
MANAGEMENT REPORT

CONSOLIDATED MANAGEMENT REPORT OF THE SCHLOTT GROUP AND OF SCHLOTT GRUPPE AG
FOR THE FISCAL YEAR 2007/08 AS PER SEPTEMBER 30, 2008

— COMPANY PROFILE

The *schlott group* positions itself as one of the leading providers of printing services in Europe. Its product and service mix is closely aligned with the requirements of large European customers active in the advertising and publishing industries. The core competence of the *schlott group* encompasses first class printing products, highest levels of flexibility and absolute timeliness of delivery even for time-critical orders. This applies to high-volume orders of industrial scale as well as to medium-sized orders. The *schlott group* employs both intaglio and roll-offset printing and covers nearly the whole spectrum of further processing in a market-leading capacity. The product mix is supplemented by extensive media services in the area of preprint.

BUSINESS ACTIVITY

At the beginning of calendar year 2007, the *schlott group* decided to concentrate on its core competence print and, therefore, to dispose of the business segment direct marketing. Within the business segment print, the Corporation concentrates its activities on products and services for the advertising and publishing industries. For this customer segment, the Corporation produces catalogues, periodicals and inserts in the area of high-volume intaglio and roll-offset printing and provides the related extensive further processing services. With this product strategy, the production of hardcover and paperback books in sheet-offset printing by our subsidiary *sachsendruck* became a tangential activity. As a consequence, the *schlott group* divested of *sachsendruck* shortly after the end of the business year 2007/08 .

The *schlott group* services its customers on a Europe-wide basis. Its production sites are, however, mainly domiciled in Germany. As one of only two companies with production facilities in both Northern and Southern Germany, printing products of the *schlott group* can be delivered in Germany within very short “time-to-market” periods.

In addition, this geographic positioning facilitates in an optimal fashion the servicing of all important foreign markets. Northern and Western Europe will also be serviced by our Dutch intaglio printing subsidiary *biegelaar B.V.* in Maarssen, south of Amsterdam. Moreover, the *schlott group* has two additional further processing sites in neighboring countries: one in Hambach in the Northeast of France and one in Plzen in the Czech Republic.

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All intaglio printing sites produce catalogues for universal as well as specialty mail-order houses. Catalogues are the most important product for these sites. In addition, these sites are specialized in the production of advertisement inserts, which represent the strategic growth sector of the *schlott group*, as well as in the production of periodicals. This specialization leads not only to an optimal capacity utilization, but also reduces the structural need for capital expenditures. Moreover, production personnel are enabled to develop special technical skills at these sites such that even highly complex products can be produced in an efficient manner. This site specialization has made a material contribution to the *schlott group*'s success in positioning itself as one of the leading providers of printing products, particularly when flexibility and quality are important considerations. In the areas of roll-offset printing and further processing, the *schlott group* has at its disposal a first class production base.

Corporate Structure

schlott gruppe AG functions as the holding company of the *group*. It is responsible for setting and implementing strategic policy within the *group*. In addition, the important inter-company tasks and services are assumed. The individual production as well as sales and distribution sites are operated as wholly-owned, but independent legal subsidiaries; these are managed as cost centers and are centrally coordinated. Refer to page 21 with regard to the legal structure of the Corporation.

— CORPORATE STRATEGY

THE STRATEGIC GOALS OF THE SCHLOTT GROUP

The *schlott group* positions itself as one of the largest European providers of printing services and offers nearly all services in the areas of digital and printed communication media. The strategy is based on the philosophy that its services must be clearly based on customer requirements. Our strategic goal and vision is to become Europe's leading provider of integrated communication solutions for the advertising and publishing industries.

The *schlott group* offers one of the best product and service mixes in the industry. We strive to support the dialog of our customers with their customers. To this end, we offer highest levels of quality, flexibility and dependability along the entire chain of value-added media services, intaglio and roll-offset printing, as well as further processing. Our range of products and services is continually enhanced under consideration of customer requirements, which we support on a Europe-wide basis.

The *schlott group* is actively involved in the consolidation process of the printing industry. As one of the leading providers in the highly competitive European printing industry we are counting particularly on growth through acquisitions. As we are promoting the consolidation of the industry we are gaining strength in the European market.

The *schlott group* strives to achieve a return on capital in excess of the industry average: the ongoing improvement in the efficiency of capital employed represents a central, permanent and overriding challenge in the capital-intensive printing industry. An attractive return on capital, which exceeds consistently the cost of capital, constitutes the central financial strategic goal of the Corporation. It is the most important prerequisite for the preservation and enhancement of our competitiveness, which in turn contributes to job security and well-being of our employees and the general environment in which we operate. It further is the fundamental prerequisite for gaining access to external financing and is, therefore, also of primary interest to our shareholders.

FINANCIAL MANAGEMENT IN LINE WITH STRATEGIC GOALS

The financial management of the *schlott group* has as its primary goal the maintenance of sufficient liquidity. Policy in this respect is further detailed in the risk management report. In addition, an appropriate level of equity capital and availability of financial resources, necessary particularly in view of the Corporation's acquisition strategy, are central goals of financial management.

To secure appropriate levels of equity capital, financial management must take into consideration the oscillating levels of indebtedness as a result of capital expenditures for printing machinery and acquisitions of additional entities. Our long-term policy on dividend distribution also impacts the availability of required financial resources.

The central parameter of financial management is the level of indebtedness, defined as the ratio of net financial debt to sustainable EBITDA (earnings before interest, taxes, depreciation and amortization). To secure and sustain appropriate levels of creditworthiness, the optimization and limitation of indebtedness represents a strategic consideration in financial management. In this connection, net financial indebtedness is not to exceed EBITDA by 3.5 times over any length of time.

TOP SERVICES ENABLE US TO REACH OUR GOALS

Quality and Flexibility

The European printing industry is characterized by ever rising levels of competition, which are not entirely the result of reduced demand for printing products since total demand has stagnated. This stagnating demand is, however, being met by higher production capacity in recent years. Moreover, customers are increasingly demanding printing products with unusual designs and formats in order to create higher levels of consumer response. At the same time, our customers want to support their clients more frequently with specialized printing products, which create specific response stimuli on a continuous basis. As a result, the average volume of printing products tends to decline, while the frequency increases.

Excess capacity exists particularly in the segment of very wide printing machines with very high volume. This development was aggravated by additional creation of capacity until the year 2006, with negative consequences for price levels in the printing industry. Moreover, new high volume capacity created in the offset printing area became an alternative to classic intaglio printing. In this environment, many printing enterprises are able to secure orders only by aggressive pricing strategies, especially since price transparency in the industry is relatively high.

We are dealing with the lower market prices by emphasizing our reputation for quality, flexibility and service. Customers, which are demanding dependable top performance, find the appropriate partner in us. We are offering processing assurances through quality and timely delivery in concert with maximum flexibility and short response times. With this portfolio of products and services, we are claiming a top position in our industry.

This is particularly applicable since we have always maintained that the trend to ever wider printing machines with ever higher volume was not sustainable. As a result, we have adapted at an early date our machinery on medium paper widths of up to 3.64 meters and have employed our machinery with flexibility. Our production sites at Freudenstadt and Landau are excellently positioned to benefit from the changed demands of our customers.

We are securing the competitiveness of our prices through our processes of highest efficiency. On a daily basis, our operating management is focused on the most efficient utilization of our resources. This applies to all levels and to all individuals. Detailed measures undertaken with respect to the effective management of costs, the full application of the contents of the collective bargaining agreement, the optimal adjustment of capacity in the direction of higher levels of efficiency and flexibility and a capital expenditures policy that is concentrated on returns on investments are the important ingredients in our competitiveness. We have successfully implemented a cost reduction program during the business year 2007/08, evidencing our constant drive for enhanced efficiency and productivity.

Driving Force in Consolidation within a Challenging Market Environment

The European printing industry with its numerous players is highly fragmented. In spite of its capital intensiveness, especially in intaglio printing, and price competition it has only marginally changed. This is due to a large degree to the long traditions of individual enterprises that have been in existence for generations. During the past years, the pressure to consolidate and to create larger entities has intensified among the dominant players in the industry. A further incentive for consolidation and the creation of larger entities is the structure of other industries impacting the printing industry, e.g. suppliers of raw materials on the one hand and publishing and advertising industries on the other, in both of which consolidated structures have already emerged. In particular, the consolidation of the European paper industry created opportunities for influencing prices in that industry.



Customer, which seek
TOP SERVICES
at all times, find in the schlott
gruppe the right partner.

The acquisition strategy of the *schlott group* has over the past decade contributed to the consolidation process and will do so in the future. Our expectations with respect to further developments in our industry are unchanged: the three largest European intaglio printing entities will significantly increase their collective market share by approximately 30 percent to over 60 percent in the next years.

We intend to continue increasing our market share through acquisitions since a strategy based on organic growth cannot be implemented successfully in the price-intensive and price-transparent printing industry given stagnating demand. Our goal is to realize economies of scale through specialization, optimization of capacity utilization, and possibly an intelligent reduction of capacity; in this way, we will attain an above-market return on capital.

However, the *schlott group* is not undertaking acquisitions at any price as has been demonstrated in the past. The most important criteria in connection with the selection of possible acquisition candidates were and are the compatibility with our long-term strategic direction and the impact of any acquisition on the structure of our balance sheet. In all of our acquisitions, we emphasise the timely and successful integration of acquired entities into the *group*; and that ability we have exhibited repeatedly in the past.

For financing acquisitions, the share of the *schlott group* as acquisition currency represents a pivotal strategic instrument irrespective of volatility in the stock market. Therefore, the creation of value and the securing of high levels of internal financing power represent a central ingredient in the corporate strategy of the *schlott group*, and are the financial basis for our growth through acquisitions.

The key figure in this regard is the ratio of net indebtedness to EBITDA, which is a valid indicator with respect to the ability to generate internal financial resources. Net indebtedness is not to exceed sustainable EBITDA by 3.5 times, as already mentioned above.

— CORPORATE COORDINATION

The *schlott group* strives to present its various production sites in a consistent manner and to limit management risks within the *group*. For that reason, both production planning and sales and distribution are centrally coordinated. Staff functions are synchronized throughout the *group* to the extent that these are not centralized.

CENTRAL COORDINATION OF DECENTRALIZED PRODUCTION SITES

The production entities of the *schlott group* focus entirely on the optimization of their production processes. Benchmarking between the various sites on the basis of annually determined parameters results in highest levels of quality and efficiency within the *group*.

The production sites are specialized in terms of production technology and receive their orders from central production planning. In this way, these sites not only attain higher levels of productivity, but also require less structural capital expenditures for covering the entire range of products and services. This results in a sustainable optimization of the *group's* capital expenditures budget. In addition, capacity utilization is optimized and downtime of machinery is reduced.

The central coordination of sales prevents intra-group competition for orders. The centralization of staff functions leads to cost synergies and contributes in a material way to the management of risks.

IMPORTANT POLICY PARAMETERS: VALUE-ADDED TURNOVER AND EBT

The stated turnover and related ratios of the *schlott group* do not adequately reflect the actual performance and economic situation. Therefore, we are employing the concept of value-added turnover as a management tool in both internal and external reporting as well as in our elaboration on business conditions and the economic position of the Corporation. As a capital-intensive enterprise, we manage the earnings trends of the Corporation on the basis of earnings before taxes.

VALUE-ADDED TURNOVER AS CENTRAL POLICY PARAMETER

Derivation of "Value-added Turnover"

IN € MILLION	2007/08	2006/07
Net sales	468.8	482.2
Changes in inventory	(3.6)	4.4
Other capitalized internal services	0.0	0.0
Cost of materials	(225.9)	(234.9)
Value-added turnover	239.3	251.7

Gesamttonnage

IN TONS (000)	2007/08	in %	2006/07	in %
Paper provided by customers	434.7	72.0	442.4	72.5
Paper procured	169.3	28.0	168.0	27.5
Total tonnage	604.0	100.0	610.4	100.0

An important factor influencing turnover is the extent to which paper is being provided by our customers, i.e. the extent to which customers procure and place at our disposal paper for their printing orders. Paper procured by us for customer orders impacts the stated turnover as it is included in the cost of materials, while paper provided by customers is not reflected in our financial statements.

While the economic position of the *schlott group* is not changed by an increase in paper provided by customers, the stated turnover and cost of materials decline by an identical amount, all other things being equal. Both a reduction in the stated turnover and the arithmetically resultant improvement in gross margin represent, however, no change in the economic situation, but may lead to erroneous interpretations.

Value-added turnover eliminates the effects of the level of paper provided and generates transparency with respect to actual business trends. For that reason, value-added turnover is applied to the internal management of operations. Value-added turnover is derived by eliminating from stated turnover the cost of materials and expenses incurred for purchased services and represents, therefore, internally generated value-added for the *schlott group*.

