



schlott gruppe

AKTIENGESELLSCHAFT

INTERIM REPORT II 2005/06

REPORT ON THE SECOND QUARTER AND THE FIRST HALF ENDED 31 MARCH 2006

Q II

INTERIM REPORT II 2005/06

OF SCHLOTT GRUPPE

REPORT ON THE SECOND QUARTER AND THE FIRST HALF ENDED 30 MARCH 2006

- *schlott gruppe has held their ground in the second quarter*
- *Pretax profit in the first half on last year's level*
- *Significantly extended interim report underlines transparency of capital markets communication*

KEY FINANCIALS OF THE GROUP AS AT 31. MARCH 2006

IN K€	QII		QII		HI		HI	
	2005/6	% total	2004/5	% total	2005/6	% total	2004/5	% total
Net sales	118,694	171.9	138,209	175.5	259,697	170.7	296,243	172.5
Total revenue	119,190	172.6	140,132	177.9	263,887	173.5	301,202	175.3
Value-added sales	69,052	100.0	78,769	100.0	152,138	100.0	171,776	100.0
EBITDA	11,469	16.6	13,710	17.4	31,535	20.7	33,690	19.6
EBIT	3,292	4.8	4,663	5.9	14,949	9.8	16,078	9.4
EBT	1,310	1.9	2,001	2.5	11,051	7.3	11,418	6.6
EAT attr. to shareholders	1,100	1.6	1,318	1.7	6,825	4.5	6,967	4.1
Earnings per div. ent. share (€)	0.18	--	0.22	--	1.10	--	1.13	--
Free Cashflow (after dividend)	4,085	--	14,910	--	(4,672)	--	11,284	--
Employees (reporting date)	3,818	--	4,108	--	3,818	--	4,108	--

IN K€	31. MARCH		31. MARCH		30. SEPT.	
	2006	% total	2005	% total	2005	% total
Goodwill	87,796	18.0	87,792	17.9	87,796	17.4
Total lt. assets	417,391	85.4	418,626	85.3	418,733	83.0
Inventories	23,050	4.7	19,922	4.1	24,826	4.9
Accounts receivable	39,552	8.1	44,245	9.0	49,889	9.9
Cash and cash equivalents	1,866	0.4	1,566	0.3	1,838	0.4
Total st. assets	71,111	14.6	71,918	14.7	85,794	17.0
Total equity	148,024	30.3	136,290	27.8	144,867	28.7
Lt. debt due to banks	100,985	20.7	126,427	25.8	107,375	21.3
Lt. provisions	25,900	5.3	26,474	5.4	25,897	5.1
Total lt. liabilities	160,859	32.9	189,067	38.5	167,810	33.3
St. debt due to banks	87,130	17.8	69,460	14.2	71,928	14.3
Accounts payable	34,311	7.0	27,193	5.5	42,966	8.5
St. provisions	42,333	8.7	44,456	9.1	53,599	10.6
Total st. liabilities	179,619	36.8	165,187	33.7	191,850	38.0
Balance sheet total	488,502	100.0	490,544	100.0	504,527	100.0

Last year's figures include heckel GmbH which was deconsolidated as of 1 October 2005.

LETTER TO SHAREHOLDERS

- DEAR SHAREHOLDERS,

Overall, *schlott gruppe* can look back on a solid business performance in the second quarter ended 31 March. The host of programmes introduced in recent years with the express purpose of scaling back expenses and transforming fixed costs into variable components are now taking effect. As a result, we were able to soften the impact that lacklustre demand and intense price competition had on our pre-tax profits.

As outlined in this interim report, the quarter under review was particularly weak. However, the key message is that despite these challenges we succeeded in stabilising pre-tax profits for the first half at a level that is comparable to the figure recorded for the same period a year ago. Our aim for the second half is to more than offset the year-on-year shortfall, and on this basis we can hereby confirm our EBT forecast of slightly more than €26 million for the current financial year as a whole.

Our latest quarterly results reveal just how variable the marketing budgets of many customers have become. Within the area of mail-order catalogues, for instance, some companies are assessing the possibilities of returning to the former half-yearly publication cycle with two main catalogues, as well as evaluating the strategy of stepping up their print frequency from three to four catalogues per annum. As a result, a number of customers began the calendar year with a relatively conservative marketing approach, the rationale being to save their budgets for possible changes in marketing strategy during the remainder of the year.

As a high-performance service provider within the printing industry, we must offer a broad portfolio of formats and optional in-line functionality for a diverse range of products and print runs. In addition, it is essential that we are able to respond quickly to new customer requirements and adapt our capacity levels to prevailing demand structures with the utmost flexibility. There is little doubt that *schlott gruppe* is already very well positioned within this area – and we are committed to becoming even better. In doing so, we shall secure our competitive advantage and profitability. Our investment in the Freudenstadt plant and the package of other measures planned within this area will provide the basis for further earnings growth in the coming financial year.

We shall also continue to channel our efforts into further enhancing our position within the capital market. With this in mind, the current interim report has been extended in scope. In future, we shall also incorporate more comprehensive Notes with insightful details to complement the information presented as part of the standard report. This will ensure greater transparency within the area of financial reporting, as well as providing in-depth information relating to our accounts.

10 May 2006

THE MANAGEMENT BOARD

FINANCIAL AND BUSINESS REVIEW

- BUSINESS ENVIRONMENT

- *German economy set to grow faster in 2006 than originally predicted*
- *Forecasts for printing industry remain subdued; pressure on prices persists*

Germany's economic research institutes, federal government and industry federations have all predicted higher growth rates for the domestic economy in 2006. Indeed, the overall mood has improved markedly. The Bundesverband der Deutschen Industrie (BDI), an association of German industry, has forecast real growth of 1.8 per cent, but considers it possible that the domestic economy may break the two-per-cent threshold. A growing number of market analysts now predict growth in excess of two per cent, citing the Ifo Business Climate Index published in April, which suggested that business sentiment among those companies surveyed had improved for the fifth time in succession. However, export business continues to be the main driving force behind this growth, while domestic consumption remains in the doldrums despite the slight improvement anticipated in connection with the 2006 FIFA World Cup and more buoyant sales in the run-up to Germany's VAT hike in 2007.

While business confidence within the German manufacturing sector is at its highest level since the boom years of reunification, the printing industry has yet to regain its footing. After encouraging signs of improvement in confidence levels towards the end of 2005, the Bundesverband Druck und Medien (bvdM), an association of the printing and media industries, registered a general decline in business – with seasonality contributing to the downward trend. The companies taking part in the survey considered the current situation less gloomy than a year ago. However, what remained worrying was the more pronounced decline in production as well as the erosion of prices, particularly in the second half of the quarter. In combination, this had a detrimental effect on business, a problem that is compounded by excess capacities.

Against this backdrop, the outlook for the remainder of the year is relatively subdued. German printing enterprises are particularly tentative when it comes to commenting on price trends: only three per cent of companies operating within this sector predict an improvement in price levels. Those anticipating a continuing downward spiral is eight times higher. Overall, hopes of some form of improvement in 2006 as a whole are pinned on the upturn in publishing-related business as well as higher ad spending in the wake of growing confidence in the German economy. On this basis, magazine printing could provide fresh impetus in 2006, particularly within the area of gravure printing, having been in the mire for so long.

- STAFF

- *Staff count on first quarter level*
- *Prime objective is to achieve greater flexibility with regard to internal processes*
- *Uncoupling from agreed wage increases within the paper processing industry*

At the end of the second quarter of FY 2005/6, *schlott gruppe* employed 3,818 people, compared with 3,838 at the end of the first quarter and 4,108 at the end of Q2 2004/5.

The year-on-year change is a reflection of the significant restructuring efforts within the Group over the last twelve months – the disposal of *heckel* with 163 staff, for instance, had a considerable effect on staffing levels, as did the downsizing measures implemented within the *direct marketing* segment as part of the ongoing programme aimed at gearing capacities and cost structures towards prevailing market conditions. The trend during the quarter under review, on the other hand, clearly shows that the focus of our continuing cost optimisation programme is currently not directed primarily at staff downsizing. Instead, our prime objective is to achieve greater flexibility with regard to internal processes.

