

Corporate Governance Report

The German Code of Corporate Governance recommends the Boards of Management and Supervisory Boards of joint stock corporations listed on the stock exchanges to make an annual report on corporate governance at their companies (item 3.10 of the Code). This recommendation is not aimed specifically at the Board of Management and Supervisory Board of PAUL HARTMANN AG, since the company is not listed on the stock exchange in the sense of section 3 paragraph 2 of the German Stock Corporation Act (AktG). Nevertheless, the Board of Management and the Supervisory Board have agreed to set out the Company's corporate governance at this point.

Management and control structure: the Board of Management und Supervisory Board

The Board of Management is the leading Group board. It is duty-bound to act in line with the interests of the company, the statutory regulations and the Statutes. And seek to enduringly increase the company's value.

Effective as of August 3, 2009, the Supervisory Board appointed Stephan Schulz a full member of the Board of Management for the period of three years. The names of the members of the Board of Management are listed on page 33. The Supervisory Board took the aspect of diversity into account in the compilation of the Board of Management.

PAUL HARTMANN AG's Supervisory Board has 12 members. Under the terms of the German Codetermination Act (MitbestG) it consists of equal numbers of representatives of the shareholders and of the employees. The names of the members of the Supervisory Board are listed on page 33.

The representatives of the shareholders are elected by the annual general meeting. The last elections took place at the annual general meeting on April 30, 2008. The legislative period for all members of the Supervisory Board ends on conclusion of the annual general meeting that decides on the approval of the actions of the Supervisory Board for business 2012.

The Supervisory Board has elected committees from among its own ranks, whose members are chosen on a balanced basis to fulfill certain functions instead of the full Supervisory Board and in other cases to prepare the resolutions to be made by the Supervisory Board.

Since the coming into force on August 5, 2009 of the Management Board Remuneration Act (VorstAG) in accordance with the stipulation of section 107 paragraph 3 clause 3 in connection with section 87 of the German Stock Corporation Act (AktG), the Board of Directors Committee still has the additional duty, among other things, to prepare the decisions to be taken by the Supervisory Board about the appointment and recall of members of the Board of Management and contractual matters concerning them as well as insuring the longterm succession planning for the Board of Management within the legal and regulatory framework.

The Audit Committee is responsible for the accounting procedures, risk management and compliance, the requisite independence of the auditor, the award of the auditing contract, for determining the focal points of the audit, as well as agreeing on the fee. The Chairperson of the Audit Committee holds the qualifications required by clause 5.3.2 of the German Corporate Governance Code.

There is also an Arbitration Committee (a Permanent Committee in accordance with section 27 paragraph 3 of MitbestG). Contrary to the recommendation of the German Corporate Governance Code, strategy and investments are discussed and determined not in a committee but in the full Supervisory Board.

In line with the recommendation in item 5.3.3 of the German Corporate Governance Code the Supervisory Board has, in addition, set up a Nomination Committee. This consists exclusively of representatives of the shareholders. Its sole function is to propose to the Supervisory Board suitable candidates as representatives of the shareholders in the Supervisory Board for the latter's election proposals to the annual general meeting.

In accordance with the Statutes, only those persons who, at the time of the election, are not older than 74, can be elected as representatives of the shareholders. The most recent elections of representatives of the shareholders in the Supervisory Board were held at the annual general meeting on April 30, 2008 as individual elections. The Supervisory Board informed the annual general meeting that in the event of his reelection the current Chairman of the Supervisory Board will once again stand for this office.

The directors & officers insurance (D&O-insurance) for the Board of Management and Supervisory Board of PAUL HARTMANN AG does not require cost-sharing on the part of their members with the exception of a liability reimbursement for any claims in the USA. As regards the members of the Board of Management, this is realized in accordance with the provisional legal regulations. The Board of Management and the Supervisory Board of PAUL HARTMANN AG are constantly aware of the full responsibility they bear for their actions. The introduction of cost-sharing would not enhance the motivation or sense of responsibility of their members. Added to this, not least for reasons of costs, the insurance policy does not only cover the Board of Management and the Supervisory Board of PAUL HARTMANN AG, but also a large number of executives in Germany and abroad, which means that in this case, differentiation would not be appropriate particularly since this cost-sharing is not usual in other countries.

