

Corporate Governance at SinnerSchrader

Corporate Governance comprises all the values, principles and rules governing corporate management and control. Since 2002, the Government Commission on the German Corporate Governance Code has published principles and standards which characterise good, responsible Corporate Governance and with which all German companies listed on the stock exchange must comply. Since its creation, the Code has been continually modified on the basis of current knowledge and requirements. It was most recently amended on 12 June 2006 with regard to the transparency of the compensation for Management Board and Supervisory Board members.

The Management Board and Supervisory Board of SinnerSchrader AG have always been committed to the principles in the Code which aim at creating value through responsible corporate management and monitoring, and they welcome the development of Corporate Governance in Germany.

Company Boards

The management board of a stock corporation is appointed by the supervisory board and is independently responsible for managing the enterprise. It carries out business following the law, the statutes of the company and the rules of procedure decreed by the supervisory board for the management board. Under these rules, the management board is required to seek approval from the supervisory board prior to undertaking certain business transactions.

The Management Board of SinnerSchrader AG currently consists of two members. The Chief Executive Officer, Matthias Schrader, has been appointed to the Board until 31 December 2010; the current appointment to the Board of the Chief Financial Officer, Thomas Dyckhoff, will end on 31 December 2007. Conflicts of interest according to Section 4.3 of the German Corporate Governance Code did not arise in the 2005/2006 financial year.

The Supervisory Board monitors the Management Board and advises it in the management of the company. The key tasks of the Supervisory Board include acting as the representative of SinnerSchrader AG to the Management Board, appointing members of the Management Board, establishing the compensation for these members, commissioning the financial auditors, approving the Annual Financial Statements and Consolidated Financial Statements, and making decisions regarding the business transactions of the Management Board which require approval under the law, the Statutes of the Company, or the rules of procedure.

The Supervisory Board of SinnerSchrader AG consists of three members elected by the Annual General Meeting. Reinhard Pöllath and Frank Nörenberg have been elected to the Supervisory Board until the end of the Annual General Meeting which will vote on discharging the Supervisory Board of its duties for the 2007/2008 financial year. Dieter Heyde was elected to the Supervisory Board at the 2004/2005 Annual General Meeting on 27 January 2006 for the period of time until the end of the Annual General Meeting which will vote on discharging the Supervisory Board of its duties for the 2007/2008 financial year. Conflicts of interest according to Section 5.5 of the German Corporate Governance Code did not arise in the 2005/2006 financial year.

Compensation Report for the Management Board and Supervisory Board

The Supervisory Board is responsible for establishing the structure and level of compensation for the Management Board. The compensation for the Supervisory Board is determined by the Annual General Meeting.

The goal of the compensation system for the Management Board is to appropriately compensate the individual members for their respective fields of activity and responsibility. A substantial portion of this compensation is variable in order to take proper account of the performance of individual Management Board members, the success of the company and the development of the share price. This compensation is composed of the following components:

- » a fixed base salary to be paid monthly in twelve equal instalments
- » a performance-related annual bonus based on the achievement of individual goals and the company goals set out in the annual plan
- » share-based compensation components which act as a medium- to long-term incentive and are orientated on the respective period of appointment to the Board
- » other benefits consisting primarily of company cars, accident insurance, directors' and officers' insurance with a deductible, and the reimbursement of expenses

The individual weighting of each component is in line with the fact that the members of the Management Board hold varying stakes in the company. Matthias Schrader, co-founder of SinnerSchrader AG, currently holds 2,342,675 shares, or 20.3% of all shares issued. Thomas Dyckhoff joined the Management Board of SinnerSchrader AG in 1999 and acquired 49,950 shares at the share price of the time. He continues to hold these shares, which correspond to 0.4% of all shares issued. The salary package for Mr Schrader therefore consists only of a fixed base salary and the other benefits, while the salary agreement for Mr Dyckhoff includes all compensation components.

The share-based compensation components are made up of stock options from the SinnerSchrader stock option programmes of 1999 and 2000, as well as a share-price-based bonus. The stock options plans provide for an exercise price of 20% over the average closing price of the SinnerSchrader share on the ten days of trading prior to the allocation of the shares; retention periods of two, three and four years for exercising one-third of the allocated shares; a total option period of six years; and a forfeiture of the options if the member leaves the Board prior to the end of the retention period. A total of 25,000 options with an exercise price averaging € 1.53 and a valuation based on the Black-Scholes model on the day of allocation of € 0.72 were assigned to Mr Dyckhoff through the programmes.

The share-based bonus commitment guarantees a bonus payable in January 2008 which is dependent on the average closing price of the last ten trading days of 2007 less € 1.61 and was allocated for a notional number of 200,000 shares. The share-based bonus provides for adjustments in the event of dividend payments, repayments from capital decreases, capital increases and similar events to ensure that Mr Dyckhoff is not in a worse position than a shareholder who has held the shares over the same period of time. Furthermore, the bonus commitment provides for an early bonus in the event of a takeover of 75 % or more of the shares of SinnerSchrader AG by an investor or other similar situations.

