

# Corporate Governance

**Loewe's principles continue to conform to the recommendations of the German Corporate Governance Code with one exception**

## **Conscientious and transparent management**

Loewe is an independent company with a clear brand strategy that has become well established as a premium brand in Europe in recent years. We attract our customers with products whose aesthetic appeal is timeless, with exclusive individuality, sensible technology and easy operation. The corporate bodies of Loewe AG also pursue the same high standards and sense an obligation to conscientious, transparent and sustained creation of value in managing the company. This is documented in particular by compliance with the corporate governance principles with only one exception.

## **Declaration of conformity for 2010 has no substantial limitations**

Pursuant to Section 161 of the German Stock Corporation Act, the Executive Board and Supervisory Board of an exchange-listed company must declare once a 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 Federal Gazette have been and are being complied with or which of the Code's recommendations have not been or are not being applied.

Our principles continue to conform to the recommendations of the Code with one exception. On November 26, 2010, the Executive Board and Supervisory Board issued their declaration of conformity and it was made permanently available to the shareholders at the proper time on the Company's web pages at [www.loewe.de](http://www.loewe.de) under Investor Relations:

"The Executive Board and Supervisory Board of Loewe AG hereby issue the following declaration of conformity in accordance with Section 161 of the German Stock Corporation Act regarding the recommendations of the Government Commission of the German Corporate Governance Code:

1. Loewe AG will continue to comply with the recommendations of the German Corporate Governance Code as amended on May 26, 2010, published in the electronic Federal Gazette on July 2, 2010, with the following exception:

In the interest of protecting existing rights and in order to avoid unequal treatment of members of the Executive Board, no severance cap will be set for active members of the Executive Board when concluding new board member contracts or renewing existing ones (Section 4.2.3 (4) (1) of the Code).

2. Since its last declaration of conformity on November 27, 2009, Loewe AG has complied with the recommendations of the German Corporate Governance Code as amended on June 18, 2009, and published in the electronic Federal Gazette on August 5, 2009, except for the recommendation in section 4.2.3 (4) (1) (severance cap when concluding new board member contracts)."

## **Remuneration of the Executive Board of Loewe AG**

The Supervisory Board determines the remuneration of the Executive Board of Loewe AG and the remuneration structure and reviews it on a regular basis. The remuneration system was most recently explained by the Supervisory Board in its meeting on March 18, 2010 and was adopted together with the significant remuneration components. In compliance with the German Corporate Governance Code, the remuneration system is set up in such a way that both the responsibilities and the personal performance of the members of the Executive Board, the performance of the Full Executive Board as well as the Company's economic position, business success and outlook for the future are taken into consideration.

The remuneration of the Executive Board is made up of fixed and variable, performance-related components as well as the pension commitment. The variable remuneration is oriented to the Company's long-term operating and strategic objectives. The members of the Executive Board are simultaneously managing directors of Loewe Opta GmbH; however, they receive no separate remuneration for this activity. All relevant information is disclosed individualized in detail on page 129 of the Notes to this Annual Report. In this report, we refer expressly to the information disclosed there.

**Variable remuneration of the Executive Board oriented to the Company's long-term operating and strategic objectives**

The remuneration of the Executive Board of Loewe AG for fiscal year 2010 totaled EUR 1,933,954 (2009: EUR 1,971,360) and is broken down as follows:

EUR thousands

	<b>2010</b>	2009
Non-performance	913	921
Performance-related	376	1,050
Severance payments	645	0
<b>Total</b>	<b>1,934</b>	<b>1,971</b>
Pensions	192	182

According to the Executive Organization Chart, the responsibilities of the Executive Board are as follows:

**Oliver Seidl  
(Chairman, Finance  
and Services)**

- ≡ Finance and Accounting
- ≡ Controlling
- ≡ Human Resources
- ≡ Information Technology
- ≡ Quality
- ≡ Project Management
- ≡ Press and PR
- ≡ Investor Relations
- ≡ Internal Audit
- ≡ Strategic Corporate Planning

