



schlott gruppe

AKTIENGESELLSCHAFT

INTERIM REPORT I 2005/6

REPORT ON THE FIRST QUARTER ENDED 31 DECEMBER 2005

Q I

INTERIM REPORT I 2005/6

OF SCHLOTT GRUPPE

REPORT ON THE FIRST QUARTER ENDED 31 DECEMBER 2005

- *Efforts to process optimisation and cost streamlining bear fruits*
- *schlott gruppe is excellent positioned*
- *VAS affected by the deconsolidation of heckel GmbH*

KEY FINANCIALS OF THE GROUP AS AT 31 DECEMBER 2005

IN K€ IAS/IFRS	Q1 2005/6	% total	Q1 2004/5	% total
Net sales	141,003	169.7	158,034	169.9
Total revenue	144,697	174.2	161,070	173.2
Value-added sales	83,086	100.0	93,007	100.0
EBITDA	20,066	24.2	19,980	21.5
EBIT	11,657	14.0	11,415	12.3
EBT	9,741	11.7	9,417	10.1
Net income	5,725	6.9	5,649	6.1
Earnings per share	0.92	--	0.91	--
Free Cashflow (after dividend)	(8,757)	--	7,010	--
Employees (reporting date)	3,838	--	4,240	--

IN K€ IAS/IFRS	31.12.2005	% total	31.12.2004	% total	30.09.2005	% total
Non-current assets	417,627	82.4	415,861	80.4	418,733	82.9
Goodwill	88,551	17.4	87,604	17.0	88,719	17.6
Current assets	90,341	17.6	100,855	19.6	85,794	17.1
Trade receivables	51,963	10.2	57,136	11.1	49,889	9.9
Cash and cash equivalents	1,757	0.3	1,833	0.4	1,838	0.4
Prepaid expenses	1,737	0.3	2,373	0.5	1,791	0.4
Equity	151,778	29.9	140,804	27.3	144,867	28.7
Non-current liabilities	353,792	69.6	373,410	72.2	357,127	70.6
Provisions	74,549	14.7	71,917	13.9	79,496	15.6
Liabilities to banks	190,160	37.4	203,854	39.4	179,303	35.5
Trade payables	35,750	7.0	37,013	7.2	42,966	8.5
Deferred liabilities	49	0.0	0	0.0	56	0.0
Benefits from public authorities	2,398	0.5	2,502	0.5	2,533	0.5
Balance sheet total	507,968	100.0	516,716	100.0	504,527	100.0

LETTER TO SHAREHOLDERS

- DEAR SHAREHOLDERS,

The first quarter of the current financial year saw the attainment of a key milestone in terms of business development: Indeed, in our financial results we can prove to our stakeholders the success of our endeavours within the area of ongoing process optimisation and cost streamlining.

We succeeded in propelling earnings before taxes and net profit upwards year on year, despite a decline in value-added sales, even after adjustments for the disposal of heckel GmbH. As a result of the sale of heckel, we were also able to increase our margins, the main reason being that the company in question had merely been operating at break-even. Having said this, our forward momentum achieved within the area of earnings was attributable mainly to improved cost structures. Consequently, the decline in value-added sales registered by our two principal business units, *print* and *direct marketing*, was counterbalanced almost in its entirety. Furthermore, expenses associated with our *corporate services* unit were also lower, which had a tangible effect on bottom-line results.

The decline in value-added sales within the Group was attributable not only to the disposal of heckel GmbH but also to changes in the advertising cycles of some larger customers. They increasingly replace their former comprehensive catalogues by thinner products, however set more often impulses at their customers. For example, the former Spring/Summer catalogue previously printed in the first quarter of our financial year has by some of our customers now been replaced by a less comprehensive Spring edition as well as an additional Summer catalogue in the second quarter. As a consequence of this realignment, the seasonal peak previously witnessed in our first quarter will become less pronounced.

Beyond this market-specific shift in volumes, capacity utilisation within the *print* business unit was affected to a lesser extent by a slight fall in the volume of advertising supplements. Within this segment, value-added sales were impacted mainly by the yearly average downward pressure on prices, while *direct marketing* also had to contend with visibly receding volumes. Despite this, we remain on track and were able to bolster *schlott gruppe's* earnings performance in the period under review.

Our success within this area is a clear tribute to our highly competitive mindset, reflected in high quality of service and the ability to see customers' new marketing ideas through to fruition. Moreover, we believe that lean Group structures and stringent cost management are an essential key to corporate success. And you can rest assured that both factors will continue to determine executive decision-making processes.

8 February 2006

THE MANAGEMENT BOARD

FINANCIAL AND BUSINESS REVIEW

- BUSINESS ENVIRONMENT

- *Slight economic improvement expected for 2006*
- *Price competition looks set to continue in printing industry*

According to figures published by the Zentrum für Europäische Wirtschaftsforschung (ZEW – Centre of European Economic Research), the economic outlook for Germany was much more favourable in January. The ZEW's survey shows that this trend has remained unbroken since mid-2005. Furthermore, ZEW data suggests that the market's assessment of Germany's current economic situation also improved in January. This sentiment is echoed by the German government: in its latest 2006 Annual Report on the State of the Economy it outlined that economic recovery was expected to continue over the coming twelve months. According to this outlook, Germany's gross domestic product (GDP) is forecast to grow by approx. 1.5 per cent calculated on an annual basis, compared with growth of 0.9 per cent in 2005.

However, the level of optimism shown within this area is fuelled mainly by continuing growth in the world economy, from which Germany is expected to benefit thanks to buoyant export figures and an upturn in capital expenditure. In contrast, the domestic economy, which is the main focus of our business, is likely to remain relatively lacklustre.

Against this backdrop, Germany's advertising sector remains conservative in its forecast, although industry pundits are confident that the protracted malaise has now been overcome and growth in the advertising sector will outpace that achieved by the general economy in 2006. Bundesverband Druck und Medien e.V. (BVDM), an association of the German printing and media industry, is quietly confident as regards the prospects for growth, particularly in view of the favourable performance in 2005. It is hoped that continued economic recovery will generate forward momentum for the printing industry as a whole, both in terms of incoming orders and output. The much-needed stimuli are expected to come from an upturn in the industrial economy and an improvement in the general advertising climate. On the back of one to two per cent growth in 2005, advertising expenditure within the business arena is likely to increase slightly over the course of 2006, according to the BVDM.

