process for Managing Board members by endeavoring to ensure that, given corresponding qualifications, the Managing Board also includes women.

### ***Goals Pertaining to the Composition of the Supervisory Board***

Furthermore, pursuant to item 5.4.1, para. 2, sentence 1 of the Code, the Supervisory Board has specified the following concrete objectives pertaining to its composition and has included them in the Supervisory Board rules of procedure. In consideration of the company's specific situation, these objectives take the company's international activities, potential conflicts of interest, the number of independent Supervisory Board mem-

bers as defined in item 5.4.2 of the Code, a predefined age limit for Supervisory Board members, and diversity into account and, in particular, make provision for appropriate involvement of women:

- The Supervisory Board generally strives to ensure that its composition is such that, taken as a whole, its members have the knowledge, skills, and technical experience required to carry out duties.
- Basic requirements on members of the Supervisory Board include personal integrity, sufficient life and professional experience, independence, and good communication skills. Furthermore, the members must have a basic knowledge of business, corporate law, and industry-specific technical information as well as knowledge of the Manz Group or be willing to acquire such knowledge at the beginning of their term of office. In addition, members of the Supervisory Board must clearly demonstrate that, in consideration of their other professional responsibilities and seats on other boards, they have sufficient time to devote to their duties as a member of the company's Supervisory Board.
- The Supervisory Board should always be composed of members who, taken as a whole, have the required special skills and experience from different fields that are material to the company. During the process of nominating potential members of the Supervisory Board to the Annual General Meeting, the Supervisory Board must strive to ensure that the following requirements are met by at least one member in each case:
  - Experience as a member of senior management at a medium-sized company
  - Knowledge and experience in the application of accounting principles and internal control procedures
  - Knowledge and experience in the mechanical engineering industry or in other industries in which the Manz Group is active
  - Experience in management at companies with international operations
- In most cases, only people that have not yet reached 70 years of age should be nominated for a position in the Supervisory Board.
- The Supervisory Board will endeavor to ensure, in the context of the selection process for nominations to the Annual General Meeting, that, given corresponding qualifications, it also includes women as members.

- The Supervisory Board should include at least two independent members as defined in the German Corporate Governance Code.

The sitting members of the Supervisory Board were elected during the 2011 Annual General Meeting and fulfill the stated requirement profiles to the full extent thanks to their professional experience, technical knowledge, and their personal characteristics. As a result of his knowledge and experience stemming from his occupation as a public auditor and corporate consultant, Professor Dr. Heiko Aurenz was elected as an independent member of the Supervisory Board with expert knowledge in the field of accounting and auditing financial statements (section 100(5) of the German Stock Corporation Act). Dr.-Ing. E.h. Dipl.-Ing. Peter Leibinger can contribute both knowledge and experience from his position on the Managing Board of the TRUMPF Group, which is active worldwide in the mechanical engineering industry, as well as his technical expertise to the Supervisory Board's work. Professor Dr.-Ing. Michael Powalla has extensive knowledge of, and experience in, the photovoltaics industry, in particular, thanks to his time spent as the head of the photovoltaics division and a member of the Board of Directors at the Centre for Solar Energy and Hydrogen Baden-Württemberg (ZSW) as well as Professor of Thin-Film Photovoltaics at the Karlsruhe Institute of Technology (KIT).

#### **V. Preventing Conflicts of Interest, and Independence of Supervisory Board Members**

Supervisory Board member Dr.-Ing. E.h. Dipl.-Ing. Peter Leibinger is Managing Partner of TRUMPF GmbH + Co. KG, whose subsidiaries supply laser systems to the company. Companies in the TRUMPF Group received a total of 4.9 million euros from the company for their products and services during the 2013 fiscal year. No concrete conflict of interest resulted from this business relationship.

Supervisory Board member Professor Dr.-Ing. Michael Powalla is head of the photovoltaics division and a member of the Board of Directors at the Centre for Solar Energy and Hydrogen Baden-Württemberg (ZSW). Based on a contract signed back in 2011, ZSW granted in the 2013 fiscal year patent licenses and expertise in the field of thin-film photovoltaics to Manz CIGS Technology GmbH, a subsidiary of Manz AG, and received licensing fees from Manz CIGS Technology GmbH amounting to 1.5 million euros in exchange. Also in this case, there has been no concrete conflict of interest resulting from the business relationship.

Otherwise, there were no conflicts of interest on the part of members of the Managing or Supervisory Boards that had to be disclosed to the Supervisory Board.

After thorough examination, the Supervisory Board believes that the aforementioned business relationships do not affect the judgment of the members concerned and do not interfere with the independent consultation with, and monitoring of, the Managing Board by the Supervisory Board. It is the opinion of the Supervisory Board that they are not likely to constitute a significant and more than just temporary conflict of interest. The Supervisory Board believes that it includes a sufficient number of independent members.

#### **VI. Manz Stock Held by Members of the Managing and Supervisory Boards**

On February 28, 2014, CEO Dieter Manz held 2,019,700 shares in the company, corresponding to 41.0% of the capital stock of Manz AG. At the same time, Dieter Manz's wife held 205,854 shares, corresponding to 4.2% of capital stock. On the same date, CFO Martin Hipp held 522 shares of the company, which corresponds to 0.01% of capital stock.

On February 28, 2014, members of the Supervisory Board held a total of 150 shares in the company.

#### **VII. Manz Performance Share Plan**

##### ***Basic Principles***

The goal of the subscription rights to Manz stock granted in 2011 pursuant to the stipulations of the Manz Performance Share Plan 2011 and those to be granted on the basis of the Manz Performance Share Plan 2012 is to encourage the members of the Managing Board and additional members of management to effect a lasting increase in the company's internal and external value, effectively tying their interests to the interests of the company's shareholders as well as other stakeholders.

##### ***Granted Subscription Rights***

The Supervisory Board has already granted subscription rights to Manz AG stock to members of the Managing Board as a variable, performance-based component of compensation with a long-term incentive effect and a risk element in the 2011 fiscal year on the basis of the Manz Performance Share Plan 2011. In addition, the Managing Board granted subscription rights to Manz AG stock to members of the Managing Board of affiliates and members of Manz AG management below the Managing Board



level and members of management of affiliates below the executive level in the 2011 fiscal year on the basis of the Manz Performance Share Plan 2011.

The following table provides an overview of subscription rights to Manz AG stock issued on the basis of the Manz Performance Share Plan 2011:

<b>Subscription rights issued in 2011 tranche</b> (exercisable, where applicable, from 2016 onwards)	Number of subscription rights	Fair value of the subscription rights (on the issue date) in EUR '000
Dieter Manz CEO	2,788	118
Martin Hipp, CFO	1,491	63
Members of the managing boards of affiliates	3,572	139
Members of Manz AG management below the Managing Board level and members of management of affiliates below the executive level	6,405	188
<b>Total</b>	<b>14,256</b>	<b>508</b>

A new Manz Performance Share Plan 2012 was adopted at the 2012 Annual General Meeting held on June 19, 2012. The Supervisory Board, with the consent of the Managing Board, did not grant members of the Managing Board any new subscription rights to Manz AG stock in the 2012 fiscal year. Similarly, the Managing Board did not grant any other members of management within the Manz Group any new subscription rights to Manz AG stock in the 2012 fiscal year.

The Supervisory Board granted members of the Managing Board a total of 3,347 subscription rights to Manz AG stock in the 2013 fiscal year on the basis of the Manz Performance Share Plan 2012. In addition, the Managing Board granted a total of 10,167 subscription rights to Manz AG stock to members of the Managing Boards of affiliates and members of Manz AG management below the Managing Board level and members of management of affiliates below the executive level in the 2013 fiscal year on the basis of the Manz Performance Share Plan 2012.

The following table provides an overview of subscription rights to Manz AG stock issued on the basis of the Manz Performance Share Plan 2012:

<b>Subscription rights issued in 2013 tranche</b> (exercisable, where applicable, from 2018 onwards)	Number of subscription rights	Fair value of the subscription rights (on the issue date) in EUR '000
Dieter Manz CEO	2,142	207
Martin Hipp, CFO	1,205	116
Members of the managing boards of affiliates	3,186	290
Members of Manz AG management below the Managing Board level and members of management of affiliates below the executive level	3,634	249
<b>Total</b>	<b>10,167</b>	<b>862</b>

### ***Operation***

The Manz Performance Share Plan 2011 and the Manz Performance Share Plan 2012 are essentially the same.

