
CORPORATE GOVERNANCE

ENHANCING VALUE THROUGH RESPONSIBLE
BALANCING OF INTERESTS

Corporate Governance at *schlott gruppe AG* is based on the German Corporate Governance Code, which has established itself as the standard for good corporate management in Germany. With only a few exceptions, we comply with all the recommendations and suggestions of the Code as last updated by the Government Commission on the German Corporate Governance Code on June 6, 2008. Further details are contained in the following report drawn up by the Management Board and Supervisory Board.

TRANSPARENCY AND EQUAL TREATMENT AT SCHLOTT GRUPPE AG

schlott gruppe AG treats all shareholders equally in accordance with the law and shows full regard for their rights. This also applies to the purchase of the company's own shares and to acquisitions. Shareholders of *schlott gruppe AG* are guaranteed a right to participate in the profits made by the company and to purchase and sell their company shares freely. All ordinary shares confer the same voting rights. *schlott gruppe AG* has only issued a single category of stock with uniform shareholder rights. 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.

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 business risk that should be rewarded with an appropriate return. Both in strategic and daily operational terms, the most important management objective is therefore to increase the value of the enterprise. In order to maintain and increase enterprise value and competitiveness, *schlott gruppe AG* has adopted a modern and efficient risk management system, which takes account of the most important corporate management practices in Germany.

Preparations for the Annual General Meeting of Shareholders are made with the aim of ensuring that comprehensive information is made available promptly and effectively to all shareholders before, during and after the meeting. Shareholders are given a detailed picture of the previous financial year in the form of our annual report, which is sent out prior to the meeting along with an invitation to attend that lists the agenda items and explains the conditions for participation. All the documents and information relating to the General Meeting of Shareholders can also be found on our website. This assures and simplifies the exchange of information between ourselves and shareholders with regard to the AGM.

>>

In addition to ensuring compliance with stock exchange regulations, our corporate philosophy stresses the importance of communicating with the public in a comprehensive, timely and transparent manner, while taking into account prevailing competitive conditions. Beyond the reporting and disclosure requirements mandated by law, *schlott gruppe* reports regularly on the performance of the company in the form of press releases and at analyst and press conferences, while observing the principle of shareholder equality (fair disclosure) at all times. All reports, announcements and public presentations are published on the Internet at www.schlottgruppe.de.

schlott gruppe endeavours to ensure that the interests of all stakeholders are taken into consideration and balanced accordingly. In this respect, too, the aim of achieving a sustained increase in enterprise value is of prime importance. The company's major stakeholders are its shareholders, customers, employees, creditors and all other business associates.

RESPONSIBLE COLLABORATION BETWEEN MANAGEMENT AND SUPERVISORY BOARDS

The Management Board and Supervisory Board work closely together in the best interests of the organisation. Their joint aim is to bring about a sustained increase in the value of the enterprise.

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 and monitors and advises the Management Board in the latter's running of the company. The approval of the Supervisory Board must be obtained for all major decisions.

Details of the tasks, rights and duties of the Management and Supervisory Boards and the way they are expected to collaborate are laid down in the form of separate rules of procedure for each body. These rules of procedure and the plan assigning specific areas of responsibility were drawn up and adopted in observance of the requirements set out in the German Corporate Governance Code.

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.

The duties and rights set out in the rules of procedure for the Supervisory Board reflect the recommendations and proposals of the German Corporate Governance Code, insofar as the company has not specified deviations from the Code. The rules of procedure also stipulate that Supervisory Board members who simultaneously hold a management board position with another exchange-listed entity may assume no more than five 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. 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 significant competitors of the company.

COMPENSATION REPORT

Compensation of the Management Board in FY 2007/08

IN €	Total Compensation	Basic Compensation	Results-Related Compensation
Bernd Rose	808,810	500,810	308,000
Heiko Arnold	564,848	309,848	255,000
Werner Reiser	376,364	238,364	138,000
Adam Valeri	562,086	306,366	255,720
Total	2,312,108	1,355,388	956,720

As laid out for each member in the above table, the compensation paid to the Management Board is made up of a performance-related and a fixed component. The figures given above for the fixed component include non-cash benefits and pension provision. Members of the Management Board are entitled to pension payments from the age of sixty. The rights are not subject to expiry and may be inherited. Contributions are paid by *schlott gruppe AG* into an outside pension fund. No share options or similar instruments have been issued.