At the same time, however, price competition looks set to continue unabated over the next twelve months. This situation is compounded by the recent surge in costs associated with materials and operating activities, particularly energy prices and freight charges. In view of these developments, our outlook is rather more cautious than the forecasts published by some of Germany's key industry associations. This is reflected in our more conservative forecasting assumptions.

- STAFF

- *Downsizing measures implemented in direct marketing unit during FY 2004/5 take effect*
- *Headcount for print unit, adjusted for heckel transaction, remains unchanged compared with end of FY 2004/5*

At the end of the first quarter, *schlott gruppe* employed 3,838 members of staff, compared with 4,240 a year ago and 4,046 at the end of FY 2004/5.

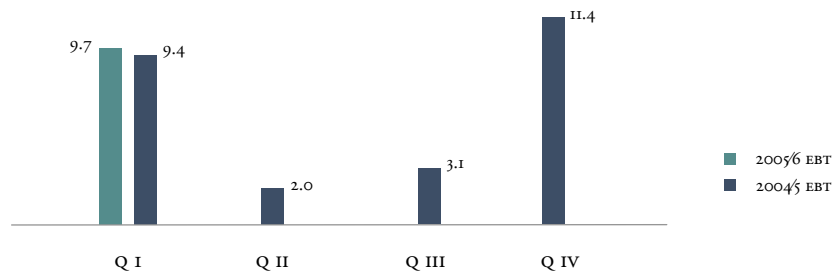
Staffing levels within the *print* business unit at the end of the first quarter of 2005/6, adjusted by 163 members of staff who left the Group in connection with the disposal of heckel, remained unchanged compared with the figure recorded at the end of the 2004/5 financial year. In a year-on-year comparison, the headcount declined by around thirty. The temporary increase recorded in the first quarter of the previous financial year, which was associated with the inclusion of areas formerly covered by the *digital services* unit, was cut back over the course of 2004/5.

The year-on-year reduction in human resources was mainly restricted to *direct marketing*. As outlined over the course of 2004/5, we implemented a wide range of measures - from the divestment of two smaller subsidiaries and company-specific agreements to supporting action plans and job cuts, with the express purpose of guiding this business unit back towards profitability. Overall, the number of personnel was scaled back by 201 year on year. Thirty-seven of these staff members left the Group in the first quarter of 2005/6. Thanks to newly developed staffing models, we were able to achieve further reductions in our cost base, while at the same time safeguarding jobs.

As a result of these market driven incisive HR streamlining measures outlined above, we succeeded in reining back costs throughout the Group. Future measures will be focused chiefly on "variabilising" staff costs yet further and reducing payments above the general pay scale. Within this context, our Freudenstadt plant made a significant contribution by signing a newly negotiated company-specific agreement. Group-wide transposition of the new collective wage agreement for the German printing industry into company-specific agreements is currently being negotiated. In *direct marketing*, which is no longer covered by an industry-wide collective wage agreement, we have negotiated with our staff tailor-made contracts including extended working hours.

DEVELOPMENT OF GROUP EBT IN THE QUARTERS

in €m



- EARNINGS PERFORMANCE

- *Cost base "breathes" in unison with value-added sales*
- *Fixed costs scaled back further*

In the first quarter of 2005/6, *schlott gruppe* recorded a decline in revenue and value-added sales of approx. 10 per cent, in both cases. This is attributable mainly to the deconsolidation of heckel, a market-related shift in incoming orders within the *print* division, as well as less buoyant business development in the area of *direct marketing*. These aspects are discussed in depth as part of segment reporting.

Owing to the fact that heckel is no longer included in the consolidated group, costs formerly associated with this entity logically no longer apply. In addition, order-specific variable costs also declined in the period under review as a logical consequence of lower value-added sales. A key success of *schlott gruppe* is, however, that our cost base is now able to "breathe" significantly in line with value-added sales even when revenue declines – a tribute to our incisive programme aimed at improving flexibility. Indeed, our efforts to "variabilise" cost structures have borne fruit, and we shall continue to pursue this approach in the future.

In addition to this, we have also succeeded in reining back the level of fixed costs. As a direct result of these accomplishments, we actually managed to raise EBIT in the first quarter of 2005/6, despite a €1.7 million, i.e. 10.5 per cent, increase in external services purchased mainly in connection with print products manufactured by heckel.

At the same time, slightly lower depreciation and amortisation expense and the increase in other operating income attributable to period-end accounting had a positive impact. This situation is likely to be reversed over the course of the year: we have forecast lower other operating income for the current financial year. Declining by €0.5 million year on year, interest expense provides an insight into the future trend of the financial result due to the scaling back of bank liabilities over the past two years. Having said that, finance cost improved by just €0.1 million in the period under review due to the fact that interest income and foreign exchange gains (resulting solely from hedging transactions) were lower than in the same period a year ago.

Overall, EBT amounted to €9.7 million, compared with €9.4 million in Q1 2004/5. On the basis of a slightly higher tax rate of 41.2 per cent, as opposed to 40.4 per cent a year ago, consolidated net profit rose from €5.6 million in Q1 2004/5 to €5.7 million in the period under review.

- SEGMENT REPORTING

- *print and direct marketing defy VAS decline by recording stable EBT*
- *corporate services unit scales back costs and contributes substantially to earnings growth*

Segment reporting comprises the business units *print*, *direct marketing* and *corporate services*. The latter, i.e. *corporate services*, continues to cover the full range of Group services, including *schlott gruppe AG*. Revenues generated by *corporate services* are derived solely from the internal charging associated with services rendered as well as internal cost allocation. Therefore, this figure may be subject to significant fluctuations associated with period-end adjustments, which do not signal a sustainable trend. The visible cost reduction in that business unit is, however indeed sustainable, as our efforts to rein back costs within the Group naturally also extend to *corporate services*. In view of this, cost-related developments within this area will be reported on in greater detail than on previous occasions.