During fiscal year 2006/07, the level of paper provided has fallen slightly for the first time in many years. This trend continued during the business year 2007/08 and amounted to 72.0 percent during the reporting year after 72.5 percent in the previous year. In spite of high levels of competition, the total tonnage of paper processed amounted to 604,000 tons during the reporting year after 610,000 tons in the previous year.

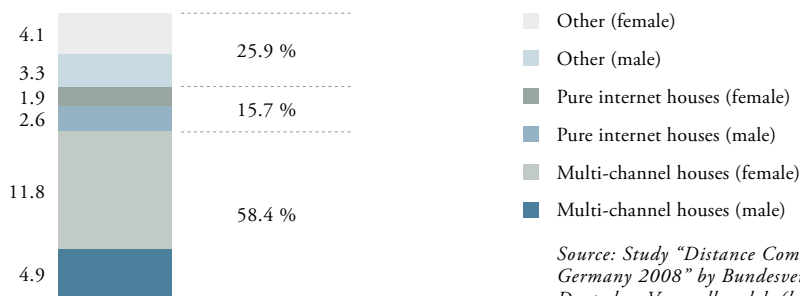
EBT AS CENTRAL POLICY PARAMETER

The *schlott group* is a capital-intensive enterprise since printing machinery requires high levels of capital expenditures. These amount to nearly € 10 million per machine in roll-offset and twice that in intaglio printing. The necessary infrastructure for these machines is also costly. On the other hand, capital expenditures required for maintaining this machinery are manageable, especially in the area of intaglio printing where the useful life of machinery is about 25 years.

The inclusion of financing costs for these capital expenditures is, therefore, a fundamental ingredient in the cost-benefit analysis of these expenditures and the management of the earnings position of the *schlott group*. Consequently, EBT represents the central guiding parameter in the management of the Corporation. This parameter is also employed in external communication. The individual production sites are given additional targets and objectives for which they are being held accountable.

TOTAL DISTANCE COMMERCE 2008

100 % = € 28.6 billion



Source: Study "Distance Commerce in Germany 2008" by Bundesverband des Deutschen Versandhandels (bvh)

— GENERAL ECONOMIC ENVIRONMENT

ECONOMIC TRENDS

Due to the financial crisis that started in the USA and has by now spread across the globe, the world is facing a recession toward the end of 2008. The global downturn has accelerated in the second half of 2008 primarily due to problems in international financial markets. National economies in both the developed and the developing world are weakening in unison as difficult credit markets cause both businesses and consumers to proceed cautiously.

Confidence indicators with respect to expectations in earnings and income have within a few months almost everywhere dropped to lowest levels in many years, in some instances even to record lows. As a consequence, businesses are postponing or cancelling planned capital expenditures and consumers restrict or defer the purchase of durable goods.

The dynamics of the economic downturn are particularly evident in the German economy with its high export dependency: after a decline of 0.4 percent in GDP in the second quarter, GDP fell by a further 0.5 percent in the third. In as much as the German economy is the largest in the Euro-zone, the German weakness is being felt in the entire Euro-zone, which is experiencing its first ever recession: after a decline of 0.2 percent in GDP in second quarter, Euro-zone GDP fell by a further 0.2 percent in the third quarter of 2008. Countries like Italy and Great Britain are showing similar trends as is the case in the entire European Union.

FACTORS INFLUENCING TRENDS IN THE PRINTING INDUSTRY

Weakening Trends

The economic situation of the German printing industry continued in the course of 2008 its downward trend according to a polling estimate conducted by the Federal Association of Print and Media (bvdm). The confidence index for our industry has in the course of 2008 only been once above zero, while during the rest of the year the indicator has been in negative territory. While at the beginning of the year the indicator was around zero, as of October 2008 it reached -19; in 2007 the indicator ranged between 0 and +10.

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INTERNET BUYERS USING PRINTED
CATALOGUES 2008 (All)



INTERNET BUYERS USING PRINTED
CATALOGUES 2008 (14 – 29 years)



Future expectations are decidedly negative: the respective partial index, which mirrors order backlog, declined to its lowest level of -33 in October. The last time such level was reached was in the Spring of 2003; in the summer of 2007 it was at +15, and at the beginning of 2008 -8. There are only minor differences between domestic and international business. These trends confirm that the printing industry is strongly influenced by general economic trends. Mixed and generally less pessimistic signals come from the following segments of the economy, which are important customer groups, particularly for high volume printing.

Catalogues Remain Important – Particularly in e-commerce

The Federal Association of the German Mail-Order Industry (bvh) stated in its July 2008 study of “Distance Commerce in Germany” that the potential growth for both the classic and online mail-order business will be twice as robust as for the retail trade as a whole. The bvh expects for 2008 a growth in distance commerce turnover of 3.6 percent to € 28.6 billion. As a result, mail-order houses will continue to increase their share of total retail trade to 7.2 percent in 2008. In the mid 1980s, their share amounted to only 4.5 percent.

52 million Germans are regularly customers of mail-order houses. Multi-channel houses with catalogue and online offers account by far for the largest share: men transact 45.4 percent and women even 65.9 percent of their distance commerce with multi-channel houses. In the classic consumer areas footwear, apparel and textiles, whose collective share on total distance commerce ranks first with 42.0 percent, multi-channel houses enjoy a clear leadership position.

In spite of the continued strength of multi-channel houses in distance commerce, the prospects need to be more closely examined. The bvh prognosticates that their turnover in 2008 will decline by 4.6 percent compared with the previous year. While their business volume via the internet has grown significantly, as is the case for e-commerce of other houses, the multi-channel houses suffer from a strong decline in classic catalogue orders. However, catalogues, which are the domain of intaglio printing, continue to be popular with customers of mail-order houses and that not only with customers of multi-channel houses. Especially for online customers, catalogues provide decisive impulses: product descriptions in catalogues are, together with the convenience factor of home delivery, the most important criteria for ordering an article from mail-order houses. Product descriptions in catalogues are clearly preferred over online descriptions.

INTERNET BUYERS USING PRINTED CATALOGUES 2008 (60+ years)

Source Page 48 and 49:
Study "Distance Commerce in Germany
2008" by Bundesverband des Deutschen
Versandhandels (bvh)



This preference does not only apply to the older generation since younger people exhibit similar behavior. While 73 percent of all consumers surveyed state they are relying on a printed catalogue when ordering online, 69 percent of the age group 14 to 29 years respond likewise. Thus, mail-order houses issuing catalogues and having online offers will in 2008 again account for the greatest share of e-commerce turnover. In addition, the printed catalogue is becoming more important for pure online houses for the same reasons. The expectations by the bvh, as stated above, have been reiterated at the beginning of November 2008.

The Volume of Newspapers and Periodicals Declines Slightly

According to the Association of Distribution of Advertising Materials (IVW), German newspapers and periodicals had declining editions in the third quarter of 2008 in comparison with the previous quarter as well as the previous year. This applies particularly to daily newspapers and the trade press, while weekly newspapers and customer magazines maintained their level of activity. Consumer magazines declined in comparison with the previous year.

In the area of customer magazines, which are a classic intaglio printing product, the average total editions in the third quarter of 2008 declined by 1.7 percent to 117.94 million compared to the previous year. The total volume of editions sold by the German trade press fell by 2.7 percent to 13.57 million. The total volume of printed editions including complimentary copies, i.e. the number relevant to the printing industry, experienced a less pronounced decline.

Advertising Industry 2008 Declines Slightly

The Association of the German Advertising Industry (ZAW) prognosticates that the corporate sector in Germany will spend less on advertising in 2008. While for the first half of the year the ZAW expects constant advertising budgets, developments in the second half are likely to result in a reduction in advertising expenditures by 0.5 percent to € 30.63 billion.

SUMMARY OF FISCAL YEAR 2007/08

During the business year 2007/08, we have successfully implemented our cost reduction program and have reached our annual goal. We continue to be burdened by continued price pressure in the industry as well as by higher prices for raw materials and energy. These factors result in additional competitive pressure and it is expected that this will lead to further consolidation in and exits from the industry.

MARKET ENVIRONMENT STILL VERY CHALLENGING, SCHLOTT GROUP ADAPTS ITS COSTS

For the reporting year, we had announced a significant reduction in EBT to the break-even level prior to one-time expenses in connection with the cost reduction program. This was the result of price discounts that had to be granted in the course of the previous year and that were now affecting the entire business year. In addition, we had included in our planning the continuation of price pressure at a somewhat more modest level, but still above the long-term average. This anticipation was indeed valid.

These price reductions are essentially the consequence of additional industry capacity that had been added up to the year 2006, while at the same time printing volume remained nearly unchanged and demand behavior of important customer segments underwent structural changes (refer for further details to Corporate strategy to page 39 pp). We expect that these changes will be sustained and that we must address our cost structure accordingly.

In this connection, we have during the past business year reached agreements with workers councils at our three intaglio printing sites in Freudenstadt, Landau and Nuremberg, which have already led to cost savings during the reporting year. During the current business year, these effects will be further enhanced. At our intaglio printing site in Hamburg, we will be able to negotiate cost reductions at the expiration of an existing agreement at the end of 2008.

In sum, our costs will be reduced by more than € 7 million per year on the basis of already concluded single-plant bargaining agreements. Due to service longevity of several employees and the resultant longer notice periods, these agreements will have a full impact only starting with the second quarter of the current business year.

These agreements contain clauses of the collective bargaining agreement allowing negotiation with respect to working hours, cancellation of paid break-time and the reduction of benefits going beyond the bargaining agreement; they will also permit further flexibility in daily working hours. As a result of these single-plant agreements, the change from four to three daily shifts and a further optimization of all processes, about 150 employees will be reduced at these three sites, representing 14.7 percent of staff levels, which stood at the beginning of the reporting year at 1,019.

Moreover, at our site in Nuremberg, we have concluded an internal agreement permitting the permanent reduction in one-time benefits by 75 percent. At our offset site in Lübeck, as well as our further processing sites, corrective measures were undertaken.

Last, but not least, the number of employees in the business segment corporate services was reduced by 19.6 percent to 78 in connection with the permanent adaption of processes. The *schlott group* has thus reacted to these changed market conditions and has realized a substantial reduction in costs. We will continue on this path in the future.



THE COST CUTTING PROGRAM
IN THE BUSINESS YEAR 2007/08
LEADS TO A
SUSTAINABLE
COST REDUCTION.

Additional burdensome factors are the substantially higher costs of materials and energy, which have already affected the last months of the business year and are expected to further impact earnings trends during the current year. Rising prices for paper do not impact us directly due to the high levels of paper provided by our customers and automatic price adjustments made for paper provided by us, but the marketing budgets of our customers will not automatically be increased proportionately. This results indirectly in further price pressure for our services and/or reduces the volume of marketing initiatives our customers undertake.

Energy costs have risen significantly during the business year 2007/08. While since July 2008 a marked reduction in the price of crude oil has taken place, this will only with a time lag influence the electricity and natural gas prices so important for our operations. As a consequence, we anticipate additional burdens during the current business year.

The general market environment represents extraordinarily high challenges to providers of printing services. The *schlott group* has attained a reputation for highest levels of quality, flexibility and dependability and relies traditionally on very efficient processes that are continually optimized. On this basis, the Corporation has developed over the years into an independent provider, which has enhanced its market position and which ranks among the leading players in the industry.

The changed market environment has already led to closures of production sites and has forced several smaller providers into liquidation. In addition, the pressure to consolidate is increasing among the larger players, resulting in an increased readiness to seek collective strategic solutions. We are convinced, that the *schlott group* will profit from this industry consolidation and that it will gain additional strength.

— SUPPLEMENTARY REPORT: KEY FIGURES OF THE SCHLOTT GROUP

The following tables show key financial data of the *schlott group* for the past two business years.

