

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 and 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 to seek to enduringly increase the company's value.

On March 31, 2008 Norbert Unterharnscheidt left the Board of Management. Effective October 1, 2008 the Supervisory Board appointed Michel Kuehn and Dr. Wolfgang Neumann, former Deputy Members of the Board of Management, to full Members of the Board; at the same time the appointment of all four members was extended another three years. The names of the members of the Board of Management are listed on page 9.

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 9.

The representatives of the shareholders are elected by the annual general meeting. The last elections took place at the 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. The Board of Directors' Committee is responsible for all staff-related matters. The Audit Committee monitors the auditors and internal accounting procedures and financial management, as well as compliance. 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 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 75, can be elected as representatives of the shareholders. In the year under review, the most recent elections of shareholder representatives in the Supervisory Board were carried out 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 the Supervisory Board of PAUL HARTMANN AG does not require cost-sharing on the part of its members with the exception of a liability reimbursement for any claims in the USA. 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 and sense of responsibility of its members. Added to this, not least for reasons of costs, the insurance policy covers not only the Board of Management and the Supervisory Board at 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 kind of 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 supervision and control duties. Moreover, these rules stipulate an upper age limit for members of the Board of Management.

Management and Supervisory Board Remuneration

The structure of the remuneration system for the members of the Board of Management at PAUL HARTMANN AG including the essential contract elements is discussed and determined by the full Supervisory Board. On a regular basis, the Board of Directors' committee which is made up of two representatives each of the shareholders and the employees from the Supervisory Board, provides advice and determines the individual implementation of the specifications in this structure. This method of procedure has proved its worth in the past as the best forum for discussing such matters is the Board of Directors Committee with its particularly well-qualified members.

Members of the Board are remunerated in accordance with the functions performed by the relevant Board Member, the latter's performance and how well the HARTMANN GROUP is performing in comparison with similar companies. This also applies to the rules terminating Board of Management contracts, though a severance package cap has not been expressly agreed. The basic guidelines for Board of Management remuneration are explained in the annual financial statements.

In accordance with the recommendations of the Government Commission overall remuneration is composed of one fixed and one variable component; it does not, however, contain any "components with a long-term incentive effect or a risk character", such as share option packages and similar equity-oriented incentive systems; the variable remunerations, however, are aimed over a period of years and thus contain a medium-term component. Since PAUL HARTMANN AG's 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 these kind of remuneration components. Since in this case there are no remuneration components with long-term, incentive effects or a risk character, the other recommendations of item 4.2.3, paragraph three of the German Corporate Governance Code are not applicable.

Overall remuneration of the Board of Management is outlined in the annex to the consolidated annual financial statements on page 122. The supplementary sections to the German Commercial Code introduced on Aug. 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 Management; 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 nor attendance money. In the past, the Arbitration Committee was never required to convene, the Nomination Committee met for the first time for the Supervisory Board Elections due 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. Nonetheless there are no current plans to bring into line the remuneration of all committees set up by the Supervisory Board.

In business 2008, the Supervisory Board convened for seven meetings, four of which were subsequent to the reelection of the committee in the annual general meeting on April 30, 2008.

Supervisory Board remuneration for the financial year 2008 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 meetings; EUR 2,000 was paid for taking part in meetings of the Audit Committee.
- The Deputy Chairman of the Supervisory Board in office until the annual general meeting on April 30, 2008 received a fixed emolument of EUR 3,333 and variable remuneration of EUR 25,000. Attendance money totaled EUR 4,000 (Board of Directors Committee) and EUR 1,000 (Audit Committee).
- The Deputy Chairman of the Supervisory Board elected after the annual general meeting on April 30, 2008 received a fixed emolument of EUR 6,667; he did not receive a variable remuneration. Attendance money totaled EUR 7,000 (Board of Directors Committee) and EUR 1,000 (Audit Committee)
- The Chairman of the Audit Committee in office until the annual general meeting on April 30, 2008 received a fixed emolument of EUR 3,333 and variable remuneration of EUR 25,000. Attendance money totaled EUR 2,000 (Board of Directors Committee) and EUR 1,000 (Audit Committee).
- The Chairman of the Audit Committee elected after the annual general meeting on April 30, 2008 received a fixed emolument of EUR 6,667; he received no variable remuneration. His attendance money totaled EUR 7,000 (Board of Directors Committee) and EUR 1,000 (Audit Committee).
- The members of the Supervisory Board who were in office for the entire financial year of 2008 each received a fixed emolument of EUR 5,000 and variable remuneration of EUR 12,500. Total attendance money of EUR 32,000 was paid to these six members with five members receiving EUR 5,000 each and one member receiving EUR 7,000 (including attendance money for the Audit Committee).
- The members of the Supervisory Board who left office at the conclusion of the annual general meeting on April 30, 2008 each received a fixed emolument of EUR 1,667 and variable remuneration of EUR 12,500 per member. Total attendance money paid to these three members was EUR 5,000 with two Supervisory Board members receiving EUR 2,000 and the other EUR 1,000.
- The members of the Supervisory Board who have been in office since the annual general meeting on April 30, 2008 each received a fixed emolument of EUR 3,333; they did not receive variable remuneration. Attendance money totaling EUR 9,000 was paid to these three members of which two members received EUR 4,000 each and one member received EUR 1,000.

This spells total emoluments for the Supervisory Board of EUR 367,000; of this figure EUR 80,000 was paid for fixed emoluments, EUR 200,000 for variable remuneration and EUR 87,000 for attendance money.

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

Advisory Council

In the year under review, there were a number of personnel changes in the Advisory Council. Helmut Althammer resigned from office at the conclusion of the annual general meeting on April 30, 2008. The company's Board of Management appointed Dr. Heinz Ahrens and Wolfgang Feil as additional members of the Advisory Council effective May 28, 2008.

In 2008, the Advisory Council convened on four occasions. The Advisory Council is chaired by the Chairman of the Company's Supervisory Board with a view to ensuring the close involvement of the Council in issues which are crucial to the company. The Chairman of the Supervisory Board receives no extra remuneration for this additional duty; the other members of the Council as well as HARTMANN's Honorary Chairman as the Advisory Council's permanent guest received attendance money of EUR 1,500 each per meeting.

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 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 such 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 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 Securities Trading Act 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 publish six-monthly or quarterly reports, or interim disclosures (items 7.1.1 and 7.1.2 of the German Corporate Governance 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. As of 2007, these quarterly letters have also been 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 the German Securities Trading Act 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 para. 3 sentence 1 of the German Commercial Code (HGB).

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

Audit of annual financial statements

On April 30, 2008 the PAUL HARTMANN AG General Meeting appointed the PricewaterhouseCoopers Aktiengesellschaft accountancy firm in Stuttgart to audit our annual financial statement and our consolidated annual financial statements for business 2008. 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 consultations about the annual financial statements and the consolidated financial statements and instructed him to report on the basic results of his audit.

Voluntary declaration of conformity

Section 161 sentence 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 to or will not be adhering to on a permanent basis.

Even though PAUL HARTMANN AG is not a company listed on the stock exchange in the sense of section 3 para. 2 of the German Stock Corporation Act (AktG), 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 24, 2009 the Management and the Supervisory Boards once again made a voluntary declaration in compliance with the German Corporate Governance Code in keeping with section 161 of the German Stock Corporation Act (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 is worded as follows: