



CORPORATE GOVERNANCE IN CHALLENGING TIMES:

OUR WEBSITE AT

www.schlottgruppe2012.de

IS DEDICATED TO PROVIDING A
PROMPT AND TRANSPARENT ACCOUNT
OF OUR EXTENSIVE
PROGRAMME OF TRANSITION

CORPORATE GOVERNANCE

ENHANCING VALUE THROUGH RESPONSIBLE
BALANCING OF INTERESTS

All aspects relating to corporate governance at *schlott gruppe AG* are based on the German Corporate Governance Code. With only a few exceptions, we comply with all the recommendations and suggestions of the Code as last updated by the German Commission on the German Corporate Governance Code on 18 June 2009 and published in the electronic Federal Gazette on 5 August 2009. For further details regarding corporate governance, please refer to the following joint report drawn up by the Management Board and Supervisory Board.

TRANSPARENCY AND EQUAL TREATMENT AT SCHLOTT GRUPPE AG

In accordance with the law, *schlott gruppe AG* applies the principle of equality in its dealings with all shareholders of the company. Shareholders' rights are observed to the fullest extent. This also applies to the purchase of own equity instruments (treasury shares) and to corporate acquisitions. The shareholders of *schlott gruppe AG* are guaranteed the basic right to participate in profits generated by the company, the unimpeded right to purchase shares and dispose of shares in the company, as well as the same voting right for each ordinary share. *schlott gruppe AG* has only issued shares of the same class, equipped with uniform shareholder privileges. In all other respects, too, the articles of association of *schlott gruppe AG* conform to the standards established and recognised in Germany and contain no special rules and, in particular, no rules that may be at variance with German practice.

schlott gruppe endeavours to ensure that the interests of all stakeholders are taken into consideration and balanced accordingly, the sustainable enhancement of enterprise value being of prime importance. The stakeholders of *schlott gruppe* include the company's shareholders, customers, employees, creditors and other business partners.

The Management Board is aware of its particular responsibility and duty to shareholders. As the owners of the company, it is they who provide capital and in doing so take a commercial risk that should be rewarded with an appropriate return.

Maintaining the company's competitiveness and increasing enterprise value are the prime objectives of management both in strategic terms and with regard to day-to-day operations. *schlott gruppe AG* applies a modern and efficient risk management system. At the same time, the company's management observes key German practices regarding responsible corporate governance.

Preparations for the Annual General Meeting of *schlott gruppe AG* are made with the aim of ensuring that comprehensive information is made available to all shareholders promptly and effectively before, during and after the meeting.

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The corporate philosophy embraced by *schlott gruppe* is centred around strict compliance with applicable stock exchange regulations, in addition to a comprehensive, timely and transparent approach to public relations, taking into account prevailing competitive conditions. Beyond the reporting and disclosure requirements mandated by law, *schlott gruppe* regularly reports on the performance of the company by issuing press releases and organising analysts' meetings as well as investor and press conferences. Within this context, the principle of shareholder equality („fair disclosure“) is observed at all times.

All reports, announcements and public presentations of relevance to the capital markets are published on the Internet at www.schlottgruppe.de. In response to the extensive restructuring programme currently being implemented by the company and the challenges that lie ahead, we have created an additional website at www.schlottgruppe2012.de, the aim being to provide prompt information and maintain the greatest possible level of transparency during this period of transition.

RESPONSIBLE COLLABORATION BETWEEN MANAGEMENT AND SUPERVISORY BOARDS

The Management Board and Supervisory Board work in close cooperation in the best interests of the company as a whole. As required by law, *schlott gruppe AG* has implemented a dual management system with separate executive and supervisory bodies. The Management Board is responsible for running the company. It develops the strategic focus of the organisation in agreement with the Supervisory Board and then implements its strategy accordingly. The Supervisory Board appoints members of the Management Board, as well as monitoring and advising the Management Board with regard to the running of the company. The approval of the Supervisory Board must be obtained for all decisions of fundamental importance.

The tasks, rights and duties of the Management Board and the Supervisory Board, as well as details of the manner in which they are expected to collaborate, are laid down in the form of separate rules of procedure for each body. Where necessary, the rules of procedure and the plan assigning specific areas of responsibility were revised in observance of the requirements of the German Corporate Governance Code and in accordance with amended statutory provisions; they were adopted accordingly in November 2009.