PROFIT AND LOSS ACCOUNT	2007/08		2006/07	
	IN MIL. €	IN %	IN MIL. €	IN %
print	236.2	98.7	247.8	98.4
corporate services	9.5	4.0	10.0	4.0
Consolidation	(6.4)	(2.7)	(6.1)	(2.4)
Value-added turnover	239.3	100.0	251.7	100.0
Other operating income	7.7	3.2	12.3	4.9
Personnel expenses	(135.9)	(56.8)	(146.7)	(58.3)
Other operating expenses	(73.0)	(30.5)	(68.4)	(27.2)
EBITDA	38.1	15.9	48.9	19.4
Scheduled depreciation	(27.6)	(11.5)	(28.8)	(11.4)
EBIT	10.5	4.4	20.1	8.0
Financial results	(10.0)	(4.2)	(9.1)	(3.6)
EBT prior to cost reduction program	0.5	0.2	11.0	4.4
Cost reduction program	(18.0)	(7.5)	—	—
EBT	(17.5)	(7.3)	11.0	4.4
Taxes	0.7	0.3	7.9	3.1
Net income after taxes				
from continuing operations	(16.8)	(7.0)	18.9	7.5
Net income after taxes				
from discontinuing operations	—	—	14.8	5.9
Group net income	(16.8)	(7.0)	33.7	13.4
– of which related to shareholders of schlott gruppe AG	(16.8)	(7.0)	33.7	13.4
– of which related to minority shareholders	0.0	0.0	0.0	0.0
FIGURES PER SHARE	2007/08		2006/07	
Shares outstanding	6,204,200		6,204,200	
Net income per outstanding share (in €)				
from continuing operations	(2.71)		3.04	
Group net income per outstanding share (in €)	(2.71)		5.42	
Dividend per share (in €)	0.50*		1.00	
Share price; XETRA, last day of trading (in €)	10.39		19.25	

* Recommendation

BALANCE SHEET AND CASH FLOW	2007/08		2006/07	
	IN MIL. €	IN %	IN MIL. €	IN %
<i>Total long-term assets</i>	376.6	83.0	417.1	81.9
Liquid assets	2.0	0.4	2.6	0.5
<i>Total short-term assets</i>	77.3	17.0	92.1	18.1
<i>Shareholders equity</i>	158.2	34.9	181.5	35.6
Due to banks	155.2	34.2	171.0	33.6
<i>Total liabilities</i>	295.7	65.1	327.7	64.4
<i>Balance sheet total</i>	453.9	100.0	509.2	100.0
Cash flow from ordinary business activities	30.5	—	28.4	—
Cash flow for capital expenditures	(4.3)	—	(10.4)	—
Cash flow for acquisitions	7.7	—	11.9	—
Cash flow for dividends	(6.2)	—	(6.2)	—
Cash flow from financing activities without dividends	(28.3)	—	(23.0)	—
Cash flow for the period	(0.6)	—	0.7	—
KEY FIGURES	2007/08		2006/07	
EBT prior to cost reduction program – ROE (in %)	0.3		6.6	
EBIT – ROCE (in %)	2.4		4.3	
Free cash flow	20.0		11.8	
Free cash flow as % of value-added turnover	8.4		4.7	
Net liabilities	153.2		168.4	
Net liabilities / EBITDA	4.0		3.4	

DEFINITIONS OF KEY FIGURES

Capital employed: Balance sheet total – Accounts payable – Down payments received

Free cash flow: Cash flow from ordinary business activities – Cash flow for capital expenditures – Cash flow for dividends

Net liabilities: Due to banks – Liquid assets

Return on capital employed (ROCE): EBIT as % of the average capital employed at the beginning and the end of the fiscal year

Value-added turnover: Net sales +/- changes in inventory and capitalized internal activity – Cost of materials – Services purchased

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— EARNINGS, LIQUIDITY AND FINANCIAL POSITIONS

EARNINGS POSITION

The tremendous price pressure in the industry that we had to content with during the course of the business year 2006/07 has fully impacted the results of the business year 2007/08. Net results were therefore significantly reduced. Since we had anticipated this continued pressure on prices for the reporting year we were able to reach our revised and advised earnings goal.

Derivation of our EBT-Goal for the Business Year 2007/08

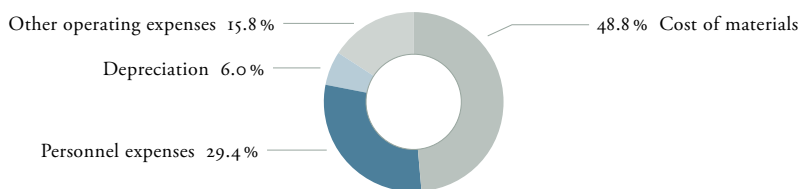
Our planning for the reporting year was based on the assumption that we would be able to have a satisfactory utilization of our capacity, but that the lower level of prices attained during the course of the previous year would prevail during the entire reporting year. We had further expected that the pace of price decline would weaken, but that price pressure would remain above the long-term average.

A positive factor in our planning was the expectation that our cost reduction program would yield positive results in the course of the year and thus lessen the impact on our earnings position. The one-time charge planned in this connection was such that overall a break-even result was to be achieved. We have fully reached that goal. However, given the difficult general economic environment we failed to generate a return on capital above the cost of such capital.

For the implementation of our cost reduction program we had budgeted a one-time expense of € 15.0 million. The actual result came in as € 13.1 million. In addition, at the end of the business year 2007/08, we have decided to focus our activities exclusively on the areas of media services, intaglio and roll-offset printing as well as the related comprehensive further processing services; our subsidiary *sachsendruck*, active in sheet-offset printing, was to be sold. As a result of this divestiture, a one-time charge of € 4.9 million was added to the budget of our cost reduction program, resulting in a net one-time charge of € 18.0 million.

COST STRUCTURE OF THE SCHLOTT GROUP WITHOUT CHARGES FOR COST REDUCTION PROGRAM FOR THE BUSINESS YEAR 2007/08

100 % = € 462.4 million



Key-Financial Data of the Profit and Loss Statement

IN € MILLION	2007/08	In %	2006/07	In %
Net sales	468.8	195.9 %	482.2	191.6 %
Value-added turnover	239.3	100.0 %	251.7	100.0 %
EBITDA	38.1	15.9 %	48.9	19.4 %
EBIT	10.5	4.4 %	20.1	8.0 %
EBT prior to cost reduction program	0.5	0.2 %	11.0	4.4 %
Cost reduction program	(18.0)	(7.5 %)	—	—
EBT	(17.5)	(7.3 %)	11.0	4.4 %
Net income from continuing operations	(16.8)	(7.0 %)	18.9	7.5 %
Net income from discontinued operations	—	—	14.8	5.9 %
Group net income after taxes	(16.8)	(7.0 %)	33.7	13.4 %
Net income per dividend-eligible share				
from continuing operations (in €)	(2.76)	—	3.04	—
Group net income per dividend-eligible share (in €)	(2.76)	—	5.42	—

For the past business year, changes in accounting or valuation methods have not materially influenced the comparability of financial data. Even the effects of the initial consolidation of our new Dutch subsidiary *biegelaar* for the entire business year (for the previous year such consolidation was for eleven months only) were not material.

During the business year 2007/08, the *schlott group* achieved a value-added turnover of € 239.3 million as compared to € 251.7 million in the previous year. The reduction in value-added turnover is essentially accounted for by reduced industry price levels, while paper tonnage processed remained nearly unchanged (see further details under segment reporting). The increase in the percentage of costs for materials related to turnover, including inventory changes, was limited to 0.3 percentage points even though the procurement of materials was at higher prices.

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In addition, we experienced a reduction in other operating income from € 12.3 million in the previous year to € 7.7 million in the reporting year. In the previous year, we had dissolved higher levels of value adjustments and provisions, had consumed higher levels of provisions for contingent liabilities, and had recognized a one-time gain resulting from the purchase price allocation related to *biegelaar*.

Initial positive effects from the cost reduction program were already visible during the reporting year in the area of personnel expenses. The ratio of personnel expenses to value-added turnover sank from 58.3 percent in the previous year to 56.8 percent in the reporting year.

On the other hand, higher expenses related to the utilization of temporary employees as well as for outsourced activities increased other operating expenses. Distribution and advertising expenses increased significantly due to increased freight costs. In total, other operating expenses increased from € 68.4 million in the previous year to € 73.0 million in the reporting year. As soon as the full impact of the cost reduction program will be realized in the course of the second quarter of the current business year, the net result from lower personnel expenses and higher other operating expenses will be positive and will result in total annual cost savings of more than € 7 million. Measures for our Hamburg site are not as yet included, as the single-plant agreement will be in effect until December 31, 2008.

Depreciation expenses declined to € 27.6 million and remained unchanged in relation to value-added turnover. Higher financing expenses compared to the previous year resulted primarily from significantly lower interest income during the reporting year.

EBT prior to expenses associated with the cost reduction program amounted to € 0.5 million during the business year 2007/08 compared to € 11.0 million in the previous year. The one-time expense for the cost reduction program amounted to € 13.1 million, which is essentially accounted for by already disbursed redundancy payments or by respective provisions. As already stated above, nearly € 5 million in one-time charges were incurred in connection with the divestiture of *sachsendruck*. When including all one-time charges, *group* EBT amounted to € -17.5 million and earnings after taxes to € -16.8 million. Net income per dividend-eligible share was € -2.76.

In the previous year, earnings after taxes from continuing operations were € 18.9 million, which included a substantial tax refund. Earnings from discontinued operations amounting to

€ 14.8 million were related to the divestiture of the business segment direct marketing, resulting in total earnings after taxes of € 33.7 million. Net income per dividend-eligible share from continuing operations amounted to € 3.04, and € 5.42 when including earnings from discontinued operations.

LIQUIDITY POSITION

The liquidity position of the *schlott group* has improved despite additional expenses and continuing unsatisfactory earnings during the business year 2007/08. Free cash flow prior to changes in the Corporation's portfolio has nearly doubled during the reporting year. As a consequence, liabilities to banks were again substantially reduced out of internally generated sources.

Key Figures of Cash Flow

IN € MILLION	2007/08	2006/07
Earnings from continuing operations including foreign exchange gains / losses	(6.4)	20.4
Cash flow from ordinary business activities	30.5	28.4
Investments in property, plant and equipment	(6.6)	(11.0)
Receipts from disposals of property, plant and equipment	2.4	1.1
Investments in intangible assets	(0.1)	(0.6)
Receipts from disposals of intangible assets	0.0	0.1
Investments in financial assets	(4.3)	(10.4)
Distributions to shareholders	(6.2)	(6.2)
Free cash flow	20.0	11.8
Acquisition of subsidiaries	0.0	(17.7)
Divestiture of subsidiaries	7.7	29.6
Net cash flow from acquisition activities	7.7	11.9
Cash flow from financing activities	(28.3)	(23.0)
Cash flow for the period	(0.6)	0.7

Cash flow from ordinary business activities amounted to € 30.5 million in the reporting year, compared to € 28.4 million in the previous year. The improvement of € 2.1 million was achieved despite significantly weaker earnings from operating activities and the additional expenses attributable to the cost reduction program, both of which were responsible for the reduction in earnings from operating activities in the amount of € 26.8 million. Earnings from

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operating activities for the reporting year were € -6.4 million after € 20.4 million in the previous year. Additions to provisions in the amount of € 5.4 million are essentially accounted for by the *group's* restructuring measures; in the previous year, provisions in the amount of € 13.0 million were dissolved.

Scheduled depreciation declined by € 1.2 million to € 27.6 million, reflecting the lower levels of capital expenditures in the previous year. Changes in current assets and liabilities resulted during the reporting year in a net cash outflow of € 1.7 million compared to a net cash inflow of € 2.3 million in the previous year. In the previous year, year-end reductions in accounts payable produced a positive cash flow effect. Income taxes resulted in a positive effect of € 5.7 million; in the previous year, this position was € -8.1 million.

The free cash flow of the *schlott group* prior to changes in the Corporation's portfolio amounted to € 20.0 million during the reporting year after € 11.8 million in the previous year, as can be seen in the above table. The marked improvement in free cash flow for the business year 2007/08 resulted, aside from higher cash flow from operating activities, from a further planned reduction in capital expenditures; these were € 6.6 million in the reporting year after € 11.0 million in the previous year. A further positive effect is accounted for by disposals of fixed assets not required for ongoing operations.

In the course of the past two business years, capital expenditures were essentially geared toward maintenance of machinery and equipment after unusually high levels of expenditures for new fixed assets in previous years, particularly for the acquisition of a new printing line at our site in Freudenstadt.

Out of changes in the Corporation's portfolio, the *schlott group* realized a cash inflow of € 7.7 million, representing the residual payment related to the disposal of the business segment direct marketing in the previous year. In the prior year, the net cash inflow had amounted to € 11.9 million.

The free cash flow generated in the business year 2007/08 was applied to interest expenses, which were somewhat lower than in the previous year, as well as to a reduction in liabilities to banks totaling € 15.8 million. In the previous year, the reduction in liabilities to banks in the amount of € 26.4 million was essentially funded out of cash related to the divestiture of *meiller*. In total, changes in net cash flow resulted in a net outflow of € 0.6 million after an inflow of € 0.7 million in the previous year.

FINANCIAL POSITION

Balance sheet footings of the *schlott group* have markedly declined due to lower levels of capital expenditures, reduced levels of working capital and a commensurate decrease in net indebtedness. The equity ratio registered a slight decrease due to lower earnings.

