

## Corporate Governance

At Demag Cranes AG, corporate governance forms the fundamental basis of our relationship with our shareholders, employees and business partners. It also engenders trust in future investors and capital providers.

The German Corporate Governance Code summarises the regulations for successful corporate governance and thus for good and responsible management. The Government Commission on the German Corporate Governance Code appointed by the Federal Ministry of Justice adopted the Code on 26 February 2002 and reviews it at least once a year to see whether any amendments are required. The German Corporate Governance Code was last revised on 18 June 2009.

### Shareholders and Annual General Meeting

The Annual General Meeting, representing the body of shareholders, is where the major decisions for Demag Cranes AG are made. It is the event at which shareholders can exercise their voting rights, inform themselves, and enter into dialogue with the Management Board and Supervisory Board.

Shareholders can vote at the Annual General Meeting in person or appoint a representative of their choice to vote on their behalf. Alternatively, they can authorise a Company-appointed proxy to vote according to their instructions. The Annual General Meeting is chaired by the Chairman of the Supervisory Board.

### Transparency

Shareholders, capital market players, analysts, shareholders' associations and the media are all informed regularly and in a timely manner about the situation and any significant changes in the Company. In order to inform all parties equally and without delay, Demag Cranes AG mainly uses the Internet, where quarterly reports, annual reports, invitations to and information on Annual General Meetings, press releases, ad hoc news, the financial calendar, etc. are all published. Demag Cranes AG also maintains close relations with its shareholders through proactive investor relations work.

### Responsible Cooperation Between Management Board and Supervisory Board

The Management Board and Supervisory Board work closely together in the interests of the Company. Their common goal is to create value on a sustainable basis, taking into account the needs of shareholders, employees and other groups related to the Company.

The executive body of Demag Cranes AG is the Management Board, which currently has three members. The Chief Executive Officer (CEO) is Aloysius Rauen.

The Management Board is responsible for managing the Company. It develops the Company's strategic focus, agrees it with the Supervisory Board and ensures that it is implemented. The work of the Management Board, in particular the responsibilities of its individual members, matters reserved for the Management Board as a whole and the required majority for Management Board resolutions, is governed by the Rules of Procedure for the Management Board issued by the Supervisory Board. These Rules of Procedure also define key measures for which the Management Board must obtain approval from the Supervisory Board.

The members of the Management Board are obliged to disclose any conflicts of interest to the Supervisory Board without delay and to inform the other Management Board members thereof. No conflicts of interest arose in the reporting period. Nor were any transactions between the Company on the one hand and members of the Management Board or persons or undertakings closely related to a Management Board member on the other, entered into in the financial year.

The Management Board informs the Supervisory Board regularly, comprehensively and without delay of all issues important to the Company with regard to planning, business development, risk situation, risk management and compliance. It also reports to the Supervisory Board at least once a year about proposed business policies, the budget for the coming financial year and the medium-term plan for the following years.

The Supervisory Board of Demag Cranes AG comprises 12 members. Pursuant to the Rules of Procedure for the Supervisory Board, a General Committee, an Audit Committee, a Nominations Committee and a Mediation Committee pursuant to Section 27 (3) of the German Co-determination Act (MitbestG) were formed.

The Supervisory Board monitors and regularly advises the Management Board in its management of the business. To this end, the Supervisory Board regularly discusses business performance and plans, as well as the strategy and its implementation with the Management Board. The two boards also discuss the interim financial reports prior to their publication. The Supervisory Board must be involved in decisions of fundamental importance for the Company. The Supervisory Board has issued itself Rules of Procedure to govern its work.

No former members of the Management Board are members of the Supervisory Board of Demag Cranes AG. No advisory or other service agreements or contracts for work between members of the Supervisory Board and the Company existed in the reporting period. Members of the Supervisory Board take care that they have sufficient time to perform their mandate. No member of the Supervisory Board exercises a directorship or similar position or advisory tasks for major competitors of the Company.

Members of the Supervisory Board must disclose any conflicts of interest to the Chairman of the Supervisory Board. In its report, the Supervisory Board shall inform the Annual General Meeting of any conflicts of interest that have arisen and how they were dealt with. No conflicts of interest involving members of the Supervisory Board arose in the financial year.

