
CORPORATE GOVERNANCE

VALUE ENHANCEMENT THROUGH RESPONSIBILITY, BALANCE OF INTERESTS AND TRANSPARENCY

LEGAL FRAMEWORK

schlott gruppe AG is a stock corporation governed by German law. The Company is subject to statutory provisions regarding the management and supervision of stock corporations. The Management Board and Supervisory Board are responsible for the administration of the Company. The statutes of *schlott gruppe* reflect the generally accepted standards established by German industry. Corporate management and supervision are based on the German Corporate Governance Code.

CORPORATE GOVERNANCE PHILOSOPHY OF SCHLOTT GRUPPE

The bylaws instituted by *schlott gruppe* do not contain any rules or provisions that are considered to deviate materially from the fundamental principles associated with its market environment. This applies, in particular, to the statutory rights of shareholders, which are observed to the fullest extent. The latter include the basic right to participate in the earnings generated by the Company, the unimpeded right to purchase shares and dispose of them, as well as the principle of “one share, one vote”. When reacquiring own equity instruments (so-called “treasury shares”) and when conducting company acquisitions, all shareholders are treated equally within the framework of applicable statutory provisions. Furthermore, all shares issued are of the same class and are equipped with uniform shareholder rights.

The Management Board recognises that the shareholders of *schlott gruppe* provide growth capital and therefore share a certain proportion of entrepreneurial risk. It is with this in mind that the Management Board feels a strong sense of responsibility towards shareholders. Therefore, the Company is committed to a philosophy which embraces the idea of transparency, timely communication, efficient risk management, compliance with stock exchange regulations and corporate management that is focused on enhancing the Company’s value.

Sustainable value enhancement can only be achieved if the Company is managed such that the interests of all stakeholders are taken into consideration and balanced accordingly. Alongside shareholders, this group includes customers, employees, creditors and all other business associates. Therefore, the management of *schlott gruppe* subscribes to the view that the interests of all stakeholders must be taken into consideration.

Beyond the reporting and disclosure requirements mandated by law, *schlott gruppe* regularly issues reports pertaining to the performance of the company. Observing the principle of shareholder equality (so-called “fair disclosure”), it publishes annual and quarterly reports as well as ad hoc announcements. Its activities relating to

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reporting and disclosure also include conferences for analysts and representatives of the press. All reports and announcements, as well as all key presentations at conferences, are published on the internet at *www.schlottgruppe.de*.

INTERACTION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD
schlott gruppe has outlined the duties of and the interrelationship between the Management Board and the Supervisory Board in special policy statements for the aforementioned bodies. Prompted by the amendment of the Corporate Governance Code in May 2003, this comprehensive set of regulations was reviewed and supplemented where necessary. The changes to the policy statement issued for the Management Board relate, in particular, to the rights and responsibilities of its members. The schedule of responsibilities was updated, without having been changed fundamentally. The revised policy statements were approved and adopted by the Supervisory Board as part of a meeting convened on January 16, 2004.

During their tenure, the members of the Management Board are subject to stringent provisions relating to non-competition. Secondary activities of Management Board members, in particular the assumption of supervisory board mandates in other entities, are subject to approval by *schlott gruppe's* Supervisory Board. The same applies to the granting of loans by the Company for the benefit of members of the Management Board or the Supervisory Board.

As regards the policy statement for the Supervisory Board, the amended version reflects the recommendations promulgated by the Corporate Governance Code, insofar as the Company has not specified deviations from the aforementioned Code. It also stipulates that Supervisory Board members who simultaneously hold a management board position with another exchange-listed company may assume no more than five supervisory board mandates in exchange-listed companies not belonging to the group in which they have been appointed as a member of the management board.

The Supervisory Board may not include more than two former members of the Company's Management Board. Furthermore, members of the Supervisory Board are prohibited from assuming official duties or acting in an advisory capacity for entities that are deemed to be material competitors of the Company.

COMPENSATION OF THE MANAGEMENT BOARD

Compensation of Management Board members includes fixed and performance-based components. In addition, members of the Management Board receive remuneration in kind, i.e. non-cash compensation, and compensation relating to pension provision. No stock options or similar instruments were issued in the period under review.