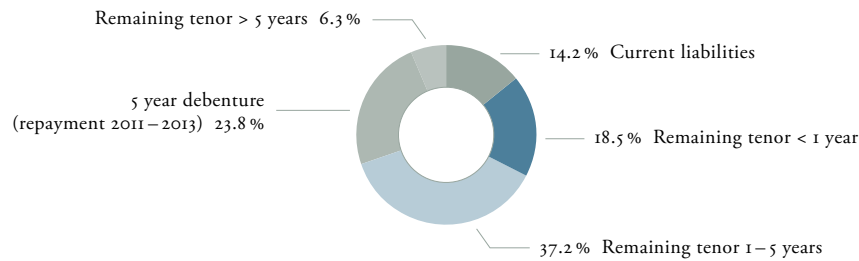
Key Balance Sheet Figures

IN € MILLION	09/30/08	In %	09/30/07	In %
<i>Long-term assets</i>	376.6	83.0 %	417.1	81.9 %
Goodwill	75.6	16.7 %	81.8	16.1 %
Property, plant and equipment	281.1	61.9 %	307.5	60.4 %
Investment properties	3.7	0.8 %	6.1	1.2 %
<i>Short-term assets</i>	77.3	17.0 %	92.1	18.1 %
Inventory	22.3	4.9 %	24.6	4.8 %
Accounts receivable	32.6	7.2 %	47.8	9.4 %
Cash and cash equivalents	2.0	0.4 %	2.6	0.5 %
<i>Total assets</i>	453.9	100.0 %	509.2	100.0 %
<i>Shareholders' equity</i>	158.2	34.9 %	181.5	35.6 %
<i>Long-term debt</i>	157.4	34.6 %	157.0	30.9 %
Provisions	26.0	5.7 %	26.4	5.2 %
Due to banks	104.5	23.0 %	99.7	19.6 %
Deferred taxes	24.5	5.4 %	28.3	5.6 %
<i>Short-term liabilities</i>	138.3	30.5 %	170.7	33.5 %
Due to banks	50.7	11.2 %	71.3	14.0 %
Accounts payable	34.1	7.5 %	54.2	10.6 %
Provisions	34.1	7.5 %	29.8	5.9 %
<i>Total liabilities</i>	453.9	100.0 %	509.2	100.0 %

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MATURITY PROFILE OF FINANCIAL LIABILITIES

100 % = € 155.2 million



The changes in the balance sheet as per September 30, 2008, in comparison with the previous year, show on the assets side a nearly proportionate reduction in all items such that the respective shares of fixed and current assets in relation to total footings remain essentially unchanged. At year-end, 83.0 percent of total assets represent long-term assets after 81.9 percent in the previous year; short-term assets accounted for 17.0 percent of total assets after 18.1 percent in the previous year. Within these two large balance sheet positions, no marked changes have occurred. Balance sheet totals as per year-end 2007/08 were 10 percent lower than in the previous year, i.e. € 453.9 million after € 509.2 million.

On the liabilities side of the balance sheet, the share of long-term debt increased from 30.9 percent to 34.6 percent, while the share of short-term debt was reduced commensurately. While long-term debt remains nearly unchanged, short-term liabilities were reduced by a total of € 32.4 million. This reduction is primarily accounted for by liabilities to banks and accounts payable.

The equity ratio as of year-end has declined slightly from 35.6 percent to 34.9 percent due to the *group's* earnings results. Net indebtedness was again reduced to € 153.2 million after € 168.4 million in the previous year. The strategic parameter for the *schlott group* of total indebtedness to EBITDA (prior to expenses associated with the cost reduction program and prior to losses incurred in connection with the disposal of *sachsendruck* totaling € 18.0 million) has, however, increased from 3.4 times to 4.0 times due to the price pressures in the industry.

EARNINGS AND FINANCIAL POSITIONS OF SCHLOTT GRUPPE AG

EARNINGS POSITION

schlott gruppe AG (hereinafter also referred to as *AG*) maintains its accounts in line with the regulations prescribed by the German Commercial Code (HGB), whereas the consolidated statements were prepared in line with IFRS. Accounting and valuation methods employed by the *AG* remained essentially the same as in the previous year.

schlott gruppe AG does not have its own operating activities, but provides the central service functions within the *group*, such as cash pooling, treasury and financing operations for subsidiaries, controlling, corporate development, internal audit, investor relations, as well as marketing. Consequently, the revenue of the *AG* represents essentially cost allocations to subsidiaries.

Personnel expenses of the AG have fallen by 10 percent from € 4.0 million to € 3.6 million during the reporting year due to lower average staff levels as well as due to the departure of a Member of the Board of Management, whose responsibility was allocated to the other Members of the Board. Other operating expenses increased from € 4.0 million to € 5.3 million mainly due to foreign exchange adjustments. Foreign exchange losses are primarily accounted for by the Czech Crown, which gained in value in relation to the Euro in the course of the business year.

The profit and loss accounts of the AG are materially influenced by profit and loss absorption agreements with affiliated companies. The year-end financial statements are thus affected by investments in affiliated companies, the operating results of such companies as well as the results from financing activities within the AG.

Gains from profit absorption agreements fell from € 38.7 million to € 0.8 million. In the previous year, the disposal of meiller direct GmbH and its subsidiaries had resulted in a gain from disposals of € 40.4 million. In addition, subsidiaries have also suffered from the continuing price pressure and the resulting reduction in earnings as well as the one-time effects of the cost reduction program during the business year 2007/08.

The difficult economic trends are reflected in increased expenses due to loss absorptions, which increased during the reporting year to € 33.2 million after € 6.6 million in the previous year. The operating losses incurred by affiliated companies of our subsidiary *SEBALDUS Beteiligungs GmbH (SGB)* as well as an additional absorption of a loss of € 12.5 million by *SBG* are responsible for this negative trend. This loss occurred as a consequence of value adjustments undertaken in line with expected lower future earnings of *SBG*'s operating subsidiaries.

As a result, the value of the AG's balance sheet item Shares in Affiliated Companies had to be adjusted accordingly. This adjustment is primarily responsible for the write-downs of financial assets in the amount of € 13.2 million. Primarily due to increases in other operating expenses, EBIT declined during the business year 2007/08 from € 2.4 million in the previous year to € 1.4 million in the reporting year. Results from financial activities include earnings from participations, marketable securities and loans granted as well as the net result of other interest and similar income and expenses. The sum of the foregoing items resulted in an improvement to € -0.6 million following € -1.2 million in the previous year primarily as a result of higher net interest income. In addition, results from financial activities include gains out of profit absorption agreements, write-downs of financial investments and marketable securities as part of current assets as well as losses assumed from loss absorption agreements. The net result is a loss of € 46.3 million after a gain of € 11.2 million in the previous year.

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Results from ordinary business activities of the *AG* totaled € -44.9 million after € 13.6 million in the previous year. Absent any material tax impact, the net loss of *schlott gruppe AG* amounted to € 44.9 million. Withdrawals from other earnings reserves in the amount of € 25.2 million coupled with a reduction in prior years accumulated retained earnings of € 26.0 million for the business year 2007/08, produce net retained earnings of € 6.3 million at the end of the reporting year after € 32.2 million in the previous year.

FINANCIAL POSITION

Since the *AG* assumes the service functions of the *group* as well as the financing of subsidiaries, it does not possess significant fixed assets. The structure and development of the balance sheet reflects essentially the *AG*'s financial assets and items arising out of its financing function. The former contains as its major position shares in affiliated companies; the latter is shown on both sides of the balance sheet in either accounts receivable from or payable to subsidiaries.

Both positions are closely correlated as the *AG* employs excess liquidity of its subsidiaries for financing those with a lack thereof. Liabilities to financial institutions oscillate in the realm of cash pooling as the *AG* utilizes short-term credit lines for the benefit of its subsidiaries.

The balance sheet total of *schlott gruppe AG* has decreased markedly during the reporting year by 18.9 percent from € 329.9 million in the previous year to € 267.6 million in the reporting year, due to the value adjustments made for shares in affiliated companies. These shares declined by 7.8 percent from € 163.8 million in the previous year to € 151.0 million in the reporting year. Moreover, long-term loans to these affiliated companies as well as accounts receivable versus these companies declined from € 31.4 million to € 23.0 million and from € 124.4 million to € 86.9 million, respectively.

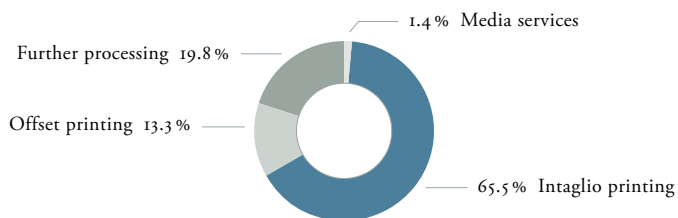
Shareholders' equity declined from € 159.7 million to € 108.6 million as the result of a reduction in retained earnings from € 32.2 million to € 6.3 million as well as a withdrawal from other earnings reserves. The equity ratio fell from 48.4 percent to 40.6 percent. Provisions have changed only minimally. Liabilities were reduced by 6.7 percent from € 166.3 million to € 155.2 million. Moreover, the financing structure was significantly improved by exchanging short-term liabilities to banks for a long-term debenture in the amount of € 37.0 million (increased to € 40.0 million after the balance sheet date).

Cash flow from ordinary business activities of *schlott gruppe AG* has declined due to lower earnings. In addition, depreciation expenses related to financial assets declined from € 20.4 million to € 12.9 million. When including a decrease of € 2.5 million in accounts receivable as well as a decrease in accounts payable in the amount of € 16.1 million, the net cash outflow from ordinary business activities amounted to € 45.6 million after a net cash inflow of € 29.7 million in the previous year. Cash flow from investment activities benefited from the inflow of € 9.2 million related to the divestiture of *meiller direct GmbH* consumated in the previous year. During the business year 2006/07, cash flow was negatively impacted by payments made in connection with the acquisitions of *biegelaar* and *reus*.

Cash flow from financial activities resulted in a net inflow of € 36.6 million after an outflow of € 3.1 million in the previous year, primarily due to higher levels of financial credits and inflows in the context of *group* financing; payments to shareholders and minority shareholders of € 6.2 million remained essentially the same as in the previous year. The net result of cash from financial activities is nearly unchanged.

VALUE-ADDED TURNOVER BY SERVICE TYPE IN THE BUSINESS SEGMENT PRINT

100 % = € 236.2 million



SEGMENT REPORTING

BUSINESS SEGMENT PRINT

Production, Products and Services

Results of the Segment print

IN € MILLION	Value-Added Turnover		External Sales	
	2007/08	2006/07	2007/08	2006/07
Media services	3.3	3.8	3.7	4.1
Intaglio printing	154.6	161.8	355.5	363.0
Offset printing	31.5	34.2	75.4	81.0
Further processing	46.8	48.0	33.7	33.0
Total	236.2	247.8	468.3	481.1

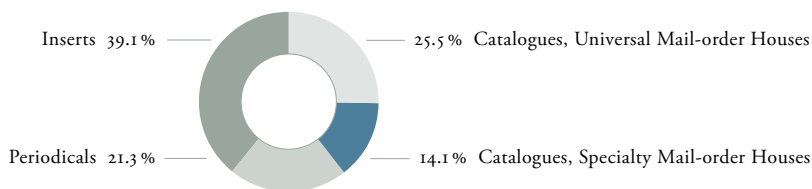
The services of the *schlott group* in the business segment print include the areas of preprint, intaglio printing, offset printing as well as further processing; collectively, these represent the core competence of the *group*. A modest activity in sheet-offset printing was sold effective October 1, 2008, as had been reported following the end of the business year. All activities in sheet-offset printing have been discontinued.

The shares of these different services in relation to value-added turnover have not materially changed from the previous year. The major part of the business activity of the *schlott group* is accounted for by intaglio printing. In the area of offset printing we work with so-called flat formats, which optimally complement our service and product mix.

Overall, the *schlott group* concentrates on industrial printing processes for high quality and high volume printing products, which are produced at high speeds. Within this service spectrum, we are particularly successful in the printing of customized printing products having unusual formats. In this market segment, we have strengthened our position with the recent capital expenditures for a new printing line at our site in Freudenstadt, enabling us to respond to increased customer demand.

VALUE-ADDED TURNOVER BY PRODUCT IN THE BUSINESS SEGMENT PRINT

100 % = € 236.2 million



Process steps that are positioned after the end of the printing process are domiciled in the area of further processing. The *schlott group* is positioned uniquely in this area on a Europe-wide basis; we enjoy the largest further processing capacities and offer a broad spectrum of further processing and refinement opportunities, which lead to higher levels of consumer response to such printing products.

Traditionally, the *schlott group* generates the highest margins by far in the area of intaglio printing, in spite of the enormous price pressures that affected earnings during the past years. The area of offset printing has developed satisfactorily during the business year even though competitive pressure has also intensified in this segment. In further processing, we were not able to fully reach our earnings goal during the reporting year.