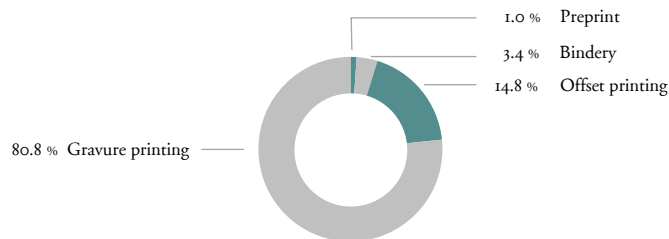
DEVELOPMENT OF BUSINESS UNITS

in the period from 1 October 2005 to 31 December 2005 (previous year for comparison); according to IAS/IFRS

IN K€	print		direct marketing		corporate services		All sectors		Reconciliation		Group	
	2004/5	2003/4	2004/5	2003/4	2004/5	2003/4	2004/5	2003/4	2004/5	2003/4	2004/5	2003/4
Net sales	114,538	128,640	30,232	31,801	2,919	2,998	147,689	163,439	(6,686)	(5,405)	141,003	158,034
Value-added sales	65,982	73,776	16,242	18,759	2,919	2,998	85,143	95,533	(2,057)	(2,526)	83,086	93,007
EBIT	11,200	11,499	443	484	150	(394)	11,793	11,589	(136)	(174)	11,657	11,415
St. interest result	(221)	(101)	(221)	(189)	336	98	(106)	(192)	45	102	(61)	(90)
Segment earnings	10,980	11,398	222	295	486	(296)	11,688	11,397	(91)	(72)	11,597	11,325
Lt. interest result	(586)	(832)	(53)	(75)	(1,178)	(1,077)	(1,817)	(1,984)	(45)	(33)	(1,862)	(2,017)
Currency gains / losses	25	62	(18)	63	0	0	7	125	0	(16)	7	109
EBT	10,418	10,628	151	283	(692)	(1,373)	9,877	9,538	(136)	(121)	9,741	9,417
Employees (reporting date)	2,560	2,756	1,169	1,370	109	114	3,838	4,240	--	--	3,838	4,240

BEARBDOWN OF SALES IN PRINT IN THE FIRST QUARTER 2005/06

100 percent = 114,538 T€



When assessing changes in cost structures associated with *corporate services*, we consider it appropriate to focus on EBIT, as net finance income is affected significantly by the fact that *schlott gruppe AG* acts as a refinancing unit for the operational sections. In the first quarter of 2005/6 *corporate services* recorded expenses of €2.8 million, calculated on the basis outlined above, which was €0.6 million less than in the same period a year ago. This reduction in costs is mainly attributable to lower personnel costs. Having said that, we were additionally able to achieve sustainable reductions within the area of administrative expenses by implementing stringent cost management and process streamlining in *corporate services* as well as by simplifying our Group structure.

Reported value-added sales for the *print* unit amounted to €66.0 million in the period under review, as opposed to €73.8 million in the same period a year ago. Of this decline, €4.2 million is due to the deconsolidation of heckel, while the remainder is attributable to the changed advertising cycles associated with mail-order companies operating within the mass-market. Capacity utilisation was affected to a certain extent by a slight decline in the volume of advertising supplements.

For the purpose of ensuring the best-possible level of transparency with regard to the progression of operating business, in addition to value-added sales all tonnage-related data reported for this financial year will be adjusted for the disposal of heckel. Tonnage (adjusted) fell from 154.1 thousand tonnes in the previous year to 146.2 thousand tonnes in the period under review; the 5.1 per cent decline was similar to that recorded within the area of value-added sales. Pressure on prices remained within the usual annual parameters but had little impact in this reporting period due to an overall change in the Group's product mix.

Owing to a greater level of flexibility achieved with regard to cost structures, ongoing costs for Q1 2005/6, adjusted for the disposal of heckel, receded by €3.3 million, i.e. 5.7 per cent, compared with the same period a year ago. Thus, the adjusted 5.2 per cent decline in value-added sales was more than offset. First-quarter EBT remained virtually unchanged year on year at €10.4 million, compared with €10.6 million. This figure reflects an improvement in net interest income of €0.1 million, which in turn is attributable to the repayment of bank loans. Overall, we propelled our EBT margin upwards from 10.1 per cent in Q1 2004/5 to 11.7 per cent in the first quarter of the 2005/6 financial year.

Preparations for the two large-scale investments planned for this year are well on track. In Freudenstadt, the initial construction work for our new manufacturing premises is nearing completion. The new state-of-the-art and highly specialised rotary printing machine with a web width of 364 cm is to be installed from July 2006 onward and is expected to be operational in the first quarter of 2006/7. It replaces two smaller and slower machines with web widths of 160 cm each, which have reached the end of their service life.

The new printing machine is unique in terms of its performance specifications and will extend the service portfolio of *schlott gruppe* considerably. It is designed for the high-performance production of various printing formats. Furthermore, the new unit is capable of printing up to 16 copies of the same product with a single cylinder rotation. In combination with its superior web width, it offers a high level of operational efficiency. Moreover, this is our second machine in the Group to be equipped with a so-called imprinter, i.e. it is able to imprint at full speed for example different addresses of the advertiser. Finally, we are able to produce a much more comprehensive range of brochures and flyers thanks to two folding machines capable of generating an additional "third fold".

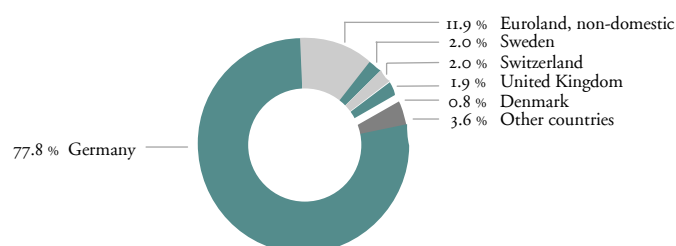
The Group's Lübeck plant has been upgraded significantly following the introduction of a new 48-page web offset printing unit. The new equipment has been taken into service as planned; at the same time, a 16-page unit was removed from the production line. The new rotary printing system will be operating efficiently within our overall production processes as early as the current quarter. Despite the sale of heckel we will after the capital expenditure measures outlined above continue to have substantial capacities in web offset printing, albeit with a stronger focus on short-grain formats and thus high-volume projects. This has brought our web offset activities closer into line with our core competence of gravure printing.