### Directors' Dealings

Pursuant to Section 15a of the German Securities Trading Act (WpHG), members of the Management Board and Supervisory Board of Demag Cranes AG as well as certain employees with management functions, and persons closely related to the aforementioned, must disclose the acquisition and sale of shares in Demag Cranes and related financial instruments if the total value of the transactions conducted by a member of the aforementioned group of people and persons closely related to that member within a single calendar year amounts to or exceeds EUR 5,000 (directors' dealings). In the financial year, the following transactions were reported to the Company (also published on the Demag Cranes AG website):

#### Directors' Dealings

No.	Date and time of transaction	Executive obliged to report	Function	Title of financial instrument	WKN / ISIN	Transaction type	Qty.	Price per unit in EUR	Business volume in EUR
1.	29.10.2008 XETRA	Alfred Hack	Administrative or supervisory board	Share	DE000DCAG010	Purchase	3,000	12.45	37,350.00
2.	7.8.2009 XETRA	Aloysius Rauen	Management board member	Share	DE000DCAG010	Purchase	2,500	20.36	50,900.00
3.	7.8.2009 XETRA	Aloysius Rauen	Management board member	Share	DE000DCAG010	Purchase	2,450	20.27	49,661.50

### Reporting and Audit of the Financial Statements

The Demag Cranes Group has prepared the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS). The Financial Statements of Demag Cranes AG have been prepared in accordance with the German Commercial Code.

The Annual General Meeting appointed Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, as auditors of the Financial Statements and Consolidated Financial Statements for financial year 2008/2009.

### Adequate Control and Risk Management

Good corporate governance includes responsible management of risks by the Company. The Management Board ensures adequate risk management and risk control in the Company. For this purpose, Demag Cranes AG has set up systematic risk management to ensure that risks are identified and assessed at an early stage and existing risk exposure is optimised. Risk management and risk control are continually refined and adapted to the changing environment. The key features of Demag Cranes AG's control and risk management system are presented on page 71.

### Compliance

Demag Cranes AG has a comprehensive compliance system, which the Management Board and the Company's Compliance Officers continuously refine and adapt to the changing requirements. Demag Cranes currently sees potential for refining the system, in particular, through the introduction of software-based training systems (e-learning) and dovetailing even further the activities of compliance organisation and internal audit. The aim of the compliance system is to prevent employees from violating laws or company guidelines and to help them comply with these laws and guidelines properly.

Key instruments of the system are the compliance guidelines and the Code of Conduct, which sets down minimum standards of conduct for all Group employees. The Code of Conduct is publicly available on the Company's website.

Group-wide compliance activities focus on antitrust law and combating corruption. Other issues addressed by the Company's compliance efforts include prevention of violation of insider trading rules, occupational health and safety, corporate security and IT security. Company's employees receive regular training on individual compliance guidelines.

### Remuneration Report/Performance-Based Compensation for the Management Board

With regard to commercial disclosure requirements, the following Remuneration Report also forms an integral part of the Notes to the Financial Statements and Group Management Report.

Overall Management Board compensation comprises a fixed salary, a performance-based bonus, a long-term incentive component, the normal fringe benefits, in two cases, a contribution towards an external pension plan and, in the case of Mr. Rauen, pension benefits.

The appropriate level of compensation to be received by members of the Management Board overall is determined by the full Supervisory Board at the proposal of the General Committee based on a performance review. Criteria for the appropriateness of compensation are, in particular, the responsibilities of the respective member, his personal performance, the economic situation, the success of the Company and its future prospects, as well as the normal level of compensation taking into account the competitive environment and the compensation structure that otherwise applies in the Company. The Supervisory Board also used an independent external compensation expert to assess the appropriateness of the compensation. The compensation covers activities for Group companies.

Management Board compensation, which is determined and regularly reviewed by the full Supervisory Board, comprises a non-performance-related component and a performance-related component:

- *Non-performance-related component*

The non-performance-related component comprises basic compensation and fringe benefits. For two members of the Management Board, it also includes a contribution towards a life insurance policy and for one member of the Management Board, pension benefits. The basic compensation is

paid out on a monthly basis. In addition, the members of the Management Board receive fringe benefits in the form of non-cash compensation, primarily comprising insurance premiums (e.g. contributions to private health and long-term care insurance to the extent prescribed by social security legislation, group accident insurance) and use of a company car. There was also a directors' and officers' liability insurance (D&O) policy for members of the Management Board which, contrary to Clause 3.8 of the German Corporate Governance Code, did not stipulate a deductible. The D&O insurance policy for members of the Management Board in office has stipulated a deductible since 1 October 2009. For each claim, the members of the Management Board being claimed for personally bear ten percent of the loss up to a maximum amount for all claims made within one financial year of 150 percent of the Management Board member's fixed annual compensation (deductible).