In terms of printing products, 25.5 percent of the value-added turnover in the business segment *print* was generated by catalogues for universal mail-order houses and 14.1 percent by catalogues for specialty or niche mail-order houses. Periodicals account for 21.3 percent of value-added turnover and advertisement inserts are responsible for 39.1 percent.

As in previous years, the share of inserts has grown again during the reporting year, while the share of other printing products, particularly periodicals, has declined. During the business year 2005/06, the share of inserts had been 31.0 percent.

Our expanded focus on advertisement inserts has been successfully implemented. In this area, the *schlott group* enjoys special competence; we have developed special know-how and skills, which enable us to produce unique and sophisticated products in an economically efficient manner, with highest levels of quality and with short response times. With the recent activation of our new line in Freudenstadt, we have, as stated above, further strengthened our position in this market segment.

In addition to this technological capacity, our process efficiencies in the preprint and further processing stages permit short reaction and production times. In this way, we make it possible for our customers to respond flexibly and timely to changes in their markets and to optimize “time-to-market”. This represents an important competitive factor in the printing of inserts and we expect to continue expanding our position in this attractive growth market.

In strategic terms, the *schlott group* has the goal of increasing in terms of value-added turnover the shares of catalogues for specialty mail-order houses, for periodicals and, as described above, for advertisement inserts. Specialty mail-order houses are benefiting from sustained positive impulses and periodicals continue to represent an attractive market. Universal mail-order houses remain an important pillar of our portfolio, even though its share of total value-added turnover is expected to decline further in line with structural market changes.

Developments in the Segment print

IN € MILLION	2007/08	In %	2006/07	In %
External sales	468.3	198.3 %	481.1	194.1 %
Value-added turnover	236.2	100.0 %	247.8	100.0 %
<i>EBIT</i>	9.2	3.9 %	18.4	7.4 %
Short-term interest result	(3.7)	(1.6 %)	(4.9)	(2.0 %)
<i>Segment results</i>	5.5	2.3 %	13.5	5.4 %
Long-term interest result	(3.4)	(1.4 %)	(1.7)	(0.7 %)
Foreign exchange gains / (losses)	0.2	0.1 %	0.3	0.1 %
<i>EBT prior to cost reduction program</i>	2.3	1.0 %	12.1	4.9 %
Cost reduction program	(17.5)	(7.4 %)	—	—
<i>EBT</i>	(15.2)	(6.4 %)	12.1	4.9 %
Total segment assets	481.5	—	500.0	—
Total segment liabilities	251.4	—	249.3	—
Segment capital expenditures	6.6	—	48.5	—

The value-added turnover in the business segment *print* declined during the past business year by 4.7 percent to € 236.2 million after € 247.8 million in the previous year. The tonnage of paper processed declined by only 1.0 percent to 604,000 tons after 610,400 tons in the previous year. The comparison between the results in value-added turnover and tonnage processed illustrates the amount of price pressure that was encountered during the reporting year. 28.0 percent of paper processed were procured by order of our customers; 72.0 percent were provided. The ratio of paper provided declined slightly from 72.5 percent in the previous year.

EBT prior to expenses associated with the cost reduction program for the segment *print* amounted to € 2.3 million after € 12.1 million in the previous year. When including the expenses associated with the cost reduction program as well as the loss resulting from the disposal of *sachsendruck* totaling € 17.5 million, EBT was € -15.2 million for the reporting year. The totality of operations within the *group* is accounted for by the segment *print*. Outside of this segment, the only other functions consolidated are those of the business segment *corporate services*. Accordingly, the Notes regarding developments in the individual positions of the profit and loss statement for continuing operations of the *group* as shown on pages 57 p. also apply to the business segment *print*, making it unnecessary to restate these Notes here.

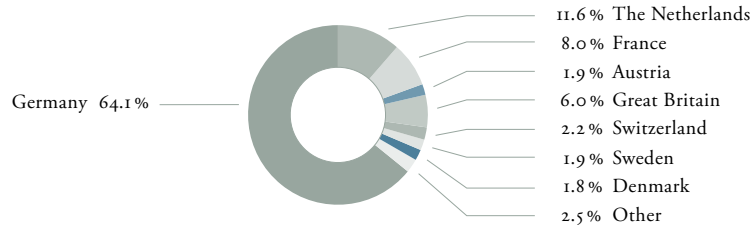
BUSINESS SEGMENT CORPORATE SERVICES

As in prior years, all service activities, including those of *schlott gruppe AG*, are domiciled in the segment *corporate services*. The developments in value-added turnover in this area are accounted for exclusively by the internal allocation of services and overhead expenses. It is, therefore, advisable to focus solely on trends in expenses in this segment, and particularly on expenses associated with financing activities since *corporate services* assumes the refinancing function of the other entities within the *schlott group*.

Viewing expenses from this perspective, net expenses prior to one-time effects, but including other operating earnings, declined from € 10.0 million in the previous year to € 7.0 million during the reporting year. Improvements were achieved in all areas of the profit and loss accounts. Expenses related to the cost reduction program during the reporting year amounted to € 0.5 million. In the business segment *corporate services*, increased financing activity within the *group* resulted in an increase in this position to € 4.0 million following € 2.8 million in the previous year. Earnings before taxes in this segment amount to € -2.0 million after € -2.7 million in the previous year.

VALUE-ADDED TURNOVER BY DOMICILE OF CUSTOMERS 2007/08

100 % = € 236.2 million



SEGMENT REPORT ON THE BASIS OF SECONDARY SEGMENTS

We support our customers on a Europe-wide basis and offer European solutions in the context of their marketing strategies. Our production base, particularly in intaglio printing, remains mostly in Germany.

Outside of Germany, we have an intaglio printing site in Maarssen, south of Amsterdam, The Netherlands, as well as further processing sites in France and in the Czech Republic. Based on this constellation, 83.1 percent of the *group's* assets were in Germany at the end of fiscal year 2007/08.

The international share of our operations is reflected in the table showing value-added turnover by geographic regions.

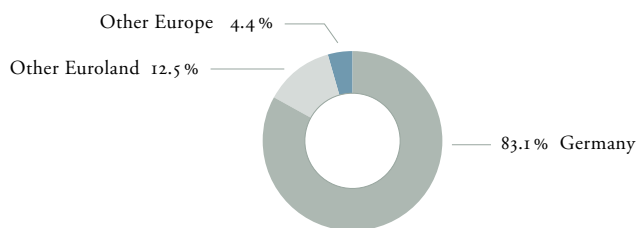
Value-Added Turnover in the Business Segment print by Domicile of Customers

IN € MILLION	2007/08	2006/07
Germany	151.3	166.2
The Netherlands	27.3	29.1
France	18.8	17.3
Austria	4.4	4.5
Great Britain	14.2	17.0
Switzerland	5.2	7.2
Sweden	4.4	2.8
Denmark	4.2	1.7
Other	6.4	2.0
Total value-added turnover	236.2	247.8

The above table depicts the ongoing weakness in the German market while international markets have developed more favorably. The main factor of this differing development is the disproportionate share universal mail-order houses have in German retail trade compared to other European countries.

TOTAL SEGMENT ASSETS OF THE SCHLOTT GROUP AS PER SEPTEMBER 30, 2008, PRIOR TO ADJUSTMENTS

100 % = € 469.7 million



Value-added turnover of the *schlott group* declined in Germany by 9.0 percent to € 151.3 million during the past business year. In international markets, however, we experienced visible growth and increased value-added turnover by 4.0 percent to € 84.9 million. Increases were mainly achieved in Sweden, Denmark and other foreign countries.

In spite of our competitiveness on a European plane, the Europe-wide competition with its often more favorable cost structures reduces prices achievable in Germany to the European level. We are challenged, therefore, to alleviate the disadvantages arising out of collective wage agreements applicable to the domestic intaglio printing industry through further cost reduction measures.

— GENERAL STATEMENT ON THE GROUP'S ECONOMIC POSITION

At the time of this report in December 2008, the Board of Management of *schlott gruppe AG* views the *group's* economic health as stable. The *schlott group* is prepared for future growth. The cost reduction program during the business year 2007/08 has markedly strengthened the competitive position of the Corporation. Further improvement in this area will be achieved during the current business year through additional cost reduction measures. The *schlott group* differentiates itself from competitors in that it generates sustainably a positive cash flow from ordinary business activities even at a time when the European printing industry is suffering from difficult general conditions. The business model of the *schlott group* has again been validated during the past business year.

With its chain of value-added products and services, ranging from media services to intaglio and roll-offset printing and to further processing, coupled with its highly flexible production machinery, the *schlott group* has attained an excellent market position. The *group* is ready to respond to all individual and unique demands of its clients, to cope with change and to satisfy customer requirements with highest quality in a timely manner.

Value creation remains the highest strategic goal of the *schlott group* in order to secure its competitiveness and to increase the attractiveness of its shares to potential investors. The Board of Management consistently applies a policy designed to strengthen the financial position of the Corporation, including stringent working capital management, sustainable and sufficient generation of free cash flow to being able, among other things, to distribute an appropriate dividend to shareholders, as well as to further reduce overall indebtedness. During the business year 2007/08, we again made impressive progress despite a challenging economic environment. Our goal is to continue on the same path during the current year. The Board of Management is convinced that the *schlott group* is going in the right direction.

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— PERSONNEL

At the end of the business year 2007/08, the *schlott group* employed a total of 2,793 staff, of which 2,715 in the business segment *print* and 78 in *corporate services*. In the previous year, 2,994 staff were employed, of which 2,897 in the business segment *print* and 97 in *corporate services*.

These figures do not fully reflect the substantial changes, which have taken place in the segment *print* during the course of the business year. At the three domestic intaglio printing sites in Freudenstadt, Landau and Nuremberg, we have reduced 150 positions representing 14.7 percent of the total of 1,019 staff members that were employed at the beginning of the reporting year.

Due to the service longevity of several staff members and concurrent long notice periods, some of which reach to the end of the first quarter of the current business year, staff reductions as per September 30, 2008, do not yet reflect the total number of redundancies. On that date, total number of staff employed at these sites amounted to 933, representing a reduction of 86 positions.

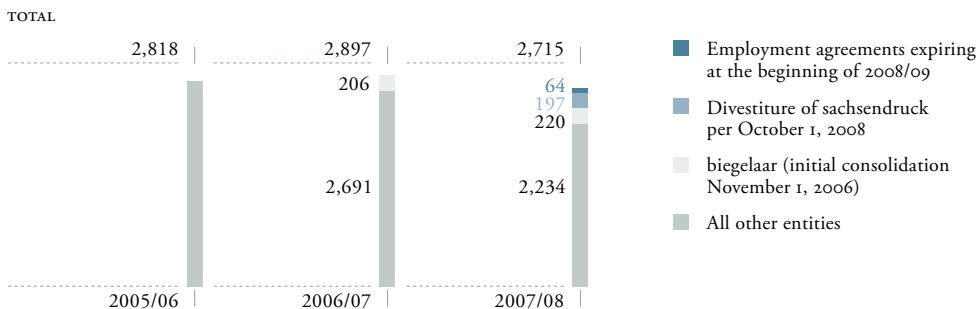
With the exception of our Dutch subsidiary *biegelaar*, where the staff count increased by 14 to 220 due to increased tonnage processed, reductions were achieved at all other sites as well. At our Hamburg site, we have in the context of an existing workers agreement reduced staff count by 7.0 percent to 361.

Staff count in the area of media services, including services in preprint, declined by 9.9 percent to 73. In the area of roll-offset printing, personnel count was reduced by 7.6 percent to 157. In further processing, the number of positions at the end of the reporting year was 745, or 7.1 percent below the count in the previous year mainly accounted for by reductions undertaken at our site in Stelle, near Hamburg. In marketing and distribution, the number of employees remained unchanged at 29.

In total, the number of personnel at these sites was 2,518 at the end of the reporting year, of which 1,851 were employed in Germany and 667 in foreign countries.

Our sheet-offset printing subsidiary *sachsendruck*, which was sold effective October 1, 2008, employed 197 staff members at the end of the reporting year.

TRENDS IN THE STAFF COUNT IN THE BUSINESS SEGMENT PRINT



— ADDITIONAL INFORMATION

MARKETING AND DISTRIBUTION

The market for printing products with high and very high volume editions is very transparent: both customers that require printing products within Europe in high volumes and providers, which are in a position to execute such orders, are known. The *schlott group* offers printing products and services for high and very high volume editions on the basis of state-of-the-art industrial processes in intaglio printing, as well as for medium to high volume editions in roll-offset printing. The customer base, which requires printing products with high volumes on a Europe-wide basis, is clearly defined and well-known to us. Our marketing and distribution activities are thus focused primarily on the direct and individual support and maintenance of our existing customer base as well as on the acquisition of new customers.

