
REPORT OF THE SUPERVISORY BOARD

SCHLOTT GRUPPE AG

In the following report, the Supervisory Board of *schlott gruppe AG* provides commentary on its activities during the financial year 2008/09. In presenting this report, the main focus will be on the collaboration with the Management Board, the work of the full Supervisory Board and of its committees, and on the key topics addressed in the respective meetings. The annual audit of accounts and consolidated financial statements will also be addressed.

The Supervisory Board has taken full account of its responsibilities with regard to the legal framework and to the articles of association of *schlott gruppe* for the period covered by the report. It has promoted continuous collaboration with the Management Board, providing regular advice and oversight of how management of the company has been conducted. The Supervisory Board was at all times directly involved in all substantial decisions relating to the company. The strategic direction of the organisation was defined in close consultation between the Management and Supervisory Boards.

The Management Board provided regular, prompt and comprehensive written and verbal information to the Supervisory Board on all key issues concerning the current course of business, the organisation's position, and both short-term planning and broader strategic development. On the basis of detailed reports, the Management Board conferred thoroughly with the Supervisory Board on the central and – for *schlott gruppe AG* – significant business operations.

There was particularly intensive discussion and analysis of the restructuring measures devised and introduced by the Management Board in the course of the year under review, in order to conform the size of the company to the changed market conditions within the European printing industry. In this respect the Supervisory Board intensified its monitoring and consultative activities, which included an additional extraordinary meeting in June 2009. It repeatedly scrutinised the analyses and assumptions which underlay the restructuring measures. Included in these were analyses prepared by the Management Board – and also by external consultants in the case of market studies of web-fed printing – concerning the current and future planned company size and structure, as well as associated business projections. Within this context, alternative and worst-case scenarios were considered. The effects on both operational profitability and cash flow were discussed in depth, along with the consequences to be drawn from these assessments.

Furthermore, the Supervisory Board took regular note of the organisation's risk situation and risk management system, and of divergences from forecasts and targets, together with measures undertaken to deal with these. Beyond this, and appropriately to the particular situation of the company, the Supervisory Board examined and

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discussed risk analyses from internal audit arising from the prevailing economic situation. After thorough scrutiny and discussion, and insofar as this was required by statute and the articles of association, the Supervisory Board voted on the reports and proposals for resolution submitted by the Management Board.

The share performance of *schlott gruppe AG*, and the company's positioning within the capital markets, were discussed at all full meetings of the Supervisory Board with the exception of the extraordinary meetings following the Annual General Meeting of *schlott gruppe AG* on 3 March 2009 and on 9 June 2009.

During the financial year 2008/09 the Supervisory Board held four regularly scheduled meetings at which it examined in detail the financial position and the operational and strategic development of the company and its business segments. These meetings took place on 5 November 2008, and 14 January, 5 May and 20 July 2009. In addition, the Supervisory Board assembled, as mentioned above, for extraordinary meetings following the Annual General Meeting 2009 and on 9 June 2009. The key agenda items for this meeting were the departure of the former Chairman of the Supervisory Board, Mr. Sigmund Kiener, who had resigned from his position as member and Chairman of the Supervisory Board on conclusion of the Annual General Meeting, as well as the election of a new Chair of the Board.

Mr. Sigmund Kiener withdrew from his activities with *schlott gruppe* at his own wish. He had served the company in his role as member of the Supervisory Board for more than ten years, and moreover had presided over the Supervisory Board as its chairman since 13 February 2007. In addition, as a shareholder he was and remains closely connected with the company. Mr. Kiener made a major contribution to the development of *schlott gruppe* into one of the leading providers of printing services in Europe. He played a central role in the manifold decisions relating to growth both in Germany and in the rest of Europe. Supervisory Board colleagues and Management Board expressed regret at Mr. Sigmund Kiener's decision, and thanked him for his long-standing, intimate and trustworthy collaboration, as well as his great personal commitment to *schlott gruppe*, and wished him the very best for the future.

Furthermore, Mr. Fritz-Jürgen Heckmann was officially introduced to Supervisory Board members at the extraordinary meeting on 3 March 2009, after being elected as a new member of the Supervisory Board at the Annual General Meeting that day. The plenum of the Supervisory Board then elected him as its new chairman. With this one exception, the membership of the Supervisory Board did not change in this reporting year.

There were also no changes in the composition of the Management Board in the reporting year. At its meeting on 5 May 2009 the Supervisory Board extended the appointment of Mr. Bernd Rose as Chairman of the

Management Board until 31 December 2014. The decision of the Supervisory Board made in the financial year 2007/08 to extend the appointment of Mr. Heiko Arnold as member of the Management Board until 31 May 2012 was contractually implemented during the reporting year. In addition, the Personnel Committee concerned itself with identifying and choosing a successor to Mr. Adam Valeri during the reporting year, in view of the resignation of the member of the Management Board, Adam Valeri, during the financial year 2009/10. The Supervisory Board is grateful to Mr. Adam Valeri for his exceptional commitment and wishes him every success for the future. Following the end of the reporting year, at its meeting on 10 November 2009 the Supervisory Board appointed Mr. Joachim Kühn as a new member of the Management Board of *schlott gruppe AG*, with effect from 1 April 2010.