The articles of association of *schlott gruppe AG* specify that the Management Board shall be composed of one person or several members. Its members shall be appointed for a maximum of five years. Reappointment is possible, however, only for up to five years in each case. The Supervisory Board decides on the number of Management Board members, their appointment and the revocation of their appointment, as well as on the conclusion, revision and cancellation of individual contracts of employment.

To date, the Supervisory Board of *schlott gruppe AG* has been composed of both shareholder and employee representatives, thereby complying with the legal requirements of Germany's Codetermination Act. Following the sale of *sachsendruck GmbH*, *schlott gruppe AG* and its German-based entities within the *group* employ fewer than 2,000 people, as a result of which the requirements set out in the Codetermination Act no longer apply. Therefore, so-called status proceedings were necessary for the purpose of changing the composition of the Supervisory Board. This process has now been completed, and in future the Supervisory Board will be composed solely of shareholder representatives. A resolution pertaining to the requisite amendments to the company's articles of association was passed by the General Meeting of Shareholders on 3 March 2009. The Supervisory Board, comprising six members representing the company's shareholders, is to be appointed by the Annual General Meeting of Shareholders scheduled for 2 March 2010.

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. For the purpose of keeping a tight managerial rein and ensuring close supervision of the individual subsidiaries, each member of the Management Board of *schlott gruppe AG* also acts as a senior executive of the largest operational units (please refer to details presented in the management report on page 97 p). Rather than being remunerated separately, remuneration for these duties is covered by the emoluments described in the following compensation report.

The duties and rights set out in the rules of procedure for the Supervisory Board reflect the recommendations of the German Corporate Governance Code, insofar as the company has not specified deviations from the Code. Among other aspects, the rules of procedure stipulate that Supervisory Board members who simultaneously hold a management board position with another exchange-listed entity may assume no more than three supervisory board mandates in exchange-listed entities not belonging to the *group* in which they have been appointed as a member of the management board.

Furthermore, the Supervisory Board may not include more than two former members of the company's Management Board. The 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 REPORT

Compensation of the Management Board 2008/09

IN €	Total Compensation	Basic Compensation	Results-Related Compensation
Bernd Rose	504,402	504,402	0
Heiko Arnold	325,773	325,773	0
Adam Valeri	332,215	332,215	0
	1,162,390	1,162,390	0

As laid out for each member in the above table, the compensation paid to the Management Board is made up of a performance-based and a fixed component. The fringe benefits include non-cash compensation as well as pension provision. The company has made benefit commitments as regards the members of its Management Board, in particular relating to pension payments from the age of sixty. These rights are not subject to expiry and may be inherited. Within this context, contributions are paid by *schlott gruppe AG* into an outside pension fund. No stock options or similar instruments were issued in the period under review. A D&O insurance policy without deductible was taken out for the company's Management Board (in accordance with transitional provisions specified by law), Supervisory Board and Managing Directors. The premium payable under this policy cannot be presented in an itemised format.

The performance-related compensation contains annually recurring elements linked to the attainment of corporate planning objectives. Given the current situation of the company, in the period under review the Management Board left it to the discretion of the Supervisory Board whether some of the components of variable compensation for the year should be applicable. No variable compensation was granted for the reporting period.

In the financial year 2008/09, total compensation paid to the Management Board was €1,162.4 thousand. For the previous year total compensation amounted to €2,312.1 thousand, including performance-related compensation. Within this context, remuneration was made up solely of fixed compensation components and fringe

benefits. No additional benefits were promised to any members of the Management Board in the event that they leave the service of the company. In the financial year under review, no member of the Management Board received benefits or a promise of such benefits from a third party in respect of his work as a board member.

Beyond this, there are no indemnity agreements with members of the Management Board or employees covering a possible takeover offer. Furthermore, no agreements have been entered into with members of the Management Board containing a „change of control“ clause.

Compensation of the Supervisory Board in FY 2008/09

IN €	<i>Compensation</i>	<i>Additional benefits</i>	<i>Total</i>
Sigmund Kiener*	40,000	137	40,137
Fritz-Jürgen Heckmann**	23,333	0	23,333
Reinhold Schreiner	20,000	79	20,079
Joachim Kohm	15,000	0	15,000
Edmund Hug	15,000	0	15,000
Nikolaus Broschek	20,000	4,074	24,074
Dr. Rainer Hillebrand	15,000	1,398	16,398
Ivan Bebek	32,500	0	32,500
Dr. Herbert Pototzky	20,000	135	20,135
Andrea Raab	20,000	135	20,135
Reinhard Burck	15,000	45	15,045
Michael Schlecht	15,000	3,319	18,319
Josef Peitz	15,000	754	15,754
	242,500	9,939	252,439

* Mr. Kiener until the Annual General Meeting in March 2009

** Mr. Heckmann effective the Annual General Meeting 2009

SHARES HELD BY THE GOVERNING BODIES AS AT DECEMBER 21, 2009

		as % of shares outstanding
MANAGEMENT BOARD SHAREHOLDINGS	69,081	1.1
SUPERVISORY BOARD SHAREHOLDINGS	1,459,098	
of which		
<i>Nikolaus Broschek</i>	463,688	7.5
<i>Joachim Kohm (indirekt über die JUST-US GmbH)</i>	995,000	16.0
TOTAL NUMBER OF SHARES HELD BY GOVERNING BODIES	1,528,179	24.6
TOTAL NUMBER OF SHARES OUTSTANDING	6,204,200	100.0

As compensation for their activities, members of the Supervisory Board received €243 thousand (previous year: €243 thousand). The members of the Supervisory Board receive €15 thousand per year by way of compensation for their work. The chairperson receives double this amount and the deputy chairperson one and a half times; a further €5 thousand is paid for each membership of a committee, with the exception of the Mediation Committee and the Nomination Committee. The fully reinsured provisions for pension obligations towards the Supervisory Board member Dr. Herbert Pototzky amount to €59 thousand (previous year: €55 thousand).

SHARES HELD BY GOVERNING BODIES AND DIRECTORS' DEALINGS

Details of the number of shares held by members of the Supervisory Board are presented in the above table. At the end of the reporting period, the Chairman of the Management Board of *schlott gruppe AG*, Bernd Rose, held 69,081 shares, i.e. 1.1 per cent of the share capital. No shares were held by the other Management Board members.

DIRECTORS' DEALINGS (SECTION 15A WPHG) 1 OCT. 2008 TO 20 DEC. 2009

Under Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz — WpHG), members of the Management Board and the Supervisory Board are obliged to disclose the purchase and sale of shares in *schlott gruppe AG* or of other financial instruments based on those shares in cases where the value of the transactions entered into by a member of one of the governing bodies or other related parties during the course of a calendar year is equal to or exceeds the sum of €5,000. This obligation also applies to certain employees in managerial positions and closely related parties. For the 2008/09 financial year, *schlott gruppe AG* received notification of the following transactions, all of which are also published on the company website:

<i>Date of transaction</i>	<i>Type</i>	<i>No. of shares</i>	<i>Amount in €</i>
<i>JUST-US GmbH (related party to a Supervisory Board member)</i>			
06/11/2008	Purchase	3,465	27,720.00
09/12/2008	Purchase	5,000	37,490.00
26/06/2009	Purchase	60,000	342,000.00
<i>S.K. Management- und Beteiligungs GmbH (related party to a Supervisory Board member, until 3 March 2009)</i>			
16/10/2008	Purchase	21,954	177,893.26
11/11/2008	Purchase	50,000	399,670.00
19/11/2008	Purchase	25,000	201,987.50
05/12/2008	Purchase	50,000	374,500.00
22/01/2009	Purchase	3,297	27,813.49
<i>Beate Rose (related party to a person with management duties)</i>			
22/06/2009	Purchase	250	1,375.00
23/06/2009	Purchase	250	1,405.00
23/06/2009	Purchase	250	1,400.00
<i>Bernd Rose (person with management duties)</i>			
30/06/2009	Purchase	23,771	135,494.70

ADEQUATE CONTROL AND RISK MANAGEMENT SYSTEM

At *schlott gruppe AG*, corporate governance also includes adopting a responsible approach to corporate risk. The Management Board ensures that an adequate system of risk management and risk control is in place within the Group. As part of our value-driven management approach, systematic risk management ensures that risks are identified and evaluated at an early stage. This constitutes the first stage of the risk management system. The second stage focuses on addressing the issue of existing risk in an appropriate manner.

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The Management Board reports back regularly to the Supervisory Board on the risks facing the company and any developments relating thereto. The Audit Committee established by the Supervisory Board regularly monitors the effectiveness of the internal control, risk management and audit system. It is also responsible for supervising the accounting process and year-end auditing. The risk management and internal audit system are subject to continuous review and are adapted where necessary to meet changing circumstances.