The direct and individual support and maintenance of our existing customer base constitutes a central part of our endeavors in marketing and distribution. Among our most important marketing tools are our proven quality, extraordinary flexibility, focus on after-sales service and our ability to deliver in a timely manner even very time-critical orders. Printing houses, which have attained a high reputation, are preferred by customers.

Over the past years, price became an ever more important order parameter. This has led to a loosening of long-term customer relationships. While this development impacts negatively the earnings situation of all printing houses, it also represents new marketing opportunities. We need to adapt ourselves to prevailing market prices and are doing so through a comprehensive cost reduction program. However, we do not solicit orders at prices that fall below the minimum required for long-term economic health. We are thus ideally positioned once the economic situation in our industry has improved following expected consolidation steps

Composition of the Cost of Materials

IN € MILLION	2007/08	2006/07
Paper	125.4	125.7
Ink	40.8	43.9
Other	10.3	11.0
Services purchased	49.4	54.3
Total	225.9	234.9

LOGISTICS AND PROCUREMENT

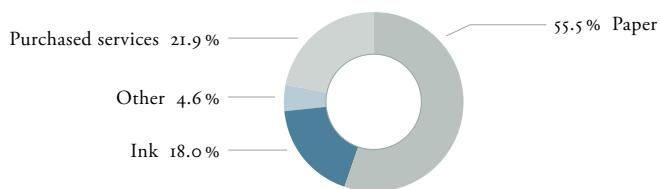
The permanent improvement in logistics at the individual sites is an important part of ongoing optimization measures applied within the *schlott group*. These measures are supported by our external logistics partners. In external logistics, we are closely working with long-time proven partners in order to assure that our products are delivered in a timely manner.

Paper and ink are the decisive procurement items within the category raw materials and supplies. Important positions in services purchased are services provided by logistics partners and providers of energy, particularly in form of electricity and natural gas.

With the exception of logistics services, the procurement markets are highly concentrated. While this does not lead to challenges with respect to availability of materials, we are careful to avoid undue dependency on providers and wholesalers of ink and paper; we are also taking advantage of opportunities in procurement with respect to price and shorter delivery times. The concentration in supplier markets does create economic risks. Toward the end of the reporting year, we experienced significantly higher prices for paper and energy, and particularly for natural gas.

COST OF MATERIALS 2007/08

100 % = € 225,9 million



Paper procured on behalf of customers, which represents a significantly smaller share of the total tonnage processed, does not create any price risks for us. Rising prices for paper do, however, burden the budgets of our customers as an increase in the price of paper rarely leads to an automatic adjustment in their spending plans. Consequently, price pressure for our products and services intensifies or our customers reduce their number of marketing initiatives. Intaglio printing, which in comparison to offset printing allows format variability, offers competitive advantages since high levels of variability permit optimal utilization of paper widths.

SUSTAINABILITY, ENVIRONMENTAL PROTECTION, QUALITY AND SAFETY

Sustainability within the *schlott group* is an integral part of the value-added process. We recognize the obligations we have toward future generations. At the same time, we are convinced that companies that recognize the importance of sustainability will in the longer term generate higher rates of return, have access to a more broadly-based customer universe and have a greater appeal to investors.

Concern for the environment is an important factor in our commitment for sustainability. As a company utilizing and processing paper we are consuming natural resources to a large extent. In addition, the printing process requires the employment of a multitude of chemicals and other substances dangerous to the environment. We are handling these substances carefully and responsibly and accept that we are operating in an ecologically sensitive area.

To this end, we have appointed ecological specialists responsible for assuring compliance with defined environmental standards at the individual sites of the *schlott group*. Annual internal ecological audits monitor levels of compliance and identify additional opportunities for improvement. We are documenting our efforts in this area and include these in the context of our environmental reporting. In addition, many of our production sites are certified as per EU-Directive EMAS II. In several areas of environmental protection, such as the cleanliness of discharged air or the recycling of chemicals employed in the production process, we are operating on a level above described legal standards. Our processes are at very high quality levels with respect to their impact on the environment.

In addition, the printing sites of the *schlott group* are certified by the Forest Stewardship Council (FSC) in line with the “Program for the Endorsement of Forest Certification Schemes” (PEFC). The goal of PEFC and FSC is an ecologically appropriate and economically sustainable utilization of the world’s forests. We are offering our customers the possibility to have their products produced by a certified provider employing “Chain of Custody” processes and having their ordered products marked accordingly. In this way, it is assured that the processed paper was produced from sustainable sources.

Highest quality of our printing products and the safety of our production processes are of traditional importance to the *schlott group*. Most of our production sites have been certified for several years as per ISO 9001: 2000 as well as per DIN EN ISO 14001. The quality of our products and services are continuously monitored on the basis of customer feedback.

Our safety standards go far beyond levels prescribed by law. Regular internal training sessions assure that all employees are familiar with these standards and that these standards are observed. Recommendations from employees for improvements are assessed and implemented. In such a way, we are minimizing the negative effects arising out of the production process.

RESEARCH AND DEVELOPMENT

The *schlott group* does not engage in research and development activities. We are essentially producing printed advertisement and marketing media by order of customers. For the delivery of these services we are employing cutting-edge technology available in the market and configure these to individual customer requirements.

— STATEMENT ON RISKS

INTRODUCTION

The *schlott group* as an internationally active corporation faces a multitude of possible risks. To this effect, we employ a group-wide risk management system as an integral part of the general policy and reporting process that goes beyond legal requirements and that is continually upgraded. The purpose of the system is to identify risks in a timely fashion, to evaluate risks and to communicate risks that can materially affect business activity to the Board of Management and to the Supervisory Board.

At the corporate level, all risks within the *schlott group* are collected and managed. All operating units within the Corporation are firmly embedded in this process. Each operating unit manages independently all existing risks within their areas of responsibility.

The entire process of the risk management system is defined and documented in a procedure manual. This manual contains policy for:

- *risk analysis, i.e. risk identification and assessment*
- *risk monitoring and communication*
- *risk management control*

The “Risk-Monitor TM” supports the EDP-technical implementation of risk management. All risks are evaluated in terms of their probabilities to occur and in terms of the possible financial impact. All risk factors are designated in terms of probability as ‘modest’, ‘medium’, ‘high’ or ‘very high’. Multiplying probabilities by the possible loss leads to the following categorization:

- *risks to be observed*
- *risks to be monitored*
- *(material) risks to be reported*

Risks that are to be monitored and material risks to be reported are communicated to the Board of Management and the Supervisory Board on a quarterly basis; unexpected events are reported on an ad-hoc basis. Each subsidiary has appointed a risk management officer who is responsible for the recording of local risks and for reporting these to local management; the latter communicates directly with the senior risk management officer at the corporate level.

The functionality of the risk management system is examined in the course of regular reviews by internal audits, as well as in the course of the annual examination by the external auditor.

All types of risks recorded in the Risk Monitor are described in greater detail below. Aside from its function as an early-warning and monitoring system, the risk management system also provides for the identification and quantification in the Annual Report of risks related to the future development of the Corporation.

GENERAL ECONOMIC RISKS

The declining global economic activity will create increased risks for the printing industry. It is possible that advertising budgets will be reduced leading to lower volume of activity in the printed media. Issuers of periodicals may be forced to reduce the size and / or the number of editions. Moreover, the possible reluctance by consumers to spend during an economic recession will affect retail trade as well as mail-order houses in a negative way.

High levels of competition within the European printing industry will remain. Further pricing pressure cannot be excluded, particularly in light of reduced general economic prospects.

The printing industry will be further burdened by rising energy and raw material prices. The *schlott group* expects that average procurement prices for these factors of production will be higher in 2008/09 than those that prevailed during the reporting year.

To counter those expected negative trends in business activity, the *schlott group* will continue to undertake further cost reduction measures even after the successful implementation of the cost reduction program during the business year 2008/09.

RISK CATEGORIES

Customer and Industry Risks

The greatest earnings risks faced by the *schlott group* continue to be found in the areas of customers and the printing industry. The reasons for the poor trends in our industry during the past years are the excess capacity created in the intaglio printing market and an increased competition from offset printing in the area of high volume production of printing products.

At the same time, the demand for printing products in important markets has been stagnating already for some time. In the risk reports contained in our Annual Reports for the past two years, we had already made reference to the risks of industry trends that could negatively influence the earnings position of the Corporation. In view of the accelerating negative developments in the global economy during the second half of 2008, it is difficult to expect relief; on the contrary, the risks of further negative developments have grown. Consequently, the *schlott group* intends to continue its aggressive measures with respect to further cost reductions during the business year 2008/09.

Financial Risks

Interest rate, foreign exchange and liquidity risks represent the most important financial risks to the *schlott group*. In the course of the business year 2007/08, we have concluded financing via a debenture authorizing the holders to call the loan in the event of non-observance of financial covenants. In addition, the consolidated balance sheet faces the risk of value impairments of capitalized assets.

The *group's* central treasury department is responsible for hedging transactions arising from ordinary business activity as well as for the planning and management of liquidity. Currently existing credit lines and loan commitments assure the future availability of sufficient financing and liquidity resources. A comprehensive system of managing accounts receivable is designed to minimize losses; accounts receivable are also re-insured to the extent possible. At the beginning of the business year 2008/09, we have entered into a factoring program as a further step for the optimization of working capital.

To guard against possible losses related to transactions that are undertaken with international partners or customers, forward foreign exchange transactions are employed. Interest rate risks inherent in floating rate credit facilities are hedged through respective derivative instruments. All hedging transactions are exclusively employed for minimizing risks; no open positions are being maintained.

In compliance with International Financial Reporting Standards (IFRS), capitalized goodwill must be subjected to an annual impairment test to assure that it is covered by the book value of the underlying entity. The risk of a value adjustment requirement is being mitigated within the *schlott group* via measures designed to sustain and optimize the economic position of the Corporation. In addition, the plausibility and quality of our planning process, which had repeatedly been validated in the past, plus the restructuring measures undertaken during the reporting year, further support the present valuation of intangible assets.

Furthermore, to assure attainment of profitability goals, marketing and distribution personnel were given objectives and accountabilities with respect to the passing-on to customers the rising cost for raw materials and energy. Moreover, net indebtedness is to be further reduced during the current business year through the continuing positive cash flow from operations as well as further improvements in the management and reduction of working capital.

IT Risks

Back-up and safety systems are installed to guard against loss of data and downtimes of IT-systems, particularly in the area of production processes. Both hardware and software are updated on an ongoing basis to state-of-the-art security standards in order to secure permanent access to all necessary resources. Incoming data and emails are scanned for viruses, Trojans, etc., by means of applicable security systems. Each entity within the *schlott group* has appointed IT protection managers in order to minimize risks in this pivotal area.

No risks are visible, which are not sufficiently secured by existing measures and controls.

Legal Risks

The central legal department at the Corporate level assures that risks arising out of contracts and agreements, particularly in the areas of warranties and contingent risks, are minimized. Important contracts and agreements are examined and endorsed by in-house counsel before implementation. The divestiture of the *meiller group* gave rise to a warranty risk that is usual for this type of transaction. Based on current knowledge, no claims under this warranty are expected. Furthermore, no negative consequences for the *schlott group* are expected out of contractual agreements related to the divestiture of *sachsendruck* at the start of the current business year.

Currently, no unit of the *schlott group* is involved in litigation or arbitration disputes, which could have a material negative impact on the financial condition of the Corporation.

Technology Risks

No technology risks exist in connection with the capital expenditures undertaken at various locations during the past years. In order to minimize risks of disruption or downtimes, the *schlott group's* machinery and equipment benefits from pro-active and preventive maintenance management, which prescribes not only the careful management of machinery and equipment, but also contains respective training measures for employees. A mature quality management system, setting forth in clearly defined terms the processes employed for sustaining quality, minimizes the risk of faulty production.

In the event of downtimes at one site, orders can be shifted to other sites within the Corporation since the configuration of machinery allows such transfers. No risks exist with respect to capital expenditures.

Environmental Risks

The declaration on environmental standards of the *schlott group* sets forth environmental and quality standards for the entire *group* and represents an integral part of the Corporation's management philosophy. The unique interests of man and the environment are taken into consideration in all policy decisions. Our internal "Eco-Audit" represents an instrument for the ongoing improvement of processes and the reduction of environmental impact.

Since paper is one of the main inputs into our production, the *schlott group* has implemented the guideline for the improvement and support of sustainable forestry. The goal of the "Chain of Custody" is a trail of the product chain – it contains complete information from the stage of sustainable forestry to the end product. In this regard, the *schlott group* has subjected itself successfully to certification procedures as per FSC 2007.

Miscellaneous Risks

For the important materials paper and ink, the *schlott group* centralizes the procurement of these materials in order to minimize risks in this area. No undue dependency exists versus individual suppliers. With respect to the price of energy, we expect higher average prices during the current year and have included this effect in our financial plan.