Between its regularly scheduled meetings the Supervisory Board, in particular the Chairman of the Supervisory Board and Mr. Schreiner, Chairman of the Audit Committee, received prompt and comprehensive reports from the Management Board, verbally and/or in writing, regarding occurrences of particular importance for assessing the position and development of the company and for company management. Matters requiring the approval of the Supervisory Board were submitted by the Management Board in good time for members to adopt appropriate resolutions. As Chairmen of the Supervisory Board, Mr. Kiener and Mr. Heckmann were personally in regular and close contact with the Management Board beyond the scheduled meetings, ensuring that they remained fully briefed about the current course of business and key business matters.

Conflicts of interest of members of the Supervisory and Management Boards must be immediately disclosed to the Supervisory Board and details of these must be declared at the Annual General Meeting. No such conflicts of interest arose during the year under review.

THE WORK OF THE PLENARY MEETINGS

The regular proceedings of the full Supervisory Board of *schlott gruppe AG* focused on the progression of sales and profit, cash flow and capital expenditure, as well as on developments in employment levels within the organisation, at its subsidiaries and at the various company locations. In these discussions the restructuring programme of *schlott gruppe AG*, and its strategic direction within the context of a sector bearing the heightened burden of the financial and economic crisis, played a fundamental role.

On several occasions the plenum also addressed issues relating to corporate governance. Within this context, the Supervisory Board, together with the Management Board, discussed and agreed the declarations of conformity

of *schlott gruppe AG* in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG) relating to the recommendations of 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. Declarations were subsequently published on 17 December 2008 and on 18 December 2009.

With no Management Board members present, the Supervisory Board also thoroughly scrutinised the efficiency of its work. This involved an assessment of the completeness and regularity of the topical information required from the Management Board by the Supervisory Board, the collaboration between Management Board and Supervisory Board, and the efficiency of this collaboration. In addition to this, the Supervisory Board examined the efficiency of the collaboration taking place within its own membership.

The Supervisory Board benefits from expertise in the fields of financial accounting and audit, in particular from members of the Audit Committee established by the Board. These include the independent members of the Committee, Mr. Schreiner and Mr. Heckmann, who have audit experience on a range of governing and supervisory boards, including those of listed public companies. Mr. Schreiner was in addition a member of the Management Board of a major bank.

The annual report for the financial year 2008/09 includes a joint report by the Management Board and the Supervisory Board on corporate governance at *schlott gruppe AG*.

In accordance with Section 315a of the German Commercial Code (Handelsgesetzbuch – HGB), no consolidated financial statements were prepared on the basis of HGB. The accounting system, the annual financial statements of *schlott gruppe AG*, the consolidated financial statements and the joint management report for the financial year 2008/09 were examined by the appointed auditors, AWT AUDIT WIRTSCHAFTS-TREUHAND AG, Wirtschaftsprüfungsgesellschaft, Stuttgart, and granted an unqualified audit opinion.

At its meeting on 15 January 2010, in the presence of the auditor, the Supervisory Board examined in detail the annual financial statements for the reporting year 2008/09 as prepared and presented by the Management Board for the *AG* (under HGB) and the *Group* (under IAS/IFRS), as well as the joint management report and the corresponding audit reports by the annual auditor. Following its own assessment, and on the recommendation of the Audit Committee, the Supervisory Board accepted the result of the audit by the annual auditor. The Supervisory Board raised no objections upon final review. It approved the annual financial statements of *schlott gruppe AG* and the consolidated financial statements, and thereby adopted the annual accounts of *schlott gruppe AG*.

At its meeting of 15 January 2010, and following its own examination, the Supervisory Board assented to and confirmed the proposal of the Management Board for the distribution of unappropriated retained earnings. The Supervisory Board and Management Board will propose to the Annual General Meeting on 2 March 2010 that in the light of the company's current financial situation no distribution of dividends should be made.

THE WORK OF THE COMMITTEES

In order to ensure the efficient discharge of its duties, the Supervisory Board established the four committees stipulated in its rules of procedure. These are the Mediation Committee (in accordance with Section 27 (3) of the German Co-determination Act (Mitbestimmungsgesetz – MitbestG.), the Personnel Committee, the Audit Committee (in accordance with Section 5.3.2 of the German Corporate Governance Code), and the Nominations Committee (in accordance with Section 5.3.3 of the German Corporate Governance Code). Consistent with the recommendations of this Code, the membership of the Nominations Committee consists entirely of representatives of shareholders. Subsequent to meetings of the committees, the respective committee chairpersons presented regular and detailed reports on the work of their committees at meetings of the full Supervisory Board.

Each committee is responsible for preparing the topics and resolutions relating to its own remit, for discussion by the plenum. In accordance with its rules of procedure, the Supervisory Board has transferred certain powers and responsibilities to the committees, within the framework of legal provisions.

In the year under review, committee membership was as follows:

MEDIATION COMMITTEE

Fritz-Jürgen Heckmann *), Ivan Bebek, Edmund Hug, Michael Schlecht

AUDIT COMMITTEE

Reinhold Schreiner ***), Ivan Bebek, Fritz-Jürgen Heckmann **), Dr. Herbert Pototzky

PERSONNEL COMMITTEE

Fritz-Jürgen Heckmann *), Ivan Bebek, Nikolaus Broschek, Andrea Raab

NOMINATIONS COMMITTEE

Fritz-Jürgen Heckmann *), Nikolaus Broschek, Joachim Kohm

*) Chair from 3 March 2009; previously the committees were chaired by Sigmund Kiener

**) from 3 March 2009; previously Sigmund Kiener was a member

***) Chair from 13 February 2007

Once again, there was no need to convene a meeting of the Mediation Committee in the financial year 2008/09.

The Nominations Committee held two meetings in the year under review. At the first of these, proposals for the re-election of members of the Supervisory Board were discussed. These were finalised by the Supervisory Board at its meeting on 14 January 2009, for presentation to the Annual General Meeting on 3 March 2009. At the second meeting of the committee on 3 March 2009, members elected their chairperson.

The Personnel Committee met seven times during the year under review. In line with its remit, the committee examined the attainment of the specified remuneration parameters for the members of the Management Board for the financial year 2007/08. The committee also dealt with the extension to Mr. Bernd Rose's contract of employment, following the decision of the full Supervisory Board on 5 May 2009 to renew his appointment as Chair of the Management Board of *schlott gruppe AG*. In addition, the Personnel Committee concerned itself with identifying and choosing a successor to Mr. Adam Valeri, who will be withdrawing from membership of the Management Board during the financial year 2009/10. The committee proposed to the Supervisory Board the nomination of Mr. Joachim Kühn as Mr. Valeri's successor. Following the end of the year under review, the Supervisory Board accepted this proposal at its meeting on 10 November 2009.

The Audit Committee met ten times during the reporting year. Some of these meetings were held in the form of telephone conferences. At its first meeting, in accordance with its rules of procedure, the committee defined its duties and responsibilities, and especially the scope of these with respect to the full Supervisory Board. The committee concerned itself particularly with the issues of financial accounting and planning systems, risk management and internal control, the independence of the financial auditor, and compliance with corporate governance requirements. It was also concerned with the annual statement of accounts and consolidated financial statements. Risk management was a particular focus for examination, in respect of its effectiveness in the early recognition of specific risks to the organisation arising from the exceptional macroeconomic and sector-specific situation.

In addition, the Audit Committee received Management Board reports, particularly relating to the current financial performance of the organisation, to questions regarding the valuation of investments and intangible assets, control and financial accounting, and internal audit. The Audit Committee regularly reviewed the current performance of the organisation relative to operational planning assumptions, and from this identified the need for any

appropriate action. In this respect particular attention was paid to each particular stage in the implementation of the restructuring programme, to questions of liquidity and financing, as well as to the budget for 2009/10 and to medium-term planning.

Additionally, the committee issued the audit mandate to the annual auditor, identified the key focal points for audit and set the level of remuneration of the auditor. It also obtained the declaration of independence of the auditor in accordance with Section 7.2.1 of the German Corporate Governance Code, and monitored the independence of the auditor.

A further task of the committee was to deal with the awarding of contracts to the auditor for services not related to the audit. In the year under review the Audit Committee found no evidence that might have called into question the independence of the auditor, and accordingly no further measures to safeguard this were introduced. The auditors attended the meetings of the Audit Committee on 6 November 2009 and 16 December 2009, providing comprehensive reports on their auditing activities.

The Supervisory Board is fully aware that following on from the considerable challenges of recent years the Management Board and workforce of *schlott gruppe* were faced with a particularly difficult economic environment in the financial year 2008/09.

The Supervisory Board would like to express its gratitude to the Management Board and workforce for their exceptional achievements in these difficult times. The Board would like to thank them especially for their understanding, and for their courage in implementing new and, to a certain extent, radical steps on the path towards a future for *schlott gruppe* which will secure both profit and employment.

JANUARY 2010



Fritz-Jürgen Heckmann
Chairman of the Supervisory Board

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