Thus, adjustments within the *print* segment were quite limited: the number of staff employed fell to 2,542 at the end of the second quarter, compared with 2,560 at the beginning of the period. As already reported, the new collective wage agreement within the printing industry allows for more flexible working hours and therefore to facilitate cost reductions.

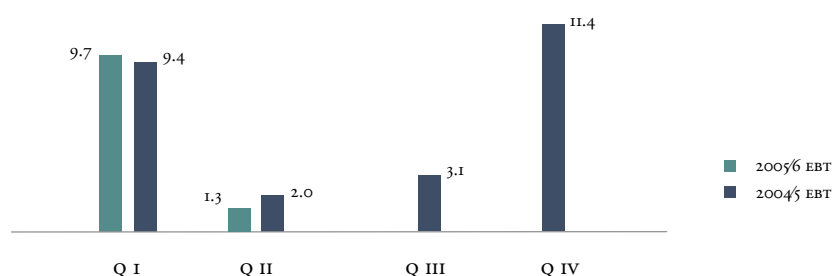
Within the *direct marketing* segment, on the other hand, staffing levels increased slightly from 1,169 to 1,173. Here, efforts to extend our operations in the Czech Republic were stepped up in the period under review: 11 additional members of staff were recruited. In contrast, we recorded a downward trend in staffing levels at the other subsidiaries – a reflection of prevailing market conditions.

During the second quarter a new collective wage agreement for the paper processing industry was signed, leading to higher personnel costs at corporations involved. Our activities in the areas of *direct marketing* and bindery are not affected since our subsidiaries are not subject to these agreements any more.

Within the *corporate services* segment, measures aimed at introducing continuing adjustments to processes translated into less pronounced HR fluctuations in absolute terms. In percentage terms, however, the reduction from 109 staff members at the beginning of the quarter to 103 at the end can be considered significant.

DEVELOPMENT OF GROUP EBT IN THE QUARTERS

in €m



- EARNINGS PERFORMANCE

- *Staff expense ratio unchanged against previous year despite lower value-added sales*
- *Marked decline in other operating income*

In the second quarter of 2006, *schlott gruppe* generated value-added sales of €69.1 million, compared with €78.8 million in the same period a year ago; adjusted for the disposal of heckel, the total for Q1 2004 would have been €75.0 million. In the first half, value-added sales amounted to €152.1 million, as opposed to €171.8 million and an adjusted figure of €163.7 million. The adjusted decline is attributable to lower capacity utilisation as well as persistent pressure on prices in both areas of business, as discussed in more detail as part of Segment Reporting.

At Group level, the decline in value-added sales has now been counterbalanced to a large extent by transforming costs into variable components. As a result, staff costs in relation to value-added sales remained more or less unchanged at 61.4 per cent, compared with 61.5 per cent – evidence of the higher degree of flexibility achieved within this area. We shall continue to pursue this approach by implementing a number of other measures, with the express purpose of strengthening *schlott gruppe* yet further.

Cost streamlining within the area of other operating expense was even more substantial in the period under review; the ratio for this category improved from 28.1 per cent a year ago to 27.1 per cent in the period under review. This was attributable principally to lower maintenance costs within the *direct marketing* segment following the successful implementation and completion of the new plant layout during the last financial year; related costs were booked under maintenance costs. To a certain extent, these improvements were outweighed by the decline in other operating income in the amount of €2.0 million, which was reflected in the percentage decline from 7.0 per cent to 5.1 per cent. Thus, the trend of recent years has continued in line with corporate planning, as announced on previous occasions: the proportion of this item will decline further, becoming less significant for profit and loss accounting. The substantial ongoing repayment of bank borrowings in recent years is reflected in finance cost, which improved from minus €2.7 million to minus €2.0 million year on year.

In total, earnings before taxes amounted to €1.3 million in the second quarter, compared with €2.0 million a year ago. Tax expense for the reporting period was low due to non-taxable profits at affiliated entities carrying no consolidated tax filing status. However, the tax rate is expected to return to the normal level of around 38 per cent for the financial year as a whole. Shareholders' net profit for the period amounted to €1.1 million, compared with €1.3 million a year ago, while net profit for the first six months stood at €6.8 million, compared with €7.0 million. Earnings per entitled share receded to €0.18 in the second quarter, compared with €0.22 a year ago; EPS for the first half stood at €1.10, as opposed to €1.13 a year ago.

- SEGMENT REPORTING

- *print adversely effected by price and volume declines*
- *Earnings quality in direct marketing further enhanced*

Segment Reporting encompasses the following segments: *print*, *direct marketing* and *corporate services*. Within this context, *corporate services* covers the full range of services provided by the Group, 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. This figure may fluctuate depending on factors relating to the balance sheet date. However, such fluctuations are not necessarily connected with significant or persistent changes. In contrast, the changes in cost structures outlined in our accounts are of a more significant and sustained nature, as our efforts to rein back costs within the Group also extend to the *corporate services* segment.

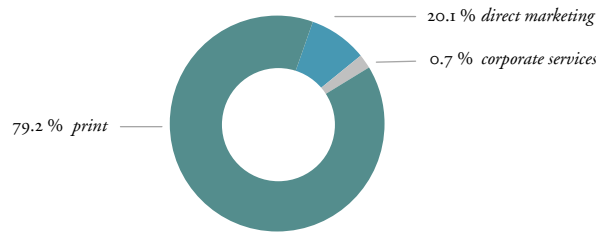
When analysing cost structures associated with the *corporate services* segment, it is advisable to focus mainly on EBIT, simply because finance cost is influenced materially by the activities of *schlott gruppe AG* as a refinancing unit for the respective operating locations. Calculated on this basis, *corporate services* recorded total costs of €3.4 million in the second quarter of 2005/6, i.e. €0.4 million or approx. 10 per cent less than in the same period a year ago. This is mainly attributable to the reduction in staff costs. In the six-month period, costs were even scaled back by 14 per cent to €9.2 million after €10.7 million.

Value-added sales reported for the *print* segment amounted to €54.4 million in the quarter under review, as opposed to a comparable €58.9 million in the same period a year ago, having made adjustments for the disposal of heckel. The decline is attributable mainly to the contraction of tonnage of around five per cent; in the second quarter tonnage amounted to 123.0 thousand tonnes, compared with an adjusted 129.4 thousand tonnes a year ago.

Some mail-order companies are assessing the possibilities of returning to the former half-yearly cycle with two main catalogues, as well as evaluating the strategy of stepping up their print frequency from three to four catalogues per annum. Thus, several companies began the calendar year with a relatively conservative marketing approach, the rationale being to save their budgets for possible changes in strategy during the remainder of the year.

BREAKDOWN OF VALUE-ADDED SALES BY SEGMENT IN THE FIRST HALF 2005/06

100 percent = 152,138 T€



In the second quarter of our financial year this approach resulted not only in lower printing volumes and a concomitant fall in capacity utilisation but also in more intense price competition. Indeed, price competition was much more pronounced than the pressure on prices usually associated with the seasonality of our business.

Whilst we managed to offset the decline in volumes to a large extent, due to the fact that particularly cost-intensive weekend operations were no longer required, we were unable to compensate for the above-average effect of lower prices – despite our best attempts at scaling back costs yet further. Additionally, the *print* segment result was reduced by preproduction costs related to the investment project in Freudenstadt. Thus, EBT within the *print* segment receded from a comparable €5.9 million a year ago to €3.3 million in the period under review. In the six-month period, value-added sales amounted to €120.4 million, after a comparable €128.5 million, while EBT stood at €13.8 million, compared with €16.6 million.

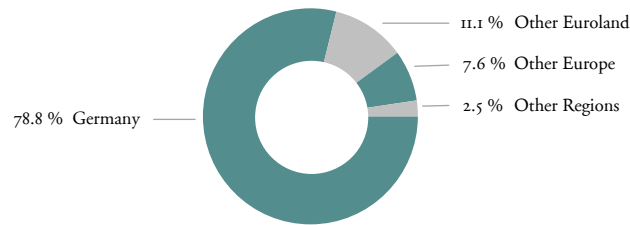
Our large-scale investment project in Freudenstadt remains on track. The new high-performance rotary printing unit, which has a web width of 364 cm and is capable of processing a host of different print formats, is to be installed as from July 2006 and is likely to be operational in the first quarter of the 2006/7 financial year. This system will replace two smaller and slower machines with a printing width of 160 cm each.