The members of the Management Board are subject to a post-contractual restriction on competition which involves remuneration for observing the period of restriction in the amount of 50 % of the most recent fixed compensation payment. The directors' and officers' insurance for the members of the Management Board involves a deductible of € 10,000.

An individualised and itemised overview of the compensation for the members of the Management Board for the 2005/2006 financial year can be found in the Notes to the Annual Financial Statements of SinnerSchrader AG on p. 71 and p. 83 of this report.

The compensation for the regular members of the Supervisory Board is composed of the following components in accordance with the decision of the Annual General Meeting of 28 January 2004:

- » a fixed base compensation of € 4,000 per year
- » a variable compensation of an additional € 4,000 per year maximum, which is dependent upon an increase in the consolidated income per share compared to the previous year, whereby a positive change of € 0.01 per share results in a variable compensation of € 400
- » the reimbursement of expenses
- » directors' and officers' insurance without a deductible
- » reimbursement for the VAT to be paid for the compensation of the Supervisory Board and the reimbursement of expenses

The Chairman of the Supervisory Board receives a fixed and variable compensation which is double the compensation of the regular Supervisory Board members. His deputy receives one and a half times the amount of this fixed and variable compensation.

An individualised and itemised overview of the compensation for the members of the Supervisory Board for the 2005/2006 financial year can be found in the Notes to the Annual Financial Statements of SinnerSchrader AG on p. 71 and p. 84 of this report.

Shares Held by Board Members

An overview on p. 72 and p. 87 of this report provides information on the shares and share derivatives held by the members of the Management Board and Supervisory Board as of 31 August 2006, as well as any changes reported in the 2005/2006 financial year. The shares held by the Management Board comprise 20.7% of the shares issued by SinnerSchrader. The shares held by the Supervisory Board correspond to a share of under 1%.

Directors' Dealings

According to Article 15a of the German Securities Trading Act, the Board members, other individuals in management positions and persons closely connected to the Board members or individuals in management positions are obliged to disclose the purchase or sale of SinnerSchrader shares or derivatives related to these shares to SinnerSchrader AG if their equivalent value during the year exceeds a total of € 5,000. In the 2005/2006 financial year, the Company did not receive any such notifications.

Accounting Principles

Following EU Regulation 1606/2002, the accounting of the SinnerSchrader Group has been carried out according to International Financial Reporting Standards for the first time for the 2005/2006 financial year. Up until then, United States Generally Accepted Accounting Principles ("US-GAAP") were used. The Annual Financial Statements of SinnerSchrader AG continue to be prepared in accordance with the accounting regulations of the German Commercial Code.

Both Annual Financial Statements were audited by an auditing firm which declared its independence to the Supervisory Board and which was chosen by the Annual General Meeting on 27 January 2006 for this task.

Declaration of Compliance

On 16 November 2006, the Supervisory Board and Management Board of SinnerSchrader AG submitted a declaration of compliance based on the version of the German Corporate Governance Code from 12 June 2006 in accordance with Article 161 of the German Stock Corporation Act. This declaration is reprinted in the following, and it is also permanently available to all shareholders and other interested parties in the "Investors" section under the heading of "Corporate Governance" on the www.sinnerschrader.de website together with the current version of the Code.

Declaration of the Management Board and Supervisory Board of SinnerSchrader Aktiengesellschaft on the Recommendations of the "Government Commission on the German Corporate Governance Code" according to Article 161 of the German Stock Corporation Act

The Management Board and Supervisory Board of SinnerSchrader AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" in the version of 12 June 2006 were met with the following reservations in the 2005/2006 financial year (01.09.2005–31.08.2006) and will be met in the current 2006/2007 financial year (01.09.2006–31.08.2007) and in future:

Management Board

Code 4.2.3:

Variable remuneration components and share options have been waived in the remuneration package of Mr Matthias Schrader, CEO of SinnerSchrader AG, due to his high participation share in SinnerSchrader AG.

Code 4.2.3:

The share options so far awarded to other Management Board members originate from the 1999 and 2000 Stock Option Plans adopted by the Annual General Meeting. In accordance with the conditions adopted by the Annual General Meeting, the exercise criteria are reaching a price rise of 20 % in terms of the average price of the SinnerSchrader share on the ten trading days prior to allocation, waiting periods of two, three and four years and a term of six years. The option conditions make no provision for a cap for extraordinary, unforeseen developments.

No cap was set on a share-based bonus component awarded to a Management Board member in early 2005 because a cap of this kind runs counter to the intended incentive effect, especially where there are waiting periods of several years.

Supervisory Board

Code 3.8:

D&O insurance without an excess has been taken out for the members of the Supervisory Board because an excess of this kind would be disproportionate in view of the relatively low remuneration.

Code 5.3.1 ff.:

The Supervisory Board has not formed any committees because it only comprises three members.

Hamburg, 16 November 2006
SinnerSchrader Aktiengesellschaft

For the Supervisory Board
Reinhard Pöllath

For the Management Board
Matthias Schrader