Adequate insurance coverage exists for fire and disruptions of operations, liability, transportation and credit losses.

In the area of logistics, we are working with forwarding agents that assure the timely and safe delivery of our products to our customers.

GENERAL STATEMENT ON RISKS

The *schlott group* does currently see no risks that could threaten the viability of the Corporation. We, like all other enterprises, are, however, subject to potential risks that may arise out of the global economic slowdown, which may materially affect the earnings and financial position of the Corporation.

CORPORATE GOVERNANCE

MANAGEMENT AND CONTROL

Structure of Management and Control

schlott gruppe AG, as a joint stock company, is subject to the legal regulations with respect to management and control. The general administration and management is the responsibility of the Board of Management and the Supervisory Board. The tasks of and the coordination between the two Boards are contained in the Corporation's Articles of Association; these are formulated and implemented under consideration of the guidelines contained in the German Code of Corporate Governance.

The Articles of Association of *schlott gruppe AG* prescribe that the Board of Management must consist of one or more members. The Members of the Board of Management are elected for a period of maximum five years and can be re-elected for further five-year periods. The Supervisory Board determines the number of Members of the Board of Management, their appointment or termination and is responsible for the implementation, changes or cancellations of respective appointment agreements.

Declaration of Compliance in Accordance with Article 161 of the German Corporation Act (AKTG)

On December 17, 2008, the *schlott group* has issued a Declaration of Compliance with respect to the German Code of Corporate Governance in the format as published on June 06, 2008. Since then, no changes with respect to deviations from the recommendations contained in the Code have occurred.

All respective declarations of the *schlott group* can be viewed on the homepage of the Corporation under www.schlottgruppe.de under the chapter of Corporate Governance. The latest Declaration of Compliance is also reproduced in this Annual Report in the chapter of Corporate Governance on page 23 pp. On the same page, we are elaborating in detail on the Corporate Governance philosophy of the Corporation.

COMPENSATION REPORT

schlott gruppe AG has made public the compensation data for Members of the Board of Management since the business year 2006/07. The compensation report also includes respective compensation for the Members of the Supervisory Board and elaborates on the fundamentals of the compensation systems for the two Boards.

Compensation of the Board of Management

Compensation of the Board of Management 2007/08

IN €	Total Compensation	Basic / Fixed Compensation	Variable Compensation
Bernd Rose	808,810	500,810	308,000
Heiko Arnold	564,848	309,848	255,000
Werner Reiser	376,364	238,364	138,000
Adam Valeri	562,086	306,366	255,720
Total	2,312,108	1,355,388	956,720

The compensation of the Members of the Board of Management consists of basic / fixed and performance-related parts as can be seen in the table above. Included in the basic compensation are benefits in-kind as well as contributions to pensions. Members have received a commitment from the Corporation for pension payments beginning at the age of 60. These pension rights do not expire and may be passed on to heirs. The premiums for this pension plan are paid by *schlott gruppe AG* into an external pension fund. Share options or similar constructions are not granted.

Performance-related compensation is based on annually recurring factors related to the achievement of company goals. For the business year 2007/08, the relevant factors were the attainment of the planned net income before taxes and liabilities to financial institutions.

The variable compensation for Members of the Board of Management contains incentives related to the general creation of corporate value. The central parameters in this connection are EBT and the cost of capital. These incentives for Board Members are thus geared toward the implementation of the long-term strategic goals of the *schlott group*.

In fiscal year 2007/08, the total compensation of the Board of Management amounted to € 2,312 thousand, of which € 957 thousand was accounted for by performance-based compensation.

No Member of the Board of Management has received financial commitments with respect to the termination of their appointments. Moreover, no Member of the Board of Management has received compensation or similar financial commitments from third parties on account of being a Member of the Board of Management.

In addition, no financial commitments exist in favor of Members of the Board of Management or other employees in the event a takeover offer for the Corporation is received. Moreover, no agreement exists within *schlott gruppe AG* which contain a “change-of-control” clause.

Compensation of the Supervisory Board

Compensation of the Supervisory Board 2007/08

IN €	Compensation	Other benefits	Total
Sigmund Kiener	40,000	137	40,137
Reinhold Schreiner	20,000	697	20,697
Joachim Kohm	15,000	0	15,000
Edmund Hug	15,000	0	15,000
Nikolaus Broschek	20,000	4,886	24,886
Dr. Rainer Hillebrand	15,000	1,844	16,844
Ivan Bebek	32,500	0	32,500
Dr. Herbert Pototzky	20,000	270	20,270
Andrea Raab	20,000	270	20,270
Reinhard Burck	15,000	0	15,000
Michael Schlecht	15,000	1,513	16,513
Josef Peitz	15,000	949	15,949
Total	242,500	10,566	253,066

Compensation for services rendered by the Members of the Supervisory Board amounted to € 243 thousand (€ 239 thousand in the previous year). Members receive € 15 thousand per year, the Chairman € 30 thousand and the Deputy Chairman € 22.5 thousand; for every membership in any of the Committees, with the exception of the Arbitration and Nomination Committees, Members receive an additional € 5 thousand. Travel expenses are reimbursed.

For Dr. Herbert Pototzky exists a pension liability, for which a provision in the amount of € 55 thousand was made during the reporting year (€ 45 thousand in the previous year).

— DECLARATION RELATED TO ACQUISITIONS AS PER ARTICLE 289,
CLAUSE 4, AND ARTICLE 315, CLAUSE 4 HGB

The legal requirements set forth in the Articles stated above are detailed below. The Board of Management is of the opinion that no further information needs to be disclosed as per Article 120, Clause 3, Para. 2, AktG.

The shares of *schlott gruppe AG* are admitted to the Frankfurt stock exchange and are traded in the area of the regulated market with additional subsequent requirements (Prime Standard). The subscribed capital in the amount of € 18,612,600 consists of 6,204,200 bearer shares having a nominal value of € 3.00 per share. All shares have identical rights, i.e. no voting limitations, preference shares or special rights exist. The Board of Management knows of no limitations, which may have been agreed upon between shareholders with respect to voting rights or transferability of shares.

On the basis of mandatory declarations received as of December 17, 2008, of the Members of the Supervisory Board, Mr. Joachim Kohm owns indirectly 935,000 shares (15.07 percent of the capital stock) via JUST-US GmbH (Germany), Mr. Nikolaus Broschek (Germany) owns 463,688 shares (7.47 percent) and Mr. Sigmund Kiener owns indirectly 460,354 shares (7.42 percent) via S.K. Management- und Beteiligungs GmbH (Germany). All other Members of the Board of Management and the Supervisory Board own less than 1 percent of total shares. The Spanish investment management firm Grupo Bestinver owns 683,959 shares (11.02 percent of the capital stock) according to the most recently available mandatory report. Further participations of shareholders in excess of 10 percent of voting rights are not known to Management. A participation of employees as per Article 289, Clause 4, No. 5, and Article 315, Clause 4, No. 5 HGB, does not exist.

In line with Article 6 of the Corporation's Articles of Association, the Board of Management consists of one or more persons; the number of Members will be designated by the Supervisory Board as per Article 6, Clause 2 of the Articles of Association. Absent any deviations contained in the Articles of Association, the appointment and termination of Members of the Board of Management follows the rules set forth in Articles 84 and 85 AktG as well as Article 31 of the Law of Co-Determination (MitbestG).

Any change in the Articles of Association requires a shareholders resolution of the Annual General Meeting in compliance with Articles 119, Clause 1, No. 5 and 179, Clause 1 AktG. Article 12, Clause 3 of the Articles of Association of *schlott gruppe AG* stipulates that an adopted shareholders resolution requires a simple majority of votes unless applicable laws require otherwise; the foregoing also applies to resolutions for which, in line with the AktG, a majority of the represented authorized capital is required. The right to make non-substantive changes to the Articles of Association is assigned to the Supervisory Board as per Article 13 of the Articles of Association. In addition, the Supervisory Board was authorized by the Annual General Meeting at the time Authorized Capital I and II were established, to adjust Article 4 of the Articles of Association with respect to the utilization of Authorized Capital I and II at the expiration of the related authorizations.

In accordance with Article 4, Clause 3 of the Articles of Association, the Board of Management is authorized, subject to the consent of the Supervisory Board, to increase the capital stock until February 25, 2013, by up to € 4,000,000 in cash contributions or contributions in-kind via a one-time or via multiple issuances of new shares (Authorized Capital I). These shares must be offered to existing shareholders via subscription rights. However, the Board of Management is authorized, subject to the consent of the Supervisory Board, to exclude subscription rights under the following conditions: (i) to avoid fractional amounts, (ii) in the case of shares to employees and (iii) for capital increases in-kind in the context of acquisitions of entities or participations. Shares out of Authorized Capital I have not been issued to date.

Furthermore, as per Article 4, Clause 4 of the Articles of Association, the Board of Management is authorized, subject to the consent of the Supervisory Board, to increase the capital stock until March 16, 2009, by up to € 5,300,000 in form of cash contributions or contributions in-kind via a one-time or via multiple issuances of new shares (Authorized Capital II). These shares must be offered to existing shareholders via subscription rights. However, the Board of Management is authorized, subject to the consent of the Supervisory Board, to exclude subscription rights under the following conditions: (i) to avoid fractional amounts, (ii) in the event of cash contributions of up to 10 percent of the existing capital stock as per Article 186, Clause 3, Para. 4 AktG and (iii) to fully grant holders of options and conversion rights issued by the Corporation or its subsidiaries subscriptions rights for the new shares to the extent these would be granted if the options and conversion rights or obligations had been exercised. Shares out of Authorized Capital II have not been issued to date.

As per Article 4, Clause 5 of the Articles of Association, the Authorized Capital may be conditionally increased by an additional € 3,750,000 (Conditional Capital I). The increase in the Conditional Capital will only be undertaken to the extent that shares issued will be utilized in servicing options and convertible debentures as these will have been issued by the Corporation or one of its wholly-owned subsidiaries by March 16, 2009. When issuing such debentures, the legal subscription rights of shareholders can be excluded in line with Article 186, Clause 3, Para. 4 AktG. As of this date, no options or convertible debentures have been issued.

The Board of Management was authorized at the Annual General Meeting on February 26, 2008, to repurchase up to 10 percent of the capital stock until August 25, 2009. The repurchase is to be executed via the stock exchange, or via a public offer to purchase from the Corporation's shareholders, or via a public request to the Corporation's shareholders for offers to sell shares, or via the issuance of put options to shareholders. In the event shares are acquired via the stock exchange, the amount per share paid by the Corporation may not exceed or be below by more than 10 percent the stock exchange quote as defined in greater detail in the authorization. In other instances, the purchase price may not be below nor may exceed the stock exchange quote by more than 20 percent. The repurchased shares may be retired or may be utilized in connection with acquisitions of or participations in other entities, or for servicing options and convertible debentures, or may be re-issued in line with Article 186, Clause 3, Para. 4 AktG. Subscription rights may be excluded in these cases.

The Board of Management has decided and has announced on November 9, 2007, that it intends to repurchase shares of up to 10 percent of the capital stock via the stock exchange beginning with November 12, 2007. The repurchase program is implemented under the leadership of DZ BANK. The repurchase program was briefly interrupted prior to the 2008 Annual General Meeting, but was reinstated on the basis of a new authorization dated February 29, 2008. As of December 17, 2008, 138,435 shares have been repurchased and are carried as treasury stock.

Several agreements exist under which Members of the Board of Management may resign in the event the control over the Corporation passes to a third party. No redundancy payments or other indemnifications exist in favor of the Members of the Board of Management or employees in the event a third party makes an offer to acquire the Corporation.

— CHANGES IN THE COMPOSITION OF THE MANAGEMENT AND SUPERVISORY BOARDS

CHANGES OF THE BOARD OF MANAGEMENT

Mr. Werner Reiser has decided to resign his position at the end of his appointment period on May 31, 2008. He had been with the Corporation for 15 years and the Members of the Supervisory Board and his colleagues on the Board of Management regret Mr. Reiser's decision and wish him the best for the future. Mr. Reiser will pursue new challenges as an independent consultant.

Following the departure of Mr. Reiser, the responsibility for the areas of accounting, IT and personnel was assumed by Mr. Heiko Arnold in addition to his responsibilities for treasury, controlling and investor relations. Mr. Adam Valeri added to his responsibility for technology and production the area of central procurement and Mr. Bernd Rose added to the areas of strategic planning and marketing / distribution the areas of internal audit and risk management. In this way, continuity and a seamless transition in management was secured.

CHANGES OF THE SUPERVISORY BOARD

Membership of the Supervisory Board remained unchanged during the reporting year. At the beginning of the business year, Mr. Reinhard Burck has effective October 1, 2007, assumed the mandate of Mr. Harald Roller, who resigned from the Board on July 31, 2007, following the divestiture of *meiller direct GmbH*.