Following extensive restructuring in recent years, our *direct marketing* business unit finally achieved turnaround in the fourth quarter of 20045 and positive results in the first quarter of 20056. With value-added sales declining by €2.6 million year on year to €16.2 million, EBT amounted to €0.2 million in the period under review, compared with €0.3 million in the same period a year ago; excluding the €0.1 million increase in finance cost, earnings actually remained unchanged. The positive trend within that area is attributable both to the reduction in staffing levels and our stringent programme of cost management within the areas of equipment, materials and administration.

The market environment continues to be characterised by weak volumes and a pronounced shift towards low-price and low-end solutions. Against this background, we remain as committed as ever to streamlining costs, which is reflected in the extension of working hours by 2.5 hours without extra pay negotiated with our staff in Germany.

REGIONAL BREAKDOWN OF VALUE-ADDED SALES IN THE FIRST QUARTER 2005/06

100 percent = 83,086 T€



At the same time, we have been focusing more closely on sales activities and have received a number of attractive orders. For instance, the dispatch of invoices in Bavaria produced for a prominent international utility company is currently underway. We also succeeded in attracting again numerous exchange-listed companies requiring document mailing services for their Annual General Meetings. Furthermore, we have built a formidable reputation among financial service providers, who value our expertise as a B2C communication facilitator. And last but not least, we were once again able to secure numerous marketing-related contracts within the exhibition and trade fair sector. Here, we will be participating in the success of the promotional activities - as we did already last year. The selection of examples outlined above serves as evidence of the prospects associated with our *direct marketing* unit.

Our 2004/5 annual report saw the introduction of "value-added sales" as a financial indicator also for our international activities, the objective being to provide greater transparency when outlining our international activities; we shall continue to apply this principle to our interim reporting. Within this context, there are no comparative figures for the preceding year. On the whole, the international structure of revenues and value-added sales is similar. On the basis of value-added sales, the share attributable to Germany is slightly higher due to the fact that the paper-provision ratio of our foreign customers is above the Group average. The most prominent European markets for *schlott gruppe* are France and the Netherlands, with a 7.7 and 3.6 per cent share of value-added sales respectively in the first quarter. The share of value-added sales attributable to the United Kingdom currently stands at just 1.9 per cent and revenue generated over there has been contracting. This trend is driven by a single customer who continues to place his orders with our company but has downsized his budget.

REGIONAL SALES BREAKDOWN

in the period from 1 October 2005 to 31 December 2005 (previous year for comparison)

IN K€ IAS/IFRS	Q1 2005/6		Q1 2004/5	
		% total		% total
Germany	105,115	74.5	118,085	74.7
Euroland, non-domestic	20,569	14.6	21,919	13.9
United Kingdom	2,556	1.8	5,394	3.4
Sweden	4,163	3.0	4,783	3.0
Denmark	2,328	1.7	1,378	0.9
Other non-domestic	6,272	4.4	6,475	4.1
<i>Total Sales</i>	141,003	100.0	158,034	100.0

- BALANCE SHEET, CASH FLOW UND CAPITAL EXPENDITURE

- *Equity ratio increases to a solid 29.9 per cent*
- *Cash flow declines year-on-year due to period-end adjustments*

At the end of the first quarter of 20056, the balance sheet total of *schlott gruppe* stood at €508.0 million, i.e. €8.7 million lower than at the end of Q1 20045. The equity ratio for the Group increased from 27.3 per cent at the end of the same period a year ago and 28.7 per cent at the end of FY 20045 to an encouraging 29.9 per cent at the end of the reporting period.

The changes of individual items on the balance sheet are associated to a certain extent with the deconsolidation of *heckel* at the beginning of the 20056 financial year. Thus, they are not attributable entirely to ordinary business progression in the first quarter of 20056 and, in particular, are not directly associated with cash flow for the period under review. In view of this, we shall outline the changes to selected balance sheet items on the basis of cash flow.

Operating profit before working capital changes improved from €16.1 million in Q1 20045 to €17.0 million in Q1 20056. In contrast, cash flow from operating activities receded significantly to €6.0 million, compared with €14.2 million a year ago. This is due to a less pronounced rise in inventories and a more dynamic increase in accounts receivable. At the same time, we recorded a cash inflow that was €5.3 million lower year on year due to other working capital changes associated with the run-off of our former production site in Nuremberg.

At €14.8 million, capital expenditure on property, plant and equipment was about double the amount recorded for the same period a year ago, when investments within this area had totalled €7.1 million. On the one hand, this reflects the Group's continuing investment activity, particularly in the *print* business unit. On the other hand, capital expenditure in the first quarter of 20045 was extremely low, with most of the cash outflow occurring in the second half of the financial year. Our approach for the current financial year will be different. In total, we are planning capital expenditure of approx. €38 million in 20056, after €32.2 million in the previous year.

As a result of reduced net cash from operating activities and €14.7 million in net cash used in investing activities, a significant rise, free cash flow stood at minus €8.7 million, as opposed to plus €7.0 million. For 20056, we have forecast positive free cash flow of approximately €10 million, which will be available for further reduction of bank liabilities. Financing requirements for the first quarter were covered by short-term bank loans. Overall, cash and cash equivalents remained unchanged at €1.8 million. At €190.2 million, borrowings from banks were significantly lower than the figure of €203.9 million reported at the end of Q1 20045. However, this item is temporarily higher compared with the total of €179.3 million posted at the end of the 20045 financial year.

- EVENTS AFTER THE BALANCE SHEET DATE

No events of material significance, thus necessitating disclosure, occurred after the balance sheet date.

- OUTLOOK

- *schlott gruppe is excellently positioned*
- *Forecast for the full year confirmed*

We feel that we are well equipped to drive our business forward successfully. Indeed, our cost base has been improved significantly. In pursuing this well-judged approach, we brought about a palpable improvement in *schlott gruppe's* earnings performance. Further decisive measures have already been initiated within this area. Benefiting from leaner structures, we have also become more flexible and dynamic, thus yet again underlining our commitment to superior customer service. This is the key to sustainable competitive advantage.