Furthermore, the new machine is equipped with several optional in-line functions, including a so-called imprinter. For instance, operating at full speed, it can imprint the addresses of various branch offices in the advertising media being produced for the customer. In addition, two folding machines will allow us to produce a significantly broader range of advertising supplements.

Another significant innovation associated with this machine – and one that will produce long-term benefits – is its integration within the existing operating equipment at Freudenstadt: as part of the up-coming installation we will reorganise most of the infrastructure and process chains, thereby further enhancing efficiency. Alongside the direct benefits of this new machine, we will be able to achieve significant cost reductions for the entire location. Additionally, the new infrastructure will be more conducive to future expansion of the plant.

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

100 percent = 152,138 T€



The 48-page web offset machine for short-grain formats, which came on stream in the first quarter and is geared towards high-volume projects, is now fully operational.

The *direct marketing* segment managed to further improve its result in the period under review despite the ongoing adverse market conditions which were even worse than could be expected during the traditionally seasonally weak quarter. The restructuring efforts of the previous years are thus clearly bearing fruit. With value-added sales declining by €1.3 million to €14.2 million compared to last year's period EBT improved to €-0.9 million compared to €-2.4 million.

The earnings enhancement was due to markedly lower personnel costs as well as declining other operating expenses, which came down by 30 percent. Here, costs related to last year's restructuring did not apply any more. On top, the segment is now operating on a distinctly lower overall cost level. For the first half year value-added sales were lower by €3.8 million amounting to €30.8 million; still, the EBT figure improved from €-2.1 million to €-0.7 million.

Markets in Europe are still characterised by low overall volumes and stiff price competition. During the quarter under review this was especially the case on the Scandinavian market place and accordingly affected our Swedish subsidiary. The other entities within the segment performed much better.

On the positive side, the seasonal business regarding correspondence related to annual shareholders' meetings continued to perform well. Here, we now can refer to a broad client base and a strong market reputation. Additional success stories resulting from our sales efforts in the highly sensitive personalised document business are new respectively expanded existing contracts: In addition to billings and other service related client mailings our customers from the utilities and financial services industries have started to outsource internal service mailings such as payslips to us.

- BALANCE SHEET, CASHFLOW UND CAPITAL EXPENDITURE

- *Equity ratio rises above 30 percent*
- *Positive free cash flow for Q2 confirms forecast for full year*

Despite substantial investments in property, plant and equipment, total assets, i.e. the balance sheet total, declined noticeably from €504.5 million at the end of FY 2004/5 to €488.5 million as at 31 March 2006. The overall reduction was a direct result of the heckel sale. This, together with the net profit of the first half, propelled the equity ratio from 28.7 per cent at year-end 2004/5 to 30.3 per cent at the end of the first half, having already accounted for the dividend payment. Owing to the deconsolidation of heckel, the quantitative changes in the balance sheet at 31 March in relation to the end of FY 2004/5 do not reflect the course of operating activities in the period under review. Instead, operating performance is portrayed in the cash flow changes. Therefore, the following analysis of changes to the balance sheet will be based on cash flow figures.

At €5.0 million in Q2 2005/6, cash flow before changes in working capital remained well below the total of €12.7 million recorded in the same period a year ago. This was due only partially to the contraction of profit from operations. Within this context, the reduction in provisions by €5.3 million for the payout of standard volume-based customer discounts in the second quarter proved more significant.

Overall, the in- and outflow of cash associated with current assets remained virtually unchanged year on year at around fourteen million euros: on the asset side, collections of receivables from the buoyant first quarter remained unchanged at approx. €12.5 million, while the inflow from inventory downsizing receded; at the same time, on the liability side, the reduction in trade payables was less pronounced in the period under review. After a negative swing in income tax payments of €1.8 million based on a quarterly comparison, cash flow from operating activities amounted to €17.8 million in the period under review, as opposed to €27.2 million a year ago.

Cash flow from investing activities amounted to €7.6 million in the second quarter of the current financial year and was thus only marginally higher than a year ago. While the first quarter of 2005/6 had been dominated not only by cash outflows for construction work at the Freudenstadt location but also by payments for new equipment at the Lübeck site, the main focus of investment spending is now on Freudenstadt.

In total, free cash flow amounted to €4.1 million in the period under review, having accounted for a dividend payment of €6.2 million. Thus, as announced, we have managed to offset a considerable proportion of the negative free cash flow of minus €8.8 million attributable to the first quarter of 2005/6 and are now well on track to achieve our forecast of at least €10 million in free cash flow for the current financial year.

- EVENTS AFTER THE BALANCE SHEET DATE

schlott gruppe reported on April 20, 2006 that the company had extended its production activities in the Czech Republic and further enhanced its service portfolio within the area of bindery. For this purpose, *schlott gruppe* had acquired Reus s.r.o., Pilsen, as well as its sales companies AIB Industrie-Buchbinderei GmbH and Oldenbourg Taschenbuch GmbH, Kirchheim, from the Oldenbourg Group, Kirchheim. The transaction was effective as of May 1, 2006. The parties involved have agreed not to disclose details of the purchase price. The company in question recently posted annual revenues towards the lower end of the double-digit million range. The transaction will have no material impact on consolidated forecasts of *schlott gruppe* for the current financial year.

- OUTLOOK

- *Business expected to progress more favourably in second half*
- *Annual forecast is confirmed*

We can look forward to the second half with a new sense of optimism: the weakest quarter in our financial year now lies behind us, and in general the next two quarters are easier to predict in terms of capacity utilisation and prices. On this basis, we hereby reaffirm our target of value-added sales (after the disposal of heckel) in excess of €315 million and EBT growth to just above €26 million for the 2006 financial year.

The prospects for *schlott gruppe* remain exceedingly good. We responded quickly to the erosion of prices and the latest developments within our industry by implementing a number of measures to improve our internal cost structures, as underlined by the decision to invest in the Freudenstadt plant. Thus, we have created the basis for additional earnings growth despite challenging market conditions. The cost savings associated with the Freudenstadt plant will take effect in the next financial year when the new printing machine becomes operational. In addition, the positive effects of the new collective wage agreement will gradually take hold, and the *direct marketing* segment will further improve its bottom-line results. We continue to target a palpable increase in earnings for the 2006 financial year.