The performance-related compensation contains annually recurring elements linked to the attainment of corporate planning objectives. In the financial year 2007/08, the main indicators used to assess whether these objectives had been met were earnings before tax and the level of bank borrowings.

Overall, the variable compensation received by members of the Management Board mainly consists of incentives to increase the value of the enterprise. In this context, both EBT and the cost of capital act as key indicators within the *group*. The Management Board incentives therefore serve primarily to implement the longer-term strategic aims of *schlott gruppe*.

The total compensation paid to the Management Board in FY 2007/08 was € 2,312 thousand including a performance-related component of € 957 thousand. No additional benefits have been 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.

There are no indemnity agreements with members of the Management Board or employees covering a possible takeover offer. Equally, no agreements have been entered into with members of the Management Board containing a “change of control” clause.

COMPENSATION OF THE SUPERVISORY BOARD

Compensation of the Supervisory Board in FY 2007/08

IN €	<i>Compensation</i>	<i>Additional benefits</i>	<i>Total</i>
Sigmund Kiener	40,000	137	40,137
Reinhold Schreiner	20,000	697	20,697
Joachim Kohm	15,000	0	15,000
Edmund Hug	15,000	0	15,000
Nikolaus Broschek	20,000	4,886	24,886
Dr. Rainer Hillebrand	15,000	1,844	16,844
Ivan Bebek	32,500	0	32,500
Dr. Herbert Pototzky	20,000	270	20,270
Andrea Raab	20,000	270	20,270
Reinhard Burck	15,000	0	15,000
Michael Schlecht	15,000	1,513	16,513
Josef Peitz	15,000	949	15,949
Total	242,500	10,566	253,066

SHARES HELD BY THE GOVERNING BODIES AS AT DECEMBER 17, 2008

		as % of shares outstanding
MANAGEMENT BOARD SHAREHOLDINGS	45,310	0.7
SUPERVISORY BOARD SHAREHOLDINGS	1,859,449	
of which		
<i>Nikolaus Broschek</i>	463,688	7.5
<i>Sigmund Kiener</i> (indirectly via S.K. Management- und Beteiligungs GmbH)	460,354	7.4
<i>Joachim Kohm</i> (indirectly via JUST-US GmbH)	935,000	15.1
TOTAL NUMBER OF SHARES HELD BY GOVERNING BODIES	1,904,759	30.7
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: € 239 thousand). The members receive € 15 thousand per year by way of compensation for their work. The chairman receives double this amount and the deputy chairman one and half times; a further € 5 thousand is paid for each membership of a committee with the exception of the Mediation Committee. Travel costs are also reimbursed. The company has a pension obligation towards Dr. Herbert Potortzky, for whom a provision of € 55 thousand has been made in the year under review (previous year: € 45 thousand).

Details of the number of shares held by members of the Supervisory Board are given in the above table. Since none of the members hold over one per cent of the total share capital, there is no requirement to provide individual disclosures. Following the departure of a member of the Management Board in the financial year 2007/08, the number of shares held by the Management Board has fallen compared to the preceding year.

DIRECTORS' DEALINGS (GERMAN SECURITIES TRADING ACT –
WPHG – SECTION 15A) FROM OCT. 1, 2007, TO DEC. 12, 2008

Under Section 15a of the German Securities Trading Act (WPHG), members of the Management and Supervisory Boards 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. By December 17, 2008, *schlott gruppe AG* had received notification of the following relevant transactions, all of which are also published on our website:

