
CORPORATE GOVERNANCE

VALUE ENHANCEMENT THROUGH RESPONSIBLE BALANCING OF INTERESTS

LEGAL FRAMEWORK

schlott gruppe AG is a stock corporation ("Aktiengesellschaft" – AG) governed by German law and is thus subject to all statutory provisions pertaining to the management and supervision of stock corporations. Administration of the *company* falls within the remit of the Management Board and the Supervisory Board. The articles of association, i.e. statutes, of *schlott gruppe AG* are consistent with well-established and recognised standards applicable within the German commercial environment. The principles of management and supervision of *schlott gruppe* are based on the German Corporate Governance Code.

CORPORATE GOVERNANCE WITHIN SCHLOTT GRUPPE

The articles of association of *schlott gruppe AG* contain no provisions or regulations deemed aberrant from standard German practice. Shareholder rights are observed to their full extent, and all shareholders are treated equally within the framework of applicable statutory provisions. 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.

The Management Board is aware of the fact that the shareholders in *schlott gruppe AG*, as owners of the stock corporation, provide capital for the *company* and are thus exposed to commercial risks that have to generate a suitable return. It is with this in mind that the Management Board feels duty-bound to the *company's* shareholders; increasing enterprise value is thus the prime objective of corporate management both strategically and on a day-to-day basis. In order to safeguard enterprise value and the *company's* competitiveness, *schlott gruppe* applies a modern and efficient system of risk management, while abiding by conventions on responsible corporate governance generally observed in Germany. In addition, the *company* is committed to comply with stock exchange regulations and to communicate with the public in a comprehensive, timely and transparent manner, while taking into account prevailing competitive conditions.

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. Alongside share-

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holders, the *company's* stakeholders include customers, employees, creditors and all other business associates. Beyond the reporting and disclosure requirements mandated by law (annual and interim reports as well as ad hoc announcements, Directors' Dealings and any changes to the shareholder structure), *schlott gruppe* reports regularly on the performance of the *company* in the form of press releases, analyst meetings as well as press and shareholder conferences, while observing the principle of shareholder equality ("fair disclosure") at all times. All reports and announcements, as well as all key presentations at conferences, are published on the internet at www.schlottgruppe.de.

INTERACTION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

schlott gruppe has outlined the duties of the Management Board and the Supervisory Board, as well as the principles of collaboration between both bodies, in separate rules of procedure. These rules of procedure, and in particular the duties and rights of members of the Supervisory Board and Management Board, as well as the assignment of 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 promulgated by the Corporate Governance Code, insofar as the *company* has not specified deviations from the aforementioned Code. The amended version of the German Corporate Governance Code dated June 14, 2007, contains a new recommendation, whereby the Supervisory Board shall form a Nomination Committee to be comprised exclusively of shareholder representatives. The aforementioned committee shall be responsible for proposing to the Supervisory Board suitable candidates for recommendation to the General Meeting of Shareholders. In its meeting of January 11, 2008, the Supervisory Board of *schlott gruppe AG* therefore passed a resolution for the establishment of a Nomination Committee, as well as including appropriate regulations in its rules of procedure and subsequently electing Nomination Committee members.

Beyond this, the rules of procedure of the Supervisory Board reflect the recommendations set out in the German Corporate Governance Code. 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 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. Furthermore, 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 material competitors of the *company*.

COMPENSATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Management Board compensation comprises fixed components as well as variable, performance-based components. In addition, members of the Management Board receive remuneration in kind, i.e. non-cash compensation, and compensation relating to pension provision. No stock options or similar instruments were issued in the period under review.

This variable component of Management Board compensation comprises incentives relating to the enhancement of *company* value. The reliability of corporate forecasts is of paramount importance to the valuation of a *company* within the capital markets. Therefore, the level of performance-based compensation of Management Board members is linked, in particular, to the achievement of earnings targets set down in corporate planning.

Both EBT and the coverage of capital-related costs are considered to be central management indicators when it comes to implementing the *Group's* strategic goals, particularly as regards the active role to be played in shaping the European printing market. Therefore, the performance incentives for the Management Board are derived directly and unequivocally from the strategic targets of *schlott gruppe*:

For details about Management Board compensation, please refer to page 89 of the management report. Information pertaining to Supervisory Board compensation can be found on page 91.

SHARES HELD BY THE GOVERNING BODIES AS AT DEC. 31, 2007

		in % of total number of shares outstanding
MANAGEMENT BOARD SHAREHOLDINGS	51,000	0.8
SUPERVISORY BOARD SHAREHOLDINGS	1,362,345	21.9
of which		
<i>Nikolaus Broschek</i>	457,688	7.4
<i>Sigmund Kiener</i>		
<i>(indirectly via S.K. Management- und Beteiligungs GmbH)</i>	310,000	4.9
<i>Joachim Kohm (indirectly via JUST-US GmbH)</i>	594,250	9.6
TOTAL NUMBER OF SHARES HELD BY GOVERNING BODIES	1,413,345	22.7
TOTAL NUMBER OF SHARES OUTSTANDING	6,204,200	100.0

SHARES HELD BY THE GOVERNING BODIES

The shareholdings of members of the Supervisory Board are presented above. No member of the Management Board holds more than one per cent of the share capital. Therefore, a breakdown of individual shareholdings is not required. In the period under review, the following transactions were subject to statutory disclosure pursuant to Section 15a of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG).

Directors' Dealings (Section 15a WpHG) 01/10/06 to 31/12/07

<i>Name</i>	<i>Function</i>	<i>Date of Transaction</i>	<i>Type</i>	<i>Number of Shares</i>	<i>Price in €</i>
S.K. Management- und Beteiligungs GmbH	related party to Supervisory Board	01/29/2007	Purchase	500	11,825.00
JUST-US GmbH	related party to Supervisory Board	08/17/2007	Purchase	5,000	94,500.00
JUST-US GmbH	related party to Supervisory Board	08/27/2007	Purchase	5,000	94,935.00
Bernd Rose	Chairman of the Management Board	08/30/2007	Purchase	1,000	19,490.00
Bernd Rose	Chairman of the Management Board	08/31/2007	Purchase	500	9,800.00
S.K. Management- und Beteiligungs GmbH	related party to Supervisory Board	09/18/2007	Purchase	1,608	30,568.08
JUST-US GmbH	related party to Supervisory Board	11/29/2007	Purchase	5,000	87,500.00
JUST-US GmbH	related party to Supervisory Board	12/04/2007	Purchase	5,000	84,850.00
S.K. Management- und Beteiligungs GmbH	related party to Supervisory Board	12/13/2007	Purchase	20,350	347,578.00
JUST-US GmbH	related party to Supervisory Board	12/14/2007	Purchase	4,250	71,999.25

DECLARATION OF CONFORMITY PURSUANT TO SECTION 161 AKTG

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):

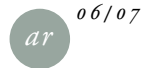
The Management Board and Supervisory Board of *schlott gruppe Aktiengesellschaft* hereby declare that, since the last Declaration of Conformity of January 12, 2007, all recommendations of the Commission of the German Corporate Governance Code (Regierungskommission Deutscher Corporate Governance Kodex), valid as from June 12, 2006, and in the amended version as from June 14, 2007, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on July 20, 2007, have been and continue to be complied with, with the exception of the following departures: no deductible in the case of D&O insurance for members of the Management Board and Supervisory Board, no performance-based compensation for the Supervisory Board, no publication of consolidated financial statements within 90 days of the end of the financial year, and no separate compensation for chairing Supervisory Board committees. The Nomination Committee of the Supervisory Board, as specified in the recommendation set out in Section 5.3.3 of the German Corporate Governance Code in the version of June 14, 2007, was established at the Supervisory Board meeting of January 11, 2008.

FREUDENSTADT, 11 JANUARY 2008

THE SUPERVISORY BOARD OF SCHLOTT GRUPPE AG

THE MANAGEMENT BOARD OF SCHLOTT GRUPPE AG

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The MARKET ENVIRONMENT as a whole underwent significant changes in the financial year just ended, prompting a number of fundamental corporate decisions.

Against this backdrop, the close rapport between the Management Board and Supervisory Board of *schlott gruppe* proved all the more decisive.

REPORT OF THE SUPERVISORY BOARD

SCHLOTT GRUPPE AG

In the following report, the Supervisory Board of *schlott gruppe AG* comments on its activities during the 2006/7 financial year. In particular, it will discuss its collaboration with the Management Board, as well as outlining the work performed by committees and the key issues deliberated during its meetings. The report also includes details relating to the audit of the year-end financial statements.

In the financial year under review, the Supervisory Board discharged its duties under German law and the articles of association of *schlott gruppe AG*. We worked in close collaboration with the Management Board over the course of the financial year, as well as regularly acting in an advisory capacity and supervising the management of business affairs. Furthermore, the Management Board directly involved the Supervisory Board in all decision-making processes of fundamental importance to the *company*. In particular, the strategic direction of the *Group* was defined following close collaboration between the Management Board and the Supervisory Board.

The Management Board provided us with comprehensive information, both orally and in writing, relating to the course of business, the Group's state of affairs, short-term corporate planning as well as strategic development. This information was furnished on a regular and timely basis. All significant business transactions and events considered to be of major importance to *schlott gruppe AG* were discussed with us on the basis of detailed reports furnished by the Management Board. In addition, we were regularly informed about the risk situation of the Group as a whole, the system of risk management implemented by the Group, deviations from forecasts and targets as well as measures initiated or planned for the purpose of counteracting such deviations. Insofar as this was required under legal provisions or the articles of association, the Supervisory Board voted on the reports and proposals put forward by the Management Board following thorough examination and discussion. The share performance of *schlott gruppe AG* and the *company's* positioning within the capital markets were key items on the agenda of Supervisory Board meetings.

The Supervisory Board was also kept informed about circumstances of particular importance in between regularly scheduled meetings. In the role as Chairman of the Supervisory Board, my predecessor, Mr. Erwin J. Kiefer, and I maintained a close dialogue with the Management Board and informed ourselves about the current progression of business and all material business-related events. The Supervisory Board convened on five occasions over the course of the 2006/7 financial year. On October 4, 2006, an extraordinary meeting was convened for the purpose of discussing the approval of the acquisition of *biegelaar N.V.*, Netherlands. The majority of Supervisory Board meetings were attended by all members.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Following his appointment by the competent court on October 4, 2006, Mr. Josef Peitz was welcomed as the new employee representative and successor to Ms. Irene Salberg, who had left the Supervisory Board on April 30, 2006.

Among the shareholder representatives, the long-serving Chairman of the Supervisory Board, Mr. Erwin J. Kiefer, informed the Supervisory Board on January 12, 2007, of his decision to resign from his post and leave the Supervisory Board effective from February 12, 2007, citing personal reasons. At the same meeting, the Supervisory Board unanimously – with the abstention of Mr. Kiener – appointed Mr. Sigmund Kiener as its new Chairman.

Both the Supervisory Board and the Management Board deeply regretted Mr. Kiefer's decision and expressed their gratitude for his outstanding contribution to the Advisory Board and Supervisory Board during 15 years of dedicated service. As part of a highly successful partnership, Erwin J. Kiefer played a pivotal role in the development of *schlott gruppe*. In the early 1990s he displayed great vision in identifying the prospects of consolidation within the European gravure-printing industry and the tremendous commercial opportunities associated with these developments. Against this backdrop, he was one of the principal investors in *schlott gruppe's* management buyout in 1992. The Supervisory Board would like to take this opportunity to thank Mr. Kiefer for the many years of amicable cooperation.

The *company's* general meeting of shareholders appointed Dr. Rainer Hillebrand, member of the executive board of OTTO GmbH & Co. KG, Hamburg, as a new shareholder representative on the Supervisory Board effective from March 13, 2007. Following the disposal of *meiller direct GmbH* on July 31, 2007, Mr. Harald Roller stepped down from his post as employee representative on the Supervisory Board. The Supervisory Board wishes to thank Mr. Roller for his active contribution. Following official appointment by the competent court, Mr. Reinhard Burck joined the Supervisory Board as Mr. Roller's successor effective from October 1, 2007

CHANGE IN THE COMPOSITION OF THE MANAGEMENT BOARD

After the end of the reporting period Mr. Werner Reiser decided to step down from the Management Board of *schlott gruppe AG* on expiry of this contract on May 31, 2008, after 15 years of service. The Supervisory Board deeply regrets Werner Reiser's decision to leave the company. The rapport established between him and the members of the Supervisory Board was over the full period outstanding in every respect. They wish Werner Reiser success and best health for the future. Upon Werner Reiser's resignation effective from May 31, 2008, his duties will be taken over the other members of the Management Board. This will ensure continuity and an effective transition of Management Board duties.

PLENARY MEETINGS

The meetings held on a regular basis by the plenum of the Supervisory Board of *schlott gruppe AG* focused on the progression of revenues and earnings, cashflows and capital expenditure as well as issues relating

to employment levels within the Group, at the respective subsidiaries as well as the various *company* locations.

In addition, the plenum regularly discussed issues relating to corporate governance. In the meeting of January 11, 2008, convened for the purpose of adopting the annual financial statements for 2006/7, the Supervisory Board, together with the Management Board, issued a joint Declaration of Conformity for *schlott gruppe AG* in accordance with Section 161 of the Stock Corporation Act (Aktiengesetz – AktG) relating to the recommendations put forward by the Commission of the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette.

Without the members of the Management Board being present, the Supervisory Board also discussed the efficiency of its own work. In particular, the assessment conducted within this area focused on the completeness and regularity with which information to be requested by the Supervisory Board from the Management Board was actually solicited over the course of the period under review. Additionally, the Supervisory Board again discussed at length the implications for *schlott gruppe AG* of legislation aimed at improving the level of shareholder protection. The annual report for the 2006/7 financial year includes a Management Board report on corporate governance at *schlott gruppe AG*, which also extends to the Supervisory Board.

One of the most important issues discussed at Supervisory Board meetings during the reporting period was that of strategic development within the *Group*, particularly with regard to the Group's focus on the core competency of *print* and the sale of the *direct marketing* division. The decision relating to its disposal as well as the procedure of the sale were discussed in depth during several meetings.

As regards the print division, deliberations were centred around current and medium-term market trends within the area of gravure printing, the main focus being on the significant deterioration in market prices witnessed in the course of the financial year under review. The Supervisory Board explored the impact on operational profitability and cashflows as well as the associated effects on measures aimed at enhancing profitability levels as a whole. Within this context, the Supervisory Board discussed the package of alternative measures put forward by the Management Board. Other items of the agenda were the implications of Germany's tax reform for 2008 and a new policy statement for the Audit Committee.

In its meeting of January 11, 2008, the Supervisory Board, in the presence of the auditor, reviewed in detail the annual financial statements of the *AG* (based on German Commercial Code) and of the *Group* (based on IAS/IFRS), as well as the combined management report, as prepared by the Management Board and presented to the Supervisory Board. Following its own assessment, the Supervisory Board, on recommendation of the Audit Committee, announced its concurrence with the audit results presented by the auditor. The year-end financial statements and consolidated accounts have thus been approved and adopted by the Supervisory Board.