The vesting period for exercising the subscription rights is more than four years. If subscription rights are exercised after the end of the vesting period and within the exercising periods of three months after the respective Annual General Meeting, shares of Manz stock are issued to the beneficiaries for a price of €1.00 each.

The subscription rights may, however, be exercised only if and insofar as the respective target has been achieved (performance component). The target for each individual tranche comprises the average of the EBIT margin (ratio of earnings before interest and taxes to revenue) disclosed in the Manz Group's audited and approved consolidated financial statements pursuant to IFRS for the fiscal year in which the vesting period ends as well as the previous three fiscal years. The subscription rights may be exercised only if the company achieves an EBIT margin of at least 5% (minimum target). If the minimum target is achieved or exceeded, a success factor will be applied when calculating the number of shares to be issued for each subscription right. This factor is based on a scale that increases progressively above the standard target as detailed in the Manz Performance Share Plan. The scale of the success factor ranges from a factor of 0.5 upon achieving the minimum target to a factor of 1.00 when achiev-

ing an EBIT margin of 10% (standard target) and up to a factor of 2.0 upon achieving an EBIT margin of at least 15% (stretch target).

The legal requirement that stipulates that variable components of compensation should be calculated on a multiyear basis is implemented by determining the success factor on the basis of the EBIT margins from the consolidated financial statements in the four fiscal years following issuance of the subscription rights. The aim of this stipulation is to motivate beneficiaries to focus their actions on the goal of achieving sustained positive growth of the EBIT margin. This motivation is further reinforced as a result of the fact that a new tranche of subscription rights is generally issued to members of the Managing Board and other members of management each year, which continually perpetuates their focus on the company's future EBIT margin.

The number of shares that the subscription rights entitle beneficiaries to acquire is also dependent on a loyalty component. That is to say that, when exercising subscription rights, the number of shares granted increases the longer the subscription rights are held by the respective member of the Managing Board up to an additional four years after the end of the initial four-year vesting period. From a financial perspective, this is equal to a bonus for holding subscription rights for a longer period of time. This loyalty component is implemented by applying an additional loyalty factor when calculating the number of shares to be granted for each subscription right. According to the scale explained in more detail in the Manz Performance Share Plan, this ranges from a factor of 1.0, which applies when exercising the subscription rights within the fifth calendar year after their issue, to a factor of 2.0, which applies when exercising the subscription rights in the eighth calendar year after their issue.

The number of subscription rights exercised by the respective beneficiary is multiplied by the applicable success factor, which is determined according to the degree to which the success target has been achieved, as well as by the applicable loyalty factor, which is calculated according to the length of time that the subscription rights have been held. The number calculated using this formula is equal to the number of shares that the beneficiary will receive by exercising the tranche in question in return for payment of the issue price per share. As a result, each subscription right entitles the holder to purchase – upon application of the maximum success factor of 2.0 and the maximum loyalty factor of 2.0 – up to four shares of Manz stock.

The Managing Board and Supervisory Board have made provision, in the conditions for subscription right plans, for an option to limit the ability of members of the Managing Board and other members of management to exercise granted subscription rights in the event of extraordinary developments. It may be necessary to limit inflows from long-term variable compensation in order to comply with legal requirements for an appropri-

ate level of compensation. This could result from extraordinary developments that cause the company to generate windfall profits.

The Supervisory Board can determine the number of subscription rights to be granted to each individual member of the Managing Board at its own discretion. The members of the Managing Board do not have a right to be granted subscription rights. In order to calculate the number of subscription rights to issue, however, the Supervisory Board has defined a guideline to the effect that the long-term variable compensation in the form of subscription rights should normally be 50% of the respective Managing Board member's total cash compensation. In this case, total cash compensation consists of the member's fixed annual salary as well as the middle target value of the annual cash bonus equal to 60% of the fixed annual salary.

When subscription rights to be granted are issued, they will be valued at their fair value on the date of issue, which is equal to the market value of Manz's stock on the issue date minus the issue price of EUR 1.00 per share. In this case, it will be assumed, with regard to the performance component, that the standard target of an EBIT margin of 10% has been achieved (factor of 1.0) and, with regard to the loyalty component, that the subscription rights will not be exercised until shortly before the end of the vesting period within the eighth calendar year following issuance of the subscription rights (factor of 2.0).

Reutlingen, March 2014

**Manz AG**

The Managing Board      The Supervisory Board