The Supervisory Board's Rules of Procedure contain an extensive catalog of transactions requiring its approval thereby complying with the Supervisory Board's stricter monitoring and control duties. Moreover, these rules stipulate an upper age limit for members of the Board of Management.

Management and Supervisory Board Remuneration

Until the coming into force of the Management Board Appropriate Remuneration Act, the Board of Directors Committee, which is made up of two representatives each of the shareholders and the employees from the Supervisory Board, discussed and determined the remuneration of the members of the Board of Management. Although this procedure proved its worth in the past, as, given its particularly well-qualified members, the Board of Directors Committee is the best forum for discussing such measures, with the coming into force of the Management Board Appropriate Remuneration Act on August 5, 2009 responsibility for remuneration passed from the latter to the full Supervisory Board.

Members of the Board of Management are remunerated in accordance with their functions performed by the relevant Board member, the latter's performance, and how well the HARTMANN GROUP is performing in comparison with similar companies and the remuneration structure applied elsewhere in the Company. This also applies to the rules terminating Board of Management contracts. However, contrary to item 4.2.3 of the Corporate Gov-

ernance Code, neither a limit in cases of extraordinary developments nor a severance package cap was agreed. There is no guarantee of payment in case of a premature termination of a Board of Management membership resulting from a change of control.

The basic guidelines for Board of Management remuneration are explained in the annual financial statements and are to an appropriate extent disclosed in greater detail at the annual general meeting. In accordance with the recommendations of the Government Commission overall remuneration is composed of one fixed and one variable component; the variable element, however, contains neither "components with a long-term incentive effect or a risk character" (as item 4.2.3. of the Corporate Governance Codex in the version dated June 6, 2008 recommends) such as, for example, share option packages and similar equity-oriented incentive systems nor an "assessment basis of primarily several years as required in item 4.2.3 of the Corporate Governance Codex in the version dated June 18, 2009. Since PAUL HARTMANN AG shares are only traded on the Frankfurt Stock Exchange's open market and have comparatively low liquidity, the share price cannot be used as a general basis for assessing remuneration components such as these. Since there are no such remuneration components for the Supervisory Board, the Board of Management or the Company's employees, the other recommendations of item 4.2.3 paragraph 3 and item 7.1.3 of the German Corporate Governance Code are not applicable.

Overall remuneration of the Board of Management is outlined in the annex to the Group annual financial statements on page 134. The supplementary sections to the German Commercial Code introduced on August 3, 2005 with the "Act on disclosure of Board of Management Remuneration"; according to which individual disclosure shall be made of Board of Management remuneration, applies only to publicly listed companies and thus not to PAUL HARTMANN AG. The same is true for the regulation in item 4.2.4 of the German Corporate Governance Code, with which we likewise do not comply. This is not only out of respect for the privacy of members of the Board of Managements; but also because no noteworthy additional information of relevance to the capital market can be derived from the statements outlined there. For this reason, contrary to the recommendations of item 4.2.5 of the German Corporate Governance Code, no remuneration report is published. Given the basic situation, namely that PAUL HARTMANN AG is under no legal obligation to

disclose the remuneration for individual members of the Board of Management, a declaration of these deviations from the recommendations of the German Corporate Governance Code is not necessary.

Remuneration of the Supervisory Board is governed by the Statutes and supplementary resolutions by the annual general meeting. For the year under review, remuneration is composed of one fixed and one variable component; for the same reasons as with the Board of Management remuneration, that of the members of the Supervisory Board contains no components relating to long-term success.

In addition, members also receive an attendance fee for their presence at the individual meetings. The Chairman and the Deputy Chairman of the Supervisory Board as well as the Chairman and members of the Audit Committee are handled separately. In the case of multiple membership, the higher remuneration shall be paid in each case. Remuneration shall not be accumulated.

Remuneration is also paid for attendance at meetings of the Audit Committee which are not held in conjunction with meetings of the Supervisory Board. With regard to the other members of the Audit Committee, other than the Chairman, it is still the case that no separate remuneration is paid and members of the Board of Directors Committee, the Nomination Committee and the Arbitration Committee are not paid separate remuneration or attendance money. In the past, the Arbitration Committee was never required to convene, the Nomination Committee has so far only met once for the Supervisory Board Elections in 2008, and the expenses for the members of the Board of Directors Committee as well as the Audit Committee have only risen in recent years.

In business 2009, the Supervisory Board convened for six meetings; in addition the Audit Committee convened twice and the Board of Directors Committee four times. No member of the Supervisory Board participated in less than half the meetings of the full Supervisory Board or its committees of which he or she is a member.

Supervisory Board remuneration for the financial year 2009 is made up as follows (excluding VAT):

- The Chairman of the Supervisory Board received a fixed emolument of EUR 15,000 and variable remuneration of EUR 37,500. EUR 15,000 was paid for attending the full Supervisory Board meetings; Euro 2,000 was paid for taking part in meetings of the Audit Committee.
- The Deputy Chairman of the Supervisory Board received a fixed emolument of EUR 10,000 and variable remuneration of EUR 25,000. Attendance money totaled EUR 10,000 (full Supervisory Board) and 2,000 EUR (Audit Committee).
- The Chairman of the Audit Committee received a fixed emolument of EUR 10,000 and variable remuneration of EUR 25,000. Attendance money totaled EUR 8,000 (full Supervisory Board) and EUR 2,000 (Audit Committee).
- The remaining nine members of the Supervisory Board received a fixed emolument of EUR 5,000 each and variable remuneration of EUR 12,500 each. Total attendance money of EUR 45,000 was paid to these members of the Supervisory Board with seven members receiving EUR 5,000 each, one member receiving EUR 3,000 and one member receiving EUR 7,000 (including attendance money for the Audit Committee).

This spells total emoluments for the Supervisory Board of EUR 364,000; of this figure EUR 80,000 was paid for fixed emoluments, EUR 200,000 for variable remuneration and EUR 84,000 for attendance money.

The Supervisory Board refrains from a further individualization of remuneration.

The employee representatives in the Supervisory Board state that a notable part of their Supervisory Board remuneration is donated to the Hans Böckler Stiftung.

Shareholder relations

Shareholders exercise their decision-making and controlling rights at the annually held General Meeting at which every share is accorded one vote. They have the opportunity to exercise their voting rights themselves or appoint a proxy. PAUL HARTMANN AG supports its shareholders in the exercise of their voting rights by offering them a voting rights proxy.

Shareholders receive the necessary documentation for the general meeting directly from the Company. The annual report of the HARTMANN GROUP and the annual financial statements of PAUL HARTMANN AG, the invitation, the agenda for and other documentation connected with the annual general meeting are made available on the HARTMANN website.

However, in individual cases we reserve the right to take advantage of any available simplifications of the German Stock Corporation Act (AktG) with regard to invitations to annual general meetings and the holding of such meetings and to supply our shareholders directly with certain documents, e.g., individual corporate contracts and the associated reports. We shall continue to do this in the future, in particular when the publication of such documents beyond the scope of our shareholders could have an adverse effect on the interest of the Company (item 2.3.1 of the Code).

Given our shareholder structure and the regular presence at our shareholder meetings of over 85 percent of the share capital, we at present see no appropriate benefit from transmitting the general meeting by modern communications media (item 2.3.4 of the Code) commensurate with the costs. For this reason, we do not currently avail ourselves of such communication media. For the same reason, the Company does not at present intend to create the conditions for convening an annual general meeting and the communication of the related invitation documents to the shareholders by electronic means (item 2.3.2 of the Code).

PAUL HARTMANN AG has not in the past prepared any interim reports in the sense of section 40 of the Stock Exchange Act as the Company is not a publicly listed company in the sense of section 3 paragraph 2 of the German Stock Corporation Act (AktG). Furthermore, the regulation on producing six-monthly financial reports pursuant to section 37w paragraph 1, p. 1 of the German Securities Trading Act (WpHG) and the publication of quarterly reports or interim disclosures by the Management pursuant to section 37x paragraphs 1 and 3 of the WpHG are applicable to publicly listed companies only, and as such not to PAUL HARTMANN AG.

As in the past, PAUL HARTMANN AG does not intend to create or publish six-monthly or quarterly reports on a voluntary basis following the principles recommended in the items 7.1.1 and 7.1.2 of the Code as this could put it at a disadvantage with regard to its competitors. However, we do inform the public on a quarterly basis about the Company's performance by means of press releases, which are also made available on the Company's website. Parallel to this, we inform our shareholders on Company performance in the form of quarterly letters in the first three quarters of every year. These quarterly letters are also available on the Company's website.

Since PAUL HARTMANN AG is not listed in the stock exchange as a company to which the stipulations relating to publishing ad hoc disclosures and directors' dealings and the obligation to publish any significant changes to shareholdings in accordance with WpHG would apply, items 6.1 and 6.2 of the German Corporate Governance Code do not apply. Furthermore, the Board of Management and the Supervisory Board have decided against disclosing details of their possession of company shares or associated financial instruments in accordance with item 6.6 of the German Corporate Governance Code, in order to preserve the privacy of the respective Board members.

In our individual Company financial statement and our consolidated financial statements, we publish a list of our shareholdings indicating names, locations and shareholdings in the capital. We refrain from stating the share capital and the earnings from the past financial year in our individual Company financial statement as PAUL HARTMANN AG takes advantage of the exemption regulations laid out in section 286 paragraph 3 clause 1 of the German Commercial Code (HGB).

PAUL HARTMANN AG only maintains shareholdings which are governed by section 285 no. 11 of HGB but not by item 7.1.4 of the German Corporate Governance Code.

Audit of annual financial statements

On May 8, 2009, the PAUL HARTMANN AG General Meeting appointed the PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft accountancy firm in Stuttgart to audit our annual financial statements and our consolidated annual financial statements for business 2009. As a first step, the Audit Committee verified whether the auditors displayed the necessary impartiality. The Audit Committee was in receipt of the auditor's report recommended by the German Corporate Governance Code. After the election, the Audit Committee recommended to the Supervisory Board that the latter award the auditing commission accordingly. This included a recommendation with regard to arranging a fee. The Audit Committee decided on the focus of the audit, called in the auditor for consultation about the annual financial statements and the consolidated annual financial statements and instructed him to report on the basic results of this audit. The consolidated financial statements are drawn up taking into consideration the relevant international accounting principles (item 7.1.1 of the German Corporate Governance Code).

Voluntary declaration of conformity

Section 161 clause 1 of the German Stock Corporation Act (AktG) obliges the Boards of Management and Supervisory Boards of companies listed on the stock exchange to make an annual declaration that they have complied or will comply with the recommendations of the "Government Commission on the German Corporate Governance Code" (hereinafter referred to as the Code) published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette and which recommendations they have not adhered or will not be adhering to on a permanent basis.

Even though PAUL HARTMANN AG is not a company listed on the stock exchange within the meaning of section 3 paragraph 2 of AktG and is not a company that has exclusively issued securities other than shares for trading on an organized market within the meaning

of section 2 paragraph 5 of the Securities Trading Act (WpHG), and, at its own instigation, the shares it has issued are traded via a multilateral trading system within the meaning of section 2 paragraph 3 clause 1 no. 8, its Management and Supervisory Boards agreed for the first time as of business 2005 to make a voluntary declaration concerning the recommendations of the Government Commission on the German Corporate Governance Code.

On March 19, 2010, the Management and Supervisory Boards once again made a voluntary declaration in compliance with the German Corporate Governance Code in keeping with section 161 of AktG. PAUL HARTMANN AG complies with most of the provisions of the Code. There are, however, a number of provisions it does not comply with on account of certain specific company features. This declaration of compliance has been published on the Internet at www.hartmann.info under Investor Relations and is updated whenever there are any changes. Declarations of compliance which are no longer valid can be accessed here for five years.

The voluntary declaration reads as follows: