

AUDITED FINANCIAL
STATEMENTS
Group and AG



SCHLOTT GRUPPE AG, FREUDENSTADT

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CONSOLIDATED PROFIT AND LOSS STATEMENT

for the period October 1, 2007 to September 30, 2008 (with prior year comparison)

(IN € 000S; AS PER IFRS)

2007/08

2006/07

Page

| | 2007/08 | 2006/07 |
|---|-----------|-----------|
| <u>146 p</u> 1. Net sales | 468,772 | 482,211 |
| 2. Increase / (decrease) in inventory of finished goods and work in process | (3,609) | 4,373 |
| <u>147 p</u> 3. Other operating income | 7,698 | 12,321 |
| <i>Total revenue</i> | 472,861 | 498,905 |
| <u>148</u> 4. Cost of raw materials and supplies | (225,910) | (234,911) |
| <u>149 p</u> 5. Personnel expenses | (135,891) | (146,721) |
| <u>150</u> 6. Expenses for scheduled depreciation | (27,567) | (28,751) |
| <u>150</u> 7. Charges for restructuring | (18,028) | 0 |
| <u>151</u> 8. Other operating expenses | (72,968) | (68,432) |
| 9. <i>Results from ordinary business activities</i> | (7,503) | 20,090 |
| <u>152</u> 10. Other interest and similar income | 421 | 3,106 |
| <u>152</u> 11. Interest and similar expenses | (11,499) | (12,477) |
| <u>152</u> 12. Foreign exchange gains | 1,088 | 263 |
| 13. <i>Earnings before taxes</i> | (17,493) | 10,982 |
| <u>152 pp</u> 14. Taxes on income | 700 | 7,884 |
| 15. <i>Net income from continuing operations</i> | (16,793) | 18,866 |
| 16. <i>Net income from discontinued operations</i> | 0 | 14,789 |
| 17. <i>Total net income</i> | (16,793) | 33,655 |
| Of which related to – | | |
| Shareholders of schlott gruppe AG | (16,792) | 33,656 |
| Minority shareholders | (1) | (1) |

CONSOLIDATED CASH FLOW STATEMENT

for the period October 1, 2007 to September 30, 2008 (with prior year comparison)

(IN € 000S; AS PER IFRS)

2007/08

2006/07

CASH FLOW FROM ORDINARY BUSINESS ACTIVITIES

| | | |
|--|----------|----------|
| RESULTS FROM ORDINARY BUSINESS ACTIVITIES, INCLUDING FOREIGN EXCHANGE GAINS / (LOSSES) | (6,415) | 20,353 |
| Depreciation of fixed assets | 27,567 | 28,751 |
| Dissolution of passive differential out of purchase price allocation | 0 | (1,748) |
| Increase / (decrease) in provisions | 5,412 | (12,977) |
| (Gains) / losses from disposals of fixed assets | (197) | (167) |
| RESULTS PRIOR TO CHANGES IN NET CURRENT ASSETS | 26,367 | 34,212 |
| (Increase) / decrease in inventory, raw materials and supplies | 2,246 | (2,491) |
| (Increase) / decrease in accounts receivable | 15,166 | (1,210) |
| Increase / (decrease) in accounts payable | (20,095) | 7,544 |
| (Increase) / decrease in other net current assets | 1,048 | (1,524) |
| CASH FLOW FROM CURRENT BUSINESS ACTIVITIES | 24,732 | 36,531 |
| (Payments) / receipts of income taxes | 5,737 | (8,087) |
| NET CASH FLOW FROM ORDINARY BUSINESS ACTIVITIES | 30,469 | 28,444 |

CASH FLOW FROM INVESTMENT ACTIVITIES

| | | |
|--|---------|----------|
| Investments in property, plant and equipment | (6,635) | (10,999) |
| Receipts from disposals of property, plant and equipment | 2,430 | 1,083 |
| Investments in intangible assets | (141) | (598) |
| Receipts from disposals of intangible assets | 0 | 67 |
| Investments in financial assets | (21) | (29) |
| Acquisitions of subsidiaries | 0 | (17,674) |
| Receipts from disposals of subsidiaries | 7,745 | 29,566 |
| NET CASH FLOW FROM INVESTMENT ACTIVITIES | 3,378 | 1,416 |

CASH FLOW FROM FINANCING ACTIVITIES

| | | |
|--|----------|----------|
| Repurchase of own shares | (1,866) | 0 |
| Distributions to shareholders and minority interests | (6,150) | (6,204) |
| Receipts from taking out loans | 37,000 | 16,000 |
| Repayments of debentures and loans | (32,170) | (41,654) |
| Increase / (decrease) in short-term liabilities to banks | (20,569) | (670) |
| Receipts from other long-term liabilities | 6 | 24 |
| Repayments of other long-term liabilities | (368) | (233) |
| Group financing of discontinued operations | 0 | 14,498 |
| Interest paid | (10,327) | (10,941) |
| NET CASH FROM FINANCING ACTIVITIES | (34,444) | (29,180) |
| NET INCREASE / (DECREASE) IN CASH | (597) | 679 |
| CASH AT THE BEGINNING OF THE PERIOD | 2,637 | 1,958 |
| CASH AT THE END OF THE PERIOD | 2,040 | 2,637 |

Further details are shown in Chapter H of the Notes to the consolidated financial statements on page 193 f.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

as of September 30, 2008 (with prior year comparison)

| (IN € 000S; AS PER IFRS) | Subscribed Capital | Capital Reserves | Other Earnings Reserves |
|---|-----------------------|---------------------|----------------------------|
| Balance on October 1, 2006 | 18,613 | 58,669 | 42,814 |
| Valuation of financial assets and cash flow hedges | 0 | 0 | 0 |
| Differentials from translation of foreign currencies | 0 | 0 | 0 |
| Gains and losses not recognized in profit and loss statement | 0 | 0 | 0 |
| Net income for the period | 0 | 0 | 0 |
| Net results for the period | 0 | 0 | 0 |
| Dividends | 0 | 0 | 0 |
| Additions to earnings reserves | 0 | 0 | 7,500 |
| | 0 | 0 | 7,500 |
| Balance on September 30, 2007 | 18,613 | 58,669 | 50,314 |
| Balance on October 1, 2007 | 18,613 | 58,669 | 50,314 |
| Valuation of financial assets and and cash flow hedges | 0 | 0 | 0 |
| Differentials from translation of foreign currencies | 0 | 0 | 0 |
| Gains and losses not recognized in profit and loss statement | 0 | 0 | 0 |
| Net income for the period | 0 | 0 | 0 |
| Net results for the period | 0 | 0 | 0 |
| Dividends | 0 | 0 | 0 |
| Purchase of own shares | 0 | (1,866) | 0 |
| Withdrawals from earnings reserves | 0 | 0 | (25,155) |
| Additions to earnings reserves | 0 | 0 | 8,500 |
| | 0 | (1,866) | (16,655) |
| Balance on September 30, 2008 | 18,613 | 56,803 | 33,659 |

Further details are shown in the Notes to the consolidated financial statements under the line item numbers stated below each column to the right.

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| Translation Reserves | Valuation Reserves | Retained Earnings | Shareholders schlott gruppe AG | Minority Shareholders | Total |
|----------------------|--------------------|-------------------|--------------------------------|-----------------------|----------|
| (46) | 324 | 33,112 | 153,486 | (2) | 153,484 |
| 0 | (176) | 0 | (176) | 0 | (176) |
| 519 | 0 | 248 | 767 | 0 | 767 |
| 519 | (176) | 248 | 590 | 0 | 590 |
| 0 | 0 | 33,655 | 33,656 | (1) | 33,655 |
| 519 | (176) | 33,903 | 34,246 | (1) | 34,245 |
| 0 | 0 | (6,204) | (6,204) | 0 | (6,204) |
| 0 | 0 | (7,500) | 0 | 0 | 0 |
| 0 | 0 | (13,704) | (6,204) | 0 | (6,204) |
| 473 | 148 | 53,311 | 181,528 | (3) | 181,525 |
| 473 | 148 | 53,311 | 181,528 | (3) | 181,525 |
| 0 | (216) | 0 | (216) | 0 | (216) |
| 1,965 | 0 | (248) | 1,717 | 0 | 1,717 |
| 1,965 | (216) | (248) | 1,501 | 0 | 1,501 |
| 0 | 0 | (16,793) | (16,793) | (1) | (16,794) |
| 1,965 | (216) | (17,041) | (15,292) | (1) | (15,293) |
| 0 | 0 | (6,150) | (6,150) | 0 | (6,150) |
| 0 | 0 | 0 | (1,866) | 0 | (1,866) |
| 0 | 0 | 25,155 | 0 | 0 | 0 |
| 0 | 0 | (8,500) | 0 | 0 | 0 |
| 0 | 0 | 10,505 | (8,016) | 0 | (8,016) |
| 2,438 | (68) | 46,775 | 158,220 | (4) | 158,216 |

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CONSOLIDATED BALANCE SHEET as of September 30, 2008 (with prior year comparison)

| ASSETS (IN € 000S; AS PER IFRS) | | 2007/08 | 2006/07 |
|--|--|---------|---------|
| <i>Page</i> | A. LONG-TERM ASSETS | | |
| <u>156 p</u> | I. INTANGIBLE ASSETS | | |
| | 1. Goodwill | 75,613 | 81,821 |
| | 2. Other intangible assets | 12,961 | 13,505 |
| | 3. Down payments | 12 | 0 |
| | | 88,586 | 95,326 |
| <u>158 p</u> | II. PROPERTY, PLANT AND EQUIPMENT | | |
| | 1. Land, land rights and buildings, including buildings on land owned by others | 125,239 | 132,547 |
| | 2. Technical plant and machinery | 136,840 | 153,601 |
| | 3. Other plant, machinery and business equipment | 17,763 | 20,386 |
| | 4. Down payments and plant under construction | 1,242 | 1,014 |
| | | 281,084 | 307,548 |
| <u>159</u> | III. FINANCIAL ASSETS | | |
| | 1. Shares in affiliated companies | 209 | 209 |
| | 2. Shares in other companies | 194 | 194 |
| | 3. Other loans | 43 | 22 |
| | | 446 | 425 |
| <u>160</u> | IV. INVESTMENT PROPERTIES | 3,715 | 6,088 |
| <u>160</u> | V. LONG-TERM RECEIVABLES AND OTHER ASSETS | | |
| | 1. Claims for tax refunds | 7 | 4,552 |
| | 2. Other assets | 2,227 | 2,362 |
| | | 2,234 | 6,914 |
| <u>161</u> | VI. DEFERRED TAXES | 562 | 821 |
| | <i>Total long-term assets</i> | 376,627 | 417,122 |
| | B. SHORT-TERM ASSETS | | |
| <u>161</u> | I. INVENTORY, RAW MATERIALS AND SUPPLIES | 22,338 | 24,584 |
| <u>162 pp</u> | II. SHORT-TERM RECEIVABLES AND OTHER ASSETS | | |
| | 1. Accounts receivable | 32,624 | 47,790 |
| | 2. Claims for tax refunds | 39 | 2,330 |
| | 3. Other assets | 5,626 | 13,348 |
| | | 38,289 | 63,468 |
| <u>165</u> | III. CASH AND CASH EQUIVALENTS | 2,040 | 2,637 |
| <u>165</u> | IV. DEFERRED ITEMS | 1,553 | 1,371 |
| <u>165 p</u> | V. SUBSIDIARY IN PROCESS OF DIVESTITURE | 13,022 | 0 |
| | <i>Total short-term assets</i> | 77,242 | 92,060 |
| | | 453,869 | 509,182 |

| | | | Page |
|--|---------|---------|---------------|
| A. SHAREHOLDERS EQUITY | | | |
| I. RELATED TO SHAREHOLDERS | | | |
| OF SCHLOTT GRUPPE AG | | | |
| 1. Subscribed capital | 18,613 | 18,613 | <u>166</u> pp |
| 2. Capital reserves | 56,803 | 58,669 | <u>169</u> |
| 3. Earnings reserves | 36,097 | 50,787 | <u>170</u> |
| 4. Valuation reserves | (68) | 148 | <u>170</u> p |
| 5. Retained earnings | 46,775 | 53,311 | |
| | ----- | ----- | |
| | 158,220 | 181,528 | |
| | ----- | ----- | |
| II. MINORITY SHAREHOLDERS | (4) | (3) | |
| <i>Total shareholders equity</i> | ----- | ----- | |
| | 158,216 | 181,525 | |
| | ----- | ----- | |
| B. LONG-TERM DEBT | | | |
| I. LONG-TERM FINANCIAL LIABILITIES | | | |
| 1. Due to banks | 104,516 | 99,686 | <u>171</u> |
| 2. Other long-term liabilities | 947 | 806 | |
| | ----- | ----- | |
| | 105,463 | 100,492 | |
| | ----- | ----- | |
| II. LONG-TERM PROVISIONS | | | <u>172</u> pp |
| 1. Provisions for pension and similar liabilities | 19,934 | 19,886 | |
| 2. Other long-term provisions | 6,103 | 6,563 | |
| | ----- | ----- | |
| | 26,037 | 26,449 | |
| | ----- | ----- | |
| III. DEFERRED TAXES | 24,468 | 28,311 | |
| | ----- | ----- | |
| IV. LONG-TERM DEFERRED ITEMS | 1,384 | 1,755 | <u>177</u> |
| <i>Total long-term debt</i> | ----- | ----- | |
| | 157,352 | 157,007 | |
| | ----- | ----- | |
| C. SHORT-TERM DEBT | | | |
| I. SHORT-TERM FINANCIAL LIABILITIES | | | |
| 1. Due to banks | 50,717 | 71,286 | <u>177</u> p |
| 2. Down payments | 276 | 1,305 | |
| 3. Accounts payable | 34,082 | 54,177 | |
| 4. Due to affiliated companies | 35 | 33 | |
| 5. Other liabilities | 8,613 | 13,813 | |
| | ----- | ----- | |
| | 93,723 | 140,614 | |
| | ----- | ----- | |
| II. SHORT-TERM PROVISIONS | | | <u>178</u> pp |
| 1. Provisions for taxes | 262 | 1,741 | |
| 2. Other provisions | 33,874 | 28,050 | |
| | ----- | ----- | |
| | 34,136 | 29,791 | |
| | ----- | ----- | |
| III. SHORT-TERM DEFERRED ITEMS | 166 | 245 | |
| | ----- | ----- | |
| IV. LIABILITIES IN CONNECTION WITH DISPOSAL OF SUBSIDIARY | 10,276 | 0 | <u>181</u> p |
| <i>Total short-term debt</i> | ----- | ----- | |
| | 138,301 | 170,650 | |
| | ----- | ----- | |
| | 453,869 | 509,182 | |
| | ----- | ----- | |

DEVELOPMENTS IN CONSOLIDATED FIXED ASSETS AND VALUE ADJUSTMENTS

for the period October 1, 2007 to September 30, 2008

ACQUISITION AND MANUFACTURING COSTS

| (IN € 000S; AS PER IFRS) | Oct. 1, 2007 | Translation Differences | Additions | Disposals | (Eliminations) Additions Consolidation | Transfers | Sept. 30, 2008 |
|---|--------------|-------------------------|-----------|-----------|--|-----------|----------------|
| I. INTANGIBLE ASSETS | | | | | | | |
| 1. Goodwill | 81,821 | 0 | 0 | 1,396 | 0 | (4,812) | 75,613 |
| 2. Other intangible assets | 28,625 | 28 | 129 | 10,073 | 0 | (44) | 18,665 |
| 3. Down payments | 0 | 0 | 12 | 0 | 0 | 0 | 12 |
| | 110,446 | 28 | 141 | 11,469 | 0 | (4,856) | 94,290 |
| II. PROPERTY, PLANT AND EQUIPMENT | | | | | | | |
| 1. Land, land rights and buildings, including buildings on land owned by others | 211,832 | 373 | 567 | 1,250 | 0 | (9,593) | 201,929 |
| 2. Technical plant and machinery | 482,706 | 971 | 3,667 | 4,698 | 0 | (16,256) | 466,390 |
| – of which leased | 2,717 | 303 | 0 | 0 | 0 | (3,020) | 0 |
| 3. Other plant, machinery and business equipment | 71,339 | 208 | 1,180 | 2,093 | 0 | (2,587) | 68,047 |
| – of which leased | 37 | 0 | 0 | 0 | 0 | 0 | 37 |
| 4. Down payments and plant under construction | 1,014 | 4 | 1,221 | 0 | 0 | (997) | 1,242 |
| | 766,891 | 1,556 | 6,635 | 8,041 | 0 | (29,433) | 737,608 |
| III. FINANCIAL ASSETS | | | | | | | |
| 1. Shares in affiliated companies | 209 | 0 | 0 | 0 | 0 | 0 | 209 |
| 2. Shares in other companies | 194 | 0 | 0 | 0 | 0 | 0 | 194 |
| 3. Other loans | 22 | 0 | 21 | 0 | 0 | 0 | 43 |
| | 425 | 0 | 21 | 0 | 0 | 0 | 446 |
| IV. INVESTMENT PROPERTIES | | | | | | | |
| | 23,705 | 0 | 0 | 8,489 | 0 | (1,795) | 13,421 |
| | 901,467 | 1,584 | 6,797 | 27,999 | 0 | (36,084) | 845,765 |

VALUE ADJUSTMENTS

REMAINING BOOK VALUE

| Oct. 1, 2007 | Translation Differences | Allocations | Dissolutions | (Eliminations) Additions Consolidation | Transfers | Sept. 30, 2008 | Sept. 30, 2008 | Sept. 30, 2007 |
|--------------|-------------------------|-------------|--------------|--|-----------|----------------|----------------|----------------|
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 75,613 | 81,821 |
| 15,120 | 25 | 674 | 10,073 | 0 | (42) | 5,704 | 12,961 | 13,505 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 12 | 0 |
| 15,120 | 25 | 674 | 10,073 | 0 | (42) | 5,704 | 88,586 | 95,326 |
| 79,285 | 10 | 4,995 | 1,234 | 0 | (6,366) | 76,690 | 125,239 | 132,547 |
| 329,105 | 304 | 17,769 | 4,611 | 0 | (13,017) | 329,550 | 136,840 | 153,601 |
| 943 | 117 | 194 | 0 | 0 | (1,254) | 0 | 0 | 1,774 |
| 50,953 | 151 | 3,915 | 1,930 | 0 | (2,805) | 50,284 | 17,763 | 20,386 |
| 5 | 0 | 6 | 0 | 0 | 0 | 11 | 26 | 32 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,242 | 1,014 |
| 459,343 | 465 | 26,679 | 7,775 | 0 | (22,188) | 456,524 | 281,084 | 307,548 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 209 | 209 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 194 | 194 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 43 | 22 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 446 | 425 |
| 17,617 | 0 | 214 | 6,522 | 0 | (1,603) | 9,706 | 3,715 | 6,088 |
| 492,080 | 490 | 27,567 | 24,370 | 0 | (23,833) | 471,934 | 373,831 | 409,387 |

DEVELOPMENTS IN CONSOLIDATED FIXED ASSETS AND VALUE ADJUSTMENTS

for the period October 1, 2006 to September 30, 2007

ACQUISITION AND MANUFACTURING COSTS

| (IN € 000S; AS PER IFRS) | Oct. 1, 2006 | Translation Differences | Additions | Disposals | (Eliminations) Additions Consolidation | Transfers | Sept. 30, 2007 |
|---|--------------|-------------------------|-----------|-----------|--|-----------|----------------|
| I. INTANGIBLE ASSETS | | | | | | | |
| | | | | | (7,886) | | |
| 1. Goodwill | 89,575 | 0 | 132 | 0 | 0 | 0 | 81,821 |
| 2. Other intangible assets | 18,685 | 9 | 225 | 180 | (2,262) | 148 | 28,625 |
| 3. Down payments | 33 | 0 | 373 | 0 | (406) | 0 | 0 |
| | | | | | 0 | | |
| | | | | | (10,554) | | |
| | 108,293 | 9 | 730 | 180 | 12,000 | 148 | 110,446 |
| II. PROPERTY, PLANT AND EQUIPMENT | | | | | | | |
| 1. Land, land rights and buildings, including buildings on land owned by others | 236,294 | 261 | 2,640 | 920 | (47,412) | 4,824 | 211,832 |
| 2. Technical plant and machinery | 478,803 | 547 | 4,819 | 15,200 | (76,909) | 22,713 | 482,706 |
| – of which leased | 5,664 | 75 | 0 | 495 | (689) | (1,838) | 2,717 |
| 3. Other plant, machinery and business equipment | 77,387 | 96 | 4,086 | 2,226 | (16,539) | 7,695 | 71,339 |
| – of which leased | 0 | 0 | 37 | 0 | 840 | 0 | 37 |
| 4. Down payments and plant under construction | 35,308 | 63 | 1,105 | 26 | (74) | (35,380) | 1,014 |
| | | | | | 18 | | |
| | | | | | (140,934) | | |
| | 827,792 | 967 | 12,650 | 18,372 | 84,936 | (148) | 766,891 |
| III. FINANCIAL ASSETS | | | | | | | |
| 1. Shares in affiliated companies | 209 | 0 | 0 | 0 | 0 | 0 | 209 |
| 2. Shares in other companies | 194 | 0 | 0 | 0 | 0 | 0 | 194 |
| 3. Other loans | 0 | 0 | 22 | 0 | 0 | 0 | 22 |
| | 403 | 0 | 22 | 0 | 0 | 0 | 425 |
| IV. INVESTMENT PROPERTIES | | | | | | | |
| | | | | | (3,068) | | |
| | 26,766 | 0 | 7 | 0 | 0 | 0 | 23,705 |
| | | | | | (154,556) | | |
| | 963,254 | 976 | 13,409 | 18,552 | 96,936 | 0 | 901,467 |

VALUE ADJUSTMENTS

REMAINING BOOK VALUE

| Oct. 1, 2006 | Translation Differences | Allocations | Dissolutions | (Eliminations) Additions Consolidation | Transfers | Sept. 30, 2007 | Sept. 30, 2007 | Sept. 30, 2006 |
|--------------|-------------------------|-------------|--------------|--|-----------|----------------|----------------|----------------|
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 81,821 | 89,575 |
| | | | | (1,983) | | | | |
| 16,035 | 1 | 1,084 | 113 | 0 | 96 | 15,120 | 13,505 | 2,650 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 33 |
| | | | | (1,983) | | | | |
| 16,035 | 1 | 1,084 | 113 | 0 | 96 | 15,120 | 95,326 | 92,258 |
| | | | | (22,369) | | | | |
| 90,322 | 30 | 5,645 | 859 | 8,401 | (1,885) | 79,285 | 132,547 | 145,972 |
| | | | | (61,661) | | | | |
| 339,452 | 293 | 19,694 | 14,645 | 49,340 | (3,368) | 329,105 | 153,601 | 139,351 |
| 2,237 | 24 | 307 | 495 | (92) | (1,038) | 943 | 1,774 | 3,427 |
| | | | | (13,425) | | | | |
| 55,653 | 69 | 4,721 | 1,952 | 730 | 5,157 | 50,953 | 20,386 | 21,734 |
| 0 | 0 | 5 | 0 | 0 | 0 | 5 | 32 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,014 | 35,308 |
| | | | | (97,455) | | | | |
| 485,427 | 392 | 30,060 | 17,456 | 58,471 | (96) | 459,343 | 307,548 | 342,365 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 209 | 209 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 194 | 194 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 22 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 425 | 403 |
| | | | | (1,794) | | | | |
| 19,139 | 0 | 272 | 0 | 0 | 0 | 17,617 | 6,088 | 7,627 |
| | | | | (101,232) | | | | |
| 520,601 | 393 | 31,416 | 17,569 | 58,471 | 0 | 492,080 | 409,387 | 442,653 |

PROFIT AND LOSS STATEMENT

for the period October 1, 2007 to September 30, 2008 (with prior year comparison)

| (IN € 000S; AS PER HGB) | | 2007/08 | 2006/07 |
|-------------------------|---|----------|----------|
| <i>Page</i> | | | |
| 226 p | 1. Net sales | 3,704 | 4,141 |
| 227 | 2. Other operating income | 6,915 | 6,858 |
| 227 | 3. Personnel expenses | | |
| | a) Wages and salaries | (3,301) | (3,548) |
| | b) Social security, pension and other benefits | (302) | (441) |
| 228 | 4. Depreciation | | |
| | Of intangible assets and property, plant and equipment | (389) | (600) |
| 228 | 5. Other operating expenses | (5,268) | (4,028) |
| 229 | 6. Income from participations | 464 | 248 |
| 229 | 7. Income from marketable securities and from loans | 1,344 | 1,773 |
| 229 | 8. Other interest and similar income | 6,817 | 6,246 |
| 229 | 9. Income from profit absorption agreements | 770 | 38,721 |
| 229 | 10. Depreciation of financial assets and marketable securities | (13,205) | (19,800) |
| 229 | 11. Interest and similar expenses | (9,213) | (9,438) |
| 229 | 12. Expenses from loss absorption agreements | (33,232) | (6,562) |
| | 13. <i>Results from ordinary business activities</i> | (44,896) | 13,570 |
| 229 | 14. Taxes on income | (19) | 3,518 |
| | 15. Other taxes | (16) | (18) |
| | 16. <i>Net income / (loss)</i> | (44,931) | 17,070 |
| 230 | 17. Profit carried-forward | 26,047 | 23,627 |
| | 18. Withdrawals from other earnings reserves | 25.156 | 0 |
| | 19. Additions to other earnings reserves | 0 | (8,500) |
| | 20. <i>Retained earnings</i> | 6,272 | 32,197 |

CASH FLOW STATEMENT

for the period October 1, 2007 to September 30, 2008 (with prior year comparison)

(IN € 000S; AS PER HGB)

2007/08

2006/07

| | | |
|--|-----------------|-----------------|
| NET INCOME FOR THE PERIOD | (44,931) | 17,070 |
| Depreciation of fixed assets | 12,889 | 20,400 |
| Increase / (decrease) in provisions | (141) | (6,975) |
| Other non-cash expenses / (income) | 704 | (3,419) |
| (Gains) / losses from disposals of fixed assets | (503) | (25) |
| (Increase) / decrease in inventory, accounts receivable and other assets that are not attributable to investment or financing activities | 2,461 | (1,712) |
| Increase / (decrease) in accounts payable and other liabilities that are not attributable to investment or financing activities | (16,126) | 4,394 |
| CASH FLOW FROM CURRENT ACTIVITIES | (45,647) | 29,733 |
| Receipts from disposals of property, plant and equipment | 61 | 46 |
| Investments in property, plant and equipment | (42) | (189) |
| Investments in intangible assets | 0 | (2) |
| Receipts from disposals of financial assets | 9,190 | 0 |
| Investments in financial assets | (133) | (26,513) |
| CASH FLOW FROM INVESTMENT ACTIVITIES | 9,076 | (26,658) |
| Distributions to shareholders and minority interests | (6,150) | (6,204) |
| Receipts from financial loans | 37,000 | 16,000 |
| Repayments of financial loans | (3,280) | (2,780) |
| Group financing | 9,000 | (10,134) |
| CASH FROM FINANCING ACTIVITIES | 36,570 | (3,118) |
| NET INCREASE / (DECREASE) IN CASH | (1) | (43) |
| CASH AT THE BEGINNING OF THE PERIOD | 3 | 46 |
| CASH AT THE END OF THE PERIOD | 2 | 3 |

BALANCE SHEET

as of September 30, 2008 (with prior year comparison)

ASSETS (IN € 000S; AS PER HGB)

2007/08

2006/07

Page

| | 2007/08 | 2006/07 |
|---|---------|---------|
| A. FIXED ASSETS | | |
| 213 I. INTANGIBLE ASSETS | | |
| Concessions, industrial proprietary rights and similar rights and assets, including licenses of such rights and assets | 848 | 1,180 |
| 213 II. PROPERTY, PLANT AND EQUIPMENT | | |
| Other plant, machinery and business equipment | 142 | 220 |
| 213 _p III. FINANCIAL ASSETS | | |
| 1. Shares in affiliated companies | 151,034 | 163,779 |
| 2. Loans to affiliated companies | 22,980 | 31,420 |
| | 174,014 | 195,199 |
| B. CURRENT ASSETS | | |
| 215 _p I. RECEIVABLES AND OTHER ASSETS | | |
| 1. Accounts receivable | 0 | 12 |
| 2. Due from affiliated companies | 86,865 | 124,375 |
| 3. Other assets | 4,558 | 8,815 |
| | 91,423 | 133,202 |
| 216 II. MARKETABLE SECURITIES | 1,161 | 0 |
| III. CASH ON HAND, DUE FROM BANKS, CHECKS | 2 | 3 |
| 217 C. DEFERRED ITEMS | 40 | 97 |
| | 267,630 | 329,901 |

EQUITY AND LIABILITIES (IN € 000s; AS PER HGB)

2007/08

2006/07

| | | | <i>Page</i> |
|---|---------|---------|-------------------------|
| A. SHAREHOLDERS EQUITY | | | |
| I. SUBSCRIBED CAPITAL | 18,613 | 18,613 | <u>217^{pp}</u> |
| II. CAPITAL RESERVES | 50,046 | 50,046 | <u>220</u> |
| III. EARNINGS RESERVES | | | <u>220</u> |
| 1. Reserve for own shares | 1,161 | 0 | |
| 2. Other earnings reserves | 32,500 | 58,817 | |
| IV. RETAINED EARNINGS | 6,272 | 32,197 | <u>220</u> |
| | 108,592 | 159,673 | |
| B. PROVISIONS | | | |
| 1. Provisions for pension and similar liabilities | 1,647 | 1,693 | <u>221</u> |
| 2. Provisions for taxes | 0 | 285 | <u>221</u> |
| 3. Other provisions | 2,172 | 1,982 | <u>221</u> |
| | 3,819 | 3,960 | |
| C. LIABILITIES | | | |
| 1. Due to banks | 72,872 | 55,893 | <u>222^p</u> |
| 2. Accounts payable | 221 | 191 | |
| 3. Due to affiliated companies | 80,952 | 109,462 | |
| 4. Other liabilities | 1,174 | 722 | |
| of which for taxes: € 000s 566 | 155,219 | 166,268 | |
| (previous year: € 000s 407) | | | |
| | 267,630 | 329,901 | |
| | 267,630 | 329,901 | |

DEVELOPMENTS OF FIXED ASSETS AND VALUE ADJUSTMENTS

for the period October 1, 2007 to September 30, 2008

| (IN € 000S; AS PER HGB) | ACQUISITION AND MANUFACTURING COSTS | | | |
|---|-------------------------------------|-----------|-----------|----------------|
| | Oct. 1, 2007 | Additions | Disposals | Sept. 30, 2008 |
| I. INTANGIBLE ASSETS | | | | |
| 1. Concessions, industrial proprietary rights and similar rights and assets, including licenses of such rights and assets | 1,778 | 0 | 25 | 1,753 |
| 2. Goodwill | 9,904 | 0 | 9,904 | 0 |
| | 11,682 | 0 | 9,929 | 1,753 |
| II. PROPERTY, PLANT AND EQUIPMENT | | | | |
| 1. Other plant, machinery and business equipment | 457 | 42 | 120 | 379 |
| III. FINANCIAL ASSETS | | | | |
| 1. Shares in affiliated companies | 183,579 | 0 | 245 | 183,334 |
| 2. Loans to affiliated companies | 31,420 | 0 | 8,440 | 22,980 |
| | 214,999 | 0 | 8,685 | 206,314 |
| | 227,138 | 42 | 18,734 | 208,446 |

VALUE ADJUSTMENTS

REMAINING BOOK VALUE

| Oct. 1, 2007 | Allocations | Dissolutions | Sept. 30, 2008 | Sept. 30, 2008 | Sept. 30, 2007 |
|--------------|-------------|--------------|----------------|----------------|----------------|
| 598 | 332 | 25 | 905 | 848 | 1,180 |
| 9,904 | 0 | 9,904 | 0 | 0 | 0 |
| 10,502 | 332 | 9,929 | 905 | 848 | 1,180 |
| 237 | 57 | 57 | 237 | 142 | 220 |
| 19,800 | 12,500 | 0 | 32,300 | 151,034 | 163,779 |
| 0 | 0 | 0 | 0 | 22,980 | 31,420 |
| 19,800 | 12,500 | 0 | 32,300 | 174,014 | 195,199 |
| 30,539 | 12,889 | 9,986 | 33,442 | 175,004 | 196,599 |



NOTES TO THE
CONSOLIDATED FINANCIAL
STATEMENTS 2007/08
for the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2008

— A. GENERAL NOTES

The *schlott group* offers on a Europe-wide basis printing services to the advertising industry as well as to publishers. Its service portfolio includes media services, intaglio and offset printing as well as further processing of printing products.

The parent company of the *group* is *schlott gruppe AG*, a publicly traded company organized under German law with domicile at Wittlensweilerstraße 3, 72250 Freudenstadt, Germany. The Company is recorded at the Registry Court in Stuttgart under the number HRB 430844. The fiscal year of *schlott gruppe AG* commences on October 1 and ends on September 30 of the following year. The fiscal years of consolidated subsidiaries end on the same date as the one of the parent company. Financial statements are prepared in Euro and all amounts are stated in Euro thousands (€ 000s) unless otherwise noted.

The consolidated financial statements of *schlott gruppe AG* are prepared in conformity with International Financial Reporting Standards (IFRS), as these are to be applied within the European Union, and on the basis of the going-concern concept. All standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were taken into consideration as these had to be applied for the reporting year. Additionally, the regulations contained in Article 315a, Clause 1 of the German Commercial Code (HGB) as well as Article 160 of the German Corporation Act (AktG) were observed.

In conformity with *IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations* – the results of the business segment *direct marketing*, which was sold during the previous year, are shown separately in the profit and loss statement as well as in the cash flow statement. Unless otherwise noted, all statements in the Notes to the consolidated financial statements refer to continuing operations.

On December 17, 2008, the Board of Management approved for publication the consolidated financial statements as of September 30, 2008.

THE FOLLOWING ACCOUNTING PRINCIPLES WERE APPLIED FOR THE FIRST TIME DURING FISCAL YEAR 2007/08

During the past business year, the following standards, changes to standards and interpretations were to be applied for the first time. To the extent that the new or changed standards do not prescribe otherwise, the initial application is both income statement-neutral and retrospective. The results and the opening balance sheet of the prior year were adjusted as if the new accounting and valuation methods had always been applied.

>>

| NORM | DESCRIPTION |
|----------|---|
| IFRS 7 | <p><i>Financial Instruments: Disclosure Requirements</i></p> <p>This standard supplements and partially replaces the existing disclosure requirements for financial instruments as per IAS 30 and IAS 32. IFRS 7 stipulates that financial instruments are to be sorted into groups of similar instruments and that the disclosure requirements are to be in line with those stipulated for individual types. The standard requires information as to the importance to the entity of financial instruments as well as to the type and extent of risks attached to these instruments. In October 2008, the IASB has issued changes for the reclassification of financial instruments. The changes concern the current requirements contained in IAS 39.50 as well as IFRS 7.12 and 7.12A. The changes are designed to reduce the differences between IFRS and US-GAAP in light of the current financial crisis and to limit potential competitive advantages of US banks.</p> |
| IAS 1 | <p><i>Amendment to Capital Disclosures</i></p> <p>The amendment to IAS 1 stipulates additional disclosure requirements with respect to goals, principles and procedures of capital management and specifies required quantitative data as to what is managed in terms of capital.</p> |
| IFRIC 10 | <p><i>Interim Financial Reporting and Impairment</i></p> <p>This interpretation stipulates that value reductions undertaken during periods covered by interim reports may not be rescinded in subsequent interim or year-end reports if IAS 36 and IAS 39 prohibit such revaluations.</p> |
| IFRIC 11 | <p><i>Internal Transactions with Treasury Stock as per IFRS 2</i></p> <p>This interpretation regulates the application of IFRS 2 with respect to share-based compensation with own capital instruments or instruments of other group entities.</p> |

The initial application by the *schlott group* of these new regulations has not affected in a material way the financial and earnings positions or net income per share during the reporting period.

ACCOUNTING PRINCIPLES ISSUED, BUT NOT YET APPLIED

The following standards, changes to standards and interpretations were issued by IASB and IFRIC without required application during the reporting period: The *schlott group* does not anticipate the application of these regulations.

| NORM | DESCRIPTION |
|--------|--|
| IFRS 1 | <p><i>(Revision) Acquisition Costs of Participations in Separate Balance Sheets</i></p> <p>The revised standard enables a company to state the acquisition cost of a participation in its IFRS individual financial statements either at the respective fair value or at book value in line with formerly applied national accounting principles. This rule applies to joint-ventures, associated companies or subsidiaries. The change of IFRS 1 becomes effective for reporting periods beginning with January 1, 2009. The change in IFRS 1 has not as yet been adopted as binding by the European Union. Consequences for the <i>schlott group</i> are not expected.</p> |
| IFRS 2 | <p><i>(Revision) Share-based Payment</i></p> <p>This change clarifies that vesting conditions may only be service conditions and performance conditions. Service conditions have time limits. Performance conditions, which aside from service conditions may also include specific success goals, may also contain market conditions. As a consequence of this revised definition of vesting conditions, the valuation of the respective fair value of the granted share instrument must consider non-vesting conditions. In the event, either the company or the other party has a choice of selection with respect to whether a non-vesting condition is met, the non-vesting condition is to be treated as a cancellation. These changes are to be applied retroactively to fiscal years beginning on or after January 1, 2009. The change in IFRS 2 has not as yet been adopted as binding by the European Union. Consequences for the <i>schlott group</i> are not expected.</p> |

| NORM | DESCRIPTION |
|--------|---|
| IFRS 3 | <p data-bbox="382 646 667 674"><i>(Revision) Business Combinations</i></p> <p data-bbox="382 683 1344 859">As per IFRS 3, business combinations will continue to be accounted for under the purchase method. The new rule has consequences with respect to the treatment of possible minority shareholdings related to goodwill and its inclusion in shareholders equity. The rules are to be applied to fiscal years beginning on or after July 1, 2009. The change in IFRS 3 has not as yet been adopted as binding by the European Union. Consequences for the <i>schlott group</i> are not expected.</p> |
| IFRS 8 | <p data-bbox="382 868 638 896"><i>Operating / Business Segments</i></p> <p data-bbox="382 905 1344 1533">This standard takes the place of <i>IAS 14 – Segment Reporting</i> – and expands on the hitherto existing disclosure requirements. IFRS 8 stipulates that the determination of the operating / business segments is to be based on internal management and reporting systems of the entity (management-approach). Operating segments or collections of operating segments must be disclosed in compliance with specific criteria. The standard requires the disclosure of financial information, which is utilized in the internal management of operating segments. In addition, the regulation requires information concerning the valuation of segment results and segment assets as well as information on income that was generated by segment products and services. Moreover, information is required on countries in which income is generated and in which assets are domiciled as well as on customers, irrespective of whether this information has been considered by management in arriving at operating decisions. These regulations are to be applied for fiscal years that commence on or after January 1, 2009. The <i>schlott group</i> intends to apply this standard initially during the business year 2009/10 and expects changes in the contents of the Notes to the financial statements. In the course of the initial <i>annual improvements project</i>, several changes in IFRS were made. Formulations were adapted to clarify existing rules. Moreover, changes were effected, which have consequences for balance sheet treatment and valuation. Unless specified separately for each standard, the changes will be applied for fiscal years beginning on or after January 1, 2009. These changes have not as yet been adopted as binding by the European Union. The <i>schlott group</i> is currently examining how the initial application of IFRS 8 will influence its consolidated financial statements.</p> |

| NORM | DESCRIPTION |
|--------|--|
| IAS 1 | <p data-bbox="273 654 698 668"><i>(revised 2007) Presentation of Financial Statements</i></p> <p data-bbox="273 694 1222 1086">The revised standard regulates the presentation of generated profits or losses and expands the disclosure requirements related to earnings of the company. Furthermore, the designation of components of financial statements are newly stated and standardized. IAS 1 requires that all changes in shareholders equity, which are not shareholders-related, i.e. profits or losses which are recognized as either earnings-neutral or accounted for in the profit and loss statements, are either accounted for in a complete income accounting statement or in two separate presentations (a traditional profit and loss statement and a comprehensive income accounting statement). The revised edition of this standard stipulates that in the event accounting and valuation methods are applied retroactively, the opening balance sheet of the previous year must be included in the financial statements. IAS 1 (revised 2007) will become effective for reporting periods beginning on or after January 1, 2009. The <i>schlott group</i> intends to apply these changes initially in business year 2009/10. No material consequences for the financial statements are expected from this initial application.</p> |
| IAS 23 | <p data-bbox="273 1105 531 1119"><i>(revised 2007) Borrowing Costs</i></p> <p data-bbox="273 1142 1222 1347">In the revised version, IAS 23 stipulates that borrowing costs, which are incurred in connection with the acquisition or production of qualified assets, are capitalized. The hitherto existing choice to immediately and directly recognize these costs has been rescinded. IAS 23 (revised 2007) is to be initially applied to qualified assets that are to be initially capitalized on or after January 1, 2009. The <i>schlott group</i> expects to apply the revised version of IAS 23 during the business year 2008/09. It is difficult at this time to estimate the consequences to the assets, financial and earnings positions of the <i>schlott group</i>.</p> |

| NORM | DESCRIPTION |
|----------|---|
| IAS 32 | <p data-bbox="382 646 764 674"><i>(Revised) Financial Instruments: Presentation</i></p> <p data-bbox="382 683 1344 933">These changes refer specifically to the differentiation between shareholders equity and capital from outside sources in the accounting for corporate capital that has cancellation rights attached. Till now, this cancelable capital by shareholders was to be accounted for as liabilities. In the future, such cancelable instruments may under certain conditions be classified as shareholders equity. The changes are to be applied to fiscal years beginning on or after January 1, 2009. The <i>schlott group</i> expects to apply the revised version of IAS 32 initially during the business year 2008/09. No material consequences for the financial statements are expected from this initial application. These changes have not as yet been adopted as binding by the European Union.</p> |
| IAS 39 | <p data-bbox="382 942 942 970"><i>(Supplement) Financial Instruments: Recognition and Measurement</i></p> <p data-bbox="382 979 1344 1191">These changes supplement existing regulations according to which a company may hedge part or all of specific risks of its ordinary business. The changes are to be applied to fiscal years beginning on or after July 1, 2009. The <i>schlott group</i> intends to apply the revised version of IAS 39 beginning with fiscal year 2009/10. It is difficult at this time to estimate the consequences to the assets, financial and earnings positions of the <i>schlott group</i> arising out of the initial application. The changes to IAS 39 have not as yet been adopted as binding by the European Union.</p> |
| IFRIC 12 | <p data-bbox="382 1201 660 1228"><i>Agreements of Service Concessions</i></p> <p data-bbox="382 1238 1344 1422">This interpretation deals with the balance sheet treatment of agreements utilized by public institutions for granting contracts to the private sector for the provision of public services, e.g. roads, utilities, hospitals or airports. IFRIC 12 is to be applied to business years commencing on or after January 1, 2008. The interpretation is not relevant to the <i>schlott group</i> and thus no impact is expected on its financial statements. IFRIC 12 has not as yet been adopted as binding by the European Union.</p> |

| NORM | DESCRIPTION |
|----------|--|
| IFRIC 13 | <p data-bbox="273 654 498 668"><i>Customer Loyalty Programs</i></p> <p data-bbox="273 694 1222 861">This interpretation regulates the accounting treatment of loyalty points, frequent flyer miles, etc., which are issued by entities to customers upon purchase of other goods and services. IFRIC 13 is to be applied to fiscal years commencing on or after July 1, 2008. Since the <i>schlott group</i> does not participate in such programs, the interpretation is not relevant and will not impact its financial statements. IFRIC 13 has not as yet been adopted as binding by the European Union.</p> |
| IFRIC 14 | <p data-bbox="273 881 1000 896"><i>Limitation on Results-Oriented Assets, Minimum Financing Regulations and Interaction</i></p> <p data-bbox="273 922 1222 1197">This interpretation deals with the interaction between legal or contractually designated minimum financing regulations as well as with the upper valuation limits for results-oriented assets or liabilities as per IAS 19. The interpretation sets forth general guidelines for the determination of the upper limit of pension fund surpluses, which can be treated as an asset as per IAS 19. As per IFRIC 14, the employer does not have to recognize a further liability unless the minimum premiums, as per minimum financing regulations, can not be repaid to the entity. IFRIC 14 is to be applied to fiscal years beginning on or after July 1, 2008. The <i>schlott group</i> intends to apply this interpretation initially during fiscal year 2008/09 and does not expect any material consequences for its financial statements. IFRIC 14 has not as yet been adopted as binding by the European Union.</p> |
| IFRIC 15 | <p data-bbox="273 1217 624 1232"><i>Agreement Related to Creation of Real Estate</i></p> <p data-bbox="273 1258 1222 1386">The goal of this interpretation is to standardize the balance sheet treatment by companies that prepare land for development and that sell units “off plan” prior to completion. IFRIC 15 is to be applied for fiscal years beginning with January 1, 2009. This interpretation is not relevant to the <i>schlott group</i>. IFRIC 15 has not as yet been adopted as binding by the European Union.</p> |

NORM DESCRIPTION

IFRIC 16 *Hedging of Investments in Foreign Entities*

This interpretation clarifies what may be considered risks in connection with the hedging of investments in a foreign entity and where such hedging instruments for mitigating these risks may be held within a corporation. IFRIC 16 is to be applied to fiscal years beginning on or after October 1, 2008. The *schlott group* intends to apply this interpretation initially in fiscal year 2008/09. In as much as the *schlott group* has already stated such investments in line with IFRIC 16, no material consequences for its financial statements are expected. IFRIC 16 was not as yet adopted as binding by the European Union.

— B. SCOPE OF CONSOLIDATION

Aside from *schlott gruppe AG*, the consolidation includes all material domestic and international subsidiaries.

Subsidiaries are entities for which *schlott gruppe AG* owns directly or indirectly the majority of voting rights or for which the business policy and financial affairs can be decided.

Entities are consolidated at the time when control or influence exist; consolidation ends when this is no longer the case.

The following entities are included in the consolidation at year-end 2007/08:

| ENTITY | Shareholder | Subscribed Capital | | Share- | Net |
|---------------------------------------|-------------------|--------------------|-----|---------------------|-----------------------|
| | | € 000s | % | holders Equity** | Income 2007/08** |
| | | € 000s | % | € 000s | € 000s |
| schlott gruppe AG, Freudenstadt | — | 18,613 | — | 108,592 | (44,931) |
| SEBALDUS Beteiligungs GmbH, Nuremberg | AG ¹⁾ | 5,120 | 100 | 16,620 | (26,113) [*] |
| sebalduS GmbH, Nuremberg | SBG ²⁾ | 1,540 | 100 | 2,429 | (10,456) [*] |
| u.e. sebald druck GmbH, Nuremberg | SG ³⁾ | 6,140 | 100 | 24,763 | (9,647) [*] |
| sachsendruck GmbH, Plauen | UES ⁴⁾ | 50 | 100 | 3,028 | 1,003 |

| ENTITY | Shareholder | Subscribed Capital | | Share- holders Equity** | Net Income 2007/08** |
|---|-------------------|--------------------|-------|-------------------------------|----------------------------|
| | | € 000s | % | € 000s | € 000s |
| d.v.n. Druckverarbeitung Nürnberg GmbH, Nuremberg | UES | 60 | 100 | 60 | (842)* |
| Hollmann S.A., France | UES | 1,500 | 99.94 | (3,564) | (1,989) |
| wwk druck GmbH, Landau | AG | 9,200 | 100 | 9,200 | 654* |
| schlott GmbH, Freudenstadt | AG | 2,000 | 100 | 30,294 | (2,424)* |
| schlott Vertrieb GmbH, Landau | AG | 25 | 100 | 25 | 15* |
| broschek tiefdruck GmbH, Hamburg | AG | 152 | 100 | 9,435 | (4,695)* |
| broschek rollenoffset GmbH, Lübeck | BTD ⁵⁾ | 100 | 100 | 2,366 | (974)* |
| broschek service GmbH, Stelle | BTD | 26 | 100 | 60 | (1,576)* |
| Broschek Grundstücksverwaltungs GmbH & Co. KG, Stelle | AG | 11 | 100 | 11 | 464 |
| media2print GmbH, Nuremberg | AG | 25 | 100 | 25 | 101* |
| REUS s.r.o., Czech Republic | AG | 1,055 | 100 | 20,736 | (271) |
| Zamora s.r.o., Czech Republic | SV ⁶⁾ | 4 | 100 | 4 | 0 |
| biegelaar B.V., Maarssen, The Netherlands | AG | 34 | 100 | 3,443 | (3,050) |
| contract media GmbH, Nuremberg | SG | 30 | 100 | 10 | 0 |

1) AG = schlott gruppe AG, Freudenstadt

2) SBG = SEBALDUS Beteiligungs GmbH, Nuremberg

3) SG = sebaldus GmbH, Nuremberg

4) UES = u.e. sebald druck GmbH, Nuremberg

5) BTD = broschek tiefdruck GmbH, Hamburg

6) SV = schlott Vertrieb GmbH, Landau

* For these companies, profit absorption agreements exist.

** Values stated are based on HGB and laws of respective countries; due to different depreciation methods, these deviate in part significantly from IFRS results.

As in the previous year, Broschek Grundstücksgesellschaft Stelle mbH and Z.B.K. s.r.o., Czech Republic, were not included in the consolidation. The asset, financial and earnings positions of the *group* are only immaterially influenced by these two wholly-owned subsidiaries due to their limited business activities. These two entities represent collectively less than 5% of revenue, income and balance sheet totals.

The number of consolidated entities changed during the reporting period as follows:

| | 2007/08 | 2006/07 |
|------------------------------|---------|---------|
| Beginning of the fiscal year | 21 | 33 |
| Mergers and acquisitions | 0 | 1 |
| Sales | 0 | (11) |
| Amalgamations | (2) | (2) |
| End of the fiscal year | 19 | 21 |

MERGERS AND ACQUISITIONS

During the previous year, the Dutch intaglio printing enterprise *biegelaar B.V.* was included in the consolidation. The initial consolidation took place in November 2006. The acquisition price was € 7,911 thousand (of which € 310 thousand in ancillary costs) and was defrayed in cash.

In line with *IFRS 3 – Mergers and Acquisitions* – the costs of acquisition were distributed over identified assets, liabilities and contingent liabilities at their appropriate current value.

In line with *IFRS*, the following table compares the current value to the book value prior to consolidation:

| IN € 000s | Book Value | Current Value | Adjustment |
|--------------------------------------|------------|---------------|------------|
| Intangible assets | 0 | 12,000 | 12,000 |
| Property, plant and equipment | 26,164 | 26,464 | 300 |
| Accounts receivable and other assets | 11,276 | 11,276 | 0 |
| Liquid assets | 423 | 423 | 0 |
| Financial liabilities | (22,255) | (22,255) | 0 |
| Provisions | (5,738) | (6,464) | (726) |
| Deferred taxes | (499) | (3,635) | (3,136) |
| Other liabilities | (8,150) | (8,150) | 0 |

Following the allocation of the purchase price, a negative differential in the amount of € 1,748 thousand was recognized in the profit and loss statement. It reflects the higher value appreciation by the *schlott group* of the trade name as well as the access to the market and customers in The Netherlands. These had been valued more conservatively during purchase price negotiations.

In the previous year, net income included a loss of € 1,092 thousand attributable to *biegelaar B.V.* from the date of acquisition. On the assumption that the acquisition had already been consummated at the beginning of the reporting period, net sales of the *schlott group* in fiscal year 2006/07 would have increased to € 489,295 thousand.

SALES OF ENTITIES AND AMALGAMATIONS

On the basis of an amalgamation agreement and respective resolutions of the respective legal entities dated November 27, 2007, FDS Energie GmbH was amalgamated with *u.e. sebald druck GmbH*. The registration into the Commercial Register was effected on January 11, 2008.

Friedland Sprava nemovitosti k.s., Czech Republic, has changed its trade style from a limited partnership to a limited liability company during the course of the business year. Its new name is Friedland Sprava nemovitosti s.r.o. On June 1, 2008, it was amalgamated with *REUS s.r.o.*, Czech Republic. The respective entry into the Commercial Register was effected on September 30, 2008.

In the previous year, the business segment *direct marketing* was sold with effect of July 31, 2007, to Österreichische Post AG for € 40,620 thousand. In these financial statements, the segment *direct marketing* is stated in the previous year as discontinued operations. The final consolidation results are included in “Other operating income” of the previous year.

In the previous year, the book values of assets and liabilities on the date of disposal are shown in the following tabulation:

| IN € 000S | 2006/07 |
|---------------------------------------|----------|
| Intangible assets | 8,571 |
| Property, plant and equipment | 44,753 |
| Accounts receivable and other assets | 13,505 |
| Inventory, raw materials and supplies | 3,295 |
| Liquid assets | 3,309 |
| Financial liabilities | (19,236) |
| Provisions | (8,961) |
| Deferred taxes | (3,095) |
| Other liabilities | (20,208) |

DISCONTINUED OPERATIONS

The disposal on July 31, 2007, of the business segment *direct marketing* was to be stated during the previous year as Discontinued Operations in line with *IFRS 5 – Long-Term Assets Held for Disposal and Discontinued Operations* – since *direct marketing* represented a material business segment of the *schlott group*.

Details of earnings and net cash flow were as follows:

| IN € 000s | 2006/07 |
|---|----------------|
| Net sales | 87,181 |
| Net revenue | 88,709 |
| Value-added turnover | 49,480 |
| EBITDA | 6,769 |
| EBIT | 4,417 |
| EBT | 3,079 |
| Taxes on income | 90 |
| Earnings after taxes | 3,169 |
| Results from disposals before taxes | 12,369 |
| Taxes on income | (749) |
| Results from disposals after taxes | 11,620 |
| Net income from discontinued operations | 14,789 |
| Net cash flow from ordinary business activities | 2,501 |
| Net cash flow from investment activities | 492 |
| Net cash flow from financing activities | 564 |

Net earnings per share from discontinued operations amounted in the previous year to € 2.38 – both diluted and undiluted.

The above details correspond to those stated under Segment Reporting and are not to be viewed as an independent presentation of the business segment *direct marketing* or of continuing operations.

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PROFIT AND LOSS ABSORPTION AGREEMENTS

Between *schlott gruppe AG* and domestic group entities, direct or indirect profit and loss absorption agreements exist with only a few exceptions. The annual results of these entities are marked with an ”*“ in the tabulation on page 124 f.

Effective October 1, 2007, the profit and loss absorption agreement between *sachsendruck GmbH* and *sebaldu GmbH* was revoked.

C. METHODS OF CONSOLIDATION

The book values of all subsidiaries included in the consolidated financial statements are offset against the *group*'s share of the revalued share capital of such subsidiaries.

At the time of initial consolidation, all acquired assets, liabilities and contingent liabilities are stated at their respective values upon acquisition. Any excess of acquisition costs, which also include subsequent acquisition and ancillary costs, if any, above the respective net current value of acquired assets, liabilities and contingent liabilities is capitalized as goodwill and is allocated to a cash-generating unit (CGU) within the *schlott group*. Goodwill is not amortized on a scheduled basis, but is subjected at least annually to an impairment test. In the event that acquisition costs are less than the net current value of acquired assets, liabilities and contingent liabilities, the differential amount will be recognized in the profit and loss statement following a renewed evaluation of the purchase price allocation.

Value adjustments to assets and liabilities that were preliminarily valued at the time of acquisition (due to the absence of additional evidence or analyses), are recognized as retroactive adjustments of goodwill if these are undertaken within 12 months from the date of acquisition. Subsequent adjustments to preliminary values are recognized in the profit and loss statement.

Interests of minority shareholders are carried at current values.

Intra-group receivables and liabilities, as well as income and expenses, are fully eliminated. Interim gains and losses, which are included in the book value of intangible assets, property, plant and equipment and inventory, are also eliminated if these materially influence the presentation of the assets, financial and earnings positions of the *group*. In line with IAS 12, necessary deferred tax adjustments will be undertaken for temporary differences arising out of the interim profit elimination procedure.

The balance sheet treatment of joint ventures and associated entities is based on the equity method. The ownership shares in these entities are initially valued at the cost of acquisition; in subsequent periods, their stated values will be adjusted to reflect the *schlott group's* share in the financial results of these entities. Value reductions in goodwill associated with these entities will be reflected in the profit and loss accounts as well as in the respective balance sheet items. Goodwill is not subjected to planned depreciation.

A table of entities included in the consolidation is seen on page 124 f.

Subsidiaries that are not included in the consolidation due to their immaterial size and activity are stated at the cost of acquisition, subject to subsequent determinations as to their materiality status.

The methods of consolidation remain unchanged compared to the previous year.

— D. CURRENCY TRANSLATION

The year-end financial statements of consolidated entities prepared in foreign currency are translated into Euro in accordance with the concept of a functional currency. The functional currency of a company is based on the currency in which the company is primarily active. Inasmuch as these subsidiaries of the *schlott group* conduct their financial, economic and organizational activities independently, their functional currency is identical to the respective national currencies.

In line with the above, assets and liabilities are translated at the spot exchange rate prevailing at year-end, while income and expenses are converted at average yearly exchange rates. Goodwill and reval-ued items of foreign companies recognized at the time of mergers are treated as assets and liabilities of the acquired entity and are translated at the spot rate prevailing at year-end. Translation differences are recognized directly in shareholders equity.

The exchange rate applied has moved in relation to the Euro as follows:

| | ISO-Code | 2007/08 | | 2006/07 | |
|-------------|----------|----------------|---------------------|----------------|---------------------|
| | | Sept. 30, 2008 | Average Yearly Rate | Sept. 30, 2007 | Average Yearly Rate |
| Czech Crown | CZK | 24.66500 | 26.07000 | 27.47500 | 28.87500 |

E. ACCOUNTING AND VALUATION METHODS

The annual accounts of the companies consolidated are prepared in accordance with uniform accounting standards and valuation methods. Accounting and valuation methods have not changed compared to the previous year.

The balance sheet incorporates in its presentation the distinction between current and non-current items. In this connection, assets, liabilities and provisions are classified as current, or short-term, if these will be realized or consumed in the course of the normal business cycle, or if their remaining tenors at year-end are less than 12 months. All other positions are categorized as non-current.

The profit and loss statement is prepared in line with the total cost method.

INTANGIBLE ASSETS

Acquired intangible assets are capitalized at the cost of acquisition. Internally produced intangible assets, e.g. software, are stated at the cost of production as long as these can be accurately calculated and to the extent that a future stream of benefits is derived from such assets. Such costs include all directly attributable production costs as well as appropriate allocations of overhead expenses. Financing expenses are not included. In addition, goodwill associated with mergers is also capitalized.

Intangible assets are depreciated on a straight-line basis over their expected service life. The service life for software is between 1 to 5 years, for acquired customer stocks up to 15 years. In the event an asset is value-impaired, i.e. their expected realizable value is below book value, non-scheduled depreciation will be undertaken. The realizable value is the greater of the expected discounted cash flow or the proceeds from disposals. Should the grounds for value impairment be no longer valid, a value recovery up to maximum the cost of acquisition will be undertaken.

Intangible assets with unlimited service lives, such as acquired brand names as well as goodwill, are not depreciated on a scheduled basis, but subjected annually to a value impairment test. Moreover, additional impairment tests are undertaken once indications point to a further possible value reduction. In all cases of impairments, non-scheduled depreciation is undertaken. For goodwill, value recoveries are not allowed.

IMPAIRMENT TESTS FOR GOODWILL

Goodwill resulting from mergers and acquisitions is allocated in the course of a purchase price allocation to the respective CGU within the *schlott group*. CGUs are the lowest level within the Corporation on which goodwill is managed; CGUs within the *schlott group* correspond to the business segments.

A value impairment test compares the book value of a CGU with its realizable amount. If the book value exceeds the realizable amount, the difference will be reflected in the profit and loss statement with a corresponding adjustment of goodwill in the balance sheet. If the value impairment exceeds the amount of goodwill, the residual amount will be deducted proportionately in terms of book value from the other assets of the CGU. Such value adjustments are recognized in the profit and loss statement under “Other operating expenses”.

The realizable value of a CGU is based on its utility value; in this connection, future cash flows are discounted by a risk-adjusted interest rate before taxes. The underlying prognosticated cash flows take into account the medium-term management plan, which covers a period of 3 years, and which is based on the results achieved during the reporting year and on experiences of the past. With respect to turnover and the most important expense categories, detailed financial plans are taken into consideration. The outlook as to future economic developments is based on outside sources. An increase in cash flow after the end of the medium-term plan is not being expected.

The weighted average cost of capital before taxes (WACC) is applied as discount rate which is determined in line with Capital Asset Pricing Models of external sources. The assumed discount rate is 8.0 % (8.8 % in the previous year).

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at acquisition or manufacturing costs. Acquisition costs include the purchase price, any directly attributable ancillary costs as well as any purchase price reductions. Production costs include all directly attributable production costs as well as appropriate shares of overhead expenses related to production. In the event, the *schlott group* has the obligation to rehabilitate an asset at the end of its useful life, e.g. recycling of materials, the respective expected costs are included in the acquisition or production costs; a corresponding provision is established at the same time. Financing costs are not included.

At the time of initial capitalization of acquisition and production costs of a fixed asset, these costs will be allocated to the individual components of such fixed assets and depreciated individually over their expected service lives. This applies particularly to components, which need to be replaced at regular intervals, as well as to costs incurred for major maintenance activities. Current costs for maintenance and repairs are recognized in the profit and loss accounts. Property, plant and equipment are depreciated on a straight-line basis over their expected service lives.

The following service lives are used for the scheduled depreciation of property, plant and equipment:

| | |
|---|----------------|
| Land and buildings | up to 47 years |
| Technical plant and machinery | up to 22 years |
| Other plant, machinery and business equipment | up to 25 years |

Is a fixed asset value impaired, i.e. does the book value exceed the realizable amount, non-scheduled depreciation will be undertaken. Should the grounds for value impairment be no longer valid, a value recovery up to maximum the cost of acquisition will be undertaken.

The expected service lives, the methods of depreciation and the residual book values are examined annually; if changed, the new values will become effective in the future.

LEASE AGREEMENTS

The determination as to whether an agreement contains a lease relationship with respect to economic ownership is made at the time the respective agreement is concluded. This requires an estimate as to whether the fulfillment of the contractual agreement is dependent upon the utilization of asset values and whether the agreement grants the right of utilization of such assets.

Finance lease agreements, under which essentially all opportunities and risks connected to the ownership of the asset are transferred to the corporation, are capitalized at the time such lease agreements are concluded. The asset will be stated at its respective fair value or at the present value of minimum lease payments if the latter is lower. Lease payments are apportioned in terms of financing expenses and repayments of principal of the residual debt such that a constant rate of interest for the residual debt will be applied for the entire tenor of the lease agreement. Financing expenses are recognized at once in the profit and loss accounts. In the event, the assumption of full ownership by the corporation at the end of the lease agreement is not assured, the capitalized assets will be fully depreciated over the shorter of the expected useful life of the asset or the tenor of the lease agreement.

For operating lease arrangements, any payments made are immediately reflected under "Other operating expenses".

INVESTMENT PROPERTIES

Investment properties are land and buildings owned by the *schlott group*, which are not utilized for production or administration purposes, but held for generating rental income and long-term capital gains. Such real estate will be stated at the cost of acquisition less scheduled straight-line depreciation. The underlying useful lives for the purpose of depreciation range from 10 to 40 years.

INVENTORY

The item inventory includes raw materials and supplies as well as finished goods and work in process. They are stated at the lower of acquisition / production costs and net realizable values. Acquisition costs are determined on the basis of average prices plus directly attributable ancillary costs and less cost reductions. The total production cost includes all costs that are directly attributable to the production process as well as appropriate allocations of overhead expenses related to production. The net realizable value reflects the estimated achievable sales proceeds in the normal course of business less expected finishing and distribution expenses. Inventory with low turnover rates are subjected to value impairment tests.

FINANCIAL ASSETS

Financial assets include financial investments, accounts receivable, cash and cash equivalents as well as derivatives with a positive current value. The treatment of hedging transactions is enumerated in greater detail in a separate chapter.

Financial assets are recognized on the balance sheet as soon as the *schlott group* has acquired the contractual right to receive cash or other financial assets. As an exception, purchases or sales of financial assets in the general market are recognized on the date of settlement, which is the date on which an asset is delivered.

The initial recognition of financial assets is done at the respective current values. Financial assets, which are stated at the cost of acquisition, include also directly attributable transaction costs. The net present value represents ordinarily the discounted value of the received or delivered instrument.

In subsequent valuations, financial assets are distributed into 4 categories in line with *IAS 39 Financial Instruments – Recognition and Valuation*:

Financial Assets Valued at Respective Current Values with Impact on the Profit and Loss Statement

This category includes financial assets held for trading purposes, e.g. derivatives or instruments held short-term for capital gains. In addition, all financial assets for which the current value can be accurately determined are to be allocated to this category. The valuation of assets reflects consistently respective current values. Changes in current values are reflected in the profit and loss statement. The *schlott group* has allocated claims under foreign exchange forward transactions to this category as long as hedge-accounting was not utilized.

Financial Assets Held until Maturity

Assets with fixed or predictable payments and with a fixed tenor, which are to be held until final maturity and which do not represent receivables or derivatives, are allocated to this category. They are stated at extended acquisition cost employing the effective rate-of-return method. Interest expenses are recognized in the profit and loss accounts. Within the *schlott group*, no financial instruments are currently allocated to this category.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or predictable payment dates and which are not traded in any market. They are stated at extended acquisition costs employing the effective rate-of-return method for long-term receivables. Interest expenses are recognized under “Results from financial activities”. In this category are located primarily loans granted, accounts receivable as well as cash and cash equivalents.

Financial Assets Held for Sale

Non-derivative financial assets, which cannot be ascribed to any of the categories stated above, are located in this group. Valuation reflects respective current values if these can be accurately determined. In the event that current values cannot be set, the valuation will be at the cost of acquisition. Changes in current values are captured in equity as deferred items, which will be routed through the profit and loss accounts at the time the financial asset is sold or has matured. In the consolidated financial statements, participations and non-consolidated subsidiaries are included in this category.

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At year-end, these assets are subjected to an impairment test. If there are indications of, for example, economic or legal difficulties of a business partner or the disappearance of active markets, the book value of financial instruments that are stated at extended acquisition costs or at respective current values without impact on the profit and loss statement, will be compared to the present value of expected future cash flows. If the book value exceeds the present value, value adjustments will be recognized in the profit and loss accounts; if the reasons for value reductions are no longer valid, value recoveries will be undertaken. Exempted from this procedure are traded share capital instruments, which are stated at cost; for these assets, value recoveries are precluded. For share capital instruments, which are valued at respective current values without impact on the profit and loss statement, value recoveries are not reflected in the profit and loss statement. In all other cases, the income and expense accounts will be affected.

Financial assets are taken off the books when contractual rights to payments expire or when such assets are sold or transferred to third parties.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are employed by the *schlott group* for hedging balance sheet items and future cash flows. These instruments are capitalized as hedging operations if these meet the conditions set forth in IAS 39. Depending on the type of the underlying transaction, hedging operations are designated as fair value hedges, cash flow hedges or hedges for securing the net investment in a foreign business entity.

Fair value hedges are utilized to guard against changes in the current value of assets and liabilities, e.g. accounts receivable in foreign currency. When capitalizing hedging operations, changes in current values of both the financial derivative instrument and the underlying basic transaction are recognized in the profit and loss statement, where the two items offset one another.

Cash flow hedges are contracted for securing variable payment streams arising out of assets and liabilities as well as for off-balance sheet commitments, e.g. for hedging variable interest streams or foreign exchange risks related to production orders. Changes in current values of financial derivatives are recognized in shareholders equity until the results of the underlying basic transactions have flowed through the profit and loss statement; at that time, value changes will be withdrawn from shareholders equity and recognized in the profit and loss statement. The hedging of net investments in a foreign business entity is undertaken for the purpose of securing long-term foreign currency loans to or from subsidiaries. Changes in the current value of such hedging instruments will be recognized in shareholders equity together with the translation differences of the secured loans until the respective subsidiary exits the consolidation.

In support of the recognition of hedging operations on the balance sheet, the *schlott group* maintains comprehensive documentation from the beginning of the hedge transaction. This documentation evidences the correct allocation of the derivative instrument to the underlying basic transaction as well as the effectiveness of the hedging relationship. The effectiveness is continually monitored. If the effectiveness is diluted as per IAS 39, the recognition as a hedging transaction will be discontinued.

The *schlott group* employs derivative financial instruments for the mitigation of interest rate and foreign exchange risks. Depending on the type of the underlying transaction, hedges are denoted as “fair value hedges” or “cash flow hedges”. The majority of transactions represent an economic hedge, but do not conform to the requirements under IAS 39, *Financial Instruments: Recognition and Measurement*. Changes in the fair value of these derivative instruments are recognized in the profit and loss accounts.

Changes in the fair value of foreign exchange transactions are included in the results from foreign exchange activities; changes in the value of interest rate swaps or caps are part of interest expenses / income.

Fair value hedges are employed for hedging possible changes in fair values. Both the underlying transaction and the respective derivative instrument are included in the profit and loss accounts. The fair values of derivative financial instruments are determined on the basis of market-conform valuation methods, drawing on market data prevailing at year-end. Foreign exchange positions are individually valued at their respective forward rates prevailing at year-end. Forward rates reflect spot rates under consideration of forward premiums or discounts.

The fair values of instruments employed for hedging interest rate risks are determined by discounting future cash flows. The discounting applies market-conform interest rates under consideration of the remaining tenors of the instruments. For interest and foreign exchange swaps, current values are calculated for each transaction at year-end. As of September 30, 2008, the *schlott group* had no interest rate swaps in its books, while during the course of the business year, market changes had been recognized in the profit and loss accounts.

A cash flow hedge is designed to protect from volatility future fixed cash flows related to assets and liabilities. The effective portion of the value change of the derivative instrument is recognized in a earnings-neutral manner in shareholders equity until the results of the hedged underlying transaction are realized; the ineffective part of the change in value of the instrument is recognized in the profit and loss accounts.

SUBSIDIARIES IN PROCESS OF DIVESTITURE

In August 2008, the Board of Management of the *schlott group* announced its decision to sell *sachsendruck GmbH*. This subsidiary is active in the area of sheet-offset printing and is part of the Corporation's business segment *print*. The transaction was consummated on November 18, 2008. Consequently, *sachsendruck GmbH* is classified as of September 30, 2008, as "in the process of divestiture". In line with IFRS 5.15, subsidiaries in process of divestiture are to be stated at the lower of book value or respective fair value, less sales expenses.

SHAREHOLDERS EQUITY

The equity account reflects the cash obtained through the issuance of shares. Dividend distributions to shareholders are deducted directly from shareholders equity net of all relevant income tax benefits. Directly attributable transaction costs, reduced by all relevant income tax benefits, further reduce shareholders equity. Treasury stock is subtracted from shareholders equity and is recognized in a earnings-neutral manner.

SHARE-BASED COMPENSATION

The *schlott group* enables its employees to acquire once a year shares at a fixed advantageous price (employee shares). The benefits amounting to the difference between the applicable current value and the advantageous issue price will be recognized as expenses at the time commitments are made. The current value is calculated on the basis of the current market price under consideration of the consequences of transfer limitations.

In addition, *schlott gruppe AG* is committed to share-based compensation for certain employees. This compensation is in form of company shares. The value of this compensation is determined by the relative current value at the time commitments are made. The current value is recognized as an expense on a straight-line basis from the time commitments are made until the end of the expiration period. The number of shares, which no longer expire at any one time, is estimated.

The respective current value is estimated on the basis of available market data under consideration of the Management's best estimate concerning the impact of transfer and exercise limitations as well as various conduct criteria.

FINANCIAL LIABILITIES

Financial liabilities comprise liabilities to financial institutions, accounts payable, derivative instruments with a negative market value as well as liabilities under finance leases. Derivatives and liabilities under finance leases are stated under "Other liabilities". The balance sheet treatment of hedging operations is illuminated under "Derivative financial instruments".

Financial liabilities are recognized as soon as the *schlott group* is contractually obligated to transfer cash or other financial assets to third parties. As an exception, purchases or sales of financial instruments in the general market are recognized on the date of settlement, which is the date on which an instrument is delivered.

The initial recognition of a financial liability reflects the respective current value of the received service reduced by directly attributable transaction costs. Liabilities under finance lease agreements are stated at the present value of minimum lease payments.

Subsequent valuations of financial liabilities are undertaken on the basis of extended acquisition costs employing the effective rate-of-return method; this does not apply to derivative financial instruments. Interest expenses are recognized in the profit and loss statement. Derivatives are valued at the respective current value with impact on the profit and loss statement unless hedge-accounting is utilized.

Financial liabilities are taken off the books when contractual obligations have been met, rescinded or have expired.

PENSION LIABILITIES

Provisions for pensions and similar liabilities reflect the obligations of the Corporation for old-age benefits. The valuation of the provision is in compliance with IAS 19, employing the *Projected-Unit-Credit-Method*. In this connection, the current value of future payment obligations is determined on the basis of actuarial procedures and under consideration of expected trends in wages, pensions, fluctuation rates and interest rates.

For the calculation of actuarial gains and losses, the corridor method is applied, i.e. any gains or losses are included in the provision as long as the cumulated amounts do not exceed 10 % of the current value of pension commitments. Amounts exceeding the corridor are recognized as personnel expenses over the expected average remaining years of service of eligible employees.

To the extent plan assets exist, the respective current value of plan assets is deducted from the current value of payment liabilities.

The *schlott group* examines and recalculates annually its pension obligations.

PROVISIONS

Provisions are built in line with legal or factual liabilities versus third parties that are based on former events and which will lead with high probability to losses of resources, the amount of which can be reasonably estimated.

The valuation reflects the best possible estimate of the amount required as per year-end to meet existing liabilities. Provisions are discounted to present value to the extent that resources will be lost in more than one year. Receipts from third parties are not compensated with the corresponding provisions, but are recognized as a separate asset if the receipt can be counted upon with a high degree of certainty.

Provisions are re-examined at year-end and adjusted to reflect the best possible estimates. If liabilities are reduced, the corresponding provisions are dissolved via recognition under “Other operating income”. The utilization of a provision can only be undertaken for items for which the provision was initially established. Accumulated interest related to long-term provisions is recognized under “Results from financial activities”.

GOVERNMENT SUBSIDIES

Government subsidies are recognized in the balance sheet when it is almost certain that the subsidies will indeed be granted and that the receiving entity has met all relevant conditions. Subsidies comprise essentially investment subsidies and supplements, which are recognized as deferred items in the balance sheet.

The deferred items will be recognized as income over the expected useful lives of the Government-supported assets.

TAXES ON INCOME

Income taxes include taxes that are assessed on the taxable income of the *schlott group*. Taxes not related to income, e.g. energy and vehicle taxes, are allocated to the corresponding cost categories. Income taxes related to the taxable income of a period are stated as provisions for taxes to the extent that these have not yet been paid. Refunds of excess pre-payments or refunds due to losses-carried-forward from previous periods are shown as an asset.

Deferred tax claims and liabilities comprise amounts of income taxes that are to be refunded or paid in future periods and that result from timing differences between IFRS book values and the values assessed for tax purposes of assets and liabilities. The formation of deferred tax claims is also undertaken for future tax refunds or tax reductions as a result of tax-effective losses-carried-forward.

Deferred tax claims are recognized only to the extent that it is probable that sufficient future taxable income will be generated against which refund claims can be compensated. Deferred tax liabilities are built for all taxable temporary differences. In the consolidated financial statements of the *schlott group*, deferred tax claims and liabilities are netted.

The determination of deferred taxes is based on expected tax rates in the various countries at the time of realization and in line with existing legal regulations at year-end.

DISCONTINUED OPERATIONS

Discontinued operations are components of an entity, which were sold or which are classified as „pending for sale“ and which represent a discrete and material business segment.

In order to capture the financial consequences of discontinued operations, the annual results of discontinued operations as well as sales proceeds, both after taxes, are shown in the profit and loss statement in separate amounts. The amounts of the previous year are adjusted accordingly. Scheduled depreciation of fixed assets related to discontinued operations is no longer undertaken once these assets are initially qualified as “pending for sale” as per *IFRS 5 – Long-Term Assets Held for Sale and Discontinued Operations*.

Net cash flow related to current ordinary business activities as well as to investment and financing activities of the discontinued business segment are shown separately in the Notes and are no longer included in the cash flow statement. The values of the previous year are adjusted for better comparison.

The information about discontinued operations and continuing operations correspond to the data and information contained in Segment Reporting.

NET SALES AND INCOME

Sales revenue is adjusted for taxes and miscellaneous reductions. It includes all proceeds that result from the production of printed media. Sales revenue is recognized at the time the customer assumes ownership of the goods and when it can be reasonably expected that the proceeds will be collected by the *schlott group*. Expenses for discounts, commissions as well as estimated warranty expenses are recognized concurrent with the recognition of sales revenue.

Interest income is recognized in line with the standard accrual method. Dividends are stated as income at the time the legal right for payment is obtained.

Miscellaneous income, e.g. rental income, is recognized in line with the estimated timeframe of service delivery.

ASSUMPTIONS AND ESTIMATES

The preparation of the consolidated financial statements is done with the provision that assumptions were made and estimates were applied. These impact the recognition and valuation of assets and liabilities, income and expenses as well as contingent liabilities.

Assumptions and estimates are made on the basis of currently available dependable information; these will be adjusted as new information becomes available. Assumptions concerning the need to reduce the value of financial assets or reduce the expected service lives of fixed assets, are appraised annually. Changes in estimates have an immediate impact on the profit and loss statement as these can produce material consequences for the assets, financial and earnings positions as well as the cash flow of the *schlott group*.

Major events impacting estimates are, for example, the determination of the economic service lives of fixed assets, the calculation of discounted cash flow related to impairment tests and the determination of probabilities and amounts of payment obligations under provisions, and especially the determination of actuarial parameters employed in the calculation of pension liabilities. Detailed estimates and assumptions are made in connection with the calculation of present values related to the allocation of purchase prices for acquired entities.

— F. NOTES TO THE PROFIT AND LOSS STATEMENT

In compliance with *IFRS 5 – Long-Term Assets Held for Disposal and Discontinued Operations* – the business segment *direct marketing* that was sold in the past business year is shown separately in the profit and loss statement. Unless otherwise noted, the statements in these Notes of the previous year refer to continuing operations.

I. NET SALES

Sales were generated by the following business areas:

| IN € 000S | 2007/08 | 2006/07 |
|--------------------|---------|---------|
| Pre-print | 3,746 | 4,061 |
| Intaglio printing | 355,386 | 362,992 |
| Offset printing | 75,444 | 81,031 |
| Further processing | 33,702 | 32,990 |
| Corporate services | 494 | 1,137 |
| | 468,772 | 482,211 |

Sales by geographic markets:

| IN € 000S | 2007/08 | 2006/07 |
|----------------|---------|---------|
| Germany | 279,139 | 304,205 |
| Other Euroland | 108,100 | 109,258 |
| Other Europe | 81,533 | 68,601 |
| Other regions | 0 | 147 |
| | 468,772 | 482,211 |

2. OTHER OPERATING INCOME

Details of other operating income are as follows:

| IN € 000S | 2007/08 | 2006/07 |
|--|---------|---------|
| Dissolutions of value adjustments and provisions | 3,055 | 3,902 |
| Utilization of reserves for contingent losses | 757 | 2,195 |
| Government subsidies | 242 | 268 |
| Negative differential arising out of purchase price allocation | 0 | 1,748 |
| Disposals of fixed assets | 487 | 245 |
| Indemnification and insurance proceeds | 625 | 841 |
| Cafeteria proceeds | 689 | 693 |
| Other neutral gains | 181 | 578 |
| Rental income | 931 | 943 |
| Miscellaneous operating income | 731 | 908 |
| | 7,698 | 12,321 |

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Other operating income was primarily influenced by the dissolution of other provisions in the amount of € 2,446 thousand (€ 3,702 thousand in the previous year) as well as by the utilization of reserves for contingent losses. The utilization of reserves for contingent losses reduces materials, personnel and other operating expenses. An allocation of this utilization to these individual positions is, however, difficult to determine. Details with respect to the recognition of the negative differential arising out of the purchase price allocation respective *biegelaar B.V.*, The Netherlands, are shown under “Mergers and Aquisitions” on page 126.

Miscellaneous operating income contains items which cannot be easily allocated to the positions mentioned above. Moreover, the individual items are of subordinated importance.

3. COST OF MATERIALS

| IN € 000s | 2007/08 | 2006/07 |
|--|---------|---------|
| Paper | 125,421 | 125,724 |
| Ink | 40,784 | 43,923 |
| Further processing | 3,592 | 3,028 |
| Packaging | 4,526 | 4,223 |
| Customs duties and freight-in | 80 | 105 |
| Other production materials | 3,899 | 3,844 |
| Purchased goods for resale | 93 | 287 |
| Overhead expenses – production | 3,020 | 3,202 |
| Bonuses and discounts | (4,889) | (3,720) |
| Total cost of raw materials, supplies and purchased goods | 176,526 | 180,616 |
| Outside services | 49,384 | 54,295 |
| | 225,910 | 234,911 |

The expenses for outside services include essentially value-added to or finishing of own output, assistance to colleagues and the cost of energy.

4. PERSONNEL EXPENSES

| IN € 000S | 2007/08 | 2006/07 |
|-------------------------------|---------|---------|
| Wages and salaries | 113,267 | 122,448 |
| Social security contributions | 21,485 | 23,200 |
| Old-age pensions and support | 1,139 | 1,073 |
| | 135,891 | 146,721 |

Personnel expenses show a marked reduction compared to the previous year. This trend is the result of the implementation of outsourcing programs, the cancellation of various employment contracts as well as the reduction in benefits beyond levels contained in the collective bargaining agreement. The expenses associated with the outsourced logistics areas are included in other operating income as distribution and advertising expenses.

Expenses incurred in connection with old-age pensions represent essentially additions to pension reserves.

Accumulated interest with respect to pension obligations is not included in personnel expenses, but is shown under “Results from financial activities”.

Average yearly staff count developed as follows:

| | 2007/08 | 2006/07 |
|--------------------|---------|---------|
| Salaried employees | 692 | 730 |
| Wage earners | 2,116 | 2,252 |
| | 2,808 | 2,982 |
| Apprentices | 81 | 85 |
| | 2,889 | 3,067 |

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Calculated on the basis of full-time employees, the *schlott group* employed on average 2,848 persons during the reporting year (2,887 persons in the previous year).

5. SCHEDULED DEPRECIATION

| IN € 000s | 2007/08 | 2006/07 |
|-------------------------------|---------|---------|
| Intangible assets | 674 | 989 |
| Property, plant and equipment | 26,679 | 27,490 |
| Investment properties | 214 | 272 |
| | 27,567 | 28,751 |

The stated depreciation charges do not contain any unscheduled depreciation: these are reflected as “Other operating expenses” in form of value reductions of fixed assets to the extent required.

6. CHARGES FOR RESTRUCTURING

The *schlott group* is currently in the process of implementing a restructuring program at its German intaglio printing sites as well as a concentration of its activities to its core competences. The program includes a reduction in staff levels as well as making use of the cost savings opportunities under the collective bargaining agreement. These measures have led to charges of € 13,116 thousand (€ 0 in the previous year), of which € 10,003 thousand (€ 0 thousand in the previous year) were in form of additions to the provisions related to personnel. In addition, charges in the amount of € 4,912 thousand were incurred in connection with the divestiture of *sachsendruck GmbH*.

7. OTHER OPERATING EXPENSES

| IN € 000S | 2007/08 | 2006/07 |
|---|---------|---------|
| Maintenance expenses | 17,370 | 17,198 |
| Rental and leasing expenses | 5,139 | 5,006 |
| General overhead expenses | 5,174 | 5,266 |
| Administrative expenses | 6,685 | 7,031 |
| Fringe benefits and expenses for temporary employment | 9,204 | 8,264 |
| Insurance expenses | 1,811 | 2,116 |
| Sales and marketing expenses | 24,753 | 21,982 |
| Taxes other than income taxes | 434 | 620 |
| Miscellaneous expenses | 2,398 | 949 |
| | 72,968 | 68,432 |

Of total maintenance expenses, € 16,010 thousand (€ 15,409 thousand in the previous year) have been expended for the maintenance of machinery and business equipment. Administrative expenses represent essentially legal and consulting fees of € 1,880 thousand (€ 1,606 thousand in the previous year). Sales and marketing expenses contain storage and administrative costs, charges for the out-sourced logistics areas as well as commissions in the amount of € 23,918 thousand (€ 20,432 thousand in the previous year) and receivables write-offs and value adjustments of € 93 thousand (€ 457 thousand in the previous year). Value adjustments of fixed assets have not been undertaken during the reporting period and none had been effected in the previous year.

Miscellaneous operating expenses contain items which cannot be easily allocated to the individual positions mentioned above. Moreover, the individual items are of subordinated importance.

8. RESULTS FROM FINANCIAL ACTIVITIES

| IN € 000s | 2007/08 | 2006/07 |
|--------------------------------------|----------|----------|
| Other interest and similar income | 421 | 3,106 |
| Interest and similar expenses | (11,499) | (12,477) |
| Gains / (losses) in foreign exchange | 1,088 | 263 |
| | (9,990) | (9,108) |

The results from financial activities have deteriorated in comparison with the previous year. Foreign exchange gains / (losses) include primarily gains or losses from changes in rates between the time the underlying transaction was created and the time payment was made. These also reflect gains or losses due to valuations at year-end.

9. TAXES ON INCOME

| IN € 000s | 2007/08 | 2006/07 |
|---------------------------------|---------|---------|
| Current income taxes | (678) | (898) |
| Claims for tax refunds (SEStEG) | 0 | 4,960 |
| Retro-taxation EK 02 | (209) | 0 |
| Taxes for prior years | 1 | 62 |
| Deferred taxes | 1,586 | 3,760 |
| | 700 | 7,884 |

The change in current income taxes compared to the previous year is essentially accounted for by a reduction in deferred taxes as the result of the capitalization of deferred tax credits arising out of tax-losses-carry-forward and the capitalization in the previous year of corporate income tax credits. The latter was prematurely liquidated during the course of the reporting year by means of an a-forfait transaction.

The deferred tax rate in Germany was 30.0 % during the reporting year (30.0 % in the previous year). Outside of Germany, the deferred tax rates applied were between 21.0 % and 25.5 % (24.0 % and 25.5 % in the previous year).

Deferred taxes on both sides of the balance sheet are detailed as follows:

| IN € 000s | 2007/08 | | 2006/07 | |
|--|---------|----------|---------|----------|
| | Active | Passive | Active | Passive |
| Fixed assets | 437 | (28,317) | 354 | (26,951) |
| Losses-carried-forward | 3,987 | 0 | 872 | 0 |
| Special items not taxable until use or liquidation | 0 | (4,301) | 0 | (5,676) |
| Provisions | 4,355 | 0 | 3,569 | 0 |
| Other | 0 | (67) | 461 | (119) |
| | 8,779 | (32,685) | 5,256 | (32,746) |
| Compensated allocations | (8,217) | 8,217 | (4,435) | 4,435 |
| | 562 | (24,468) | 821 | (28,311) |

The realization of deferred tax claims arising out of losses-carried-forward in the amount of € 3,987 thousand (€ 872 thousand in the previous year) is dependent upon the generation of future taxable income by these entities. In this connection, tax planning calculations were undertaken for projecting future taxable income as a result of markedly declining depreciation expenses.

Non-recognized losses-carried-forward amount to € 25,785 thousand (€ 18,337 thousand in the previous year). Of this amount, € 881 thousand (€ 6,821 thousand in the previous year) are related to losses-carried-forward that can currently not be utilized as these amounts refer to periods prior to consolidation. The residual amount refers to losses-carried-forward for which a realization cannot reasonably be expected within the next 3 to 5 years.

Changes in deferred taxes reflected directly in shareholders equity amount to € 79 thousand (€ 143 thousand in the previous year).

The following table illustrates the process of calculating expected versus actual tax expenses. To determine expected tax expenses, net income before taxes is multiplied by the tax rate of 30.0 % (38.0 % in the previous year). The 30.0 % rate consists of 15.0 % (25.0 % in the previous year) for corporate taxes and 15.0 % (13.0 % in the previous year) for municipal taxes, including the solidarity premium.

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| IN € 000s | 2007/08 | | 2006/07 | |
|--|----------------------|---------|----------------------|---------|
| | Basis for Assessment | Taxes | Basis for Assessment | Taxes |
| Expected income tax payments | (17,493) | (5,248) | 10,982 | 4,173 |
| Tax-free revenue | (8) | (2) | (2,833) | (1,077) |
| Non-deductible operating expenses | 5,192 | 1,558 | 279 | 106 |
| Non-deductible losses | 4,449 | 1,335 | 0 | 0 |
| Miscellaneous | | 126 | | (5) |
| Deferred taxes rate change | | 730 | | (5,852) |
| Deferred taxes related to losses-carried-forward | | 0 | | (269) |
| Write-offs of deferred taxes related to losses-carried-forward | | 592 | | 0 |
| Corporate income tax credit | | 0 | | (4,960) |
| Retro-taxation EK 02 | | 209 | | 0 |
| Stated income tax expenses | | (700) | | (7,884) |

Non-deductible operating expenses during the business year 2007/08 result essentially from the non-deductible write-downs of fixed assets of *sachsendruck GmbH*, which was reclassified as “subsidiary in process of divestiture”.

10. EARNINGS PER SHARE

| | 2007/08 | 2006/07 |
|--|----------------|----------------|
| Net income <i>in €</i> | (16,792,781) | 33,654,819 |
| Number of shares eligible for dividends at year-end | 6,092,434 | 6,204,200 |
| <i>Net income for eligible share in €</i> | (2.76) | 5.42 |
| Weighted-average number of shares – undiluted | 6,135,419 | 6,204,200 |
| <i>Undiluted net income per share in €</i> | (2.74) | 5.42 |
| Weighted-average number of shares – diluted | 6,135,419 | 6,204,200 |
| <i>Diluted net income per share in €</i> | (2.74) | 5.42 |
| Net income from continuing operations <i>in €</i> | (16,792,781) | 18,865,586 |
| Number of shares eligible for dividends at year-end | 6,092,434 | 6,204,200 |
| <i>Net income from continuing operations per eligible share in € – undiluted</i> | (2.76) | 3.04 |
| <i>Net income from continuing operations per eligible share in € – diluted</i> | (2.76) | 3.04 |

The undiluted net income per share is calculated by dividing into net income the weighted average number of shares in circulation during the reporting period. Treasury stock is excluded from this calculation.

When calculating the diluted net income per share, shares issued as employee shares are added to the weighted average number of shares in circulation during fiscal year 2007/08. During 2007/08, no new shares have been issued.

— G. NOTES TO THE BALANCE SHEET

In compliance with *IFRS 5 – Long-term Assets Held for Disposal and Discontinued Operations* – the Notes to the balance sheet for the business year refer to continuing operations, i.e. without the subsidiary *sachsendruck GmbH*. The data and information for the previous year do not include the business segment *direct marketing*.

Long-Term Assets

Details on the developments in fixed assets are shown on page 106 ff.

Capital expenditures are illuminated further in the Management Report.

II. INTANGIBLE ASSETS

The item intangible assets includes goodwill, down payments made as well as miscellaneous intangible assets. The amortization of intangible assets is shown in the profit and loss statement as “Expenses for scheduled depreciation”.

Miscellaneous intangible assets represent essentially acquired software, licensed software as well as identified customer stocks and trade marks. Intangible assets produced in-house are not capitalized.

The acquisition of *REUS s.r.o.*, Czech Republic, resulted in goodwill in form of a customer base in the amount of € 1,244 thousand (€ 1,408 thousand in the previous year), which is amortized over 10 years (residual useful life is 7 years). In connection with the acquisition of *biegelaar B.V.*, the value of the customer base is stated as € 3,925 thousand (€ 4,225 thousand in the previous year), which is amortized over 15 years (residual service life is 13 years). The book value of the trade name remains unchanged at € 7,500 thousand; the trade name is not subjected to planned depreciation, but is at least once annually examined in terms of possible value impairment.

In line with IAS 12.68, the reduction in goodwill in the amount of € 1,396 thousand resulting from the retroactive capitalization of deferred tax claims arising out of losses-carried-forward of the *sebaldus group*, which existed at the time of acquisition, but were non-deductible for tax purposes.

The reclassification of goodwill in the amount of € 4,812 thousand to “subsidiary in the process of divestiture” is the result of requirements as per IFRS 5 in connection with the divestiture of *sachsendruck GmbH*.

In the previous year, goodwill declined by € 7,886 thousand resulting from the sale of the business segment *direct marketing*. In this connection, € 650 thousand were transferred from the business segment *direct marketing* to *print*. Goodwill increased in the previous year by € 133 thousand, representing additional acquisition expenses related to the *reus group*.

Goodwill resulting from mergers and acquisitions is not amortized, but is subjected to an impairment test, which is detailed on page 133 f.

Intangible assets have developed as follows:

| IN € 000s | 2007/08 | 2006/07 |
|---------------------------------|---------|---------|
| Beginning balance | 95,326 | 92,258 |
| Foreign exchange translation | 3 | 8 |
| Additions | 141 | 730 |
| Additions to consolidation | 0 | 12,000 |
| Disposals | (1,396) | (67) |
| Eliminations from consolidation | 0 | (8,571) |
| Transfers | (4,814) | 52 |
| Amortization | (674) | (1,084) |
| | 88,586 | 95,326 |

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12. PROPERTY, PLANT AND EQUIPMENT

Included in this item are all assets of a material nature with long-term service lives that are either owned legally by the *schlott group* or are deemed to be in the economic ownership due to the nature of the underlying finance lease agreements. The latter are illustrated in the following chapter.

In connection with land and buildings, mortgage liens exist in the amount of € 148,383 thousand (€ 160,181 thousand in the previous year). Furthermore, technical plant and machinery has been pledged as collateral in the amount of € 113,767 thousand (€ 124,380 thousand in the previous year), as well as production facilities under construction in the amount of € 870 thousand (€ 378 thousand in the previous year). For land property in the amount of € 49,395 thousand (€ 53,474 thousand in the previous year), registered rights of first refusal to purchase as well as transferable leasehold land interests of third parties exist.

In the area of property, plant and equipment, no value adjustments were undertaken during the reporting year.

Finance Leases

Technical plant, machinery and business equipment in the amount of € 26 thousand are capitalized on the basis of finance leases. In the previous year, the sum of € 1,806 thousand was accounted for primarily by technical plant and machinery. The finance lease agreements contain utilization limits since the *schlott group* is not the legal owner of these assets, but has only economic ownership.

The currently existing agreements have a tenor of up to 5 years; they stipulate fixed lease payments as well as options to purchase the underlying items at the end of the term. A prolongation of agreements is normally possible at the Corporation's option. Canceling agreements is either not an option, or if yes, only against payment of indemnification.

Lease payments under these agreements are due as follows:

| IN € 000s | Total | of which < 1 year | of which 1–5 years | of which > 5 years |
|-------------------------|-------|----------------------|-----------------------|-----------------------|
| Minimum lease payments | 20 | 7 | 13 | 0 |
| Present value discounts | (4) | (1) | (3) | 0 |
| Present values | 16 | 6 | 10 | 0 |

Operating Leases

Aside from finance lease agreements, rental and lease agreements have been concluded which in economic terms must be classified as operating leases. The underlying asset is allocated to the lessor. Operating lease agreements for land and buildings have tenors of between 4 and 15 years; for technical plant and machinery as well as business equipment tenors range from 1 to 15 years. As a general rule, agreements expire at the end of the lease period.

For the reporting year, € 4,127 thousand (€ 4,097 thousand in the previous year) are recognized for rental and lease expenses.

The following table indicates amounts due:

| IN € 000s | Total | of which < 1 year | of which 1 – 5 years | of which > 5 years |
|---|--------|----------------------|-------------------------|-----------------------|
| Concessions, industrial proprietary rights and similar rights and values | 15 | 10 | 5 | 0 |
| Land and buildings | 42,057 | 3,503 | 13,568 | 24,986 |
| Technical plant and machinery | 1,097 | 437 | 644 | 16 |
| Other plant, machinery and business equipment | 1,146 | 496 | 634 | 16 |
| | 44,315 | 4,446 | 14,851 | 25,018 |

13. FINANCIAL ASSETS

Investments in affiliated companies include Broscheck Grundstücksgesellschaft Stelle mbH and Z.B.K. s.r.o., Czech Republic, both of which are not consolidated. The book value of these participations amounts to € 209 thousand. In addition, a participation in Tellux GmbH is stated at € 194 thousand, representing a 2.94 % participation in that entity. No changes have taken place compared to the previous year. A present value of these investments cannot be dependably determined; therefore, they are stated at the cost of acquisition.

Marketable securities shown as financial assets have not been pledged as collateral for existing debt obligations.

14. INVESTMENT PROPERTIES

Properties held for investment purposes have a market value of € 3,852 thousand (€ 6,523 thousand in the previous year) at the end of the fiscal year. The determination of the current market value was based on an internal appraisal in line with the earnings-value-method. The determination of earnings-value is undertaken on the basis of the cash flow generated or expected to be generated less maintenance expenses; both cash flow and maintenance expenses are deemed to be constant over the entire residual life. This calculation is made individually for each property. During the reporting year, properties held for investment purposes have been sold (formerly rented production buildings). The sold assets had a residual book value of € 1,967 thousand. The sale resulted in a book loss of € 48 thousand. There were no additions. Rental income totaled € 336 thousand (€ 630 thousand in the previous year). Operating expenses incurred for these assets amounted to € 363 thousand (€ 467 thousand in the previous year). For properties not rented, no expenses were incurred in the reporting year and there were none in the previous year. The above data do not include amounts attributable to the business segment *direct marketing*.

In connection with investment properties, mortgages of € 193 thousand (€ 2,201 thousand in the previous year) are recorded; moreover, rights to repurchase these properties are registered.

15. LONG-TERM RECEIVABLES AND OTHER ASSETS

The claims for tax refunds in the amount of 7 thousand (€ 4,552 thousand in the previous year) result from the present value calculation of corporate income tax credits. During the reporting year, most corporate income tax credits have been sold at their current value.

Included in other assets are rent payments made in advance on the production facility in The Netherlands in the amount of € 2,071 thousand (€ 2,257 in the previous year). The amount will be recognized in the profit and loss accounts on a straight-line basis over the tenor of the underlying lease agreement.

16. DEFERRED TAXES

Deferred taxes, on both sides of the balance sheet, are illustrated on page 152 ff. under “Taxes on Income”.

17. INVENTORY, RAW MATERIALS AND SUPPLIES

Total inventory is composed of the following:

| IN € 000s | <i>Sept. 30, 2008</i> | <i>Sept. 30, 2007</i> |
|--------------------------------------|-----------------------|-----------------------|
| Raw materials and supplies | 14,939 | 13,337 |
| Work in process – goods and services | 6,996 | 9,912 |
| Finished goods | 403 | 1,335 |
| | 22,338 | 24,584 |

Of total inventory at the end of the fiscal year, € 3,360 thousand (€ 4,621 thousand in the previous year) are stated at the reduced net realizable value of which € 3,219 thousand (€ 1,921 thousand in the previous year) are accounted for by work in process and by finished goods. During the reporting year, value adjustments in the amount of € 51 thousand were dissolved (€ 196 thousand were added in the previous year). No adjustments were made to valuation changes undertaken in prior years.

The inventory of *biegelaar B.V.*, The Netherlands, in the amount of € 3,563 thousand (€ 3,762 thousand in the previous year) is assigned as collateral.

The nature of the business of the *schlott group* does not result in customer orders requiring long-time order execution. Therefore, completed customer orders or orders in the process of production are activated without consideration of proportionate earnings.

18. SHORT-TERM RECEIVABLES AND OTHER ASSETS

Accounts receivable are due within one year.

The maturities of accounts receivable at year-end are as follows:

| IN € 000S | Sept. 30, 2008 | Sept. 30, 2007 |
|--|----------------|----------------|
| Book value | 32,624 | 47,790 |
| of which: | | |
| – neither delinquent nor value-impaired | 30,086 | 41,839 |
| – not value-impaired and due within the following time frames: | | |
| <i>less than 30 days</i> | 2,480 | 4,678 |
| <i>between 30 to 60 days</i> | 7 | 1,114 |
| <i>between 60 and 90 days</i> | 30 | 74 |
| <i>between 90 and 180 days</i> | 20 | 67 |
| <i>more than 180 days</i> | 1 | 18 |

In the column “neither delinquent nor value-impaired”, amendments and alterations to underlying contracts are not included.

At the end of the fiscal year, there are no indications that accounts receivable classified as neither delinquent nor value-impaired will not be paid at maturity.

If there are indications with respect to impairments, receivables are stated at the reduced present value of expected proceeds. Aside from itemized valuation allowances, a general allowance for doubtful receivables is established.

The rates for establishing an allowance for doubtful accounts are as follows:

| | 2007/08 | 2006/07 |
|--------------------|----------------|----------------|
| Admonition stage 1 | 2 % | 3 % |
| Admonition stage 2 | 3 % | 5 % |
| Admonition stage 3 | 7 % | 15 % |
| Admonition stage 4 | 10 % | 25 % |
| Instalment payers | 50 % | 50 % |
| Doubtful accounts | 100 % | 100 % |

The reduction in the rates led to a dissolution in the amount of € 155 thousand.

At the time of write-offs, receivables are charged to the reserve for itemized valuation allowances. This is done once the loss is conclusively established, generally following court decisions or after having settled with the credit insurance company. In the event value adjustments exceed the book values of receivables at the time of write-offs, the difference will be recognized in a reduction in other operating income.

Value adjustments for accounts receivable have developed as follows:

| € 000s | Sept. 30, 2008 | Sept. 30, 2007 |
|---|-----------------------|-----------------------|
| Balance on October 1 | 1,415 | 1,228 |
| Foreign exchange differentials | (103) | 153 |
| Additions (charges for value adjustments) | 104 | 348 |
| Consumptions | (136) | (41) |
| Dissolutions | (546) | (273) |
| Balance on September 30 | 734 | 1.415 |

The maximum risks for accounts receivable equal their book value. These are insured for 90 % with credit insurance companies.

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The following table indicates the charges incurred by full write-offs of receivables as well as income generated from previously written-off receivables:

| IN € 000s | Sept. 30, 2008 | Sept. 30, 2007 |
|--|----------------|----------------|
| Charges for full write-offs of receivables | 64 | 170 |
| Income from previously written-off receivables | 1 | 29 |

Claims for income tax refunds related to taxable income of the reporting year amounted to € 39 thousand (€ 1,664 thousand in the previous year), representing refunds of prepaid amounts. Corporate income tax credits shown in the previous year have been liquidated.

Other assets are composed of the following:

| IN € 000s | Sept. 30, 2008 | Sept. 30, 2007 |
|--|----------------|----------------|
| Creditors with debit balances | 321 | 678 |
| Purchase price receivable | 0 | 7,745 |
| Turnover bonuses for suppliers | 2,173 | 1,512 |
| Market value of derivative financial instruments | 980 | 515 |
| Miscellaneous | 2,152 | 2,898 |
| | 5,626 | 13,348 |

The current market values of derivative instruments amount to € 974 thousand (€ 450 thousand in the previous year) for foreign exchange transactions, € 6 thousand (€ 2 thousand in the previous year) for interest rate swaps and € 0 (€ 63 thousand in the previous year). Of these stated derivative instruments, € 906 thousand (€ 175 thousand in the previous year) will become due during the next fiscal year. All other transactions will mature within 6 years (7 years in the previous year).

Derivative financial instruments are shown in greater detail on page 138 ff.

Value adjustments for other receivables remain unchanged at € 9 thousand. Charges incurred in the full write-offs of other receivables amount to € 2 thousand (€ 1 thousand in the previous year). Income from previously written-off other receivables was, as in the previous year, not received.

19. CASH AND CASH EQUIVALENTS

Included in this item is cash on hand totaling € 32 thousand (€ 42 thousand in the previous year). Credit balances with financial institutions were bearing interest at rates between 0.75 % and 3.77 % (0.75 % to 3.91 % in the previous year) at the end of the reporting period. The translation of balances in foreign currency employed the spot rate of exchange prevailing on the last day of business. The market value of credit balances amounts to € 1,805 thousand (€ 2,393 thousand in the previous year).

Financial assets have not been pledged as collateral for loans.

20. DEFERRED ITEMS

Deferred items include prepayments for maintenance work, vacation payments, commissions, insurance and rent, for which the corresponding expense is related to the next fiscal year.

21. SUBSIDIARY IN THE PROCESS OF DIVESTITURE

In August 2008, the Management of the *schlott group* announced its decision to sell *sachsendruck GmbH*. This sheet-offset printing subsidiary is active in the business segment *print*. The sale was consummated on November 18, 2008. Consequently, *sachsendruck GmbH* is classified as of September 30, 2008, as “Subsidiary in the process of divestiture”.

The item is composed of the following:

| IN € 000s | Sept. 30, 2008 |
|---------------------------------------|----------------|
| Intangible assets | 17 |
| Property, plant and equipment | 7.130 |
| Investments in financial assets | 193 |
| Inventory, raw materials and supplies | 1.583 |
| Receivables and other assets | 4.056 |
| Other short-term assets | 43 |
| | 13.022 |

In connection with the loss-neutral valuation of this category, goodwill in the amount of € 4,812 thousand was fully written-off and property, plant and equipment was depreciated by € 100 thousand. These charges are recognized under “Charges for restructuring”.

22. SUBSCRIBED CAPITAL

The capital stock of *schlott gruppe AG* amounts to € 18,612,600.00 consisting of 6,204,200 shares. The subscribed capital has been fully paid in. Each share has one vote. All issued shares are common shares and, with the exception of treasury stock, are wholly dividend-eligible for the business year 2007/08.

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 € 4,000,000.00 cash contributions or contributions in-kind via a one-time or via multiple issuance 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 portions of new issues from subscription rights and to exclude from subscription rights shares issued to employees of *schlott gruppe AG* or to affiliated companies of *schlott gruppe AG* as per Article 15 pp AktG. Moreover, capital increases by way of contributions in-kind for the purpose of acquisitions or participations related to the ordinary business of the Corporation may be excluded from subscription rights. In addition, the Board of Management is authorized, with the consent of the Supervisory Board, to determine the particulars of any capital increase as well as its execution.

