

SM- 970111 (ex Porga 970111)

Business Principles

Contents also essential for KSG and its partners

...to be adapted and reissued for specific cases



Karl Schlecht
Stiftung

... Suchen und Fördern des GUTEN schlechthin

qualitativ ? – innovativ ? – leistungsbereit ? – flexibel ? – kompetent ? – werdebewusst ?

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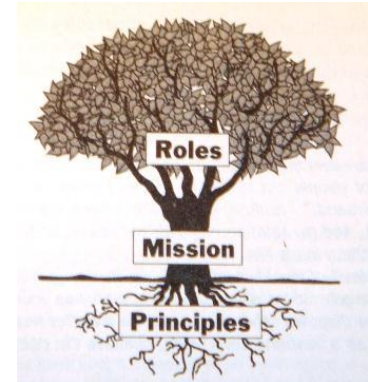
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Core Issue and Abstract:

These so called **Putzmeister Business Principles (PBP)** are fundamental governance norms for leaders in the PM group - also valid later after PM shares were transferred by its owner into the foundation KSG. There they are guideline of KSG-Business orientated Institutes and lecturing PBP represent the characterizing basic governance directives and personal suggestions of the founder, owner or shareholder of the company, related to their later issued and more strategies describing so-called Putzmeister World Book in 1996 (PWB - page 5). These PBP are also the background of our value catalogue CoPhy in PWB page 22. They were issued earlier in 1990 as a Putzmeister- PORGA 970111 – and now guideline in KSG.



Principles are also to be seen as **MAXIMES** for company members: This is the thinking and intentions of human beings as general principle for decision making, same as our basic ethics as documented in our 10 religious commandments. They are “condensed in the Wordlethos-Idea for global TRUST in Business (See SM 121126)

For PM these PBP have been issued as PORGA 970111 and were then transferred into the so called RIPAF (Rules and Instructions for Putzmeister and Affiliated Firms). There they became the top and most basic **English written** document, understandable for PM,s global valid subsidiaries as their organization modules. They are components or modules for the always varying global PM strategies and subsequend adapted structure in following to the actual potentials of dynamic markets...

PBP represent Elements of our PM - groupwide corporate governance, which range on the **same level** like the long-term strategic directives given in PWB. Both are finally edited by the shareholder KSF after discussing with management.

They evaluate collected expensive experiences since founding PM in 1958 and comply with the lessons taken to prevent their repetition. Following and cultivating these PM TOP - VALUES secures our **company character and culture** for the future in a high degree. Therefore PBP have similar dignity and are an important column for the **later** issued PM-Worldbook PWB, where they are mentioned in page 5 (PMW).

PBP elements must be a binding component in employment contracts with consequent **personal responsibilities and liability**.

PBP consequently form the Putzmeister **company character**. This is based on and means thinking, feeling, behaviour and acting of our company members in leadership responsibilities.

PBP are background of the long-term **PM group business strategy**, representing basic directions, core business aspects, procedures and actions which mus no more be mentioned there – but referred to in their Prefix.

So they help to secure continuity. Following them **creates trust** of the shareholder to management – also for other stakeholders, company members **and customers** worldwide.

If managers do not have such a principle-based personal attitude- or feel they must not read nor follow them, they cannot gain trust. They then will make decisions and act in day-to-day life and create facts which can often no more be corrected – even not approved nor tolerated by later supervisory board **as it comes too late to their attention.**

Negative examples for this are events initiated before the world crisis 2007 in respect to lack of risk sensitiveness and financing with – in spite of the expected and visible downturn – i.e. continue to blow up growth and sales with high recourse- and extremely risky rental and lease agreements.

PBP - minded and risk sensitive managers should feel, recognize and evaluate such risks and ask for preliminary written permit to proceed with respective decisions **before** irreversible or risky facts are created.

Therefore the RULE- but difficult to understand by our managers::

PBP form the basis of **PM business strategies (PBS)** as defined and described in PORGA 960616. These business strategies are annually updated for the next 3 years` period.

Referring in this PBS to PBP helps **to shorten the written volume** of such business strategies.

The editor (KS) appreciates comments and suggestions to improve PBP on paper and in life.
Short PBP definition in FN00244-GB

PM Business Principles



Proven Fundaments and laws of Putzmeister business

- High business ethics and company culture
- Sustainable and profitable growth based mainly on own resources
- Financial standing first rank, prompt payment
- Investment growth with equity ratio > 35%
- As KSG owned company financially independent
- Innovation rate annual 10%
- Diversification only into synergated business fields
- Marketposition Nr. 1 in core business areas
- Partnership in all directions, based on mutual trust
- Management first class and mainly recruited internally
- Learning organization

Based on PM 97008 and PBP 2000 in PORGA 97111

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A. General Remarks

(Please excuse lengthy text as an effort to describe for better understanding with various perspectives our meaning about PBP.)

These PBS are **fundamental for strategies and policies**, personal targets and daily operations following PWB. Therefore read them first before you start thinking about an writing and discussing strategies.

PBP are obligatory directives from the shareholder for management and should be considered as PM - business laws, similar to public laws and basic ethic norms. All this is underlined and emphasized for adequate compliance with our values as written in the black **“value bars”** on the front page of this and all new regular PM documents and as our CoPhy, our Trustcodex 5 Question-Probe etc.

General and Basic Principles:

1. **Unyielding Integrity to these PBP** is expected, followed with consciousness in regarding them as criteria for “Cultural Fit” (see PM 05005) of company members.

PBP principles do characterize our company culture based on employees behaviour and activity as outlined in PM 06062 and many other PM documents like personnel information (PM) and sales information (VM). Being intrinsic and anchored in their **hearts and souls**, such principles or human basics form their character and nature. Consequently they determine their behavior like “individual laws”. They are part of their ethics, originated in genes, basic experiences, childhood, learning at school universities and in the personality forming environment here in PM. As each person is undividable such Principles should be in compliance with their beliefs or religious orientation, based on religious commandments, virtues etc. Personal principles govern our **mentally** determined values, objectives and actions in personal life- be it conscious or unconscious.

Values are worthless or quickly deteriorate without education and respecting good generally accepted principles – as is generally the case with all what human beings create on this world. Value minced or Principle based and active people reduce Regression (Entropy, Regression – see PM 05024). Principles – may it be personal or business principles – make people sensitive and are also a catalyst to transform knowledge actively into competence (= proven knowledge) more effectively.

2. To be **qualitative** as top element of the **PM value catalog** needs conscientiousness, self-responsibility, loyalty, honesty and discipline as basic mindset (see details CoPhy sheet in PFG). Same is due for being **truthful, innovative and cost conscious**. Human virtues help to **perform readily** and be **value conscious**. Innovation must be based on earning **competence** with **open minded** and **modest learning** attitude.

Learning from actual problems needs to search for the true reason honestly and diligently else mistakes repeat; and **innovation** needs belief, courage, even a sacrificing attitude and persistence.

3. **These Business principles (PBP)** and sustaining our company values are related or even comply with **personal principles**, because a company character and culture is determined by how their people behave (see PWB page 23 CEP). In the past our Putzmeister Business Principles proved to be **constant** positive and productive factors for our people’s decisions in corporate strategies and business activities. Therefore – same as in personal life - they characterize our business related behavior in defining the Putzmeister identity and character. All stakeholders expect when caring for trust that PM firms and their members act with integrity to PBP as they help to bring our company

values into effect.

4. Breaches – lack of compliance - (see PM PM 04089 Nixact PM 06089 Führen mit Worten und Werten) have harmful disciplinary consequences as **“Unyielding Integrity”** is the **core business principle for our company members, besides Commitment to Performance and Thirst for Change** meaning **“always better”** based on learning from each event (*as a personal principle!*).