<i>Name</i>	<i>Position</i>	<i>Date of Transaction</i>	<i>Type</i>	<i>No. of shares</i>	<i>Price in €</i>
Nikolaus Broschek	Supervisory Board	06/03/2008	Purchase	150	2,385.00
Nikolaus Broschek	Supervisory Board	07/03/2008	Purchase	350	5,565.00
Nikolaus Broschek	Supervisory Board	14/03/2008	Purchase	500	7,850.00
Nikolaus Broschek	Supervisory Board	14/03/2008	Purchase	500	7,900.00
Nikolaus Broschek	Supervisory Board	14/03/2008	Purchase	500	7,850.00
Nikolaus Broschek	Supervisory Board	14/03/2008	Purchase	500	7,725.00
Nikolaus Broschek	Supervisory Board	18/03/2008	Purchase	425	6,587.50
Nikolaus Broschek	Supervisory Board	19/03/2008	Purchase	75	1,158.00
Nikolaus Broschek	Supervisory Board	25/03/2008	Purchase	500	7,875.00

Nikolaus Broschek	Supervisory Board	25/03/2008	Purchase	500	7,875.00
Nikolaus Broschek	Supervisory Board	31/03/2008	Purchase	500	8,000.00
Nikolaus Broschek	Supervisory Board	01/04/2008	Purchase	1,000	16,200.00
Nikolaus Broschek	Supervisory Board	03/04/2008	Purchase	500	8,275.00
JUST-US GmbH	Related party to Supervisory Board	29/11/2007	Purchase	5,000	87,500.00
JUST-US GmbH	Related party to Supervisory Board	04/12/2007	Purchase	5,000	84,850.00
JUST-US GmbH	Related party to Supervisory Board	14/12/2007	Purchase	4,250	71,999.25
JUST-US GmbH	Related party to Supervisory Board	16/01/2008	Purchase	5,250	86,205.00
JUST-US GmbH	Related party to Supervisory Board	18/01/2008	Purchase	5,500	88,715.00
JUST-US GmbH	Related party to Supervisory Board	18/01/2008	Purchase	5,000	81,600.00
JUST-US GmbH	Related party to Supervisory Board	25/01/2008	Purchase	5,000	77,250.00
JUST-US GmbH	Related party to Supervisory Board	31/01/2008	Purchase	5,000	75,500.00
JUST-US GmbH	Related party to Supervisory Board	06/02/2008	Purchase	40,000	618,920.00
JUST-US GmbH	Related party to Supervisory Board	07/02/2008	Purchase	20,000	310,000.00
JUST-US GmbH	Related party to Supervisory Board	28/02/2008	Purchase	10,000	155,000.00
JUST-US GmbH	Related party to Supervisory Board	04/03/2008	Purchase	60,000	947,400.00
JUST-US GmbH	Related party to Supervisory Board	07/03/2008	Purchase	15,000	240,000.00
JUST-US GmbH	Related party to Supervisory Board	12/03/2008	Purchase	60,000	960,000.00
JUST-US GmbH	Related party to Supervisory Board	17/03/2008	Purchase	35,000	553,000.00
JUST-US GmbH	Related party to Supervisory Board	19/03/2008	Purchase	1,120	17,584.00
JUST-US GmbH	Related party to Supervisory Board	26/03/2008	Purchase	8,880	141,902.40
JUST-US GmbH	Related party to Supervisory Board	11/04/2008	Purchase	8,000	132,800.00
JUST-US GmbH	Related party to Supervisory Board	14/04/2008	Purchase	22,000	372,460.00
JUST-US GmbH	Related party to Supervisory Board	27/06/2008	Purchase	10,000	147,110.00
JUST-US GmbH	Related party to Supervisory Board	03/07/2008	Purchase	10,000	147,528.00
JUST-US GmbH	Related party to Supervisory Board	15/08/2008	Purchase	6,535	85,418.99
JUST-US GmbH	Related party to Supervisory Board	06/11/2008	Purchase	3,465	27,720.00
JUST-US GmbH	Related party to Supervisory Board	09/12/2008	Purchase	5,000	37,490.00
S.K. Management- und Beteiligungs GmbH	Related party to Supervisory Board	13/12/2007	Purchase	20,350	347,578.00
S.K. Management- und Beteiligungs GmbH	Related party to Supervisory Board	15/02/2008	Purchase	3,400	52,700.00
S.K. Management- und Beteiligungs GmbH	Related party to Supervisory Board	16/10/2008	Purchase	21,954	177,893.26
S.K. Management- und Beteiligungs GmbH	Related party to Supervisory Board	11/11/2008	Purchase	50,000	399,670.00
S.K. Management- und Beteiligungs GmbH	Related party to Supervisory Board	19/11/2008	Purchase	25,000	201,987.50
S.K. Management- und Beteiligungs GmbH	Related party to Supervisory Board	05/12/2008	Purchase	50,000	374,500.00