— SUPPLEMENTARY INFORMATION

DIVERSITURE OF SACHSENDRUCK

The agreement to sell our sheet-offset printing subsidiary *sachsendruck GmbH*, Plauen, to Offizin Andersen Nexö Leipzig GmbH, was signed on November 18, 2008, with a retroactive effective date of October 1, 2008. The *schlott group* is thus continuing to re-focus its activities on its core competences. The *group* will in the future concentrate its activities on the production of catalogues, periodicals and inserts for publishing houses and the advertising industry in the areas of media services, intaglio and roll-offset printing and related comprehensive further processing services.

During the business year 2007/08, *sachsendruck* has generated a value-added turnover of € 14.0 million out of a total of € 239.3 million for the entire *schlott group*. The divestiture of *sachsendruck* has led to a one-time charge of € 4.9 million, which has been fully recognized during the reporting year.

PENDING CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Following the divestiture of *sachsendruck*, the *schlott group* is currently employing in its German sites and offices less than 2,000 staff as defined in Article 5 MitbestG; the Corporation expects this number to remain below 2,000. In as much as the so-called “One-Third-Participation Law”, according to which a supervisory board is to be constituted, does not apply to the *schlott group*, the Board of Management is of the opinion that in the future all Members of the Supervisory Board will be representing shareholders only. Up till now, the Supervisory Board was composed on an equal basis of both workers and shareholders representatives. The Board of Management has announced the composition of the Supervisory Board in the electronic *Bundesanzeiger* on November 28, 2008.

— OUTLOOK REPORT

GENERAL ECONOMIC AND INDUSTRY TRENDS

The crisis in global financial markets widened in the second half of 2008, causing expectations for the global economy to be broadly reduced. The negative consequences, particularly the difficulty of providing sufficient financial credit to both businesses and consumers coupled with a general decline in confidence, have by now reached the real economy. Governmental support measures in form of injection of capital and loan guaranties for financial institutions have so far not produced the desired results.

Especially in the USA, consumers are reluctant to spend in view of significantly reduced values of all asset categories and their concern for job security. Spending by businesses for capital goods has also declined. Toward the end of 2008, a growing number of industrial sectors have experienced reductions in both orders and sales at a hitherto unknown pace.

In light of these historically unique events, most international organizations, research institutes and governments have reduced markedly their economic forecasts for 2009. The common view at the end of 2008 is that the global economy will go through a serious economic recession and it is difficult to forecast the end of the economic downturn. According to the IMF, the global economy is expected to grow in 2009 by only 2.2 percent, after 5.0 percent in 2007 and 3.75 percent in 2008. The decline below the 3.0 percent threshold signals, according to the IMF, no more growth but a recession.

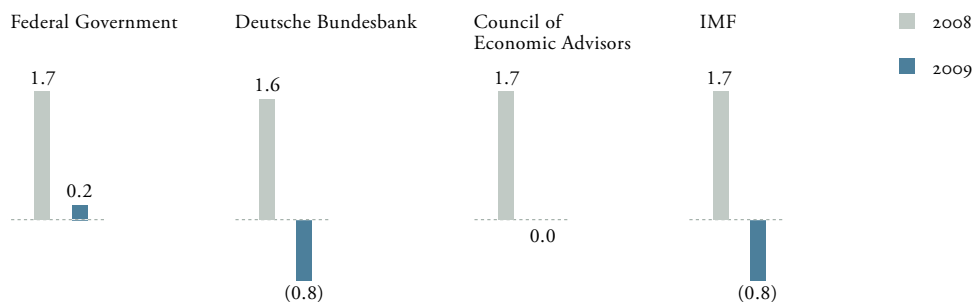
Particularly in the industrialized countries, the IMF expects a negative growth for the first time since World War II: After 1.4 percent in 2008, negative 0.3 percent in 2009. The decline is expected to be 0.7 percent in the USA, 0.3 percent in Japan, 1.3 percent in Great Britain and 0.5 percent in the Euro-zone. The strongest decline within the Euro-zone is expected to the extent of 0.8 percent in the export-intensive economy of Germany. Even the developing countries will experience slower growth, though are expected to still grow by 5.1 percent in 2009 after 6.6 percent in the previous year. These negative perspectives of the IMF are supported by other economic indicators, as for example the ifo indicator for the global economy, which has fallen in November 2008 to its lowest level in 20 years.

The printing industry is directly affected by the marked decline in general economic conditions and expectations. The Federal Association of Print and Media has signaled in October 2008 that order volume and medium-term business conditions of its members have reached a multi-year low. The Central Association of the German Advertising Industry (ZAW) prognosticates a renewed reduction by the business sector in advertising expenditures by one to two percent and, consequently, lower volume of advertisement media. The printing industry will be affected by these trends since reductions in printed advertisements, i.e. fewer ads and inserts, will reduce economies of scale in high volume segments. Moreover, the creeping decline in the volume of periodicals as well as in the catalogue sector cannot be expected to register a turn-around during the 2009 economic slowdown. In sum, we must expect in 2009 a decline in the volume of production in the printing industry.

On the procurement side, one can look forward to a consolidation at a reduced level in the cost of energy. Nonetheless, the cost of energy for both production and logistics is still expected to be above 2008 levels. In addition, several European producers of paper have planned to curtail their capacities in line with the expected decline in demand and to raise prices. It remains to be seen whether such pronouncements can be implemented in the challenging market environment. On balance, procurement expenses in the printing industry are expected to rise further in 2009.

Forecasts beyond the year 2009 are at this time difficult to make for both general economic expectations and trends for the printing industry. General uncertainties predominate, the end of the economic downturn is not visible, the breath of the recession is difficult to ascertain and the dynamics of the economic rejuvenation thereafter remain uncertain. With high probability, the pressure for consolidation in the industry in the direction of larger entities will increase and may lead to problems for border-line market participants. The process of consolidation in the European printing industry will be accelerated by these economic developments.

GDP FORECAST FOR GERMANY – DECEMBER 2008



OUTLOOK FOR THE SCHLOTT GROUP

Positioning of the schlott group in the Next Two Business Years

Following the divestiture in October 2008 of its sheet-offset printing subsidiary *sachsendruck*, the *schlott group* focuses all its activities on the value-added chain of media services, intaglio and roll-offset printing as well as further processing. With this concentration on our core competence, we are well positioned to cope with the challenges in the coming years.

In addition, the cost reduction program that has been successfully implemented during the business year 2007/08, will result in significant benefits. Annual savings are expected to exceed € 7 million. Thus, we have broadly reduced our cost basis and have gained strength for the future. During the business year 2008/09, the effects of the cost reduction program will be fully felt in the second quarter and on a full-year basis in the following business year. Strict cost control will remain one of our main preoccupations in 2008/09 in light of the afore-mentioned general economic environment.

During the next years, we will continue to be one of the active consolidation agents in the printing industry. Growth by acquisition is expected to be a main contributor to value creation for the *schlott group*, and we will observe market developments out of this perspective. In this connection, we will analyze carefully our strategic options with a long-term view.

With respect to our customer segments, we recognize that classic printing products continue to offer great potential. This applies also to classic mail-order houses. While multi-channel houses have the tendency to reduce their traditional catalogue business in favor of e-commerce activities, they will continue to issue such catalogues as these trigger decisive buying impulses by all age groups. Moreover, our mail-order customers increasingly employ smaller catalogues and inserts that accompany and supplement their classic main catalogues. As a result, there is a potential for additional orders.

The *schlott group* will make sure that the value of printing products within the entire spectrum of the media mix will be sustained and strengthened. Printing know-how will gain importance in pure e-commerce as a properly positioned printing product represents the most efficient tool for triggering buying impulses.

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In this connection, we are enjoying competitive advantages due to our proven quality, highest flexibility and timely delivery. Moreover, we are able to reduce “time-to-market” based on our plant positioning in both Northern and Southern Germany. This advantage is of particular value in highly time-critical advertisement inserts and in the area of periodicals where editors strive to include latest news and events.

In addition, our highly specialized production sites are able to produce inserts in nearly all desired formats and variations. The area of inserts is thus a strategic growth segment for the *schlott group*, in which we will continue to take advantage of opportunities for growth. To accomplish this, we rely on our optimally structured cutting-edge production machinery.

Upside Opportunities

Our forecast for the business year 2008/09 takes into consideration the continuing market challenges. Neither the competitive situation in the printing industry nor the general economic environment are expected to improve in the short term. Business activity will be further burdened by low price levels and weak demand due to the expected economic downturn.

Opportunities may, however, become available to the *schlott group* as a result of potential capacity reductions and exits of providers from the industry in light of continuing pressure on margins. Initial signs of such developments have become visible during recent months. A more palatable supply and demand balance may be in the making.

Downside Risks

Business risks must be seen in future general economic trends. In the event, the recession will be deeper and will last longer, total demand for printing products will be negatively impacted. Advertising budgets of businesses are highly elastic dependent upon changes in economic trends. In view of lower demand, prices that can be attained will come under increased pressure as printing houses strive to utilize their capacities.

On the procurement side, the risks of higher costs for energy and fuels have been mitigated by the correction in crude oil prices in the second half of 2008. Additional price increases can, however, not be excluded. Paper prices are likely to rise further. The amount of paper provided by us, as a percentage of total tonnage processed, is not expected to change significantly during the current year. Thus, direct negative effects out of further price increases are limited; but as such price increases burden advertising budgets, our customers may need to reduce their order volume.

Foreign exchange risks exist with respect to our site in the Czech Republic as well as in connection with customer orders denominated in British Pounds. If it is necessary or advisable, such risks are hedged to the extent that hedging products are available. Interest rate risks exist to only a limited degree and are hedged accordingly.

Business Year 2008/09

Our earnings expectations for the current business year 2008/09 do not foresee a recovery in market conditions; on the other hand, at this time we do not foresee a significant reduction in the volume of production. Thus, we expect total tonnage processed to be little changed permitting a satisfactory utilization of capacity. Value-added turnover is expected to be € 215 million following € 225 million in the previous year. The level of the previous year was restated by € 14.0 million representing the value-added turnover contributed by *sachsendruck*, which was sold effective October 1, 2008.

The cost reduction program leads primarily to a reduction in personnel expenses. However, higher prices for energy and raw materials that are carried over from the previous year into the current business year will affect earnings. Depreciation expenses are expected to be slightly lower and the result from financial activities will improve due to a reduction in net indebtedness. In view of the foregoing, the *schlott group* expects a break-even result in terms of operating EBT. The one-time charges that were incurred in connection with the cost reduction program have been nearly fully recognized during the past year; no further charges are foreseen during the current business year. With respect to the forthcoming labor negotiations at our Hamburg site, expected charges have already been provisioned.

The financial position of the Corporation will again be improved due to a further sustainable reduction in net indebtedness. This will be accomplished with an unchanged positive operating cash-flow as well as a lower level of accounts receivable and thus lower needs for working capital. Capital expenditures will be at more traditional levels during 2008/09 after significantly lower levels in the previous year. In as much as planned depreciation will be higher and current assets will be reduced, we expect the balance sheet total to be appreciably reduced. The equity ratio is expected to be markedly enhanced during 2008/09.

With respect to dividend policy, the important criteria of earnings trends, future expectations and continuity in dividend distributions will again be applied during the business year 2008/09.

Business Year 2009/10

In view of the high level of uncertainty about future general economic conditions, to make any meaningful statements about the business year 2009/10 is only possible to a limited extent. To err on the conservative side, we do not anticipate any material improvement in price levels or significantly positive impulses with respect to production volume. For these reasons, value-added turnover during the business year 2009/10 might again be slightly lower.

On the cost side, the cost reduction program of the business year 2007/08 will benefit the entire business year and thus represent a positive impulse. All other things being equal, an improvement in earnings may be derived.

General Statement on Future Developments

From today's perspective, the medium-term development of the *schlott group* will take place in the context of an essentially unchanged, but demanding market environment. At the same time, internal costs were and will be reduced and the efficiency at all levels and for all processes will be further improved. In this way, the *schlott group* will further strengthen its competitive position.

Our customer orientation with respect to our product mix and services as well as the positioning of our production sites provide a strong competitive platform. A central and permanent challenge will be the further enhancement of the quality of our products and services. In as much as we are now focusing all of our resources exclusively on our core competence – the value-added chain of media services, intaglio and roll-offset printing as well as further processing – we intend to be even more successful in the future. Fundamental changes in this positioning are not planned, though we intend to be an active player in the consolidation process of the European printing industry.

FREUDENSTADT, DECEMBER 17, 2008

BOARD OF MANAGEMENT



BERND ROSE



HEIKO ARNOLD



ADAM VALERI