
REPORT OF THE SUPERVISORY BOARD

SCHLOTT GRUPPE AG

In the following section, the Supervisory Board of *schlott gruppe AG* reports on its activities in the financial year 2007/08. The main focus of this report lies on the collaboration between the Supervisory Board and the Management Board, the main issues discussed in full meetings of the Supervisory Board and the work of its committees. The report also covers the statutory audits for the *AG* and the *group*.

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

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

The Supervisory Board was also kept informed about circumstances of particular importance between regularly scheduled meetings. In my role as chairman of the Supervisory Board, I maintained a close and regular dialogue with the Management Board beyond the scheduled meetings and thus remained well-informed about the current progression of business and all material business-related events.

During the financial year 2007/08, the Supervisory Board held five meetings at which it examined in detail the financial position and the operational and strategic development of the organisation and its business segments. The Supervisory Board also received prompt and comprehensive reports from the Management Board concerning any occurrences of particular importance in assessing the position and development of the organisation and in its management. Where appropriate, these reports were produced and made available in writing to the Supervisory Board between scheduled meetings. In the case of matters requiring the approval of the Supervisory Board, these were submitted by the Management Board in good time to allow members to adopt resolutions accordingly.

Conflicts of interest of members of the Management Board and the Supervisory Board must be disclosed immediately to the Supervisory Board and details thereof made available to the General Meeting of Shareholders. No such conflict of interest arose during the year under review. There were no changes in the composition of the Supervisory Board in the financial year 2007/08.

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD

On May 31, 2008, after fifteen years of service with *schlott gruppe*, Werner Reiser left the company for personal reasons on the expiry of his contract as a member of the Management Board. The Supervisory Board deeply regretted this decision. It thanked Mr. Reiser for his outstanding contribution, the always and in every respect exceptional collaboration and wished him every success and best personal health in the future.

The areas for which Mr. Reiser was previously responsible were taken over by the three other members of the Management Board, thus ensuring a high degree of continuity. The Supervisory Board wishes to thank the Management Board for ensuring a smooth and efficient transition.

At its meeting on July 23, 2008, the Supervisory Board reappointed Heiko Arnold and Adam Valeri to the Management Board of *schlott gruppe AG*. Their periods of office will expire on May 31, 2012, and March 31, 2010, respectively.

PLENARY MEETINGS

The meetings held on a regular basis by the full Supervisory Board of *schlott gruppe AG* focused on the progression of revenues and earnings, cash flows and capital expenditure as well as issues relating to employment levels within the *group*, at the respective subsidiaries as well as the various company locations.

On several occasions, the plenum also discussed issues relating to corporate governance. On December 17, 2008, the Supervisory Board, together with the Management Board, issued a joint declaration of conformity for *schlott gruppe AG* in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG) relating to the recommendations put forward by the Commission of the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the Electronic Federal Gazette.

Without the members of the Management Board being present, the Supervisory Board also discussed the efficiency of its work. In particular, the assessment conducted within this area focused on the completeness and regularity with which information to be requested by the Supervisory Board from the Management Board. The annual report for the financial year 2007/08 includes a Management Board report on corporate governance at *schlott gruppe AG*, which also extends to the Supervisory Board.

In the financial year 2007/08, it was again the further strategic development of the *group*, especially with regard to its continued focus on the core web-fed printing business against the background of developments in the European printing industry, that gave rise to important discussions at meetings of the Supervisory Board. In this context, the cost-reduction programme devised by the Management Board and the decision to sell the *group's* subsidiary *sachsendruck GmbH* were also examined.

As regards the print division, deliberations were centred around current and medium-term market trends within the area of gravure and web-offset printing, the main focus being on the continued deterioration in market prices witnessed in the course of the financial year under review. The Supervisory Board explored the impact on operational profitability and cash flows as well as the associated impact on measures aimed at enhancing profitability levels as a whole. Within this context, the Supervisory Board continuously monitored the cost-reduction programme presented by the Management Board.

In accordance with the exemption provisions set out in Section 315a of the Commercial Code (Handelsgesetzbuch – HGB), the consolidated financial statements were not prepared on the basis of HGB. The accounting system, the annual financial statements of *schlott gruppe AG*, the consolidated financial statements and the joint management report for the financial year 2007/08 were granted an unqualified audit opinion by the appointed auditor, AWT AUDIT WIRTSCHAFTS-TREUHAND AG (Stuttgart).