ADEQUATE CONTROL AND RISK MANAGEMENT SYSTEM

At *schlott gruppe AG*, Corporate Governance also includes adopting a responsible approach to corporate risk. The Management Board draws up an adequate risk management and control system for the organisation. As part of our value-driven management approach, systematic risk management ensures that risks are identified and evaluated at an early stage and that existing risks are dealt with appropriately.

The Management Board reports back regularly to the Supervisory Board on the risks facing the company and their development. The Audit Committee established by the Supervisory Board regularly monitors the accounting process, the effectiveness of internal control, risk management and audit systems and the statutory audit. Our risk management and internal audit systems are subject to continuous review and are adapted where necessary to meet changing circumstances.

STATUTORY AUDIT BY AWT

schlott gruppe AG draws up its consolidated financial statements and interim reports under International Financial Reporting Standards (IFRS) as they apply in the European Union. The individual financial statements of *schlott gruppe AG*, as required by law and used as the basis for calculation of dividend payments, are drawn up in accordance with the German Commercial Code (HGB). By agreement with the statutory auditor, AWT AUDIT WIRTSCHAFTS-TREUHAND AG (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 will also 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 STOCK CORPORATION ACT (AKTG)

The Management Board and Supervisory Board of *schlott gruppe AG* have studied the recommendations of the German Corporate Governance Code in detail. With the few exceptions laid out and justified below, the company follows all the said recommendations:

In relation to the D&O insurance policy covering members of the Management Board and Supervisory Board (Item 3.8), an excess sum would lead to higher costs in the form of increased compensation payments to the Management Board and Supervisory Board and would therefore be financially detrimental to *schlott gruppe AG*. In the view of the governing bodies, it would neither create a greater level of motivation nor increase the awareness of risk; nor would these aims be achieved by means of performance-related compensation for the Supervisory Board (Item

5.4.6) or separate compensation for the chairpersons of the Supervisory Board committees (Item 5.4.6). A cap on severance payments (Item 4.2.3) has not been agreed due to the continuity of the *schlott gruppe AG* Management Board, the close collaboration between the Management Board and the Supervisory Board and the periods of office stipulated under existing Management Board contracts. By contrast, no assurances have been offered to individual members of the Management Board in the event of a change of control at the company. Publication of the consolidated financial statements within ninety days of the end of the financial year (Item 7.1.2) would lead to a significant increase in costs for the company given its different financial year, as it would require us to publish no later than mid-December. To meet the needs of the public for the information concerned, *schlott gruppe AG* publishes corresponding provisional results around six weeks after the end of the financial year.

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 January 11, 2008, all recommendations of the Commission of the German Corporate Governance Code (Regierungskommission Deutscher Corporate Governance Kodex), valid as from June 14, 2007, and in the amended version as from June 6, 2008, as published by the Federal Ministry of Justice in the official section of the Electronic Federal Gazette on August 8, 2008, have been and continue to be complied with, with the exception of the following departures: no excess for the D&O insurance policy covering members of the Management Board and Supervisory Board (Item 3.8); no cap on severance pay in the case of early termination of the contracts of members of the Management Board (Item 4.2.3); no performance-based compensation for the Supervisory Board (Item 5.4.6); no publication of consolidated financial statements within 90 days of the end of the financial year (Item 7.1.2); no separate compensation for chairing Supervisory Board committees (Item 5.4.6). The recommendation of Item 7.1.2 for the Audit Committee to discuss half-yearly and quarterly financial reports will in future be met.

FREUDENSTADT, DECEMBER 17, 2008

THE SUPERVISORY BOARD OF SCHLOTT GRUPPE AG

THE MANAGEMENT BOARD OF SCHLOTT GRUPPE AG