THE SHARE

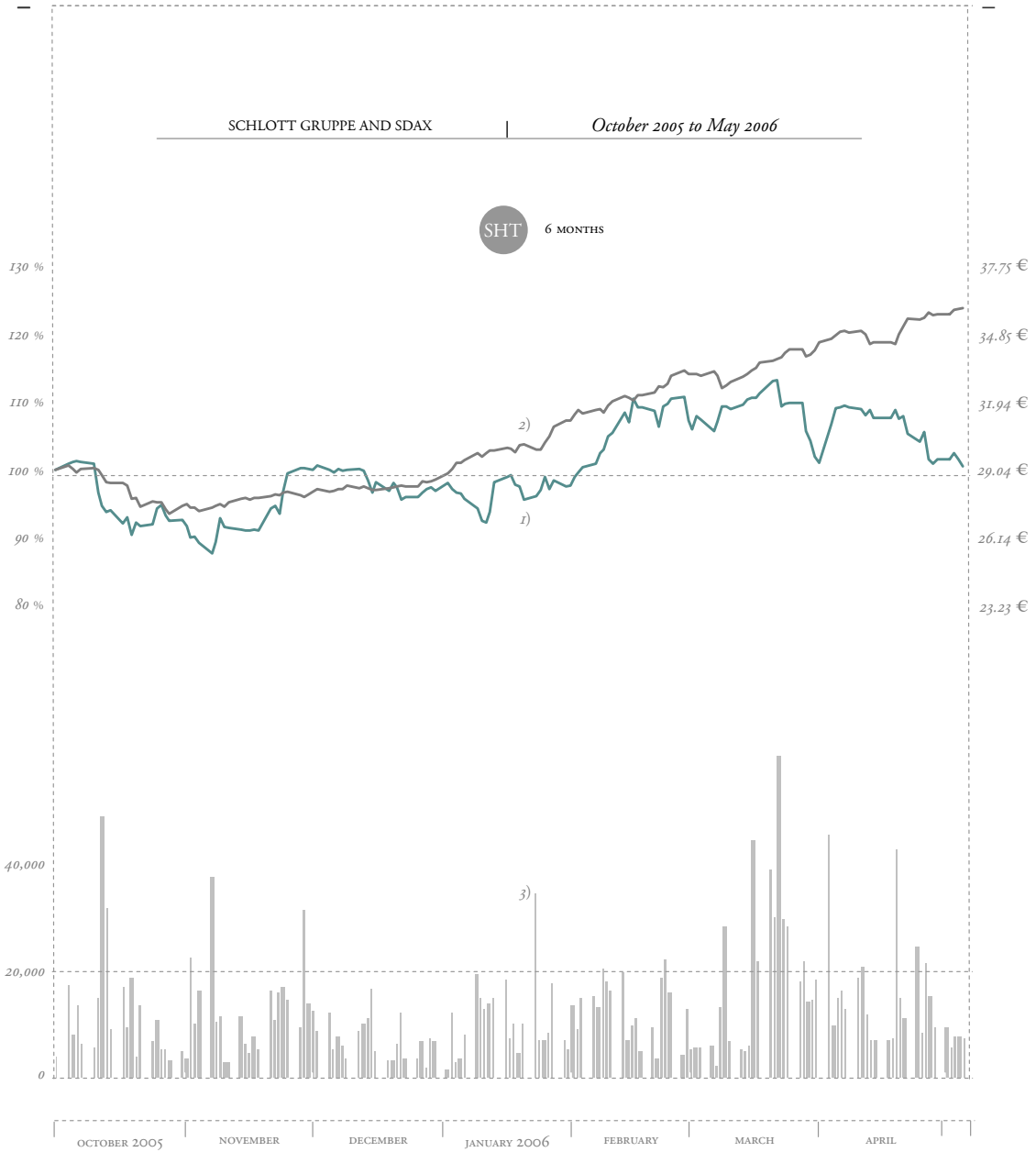
OF SCHLOTT GRUPPE

- *Recent price consolidation after brisk start to new year*
- *Harmonious AGM*

Overall, *schlott gruppe* shares have been on a well defined upward trend since mid-2003. In the period spanning from mid-2003 to the end of the quarter under review, the Group's share price rose by a solid 125 per cent, a performance that was more or less in line with that of the SDAX. In the period under review, the share price improved slightly by 3.1 per cent. Between the end of 2005, when the share price stood at €28.20, and the General Meeting on 21 March 2006 *schlott gruppe's* share price rose by almost nineteen per cent to €33.45, thus slightly outperforming the SDAX index. Following the dividend payout, *schlott gruppe* shares underwent a period of consolidation, with a certain degree of fluctuation – a trend already witnessed in the past, particularly in 2005.

In the course of the second quarter of the financial year, there were two changes to the group of principal shareholders. First, the private equity and venture capital company 3i reduced its ownership interest in *schlott gruppe* to below five per cent. 3i has been a key shareholder of *schlott gruppe* since 1992 and accompanied the Group's initial public offering in 1997. Secondly, Spanish-based Grupo Bestinver increased its ownership interest from 6.3 per cent to 10.0 per cent.

In the quarter under review we once again accorded great importance to solid investor relations, thus maintaining the close rapport we have been building since the last year. Within this context, the feedback received with regard to our corporate strategy has been very positive indeed. The high level of shareholder satisfaction became apparent at the last General Meeting of *schlott gruppe*. Alongside more or less unanimous approval of resolutions put forward by the board, comments by shareholder associations represented at the General Meeting were also very favourable indeed.



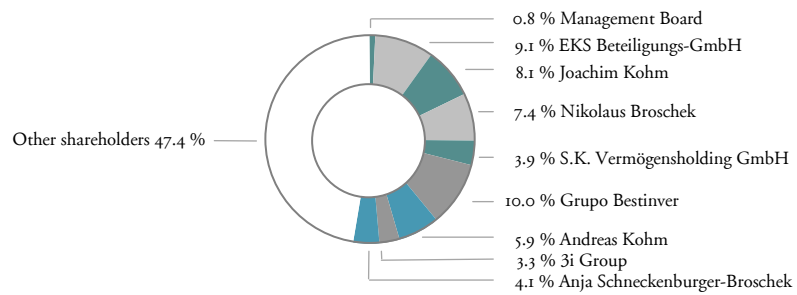
1) schlott gruppe (XETRA)
(1.10.2005 = 100)

2) SDAX Price Index
(1.10.2005 = 100)

3) schlott gruppe – No. of shares traded
(XETRA & Parkett)

SHAREHOLDER STRUCTURE AS OF 9 MAY 2006

based on 6,204,200 shares



Freefloat according to Deutsche Börse AG: 69,5 %

In the period from the beginning of the quarter to the publication date of this report schlott gruppe received no notifications according to §15a WpHG.

In the period from the beginning of the quarter to the publication date of this report schlott gruppe received the following notifications according to §21 WpHG:

Name	Date of notification	Reason of notification	Size of stake
3i Group	18.04.2006	Move below 5% Threshold	3,330%
Grupo Bestinver	16.02.2006	Move above 10% Threshold	10,001%

FINANCIALS

GROUP PROFIT AND LOSS STATEMENT (QUARTER)

in the period from 1. January to 31. March 2006 (previous year for comparison)

IN K€	QI 20056	QII 20056	QIII 20045	% change
Net sales	141,003	118,694	138,209	(14.1)
Increase (decrease) in inventory of finished goods and work in progress	1,921	(3,087)	(3,622)	(14.8)
Own expenses capitalized	0	63	0	n. mean.
Other operating income	1,773	3,520	5,545	(36.5)
<i>Total revenue</i>	144,697	119,190	140,132	(14.9)
Cost of raw materials, supplies and purchased goods	(41,938)	(33,598)	(42,760)	(21.4)
Cost of purchased services	(17,900)	(13,020)	(13,058)	(0.3)
Personnel expenses	(45,622)	(42,402)	(48,427)	(12.4)
Other operating expenses	(19,171)	(18,701)	(22,177)	(15.7)
EBITDA	20,066	11,469	13,710	(16.3)
Expenses for scheduled depreciation	(8,409)	(8,177)	(9,047)	(9.6)
EBIT	11,657	3,292	4,663	(29.4)
Income from participations	0	0	0	--
Income from foreign exchange transactions	7	(76)	(171)	(55.6)
Interest and similar income	83	31	50	(38.0)
Mark-downs of financial assets and marketable securities	0	0	0	--
Interest and similar expenses	(2,006)	(1,937)	(2,480)	(21.9)
Gains (losses) from participations carried at equity	0	0	(61)	n. mean.
<i>Net financial results</i>	(1,916)	(1,982)	(2,662)	25.5
EBT	9,741	1,310	2,001	(34.5)
Taxes on income	(4,016)	(211)	(664)	(68.2)
EAT	5,725	1,099	1,337	(17.8)
<i>Thereof applicable to</i>				
Shareholders of schlott gruppe AG	5,725	1,100	1,318	(16.5)
Minorities	0	(1)	19	n. mean.