For deeper **understanding principles** please study the books **“First things first”** from Stephen R. Covey, (PM- library Nr. **X 2507**, especially pages. 51...54ff); **“What principles are”**: The law of the farm. or study the book **“WINNING”** (Jack Welch)

5. **PM- proven**

In PM' history we learned that these PBP described here are main elements or the source for our success since 1959. Therefore, they also form the base for future PM well-being and have **even higher** status and dignity as the value catalog CoPhy and long-term visions. PBP govern not only the daily regular but definitely the important strategic decisions in business life, realizing that decisions are not only based on interests, but the big ones even more on **emotions** and value conscientiousness, meaning on such intrinsic principles as explained here.

So as mentioned in PWB – Vision page 7 (TMC) these PM - business **principles will help to build our customers trust for becoming in their mind “Top in Mind- Top in Choice”**

6. **PRINCIPLES ARE NOT VALUES**

Please realize again that these company “principles” are **not** our company values, but the roots on which our company Philosophy (CoPhy) and culture grow, by which we define ourselves, on which all stakeholders count and believe in. **This** now more precise explanation of our **traditional PM - Philosophy means true practicing and living our PM - Values growing on - or with - such root – principles**. They help our company members gaining personal “Bildung” and qualify live in general – not only business life - with everyone’s many roles like i.e. husband, mother, father, manager, boss, traffic member, citizen, mentor in social life etc. They need open-mindedness discipline and consciousness. (s. PWB page 23 CEP) Egoists and Narcists will here have difficulties and better leave our PM family

7. Vice versa these principles also form of course the business related **personality** of company members. PM is not a machine- factory but more a “Menschinefactory” (see PM 05054) forming and building people, make them stronger and win. So good principles may be considered as the company’s **“holy spirit”**, that governs all. Conscientiously **applied personal principles** like the **4 question probe** etc, control the process of growth and change. They rewrite the laws that govern effective fulfillment of basic human needs, capacities and roles in our PM family.

8. **AGAIN - to repeat** - for furthering continuity in management and leadership

Our Putzmeister **Business** Principles PBP are extended practical issues of our **Putzmeister World Book** PWB with the same dignity like the earlier and still traditional “Putzmeister Leitbild” (PM 04022). This is later defined as so-called **Strategy Scope** (see RIPA 0.1.5) of the PM Group.

Besides traditional virtues PBP contain elements of our earlier so-called (German) PM 1200 Geschäftsgrundsätze corresponding to MF 9211 (Engl.) Management Fundamentals (must be updated).

And again – es often not understood: In special the **operational PBP** as described in

pages 4 ff must always be referred to in the **Putzmeister Business Strategy PBS** – not repeated there - and respected when annually updating or developing PBS for the next 3 years period as defined in RIPAF 0.1.5 and PORGA 960616.

Again important: Referring to PBP in issues for long and short term strategies etc. helps to **keep those short** and reduces their contents down to the essential **new** elements – only to what must be changed in the future 3 years, looking at and evaluating inner and outer potentials.

REMEMBER:

Strategies are action alternatives in evaluating own potentials and positive external chances selected for the following three years.

Do never decide PBS Elements without reviewing and looking at alternatives! (See “The Essential Drucker”).

All Newcomers at PM must and will finally realize: **PBP is therefore a tool to make the annual business planning process more efficient and successful**

9. So these general remarks given here shall be respected as basics and as a preamble to the subsequent “operational PBP” are **issued by the shareholders** and then jointly explained to the PM top Management as described in PWB page 5 and 6. – and adapted to their suggestions if agreeable based on Mission Statement and shareholders’ policies.

Persons who do not comply nor finally accept those as their principles followed in PM have no place here. To be understood and cultivated - Explaining and discussion these PBP must also be part of regular meetings with the shareholder (KSF members) and hopefully started managers training (Putzmeister Guidance Lectures PGL – see CI 060727) and be part of EXTRA Program for , see PORGA 970317.

Please remember:

Most issues of our Putzmeister Worldbook actually are **equivalent** to or only in other wordings in compliance to such **PM – principles**. **It is hard work not to contradict or repeat too often. Some repetition is however helpful as such documents are seldom read all through at once, but only case by case at actual relevant happenings.**

This RIPAF only specifies and **explains PWB issues** in binding practical subsequent details to help form and qualify delegation of responsibilities with clear – and short job descriptions when elements (OE’s) of the ‘RIPAF are entered there or better attached as binding contents..

F. Financial Principles

See PWT, slide 9 FGR

- F.1. Always apply **conservative accounting principles and follow the behavior and – as we say in Germany – “the attitude of a careful and conscientious merchant.”**
- F.2. Financial Performance is measured on the free cash flow and equity ration and reserves. The **equity** (in % of total assets) as indicator for financial independence and financial strength to all stakeholders shall be at the following **minimum** rates :

PM Group	40 % *
PCP	40 %*
PM Subsidiaries	30 %*

These ratios are expected to be in general be 10% higher.

After an acquisitions 5% over minimum have to remain as a safety buffer for required investments in the acquired company and unforeseen negative events. Strategic and annual business plannings must be adapted and reduced when these figures are endangered. Critical exceptional business cases need approval from the KSF board.

Unplanned minimizing these figures – if not agreed case by case or in te shareholder - approved business plan - may be the reason to cancel agreed annual bonuses of the responsible CEO of the relevant business unit, as well that of his superior (CFO) who is in charge for active controlling for this unit..

F.3. **DIVIDENDS or Profit sharing:**

PCP and other PM Holding (PMH) affiliates must as a rule **plan to transfer 50% of its net income (profit after tax)** as annual payment to its mother company or the PMH – unless other specific actual and temporary decisions are taken (see SM 070823).

The same applies for subsidiaries in referring to their upper company. The shareholder decides, which part of the transferred profit may be returned and reinvested or left in the daughter company.

F.4. **LEASING**

.4.1. **PURCHASE- Investment Leases:**

Active asset-management measures shall be utilized to improve ROCE and liquidity (leasing of current / moveable assets, forfeiting etc.).

Maximal 1/3 of all active assets may be financed through such methods and the rest through standard finance tools (bank loan) in keeping § F.2 for not exceeding maximal bank loans limitations.

PM own investment lease volume for machines and mobile units etc. must in total never exceed 3%of the amount of its actual Equity Capital. (klären)

To limit crisis risks the lease agreement for i.e. machines to be financed through leasing should include savings clauses to relate not only on lease period but also on required utilization time of the machine. (klären)

.4.2. **Sales Leasing**

For lease agreements between customers and leasing companies for which PM is asked and willing to support sales and sales financing through vendor guarantee (i.e. first loss guarantee, residual value guarantee, buy back guarantee etc.) a substantial down payment (15 – 25 %) of the customer is mandatory as a general rule.

All risks resulting from guarantees/securities given via PM to leasing companies to support sales financing have to be monitored – even more as all other contracts – on a regular basis . Risks resulting from change in markets, market prices and/or outstanding payments from customers have to be covered through adequate provisions (transfer to reserve i.e. 59% of outstanding fees) in the respective company accounts and balance sheets (lessons learned in Spain 2008/9 and earlier in US).

Sales commissions to salesmen or profit- bonuses cannot be paid in full for lease sales. Bonuses for the involved company Officers are reduced adequately from those sales unless the reduced company profit due to reserve transfers has not such a corresponding consequence.

F.5. **Real Estate and buildings**

Headquarter and assembly facilities shall be in **own property** or **exceptionally** owned by the shareholder. However sales and service offices (PCC) can also be **rented** or **held in lease purchase by the user** (See RIPAF 2.5.11). This may be reasonable when they are in question looking beyond 10 years utilization, growth and other changing factors like

environment, markets and mission statements. When equity moves above 50% then longheld PCC can be purchased as this is mostly cost saving.

F.6. The basis of **investment planning calculations** are always the full acquisition costs independently of the type of financing (purchase, leasing etc.)

F.7. The **amortization** of investments shall be less than 5 years, machines ca. 3 years, own buildings 7 years, long term building lease-buy 15 years.

F.8. Bank liabilities

The objective for the **upper limit** of net **bank liabilities** is 10 % of the real actual turnover – else growth must be limited. **Temporary exceptions** are possible but **must be planned in advance** and need a written **previous** shareholder agreement.

Max exceptional upper limit is 20%.

Alternative but not yet approved:

Upper liabilities limit is 2,5 EBITA in normal times.

Deviations from this upper limit during the year or latest as years end lead automatically to adequate **bonus reductions** - independent of earlier agreed bonus rule. They are decided in volume by the Controller of the **Grandfather Company** or the chairman of the upper supervisory board (= KSF as PMH is no more controlling unit)

FILI - Financial Integrated Liability Index

This is a code indicating in one glimpse within the monthly report the total financial bank - liabilities with integrated risk estimation of other financial risks which endanger the company in case of a sudden crisis as I happened in 2007 / 8 or in case of wars and sensitive estimation of nature catastrophes (to be specified in PM 11011)

F.9. Paying all invoices and cover obligations promptly with **best cash discount**. This will build trust in PM for suppliers as well as employees. The ability to follow such obligations in time realizes **financial privileges for PM**. This position based on high equity must be secured **at all times**.

F.10. Lowest but still fair prices and related conditions for all supplies must be agreed in hard negotiations based on detailed politics outlined in the material management policies issued and cultivated by the director of purchasing and his superior. (s. RIPAF 6.4.1)

F.11. The **Return of Capital Employed (ROCE)** must basically be more than 18 % p.a. on a long term average. Our target is more than 30% to secure traditional growth with 20 – 30 %, out of own resources reduced dividend payments to shareholder if not needed for agreed growth.

F.12. The **trade risk** shall be minimized through adequate covering and insurance measures (e.g. trade credit insurance). Further risk management procedures have to be taken particularly through group wide product liability insurance as well as property insurance including business interruption insurance (Details see RIPAF 2.8.2).

F.13. The **exchange rate risks** shall be minimized i.e. through fixed contracts or options (Details see RIPAF 2.5.5.). This means back to back currency securing for the base (mostly machine -) business – especially when max value is imported.

F.14. Minimizing the taxes

To minimize legally the tax charges for the whole PM group all legal steps and corporate development must be investigated, considered and applied within PWB specifications. Separating legal structure from operational structure can help.

F.15. NEW COMPANIES: (see D)

When founding or acquiring a new company a PM- minded **trustworthy controller** with min 2 years PM - experience must be from the very beginning – even earlier - a member of the

new PAF top management team – until a trustworthy local successor is there. If not available the acquisition or founding new company **must not be even considered**. (see D) Beyond this PAR - Porga 050418 must be followed.

- F.16. Signing integrity and loyalty** declaration as specified in PM 04087 and **PM 07019** is obligatory and must be carefully followed and controlled by the CEO of each PAF.
- F.17. Profitability.** (see RIPAF 2.6.1)
Each business unit must realize **min pbt 5%** (ROS) and fastest capital revolving. This relates to PCC's and subdivisions like PUMAK, who do have own design and risks from design and marketing.
The necessary instruments to organize and measure this must be cultivated by the CFO and reported to PMH.
For full **range machine business units** with own product line and global marketing, resulting in generally lower capital revolving (= 2 x p.a. like i.e. PUC or Telebelt subdivisions) a pbt of **10%** is the rule.
- F.18. Profit of his own business** unit has priority for all CEO's of PAF, which often home several PCC's and subdivisions. Group profit is secondary for him. For this the mother company or PMH have to care.
Based on PMO 2008 (see PM 061212) the MTF – CEO is responsible for group wide profitability of his entrepreneurial MTF - units, which might be a subdivisions of PAF or legally separate. This must be coordinated with the PAF - CEO – and if necessary decided by PMH based on group strategies.
- F.19. Information on deviations** (Teil des Reportings)
"Jeder Einzelfall, der die verabschiedete Planung, die Wirtschaftlichkeit und Profitabilität oder die Höhe der genehmigten Investitionen einer Business Unit, einer PAF oder einer Produkt Linie mit mehr als 30 T€ negativ belastet, ist sofort dem CFO der nächsthöheren Organisationseinheit zu melden. Bei Einzelfällen mit oben beschriebenen negativen Auswirkungen von mehr als 50 T€ ist unverzüglich die PMH durch den verantwortlichen CFO (CFO der Business Unit) zu informieren. Bei Personalunion des CFO von PMH und PAF hat der ARV zu entscheiden.
Dieses Reporting hat **umgehend und direkt** zu erfolgen und nicht im Rahmen des regulären Informationswegs wie z.B. über Monats- oder Quartalsberichte. Eine detaillierte Beschreibung und Erläuterung des Einzelfalles (Vorgeschichte, Geschäftsvorfall, Handlungsalternativen, Entscheidungsmotivation) ist zwingend. See Porga 080724 CBR
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G Growth Principles (Respecting Financial Principles F) *See also PWB, slide 10 SPG*

G.1. Dimension

Putzmeister wants to **grow annually beyond 10 % on a long term average**. According to PWB 7% have to be reached as the long term minimum. (see Financial principles especially F 2) Higher growth with i.e. 25 % needs 35% + ROCE to be permitted.

Contingency plans (see RIPAF...???) must be sincerely evaluated when longterm capital investment like factory buildings etc. are negotiated. An estimated downturn within 3 years prevents factory or similar capital investments.

Investing in factory ground can only be made from available cash.

Factory investment financing is only allowed when min 30 % is paid in cash and 70% in longterm 10 years financing.

- G.2.** Following PWB, Putzmeister sets priorities to be the most **competitive company** in its core business by doing everything rationally possible to become and remain number one in choice for the customers (see Top in Mind in PWB, slide 11 OAG).
Putzmeister – growth is based on including partners on the purchasing and marketing side to delegate responsibilities, use and evaluate their capacities and capital so that PM's -

resources are and share business can be highly concentrated and invested in its core business which is engineering, production and marketing.

Therefore strong independent dealers with synergetic other product lines are preferred against own local PCCs or shareholding in dealerships.

Putzmeister supports its dealers in every imaginable way in order to strengthen the relation but also improve their business. This also means to further the so-called “**Absorption**” (see UP 2403 VM 11028, and here in P.9, H12, M 1) A good dealer must get 70-80% revenues from APS business – even when he does **upon agreement** not purchase all parts (i.e. commodities) from PM in following the principle “priority of the last seller” (see PORGA 930706)

G.3. Organic growth must always get priority

Through continuous **innovation** the share of the total turnover reached with **new products** (products, which were placed on the market during the last 2 years) should be at least 10 % - and ca. 80% of actual products should be new after a 5 years period.

G.4. If useful for achieving PWB contents and its goals PUTZMEISTER enters into **partnerships** such as strategic alliances (see) or **joint ventures**. In joint ventures PUTZMEISTER should own the **majority of votes** in order to have the decision-making authority. However the aim is to have fully owned subsidiaries.

In each annual auditors report of a joint venture the shareholders agree on actual company value, which is the binding bases for possible share transaction in the following year (see RIPAF 2.5.2)

G.5. Size is not all that matters – and size must never get or induce negative effects. Qualitative and profitable growth and securing these principles is important. **Nothing must be perfect**, but only adequate and real good to survive –like in nature – or sufficient to reach the goal.

We want to keep our identity as a successful **premium brand** and medium sized company, where even the top management is personally well known by all stakeholders and is accessible for the customers. This means correspondingly **limitation of company size!** – or divide into smaller entrepreneurial organized divisions

We want to concentrate on what we can manage, keep our quick responding individual and serving attitude.

Never be **proud** ! The best machine is not yet built! Simply feeling **personally to enjoy** is better – and sufficient, does not create envy..

G.6. Long term and sustainable thinking for main decisions. Never look at the own personal profit share program when negotiating personal income, which is generally short term. Good Leaders who truly care are looking at their longterm profit share as all investments need time to bear fruits.

G.7. Orientation with “always better” (continuous improvement) is essential. At each years end the company members and the MTF - management must determine what made a positive difference last year and specify in writing the growth objectives for next year (strategy and business planning). Even if we don't grow in turnover we can grow in reference to all values shown in our CoPhy Sheet (PWB page 13 IAS and page 22 CoPhy). Therefore the individual value contribution in the own field is also the prevailing basis of our profit sharing MEB (s. PORGA 960901). Healthy and stable Financial growth of our business and well paid, safe jobs can only be the result of continuous growth in such values - not vice versa.

D Diversification Principles

Further Details see *CI 050705 Diversification and Acquisitions*, also F 5, PWB slide 11 OAG, RIPAF 0.4.4, and PORGA 050711.):

- D.1.** We are **specialized on niche markets** with high tech and specified demands needing high **application competence** and differentiated, technically complex design and services. This also applies for diversifications which also need to have a group - synergetic potential (good example is ESSER in PPT to improve our products in general with a main pump component : **Pipes- systems**).
- D.2.** We prefer to **grow organic** (out of ourselves) be it into vertical direction in fields with an existing PM presence (e. g. Daisy) or through infiltration of related markets (e.g. Mining, PSP, PUB – see also D8)).
- D.3.** Fields where we don't know either market or technology very well must be avoided. Diversification must only then be started when **at least one top, PM- experienced** and loyal **PM - executive** is and wants to be a long-term expert in the new market field and formulates and shares personally future long-term general responsibility for its new entrepreneurial success, esp. ROCE and ROS along these PBP, meaning latest positive ROS after 12 months and sufficient ROCE to finance its own growth. (Lesson from WETKRET and M 5)
He or a same level PM- executive with min 3 years PM management experience must then become part of the operative management there. This he has normally the CFO role there.
- D.4. Holding Task**
Diversification into fields not covered by PM Group so far should be performed by the **PMH** where on this basis the general diversification potentials shall be concentrated, also private equity ideas should be looked after.
- D.5. Diversification in markets established** by other **well guided** companies should **not** be started with the same product and technology already provided by others as this leads purely into price struggles. When starting we must be able to offer substantial technical differences, as it was the case with concrete pumps and mortar machines when we started (negative example was PWT!). If not profitable within 2 years it must be ended or disinvested (Lesson from DYNAJET)
- D.6.** If we invest into or acquire a new business **the total investment must be a contained risk** based on these Principles. The ROI of the individual investment shall be less than 5 years. Our group equity must be secure to be always above 40% on an average after acquisition with objective 50%. (see F)
- D.7.** We invest only into new businesses during **periods when our company is very profitable** (10% return on turnover, ROCE > 30%); with core products and minimum of 5% return of the total PM - turnover to have a secure basis for financing innovations and diversifications.
- D.8.** Targets for new business or acquisitions must be qualified with the target **to become short term leaders** or at least number **two or three in their respective market segment** and proof this with a realistic business plan. It must be realistic to reach with new products (or the acquired company) in 3 years a market share of 40 %
- D.9. Lessons from recent experiences** to fasten the above: (see MEWA SP 9642-UP 2451)
form a PM experts - team to investigate **instead** of external consultants.
Inform and involve closely the shareholder and our traditional consultants, KSF Members etc. to look at the key factors. Do not focus on **existing** market or generally seen growth chances but on the longterm chance to develop the new market **ourselves**.
Remember: PM started MM and CP when market was small but saw the growth chances and **developed** the future market with **new technologies and own specific innovation**. An external consultant can never find or create this.
Do not primarily look on market size but **profit chances**. PM does not need only new 100 mio ventures. When PMH is active and competent enough then they develop those new markets in reasonable dimensions.

M Marketing Principles

M.1. Agents See G 2 and P 9

Following G – principles PM markets its products primarily through strong independent dealers who preferably promote other synergetic product lines to cover costs from various sources in general and be strong against market fluctuations. Thei PM share should not exceed ca 30-50% of their turnover This is based on the experience that ownership based entrepreneurial businesses with a tight local connection proved more successful than PCC's.

Only when no trustful dealer is available and the market offers long-term growth then PM may invest in own PCC. Also in perspective cases, where necessary lowcost local parts have to be manufactured.

This must always be reserved in controls with partners (lessons taken in India, TATMAK etc)

Shareholding in dealerships is not allowed.

Putzmeister supports its local marketing partners in every imaginable way to strengthen the relation and improve their business – but PM people must not do their business as sometimes experienced!. So they can place longterm orders and pay supplies as agreed. They have to increase the so-called “Absorption VM 11028 ” out of Service and Spare part business with PM support to better survive market fluctuations and digest low margins in machine deals. (see, P.9, H12, M 1)

M.2. Contracts must reserve later **own direct** entrepreneurial local PM engagement

All exclusive or open agency or sales relations and contracts with dealers marketing our products in certain territories must include a § which allows PM - at our choice to start any time local assembly, manufacturing or substituting their eventually functioning assembly or manufacturing installations. As they are always started with PM assistance and are based on PM drawings PM is not forced to pay in such cases any compensation or pay for goodwill – not even when using earlier subcontractors. (s.a. P 9; TATMAK lectures taken)

In case of later taking over their continued **marketing** activities then actual legal practices and PM business Principles and values are respected, also following the 4 question probe. Well experienced when PM Iberica took over INDURESA as our long year agent in Spain.

M.3. Subcontractors loyalty

'In case of local procurement of Parts made on PM drawings from subcontractors by the PM agent - or PAF – he is responsible to secure loyalty by adequate confidentiality and non compete agreements. (Negative Experience TATMAK 2008 and KOREA DAEWOO, JunJin 1995)

M.4. Transfer prices (s.a. F)

Following PORGA 071212 PM;- agents are served with normal sales / export conditions, but for finished machines must **never** be supplied with so called transfer prices (only ca 15% above manufacturing costs, leaving 5% ROS for the plant):

Transfer prices are only allowed for affiliates or JV partners for components made on PM design when they assemble machines and pay a license for the finished product – also made on PM design..

All negotiated net prices for marketable finished products have to leave a fair profit to PM (Lesson SIKA WETKRET see Calculashi PM 08018) – meaning normally min 10 % ROS left in the net income.

M.5. Annual Check

as specified in PORGA 900512 Vertragswesen the authorized RSM or project manager must give the existing contract an annual checkup to each years end – latest till end Feb of next year – and care for actual confirmation in a specific countersigned memo or introduce in the contract an agreed update to the real situation and near future.

Same is due for each employment contract and has to be cleared in the annual BFG (see PORGA 940314)

M.6. Marketing new product lines (s.a. D)

'Newly created or existing products are **defined as PM – Product lines** (PPL) - like i.e. WETKRET, or Telebelt , PUMI, MX booms etc.- in oder to evaluate future market potentials as

well as PM technical potentials. PPL must **from start be organized as a department** including cost – center reporting and a responsible heading person. To evaluate the given mission statement according to RIPAF the head must learn to realize and develop competence and personality to care for P/L and given budgets. He must have personality and authority to fight for profitable end prices to finance his own business and its future growth and investments.