**Gerhard Schaas  
(Technology)**

- ≡ Development
- ≡ Production and Disposition
- ≡ Purchasing and Logistics
- ≡ Patents
- ≡ Sponsorship Projects

**Manfred L. Fitzgerald  
(Marketing/Sales)  
from February 1, 2011**

- ≡ Marketing
- ≡ Sales
- ≡ Customer Services
- ≡ Product Design

The deductible in insurance policies for liability arising from professional negligence prescribed since August 2009 based on the German Act on the Appropriateness of Executive Board Remuneration (VorstAG) is included in the contracts for all members of the Executive Board. An age limit of 65 years applies to the Executive Board. Employment contracts for the members of the Executive Board have a remaining life of somewhat more than three years. The contract with Mr. Seidl will expire on July 31, 2014; the contract with Mr. Schaas will expire on April 30, 2014; and the contract with Mr. Fitzgerald will expire on January 31, 2014.

A severance cap for the case of early termination is currently not provided in the existing Executive Board contracts in the interest of protecting existing rights.

### **Remuneration of the Supervisory Board of Loewe AG**

In conformity with sub-section 5.4.6. of the German Corporate Governance Code, Loewe reports the compensation of the Supervisory Board individually and sub-divided according to components. In accordance with a resolution of the Shareholders' Meeting of June 5, 2009, the remuneration of the Supervisory Board was set down in the Articles of Incorporation of Loewe AG. It is made up of fixed and variable remuneration components. Each member of the Supervisory Board of Loewe AG receives a fixed annual remuneration of EUR 15,000. The variable bonus is performance-related and depends on net income. Each member of the Supervisory Board receives an additional EUR 15,000 if Group earnings per share reach EUR 2.20. If earnings are lower or higher, the variable component is reduced or increased proportionally. This fixed and variable remuneration is doubled for the Chairman of the Supervisory Board, and the Deputy Chairman receives one and one-half times that amount. The total remuneration of the Supervisory Board for fiscal 2010 came to EUR 122,982 (2009: EUR 154,482). See page 128 of the Notes for detailed information on the individual remuneration of the Supervisory Board. The members of the Supervisory Board performed no consulting and mediation services or other services during the year under review. For that reason, no remuneration was granted in excess of the aforementioned components.

Directors & officers insurance also exists for the Supervisory Board. An appropriate deductible – geared to the Supervisory Board incentive compensation – has been stipulated.

### **Objectives of the Supervisory Board**

#### **Supervisory Board's composition objectives put into words**

The Loewe Supervisory Board has the following objectives relating to its composition:

"The members of Supervisory Board of Loewe AG should consistently exhibit a high level of professional competence. After additional European countries besides Germany, Austria, Switzerland and the Benelux countries become core markets of Loewe AG, this internationalization should also be reflected in the Supervisory Board of Loewe AG. For that reason, this body should also include members from those countries.

Furthermore, the members of the Supervisory Board of Loewe AG should not be exposed to any potential conflicts of interest. For that reason, this body should not include persons who hold executive or supervisory offices with customers of Loewe AG or have a significant business relationship with Loewe AG.

The Supervisory Board should generally not include persons older than 70 years on the date of their appointment or reappointment. If a nominee to the Supervisory Board is older than this general age limit, reasons must be given.

The composition of the Supervisory Board of Loewe AG should be as diverse as possible. The Supervisory Board of Loewe AG sees this objective as having been met if the Supervisory Board includes a financial expert, a legal expert, a businessman, an expert familiar with the technological interrelationships of the consumer electronics industry and a corporate finance expert. An appropriate participation of women should also be aimed for."

### **Avoidance of conflicts of interest**

Both the members of the Executive Board and the members of the Supervisory Board are bound by the best interests of the Company of Loewe and may not pursue personal interests in their decisions. Members may not, in connection with their work, demand or accept from third parties payments or other advantages for themselves or for any other person or grant third parties unlawful advantages. The members of the Executive Board shall disclose such transactions or sideline activities to the Supervisory Board without delay and they require the approval of the Supervisory Board. The Supervisory Board shall inform the Annual Shareholders' Meeting of any conflicts of interest which have occurred together with their treatment. No such conflicts of interests have occurred with members of the Executive Board or the Supervisory Board in the period under review.