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 € 5,300,000.00 in form of cash contributions or contributions in-kind via a one-time or via multiple issuance of new shares (Authorized Capital II). These shares are to 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 portions of new issuance from subscription rights of shareholders. Moreover, the Board of Management is authorized, with the consent of the Supervisory Board, to exclude subscription rights of shareholders from capital increases in form of cash contributions in the course of one-time or multiple utilizations of Authorized Capital II up to an amount not exceeding 10 percent of the capital stock during the timeframe of the effective date of the authorization and the date of utilization of this authorization. This stipulation is designed to assure that the new shares issued for cash are issued at a price that is not significantly below the market price prevailing on the date the issuance price is fixed. Shares that will be applied to the aforementioned 10 percent limit are those that are acquired on the basis of the authorization of the Annual General Meeting of March 17, 2004, and divested as per Article 71, Clause 1, No 8, Para. 5 AktG, in concert with Article 186, Clause 3, Para. 4 AktG. Furthermore, the 10 percent limit is applied as well to shares, which were issued for the purpose of servicing debentures with conversion and / or options rights and duties as long as debentures were issued on the basis of the authorization of the Annual General Meeting of March 17, 2004, in conformity with Article 186, Clause 3, Para. 4 AktG, and without subscription rights of shareholders. The Board of Management is further authorized, with the consent of the Supervisory Board, to exclude subscription rights of shareholders to the extent necessary to afford holders of convertible debentures and options issued by *schlott gruppe AG* or its subsidiaries, subscription rights for new shares to which they would be entitled following exercise of options and conversion rights or fulfillment of options and conversion duties. The Board of Management is authorized, with the consent of the Supervisory Board, to determine the particulars of capital increases and their implementation, particularly the description of shareholder rights and the terms of share issuance.

The authorized capital is conditionally increased by additional € 3,750,000.00 through the issuance of up to 1,250,000 bearer shares (Conditional Capital I). The conditional capital increase will only be undertaken to the extent that holders of options and conversion rights or holders responsible for exercising options and conversion duties are taking advantage of options and conversion rights or meet their commitments under options and conversion duties. The options and conversion rights and duties concerned are those that the Corporation, or one of its wholly

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owned, indirect or direct investment subsidiaries, issued or guaranteed up to March 16, 2009, on the basis of the authorization of the Annual General Meeting of March 17, 2004. The issuance of the new shares will be undertaken in line with the aforementioned authorization at options and conversion prices to be determined. The new shares are eligible for dividends beginning with the start of the fiscal year during which they are created as a result of the exercise of options and conversion rights. The Board of Management is authorized, with the consent of the Supervisory Board, to determine the particulars of the execution of the conditional capital increase.

The Board of Management is authorized to repurchase up to 10 % of the capital stock until August 25, 2009. This authorization may be implemented directly by the Corporation or by third parties designated by the Corporation in full or in partial amounts, at one time or at multiple times. The purchase is 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 (excluding transaction fees) may not exceed by more than 10 % and may not be below by more than 10 % the mid-value XETRA opening quotations on the Frankfurt Stock Exchange for the last three trading days prior to the commitment to acquire the Corporation's own shares. In the event shares are acquired via a public purchase offer extended to all shareholders of the Corporation or via a public request to all shareholders of the Corporation for submission of sales offers, the indicated purchase or sales prices, or the limit values of the indicated purchase or sales price ranges per share (excluding transaction fees) may not exceed or may not be below by more than 20 % the XETRA mid-value closing prices quoted on the Frankfurt Stock Exchange on the last three trading days prior to the official publication of any such offer. The number of shares offered for purchase or solicited via sales offers by shareholders may be limited. The Board of Management is authorized, subject to the consent of the Supervisory Board, to utilize shares acquired in the context of this authorization for the purpose of defraying acquisitions in whole or in part or to sell such shares at specified conditions.

23. CAPITAL RESERVES

Capital reserves of € 56,803 thousand (€ 58,669 thousand in the previous year) comprise on the one hand the differential between the € 20.20 issue price of 800,000 shares of what was then Schlott AG and the par value of € 2.56 per share, and, on the other hand, premiums related to capital in-kind contributions. The reduction is accounted for by repurchased own shares.

Treasury Stock

Beginning with November 12, 2007, on the basis of an authorization issued by the Annual General Meeting on March 13, 2007, and as renewed by a resolution passed by the Annual General Meeting on February 26, 2008, 111,766 shares were repurchased at a value of € 1,866 thousand. The sales price per share of treasury stock may be maximum 3 to 5 % below the price quoted on the stock exchange. Funds utilized for the repurchase of shares reduce the capital reserves by a like amount.

Share-Based Compensation

The *schlott group* has an employee shares program for which nearly all employees are eligible. The program guarantees a fixed issue-price at which employee shares may be subscribed.

In connection with this program, the Corporation had issued 14,180 shares during fiscal year 2004/05 at an issue price of € 25.30. In addition, the Corporation has granted for the first time bonus shares to employee shareholders who retain shares for a period of three to six years. For each ten shares retained, one *schlott* bonus share is given. When leaving the Corporation, employees' eligibility for bonus shares expires.

During the reporting period, the employee shares program was not active and no employee shares were issued.

24. EARNINGS RESERVES

This position contains previously accumulated earnings, translation differentials arising out of translations of assets and liabilities as well as income and expenses of foreign subsidiaries. In addition, translation differences related to loans to and long-term receivables from foreign subsidiaries are included in this position (net investments in foreign business units).

The individual components of earnings reserves as well as their development during the reporting year and the previous year can be seen in the “Statement of Changes in Shareholders Equity” on page 102 f.

On November 7, 2008, the Board of Management resolved to withdraw € 25,155 thousand in connection with the net profit for the fiscal year.

25. VALUATION RESERVES

Valuation reserves contain the value changes associated with financial derivatives categorized as effective hedging instruments. € 71 thousand (€ 212 thousand in the previous year) represent positive fair values related to foreign exchange forward transactions and negative € 139 thousand (negative € 64 thousand in the previous year) represent negative fair values related to interest rate swaps. During the reporting year, negative € 68 thousand (positive € 148 thousand in the previous year) were directly recognized as the result of changes in current values. € 216 thousand (€ 176 thousand in the previous year) were withdrawn from the valuation reserve and recognized in the profit and loss accounts as foreign exchange gains or losses. Deferred taxes in the amount of € 65 thousand (€ 56 thousand in the previous year) related to these valuation changes were deducted.

Capital Management

The goal of capital management of the *schlott group* is to secure on an ongoing basis sufficient liquidity, an appropriate equity ratio as well as the availability of required financial resources for the development of the Corporation. Due to the capital-intensive nature of the printing industry and the strategy of the *schlott group* to grow through acquisitions, level of indebtedness of the Corporation are subject to pronounced oscillations: Capital expenditures for new printing lines or acquisitions of other entities lead to a marked rise in indebtedness; in future years, the level of indebtedness is then reduced by internally generated cash flow. As a result of the foregoing, the level of indebtedness is a key

parameter in the management of the *group's* capital position. This parameter is defined as the ratio of net indebtedness (due to banks less cash on hand and cash equivalents) to sustainable EBITDA. The ratio shall not be greater than 3.5 for any length of time. A ratio of 2.0 is considered as optimal. At this time, no capital measures are being considered.

26. LONG-TERM FINANCIAL LIABILITIES

The remaining tenors of long-term financial liabilities are shown in the following table:

| IN € 000S | <i>Total</i> | <i>with remaining tenor of</i> | | <i>Total</i> |
|-----------------------------|--------------|--------------------------------|---------------------|--------------|
| | <i>2008</i> | <i>1 – 5 years</i> | <i>> 5 years</i> | <i>2007</i> |
| Due to banks | 104,516 | 94,820 | 9,696 | 99,686 |
| Other long-term liabilities | 947 | 292 | 655 | 806 |
| | 105,463 | 95,112 | 10,351 | 100,492 |

Liabilities to banks include loans related to capital expenditure projects at the sites in Nuremberg-Hafen, Lübeck and Freudenstadt as well as for funding the acquisition of the Dutch subsidiary. Repayment amounts due during the next fiscal year in the amount of € 28,644 thousand (€ 31,661 thousand in the previous year) were reclassified as short-term financial liabilities. In addition, during the business year 2007/08, € 37,000 thousand were raised by means of a debenture issue, which will be repaid in three installments beginning in 2011.

To collateralize liabilities to financial institutions, certain machinery in the amount of € 113,767 thousand (€ 124,380 thousand in the previous year) and facilities under construction of € 870 thousand (€ 378 thousand in the previous year) have been pledged. Furthermore, mortgages on real property totaling € 148,576 thousand (€ 162,382 thousand in the previous year) have been registered for the benefit of lenders.

Other long-term liabilities include liabilities under finance lease agreements in the amount of € 14 thousand (€ 18 thousand in the previous year). These are stated at acquisition costs under consideration of the effective interest method. Liabilities of € 6 thousand (€ 392 thousand in the previous year) becoming due in the next fiscal year have been transferred to short-term liabilities.

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27. LONG-TERM PROVISIONS

| IN € 000S | Sept. 30, 2008 | Sept. 30, 2007 |
|----------------------------|----------------|----------------|
| Provisions for pensions | 19,934 | 19,886 |
| Other long-term provisions | 6,103 | 6,563 |
| | 26,037 | 26,449 |

Provisions for Pensions

Most pension provisions are related to domestic employees. Pension liabilities are provisioned for old age, disability and survivor benefits in line with existing agreements. Benefit entitlements are only to a limited extent based on the level of compensation prior to retirement. In general, entitlements are fixed amounts based on years of service. The important and most relevant pension benefit agreements were concluded more than 20 years ago.

The 10 % corridor rule is applied when determining pension expenses and valuing the pension provision. Actuarially calculated gains or losses are not recorded unless such changes exceed 10 % of total pension liabilities. Amounts exceeding the corridor are distributed to active employees based on the average number of expected years of service; appropriate entries are made in the relevant balance sheet accounts. Actuarially calculated gains or losses are primarily the result of deviations from assumed biometric probabilities. Actuarially calculated gains resulted from the increase in the underlying interest rate in line with capital market trends.

The funding of pension liabilities is as follows:

| IN € 000S | Sept. 30, 2008 | Sept. 30, 2007 |
|---|----------------|----------------|
| Present value of liabilities not re-insured | 19,170 | 21,014 |
| Non-recognized actuarial gains / (losses) | 764 | (1,128) |
| | 19,934 | 19,886 |

Developments in provisions for pensions

| IN € 000s | Sept. 30, 2008 | Sept. 30, 2007 |
|------------------------------------|----------------|----------------|
| Balance on October 1 | 19,886 | 22,833 |
| Pension expenses | 1,217 | 1,212 |
| Pension payments made | (1,145) | (1,193) |
| Translation differentials | 0 | 3 |
| Transfers | (24) | 0 |
| Entities exited from consolidation | 0 | (2,969) |
| Balance on September 30 | 19,934 | 19,886 |

Details of pension expenses are as follows:

| IN € 000s | Sept. 30, 2008 | Sept. 30, 2007 |
|--|----------------|----------------|
| Expenses based on years of service | 157 | 330 |
| Accrued interest on expected pension liabilities | 1,075 | 1,018 |
| Actuarial (gains) / losses | (15) | (136) |
| | 1,217 | 1,212 |

Pension liabilities related to years of service and actuarial gains or losses are recorded as personnel expenses, while accumulated interest on expected pension liabilities is treated as interest expenses.

In determining pension liabilities, the following parameters were employed:

| ACTUARIAL ASSUMPTIONS | Sept. 30, 2008 | Sept. 30, 2007 |
|------------------------------|----------------|----------------|
| Interest rate | 6.00 % | 5.25 % |
| Trends in salaries and wages | 2.00 % | 2.00 % |
| Trends in general pensions | 1.75 % | 1.75 % |
| Probability of fluctuations | 1.50 % | 1.50 % |

Not included in the above data are further benefit commitments based on performance, which are exclusively funded through conversion of compensation. The employee is free to elect the extent of such conversion. The total liability amounts to € 1,647 thousand (€ 1,739 thousand in the previous year) under consideration of the above-stated interest rates. The reduction in liabilities is primarily the result of entities exiting the *schlott group*.

For these commitments, congruent re-insurance is in place, which is assigned to the plan beneficiaries. Consequently, the amount of re-insurance is classified as qualified insurance contracts. Profits generated from this re-insurance are earmarked exclusively for the coverage of planned commitments. The actual profit generated from the plan assets totals € 140 thousand (€ 58 thousand in the previous year). The expected profit from plan assets amounts to € 67 thousand (€ 61 thousand in the previous year).

The policy value of re-insurance is netted with the respective pension provisions. Since the respective current value of re-insurance equals the current value of the re-insured commitments, the balance sheet does not contain any items to this effect.

The calculation of the actuarially calculated cash value of the pension provision is based on the 2005 guidelines provided by Prof. Dr. Klaus Heubeck.

Part-Time Work for Seniors

In order to permit older employees to work reduced hours, to provide a bridge into retirement, to stimulate the labor market and to provide opportunities for younger workers, a system of part-time work for senior employees is in place. The system represents a cooperative venture between employers and the Federal Labor Office.

The costs to be borne by employers under this program for social security contributions and eventual termination and redundancy payments are being accrued and expensed as employees separate from the company.

The monetary contribution by the Federal Labor Office is shown as claims under “Other assets” and amounted to € 30 thousand at the end of the reporting year, compared to € 516 thousand in the previous year.

The calculation of the actuarially calculated present value of this provision is based on the respective 2005 guidelines of Prof. Dr. Klaus Heubeck.

Other Long-Term Provisions

The composition and development is shown in the following table:

| IN € 000s | Part-time Seniors | Anniversary Bonuses | Death Benefits | Contingent Losses | Rehabilitation Liabilities | Total |
|--------------------|-------------------|---------------------|----------------|-------------------|----------------------------|-------|
| October 1, 2007 | 1,866 | 1,005 | 90 | 1,217 | 2,385 | 6,563 |
| Additions | 111 | 41 | 0 | 273 | 0 | 425 |
| Consumption | (348) | (58) | (12) | (354) | 0 | (772) |
| Dissolutions | (7) | (35) | 0 | 0 | 0 | (42) |
| Reclassifications | (26) | (32) | 0 | (13) | 0 | (71) |
| September 30, 2008 | 1,596 | 921 | 78 | 1,123 | 2,385 | 6,103 |

The reclassification refers to provisions concerning *sachsendruck GmbH*, which is stated under “Subsidiary in the process of divestiture”.

The following table indicates the estimated future utilization of major long-term provisions:

| IN € 000s | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | Later |
|----------------------------|---------|---------|---------|---------|---------|--------|
| Pension payments | 1,145 | 1,100 | 1,100 | 1,100 | 1,100 | 14,389 |
| Part-time seniors | 447 | 446 | 450 | 253 | 0 | 0 |
| Anniversary bonuses | 60 | 60 | 60 | 60 | 60 | 621 |
| Contingent losses | 0 | 421 | 351 | 351 | 0 | 0 |
| Rehabilitation liabilities | 0 | 0 | 0 | 0 | 0 | 2,385 |
| | 1,652 | 2,027 | 1,961 | 1,764 | 1,160 | 17,395 |

Expected utilizations of long-term provisions for contingent losses during the following fiscal year have been reflected in “Short-term provisions”.

28. LONG-TERM DEFERRED ITEMS

Included in this item are investment tax credits and public subsidies.

Amounts falling due within one year have been included in short-term deferred items.

29. SHORT-TERM FINANCIAL LIABILITIES

| IN € 000S | <i>Sept. 30, 2008</i> | <i>Sept. 30, 2007</i> |
|-----------------------------|-----------------------|-----------------------|
| Due to banks | 50,717 | 71,286 |
| Down payments received | 276 | 1,305 |
| Accounts payable | 34,082 | 54,177 |
| Due to affiliated companies | 35 | 33 |
| Other liabilities | 8,613 | 13,813 |
| | 93,723 | 140,614 |

Included in liabilities to financial institutions are balances under credit lines of € 22,073 thousand (€ 39,625 thousand in the previous year). The remaining amount in this position reflects the current portion of long-term loans, which are illustrated in greater detail under “Long-term financial liabilities”.

Liabilities due to financial institutions are subject to interest rate risks while all financial liabilities have fundamental liquidity risks. Further details on these risks are stated in chapter 32 “Goals and Methods of Financial Risk Management”.

Other liabilities consist of the following:

| IN € 000S | Sept. 30, 2008 | Sept. 30, 2007 |
|---|----------------|----------------|
| Tax liabilities | 2.788 | 4.339 |
| Liabilities in connection with social security | 747 | 853 |
| Liabilities to employees | 3,160 | 4,468 |
| Customers with credit balances | 116 | 856 |
| Market values of financial derivative instruments | 401 | 154 |
| Miscellaneous | 1,401 | 3,143 |
| | 8,613 | 13,813 |

Tax liabilities include turnover taxes, wage and church taxes.

€ 196 thousand (€ 61 thousand in the previous year) of the market value of financial derivative instruments relate to forward foreign exchange translations and € 205 thousand (€ 93 thousand in the previous year) reflect interest rate swaps. Derivative instruments are subject to general market movements and can change in their value as market interest rates change.

Miscellaneous liabilities include items which individually are of lesser importance.

30. SHORT-TERM PROVISIONS

| IN € 000S | Sept. 30, 2008 | Sept. 30, 2007 |
|----------------------|----------------|----------------|
| Provisions for taxes | 262 | 1.741 |
| Other provisions | 33.874 | 28.050 |
| | 34.136 | 29.791 |

The provision for taxes includes income taxes, which were established for periods not yet assessed.

Other provisions are as follows:

| IN € 000S | Sept. 30, 2008 | Sept. 30, 2007 |
|--------------------------------|----------------|----------------|
| Personnel | 11,959 | 15,086 |
| Restructuring | 10,003 | 0 |
| Outstanding suppliers invoices | 1,474 | 2,261 |
| Contingent losses | 5,485 | 4,636 |
| Rehabilitation obligations | 0 | 529 |
| Miscellaneous | 4,953 | 5,538 |
| | 33,874 | 28,050 |

Provisions for personnel-related matters are as follows:

| IN € 000S | Sept. 30, 2008 | Sept. 30, 2007 |
|--|----------------|----------------|
| Pension insurance association | 3 | 3 |
| Free shifts, overtime | 2,563 | 2,778 |
| Workmen's compensation, payments for the handicapped | 744 | 958 |
| Redundancy payments | 214 | 1,326 |
| Bonuses, special payments | 2,335 | 2,399 |
| Accumulated vacation entitlements | 2,108 | 2,447 |
| Christmas bonus | 3,403 | 4,401 |
| Other | 589 | 774 |
| | 11,959 | 15,086 |

The provision for restructuring is related to restructuring measures as well as to a provision for staff reductions. The *schlott group* is currently implementing its restructuring program at its intaglio printing sites in Germany. The program is designed to adapt personnel resources to production capacity and to make use of opportunities for cost controls contained in the collective bargaining agreement.

The provision for outstanding suppliers invoices is made for goods received prior to year-end, for which invoices will be received in the following year only.

The provision for contingent losses is established for pending transactions for which the expected total costs exceed the agreed-upon revenue. The determination of expected expenses is made on the basis of total costs.

The provision for rehabilitation obligations represents expected expenses for the demolition and clean-up of capitalized real assets. As a result of the sale of real estate for which the provision had been established, the provision was consumed and liquidated during business year 2007/08.

Miscellaneous other provisions are composed of:

| IN € 000s | <i>Sept. 30, 2008</i> | <i>Sept. 30, 2007</i> |
|--------------------------------------|-----------------------|-----------------------|
| Bonuses, commissions | 3,120 | 4,009 |
| Internal and external audit expenses | 477 | 450 |
| Litigation expenses | 307 | 105 |
| Other | 1,049 | 974 |
| | 4,953 | 5,538 |

Developments in short-term provisions:

| IN € 000s | Balance on 10/01/07 | Additions | Con- sumption | Dis- solutions | Transfers | Translation Difference | Balance on 09/30/08 |
|-----------------------------------|------------------------|-----------|------------------|-------------------|-----------|---------------------------|------------------------|
| Provisions for taxes | 1,740 | 211 | (1,370) | (319) | 0 | 0 | 262 |
| Other short-term provisions | | | | | | | |
| Personnel | 15,086 | 10,801 | (12,612) | (877) | (460) | 21 | 11,959 |
| Restructuring | 0 | 10,003 | 0 | 0 | 0 | 0 | 10,003 |
| Outstanding suppliers invoices | 2,261 | 5,651 | (5,949) | (490) | (9) | 10 | 1,474 |
| Contingent losses | 4,636 | 1,703 | (757) | (17) | (80) | 0 | 5,485 |
| Rehabilitation obligations | 529 | 0 | (91) | (438) | 0 | 0 | 0 |
| Miscellaneous | 5,538 | 3,531 | (3,306) | (573) | (244) | 7 | 4,953 |
| | 28,050 | 31,689 | (22,715) | (2,395) | (793) | 38 | 33,874 |

The utilization of funds in these provisions is expected to take place during the next fiscal year. Partial amounts with long-term residual tenors are included in “Other long-term provisions”.

3 I. LIABILITIES DIRECTLY RELATED TO “SUBSIDIARY IN PROCESS OF DIVESTITURE”

In August 2008, the Management of the *schlott group* announced its decision to sell *sachsendruck GmbH*. This subsidiary is a sheet-offset printing enterprise and is active in the business segment *print*. The sale was consummated on November 18, 2008. Consequently, as per September 30, 2008, *sachsendruck GmbH* is being classified as “Subsidiary in process of divestiture”.

Liabilities are detailed in the following tabulation:

| IN € 000s | Sept. 30, 2008 |
|--|----------------|
| Long-term liabilities to financial institutions | 2,423 |
| Long-term provisions | 97 |
| Deferred taxes | 593 |
| Accounts payable | 5,614 |
| Short-term liabilities to financial institutions | 539 |
| Short-term provisions | 791 |
| Other short-term liabilities | 219 |
| | 10,276 |

3 2. GOALS AND METHODS OF FINANCIAL RISK MANAGEMENT

Financial instruments are contracts according to which one partner will receive a financial asset while the other partner will incur a financial liability or receive an equity instrument. Included in this universe are the original financial instruments, such as accounts receivable and accounts payable and due from or to financial institutions. Included further are derivative financial instruments, which are employed to hedge economic risks arising out of changes in interest and foreign exchange rates.

The *schlott group* has various financial assets, such as accounts receivable, cash and cash equivalents, which result directly from normal business activities.

The most important financial liabilities of the *group* include bank loans, loans against promissory notes, overdrafts, finance lease contracts and accounts payable. These liabilities are incurred in the course of financing the business activities of the *group*. The *schlott group* also employs derivative financial instruments, such as interest rate swaps and forward foreign exchange transactions, for the purpose of hedging interest rate and foreign exchange risks that result from the business and financing activities of the *group*.

Important risks in connection with financial instruments include interest-related cash flow risks as well as liquidity, foreign exchange and credit risks.

Interest Rate Risks

The risk of oscillating market interest rates, to which the *schlott group* is subjected, results primarily out of long-term financial liabilities with variable interest rates.

The management of interest rate risks relies on a combination of fixed-rate and adjustable-rate debt. The *schlott group* is mitigating these risks via interest rate swaps under which at regular intervals the difference between fixed and variable interest rates applied to agreed principal amounts is exchanged between contract parties. Interest rate swaps hedge the underlying business transactions.

A hypothetical increase in interest rates by 100 basis points would have led to an increase in interest expenses as of September 30, 2008, in the amount of € 533 thousand (€ 387 thousand in the previous year) and to an increase in shareholders equity of € 1,113 thousand (€ 1,753 thousand in the previous year).

A hypothetical decline in interest rates by 100 basis points would have led to a reduction in interest expenses as of September 30, 2008, in the amount of € 537 thousand (€ 476 thousand in the previous year) and to a reduction in shareholders equity of € 1,157 thousand (€ 1,830 thousand in the previous year).

Long-term liabilities to financial institutions have the following fixed-interest terms and nominal interest rates:

| Rate fixed until | Interest Rates 2008 | | Interest Rates 2007 | |
|------------------|-----------------------------|--|-----------------------------|--|
| | from – to in % | Book Values (€ 000) Sept. 30, 2008 | from – to in % | Book Values (€ 000) Sept. 30, 2007 |
| 2008 | 5.30 – 5.70 | 0 | 5.30 – 5.70 | 354 |
| 2009 | 4.97 – 6.45 | 6,714 | 4.97 – 6.45 | 11,068 |
| 2009 | 3-Mt.-Euriborbasis + Margin | 3,050 | 3-Mt.-Euriborbasis + Margin | 7,830 |
| 2011 | 4.75 – 6.437 | 8,030 | 4.75 – 6.437 | 11,075 |
| 2011 | 3-Mt.-Euriborbasis + Margin | 30,860 | 3-Mt.-Euriborbasis + Margin | 41,446 |
| 2012 | 3-Mt.-Euriborbasis + Margin | 6,505 | 3-Mt.-Euriborbasis + Margin | 8,323 |
| 2013 | 3-Mt.-Euriborbasis + Margin | 37,000 | | 0 |
| 2014 | 4.31 – 4.36 | 22,501 | 4.31 – 4.60 | 29,750 |
| 2014 | 3-Mt.-Euriborbasis + Margin | 18,500 | 3-Mt.-Euriborbasis + Margin | 21,500 |
| | | 133,160 | | 131,346 |

The current value of these loans amounts to € 138,504 thousand (€ 132,807 thousand in the previous year); the margins ranged between 0.72 % and 2.75 % (0.72 % to 0.85 % in the previous year).

Foreign Exchange Risks

For the *schlott group*, foreign exchange risks result primarily from its operating activities. To the extent that these risks influence the cash flow of the Corporation, foreign exchange risks are hedged. On the other hand, foreign exchange risks without impact on cash flow, i.e. risks which result from the translation of assets and liabilities of foreign group entities during consolidation, are not hedged. The policy is to hedge all transactions having an order value of € 50 thousand or more and which have an expected settlement date of 45 days or longer, provided that such transactions are legal contracts denominated in foreign currency. The foreign exchange forward transactions must be denominated in the same currency as the underlying business transactions.

In the operating area, individual group members transact their activities primarily in their respective functional currency. Some members of the *group* are, however, exposed to foreign exchange risks in connection with payments in currencies other than their functional currency. The *schlott group* employs foreign exchange derivative instruments to hedge payment streams of up to five years. As a result, as of the end of the fiscal year, the *schlott group* is not exposed to any material foreign exchange risks in its operating area.

In the presentation of market risks, IFRS 7 requires sensitivity analyses which show, on a hypothetical basis, the impact on earnings and shareholders equity of changes of relevant risk factors. The periodic impacts are determined by applying hypothetical changes in risk factors to the inventory of financial instruments at year-end. In this connection, it is presumed that the balance as of year-end is representative for the entire year.

As per IFRS 7, foreign exchange risks are created by financial instruments of a monetary nature de-nominated in a currency other than the functional currency; exchange-related differences arising out of translations during the consolidation process are not considered. All non-functional currencies in which the *schlott group* contracts financial instruments represent risk factors.

Foreign exchange sensitive analyses are based on the following assumptions: the primary original monetary financial instruments (liquid assets, receivables, interest-bearing debt, liabilities in connection with finance lease contracts, non-interest-bearing liabilities) are either directly denominated in functional currency or are being transferred into functional currency via the employment of derivative instruments. Exchange rate movements have, therefore, no impact on earnings and equity.

Interest income or expenses related to financial instruments are stated either directly in functional currency or are being transferred into functional currency by using derivatives. Consequently, there is no impact on earnings and equity positions.

“Fair-value-hedges” are instrumental in compensating exchange-related value changes in the underlying business transactions with the corresponding hedge contracts during the same period in terms of profit and loss accounting. Therefore, these financial instruments do not affect the earnings and equity positions.

The *schlott group* is, therefore, subjected to exchange risks only in connection with specific foreign exchange derivatives. On the one hand, these derivatives are part of a cash flow hedge-relation for mitigating risks arising out of exchange-related payment oscillations as per IAS 39. Exchange rate changes in the underlying currencies have consequences for the provision in the equity accounts as well as for the fair value of these hedging transactions. On the other hand, these foreign exchange derivatives may neither be related to a hedge-relation as per IAS 39 nor to a relation impacting the balance sheet directly (natural-hedge). These derivatives serve as hedge for plan positions. Exchange rate movements in the underlying currencies impact results from financial activities (valuation results related to restatement of financial assets to fair value).

The following tabulation illustrates the sensitivity of shareholders equity and results from financial activities to possible changes in the value of the Euro against all other foreign currencies.

| IN € 000s | 2007/08 | | 2006/07 | |
|------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | Impact on Shareholders Equity | Impact on Financial Results | Impact on Shareholders Equity | Impact on Financial Results |
| Increase of 10 % | (31) | (358) | (396) | (579) |
| Decrease of 10 % | 31 | 358 | 396 | 579 |

Credit Risks

Credit risks exist for the *schlott group* in as much as the value of receivables may be impaired and in as much as business partners do not honor their payment obligations, and thus creating a loss to the *schlott group*. In this connection, risk profiles are established for each debtor providing an indication as to possible losses. The maximum loss of accounts receivable equals their book value. The latter is re-insured up to 90 % with a credit insurance company.

Liquidity risks

The *schlott group* manages its liquidity risks by a central treasury department, which monitors on an on-going basis the risk of liquidity squeezes through liquidity planning. Receipts and disbursements are calculated on the basis of financial plans, prior experience and historical trends. Sufficient bank credit lines are at the company's disposal at the present time.

33. REPORT ON FINANCIAL INSTRUMENTS

sachsendruck GmbH, which is stated under “Subsidiary in the process of divestiture”, is not included in the following report on financial instruments.

The following tables contain the contractually agreed upon non-discounted interest and principal payments of original financial liabilities as well as derivative financial instruments with positive and negative fair value:

| IN € 000S | 09/30/08 | 2008/09 | | 2009/10 | | 2010/11 | | after 2011/12 | |
|---|------------|----------|-----------|----------|-----------|----------|-----------|---------------|-----------|
| | Book Value | Interest | Repayment | Interest | Repayment | Interest | Repayment | Interest | Repayment |
| <i>Original financial liabilities</i> | | | | | | | | | |
| Liabilities to financial institutions | (155,233) | (7,800) | (50,828) | (6,355) | (22,368) | (4,486) | (27,621) | (6,547) | (54,786) |
| Liabilities under finance leases | (20) | (1) | (6) | (1) | (14) | 0 | 0 | 0 | 0 |
| Accounts payable | (34,082) | 0 | (34,082) | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities to | | | | | | | | | |
| affiliated companies | (35) | 0 | (35) | 0 | 0 | 0 | 0 | 0 | 0 |
| Other liabilities | (9,139) | 0 | (8,206) | 0 | 0 | 0 | 0 | 0 | (933) |
| <i>Derivative financial liabilities</i> | | | | | | | | | |
| Derivatives with hedge-relations | (296) | 21 | (144) | 21 | (82) | 21 | 0 | (25) | 0 |
| Derivatives without hedge-relations | (105) | 0 | 205 | 0 | (60) | 0 | 0 | 0 | 0 |
| <i>Derivative financial assets</i> | | | | | | | | | |
| Derivatives with hedge-relations | 215 | 53 | 183 | 53 | 0 | 53 | 0 | 2 | 0 |
| Derivatives without hedge-relations | 765 | 0 | 877 | 0 | 51 | 0 | 0 | 0 | 0 |

| IN € 000s | 09/30/07 | 2007/08 | | 2008/09 | | 2009/10 | | after 2010/11 | |
|---|------------|----------|-----------|----------|-----------|----------|-----------|---------------|-----------|
| | Book Value | Interest | Repayment | Interest | Repayment | Interest | Repayment | Interest | Repayment |
| <i>Original financial liabilities</i> | | | | | | | | | |
| Liabilities to financial institutions | (170,972) | (6,332) | (71,339) | (4,409) | (29,274) | (3,114) | (22,923) | (4,793) | (47,436) |
| Liabilities under finance leases | (381) | (26) | (362) | (1) | (6) | (1) | (13) | 0 | 0 |
| Accounts payable | (54,177) | 0 | (54,177) | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities to | | | | | | | | | |
| affiliated companies | (33) | 0 | (33) | 0 | 0 | 0 | 0 | 0 | 0 |
| Other liabilities | (14,465) | 0 | (13,678) | 0 | 0 | 0 | 0 | 0 | (787) |
| <i>Derivative financial liabilities</i> | | | | | | | | | |
| Derivatives with hedge-relations | (93) | 137 | 0 | 137 | 0 | 137 | 0 | 19 | 0 |
| Derivatives without hedge-relations | (61) | 0 | (44) | 0 | 0 | 0 | (39) | 0 | 0 |
| <i>Derivative financial assets</i> | | | | | | | | | |
| Derivatives with hedge-relations | 86 | 50 | 19 | 50 | (4) | 50 | 0 | 5 | 0 |
| Derivatives without hedge-relations | 429 | 77 | 185 | 0 | 22 | 0 | 0 | 0 | 0 |

Included are all instruments, which existed at the end of fiscal years and for which payments had already been agreed upon. Plan data for future new liabilities are not included. Amounts in foreign currency were translated at the rate prevailing at year-end. The variable interest payments have been derived on the basis of fixed interest rates that existed prior to the end of fiscal years. Financial liabilities without future payment dates are allocated to the earliest time period.

The following table shows the book value, valuation and related fair value in terms of valuation categories:

| IN € 000 S | Valuation category as per IAS 39 | Book Value 09/30/08 | Valuation as per IAS 39 | | | | Fair Value with Profit and Loss Impact | Fair Value 09/30/08 |
|---|----------------------------------|---------------------|---------------------------|------------------|-----------------------------|--|--|---------------------|
| | | | Adjusted Acquisition Cost | Acquisition Cost | Fair Value Earnings-Neutral | Fair Value with Profit and Loss Impact | | |
| ASSETS | | | | | | | | |
| Loans | LaR | 43 | 43 | 0 | 0 | 0 | 43 | |
| Participations | AfS | 403 | 0 | 403 | 0 | 0 | 403 | |
| Accounts receivable | LaR | 32,624 | 32,624 | 0 | 0 | 0 | 32,624 | |
| Derivative financial assets | | | | | | | | |
| Derivatives with hedge-relations | n.a. | 215 | 0 | 0 | 215 | 0 | 215 | |
| Derivatives without hedge-relations | FAHFT | 765 | 0 | 0 | 0 | 765 | 765 | |
| Other assets | LaR | 4,646 | 4,646 | 0 | 0 | 0 | 4,646 | |
| Cash and cash equivalents | LaR | 2,040 | 2,040 | 0 | 0 | 0 | 2,040 | |
| LIABILITIES | | | | | | | | |
| Liabilities to financial institutions | FLAC | 155,233 | 155,233 | 0 | 0 | 0 | 160,577 | |
| Liabilities under finance leases | FLAC | 20 | 20 | 0 | 0 | 0 | 20 | |
| Accounts payable | FLAC | 34,082 | 34,082 | 0 | 0 | 0 | 34,082 | |
| Liabilities to affiliated companies | FLAC | 35 | 35 | 0 | 0 | 0 | 35 | |
| Derivative financial liabilities | | | | | | | | |
| Derivatives with hedge-relations | n.a. | 296 | 0 | 0 | 143 | 0 | 143 | |
| Derivatives without hedge-relations | FLHFT | 105 | 0 | 0 | 0 | 262 | 262 | |
| Other liabilities | FLAC | 9,139 | 9,139 | 0 | 0 | 0 | 9,139 | |
| OF WHICH STATED IN VALUATION CATEGORIES (IAS 39) | | | | | | | | |
| Loans and Receivables | LaR | 5,814 | 4,646 | 403 | 0 | 765 | 5,814 | |
| Available-for-Sale Financial Assets | AfS | 403 | 0 | 403 | 0 | 0 | 403 | |
| Financial Assets Held for Trading | FAHFT | 765 | 0 | 0 | 0 | 765 | 765 | |
| Financial Liabilities Measured at Amortized Cost | FLAC | 198,509 | 198,509 | 0 | 0 | 0 | 203,853 | |
| Financial Liabilities Held for Trading | FLHFT | 105 | 0 | 0 | 0 | 262 | 262 | |

| IN € 000S | Valuation category as per IAS 39 | Book Value 09/30/07 | Valuation as per IAS 39 | | | | | Fair Value 09/30/07 |
|---|----------------------------------|---------------------|---------------------------|------------------|-----------------------------|--|------------|---------------------|
| | | | Adjusted Acquisition Cost | Acquisition Cost | Fair Value Earnings-Neutral | Fair Value with Profit and Loss Impact | Fair Value | |
| ASSETS | | | | | | | | |
| Loans | LaR | 22 | 22 | 0 | 0 | 0 | 22 | |
| Participations | AFS | 403 | 0 | 403 | 0 | 0 | 403 | |
| Accounts receivable | LaR | 47,790 | 47,790 | 0 | 0 | 0 | 47,790 | |
| Derivative financial assets | | | | | | | | |
| Derivatives with hedge-relations | n.a. | 86 | 0 | 0 | 86 | 0 | 86 | |
| Derivatives without hedge-relations | FAHFT | 429 | 0 | 0 | 0 | 429 | 429 | |
| Other assets | LaR | 13,348 | 13,348 | 0 | 0 | 0 | 13,348 | |
| Cash and cash equivalents | LaR | 2,637 | 2,637 | 0 | 0 | 0 | 2,637 | |
| LIABILITIES | | | | | | | | |
| Liabilities to financial institutions | FLAC | 170,972 | 170,972 | 0 | 0 | 0 | 174,118 | |
| Liabilities under finance leases | FLAC | 381 | 381 | 0 | 0 | 0 | 381 | |
| Accounts payable | FLAC | 54,177 | 54,177 | 0 | 0 | 0 | 54,177 | |
| Liabilities to affiliated companies | FLAC | 33 | 33 | 0 | 0 | 0 | 33 | |
| Derivative financial liabilities | | | | | | | | |
| Derivatives with hedge-relations | n.a. | 93 | 0 | 0 | 93 | 0 | 93 | |
| Derivatives without hedge-relations | FLHFT | 61 | 0 | 0 | 0 | 61 | 61 | |
| Other liabilities | FLAC | 14,465 | 14,465 | 0 | 0 | 0 | 14,465 | |
| OF WHICH STATED IN VALUATION CATEGORIES (IAS 39) | | | | | | | | |
| Loans and Receivables | LaR | 63,797 | 63,797 | 0 | 0 | 0 | 63,797 | |
| Available-for-Sale Financial Assets | AFS | 403 | 0 | 403 | 0 | 0 | 403 | |
| Financial Assets Held for Trading | FAHFT | 368 | 0 | 0 | 0 | 368 | 368 | |
| Financial Liabilities Measured at Amortized Cost | FLAC | 240,028 | 240,028 | 0 | 0 | 0 | 243,174 | |
| Financial Liabilities Held for Trading | FLHFT | 61 | 0 | 0 | 0 | 61 | 61 | |

Accounts receivable, other receivables as well as cash and cash equivalents have primarily short residual tenors. Therefore, their book values at the end of the fiscal year are nearly identical to their related fair value. The respective fair values for liabilities to financial institutions, loans against promissory notes and other financial liabilities, are determined as current values on the basis of debt payments under consideration of the appropriate yield curves.

The expenses, income, losses and gains from financial instruments are allocated to the following categories:

| IN € 000S | 2007/08 | | Out of Subsequent Valuation | | | Net Results |
|--|----------------------------------|----------|-----------------------------|------------------------------|------------------|-------------|
| | Valuation Category as per IAS 39 | Interest | Fair Value | Foreign Exchange Translation | Value Adjustment | 2007/08 |
| Loans and Receivables | LaR | 3 | n.a. | 702 | 377 | 1,082 |
| Financial Instruments Held for Trading | FAHfT / FLHfT | n.a. | 386 | n.a. | n.a. | 386 |
| Financial Liabilities Measured at Amortized Cost | FLAC | (9,872) | 0 | 0 | n.a. | (9,872) |
| | | (9,869) | 386 | 702 | 377 | (8,404) |

| IN € 000S | 2006/07 | | Out of Subsequent Valuation | | | Net Results |
|--|----------------------------------|----------|-----------------------------|------------------------------|------------------|-------------|
| | Valuation Category as per IAS 39 | Interest | Fair Value | Foreign Exchange Translation | Value Adjustment | 2006/07 |
| Loans and Receivables | LaR | 3 | n.a. | (200) | (217) | (414) |
| Financial Instruments Held for Trading | FAHfT / FLHfT | n.a. | 463 | n.a. | n.a. | 463 |
| Financial Liabilities Measured at Amortized Cost | FLAC | (10,579) | 0 | 0 | n.a. | (10,579) |
| | | (10,576) | 463 | (200) | (217) | (10,530) |

Interest income from financial instruments is included in the interest results. The other components of the net result are included in other financial results with the exception of value adjustments of accounts receivable, which are accounted for under other operating expenses. The results from subsequent valuations of financial instruments, which are allocated to the valuation category "held for trading", create both interest and foreign exchange effects. The interest result related to financial liabilities of the valuation category "Financial liabilities measured at amortized cost", include essentially interest expenses related to other financial liabilities. However, not included are interest expenses or income from interest derivatives, which have been employed during the reporting year in connection with cash flow hedges for cash flow risks related to financial liabilities.

H. CASH FLOW STATEMENT

The cash flow statement evidences the changes in cash and cash equivalents of the *schlott group* during the reporting year. The funds flows were categorized in terms of cash flow from operations, representing sources of cash out of ordinary business activities, and in terms of cash flow from investment as well as financing activities. The stated cash comprises the balance sheet items cash on hand, checks and due from banks.

In compliance with *IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations* – the business segment *direct marketing* that was sold during the past business year is not included in the cash flow statement. Unless otherwise noted, all data in the Notes to the previous year's financial statements refer to continuing operations. Details concerning discontinued operations are found on page 128 f.

During the reporting year, € 0 (€ 18,097 thousand in the previous year) were expended in cash for the acquisition of subsidiaries. The disbursement in 2006/07 included the second installment as well as subsequent ancillary costs of € 10,186 thousand related to the *reus group*. Cash and cash equivalents acquired during the previous year totaled € 423 thousand.

Proceeds from the disposal of subsidiaries amounted to € 40,620 thousand during the previous year. A partial amount of € 7,745 thousand related to the sale of the business segment *direct marketing* became due only in the course of the reporting year. In the previous year, cash and cash equivalents of € 3,309 thousand were surrendered.

In the previous year, assets and liabilities acquired or surrendered in the course of additions to or exits from consolidation:

| IN € 000S | 2006/07 | |
|---------------------------------------|----------------------------|-----------------------------|
| | Additions Consolidation | Exits from Consolidation |
| Fixed assets | 38,464 | 53,324 |
| Inventory, raw materials and supplies | 3,960 | 3,295 |
| Accounts receivable | 6,634 | 11,641 |
| Other | 1,105 | 5,173 |
| Provisions | (6,464) | (8,961) |
| Deferred taxes | (3,635) | (3,095) |
| Financial dept | (22,255) | (19,236) |
| Accounts payable | (6,774) | (3,591) |
| Other liabilities | (1,376) | (16,617) |

There are no limitations imposed on the use of cash or cash equivalents.

— I. MISCELLANEOUS NOTES

I. CONTINGENT LIABILITIES

Guaranties in the amount of € 1 thousand (€ 1 thousand in the previous year) represent performance guaranties.

2. OTHER FINANCIAL OBLIGATIONS

| IN € 000S | <i>Sept. 30, 2008</i> | <i>Sept. 30, 2007</i> |
|--------------------------------|-----------------------|-----------------------|
| Orders placed with suppliers | 33,042 | 28,493 |
| Rent and lease obligations | | |
| <i>due witin 1 year</i> | 4,447 | 4,361 |
| <i>due within 1 to 5 years</i> | 14,851 | 13,385 |
| <i>due in over 5 years</i> | 25,017 | 23,972 |
| | 44,315 | 41,718 |
| Other financial obligations | | |
| <i>due witin 1 year</i> | 467 | 0 |
| <i>due within 1 to 5 years</i> | 149 | 0 |
| <i>due in over 5 years</i> | 0 | 0 |
| | 616 | 0 |
| | 77,973 | 70,211 |

Obligations concerning orders placed with suppliers contain € 10 thousand (€ 0 in the previous year) for land and buildings, € 1,702 thousand (€ 392 thousand in the previous year) for technical plant and machinery, and € 63 thousand (€ 0 in the previous year) for other plant and business equipment. € 31,267 thousand (€ 28,101 thousand in the previous year) represent orders placed with suppliers for raw materials and supplies.

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3. EVENTS OCCURRING AFTER SEPTEMBER 30, 2008

On November 12, 2007, *schlott gruppe AG* has commenced repurchasing own shares of up to a total of 620,420 shares until the end of fiscal year 2007/08. These shares are repurchased via the stock exchange. Until December 17, 2008, the date of this report, 138,435 shares have been repurchased at a total cost of € 2,078 thousand. The total financial impact of the repurchase program is dependent upon the number of shares ultimately purchased and related purchase prices. On the basis of the share price prevailing on December 17, 2008, the total authorized repurchase program would cost € 4,597 thousand.

On November 18, 2008, all shares of *sachsendruck GmbH* were sold effective October 1, 2008, to Offizin Andersen Nexö, Leipzig, for € 5,750 thousand. *sachsendruck GmbH* will be removed from consolidation on November 1, 2008. The expected loss arising from deconsolidation is already taken into consideration in the current business year. The purchase price is to be paid in 10 annual installments, the amounts of which are to be 30 % of the cash flow of *sachsendruck GmbH* of the year preceding the payment date of each installment. The deferred purchase price does not accumulate any interest. The portion of the purchase price not paid by installments 1 to 9, will become due not later than March 31, 2017.

Since October 2009, the *schlott group* is participating in a factoring program with BP-Factoring GmbH. On that date, accounts receivable were for the first time liquidated prior to their due dates without notification of obligors.

4. SEGMENT REPORTING

The *schlott group* is active exclusively in the segment “*print*”. In addition, there is the non-operating segment “*corporate services*”. The subsidiary *sachsendruck GmbH*, which is in the process of divestiture, is not included in the segment *print*.

- *print*: This segment includes pre-print (processing of media data), intaglio, web offset and sheet offset printing as well as further processing.
- *corporate services*: This second segment combines all activities of the service companies, including the Holding.

The following table shows details of the various segments, including adjustments required for the purpose of consolidation, as of September 30, 2008:

| IN € 000s | print | corporate services/Holding | Segment Total | Adjustment | Group |
|--|-----------|----------------------------|---------------|------------|-----------|
| Net sales to customers | 468,278 | 494 | 468,772 | 0 | 468,772 |
| Inter-company sales | 155 | 8,998 | 9,153 | (9,153) | 0 |
| Changes in inventory | (3,609) | 0 | (3,609) | 0 | (3,609) |
| Cost of materials | (179,245) | 0 | (179,245) | 2,719 | (176,526) |
| Cost of services purchased | (49,384) | 0 | (49,384) | 0 | (49,384) |
| Value-added turnover | 236,195 | 9,492 | 245,687 | (6,434) | 239,253 |
| Other operating income | 7,469 | 5,479 | 12,948 | (5,250) | 7,698 |
| Personnel expenses | (128,814) | (7,090) | (135,904) | 13 | (135,891) |
| Depreciation expenses | (26,746) | (607) | (27,353) | (214) | (27,567) |
| Restructuring expenses | (17,519) | (509) | (18,028) | 0 | (18,028) |
| Other operating expenses | (78,879) | (4,793) | (83,672) | 10,704 | (72,968) |
| Results from ordinary business activities (EBIT) | (8,294) | 1,972 | (6,322) | (1,181) | (7,503) |
| Short-term interest results | (3,732) | (502) | (4,234) | 0 | (4,234) |
| Segment results | (12,026) | 1,470 | (10,556) | (1,181) | (11,737) |
| Long-term interest results | (3,356) | (3,503) | (6,859) | 15 | (6,844) |
| EBT prior to foreign exchange results | (15,382) | (2,033) | (17,415) | (1,166) | (18,581) |
| Foreign exchange results | 231 | (12) | 219 | 869 | 1,088 |
| EBT | (15,151) | (2,045) | (17,196) | (297) | (17,493) |

Depreciation expenses shown under adjustments in the amount of € 214 thousand are related to investment properties. Depreciation expenses related to hidden reserves, as stated in the adjustment column of the previous year are recognized in the current year in the respective segment; the corresponding amounts of the previous year, were adjusted accordingly. Therefore, the treatment of depreciation agrees with the allocation of hidden reserves within segment assets.

Segment details for the prior fiscal year ending September 30, 2007, adjusted for the effects of consolidation:

| IN € 000s | print | corporate services/Holding | Segment Total | Adjustment | Group |
|--|-----------|----------------------------|---------------|------------|-----------|
| Net sales to customers | 481.083 | 1.128 | 482.211 | 0 | 482.211 |
| Inter-company sales | 166 | 8.915 | 9.081 | (9.081) | 0 |
| Changes in inventory | 4.373 | 0 | 4.373 | 0 | 4.373 |
| Cost of materials | (183.452) | 0 | (183.452) | 2.836 | (180.616) |
| Cost of services purchased | (54.323) | 0 | (54.323) | 28 | (54.295) |
| Value-added turnover | 247.847 | 10.043 | 257.890 | (6.217) | 251.673 |
| Other operating income | 10.138 | 4.693 | 14.831 | (2.510) | 12.321 |
| Personnel expenses | (138.180) | (8.563) | (146.743) | 22 | (146.721) |
| Depreciation expenses | (27.611) | (869) | (28.480) | (271) | (28.751) |
| Other operating expenses | (73.810) | (5.173) | (78.983) | 10.551 | (68.432) |
| Results from ordinary business activities (EBIT) | 18.384 | 131 | 18.515 | 1.575 | 20.090 |
| Short-term interest results | (4.898) | 437 | (4.461) | 0 | (4.461) |
| Segment results | 13.486 | 568 | 14.054 | 1.575 | 15.629 |
| Long-term interest results | (1.688) | (3.222) | (4.910) | 0 | (4.910) |
| EBT prior to foreign exchange results | 11.798 | (2.654) | 9.144 | 1.575 | 10.719 |
| Foreign exchange results | 330 | (15) | 315 | (52) | 263 |
| EBT | 12.128 | (2.669) | 9.459 | 1.523 | 10.982 |

Depreciation expenses related to investment properties in the amount of € 271 thousand are shown in the adjustment column. In the previous year, depreciation expenses on account of hidden reserves of € 756 thousand were allocated to the segment *print*.

The adjustment column also includes inter-company activities, which are to be eliminated in the course of consolidation. Inter-company sales represent activity that has taken place between the entities of the *group*. Inter-company sales are conducted at market prices. Segment results represent results from ordinary business activities, including short-term interest results arising from financial activities not related to capital expenditures.

Non-Cash Expenses and Income

The major non-cash expense and income items are as follows:

| IN € 000s | print | corporate services/Holding | total |
|----------------------|--------|-------------------------------|--------|
| non-cash expenses | 30,384 | 2,774 | 33,158 |
| <i>previous year</i> | 20,571 | 3,597 | 24,168 |
| non-cash income | 3,993 | 60 | 4,053 |
| <i>previous year</i> | 6,055 | 2,058 | 8,113 |

Segment Assets, Segment Liabilities and Segment Capital Expenditures

The following table shows segment assets, segment liabilities as well as segment capital expenditures:

| IN € 000s | print | corporate services/Holding | Segment Total | Adjust- ment | Group |
|------------------------------|---------|-------------------------------|------------------|-----------------|---------|
| Segment assets | 481,450 | 109,980 | 591,430 | (137,561) | 453,869 |
| <i>previous year</i> | 500,046 | 100,567 | 600,613 | (91,431) | 509,182 |
| Segment liabilities | 251,446 | 126,164 | 377,610 | (81,957) | 295,653 |
| <i>previous year</i> | 249,266 | 142,974 | 392,240 | (64,583) | 327,657 |
| Segment capital expenditures | 6,621 | 176 | 6,797 | 0 | 6,797 |
| <i>previous year</i> | 48,511 | 355 | 48,866 | (11) | 48,855 |

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Total segment assets include all assets employed in ordinary business activities, i.e. cash and cash equivalents, accounts receivable, inventory and supplies, fixed assets and intangible assets (including goodwill) adjusted for depreciation. Segment assets do not contain deferred taxes or other tax claims, financial investments and assets not employed in ordinary business activities, as well as deferred charges. In line with IAS 14.19, goodwill was allocated to the segment *print* during the current year. Accordingly, segment assets of the previous year were adjusted, leading in the segment *print* to an increase in the amount of € 81,821 thousand.

The adjustments in the course of consolidation reflect inter-segment claims out of the *group's* cash-pooling or intra-group financing, as well as items resulting from differing definitions of segment items versus the corresponding *group* items.

Segment liabilities include all liabilities related to ordinary business activities and consist primarily of accounts payable and provisions. Segment liabilities do not include deferred taxes or other tax liabilities, provisions for taxes, long-term liabilities and deferred income.

The adjustment column shows the elimination of inter-segment liabilities arising out of the *group's* cash-pooling and financing as well as amounts resulting from differing definitions of segment items versus the corresponding *group* items.

Segment capital expenditures represent investments made in fixed assets employed in the course of ordinary business activities. Investments in financial instruments, as well as assets which are not used in ordinary business activities, are not included; these are reflected in adjustments.

The adjustments to *group* capital expenditures reflect the elimination of inter-segment capital expenditures in connection with intra-*group* transfers of fixed assets.

Segment Sales, Assets and Capital Expenditures by Geographic Regions

Segment data sorted by geographic regions adjusted for effects of consolidation:

| IN € 000S | Germany | Other Euroland | Other Europe | Other Regions | Segment Total | Adjust- ments | Group |
|--------------------------------------|---------|-------------------|-----------------|------------------|------------------|------------------|---------|
| Net sales | | | | | | | |
| <i>based on customer locations</i> | 279,139 | 108,100 | 81,533 | 0 | 468,772 | 0 | 468,772 |
| <i>previous year</i> | 304,205 | 109,258 | 68,601 | 147 | 482,211 | 0 | 482,211 |
| <i>based on domicile of entities</i> | 383,484 | 77,195 | 8,093 | 0 | 468,772 | 0 | 468,772 |
| <i>previous year</i> | 400,071 | 74,703 | 7,437 | 0 | 482,211 | 0 | 482,211 |
| Segment assets | 390,196 | 58,586 | 20,937 | 0 | 469,719 | (15,850) | 453,869 |
| <i>previous year</i> | 430,180 | 63,718 | 17,686 | 0 | 511,584 | (2,402) | 509,182 |
| Segment capital expenditures | 4,767 | 1,402 | 680 | 0 | 6,849 | (52) | 6,797 |
| <i>previous year</i> | 8,541 | 39,180 | 1,136 | 0 | 48,857 | (2) | 48,855 |

The allocation of goodwill to segment assets led, in the context of adaptation of the data of the previous year, to an increase in segment assets in Germany of € 79,137 thousand and in Other Europe of € 2,683 thousand.

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5. DISCLOSURE ON RELATED PARTIES

In conformity with IAS 24, relationships with related companies and persons are to be reported to the extent that these are not included in the consolidated financial statements.

Related persons and companies are those that control the Corporation, are controlled by it or that exercise a material influence over the Corporation based on ownership shares. In addition, business transactions conducted with key personnel of a company, including members of management and supervisory boards, are to be reported. Also classified as related parties are companies that are controlled by persons in key positions or persons having material influence, as well as associated entities and joint ventures. Included in the universe of persons classified as related parties are also close family members.

For the reporting year, the *schlott group* needs only to report on relationships with Members of the Supervisory Board and the Board of Management.

As of year-end, of the Members of the Supervisory Board, Mr. Joachim Kohm owns indirectly 926,535 shares (14.93 %) via JUST-US GmbH, Mr. Nikolaus Broschek owns 463,688 shares (7.47 %) and

Mr. Siegmund Kiener owns indirectly 313,400 shares (5.05 %) via S.K. Management- und Beteiligungs GmbH. All other Members of the Board of Management and the Supervisory Board own less than 1 % of total shares. Mr. Joachim Kohm exercises material influence over Klingel GmbH & Co. KG, Pforzheim. During the past business year, the turnover with Klingel GmbH & Co. KG amounted to € 5,065 thousand (€ 4,564 thousand in the previous year).

The total compensation for the Board of Management for fiscal year 2007/08 amounted to € 2,312 thousand (€ 2,484 thousand in the previous year), of which € 957 thousand (€ 1,058 thousand in the previous year) represent performance-related compensation. The provision for pension liabilities amount to € 760 thousand (€ 678 thousand in the previous year) for retired Members of the Board and € 329 thousand (€ 542 thousand in the previous year) for active Members of the Board.

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. Travel expenses are reimbursed. For every membership in any of the Committees, with the exception of the Arbitration Committee, Members receive an additional € 5 thousand. In addition, one Member of the Supervisory Board received in the previous year a consulting fee of € 60 thousand. During 2007/08, this consultancy relationship no longer existed.

6. BOARD OF MANAGEMENT AND SUPERVISORY BOARD

Board of Management:

Bernd Rose, Landau, Chairman (responsible for marketing, strategic development, internal audit and risk management)

Heiko Arnold, Grünwald (responsible for investor relations, controlling, treasury, IT, personnel and accounting)

Member of the Advisory Board of: Lachenmaier GmbH, Reutlingen

Werner Reiser, Alpirsbach – until May 31, 2008 (responsible for personnel, accounting and general administration)

Member of the Administrative Board of: Kreissparkasse Freudenstadt, Freudenstadt

Adam Valeri, Tiefenbronn (responsible for production, technology and procurement)

Supervisory Board:

Sigmund Kiener, Managing Partner of S.K. Management- und Beteiligungs GmbH, Baden-Baden
Chairman of the Supervisory Board, Member of the Arbitration, Audit and Personnel Committees
Member of the Advisory Boards of: arvato infoscore GmbH, Baden-Baden (Chairman) | Robert Klingel
GmbH & Co. KG, Pforzheim

Member of the Administrative Boards of: MS Mail Services AG, St. Gallen, Switzerland | DeltaVista AG,
Küsnacht, Switzerland

Ivan Bebek, Printer, Chairman of the Workers Council, Deputy Chairman of the Supervisory Board, Member
of the Arbitration, Audit and Personnel Committees

Nikolaus Broschek, President of the European Rotogravure Association, Member of the Personnel Committee
Member of the Supervisory Board of: Germany 1 Media AG, Hamburg
Member of the Administrative Board of: Bürgerschaftsgemeinschaft Hamburg GmbH (Chairman)

Reinhard Burck, Typesetter, Chairman of the Workers Council

Dr. Rainer Hillebrand, Member of the Board of Management of OTTO GmbH & Co. KG, Hamburg
Member of the Supervisory Board of: Schwab Versand GmbH, Hanau (Chairman)

Edmund Hug, Managing Director (ret.), Member of the Arbitration Committee
Member of the Supervisory Boards of: CTS Eventim, Bremen (Chairman) | Lidl & Schwarz Handelsunternehmen,
Neckarsulm | Fa. Scholz, Aalen

Joachim Kohm, Managing Partner of Versandhaus Robert Klingel GmbH & Co. KG, Pforzheim
Member of the Administrative Board of: Weisse Arena AG, Graubünden, Switzerland

Josef Peitz, Trade Union Secretary

Dr. Herbert Pototzky, Manager, Member of the Audit Committee

Andrea Raab, Unit Head, Chairwoman of the Workers Council, Member of the Personnel Committee

Michael Schlecht, Trade Union Secretary, Member of the Arbitration Committee

Reinhold Schreiner, Member of the Audit Committee

Member of the Supervisory Boards of: Herrenknecht AG, Schwanau | Süd Private Equity Management GmbH & Co KGaA, Stuttgart (Chairman)

Member of the Administrative Board of: ZVD Mediengesellschaft mbH (Chairman)

7. DECLARATION OF COMPLIANCE AS PER ARTICLE 161 OF THE GERMAN CORPORATION ACT (AKTG)

The declaration of compliance in line with Article 161 AKtG with respect to the German Corporate Governance Code has been issued by the Board of Management and the Supervisory Board and was made available to shareholders.

8. DISCLOSURE REQUIREMENTS

The following entities have availed themselves of the relief provisions in line with Article 264, Clause 3 and Article 264b HGB:

- *SEBALDUS Beteiligungs GmbH, Nuremberg*
- *sebaldus GmbH, Nuremberg*
- *u.e. sebald druck GmbH, Nuremberg*
- *d.v.n. Druckverarbeitung Nürnberg GmbH, Nuremberg*
- *wwk druck GmbH, Landau*
- *schlott GmbH, Freudenstadt*
- *schlott Vertrieb GmbH, Landau*
- *broschek tiefdruck GmbH, Hamburg*
- *broschek rollenoffset GmbH, Lübeck*
- *broschek service GmbH, Stelle*
- *Broschek Grundstücksverwaltungs GmbH & Co. KG, Stelle*
- *media2print GmbH, Nuremberg*

The above mentioned entities have excused themselves from their disclosure requirements due to being consolidated into the *group*, the existence of profit and loss absorption agreements and the respective shareholders resolutions.

9. AUDIT AND CONSULTING FEES

The fees for the external auditor in line with Article 319, Clause 1 HGB are as follows:

| IN € 000S | 2007/08 | 2006/07 |
|---|---------|---------|
| Audit of financial statements | 325 | 399 |
| Tax consulting | 79 | 67 |
| Audit-related consulting and miscellaneous services | 34 | 40 |
| | 438 | 506 |

10. RECOMMENDATION FOR THE ALLOCATION OF RETAINED
EARNINGS OF SCHLOTT GRUPPE AG

The Board of Management proposes to the Annual General Meeting of schlott gruppe AG that the retained earnings in the amount of € 6,272,271.45 be allocated as follows:

| | |
|------------------------------|----------------|
| Distribution to shareholders | € 3,032,882.50 |
| Amount carried-forward | € 3,239,388.95 |

Taking into consideration the 138,435 shares repurchased, the proposed distribution to shareholders is as follows:

| | |
|--|----------------|
| 6,065,765 dividend-eligible shares at € 0.50 / share | € 3,032,882.50 |
|--|----------------|

FREUDENSTADT, DECEMBER 17, 2008

THE BOARD OF MANAGEMENT



BERND ROSE



HEIKO ARNOLD



ADAM VALERI

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— J. AUDITORS' REPORT

“We have audited the consolidated financial statements prepared by *schlott gruppe AG*, Freudenstadt, comprising the profit and loss statement, the balance sheet, the cash flow statement, the statement of changes in shareholders equity, and the notes to the consolidated financial statements as well as the *group* management report for the business year from October 1, 2007 to September 30, 2008. The preparation of the consolidated financial statements and the *group* management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a, Clause 1 HGB (German Commercial Code) are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the *group* management report based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with Article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial framework and in the *group* management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environments of the *group* and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the *group* management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of the entities to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the *group* management report. We believe that our audit provides a reasonable basis for our opinion. Our audit hat not let to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRS as adopted by the EU, as well as the additional requirements of German commercial law pursuant to Article 315a, Clause 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the *schlott group* in accordance with these requirements. The *group* management is consistent with the consolidated financial statements and as a whole provides a suitable view of the *group's* position and suitably presents the opportunities and risks of future developments.”

AWT AUDIT WIRTSCHAFTS-TREUHAND AG WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

STUTTGART, DECEMBER 18, 2008 *Wagner, Certified Public Accountant — Huber, Certified Public Accountant*