All fringe benefits granted to members of the Management Board must be taxed as compensation components.

- *Performance-related compensation*

The performance-related compensation comprises a bonus, and for two members of the Management Board a participation in the Matching Stock Program (MSP) with a long-term incentive.

The bonus consists of a target bonus and an additional bonus. The target bonus is linked to the attainment of targets defined by the Supervisory Board relating to operating EBIT (50 percent weighting) and operating net income after tax (50 percent weighting). If the targets are attained in full, 100 percent of the target bonus is paid out. If one of the targets fails to be met by 20 percent or less, the bonus paid out is reduced accordingly on a straight-line basis. If one of the targets fails to be met by more than 20 percent, there is no entitlement to the bonus.

Members of the Management Board can also receive an additional bonus, which depends on attainment of particularly demanding targets for the key performance indicators of operating EBIT and operating net income after tax. The additional bonus amounts to up to 80 percent of the annual fixed compensation.

Aloysius Rauen, who was newly appointed to the Management Board during the financial year, is guaranteed a target bonus and an additional bonus on a pro rata temporis basis for the first financial year based on 100 percent target attainment (period from 1 May 2009 to 30 September 2009). No other bonuses were paid to members of the Management Board in the financial year.

The performance-related compensation arrangements for the Management Board members Rainer Beaujean and Thomas H. Hagen were revised with effect from 1 October 2009 upon the extension of their employment contracts to 30 September 2014. Contrary to the previous arrangements, only two thirds of the target and additional bonuses for the first of three financial years will now be paid out after the first financial year. The remaining third will only be paid out after the third financial year when and if the relevant targets for the second and third financial years are attained. For the target bonus, the amount of the remaining third to be paid out is calculated on the basis of the average target attainment for the second and third financial years. This must be at least 80 percent; it may not exceed 100 percent for either of the two financial years. The average figure calculated in this way is multiplied by the as yet unpaid portion of the target bonus (one third) from the first financial year to determine the amount to be paid for the first financial year.

In addition, the Management Board members Thomas H. Hagen and Rainer Beaujean can receive an additional bonus as before, which depends on attainment of highly demanding targets. Just as for the target bonus, only two thirds of the additional bonus is paid out after the first financial year. The remaining third is paid out after the third financial year if and to the extent that the special targets for the additional bonus for the second and third financial years are attained, based on the average attainment of targets for the additional bonus.

Mr. Rauen's employment contract as member of the Management Board, which was only concluded with effect from 1 May 2009, remained unchanged.

The contracts for Management Board members also provide for surviving dependents' pensions. In the event of the death of a member of the Management Board, his surviving dependants receive a life-long widow's pension or, in two cases, an orphan's pension. The widow's pension amounts to 20 percent of the basic compensation of the deceased member of the Management Board or, for the CEO Mr. Aloysius Rauen, 60 percent of the maximum retirement pension. An orphan's pension is only paid until the child turns 18 or completes his or her education (but not beyond the age of 27) and amounts to ten percent of the deceased Management Board member's basic compensation.

Upon turning 65, Mr. Rauen will also receive a pension of up to 40 percent of his final fixed salary. The pension amount is determined on the basis of the length of Mr. Rauen's service at Demag Cranes AG.