Approximately fifty per cent of Management Board compensation is of a variable nature. This variable component of Management Board compensation comprises incentives relating to the enhancement of company value. As regards the valuation of a company, capital markets rely heavily on financial forecasts and the attainment of certain targets. Therefore, the level of performance-based compensation of Management Board members is linked, in particular, to the achievement of EBT forecasts (earnings before taxes) – alongside personal performance targets.

In addition, *schlott gruppe* has devised a detailed concept aimed at controlling the overall structure of its balance sheet. Taking into account the respective phases of a particular acquisition cycle, the Company has defined various debt-related targets to be adhered to or achieved. Thus, there is an added incentive – going beyond EBT – to optimise the financing structure of the Company. In pursuing this approach, the Company has addressed the strategic issue of covering capital costs, without having to introduce a complex EVA system to meet this target.

EBT constitutes the key financial indicator within the Group. Therefore, the performance incentives for the Management Board are derived directly and unequivocally from the strategic management of *schlott gruppe*: companies and organisations allocating resources for advertising require solutions for fully integrated customer communication. Our strength lies in our comprehensive product and service portfolio spanning various segments. Therefore, we have created an incentive system that reflects our strong commitment to cross-selling and lends support to our activities within this area. In the 2003/04 financial year, total Management Board compensation amounted to € 3.1 million, of which € 1.6 million was performance-based remuneration.

SHAREHOLDINGS OF THE MANAGEMENT AND
SUPERVISORY BOARDS AS AT DECEMBER 31, 2004

TOTAL NUMBER OF SHARES

		as at September 30, 2004	6,190,020
Shareholdings of Management Board:	515,778		
<i>which held by Nikolaus Broschek</i>	457,688		
<i>Other interests lower than 1% per Management Board member</i>			
Shareholdings of Supervisory Board:	404,458		
<i>of which held by Joachim Kohm</i>	370,000		
<i>Other interests lower than 1% per Supervisory Board member</i>			

COMPENSATION OF THE SUPERVISORY BOARD

In the 2003/04 financial year, the members of the Supervisory Board received a total of € 202,500 as compensation for their services. In addition, travel expenses were reimbursed. The members of the Supervisory Board received € 15,000 each; the Chairman, Mr. Erwin Kiefer, received € 30,000 and the Deputy Chairman, Mr. Karl-Heinz Gramß, € 22,500.

SHARES HELD BY THE BOARDS

The shareholdings of the Management Board and the Supervisory Board are presented above. In connection with the acquisition of *broschek gruppe* towards the end of 2002, Mr. Nikolaus Broschek received shares in *schlott gruppe* as part of the purchase consideration. Beyond that, no member of the Management Board holds more than one per cent of the share capital. Therefore, a breakdown of individual shareholdings is not deemed necessary. Mr. Joachim Kohm, a member of the Supervisory Board, holds 367,500 shares. In addition, other members of the Supervisory Board hold a total of 34,458 shares.

In the 2003/04 financial year, the transaction of one member of the Management Board of *schlott gruppe* was subject to official reporting requirements. On September 9, 2004, Mr. Werner Reiser disposed of 10,000 shares. On September 9, 2004, a member of Mr. Reiser's family disposed of 10,000 shares. In the course of the financial year under review, Supervisory Board member Sigmund Kiener effected eight transactions, thereby purchasing a total of 9,800 shares. On July 28, 2004, Joachim Kohm purchased 7,500 shares. Members of Joachim Kohm's family purchased a total of 50,500 shares over the course of the financial year under review; these purchases were conducted as part of several transactions.

After the end of the 2003/04 financial year, Mr. Joachim Kohm and his brother Mr. Andreas Kohm inherited shares in *schlott gruppe AG*. As a result, the shareholding attributable to Messrs. Kohm exceeded the statutory reporting threshold of 5% on November 13, 2004. *schlott gruppe AG* disclosed this fact on November 18, 2004, as part of a mandatory announcement in accordance with Section 25 of the German Securities Trading Act (*Wertpapierhandelsgesetz – WpHG*). On November 23, 2004, Mr. Joachim Kohm purchased an additional amount of 2,500 shares.

— **DECLARATION OF CONFORMITY PURSUANT TO SECTION 161 AKTG**

The Management Board and Supervisory Board of *schlott gruppe AG* have issued the following Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG):

Since its last Declaration of Conformity, *schlott gruppe Aktiengesellschaft* has complied with the recommendations of the Commission of the German Corporate Governance Code (Regierungskommission deutscher Corporate Governance Kodex), valid from May 21, 2003, and published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, with the exception of those points outlined in the last Declaration (no deductible in the case of D&O insurance for members of the Management and Supervisory Board, no individual presentation of Management Board compensation, no separate compensation for Supervisory Board chairmanship or committee membership, no performance-based Supervisory Board compensation, no publication of consolidated financial statements within 90 days of the end of the financial year), and the Company shall continue to comply with the recommendations of the Code with the exception of the aforementioned points.

FREUDENSTADT, DECEMBER 23, 2004

SCHLOTT GRUPPE AG

THE SUPERVISORY BOARD

THE MANAGEMENT BOARD

REPORT OF THE SUPERVISORY BOARD

OF SCHLOTT GRUPPE AG

In the following report, the Supervisory Board of *schlott gruppe AG* presents an outline of its activities over the course of the 2003/04 financial year. The report focuses on the Supervisory Board's continuing cooperation with the Management Board, as well as providing a description of the work performed by committees and a summary of the main issues discussed during Board meetings. Finally, the report provides pertinent information on the annual audit of financial statements.

In the financial year under review, the Supervisory Board discharged its duties under German law and the bylaws of *schlott gruppe AG*. It maintained a frequent dialogue with the Management Board, in addition to acting in an advisory capacity on a regular basis and monitoring the management of business affairs. The Supervisory Board was directly involved in all decision-making processes deemed to be of fundamental importance.

The Management Board provided the Supervisory Board with comprehensive information relating to the course of business, the Group's state of affairs, short-term corporate planning as well as strategic development. This information was furnished on a regular and timely basis. The strategic positioning of the Group is decided upon, on principle, in close cooperation between the Management Board and the Supervisory Board.

Furthermore, the Supervisory Board was informed about Company-related risk and risk management, deviations from forecasts and targets, as well as all measures aimed at counteracting them. All significant business transactions and events considered to be of major importance to *schlott gruppe AG* were discussed thoroughly by the Supervisory Board, taking into account detailed reports furnished by the Management Board.

In the financial year under review, the share performance of *schlott gruppe AG* and the capital market's general perception of the Company were key points on the agenda of Supervisory Board meetings.

The Supervisory Board was also kept informed about circumstances of particular importance in between its regular meetings. As Chairman of the Supervisory Board, I regularly maintained a personal contact with the Management Board beyond the specific meetings scheduled.

The Supervisory Board convened on four occasions over the course of the 2003/04 financial year. The members of the Supervisory Board were present at the majority of the meetings. In exceptional cases, some members of the Supervisory Board were excused from meetings due to illness.

COMMITTEE WORK

In accordance with its policy statement, the Supervisory Board established three committees. In the financial year under review, these committees were headed by the Chairman of the Supervisory Board. In this function, he regularly furnished reports to the plenum of the Supervisory Board relating to the work of the committees.

The three committees in question are the Mediation Committee established in accordance with Section 27(3) of the German Co-Determination Act, the Personnel Committee and the Audit Committee. They are responsible for preparing the relevant topics and resolutions to be discussed by the plenum. In accordance with its policy statement, the Supervisory Board has conferred certain rights on the committees.

In the financial year under review, the committees included the following members:

MEDIATION COMMITTEE:

Erwin J. Kiefer*, Karl-Heinz Gramß, Ivan Bebek, Reinhard Löffler

AUDIT COMMITTEE:

Erwin J. Kiefer*, Karl-Heinz Gramß, Ivan Bebek, Reinhard Löffler

PERSONNEL COMMITTEE:

Erwin J. Kiefer*, Karl-Heinz Gramß, Ivan Bebek, Reinhard Löffler

* *Chairman*

There were no events necessitating a meeting of the Mediation Committee in the period under review.