We are well positioned to further enhancing the value of *schlott gruppe* and when it comes to taking on the challenges awaiting us in competitive arena. Our outlook for the current 2005/6 financial year remains in line with our forecast of September 29, 2005, in conjunction with the detailed description provided as part of our annual report for 2004/05:

We expect to achieve a satisfactory level of capacity utilisation. Alongside basic throughput generated as part of our business relations with long-standing customers, we are also in a position to process orders at very short notice – a key benefit of our flexible structures –, thus securing higher profit margins. One of the most significant areas of risk in terms of maintaining forward momentum is "price", particularly in view of the highly competitive nature of our industry. Our forecast takes account of all discernible risks, thus allowing us to confirm our value-added sales target of over €315 million and an EBT in excess of €26 million in the 2005/6 financial year.

The second quarter is yet again expected to be our weakest reporting period in the financial year as a whole, irrespective of the changes in advertising cycles of some larger clients. On this basis, we anticipate that earnings distribution in the second quarter and first half of the 2005/6 financial year will be similar to that recorded in the same period a year ago.

SHARE PERFORMANCE

OF SCHLOTT GRUPPE

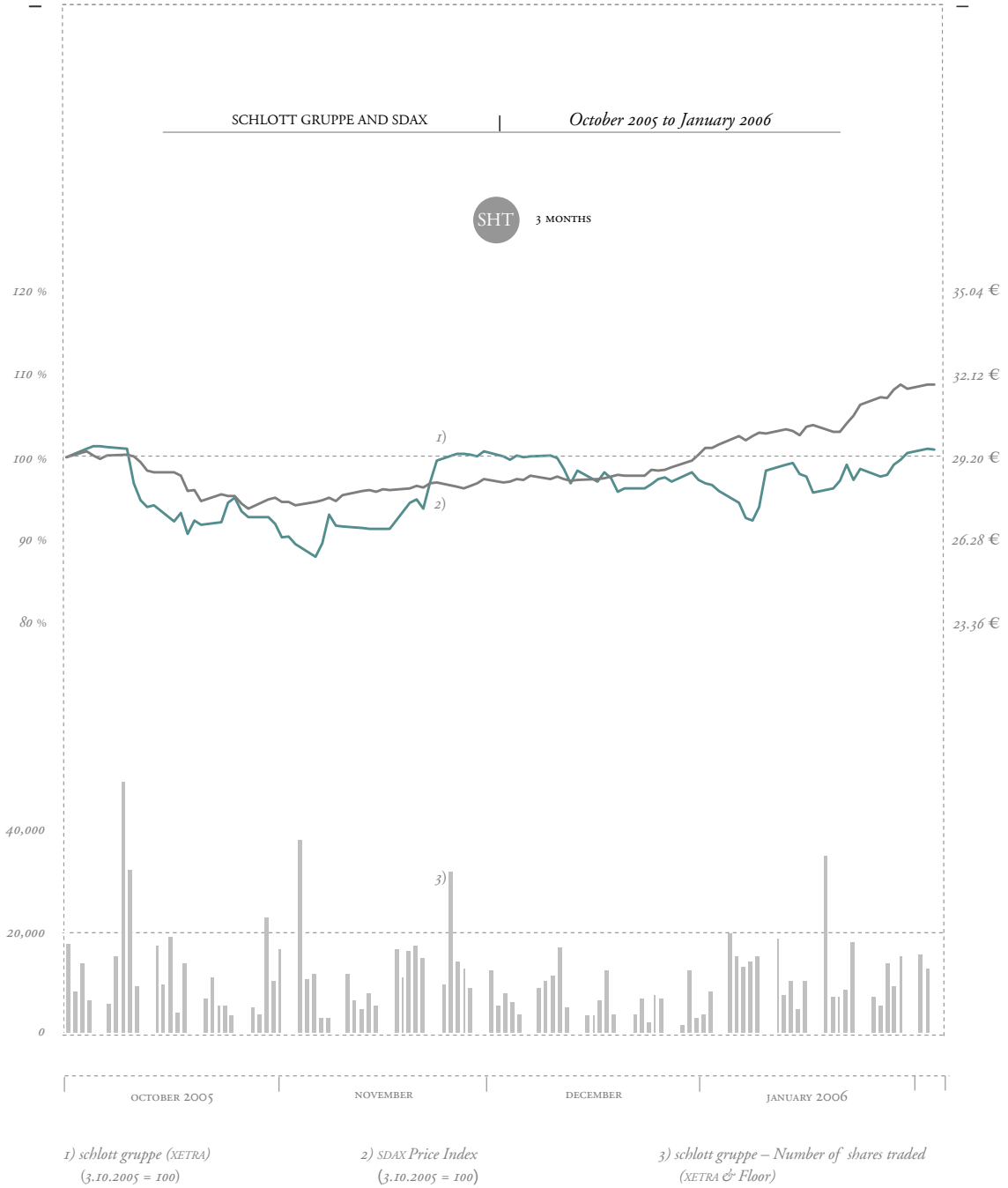
- *Share performance remains stable*
- *Promising new contacts established with investors and analysts*

Overall, *schlott gruppe's* share performance remained stable over the course of the first quarter. Following a tentative start at the beginning of the quarter, the share price gained momentum and then finally settled at €29, back on the level towards the end of the last financial year. Thus, *schlott gruppe's* shares were able to mirror the performance of Germany's SDAX until mid-December, but subsequently lost their ground due to the strong performance of several index heavyweights.

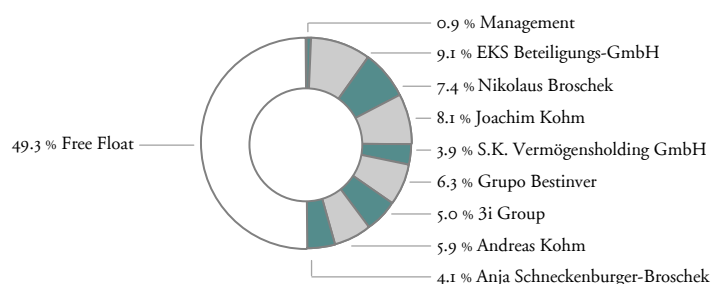
On the whole, our share performance over the last 18 months has been very encouraging. Indeed, our shares developed in line with the significant growth rates achieved by the SDAX, despite the additional supply created as a result of sizeable placements of shareholdings. We remain committed to a dynamic approach within the area of capital market communication, the objective being to step up our activities in order to convince additional investors and analysts of *schlott gruppe's* potential. Indeed, we succeeded in establishing a number of promising contacts over the course of the first quarter and are confident that the research coverage will continue to grow in the coming months.

schlott gruppe has the following number of shares issued and proposes the following dividend distribution:

Number of shares, end of reporting period	6,204,200
Number of shares entitled to dividend	6,204,200
Treasury shares	0
Dividend proposed to the Annual General Meeting (on 21 March 2006)	1.00 € per share



SHAREHOLDER STRUCTURE AS OF 2 FEBRUARY 2006

based on 6,204,200 shares

In the period from the beginning of the quarter to the publication date of this report schlott gruppe received the following notifications according to §15a WpHG:

Name	Function	Date of Reporting	Action	No. of shares	Amount (€)
Joachim Kohm	Member of Supervisor Board (SB)	14.11.2005	Purchase	10,000	261,000.00
S.K. Vermögensholding GmbH	Relationship to a Member of SB	21.11.2005	Purchase	22,500	590,186.25
S.K. Vermögensholding GmbH	Relationship to a Member of SB	21.11.2005	Purchase	2,776	73,008.80

In the period from the beginning of the quarter to the completion of this report schlott gruppe did not receive any notifications according to §21 WpHG.

GROUP PROFIT AND LOSS STATEMENT

in the period from 1 October 2005 to 31 December 2005 (previous year for comparison)

IN K€ IAS/IFRS	Q1 2005/6	Q1 2004/5	% change
Net sales	141,003	158,034	(10.8)
Increase (decrease) in inventory of finished goods and work in progress	1,921	1,703	n.m.
Own expenses capitalized	0	0	--
Other operating income	1,773	1,333	33.0
<i>Total revenue</i>	144,697	161,070	(10.2)
Cost of raw materials, supplies and purchased goods	(41,938)	(50,530)	(17.0)
Cost of purchased services	(17,900)	(16,200)	10.5
Personnel expenses	(45,622)	(51,467)	(11.4)
Other operating expenses	(19,171)	(22,893)	(16.3)
EBITDA	20,066	19,980	0.4
Expenses for scheduled depreciation	(8,409)	(8,565)	(1.8)
EBIT	11,657	11,415	2.1
Income from participations	0	0	--
Income from foreign exchange transactions	7	109	(93.6)
Interest and similar income	83	312	(73.4)
Mark-downs of financial assets and marketable securities	0	0	--
Interest and similar expenses	(2,006)	(2,480)	(19.1)
Gains (losses) from participations carried at equity	0	61	n.m.
<i>Net financial results</i>	(1,916)	(1,998)	(4.1)
EBT	9,741	9,417	3.4
Taxes on income	(4,016)	(3,767)	6.6
EAT	5,725	5,650	1.3
Minority interests	0	(1)	n.m.
<i>Net income</i>	5,725	5,649	1.3

GROUP BALANCE SHEET: ASSETS

as at 31 December 2005 (previous year and end of fiscal year 2004 for comparison)

IN K€ IAS/IFRS	%		%		%	
	31 DEC. 2005	total	31 DEC. 2004	total	30 SEP. 2005	total
<i>Non-current assets</i>	417,627	82.4	415,861	80.4	418,733	82.9
Goodwill	88,551	17.4	87,604	17.0	88,719	17.6
Other intangibles	946	0.2	1,411	0.3	1,033	0.2
Property, plant and equipment	319,682	63.2	314,235	60.9	320,216	63.4
Investments in associates	0	0.0	103	0.0	0	0.0
Other financial assets	223	0.0	244	0.0	244	0.0
Loans	0	0.0	1,050	0.2	0	0.0
Property held as financial investments	7,919	1.6	8,173	1.6	8,005	1.6
Other receivables	60	0.0	2,894	0.6	61	0.0
Deferred tax assets	246	0.0	147	0.0	455	0.1
<i>Current assets</i>	90,341	17.6	100,855	19.6	85,794	17.1
Inventories	26,383	5.2	28,228	5.5	24,826	4.9
Trade receivables	51,963	10.2	57,136	11.1	49,889	9.9
Receivables due from affiliated parties	0	0.0	0	0.0	0	0.0
Receivables due from participations	0	0.0	0	0.0	0	0.0
Tax refunds	2,188	0.4	6,433	1.2	1,344	0.3
Other securities	0	0.0	0	0.0	0	0.0
Other receivables	6,313	1.2	4,852	0.9	6,106	1.2
Cash and cash equivalents	1,757	0.3	1,833	0.4	1,838	0.4
Assets classified as held for sale	0	0.0	0	0.0	0	0.0
<i>Prepaid expenses</i>	1,737	0.3	2,373	0.5	1,791	0.4
<i>Total assets</i>	507,968	100.0	516,716	100.0	504,527	100.0

GROUP BALANCE SHEET: LIABILITIES

as at 31 December 2005 (previous year and end of fiscal year 2004 for comparison)