### **Directors' dealings**

Pursuant to Section 15a of the German Securities Trading Act (WpHG), members of the Executive Board and of the Supervisory Board as well as persons in close association with them must disclose the purchase and the sale of the company's shares if the value of the transactions equals or exceeds EUR 5,000 in a calendar year. The Executive Board did not enter into any reportable transactions between November 26, 2009 and December 31, 2010.

Generally, Loewe promptly reports the details concerning these transactions and displays them permanently at [www.loewe.de](http://www.loewe.de) under Investor Relations. It also properly informs the German Federal Financial Supervisory Authority (BaFin).

### **Shareholdings of the Executive Board and Supervisory Board**

As of the reporting date December 31, 2010, the Executive Board held 79,300 Loewe shares (2009: 158,458). No options exist. One member of the Supervisory Board directly holds 550,000 Loewe shares (2009: 550,000).

### **Compliance at Loewe**

For Loewe, sustainable economic, ecological and social action is an indispensable element of the corporate culture. To meet the standards of our premium brand, we must exhibit perfect ethical conduct in our interaction with customers, suppliers, colleagues and other persons. Our actions must not encroach on personal dignity and privacy. This behavior of course includes compliance with laws, regulations and guidelines as well as obligations. As a means to improve compliance standards, Loewe drew up its own code of conduct in fiscal year 2009 and communicated it throughout the Company. Compliance with the code is not only a management responsibility but is also something to be lived by all employees. Based on the fundamental value of integrity, all requirements for the conduct of employees are described in detail in the Loewe code. In addition to compliance with all relevant laws, relations with business partners, the avoidance of conflicts of interest, the handling of information and insider rules as well as compliance with environmental protection and safety provisions are of particular importance for us.

**Code of conduct drawn up and communicated throughout the Company**

**Loewe treats all target groups equally according to the principle of fair disclosure**

**Transparent and fair reporting**

Following the expectation of transparent and fair corporate communications, we regularly and promptly inform our shareholders, financial analysts, shareholder associations, media and the interested public about the Company's position and significant business changes in German and English. In doing this, we comply with the rules defined in the German Corporate Governance Code. During the fiscal year, we provide information to the public in the six months' financial report and by means of the corresponding interim reports for the first and third quarters. Furthermore, Loewe also announces its information in press conferences and analysts' conferences, and all company reports can be retrieved from the web pages [www.loewe.de](http://www.loewe.de). Following the principle of fair disclosure, we treat all shareholders and target groups equally. Concomitant with regular reporting, we use ad hoc notifications to provide information promptly concerning circumstances that are not public knowledge that, if disclosed, would be capable of influencing the Loewe share price considerably.

**Responsible handling of risks**

For years, Loewe has had systematic risk management which is reviewed by the auditor. Loewe identifies, evaluates and documents existing individual risks systematically by clearly defining risk areas. At the same time, the system models their impacts on the Company's financial position and performance. The risk management system is an integral component of Loewe's entire planning, controlling, and reporting process. Transparent reporting makes it possible to detect discrepancies in key data at an early stage, thereby enabling management to identify risks earlier, control them and initiate measures for their timely elimination. See the section "Opportunities and risks of future development" starting on page 66 for further details.

**Further information on corporate governance at Loewe**

Additional information concerning the cooperation of the Supervisory Board and Executive Board, the activity of the Supervisory Board and its three committees (personnel, audit and nominating committees) as well as the accounting and audit can be found in the Report of the Supervisory Board. Extensive information concerning offices held by the members of the Supervisory Board and Executive Board of Loewe AG can be found on page 127 et seq. of the Notes to the Consolidated Financial Statements in the section "Corporate Bodies and Offices Held".

Kronach, March 17, 2011

For the Executive Board



**Oliver Seidl**  
Chief Executive Officer

For the Supervisory Board



**Dr. Rainer Hecker**  
Chairman of the Supervisory Board