The Personnel Committee was convened on two occasions in the 2003/04 financial year. The main focus of its deliberations was centred around the incentive programme relating to Management Board compensation, the conclusion of a new employment contract with Bernd Rose, Chairman of the Management Board, for an additional term of five years commencing on January 1, 2005, and similar personnel-related issues.

The Audit Committee was convened once in the period under review. The main focus of its meeting was on the year-end financial statements and consolidated accounts as well as fundamental issues relating to risk management. In addition, it issued an audit mandate to the auditor and determined the level of remuneration. The main area of responsibility of the Audit Committee includes monitoring and safeguarding the independence and impartiality of the auditor. In the period under review, the Audit Committee found no evidence that may have

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cast doubt on the independence and impartiality of the auditor, and consequently no measures to safeguard this independence and impartiality were required. The meeting of the Audit Committee was attended by the auditors. They provided a comprehensive report on their auditing activities, which was impaired and the Committee saw no need to take further steps for securing this independence. The external auditor participated in the meeting of the Audit Committee and reported in detail on its audit activities.

PLENARY MEETINGS

The meetings held on a regular basis by the plenum of the Supervisory Board of *schlott gruppe AG* focused on the progression of revenues and earnings, cash flows and capital expenditure as well as issues relating to employment levels within the Group, in the respective segments and subsidiaries as well as the various company locations.

In addition, the plenum regularly discussed the issue of corporate governance. In its meeting of January 16, 2004, the Supervisory Board adopted amendments to its policy statement, as announced in the Declaration of Conformity issued on December 29, 2003 (age limits of 65 and 70 specified for the Management Board and the Supervisory Board respectively). In the absence of the Management Board, it also discussed the issue of efficiency assessments relating to the Supervisory Board. The Annual Report for FY 2003/04 includes a Management Board report on corporate governance at *schlott gruppe AG*, which also extends to the Supervisory Board.

One of the focal points of deliberations concerning the strategic development of the Group was the realignment of activities within the area of direct marketing, particularly with regard to the restructuring of the subsidiary *meiller direct*. In its meeting of July 23, 2004, the Supervisory Board discussed the new structure of the Company's direct marketing business, as envisaged by the Management Board, including personnel-related measures and changes associated with company law; the Supervisory Board agreed to the strategic plans presented by the Management Board within this area.

In its meeting of January 14, 2005, the Supervisory Board appraised the annual financial statements for the financial year, as prepared by the Management Board for the Aktiengesellschaft (parent company) in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and for the Group in accordance with International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS), as well as the combined Management Report. Following its own assessment, the Supervisory Board, on recommendation of the Audit Committee, announced its concurrence with the audit results presented by the auditor. The year-end financial

statements and consolidated accounts have thus been approved and adopted by the Supervisory Board. As regards the consolidated financial statements, the above-mentioned applies in particular to the decision not to account for systematic amortisation of goodwill, but rather to perform regular impairment tests. This was only made possible by the high level of recoverability associated with enterprises in which *schlott gruppe AG* has invested and accounted for goodwill.

As permissible under the exemption clause outlined in Section 292a HGB, the Group prepared no consolidated financial statements pursuant to the German Commercial Code. The special explanatory notes prescribed by the German Commercial Code were included in the consolidated financial statements. The annual financial statements of *schlott gruppe AG* as well as the consolidated financial statements and the combined Management Report were granted an unqualified audit opinion by the appointed auditor AWT AUDIT WIRTSCHAFTS-TREUHAND GMBH, Wirtschaftsprüfungsgesellschaft, Stuttgart.

Owing to the very favourable earnings performance in the financial year under review, the Supervisory Board has approved the Management Board's proposal regarding the appropriation of the unappropriated surplus ("Bilanzgewinn") and the increase in dividends by €0.10 to €0.90 per ordinary share, to be put before the General Meeting of Shareholders on March 22, 2005. In addition, the forecasts and plans for the subsequent financial year were approved by the Supervisory Board.

Working within a challenging economic environment, the Management Board and employees once again performed admirably in the financial year just ended. The Company's recent share performance and its inclusion in the SDAX index bear testimony to the outstanding accomplishments of the entire team. The Supervisory Board wishes to thank all those involved for their exceptional dedication.

JANUARY 2005



ERWIN J. KIEFER

Chairman of the Supervisory Board