GROUP PROFIT AND LOSS STATEMENT (FIRST HALF)

in the period from 1. October 2005 to 31. March 2006 (previous year for comparison)

IN K€	HI 2005/6	HI 2004/5	% change
Net sales	259,697	296,243	(12.3)
Increase (decrease) in inventory of finished goods and work in progress	(1,166)	(1,919)	(39.2)
Own expenses capitalized	63	0	n. mean.
Other operating income	5,293	6,878	(23.0)
<i>Total revenue</i>	263,887	301,202	(12.4)
Cost of raw materials, supplies and purchased goods	(75,536)	(93,290)	(19.0)
Cost of purchased services	(30,920)	(29,258)	5.7
Personnel expenses	(88,024)	(99,894)	(11.9)
Other operating expenses	(37,872)	(45,070)	(16.0)
EBITDA	31,535	33,690	(6.4)
Expenses for scheduled depreciation	(16,586)	(17,612)	(5.8)
EBIT	14,949	16,078	(7.0)
Income from participations	0	0	--
Income from foreign exchange transactions	(69)	(62)	11.3
Interest and similar income	114	362	(68.5)
Mark-downs of financial assets and marketable securities	0	0	--
Interest and similar expenses	(3,943)	(4,960)	(20.5)
Gains (losses) from participations carried at equity	0	0	--
<i>Net financial results</i>	(3,898)	(4,660)	16.4
EBT	11,051	11,418	(3.2)
Taxes on income	(4,227)	(4,431)	(4.6)
EAT	6,824	6,987	(2.3)
<i>Thereof applicable to</i>			
Shareholders of schlott gruppe AG	6,825	6,967	(2.0)
Minorities	(1)	20	n. mean.

DEVELOPMENT OF BUSINESS SEGMENTS (QUARTER)

in the period from 1. January to 31. March 2006 (previous year for comparison)

IN k€	print		direct marketing		corporate services		All sectors		Reconciliation*		Group	
	20056	20045	20056	20045	20056	20045	20056	20045	20056	20045	20056	20045
Net sales to customers	93,622	112,479	25,027	25,711	45	19	118,694	138,209	0	0	118,694	138,209
Inter-company sales	3,365	1,673	792	1,120	2,682	2,932	6,839	5,725	(6,839)	(5,725)	0	0
Changes in inventory	(2,849)	(3,460)	(238)	(162)	0	0	(3,087)	(3,622)	0	0	(3,087)	(3,622)
Cost of materials	(29,663)	(37,732)	(6,131)	(5,757)	0	0	(35,794)	(43,489)	2,196	729	(33,598)	(42,760)
Cost of services purchased	(10,097)	(10,197)	(5,233)	(5,407)	0	0	(15,330)	(15,604)	2,310	2,546	(13,020)	(13,058)
Value-added sales	54,441	62,763	14,217	15,505	2,727	2,951	71,385	81,219	(2,333)	(2,450)	69,052	78,769
Other oper. income	3,320	5,050	151	466	530	756	4,001	6,272	(481)	(727)	3,520	5,545
Personnel expenses	(31,168)	(35,638)	(9,129)	(10,344)	(2,105)	(2,448)	(42,402)	(48,430)	0	3	(42,402)	(48,427)
Depreciation expenses	(6,211)	(7,038)	(1,381)	(1,386)	(287)	(299)	(7,879)	(8,723)	(298)	(324)	(8,177)	(9,047)
Other operating expenses	(16,076)	(18,016)	(4,411)	(6,246)	(1,029)	(1,075)	(21,516)	(25,337)	2,815	3,160	(18,701)	(22,177)
EBIT	4,306	7,121	(552)	(2,005)	(165)	(115)	3,589	5,001	(297)	(338)	3,292	4,663
St. interest result	(231)	(204)	(226)	(190)	(788)	(660)	(1,245)	(1,054)	(45)	(19)	(1,290)	(1,073)
Segment earnings	4,075	6,917	(779)	(2,195)	(952)	(775)	2,344	3,947	(342)	(357)	2,002	3,590
Lt. interest result	(648)	(953)	(62)	(73)	49	(342)	(661)	(1,368)	45	(50)	(616)	(1,418)
Foreign exchange result	(45)	(61)	(30)	(124)	0	0	(75)	(185)	(1)	14	(76)	(171)
EBT	3,382	5,903	(870)	(2,392)	(904)	(1,117)	1,608	2,394	(298)	(393)	1,310	2,001
Employees (reporting date)	2,542	2,751	1,173	1,245	103	112	3,818	4,108	--	--	3,818	4,108

DEVELOPMENT OF BUSINESS SEGMENTS (FIRST HALF)

in the period from 1. October 2005 to 31. March 2006 (previous year for comparison)

IN k€	print		direct marketing		corporate services		All sectors		Reconciliation*		Group	
	20056	20045	20056	20045	20056	20045	20056	20045	20056	20045	20056	20045
Net sales to customers	204,811	239,545	54,582	56,619	304	79	259,697	296,243	0	0	259,697	296,243
Inter-company sales	6,714	3,247	1,469	2,013	5,342	5,870	13,525	11,130	(13,525)	(11,130)	0	0
Changes in inventory	(1,642)	(1,882)	476	(37)	0	0	(1,166)	(1,919)	0	0	(1,166)	(1,919)
Cost of materials	(66,578)	(81,761)	(13,671)	(12,837)	0	0	(80,249)	(94,598)	4,713	1,308	(75,536)	(93,290)
Cost of services purchased	(22,945)	(22,610)	(12,397)	(11,494)	0	0	(35,342)	(34,104)	4,422	4,846	(30,920)	(29,258)
Value-added sales	120,423	136,539	30,459	34,264	5,646	5,949	156,528	176,752	(4,390)	(4,976)	152,138	171,776
Other operating income	4,474	5,995	623	783	3,553	4,225	8,650	11,003	(3,357)	(4,125)	5,293	6,878
Personnel expenses	(64,878)	(73,306)	(18,930)	(21,536)	(4,216)	(5,055)	(88,024)	(99,897)	0	3	(88,024)	(99,894)
Depreciation expenses	(12,603)	(13,646)	(2,802)	(2,853)	(583)	(601)	(15,988)	(17,100)	(598)	(512)	(16,586)	(17,612)
Other operating expenses	(31,910)	(36,962)	(9,460)	(12,179)	(4,414)	(5,027)	(45,784)	(54,168)	7,912	9,098	(37,872)	(45,070)
EBIT	15,506	18,620	(109)	(1,521)	(15)	(509)	15,382	16,590	(433)	(512)	14,949	16,078
St. interest result	(452)	(305)	(447)	(379)	(452)	(562)	(1,351)	(1,246)	0	83	(1,351)	(1,163)
Segment earnings	15,054	18,315	(556)	(1,900)	(467)	(1,071)	14,031	15,344	(433)	(429)	13,598	14,915
Lt. interest result	(1,234)	(1,785)	(115)	(148)	(1,129)	(1,419)	(2,478)	(3,352)	0	(83)	(2,478)	(3,435)
Foreign exchange result	(20)	1	(48)	(61)	0	0	(68)	(60)	(1)	(2)	(69)	(62)
EBT	13,800	16,531	(719)	(2,109)	(1,596)	(2,490)	11,485	11,932	(434)	(514)	11,051	11,418
Employees (reporting date)	2,542	2,751	1,173	1,245	103	112	3,818	4,108	--	--	3,818	4,108

BALANCE SHEET: ASSETS

as at 31. March 2006 (previous year and end of fiscal year 2004/5 for comparison)

IN K€	%		%		%	
	31. MARCH 2006	total	31. MARCH 2005	total	30. SEPT. 2005	total
Goodwill	87,796	18.0	87,792	17.9	87,796	17.4
Other intangible assets	1,451	0.3	2,514	0.5	1,853	0.4
Downpayments	31	0.0	0	0.0	103	0.0
<i>Intangible assets</i>	89,278	18.3	90,306	18.4	89,752	17.8
Land, land rights and buildings, incl. buildings on land owned by others	145,034	29.7	147,040	30.0	148,860	29.5
Industrial plant and machinery	138,497	28.4	138,960	28.3	135,155	26.8
Other plant, machinery, and business equipment	22,501	4.6	24,955	5.1	24,770	4.9
Downpayments and plant under construction	13,549	2.8	8,125	1.7	11,431	2.3
<i>Fixed assets</i>	319,581	65.4	319,080	65.1	320,216	63.5
Shares in affiliated companies	29	0.0	29	0.0	29	0.0
Shares in associated companies	0	0.0	0	0.0	0	0.0
Shares in other companies	194	0.0	215	0.0	215	0.0
Loans to associated companies	0	0.0	0	0.0	0	0.0
Other loans	0	0.0	0	0.0	0	0.0
<i>Financial assets</i>	223	0.0	244	0.0	244	0.0
<i>Investment properties</i>	7,830	1.6	8,089	1.6	8,005	1.6
<i>Lt. receivables/Other lt. assets</i>	149	0.0	790	0.2	61	0.0
<i>Deferred taxes</i>	330	0.1	117	0.0	455	0.1
<i>Total lt. assets</i>	417,391	85.4	418,626	85.3	418,733	83.0
Raw materials and supplies	13,273	2.7	11,490	2.3	13,290	2.6
Work in process; goods and services	9,039	1.9	7,808	1.6	10,772	2.1
Finished goods	738	0.2	624	0.1	764	0.2
Payments in advance	0	0.0	0	0.0	0	0.0
<i>Inventories</i>	23,050	4.7	19,922	4.1	24,826	4.9
Accounts receivable	39,552	8.1	44,245	9.0	49,889	9.9
Receivables from affiliated companies	0	0.0	0	0.0	0	0.0
Receivables from participations	0	0.0	0	0.0	0	0.0
Tax refunds	1,081	0.2	573	0.1	1,344	0.3
Other securities	0	0.0	0	0.0	0	0.0
Other st. assets	4,111	0.8	3,781	0.8	6,106	1.2
<i>St. receivables/other st. assets</i>	44,744	9.2	48,599	9.9	57,339	11.4
<i>Cash and cash equivalents</i>	1,866	0.4	1,566	0.3	1,838	0.4
<i>Assets held for sale</i>	0	0.0	0	0.0	0	0.0
<i>Deferred income</i>	1,451	0.3	1,831	0.4	1,791	0.4
<i>Total st. assets</i>	71,111	14.6	71,918	14.7	85,794	17.0
<i>Balance sheet total</i>	488,502	100.0	490,544	100.0	504,527	100.0

BALANCE SHEET: LIABILITIES

as at 31. March 2006 (previous year and end of fiscal year 2004/5 for comparison)

IN K€	%		%		%	
	31. MARCH 2006	total	31. MARCH 2005	total	30. SEPT. 2005	total
Subscribed capital	18,613	3.8	18,570	3.8	18,570	3.7
Capital reserves	58,668	12.0	58,353	11.9	58,711	11.6
Earnings reserves	42,704	8.7	35,352	7.2	35,422	7.0
Valuation reserves	(69)	0.0	(1,759)	(0.4)	(2,522)	(0.5)
Retained earnings	28,111	5.8	25,776	5.3	34,688	6.9
Shareholders' equity	148,027	30.3	136,292	27.8	144,869	28.7
Minorities	(3)	0.0	(2)	0.0	(2)	0.0
<i>Total equity</i>	148,024	30.3	136,290	27.8	144,867	28.7
<i>Debt due to banks</i>	100,985	20.7	126,427	25.8	107,375	21.3
<i>Other lt. liabilities</i>	843	0.2	1,203	0.2	893	0.2
Provision for pensions and similar liabilities	22,753	4.7	22,842	4.7	22,849	4.5
Other lt. provisions	3,147	0.6	3,632	0.7	3,048	0.6
<i>Lt. provisions</i>	25,900	5.3	26,474	5.4	25,897	5.1
<i>Government subsidies</i>	2,935	0.6	2,427	0.5	2,533	0.5
<i>Deferred taxes</i>	30,196	6.2	32,536	6.6	31,112	6.2
<i>Total lt. liabilities</i>	160,859	32.9	189,067	38.5	167,810	33.3
<i>St. bonds</i>	0	0.0	0	0.0	0	0.0
<i>Debt due to banks</i>	87,130	17.8	69,460	14.2	71,928	14.3
<i>St. liabilities</i>	87,130	17.8	69,460	14.2	71,928	14.3
Advance payments received on orders	580	0.1	2,651	0.5	2,347	0.5
Accounts payable	34,311	7.0	27,193	5.5	42,966	8.5
Liabilities to affiliated parties	31	0.0	29	0.0	32	0.0
Liabilities to participations	0	0.0	63	0.0	20	0.0
Other liabilities	15,202	3.1	21,335	4.3	20,902	4.1
<i>Accounts payable and other liabilities</i>	50,124	10.3	51,271	10.5	66,267	13.1
Tax provisions	7,491	1.5	1,459	0.3	9,265	1.8
Other provisions	34,842	7.1	42,997	8.8	44,334	8.8
<i>St. provisions</i>	42,333	8.7	44,456	9.1	53,599	10.6
<i>Liabilities held for sale</i>	0	0.0	0	0.0	0	0.0
<i>Deferred charges</i>	32	0.0	0	0.0	56	0.0
<i>Total st. liabilities</i>	179,619	36.8	165,187	33.7	191,850	38.0
<i>Balance sheet total</i>	488,502	100.0	490,544	100.0	504,527	100.0

CASH FLOW STATEMENT

in the period from 1. October 2005 to 31. March 2006 (previous year for comparison)

IN K€	QI 2005/6	QII 2005/6	QIII 2004/5	HI 2005/6	HI 2004/5
CASH FLOW FROM ORDINARY BUSINESS ACTIVITIES					
RESULTS FROM ORDINARY BUSINESS ACTIVITIES INCLUDING FOREIGN EXCHANGE GAINS/(LOSSES)					
EXCHANGE GAINS/(LOSSES)	11,663	3,217	4,492	14,880	16,017
Depreciation of fixed assets	8,409	8,177	9,047	16,586	17,612
Decrease / (Increase) in value of fixed assets	0	0	61	0	0
Increase / (decrease) in provisions	(3,004)	(6,315)	(1,005)	(9,319)	(3,116)
Increase / (decrease) in deferred taxes	(124)	(44)	806	(168)	(996)
Gains / (losses) from disposals of fixed assets	14	(76)	(699)	(62)	(699)
RESULTS PRIOR TO CHANGES IN NET CURRENT ASSETS	16,958	4,959	12,702	21,917	28,818
(Increase) / decrease in inventory	(3,235)	3,334	8,287	99	3,034
(Increase) / decrease in trade receivables	(5,493)	12,277	12,686	6,784	12,836
(Increase) / decrease in trade payables	(4,293)	(1,439)	(10,923)	(5,732)	(16,152)
(Increase) / decrease in other net current assets	4,279	221	4,160	4,500	3,132
NET CASH FLOW FROM CURRENT BUSINESS ACTIVITIES	8,216	19,352	26,912	27,568	31,668
Interest received	48	15	9	63	13
(Outflow of) / Receipts of income taxes	(2,289)	(1,519)	277	(3,808)	(889)
NET CASH FLOW FROM ORDINARY BUSINESS ACTIVITIES	5,975	17,848	27,198	23,823	30,792
CASH FLOW FROM INVESTMENT ACTIVITIES					
Investments in property, plant and equipment	(14,836)	(7,608)	(7,593)	(22,444)	(14,843)
Receipts from disposals of property, plant and equipment	51	137	1,140	188	1,316
Investments in intangible assets	(97)	(88)	(52)	(185)	(223)
Receipts from disposals of intangible assets	0	0	5	0	5
Investments in financial assets	0	0	0	0	0
Receipts from disposal of financial assets	0	0	0	0	25
Investments in subsidiaries	0	0	(255)	0	(255)
Receipts from disposal of subsidiaries	150	0	38	150	38
Dividends received	0	0	0	0	0
NET CASH FLOW FROM INVESTMENT ACTIVITIES	(14,732)	(7,559)	(6,717)	(22,291)	(13,937)
CASH FLOW FROM FINANCING ACTIVITIES					
Receipts from capital contributions	0	0	0	0	0
Distributions to shareholders and minority interests	0	(6,204)	(5,571)	(6,204)	(5,571)
Receipts from taking out loans	0	0	0	0	0
Payments made for the discharge of bonds and loans	(3,228)	(9,272)	(11,052)	(12,500)	(15,590)
Increase / (decrease) in short-term liabilities to banks	14,085	7,226	(2,001)	21,311	8,957
Receipts from other long-term liabilities	3	53	0	56	6
Payments made for the discharge of other long-term liabilities	(143)	(87)	(185)	(230)	(371)
Interest paid	(2,039)	(1,896)	(2,087)	(3,935)	(4,699)
NET CASH FLOW FROM FINANCING ACTIVITIES	8,678	(10,180)	(20,896)	(1,502)	(17,268)
NET INCREASE/(DECREASE) IN CASH	(79)	109	(415)	30	(413)
EXCHANGE-RATE, CONSOLIDATION AND VALUATION-RELATED CHANGES TO CASH AND CASH EQUIVALENTS					
	(2)	0	148	(2)	148
CASH AT THE BEGINNING OF THE PERIOD	1,838	1,757	1,833	1,838	1,831
CASH AT THE END OF THE PERIOD	1,757	1,866	1,566	1,866	1,566