In accordance with the exemption provisions set out in Section 315a of the Commercial Code (Handelsgesetzbuch – HGB), the consolidated financial statements were not prepared on the basis of HGB. The annual financial statements of *schlott gruppe AG* as well as the consolidated financial statements and the combined management report were granted an unqualified audit opinion by the auditor AWT AUDIT WIRTSCHAFTS-TREUHAND AG, Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed by the AGM.

In its meeting of January 11, 2008, the Supervisory Board concurred with the proposal by the Management Board for the appropriation of distributable profit (i.e. unappropriated surplus – "Bilanzgewinn"). The Supervisory Board and the Management Board propose to the Annual General Meeting of Shareholders on February 26, 2008, a dividend of €1.00 per ordinary share.

COMMITTEE WORK

In order to ensure the efficient discharge of its duties, the Supervisory Board established all three committees specified in its rules of procedure, these being the Mediation Committee pursuant to Section 27 (3) of the German Codetermination Act, the Personnel Committee and the Audit Committee. The respective Committee chairpersons are obliged to present regular reports to the plenum of the Supervisory Board, thereby providing an in-depth account of committee work. The committees are responsible for preparing the relevant topics and resolutions to be discussed by the plenum. In accordance with its rules of procedure, the Supervisory Board has conferred certain rights on the committees. In the financial year under review, the committees included the following members:

MEDIATION COMMITTEE

Sigmund Kiener *), Ivan Bebek, Edmund Hug, Michael Schlecht

AUDIT COMMITTEE

Reinhold Schreiner *), Ivan Bebek, Sigmund Kiener **), Dr. Herbert Pototzky

PERSONNEL COMMITTEE

Sigmund Kiener *), Ivan Bebek, Nikolaus Broschek, Andrea Raab

*) *Chairperson as from February 13, 2007; committees previously chaired by Erwin J. Kiefer*

**) *as from February 13, 2007*

The Mediation Committee did not have to be convened during the 2006/7 financial year. The Personnel Committee was convened on one occasion during the period under review. Discussions were centred around the parameters to be set for variable components of Management Board compensation. The Personnel Committee is also responsible for assessing the attainment of specified compensation parameters for the respective financial years.

The Audit Committee was convened once in the period under review. The main focus of its meeting was on the year-end financial statements and consolidated accounts as well as fundamental issues relating to risk management. In addition, it issued an audit mandate to the auditor, defined the focal points of the audit and determined the level of remuneration. The main area of responsibility of the Audit Committee includes monitoring and safeguarding the independence and impartiality of the auditor. In the period under review, the Audit Committee found no evidence that may have cast doubt on the independence and impartiality of the auditor, and consequently no measures to safeguard this independence and impartiality were required. The meeting of the Audit Committee was attended by the auditors. They provided a comprehensive report on their auditing activities.

At the meeting of January 11, 2008, convened for the purpose of adopting the 2006/7 financial statements, the Supervisory Board passed a resolution for the formation of a Nomination Committee in line with the recommendations set out in Section 5.3.3 of the German Corporate Governance Code. The Nomination Committee is responsible, in particular, for drawing up a clearly defined profile of requirements for shareholder representatives on the Supervisory Board, taking into account the essential requirements of the *company*. This information shall provide the basis for decision-making within the Supervisory Board with regard to the selection of candidates to be appointed as shareholder representatives on the Supervisory Board. The rationale for the establishment of a committee is to ensure that the Supervisory Board can perform its duty to select new Supervisory Board members on a well-informed basis.

In accordance with the recommendations of the German Corporate Governance Code, the Nomination Committee is composed solely of members representing the shareholders. The Nomination Committee comprises Messrs. Broschek, Kohm and Kiener. The latter acts as the Chairman of the Nomination Committee. The Nomination Committee is scheduled to convene its first meeting in July 2008.

The *company's* Management Board and staff again had to contend with a weaker market environment over the course of the fiscal year, a situation that called for a Herculean effort from all those involved. The Supervisory Board would like to express its gratitude for this outstanding contribution.

IN JANUARY 2008



SIGMUND KIENER

Chairman of the Supervisory Board