The employment contracts of the Management Board members also provide for a special termination right on the part of the Management Board members in the event of a change of control which can be exercised within six months of the change of control. A change of control exists when (i) a shareholder has acquired control of the Company within the meaning of Section 29 of the German Securities Acquisition and Takeover Act (WpÜG) by holding at least 30 percent of the voting rights in the Company, including the voting rights attributable to that shareholder pursuant to Section 30 WpÜG, or (ii) an intercompany agreement within the meaning of Section 291 of the German Stock Corporations Act (AktG) under which the Company is a dependent company has been concluded and taken effect or (iii) the Company has been merged with another legal entity pursuant to Section 2 of the German Transformation Act (UmwG), unless the value of the other legal entity according to the agreed exchange ratio is less than 50 percent of the value of the Company. If the special termination right is exercised, the Management Board members continue to receive their fixed salary until the end of the contract term. In addition, they receive a target bonus pro rata temporis from the date the termination takes effect to the end of the contract term, assuming 100 percent target attainment. The compensation payments to be made in this respect may not exceed two times the total annual compensation.

In total, members of the Management Board received compensation of EUR 5,676,000 in financial year 2008/2009, including non-cash compensation. EUR 1,342,000 of this relates to fixed compensation, EUR 413,000 to variable compensation and EUR 3,688,000 to other compensation.

Furthermore, the total compensation includes the fair value of the share-based compensation from the Matching Stock Program (MSP) in the amount of EUR 235,000. The MSP has a four-year basis, comprising a two-year lock-up period followed by a two-year holding period.

The table below provides a breakdown of the compensation received by each member of the Management Board:

in EUR thousand	Fixed compensation	Variable compensation	Other	Total 2008/2009	Total 2007/2008
Aloysius Rauen <sup>1</sup>	229	413	111	752	–
Rainer Beaujean	400	–	68	468	1,205
Thomas H. Hagen	400	–	65	465	1,188
Harald J. Joos <sup>2</sup>	313	–	3,444	3,756	1,642
<b>Total</b>	<b>1,342</b>	<b>413</b>	<b>3,688</b>	<b>5,442</b>	<b>4,035</b>

<sup>1</sup> From 1 May 2009.

<sup>2</sup> Until 31 March 2009.

At 30 September 2009, the Consolidated Balance Sheet included pension provisions of EUR 96,000 for a former member of the Management Board.

In addition, the members of the Management Board received the following share-based compensation under the Matching Stock Program (MSP):

	Outstanding phantom shares (number)	2008/2009 fair value (EUR thousand) <sup>1</sup>	2007/2008 fair value (EUR thousand) <sup>2</sup>
Rainer Beaujean	117,000	117	116
Thomas H. Hagen	118,404	118	87
Harald J. Joos	–	–	275
<b>Total</b>	<b>235,404</b>	<b>235</b>	<b>478</b>

<sup>1</sup> Proportionate fair value of MSP programme in financial year 2008/2009.

<sup>2</sup> Proportionate fair value of MSP programme in financial year 2007/2008.

Harald Joos, the member of the Management Board who left on 31 March 2009, was paid gross compensation of EUR 3,438,000 as a final settlement for the premature termination of his contract and thus also as a settlement for all income he would have received after 31 March 2009 after leaving the Management Board. The Company's group accident insurance policy will continue to cover Mr. Joos at the Company's expense until 30 April 2011. The Company will also continue the term life insurance policy taken out for the benefit of Mr. Joos until 30 April 2011. The insurance cover provided by the D&O policy for Mr. Joos' activities for the Company will be maintained until 1 April 2014.

## Supervisory Board Compensation

Supervisory Board compensation is governed by the Articles of Association of Demag Cranes AG. Contrary to Clause 5.4.6 of the German Corporate Governance Code as amended on 18 June 2009, members of the Supervisory Board of Demag Cranes AG only receive basic annual compensation of EUR 25,000.00; the Chairman of the Supervisory Board receives 2.5 times this amount, each vice chairman receives 1.5 times this amount. Members of committees – except for the Mediation Committee required under Section 27 (3) MitbestG and the Nominations Committee – additionally receive 0.1 times their basic compensation for each committee on which they sit.

Chairmen of committees additionally receive 0.25 times their basic compensation; this does not apply to the Chairman of the Supervisory Board, the chairman of the Mediation Committee required under Section 27 (3) MitbestG or the chairman of the Nominations Committee. In addition to their basic annual compensation, members of the Supervisory Board receive an attendance fee of EUR 1,500.00 for each Supervisory Board and committee meeting they attend, but no more than EUR 1,500.00 per calendar day. Reasonable out-of-pocket expenses are refunded if evidenced.

For financial year 2008/2009, members of the Supervisory Board received compensation totalling EUR 486,407.53 for their activities on the Supervisory Board of Demag Cranes AG.

Fixed compensation is stipulated for the Supervisory Board in view of the independence it must have to be able to carry out its monitoring function. The performance of this function should not be tied to any monetary incentives.

The compensation for each individual member of the Supervisory Board breaks down as follows:

in EUR	Demag Cranes AG		Supervisory Board compensation from subsidiaries		Total
	Fixed compensation	Attendance fee	Fixed compensation	Attendance fee	
Josef Berger	42,500.00	16,500.00	9,000.00	1,000.00	69,000.00
Gerd-Uwe Boguslawski	25,000.00	7,500.00	6,000.00	1,000.00	39,500.00
Klaus Ginsel	25,000.00	7,500.00	7,500.00	2,000.00	42,000.00
Alfred Hack	25,000.00	7,500.00	6,000.00	1,000.00	39,500.00
Prof. Dr. h.c. Karlheinz Hornung	31,250.00	15,000.00			46,250.00
Robert J. Koehler	27,500.00	9,000.00			36,500.00
Dr. Herbert Meyer	25,000.00	6,000.00			31,000.00
Reinhard Möller	25,000.00	7,500.00	6,000.00	1,000.00	39,500.00
Dr. Martin Posth	25,000.00	7,500.00			32,500.00
Dr. Rudolf Rupprecht	19,657.53	6,000.00			25,657.53
Hubert Rosenthal	30,000.00	16,500.00	6,000.00	1,000.00	53,500.00
Burkhard Schuchmann	62,500.00	16,500.00			79,000.00
<b>Subtotal</b>	<b>363,407.53</b>	<b>123,000.00</b>	<b>40,500.00</b>	<b>7,000.00</b>	<b>533,907.53</b>
<b>Total</b>		<b>486,407.53</b>		<b>47,500.00</b>	<b>533,907.53</b>

In financial year 2008/2009, expenses of EUR 14,000 were reimbursed. No compensation or benefits were granted for services rendered by Supervisory Board members, notably advisory and intermediation services.

### Compliance Statement

Under Section 161 of the German Stock Corporations Act (AktG), the Management Board and Supervisory Board of listed German stock corporations are required to declare each year that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Bundesanzeiger (Federal Gazette) have been and will be complied with or, if not, which recommendations have not been or will not be applied and why not.

Demag Cranes AG can confirm that the recommendations published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette with regard to the "Government Commission on the German Corporate Governance Code" have been complied with in full with the following exceptions since issuing the last declaration of conformity on 15 December 2008 and up to 4 August 2009, in accordance with the Code in force on 6 June 2008 and since 5 August 2009, in accordance with the Code in force on 18 June 2009.

a) Clause 3.8 provides for the agreement of a deductible if the Company takes out a D&O policy on behalf of the Management and Supervisory Boards. Until 30 September 2009, Demag Cranes AG's D&O insurance policy did not include a deductible for either the Management Board or the Supervisory Board, since the Management Board and Supervisory Board do not deem this to be either necessary or suitable for controlling the behaviour of the board members. For the same reason, the D&O insurance policy for Demag Cranes AG's Supervisory Board has also not stipulated a deductible since 1 October 2009.

b) In accordance with Clause 5.4.6, the members of the Supervisory Board should be paid performance-related remuneration in addition to their fixed basic remuneration. The Articles of Association of Demag Cranes AG do not include a performance-related component for members of the Supervisory Board, so that it can preserve the independence it must have to be able to carry out its monitoring function. The performance of this function should not be tied to any monetary incentives.

c) In accordance with Clause 5.4.5, Supervisory Board members who are members of the management board of a listed company may not accept more than a total of three supervisory board mandates in non-group listed companies. The Supervisory Board member Robert J. Koehler is chairman of the management board of SGL CARBON AG, Wiesbaden, and has a total of four supervisory board mandates in non-group listed companies, including his position as member of the Supervisory Board of Demag Cranes AG. This does not affect his monitoring duties as a member of the Supervisory Board of Demag Cranes AG. Mr. Koehler has sufficient time to perform his mandate at Demag Cranes AG.

Apart from the above exceptions, the recommendations of the "Government Commission on the German Corporate Governance Code" in force on 18 June 2009 were fully met.