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in the period from 1. October 2005 to 31. March 2006

IN K€	Issued capital	Capital reserves	Other retained earnings	Translation provisions	Valuation reserves	Consolidated profits	Shareholders' Equity	Minority interests	Total
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	(1)	49
<i>Gains and losses not recognized in profit and loss statement</i>	0	0	0	50	1,137	0	1,187	(1)	1,186
Net income	0	0	0	0	0	5,725	5,725	0	5,725
<i>Total income of 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
Additions 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
Balance on 31. December 2005	18,613	58,668	35,615	(143)	(1,385)	40,413	151,781	(3)	151,778
Valuation of marketable securities and cashflow hedges	0	0	0	0	1,316	0	1,316	0	1,316
Differentials from translation of foreign currencies	0	0	0	32	0	2	34	1	35
<i>Gains and losses not recognized in profit and loss statement</i>	0	0	0	32	1,316	2	1,350	1	1,351
Net income	0	0	0	0	0	1,100	1,100	(1)	1,099
<i>Total income of the period</i>	0	0	0	32	1,316	1,102	2,450	0	2,450
Dividends	0	0	0	0	0	(6,204)	(6,204)	0	(6,204)
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
Additions to earnings reserves	0	0	7,200	0	0	(7,200)	0	0	0
Balance on 31. March 2006	18,613	58,668	42,815	(111)	(69)	28,111	148,027	(3)	148,024

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (FOR COMPARISON)

in the period from 1 October 2004 to 31 March 2005

IN K€	Issued capital	Capital reserves	Other retained earnings	Translation provisions	Valuation reserves	Consolidated profits	Shareholders' Equity	Minority interests	Total
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)
<i>Gains and losses not recognized in profit and loss statement</i>	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 income of 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
Additions 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
Balance on 31. December 2004	18,570	58,353	31,115	(339)	(1,357)	34,486	140,828	(24)	140,804
Valuation of marketable securities and cashflow hedges	0	0	0	0	(402)	0	(402)	0	(402)
Differentials from translation of foreign currencies	0	0	0	76	0	43	119	3	122
<i>Gains and losses not recognized in profit and loss statement</i>	0	0	0	76	(402)	43	(283)	3	(280)
Net income	0	0	0	0	0	1,318	1,318	19	1,337
<i>Total income of the period</i>	0	0	0	76	(402)	1,361	1,035	22	1,057
Dividends	0	0	0	0	0	(5,571)	(5,571)	0	(5,571)
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
Additions to earnings reserves	0	0	4,500	0	0	(4,500)	0	0	0
Balance on 31. March 2005	18,570	58,353	35,615	(263)	(1,759)	25,776	136,292	(2)	136,290

SELECTED NOTES

- STATEMENT OF COMPLIANCE AND GENERAL INFORMATION

The consolidated interim report for *schlott gruppe* for the reporting period from 1 January 2006 to 31 March 2006 as well as the first half from 1 October 2005 to 31 March 2006 has been prepared in accordance with International Financial Reporting Standards (IFRS) in compliance with IAS 34 Interim Financial Reporting. In addition, the provisions set out in DRS 6 Interim Financial Reporting have been observed accordingly.

The Interim Report for the Group takes into account all standards and interpretations applicable at 31 March 2006. The accounting policies applied to the interim report are essentially consistent with those used in the consolidated financial statements for the 2004/5 financial year. Departures from these accounting policies due to new or amended standards have been outlined in the section entitled *Accounting policies*. In this case, the financial statements of previous reporting periods have been adjusted in order to ensure comparability.

This interim report constitutes an update of the consolidated financial statements for the 2004/5 financial year. All information presented therein continues to be valid; the interim report focuses solely on new activities, events and circumstances. 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 were also deemed appropriate at the end of the financial year. The consolidated interim reports of *schlott gruppe* are subject neither to audits 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. Effective from 1 October 2005, heckel GmbH was deconsolidated from the Group accounts. 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 for 2004/5.

All 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* as well as 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.

- NOTES TO INCOME STATEMENT

VALUE-ADDED SALES AND REVENUE

Alongside *revenue/sales*, *schlott gruppe* uses so-called *value-added sales* (VAS) as a financial indicator – both in its external communications and as part of its internal controlling mechanisms. Revenue is subject to fluctuations that are attributable to the volume of paper supplied by customers as raw material for certain projects. Such fluctuations do not affect earnings: In contrast to paper purchased directly by the company, paper supplied by customers is not included in the accounts of *schlott gruppe*. In the value-added sales figure such fluctuations in the volume of paper supplied by customers are eliminated. Thus, VAS is depicting the actual business trend.

The following table presents an overview of value-added sales generated by *schlott gruppe*.

IN K€	QII 20056	QII 20045	HI 20056	HI 20045
Net sales	118,694	138,209	259,697	296,243
Change in inventories	(3,087)	(3,622)	(1,166)	(1,919)
Own expenses capitalized	63	0	63	0
Cost of raw materials, supplies and goods purchased	(33,598)	(42,760)	(75,536)	(93,290)
Cost of services purchased	(13,020)	(13,058)	(30,920)	(29,258)
<i>Value-added sales</i>	69,052	78,769	152,138	171,776

The breakdown of value-added sales by business segment is as follows:

IN K€	QII 20056	QII 20045	HI 20056	HI 20045
Business segment print	54,441	62,763	120,423	136,539
Business segment direct marketing	14,217	15,505	30,459	34,264
Business segment corporate services	2,727	2,951	5,646	5,949
Reconciliation	(2,333)	(2,450)	(4,390)	(4,976)
<i>Total</i>	69,052	78,769	152,138	171,776

The regional breakdown of value-added sales by customer location is as follows:

IN K€	QII 20056	QII 20045	HI 20056	HI 20045
Germany	52,810	61,326	119,844	135,781
Other Euroland	6,772	7,456	16,908	18,156
Other Europe	7,664	8,305	11,477	13,968
RoW	1,806	1,682	3,909	3,871
<i>Total</i>	69,052	78,769	152,138	171,776

For further information about revenue and value-added sales categorised according to segments, please refer to the Segment Reporting section on page 18 et seq.

Revenue is attributable to the following areas of operation:

IN K€	QII 20056	QII 20045	HI 20056	HI 20045
Preprint	765	775	1,894	2,375
Gravure printing	74,497	85,045	167,034	186,872
Offset printing	14,565	22,316	28,237	41,845
Bindery	3,795	4,343	7,646	8,453
<i>Business segment print</i>	93,622	112,479	204,811	239,545
<i>Business segment direct marketing</i>	25,027	25,711	54,582	56,619
<i>Business segment corporate services</i>	45	19	304	79
<i>Total</i>	118,694	138,209	259,697	296,243

The regional breakdown of revenue by customer location is as follows:

IN K€	QII 20056	QII 20045	HI 20056	HI 20045
Germany	88,163	102,699	193,278	220,785
Other Euroland	12,196	15,066	32,765	36,985
Other Europe	13,404	14,430	22,451	25,984
RoW	4,931	6,014	11,203	12,489
<i>Total</i>	118,694	138,209	259,697	296,243

OTHER OPERATING INCOME

Other operating income primarily includes the write-back of provisions, income from the sale of fixed assets and rental income as well as government subsidies.