STATUTORY AUDIT BY AWT AUDIT WIRTSCHAFTS-TREUHAND AG

schlott gruppe AG prepares its consolidated financial statements and interim reports in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The separate financial statements of *schlott gruppe AG*, as required by law and used as the basis for calculation for dividend payments, are prepared in accordance with the German Commercial Code (Handelsgesetzbuch — HGB). As agreed between the Chairperson of the Supervisory Board and the statutory auditor, AWT AUDIT WIRTSCHAFTS-TREUHAND AG, Wirtschaftsprüfungsgesellschaft, Stuttgart, the chair of the Audit Committee is notified promptly of any grounds for exclusion or conflicts of interest that may arise during the audit, unless they are rectified immediately. The statutory auditor is also obliged to report back promptly on any findings or occurrences emerging from the audit that may be significant in relation to the work of the Supervisory Board.

DECLARATION OF CONFORMITY PURSUANT TO SECTION 161 AKTG

The Management Board and Supervisory Board of *schlott gruppe AG* have studied in detail the recommendations of the German Corporate Governance Code, which are applied with minor exceptions.

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):

The Management Board and Supervisory Board of *schlott gruppe* Aktiengesellschaft hereby declare that since the last Declaration of Conformity of 17 December 2008 all recommendations of the Commission of the German Corporate Governance Code (Regierungskommission Deutscher Corporate Governance Kodex), initially issued in the version of 8 August 2008, and in the amended version as at 18 June 2009, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on 5 August 2009, have been and continue to be complied with, with the exception of the following departures:

- In contrast to the recommendation in Section 3.8 sentence 4 GCGC (old version) and the account given in Section 3.8 sentence 4 GCGC (revised version) with regard to relevant statutory provisions, the Company's D&O insurance policy includes no deductible for incumbent members of the Management Board. This is due to the fact that in accordance with the terms of the employment contracts negotiated with the incumbent members of the Management Board the Company is obliged to conclude D&O insurance policies without deductibles; these existing contracts take precedence over legal provisions. By contrast, all newly concluded or extended employment contracts with Management Board members will include terms relating to a deductible. Contrary to Section 3.8 sentence 4 GCGC (old version) and Section 3.8 sentence 5 GCGC (revised version), the D&O insurance policy for members of the Supervisory Board includes no deductible, the reason being that this was agreed within the applicable D&O policies in line with standard *schlott gruppe AG* practice. The Company will review the possibilities of adjusting this component of D&O insurance prior to the future extension of such policies.

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- In contrast to the recommendation outlined in Section 4.2.3 paragraph 4 GCGC, the contracts negotiated with the incumbent members of the Management Board do not include a severance pay cap. This is due to the fact that contracts concluded with Management Board members prior to the incorporation of such recommendations in the German Corporate Governance Code did not include provisions for severance pay caps and that a possible deterioration in the contractual terms negotiated for newly appointed Management Board members was deemed inappropriate by the Supervisory Board.
 - In contrast to Section 5.4.6 paragraph 2 GCGC, the members of the Supervisory Board do not receive performance-based compensation, and contrary to Section 5.4.6 paragraph 1 sentence 3 GCGC, the Chair of Supervisory Board committees does not receive separate compensation. Within this context, the Supervisory Board is of the opinion that both performance-based compensation as well as separate compensation for membership in and chairing of Supervisory Board committees may be considered appropriate, particularly in view of the more intensive input required by the Supervisory Board and its committees in response to the special financial situation of the Company. With this in mind, the Supervisory Board would be prepared in principle to submit to the General Meeting of Shareholders a proposal for such amendments to be made. However, in view of the difficult situation currently faced by the Company, it has decided to refrain from any such action. This is to be seen as a symbolic gesture on the part of the Supervisory Board, as well as a contribution to cost streamlining.
 - In contrast to Section 7.1.2 sentence 4 GCGC, the consolidated financial statements are not published within 90 days of the end of the financial year. Owing to the fact that the Company's financial year (1 October to 30 September) does not coincide with the calendar year, the date of publication would have to be brought forward to a date preceding the Christmas holidays in December, which would be associated with significantly higher costs for *schlott gruppe*.

FREUDENSTADT, 18. DECEMBER 2009

THE SUPERVISORY BOARD OF SCHLOTT GRUPPE AG

THE MANAGEMENT BOARD OF SCHLOTT GRUPPE AG