IN K€, IAS/IFRS	%		%		%	
	31 DEC. 2005	total	31 DEC. 2004	total	30 SEP. 2005	total
<i>Equity</i>	151,778	29.9	140,804	27.3	144,867	28.7
Issued capital	18,613	3.7	18,570	3.6	18,570	3.7
Capital reserves	58,668	11.5	58,353	11.3	58,711	11.6
Earnings reserves	35,472	7.0	30,776	6.0	35,422	7.0
Treasury stock	0	0.0	0	0.0	0	0.0
Hedging reserves	(1,385)	(0.3)	(1,357)	(0.3)	(2,522)	(0.5)
Retained earnings	40,413	8.0	34,486	6.7	34,688	6.9
Minority shareholders interest	(3)	0.0	(24)	0.0	(2)	0.0
<i>Non-current liabilities</i>	168,160	33.1	187,056	36.1	173,172	34.3
Interest-bearing debt / liabilities to banks	111,518	21.9	127,841	24.7	115,270	22.8
Other long-term liabilities	814	0.2	1,223	0.2	893	0.2
Retirement benefit obligation	25,672	5.1	26,265	5.1	25,897	5.1
Deferred tax liabilities	30,156	5.9	31,727	6.1	31,112	6.2
<i>Current liabilities</i>	185,632	36.5	186,354	36.1	183,955	36.3
Interest-bearing debt / liabilities to banks	78,642	15.5	76,013	14.7	64,033	12.7
Advance payments received on orders	1,824	0.4	1,432	0.3	2,347	0.5
Trade payables	35,750	7.0	37,013	7.2	42,966	8.5
Liabilities to affiliated parties	30	0.0	30	0.0	32	0.0
Liabilities to participations	0	0.0	60	0.0	20	0.0
Other payables	20,460	4.0	26,154	5.1	20,902	4.1
Provisions	48,877	9.6	45,652	8.8	53,599	10.5
Liabilities directly associated with assets classified as held for sale	0	0.0	0	0.0	0	0.0
Deferred liabilities	49	0.0	0	0.0	56	0.0
<i>Benefits from public authorities</i>	2,398	0.5	2,502	0.5	2,533	0.5
<i>Total equity and liabilities</i>	507,968	100.0	516,716	100.0	504,527	99.8

GROUP CASH FLOW STATEMENT

in the period from 1 October 2005 to 31 December 2005 (previous year for comparison)

IN K€ IAS/IFRS	Q1 2005/6	Q1 2004/5
CASHFLOW FROM ORDINARY BUSINESS ACTIVITIES		
RESULTS FROM ORDINARY BUSINESS ACTIVITIES		
INCLUDING FOREIGN EXCHANGE GAINS/(LOSSES)	11,663	11,525
Depreciation of fixed assets	8,409	8,565
Increase in value of fixed assets	0	(61)
Increase / (decrease) in provisions	(3,004)	(2,111)
Increase / (decrease) in deferred taxes	(124)	(1,802)
Gains / (losses) from disposals of fixed assets	14	0
RESULTS PRIOR TO CHANGES IN NET CURRENT ASSETS	16,958	16,116
(Increase) / decrease in inventory	(3,235)	(5,253)
(Increase) / decrease in trade receivables	(5,493)	150
(Increase) / decrease in trade payables	(4,293)	(5,229)
(Increase) / decrease in other net current assets	4,279	9,608
NET CASHFLOW FROM CURRENT BUSINESS ACTIVITIES	8,216	15,392
Interest received	48	4
(Payment) / Receipts income taxes	(2,289)	(1,166)
NET CASHFLOW FROM ORDINARY BUSINESS ACTIVITIES	5,975	14,230
CASHFLOW FROM INVESTMENT ACTIVITIES		
Investments in property, plant and equipment	(14,836)	(7,250)
Receipts from disposals of property, plant and equipment	51	176
Investments in intangible assets	(97)	(171)
Receipts from disposals of intangible assets	0	0
Investments in financial assets	0	0
Receipts from disposal of financial assets	0	25
Investments in subsidiaries	0	0
Receipts from disposal of subsidiaries	150	0
Dividends received	0	0
NET CASHFLOW FROM INVESTMENT ACTIVITIES	(14,732)	(7,220)
CASHFLOW FROM FINANCING ACTIVITIES		
Receipts from capital contributions	0	0
Distributions to shareholders and minority interests	0	0
Receipts from taking out loans	0	0
Payments made for the discharge of bonds and loans	(3,228)	(4,538)
Increase / (decrease) in short-term liabilities to banks	14,085	10,958
Receipts from other long-term liabilities	3	6
Payments made for the discharge of other long-term liabilities	(143)	(10,822)
Interest paid	(2,039)	(2,612)
NET CASHFLOW FROM FINANCING ACTIVITIES	8,678	(7,008)
NET INCREASE/(DECREASE) IN CASH	(79)	2
EXCHANGE-RATE, CONSOLIDATION AND VALUATION-RELATED CHANGES TO CASH AND CASH EQUIVALENTS		
	(2)	0
CASH AT THE BEGINNING OF THE PERIOD	1,838	1,831
CASH AT THE END OF THE PERIOD	1,757	1,833

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in the period from 1 October 2005 to 31 December 2005 (previous year for comparison)

IN K€ IAS/IFRS	Issued capital	Capital reserves	Other retained earnings	Translation provisions	Valuation reserves	Consolidated profits	Shareholders' equity	Minority interests	Total equity
Balance on 1 October 2005	18,570	58,711	35,615	(193)	(2,522)	34,688	144,869	(2)	144,867
Valuation of marketable securities and cashflow hedges	0	0	0	0	1,137	0	1,137	0	1,137
Differentials from translation of foreign currencies	0	0	0	50	0	0	50	(2)	48
Gains and losses not recognised in profit and loss statement	0	0	0	50	1,137	0	1,187	(2)	1,185
Net income	0	0	0	0	0	5,725	5,725	1	5,726
<i>Total result for the period</i>	0	0	0	50	1,137	5,725	6,912	(1)	6,911
Dividends	0	0	0	0	0	0	0	0	0
Acquisition of minority interest	0	0	0	0	0	0	0	0	0
Issuance of shares	0	0	0	0	0	0	0	0	0
Issuance of employee shares	43	(43)	0	0	0	0	0	0	0
Allocation to earnings reserves	0	0	0	0	0	0	0	0	0
Balance on 31 December 2005	18,613	58,668	35,615	(143)	(1,385)	40,413	151,781	(3)	151,778

IN K€ IAS/IFRS	Issued capital	Capital reserves	Other retained earnings	Translation provisions	Valuation reserves	Consolidated profits	Shareholders' equity	Minority interests	Total equity
Balance on 1 October 2004	18,570	58,353	31,115	(307)	(1,040)	28,831	135,522	(23)	135,499
Valuation of marketable securities and cashflow hedges	0	0	0	0	(317)	0	(317)	0	(317)
Differentials from translation of foreign currencies	0	0	0	(32)	0	6	(26)	(2)	(28)
Gains and losses not recognized in profit and loss statement	0	0	0	(32)	(317)	6	(343)	(2)	(345)
Net income	0	0	0	0	0	5,649	5,649	1	5,650
<i>Total result for the period</i>	0	0	0	(32)	(317)	5,655	5,306	(1)	5,305
Dividends	0	0	0	0	0	0	0	0	0
Acquisition of minority interest	0	0	0	0	0	0	0	0	0
Issuance of shares	0	0	0	0	0	0	0	0	0
Issuance of employee shares	0	0	0	0	0	0	0	0	0
Allocation to earnings reserves	0	0	0	0	0	0	0	0	0
Balance on 31 December 2004	18,570	58,353	31,115	(339)	(1,357)	34,486	140,828	(24)	140,804

OTHER OPERATING EXPENSES GROUP

in the period from 1 October 2005 to 31 December 2005 (previous year for comparison)

IN K€ IAS/IFRS	Q1 2005/6	Q1 2004/5
Overheads	1,429	1,684
Rental and leasing expenses	926	1,340
Ancillary staff costs	2,170	2,240
Maintenance	4,672	6,241
Levies and insurance	844	1,010
Sales and advertising costs	6,771	7,203
Administrative costs	1,955	2,241
Impairment charges on fixed assets	0	0
Other expenses	197	727
Other taxes	207	207
<i>Total operating expenses</i>	19,171	22,893

TOTAL TONNAGE IN THE PRINT DIVISION

in the period from 1 October 2005 to 31 December 2005 (previous year for comparison)

IN TONNES	Q1 2005/6	Q1 2004/5
Paper supplied by customers	114,286	115,782
Paper purchased	31,877	38,327
<i>Total tonnage</i>	146,163	154,109

*In the direct marketing division these indicators are not relevant.**Previous year's figures are adjusted for the sale of heckel GmbH.*

GROUP VALUE-ADDED SALES

in the period from 1 October 2005 to 31 December 2005 (previous year for comparison)

IN K€ IAS/IFRS	Q1 2005/6	Q1 2004/5
Net sales	141,003	158,034
Change in inventories	1,921	1,703
Own expenses capitalized	0	0
Cost of raw materials, supplies and goods purchased	(41,938)	(50,530)
Cost of services purchased	(17,900)	(16,200)
<i>Value-added sales</i>	83,086	93,007

- NOTES TO THE FINANCIAL STATEMENTS (SELECTED ITEMS)

The consolidated financial statements of *schlott gruppe* for the period from 1 October 2005 to 31 December 2005 have been prepared in conformity with International Financial Reporting Standards (IFRS) and IAS 34 "Interim Financial Reporting". The provisions set out in DRS 6 "Interim Financial Reporting" have also been observed.

The consolidated interim report takes account of all applicable standards and interpretations as at 31 December 2005. Essentially, the accounting policies are consistent with those applied to the consolidated financial statements for the 2004/5 financial year. Any deviations as a result of changes to accounting standards have been outlined in the section entitled "Significant Accounting Policies". In these cases, the accounts pertaining to previous reporting periods have been adjusted for the purpose of ensuring comparability.

This quarterly report constitutes an update on the consolidated financial statements for the 2004/5 financial year. All information contained within the aforementioned consolidated financial statements shall continue to apply, while the interim financial statements shall focus solely on material activities, events and circumstances that have arisen subsequent to the end of the 2004/5 financial year.

Accruals and deferrals associated with seasonally induced income or expenses that do not arise on a regular basis are only recognised at the interim reporting date if such period-end adjustments would also be deemed appropriate at the end of the financial year. The quarterly reports are subject neither to audits conducted by an auditor of consolidated financial statements nor to any form of examination by an auditing professional.

- CHANGES TO THE BASIS OF CONSOLIDATION

In addition to *schlott gruppe AG*, the consolidated group includes all significant domestic and foreign subsidiaries. On 21 September 2005, heckel GmbH was disposed of effective from 1 October 2005; the entity was deconsolidated effective from this date. The income statement for FY 2005/6 does not include any minority interest attributable to heckel GmbH. The effects of changes to the basis of consolidation on the financial performance, financial position and cash flows of the Group are negligible. Apart from the changes outlined above, the scope of the consolidated group has remained unchanged since 30 September 2005.

- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The quarterly financial statements have been prepared on the basis of accounting policies that are consistent with those applied to the preceding consolidated financial statements at 30 September 2005. For a detailed description of these accounting policies, please refer to the Notes to the Consolidated Financial Statements 2004/5.

For the first time, standards and interpretations applicable as of 1 January 2005 have been used as a basis of this interim report. One of the principal changes of relevance to *schlott gruppe* relates to IAS 1 "Presentation of Financial Statements", which stipulates that balance sheets shall be classified using the current / non-current distinction. Assets, liabilities and provisions which have individual maturities of less than 12 months or which are expected to be realised within the normal operating cycle have been categorised as "current". All the remaining items have been categorised as "non-current". The comparative figures for previous periods were adjusted accordingly.

IFRS 3 (2004) "Business Combinations", IAS 36 (2004) "Impairment of Assets" and IAS 38 (2004) "Intangible Assets" were applied to the consolidated financial statements as at 30 September 2004. IFRS 2 "Share-based Payment" was implemented ahead of schedule as part of the consolidated financial statements as at 30 September 2005. The other revised standards applied had either no or only an insignificant effect on the presentation and informative value of the financial statements.

- MANAGEMENT AND SUPERVISORY BOARD

In the period under review the members of the Management Board and of the Supervisory Board did not change.

Management Board: Bernd Rose (Chairman), Werner Reiser, Adam Valeri

Supervisory Board: Erwin J. Kiefer (Chairman), Ivan Bebek (Deputy Chairman), Nikolaus Broschek, Edmund Hug, Sigmund Kiener, Joachim Kohm, Dr. Herbert Pototzky, Andrea Raab, Harald Roller, Irene Salberg, Michael Schlecht, Reinhold Schreiner

- FINANCIAL CALENDAR

Annual General Meeting, Freudenstadt	21 March 2006
Preliminary figures Interim Report II 2005/6	26 April 2006
Interim Report II 2005/6	10 May 2006
Preliminary figures Interim Report II 2005/6	26 July 2006
Interim Report III 2005/6	9 August 2006

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