COST OF MATERIALS

The cost of materials is categorised as follows:

IN K€	QII 20056	QII 20045	HI 20056	HI 20045
Paper	22,478	30,821	50,186	65,727
Ink	8,926	9,466	20,288	22,190
Further processing	3,408	3,849	7,639	8,499
Bonuses and discounts	(1,214)	(1,376)	(2,577)	(3,126)
Purchased goods for resales	13,020	13,058	30,920	29,258
<i>Total</i>	46,618	55,818	106,456	122,548

The volume of paper processed within the *print* business unit is outlined in the following table. Within the *direct marketing* business unit key indicators such as paper supply and paper purchasing are of minor significance.

	QII 20056	QII 20045	HI 20056	HI 20045
Paper supplied by customers	96,071	100,776	210,357	222,273
Paper purchased	26,898	38,081	58,775	82,151
<i>Total tonnage</i>	122,969	138,857	269,132	304,424

STAFF COST

The share of salaries and wages in relation to overall staff costs in the reporting period was €34,854 thousand (FY 2004/5: €39,883 thousand). In the first half, the overall share was €72,460 thousand (FY 2004/5: €82,360 thousand).

OTHER OPERATING EXPENSE

Other operating expense is categorised as follows:

IN K€	QII 2005/6	QII 2004/5	HI 2005/6	HI 2004/5
Maintenance expenses	5,604	6,495	10,276	12,736
Rental and leasing expenses	932	1,321	1,858	2,661
Fringe benefits and expenses for temporary employment	1,892	1,877	4,062	4,117
Sales and marketing expenses	5,900	6,650	12,671	13,853
Miscellaneous expenses	4,373	5,834	9,005	11,703
<i>Total</i>	18,701	22,177	37,872	45,070

SYSTEMATIC DEPRECIATION / AMORTISATION EXPENSE

Depreciation/amortisation expense in the period under review was as follows:

IN K€	QII 2005/6	QII 2004/5	HI 2005/6	HI 2004/5
Intangible assets	307	367	640	796
Property, plant, and equipment	7,784	8,596	15,773	16,648
Investment properties	86	84	173	168
<i>Total</i>	8,177	9,047	16,586	17,612

TAXES ON INCOME

Taxes on income are categorised as follows, with tax income being depicted as a negative value:

IN K€	QII 2005/6	QII 2004/5	HI 2005/6	HI 2004/5
Current income tax expense	479	(90)	4,776	5,482
Taxes for prior years	0	0	0	0
Deferred taxes	(268)	754	(549)	(1,051)
<i>Total</i>	211	664	4,227	4,431

EARNINGS PER SHARE

Earnings per share have been calculated on the following basis:

IN K€	QII 2005/6	QII 2004/5	HI 2005/6	HI 2004/5
Net income (in €)	1,098,834	1,317,739	6,824,130	6,966,943
Number of shares eligible for dividends	6,204,200	6,190,020	6,204,200	6,190,020
Net income per share (in €)	0.18	0.22	1.10	1.13
Undiluted average number of shares	6,204,200	6,190,020	6,204,200	6,190,020
Undiluted net income per share (in €)	0.18	0.22	1.10	1.13
Diluted average number of shares	6,204,200	6,190,020	6,204,200	6,190,020
Diluted net income per share (in €)	0.18	0.22	1.10	1.13

NOTES TO THE BALANCE SHEET

PROPERTY, PLANT AND EQUIPMENT

Changes to property, plant and equipment are outlined below:

IN K€	31. MARCH 2006	31. MARCH 2005	30. SEPT. 2005
Total at the beginning of the period	320,216	314,776	314,775
Translation differences	276	535	566
Additions	22,444	14,843	33,467
Additions due to changes in the scope of consolidation	0	6,318	6,318
Disposals	(127)	(616)	(1,298)
Disposals due to changes in the scope of consolidation	(7,448)	(132)	(151)
Transfers	(7)	4	5
Value increases	0	0	235
Value decreases	(15,773)	(16,648)	(33,701)
<i>Total</i>	319,581	319,080	320,216

For details regarding investments in this area, please refer to page 10 et seq.

INVESTMENT PROPERTY

There were no additions to or disposals of investment property in the first half or the current financial year.

NON-CURRENT RECEIVABLES AND OTHER ASSETS

Non-current receivables include the following items:

IN K€	31. MARCH 2006	31. MARCH 2005	30. SEPT. 2005
Sales	135	226	61
Claim out of compensation payment	0	473	0
Others	14	91	0
<i>Total</i>	149	790	61

INVENTORIES

At the end of the quarter, inventories included raw materials and consumables totalling €12,024 thousand (previous year: €11,490 thousand).

TAX ASSETS

Tax assets are as follows:

IN K€	31. MARCH 2006	31. MARCH 2005	30. SEPT. 2005
Corporate income tax	212	71	199
Business tax	243	191	335
Other income taxes	0	3	0
other taxes	626	308	810
<i>Total</i>	1,081	573	1,344

OTHER ASSETS

Other assets are categorised as follows:

IN K€	31. MARCH 2006	31. MARCH 2005	30. SEPT. 2005
Creditors with debit balances	0	274	715
Postage paid for customers	60	115	245
Turnover bonuses from suppliers	362	150	1,589
Market value of derivative instruments	572	124	130
Claim out of compensation payment	472	1,820	1,396
Others	2,645	1,298	2,031
<i>Total</i>	4,111	3,781	6,106

EQUITY

As part of the Employee Share Plan, 14,180 no-par value shares (*Stückaktien* governed by German law) were issued in FY 2004/2005. As a result, the share capital of *schlott gruppe AG* increased by €42,540. It totals €18,612,600, divided into 6,204,200 no-par value shares.

Management proposed the distribution, from the unappropriated surplus (*Bilanzgewinn*, also referred to as net retained profits), of €6,204 thousand to shareholders, which corresponds to a dividend of €1.00 for each share equipped with a dividend entitlement. On 21 March 2006, the General Meeting of Shareholders agreed to the aforementioned proposal. In the previous year, the dividend had been €0.90 per share.

Changes in equity of *schlott gruppe* are outlined in the Statement of Changes in Equity on page 23 et seq.

OTHER NON-CURRENT LIABILITIES

At the end of the quarter, other non-current liabilities included liabilities of €32 thousand (previous year: €405 thousand) from financial leasing.

OTHER NON-CURRENT PROVISIONS

There were no significant changes to the structure of other non-current provisions as at 31 March 2006 or the corresponding balance sheet date of the preceding financial year.

DEFERRED TAXES

Interim measurement of deferred taxes is based on the expected average tax rate for the reporting year.

CURRENT LIABILITIES

The current portion of long-term loans from banks amounts to €25,601 thousand (previous year: €32,620 thousand). The remaining amount is attributable to current bank overdrafts.

OTHER CURRENT LIABILITIES

Other current liabilities include the following items:

IN K€	31. MARCH 2006	31. MARCH 2005	30. SEPT. 2005
Tax liabilities	4,460	6,819	4,055
Liabilities in connection with social security	2,996	4,531	4,846
Liabilities to employees	5,633	6,119	6,571
Market value of derivative instruments	397	1,682	2,699
St. portion of other lt. liabilities	317	690	442
Others	1,399	1,494	2,289
<i>Total</i>	15,202	21,335	20,902

OTHER CURRENT PROVISIONS

Other current provisions are categorised as follows:

IN K€	31. MARCH 2006	31. MARCH 2005	30. SEPT. 2005
Personnel	15,038	18,391	20,959
Outstanding suppliers' invoices	4,120	6,785	3,383
Contingent losses	5,919	7,140	6,715
Rehabilitation liabilities	2,950	2,710	2,914
Others	6,815	7,971	10,363
<i>Total</i>	34,842	42,997	44,334

- OTHER NOTES

CHANGES IN CONTINGENT LIABILITIES

The changes in contingent liabilities as at the reporting date were as follows:

IN K€	31. MARCH 2006	31. MARCH 2005	30. SEPT. 2005
Guarantees / warranties	1,249	0	90
Orders placed with suppliers	53,319	n.v.	53,122

- 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 (until 30 April 2006), Michael Schlecht, Reinhold Schreiner

- FINANCIAL CALENDAR

Interim Report II 2005/6	10 May 2006
Preliminary figures Interim Report III 2005/6	26 July 2006
Interim Report III 2005/6	9 August 2006
Deutsches Eigenkapitalforum	27 November 2006

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