Based on **PMH - Mission Statement** and PMH basics strategies (see PWB page 4 OPW) this strategic process must have the objective to develop the **department** into an entrepreneurially guided **division** acc to RIPAF (s.a. PM 04058) and later separate business units or MTF (see VM 00050 , 04005 markt tech fields) for optimizing business effectivity and global PM - success. (still negative Lesson from PUMI and WETKRET due to lack of leadership)

P Production Principles and material management

See PWB, and special slide UPS, 19 PMQ

- P.1.** PUTZMEISTER always strives for producing its products with the best efficiency also compared to the best competitor (s. PM 04074 and PWB). Putzmeister has to be or become the most competitive enterprise in each covered manufacturing field, serving our diversified MTF's and their global assembly lines. Corresponding guidance decisions must be made by the PMH-CEO
- P.2.** Putzmeister produces its products with a **high degree of subcontracting based on cultivating their productivity, trust of qualified partners, compliance with PWB and copy and basing all on long term partnership.** This helps to reserve its capital and own resources for the core PM – business and widen flexibility and product range.
- P.3.** PM and its subcontractors must form and qualify actions for a **long term partnership**, following the criteria that this will become and remain more efficient as PM could be manufacturing those elements ourselves. Adequate assistance, training and control must be given and clearly imposed to the responsible PM- manager.
- P.4.** Fair purchase calculation policies for partners must leave thema chance to achieve ROCE 5-10%, ROS 3-5%.- but prove and continuously strive for optimizing effectivity with same market pressure as PM suffers from its market – and care for open and honest information.
- P.5. In-house manufacturing**
Strategic reasons for **in-house manufacturing** are i.e. to
- develop and secure modern and progressive core technology and more efficient manufacturing,
 - assembling final products close to or in to the local markets,
 - realizing overall higher company effectivity with investment and productive innovation,
 - securing key and secret technology.
- but manufacturing should be governed separately form assembly as very different culture and remuneration etc. Benchmarking to competitive subcontractors must be cultivated
- P.6.** The **core competencies**, containing high specific know how and technologies shall always be kept fully within PM – and protect best possible against theft and vandalizing. This needs contractual agreement for confidentiality and non compete. (see samples in UP 2035)
- P.7. Product lines**
Full in-house assembly is obligatory to specific or young product lines like PBT (Telebelt) PUC (underground concreting) etc. or starting local assembly in other countries (earlier called HUB's).
Building an operating factories **on leased ground is not acceptable** (see F5) Exception only when ground is owned by a group member company or the shareholder).
For full in house manufacturing **no partnerships are allowed** as they traditionally always create later unforeseen problems (Tatmak, Putz-India, earlier PM Brasil etc.) We better wait to

realize this alone.

However longterm orientated entrepreneurship must anticipate such chances in current dealer contracts (see above) and – years before starting a local factory – engage and train local people to later be in the new local facility part of the core foundation team.

P.8. Different technical culture needs separate plant

In case PM **enters basic manufacturing** for strategic reasons – as it was necessary with booms etc. - this should be done in **separate business units** or separately managed works facilities due to **different technical culture**, compared to machine assembly or other sort of manufacturing.

Even when the factory is side by side with an PM assembly plant, they must be organized like a separate entrepreneurially organized business unit (MTF?) with one entrepreneurial fully responsible top manager for each.

Assembly plants normally include adaption design to local needs and marketing – if not separated at the same location into a PCC for smaller product lines..(see PMA hosting various MTF – PCC's.)

P.9. Start up manufacturing in new markets

When virgin markets have been developed with export sales and an adequate market volume has been reached, then PUTZMEISTER should be the **first local manufacturer**. Initially a local assembly plant must be **fully owned** and has to ensure customers trust better or equal as local competitors (experienced in US, Spain, Turkey and other countries). Earlier sales agent should remain preferred marketing partner. All this must be arranged already in the earlier / initial sales agreement (EXCO) to avoid later problems. Existing contracts must be updated correspondingly and checked each year as outlined in PORGA 900512. (s.a. M 2)

H Human Resources Management (HRM) Principles

See PWB, special slide 20 HRM

H.1. Human principles. Look at primary, secondary and eternal virtues as documented in the black bars on the front page of many documents.

Same is due for the 4 question Probe, to be on prefix of each contract and as foot bar on front page of each "regular document" (= Regeldruckschrift) like the copied RIPAF PBP in Porga 970111.

H.2. PUTZMEISTER strives for a **long term orientated trustful relation** between company members and the management (see "Miteinander bei PM and 4 question probe).

H.3. HRM is based on a **co-operative and PWB-orientated relationship** between our so called **employees council and management** – same to KSF shareholder, furthered by the legal supervisory board which includes KSF members as well.

H.4. Goals as given in Mission Statements, value catatlogs etc. are achieved by **management with agreed objectives and encouragement of entrepreneurial action following the delegation principle.**

H.5. We must ensure trust, **integrity** and motivation on all levels for qualified decisions and entrepreneurial continuity and low transaction costs. Early disturbing factors must be analyzed and cared for without delay to keep the atmosphere clean.

H.6. The **information policy** between shareholders, supervisory board, management, employees and business partners shall be truthful, honest, open-minded, based on mutual trust following transparency (see PWB - TTT page 26).

- H.7. HRM shall safeguard a long term planning for sufficient supply of management and leadership personnel resources for the growth of the Putzmeister Group.** In order to achieve this we select, develop, qualify and cultivate a sufficient number of management personnel ourselves with special care on a continuing training process and the long term HR demands. Doing this we **prefer internal candidates** with the same or even slightly lower qualification to those from outside when the person has development potentials..
- H.8. HRM with good leadership is the key factor for our success.** Therefore this HRM responsibility will be taken over by a highly qualified member of the management board in each company. In small companies this is always the CEO. As the HRM responsibility (CHO) ranges in the top Management level, it has the **same dignity and management level as the CFO** – who in smaller units mostly holds the CHO role..
- H.9. The remuneration system for the executive staff** in all companies of the Putzmeister group is higher **success and performance--related** as else wise practiced in cultivating differentiation in assessment to cultivate effectivity and highest personal standards -see PORGAMEB ? (klären)
- H.10. Putzmeister is a task and reality oriented learning organization** (see PLO AP 6001) in compliance with the actual basics and strategies. It offers its company members all necessary instruments – internal or external - to qualify themselves in line with the requirements of the company and the markets it is active in. A **problem seeing** character and existing disciplined and competent solving mentality has to be cultivated. Out of problem based **lessons learned** new standards have to be created and cultivated.

Learning methods, rules and installations have to be continuously developed and kept alive by all GF's and the CHO. Two % of all wages should always be invested in developing our company members.

- H.11. Putzmeister personnel follows and cultivates accepted international rules** like “**dealing at arms length** and the **Human rights and obligations** as issued by the United nations (VM 97164) as well as the valid and living company business standards and rules which are derived from experience and common sense. **See also the the new ISO 26 000 public responsibilities.** Our company members respect the company value catalog (CoPhy sheet) and all related papers following the company motto “**enjoy to serve, to improve, to create values**” and prove this to customers.
- H.12. Putzmeister promotes actively the qualification and development** of human resources for the **whole product chain** – including vendors, suppliers etc - based on PM business fundamentals as important potential and success factor of PM. This must be primarily initiated by ourselves and our striving for innovation and continuous improvement along with our Motto: enjoy **to serve, to improve and to create values** – so that all will win

- H.13. Family - Location of leadership members:**
It is indispensable that each member of the top leadership staff must live **with his family nearby his office.** Normally nearby means not more as 15 car minutes.

This has to be fulfilled at the end of the agreed test period. It is a dominating criterion in search, engagement and to be checked during the test period of max 6 months – and a matter of integrity as specified in our obliging CoPhy.

The necessary assistance must be given and definite efforts to find a location must be proven in the last third of the Probezeit. Latest 12 months after entry the family must live nearby.

When clearly promised to move here in closing the engagement then so long 30 % of his bonus will be held back until this is fulfilled. In case of not moving the family closer to the work place this retainer will not be paid out. When moving later as 2 years after joining only **one third** of the retained fund will be paid..

If this is not securely fulfilled or guaranteed the member must care for a successor and then look for other chances for himself.

As this means temporary double salary costs for PM and double search actions the consequences of not moving to nearby must be respected and compensated with at least part of an agreed bonus agreement.