At its meeting on January 14, 2009, in the presence of the auditor, the Supervisory Board examined in detail the financial statements for the reporting year 2007/08 as drawn up and presented by the Management Board for the *AG* (under the German Commercial Code – HGB) and the *group* (under IAS/IFRS) as well as the joint management report and the report of the statutory auditor. Following its own examination and the recommendation of the Audit Committee, the Supervisory Board accepted the results of the audit by the statutory auditor and raised no objections after the final results of its audit. It approved the financial statements for the *AG* and the *group* and thus adopted the annual financial statements.

At its meeting on November 5, 2008, after conducting its own examination, the Supervisory Board agreed with the proposal of the Management Board for the distribution of unappropriated retained earnings based on the provisional figures for the financial year 2007/08. This was confirmed at the meeting on January 14, 2009. The Supervisory Board and Management Board intend to propose a dividend of €0.50 per ordinary share to the General Meeting of Shareholders scheduled for March 3, 2009. With due regard for the liquidity of the company, its financial planning and in particular its capital investment plans, the Supervisory board believes this dividend proposal to be reasonable.

COMMITTEE WORK

In order to ensure the efficient discharge of its duties, the Supervisory Board established all four committees specified in its rules of procedure, these being the Mediation Committee (pursuant to section 27 (3) of the German Codetermination Act), the Personnel Committee, the Audit Committee and the Nominations Committee (in accordance with Item 5.3.3 of the German Corporate Governance Code). In line with the recommendations of this Code, the Nominations Committee is made up entirely of shareholder representatives. The respective committee chairpersons presented regular reports at meetings of the full Supervisory Board, thereby providing an in-depth account of committee work. The committees are responsible for preparing the relevant topics and resolutions to be discussed by the plenum. In accordance with its rules of procedure, the Supervisory Board has conferred certain rights on the committees.

In the financial year under review, the committees included the following members:

MEDIATION COMMITTEE

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

AUDIT COMMITTEE

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

PERSONNEL COMMITTEE

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

NOMINATIONS COMMITTEE

Sigmund Kiener *), Nikolaus Broschek, Joachim Kohm

*) *Chair*

Once again, there was no need to convene a meeting of the Mediation Committee in FY 2007/08. Equally, no meetings of the Nominations Committee were held during the year under review. The proposals to be submitted to the AGM on March 3, 2009, for the reappointment of Supervisory Board members were not discussed by the Nominations Committee and adopted by the Supervisory Board until after the end of FY 2007/08 on September 30, 2008.

The Personnel Committee met on three occasions during the year under review. As part of its function, it examined the attainment of the parameters governing the variable compensation paid to the members of the Management Board for the reporting year. Following the decision of the full Supervisory Board to reappoint Heiko Arnold and Adam Valeri, it also dealt with the extensions of their contracts.

The Audit Committee met six times in the year under review. At the first of these meetings, in accordance with Section 3 of its rules of procedure, it defined its own duties and responsibilities and especially the lines of demarcation between its own work and that of the full Supervisory Board. It concerned itself particularly with the issues of accounting and planning systems, risk management and internal control, the independence of the statutory auditor and compliance with corporate governance requirements. The meetings also covered the annual financial statements for the *AG* and the *group* and fundamental issues of risk management. The committee looked at a number of Management Board reports, in particular on current developments in *group* profitability, valuation of the company's holdings, control, accounting and internal auditing. The Audit Committee made regular comparisons between the *group*'s actual performance and operational planning forecasts and examined the results for signs that action might be required.

It issued the audit mandate to the statutory auditor, defined the focal points of the audit and determined the level of remuneration of the auditor. It obtained the declaration of independence of the auditor in accordance with 7.2.1 of the German Corporate Governance Code and monitored the independence of the auditor. In addition, it dealt with the award of orders to the auditor for services not related to the audit. In the period under review, the audit committee found no evidence that may have cast doubt on the independence and impartiality of the auditor, and consequently no measures to safeguard this independence and impartiality were required. The auditors attended meetings of the audit committee on November 4 and December 17, 2008, and provided a comprehensive report on their auditing activities.

In 2007/08, the Management Board and workforce of *schlott gruppe* were again faced with a difficult and challenging market – one that again demanded tremendous commitment. The Supervisory Board would like to express its gratitude for the outstanding efforts made on behalf of the company by all those involved.

JANUARY 2009



SIGMUND KIENER

Chairman of the Supervisory Board