Any exception of this must be agreed in writing by the shareholder (for PAF by the mother company CEO) Same is due to all other PBP elements mentioned in this document.

Again please note:

When issuing PM Business Strategies (PBS) do **not include PBP** - contents which you find here, **but refer to this issue** and specifically as PBS – background. This is for clear understanding that PBS issues are only containing the agreed future action alternatives for the 3 years reaching period ahead. This shortens those strategy papers essentially so that you later – next year only **specify in their future one year more ahead annual update what really has to be changed and be reached in the next period -be it 1 or 3 years.**

Definitions for terms used above:

Further explanations see PM 00050

- **Return on investment (ROI)** A term that is very widely used in connection with the performance of a company or project. Usually a pre tax profit figure is expressed as a percentage of either the long term funds or the total funds in the balance sheet.
- **Return on capital employed (ROCE)** The ROCE is measured as a percentage of EBIT (Earnings Be-fore Interest and Tax) to Capital Employed (Fixed Assets necessary for company operations + inventories + receivables % accounts payable % tax / other provisions % other interest-free liabilities).

Abbreviations see VM 05075

Recommended Literature

See management Literatur PM

1. First things ----- Covey
2. Winning Welch
3. Über die Kultur....Lay

PUTZMEISTER Business Principles (PBP) – 2007 ff.

Attention: These PBP have been transferred to RIPA 0-0-1 in 2005; As this is not accessible for all company members we issue an updated copy of it in this PM 970111. This copy, which may not always be fully updated- therefore see Ripaf!

These PBP are actually updated in Sept 2011 by KS 110908 ff and entered here in sections currently below

Core Issue: These basic **long-term company principles** are a fundament of our company leadership like our PWB and value catalog. They define our Putzmeister **company character** and help to secure trust for our continuity and future. PBP are basic directives as fundament of their business Strategies. They come from our shareholders for the top management of all member companies, and they are highly complying with and evaluating PM History and issues of the PM- Worldbook PWB. Important purpose of PBP is to help shorten the volume of our annually updated PM Business Strategy, following Porga 960616.

As this a living document please always find the most actual version in our LAN – path see above!.

Please excuse lengthy text as an effort to describe for better understanding with various perspectives our meaning about PBP.

There are people in PM who mean that mistakes that happened at PM in recent years are because these PBP are to long.

This is a basic error.

The mistakes happened because those people did neither read or not understand these BPB due to lack of discipline, responsibility or lack of education (Bildung) and lack of leadership experience.

This is also a matter of age and life experience.

Diese Fassung ersetzt PORGA: OHA-Zuordnung nach KS 65506: PWB PFS: PFS 0.3 Übergeordnetes Projekt: UP 2026, 2001, PWB	Issued and updated by KS in PMH / KSF. It is binding for top management of all PM companies. If questions please call KS or Email without delay.
<input type="checkbox"/> Vertrauliche PORGA <input checked="" type="checkbox"/> Muß-PORGA <input type="checkbox"/> Richtlinien-PORGA	Verfasser : PM Holding, ARV-KS
Distribution: Sent as as path vie Emai by the editor or he who issues modifications with authority. Cluster mit Emailadressen zur Verteilung siehe...XXXXXX	PM-Holding, alls GF I upper leadership persons and positions as mentioned below. Due to changes managing personnel names are secondary and no more given below as usual in PORGAs.
Top managers of all PAF: PMM, PMA, PMF, PMI, PMIB, PMIN, PMJ, PMK, PMSA, PMS, PMT, PMUK, Brinkmann, Lancy, Strobl and also members of PM Führungskreis as far as not mentioned here.	

Core Issue and Abstract:

These so called **Putzmeister Business Principles (PBP)** are fundamental for leaders in the PM group. They represent the directives of the founder and owner of the company, based on are Putzmeister World Book (PWB - page 5). like our value catalogue CoPhy in PWB page 22 – even before they were edited as a PORGA 970111 in 1990.

Principles are also **MAXIMES**: This is the thinking and intentions of human beings as the general principle behind each act (KANT)

Earlier these PBP has been issued as PORGA 970111 and logically were then transferred into the RIPAF.

PBP represent Elements of our PM group wide corporate governance on the same level like the PWB long-term strategic directives and are finally edited by the shareholder KSF.

They evaluate collected expensive experiences since founding PM in 1958 and comply with the lessons taken to prevent their repetition. Following and cultivating these PM TOP - VALUES secures our **company character and culture** for the future in a high degree. Therefore PBP have similar dignity and are an important column for the later issued PM-Wordbook PWB, where they are mentioned in page 5 (PMW).

PBP elements must be a binding component in employment contracts with consequent **personal responsibilities and liability**.

PBP consequently form the Putzmeister **company character**. This is based on and means thinking, feeling, behaviour and acting of our company members in leadership responsibilities.

PBP are background of the long-term **PM group business strategy**, representing basic directions, core business aspects, procedures and actions which mus no more be mentioned there – but referred to in their Prefix.

So they help to secure continuity. Following them **creates trust** of he shareholder to management – also for other stakeholders and company members worldwide.

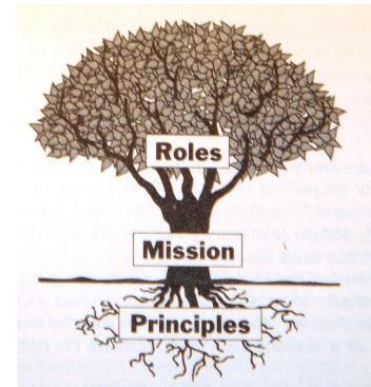
If managers do not have such a principle-based personal attitude- or feel they must not read nor follow them they cannot gain trust. They then will make decisions and act in day-to-day life and create facts which can often no more be corrected – even not approved nor tolerated by later supervisory board **as it comes too late to their attention**.

Negative examples for this are events initiated before the world crisis 2007 in respect to lack of risk sensitiveness and financing with – in spite of the expected and visible downturn – i.e. continue to blow up growth and sales with high recourse- and extremely risky rental and lease agreements.

PBP - minded and risk sensitive managers should feel, recognize and evaluate such risks and ask for preliminary written permit to proceed with respective decisions **before** irreversible or risky facts are created.

Therefore the RULE- but difficult to understand by our managers::

PBP form the basis of **PM business strategies (PBS)** as defined and described in PORGA 960616. These business strategies are annually updated for the next 3 years` period.



Referring in this PBS to PBP helps to **shorten the written volume** of such business strategies.

The editor (KS) appreciates comments and suggestions to improve PBP on paper and in life.

Short PBP definition in this FN00244-GB :

PM Business Principles



Proven Fundaments and laws of Putzmeister business

- High business ethics and company culture
- Growing with own resources only
- Financial standing first rank, prompt payment
- Innovation rate annual 10%
- Diversification only into related fields
- Marketposition Nr. 1 in core business areas
- Partnership in all directions, based on mutual trust
- Management first class, homemade
- Learning organization

Based on PM 97008 and PBP 2000 in PORGA 97111

Datum/Ersteller/Autor Arial 9pt

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FN 000244 GB

A. General Remarks

(Again: Please excuse lengthy text as an effort to describe for better understanding with various perspectives our meaning about PBP.)

These PBS are **fundamental for strategies and policies**, personal targets and daily operations following PWB. They are obligatory directives from the shareholder for management and should be considered as PM - business laws, similar to public laws. All this is underlined and emphasized for adequate compliance with our values as written in the black **“value bars”** on the front page of this and all new regular PM documents.

wise – just – brave – moderate // obedient – diligent – conscientious – modest // faith – hope – love

Bis hierher von KS bearbeitet 110908

Wird demnächst hier in Kopie ergänzt nachrangig zum RIPAF Inhalt

G. Financial Principles

See PWT, slide 9 FGR

F.20. Always apply **conservative accounting principles**.

F.21. The **equity** (in % of total assets) as indicator for financial independence and financial strength to all stakeholders shall be at the following **minimum** rates :

PM Group	40 % *
PM AG	60 %*
PM Subsidiaries	30 %*

These numbers should in general be 10% higher.

*after an acquisitions minimum 45% have to remain as a safety buffer for required investments in the acquired company and unforeseen negative events

F.22. **DIVIDENDS:**

PM AG and other PM Holding (PMH) affiliates must as a rule **plan to transfer 50% of its net income (profit after tax)** as dividends to its mother company or the PMH – unless other specific actual and temporary decisions are taken. The same applies for subsidiaries in referring to their upper company. The shareholder decides, which part of the transferred profit may be returned and reinvested or left in the daughter company. (see listings in PAFCal ??? and RIPAF ???).

F.23. **LEASE / PURCHASE:**

Active asset-management measures shall be utilized to improve ROCE and liquidity (leasing of current / moveable assets, forfeiting etc.). Maximal 1/3 of all active assets may be financed through such methods and the rest through standard finance tools (bank loan).

F.24. **Real Estate and buildings**

Headquarter and assembly facilities shall be in **own property** or **exceptionally** owned by the shareholder. However sales and service offices (PCC) can also be **rented** or **held in lease purchase by the user** (examples described in Porga / PM...see PMF 2007 or LANCY). This may be reasonable when they are in question looking beyond 10 years utilization, growth and other changing factors like environment, markets and mission statements.

F.25. The extent of financing capabilities must be orientated on the free cash flow and equity reserve. Equity must never be lower as 40% !

When equity moves above 50% then longheld PCC can be purchased as this is mostly cost saving.

F.26. The basis of **investment planning calculations** are always the full acquisition costs independently of the type of financing (purchase, leasing etc.)

F.27. The **amortization** of investments shall be less than 5 years, machines ca. 3 years, own buildings 7 years, long term building lease-buy 15 years.

F.28. The upper **limit** of net **bank liabilities** is 10 % of the turnover – else growth must be limited..

F.29. Paying all invoices and cover obligations promptly with **best cash discount**. This will build trust in PM for suppliers as well as employees. The ability to follow such obligations in time realizes **financial privileges for PM**. This position based on high equity must be secured **at all times**.

- F.30. Lowest but still fair prices and related conditions for all supplies** must be agreed in hard negotiations based on detailed politics outlined in the material management policies issued and cultivated by the Vorstand Material Management. (s. RIPAF ???)
- F.31.** The **Return of Capital Employed (ROCE)** must basically be more than 18 % p.a. on a long term average. Our target is more than 30% to secure traditional growth with 20 – 30 %, out of own resources and dividend payments.
- F.32.** The **trade risk** shall be minimized through adequate covering and insurance measures (e.g. trade credit insurance). Further risk management procedures have to be taken particularly through group wide product liability insurance as well as property insurance including business interruption insurance (Details see RIPAF 2.8.2).
- F.33.** The **exchange rate risks** shall be minimized i.e. through fixed contracts or options (Details see RIPAF 2.5.5.).
- F.34. Minimizing the taxes**
To minimize legally the tax charges for the whole PM group all legal steps and corporate development must be investigated, considered and applied within PWB specifications. Separating legal structure from operational structure can help.
- F.35. NEW COMPANIES:**
When founding or acquiring a new company a PM- minded **trustworthy controller** with min 2 years PM - experience must from the very beginning – even earlier - be a member of the PAF top management team – until a trustworthy local successor is there. If not available the acquisition or founding new company must not be even considered. Beyond this PAR - Porgamust be followed.
- F.36. Signing integrity and loyalty** declaration as specified in PM 04087 and **PM 07019** is obligatory and must be carefully followed and controlled by the CEO of each PAF.
- F.37. Profitability.** (see also § 12 and RIPAF.....?)
Each business unit must realize **min pbt 5%** (ROS) and fastest capital revolving. This relates to PCC's and subdivisions like PUMAK, who do have own design and risks from design and marketing.
The necessary instruments to organize and measure this must be cultivated by the CFO and reported to PMH.

For full **range machine business units** with own product line and global marketing, resulting in generally lower capital revolving (= 2 x p.a. like i.e. PUC or Telebelt subdivisions) a pbt of **10%** is the rule.

ROCE should be not less as 20 % for all business units to finance own growth of min 10% and pay a dividend (see § 12)
- F.38. Profit of his own business** unit has priority for all CEO's of PAF, which often home several PCC's and subdivisions. Group profit is secondary for him. For this the mother company or PMH have to care.
Based on PMO 2008 (see PM 061212) the MTF – CEO is responsible for group wide profitability of his entrepreneurial MTF - units, which might be a subdivisions of PAF or legally separate. This must be coordinated with the PAF - CEO – and if necessary decided by PMH based on group strategies.

G Growth Principles (respecting Financial Principles F)

See PWB, slide 10 SPG

- G.8.** Putzmeister wants to **grow annually beyond 10 % on a long term average**. According to PWB 7% have to be reached as the long term minimum. (see Financial principles)
- G.9.** Following PWB Putzmeister sets priorities to be the most **competitive company** in its core business by doing everything rationally possible to become and remain number one in choice for the customers (see Top in Mind in PWB, slide 11 OAG).
- G.10. Organic growth must always get priority**
Through continuous **innovation** the share of the total turnover reached with **new products** (products, which were placed on the market during the last 2 years) should be at least 10 % - and ca. 80% of products should be new after a 5 years period.
- G.11.** If useful for achieving PWB contents and its goals Putzmeister enters into **partnerships** such as strategic alliances or **joint ventures**. In joint ventures Putzmeister should own the **majority of votes** in order to have the decision-making authority. However the aim is to have fully owned subsidiaries. In each annual auditors report the shareholders agree on actual company value, which is the binding bases for possible share transaction in the following year (see RIPAFA 252)
- G.12. Size** is not all that matters – and size must never get negative effects.
Qualitative growth and securing these principles is important. **Nothing must be perfect**, but only adequate real good to survive –like in nature - or reach the goal. We want to keep our identity as a successful **premium brand** and medium sized company, where even the top management knows and is accessible for the customers. This means correspondingly limitation of company size!
We want to concentrate on what we can manage, keep our quick responding individual and serving attitude. Never be proud ! The best machine is not yet built!
- G.13. Long term thinking** for main decisions. Never look at the own personal profit share program, which is generally short term. Good Leaders who care are looking at their longterm profit share as all investments need time to bear fruits.
- G.14. Orientation with “always better”** (continuous improvement) is essential. At each years end the company members and the MTF - management must determine what made a positive difference last year and specify in writing the growth objectives for next year (strategy and bus. Planning). Even if we don't grow in turnover we can grow in reference to all values shown in our CoPhy Sheet (PWB page....). Therefore the individual value contribution in the own field is also the prevailing basis of our profit sharing MEB (s. PORGA 960901). Healthy and stable Financial growth of our business and well paid, safe jobs can only be the result of continuous growth in such values not vice versa.

D Diversification Principles

(Details see PWB and RIPAFA 0.4.4.):

The essence:

Following PWB slide 11 OAG and financial / growth principles we must prefer specialized niche markets with high specific demands, long term own growth potential and group - synergetic potentials. (good example is ESSER in PPT)

In each case one of our top executives must be competent and responsible for the overall advantage and ROI target in 5 years. Leadership in that specific technology or market sector must be clearly targeted – only then we form their PM character.

For being or becoming the most competitive ??? the price in a specific business field furthers this principle.

Further details concerning diversifications see RIPAFA 0.4.4.:???. and PORGA ...They are cultivated in UP???? .

General:

- D.10. Please follow PWB, slide 11 OAG (s.o.).
- D.11. We are **specialized on niche markets** with high tech and specified demands with high application competence and differentiated, technically complex design and services
- D.12. We prefer to **grow organic** (out of ourselves) be it into vertical direction in fields with an existing PM presence (e. g. Daisy) or through infiltration of related markets (e.g. Mining).
- D.13. Fields where we don't know either market or technology very well must be avoided. Diversification must only then be started when at least one top executive is long-term expert in the new market field and shares general responsibility for its entrepreneurial success.
- D.14. Diversification into fields not covered by PM AG should be performed by the PMH where the general diversification potentials shall be concentrated, also private equity ideas should be looked after.
- D.15. **Diversification in markets established by others** should **not** be started with the same product and technology already provided by others as this leads purely into price struggles. When starting we must be able to offer substantial technical differences, as it was the case with concrete pumps and mortar machines when we started (negative PWT!).
- D.16. If we invest into or acquire a new business **the total investment must be a contained risk** based on these Principles. The ROI of the individual investment shall be less than 5 years. Our equity should be always above 40% on an average.
- D.17. We invest only into new businesses during periods when our company is very profitable (10% return on turnover, ROCE > 30%); with core products and minimum of 5% return of the total PM - turnover to have a secure basis for financing innovations and diversifications.
- D.18. Targets for new business or acquisitions must be qualified with the target to become short term leaders or at least number **two or three in their respective market segment** and proof this with a realistic business plan. It must be realistic to reach with new products (or the acquired company) in 3 years a market share of 40 %

P Production Principles

See PWB, and special slide UPS, 19 PMQ

- P.10.** PUTZMEISTER always strives for producing its products with the best efficiency also compared to the best competitor (s. PM 04074 and PWB). Putzmeister has to be or become the most competitive enterprise in each covered manufacturing field serving our diversified MTF's and their global assembly lines..
- P.11.** Putzmeister produces its products with a **high degree of subcontracting based on cultivating their productivity, trust of qualified partners, compliance with PWB and copy and basing all on long term partnership.** This helps to reserve its capital and own resources for the core PM – business and widen flexibility and product range..
- P.12.** PM and its subcontractors must form and qualify actions for a **long term partnership**, following the criteria that this will become and remain more efficient as PM could be in self manufacturing those elements.
- P.13.** Fair calculations / partners must have a chance to achieve ROCE 5-10%, ROS 3-5%.
- P.14. In-house manufacturing**
Strategic reasons for **in-house manufacturing** are i.e. to
- develop and secure modern and progressive core technology more efficient,
 - assembling final products close or in to the local market,
 - realizing higher effectivity with investment and productive innovation,
 - securing key and secret technology.
- P.15.** The **core competencies**, containing high specific know how and technologies shall always be kept fully within PM.
- P.16. Product lines**
Full in-house manufacturing is obligatory to specific product lines like PBT (Telebelt) PUC (underground concreting) etc. or starting local assembly in other countries (earlier called HUB's). Building factories on leased ground is **not** acceptable.
Here **no partnerships are allowed** as they traditionally always create later unforeseen problems (Tatmak, Putz-India, earlier PM Brasil etc.) We better wait to realize this.
- However longterm orientated entrepreneurship for MTF must anticipate such chances an – years before starting a local factory – engage and train local people to later be part of the core foundation team of the new local facility.
- P.17. Different technical culture needs separate plant**
In case PM **enters basic manufacturing** for strategic reasons – as it was necessary with booms etc. - this should be done in **separate business units** or separately managed works facilities due to **different technical culture**, compared to machine assembly or other sort of manufacturing. Even when the factory is side by side with an PM assembly plant, they must be organized like a separate entrepreneurially organized business unit with one entrepreneurial fully responsible top manager. (KS: the 2 PUMAK's must become like that again !)
- P.18. Start up manufacturing in new markets**
When virgin markets have been developed with export sales and an adequate market volume has been reached, Putzmeister should be the **first local manufacturer**. Local assembly plant must be fully owned and has to ensure trust as experienced in US, Spain, Turkey and other countries, better or equal as local competitors. Earlier sales agent should remain preferred marketing partner. All this must be reserved already in the earlier / initial sales agreement (EXCO) to avoid later problems. Existing contracts must be updated correspondingly and checked each year as outlined in Porga....Ripaf.....???

H Human Resources Management (HRM) Principles

See PWB, special slide 20 HRM

- H.14. Human principles = **4 question probe**, for trust and long term effectivity. Look at primary, secondary and eternal virtues as documented in the black bars on the front page of this document. The **information policy** between shareholders, supervisory board, management, employees and business partners shall be open-minded, based on mutual trust.
- H.15. Putzmeister strives for a **long term orientated trustful relation** between company members and the management (4 question probe).
- H.16. **HRM** is based on a **co-operative and PWB-orientated relationship** between **employees council and management**.
- H.17. Goals are achieved by **management by agreed objectives and encouragement of entrepreneurial action following the delegation principle**.
- H.18. We must ensure **integrity** and motivation on all levels for qualified decisions and entrepreneurial continuity.
- H.19. **HRM** shall safeguard a **long term planning for sufficient supply of management and leadership personnel resources for the growth of the Putzmeister Group**. In order to achieve this we select, develop, qualify and cultivate a sufficient number of management personnel ourselves with special care on a continuing process and the long term HR demands. Doing this we **prefer internal candidates** with the same qualification to those from outside.
- H.20. HRM is the **key factor for our success**. Therefore this HRM responsibility will be taken over by a highly qualified member of the management board in each company. In small companies this is always the CEO. As HRM responsibility ranges in First Management and the Top Management level, it has the same dignity as CFO.
- H.21. The **remuneration system for the executive staff** in all companies of the Putzmeister group is higher **success and performance--related** as else wise practiced in cultivating differentiation in assement to cultivate effectivity and highest personal standards..
- H.22. Putzmeister is a task oriented **learning organization** (see PLO AP 6001) and offers its company members all necessary instruments to qualify themselves in line with the requirements of the company and the markets it is active in. A **problem seeing** and disciplined and competent solving mentality has to be cultivated. Out of **lessons learned** new standards have to been created and cultivated. Learning methods, rules and installations have to be continuously developed and kept alive. 2 % of all wages should always be invested in developing our company members.
- H.23. Putzmeister personnel follows and cultivates **accepted international rules** like “**dealing at arms length**” and the **Human rights and obligations** as issued by the United nations (VM 97164) as well as the valid and living company business standards and rules which are derived from experience and common sense. The company members respect the company philosophy and all related papers following the company motto “**enjoy to serve, to improve, to create values**” and prove this to customers.
- H.24. Putzmeister promotes actively the **qualification and development** of human resources for the **whole product chain** – including vendors, suppliers etc - based on PM business fundamentals as important potential and success factor of PM. This must be primarily initiated by ourselves and our striving for innovation and continuous improvement along with our Motto: enjoy to serve, to improve and to create values – so that all will win
- H.25. **Location of leadership members** (Based on the “HM” Syndrome)
It is indispensable that each member of the leadership staff must live with his family nearby his office. Not more as 15 car minutes as a standard. To be fulfilled at the end of the agreed test

period. This is a dominating criteria in search, engagement and to be checked during the test period of max 76 months. The necessary assistance must be given and definite efforts to find a location must be proven in the last third of the Probezeit. Latest 12 months after entry the family must live nearby.

If this is not securely fulfilled or guaranteed the member must leave the company again.

Definitions for terms used above:

- **Return on investment (ROI)** A term that is very widely used in connection with the performance of a company or project. Usually a pre tax profit figure is expressed as a percentage of either the long term funds or the total funds in the balance sheet.
- **Return on capital employed (ROCE)** The ROCE is measured as a percentage of EBIT (Earnings Be-fore Interest and Tax) to Capital Employed (Fixed Assets necessary for company operations + inventories + receivables $\%$ accounts payable $\%$ tax / other provisions $\%$ other interest-free liabilities).