



ANNUAL REPORT SCHLOTT GRUPPE AG

2005/06

Foresight.



BERND ROSE

Chairman of the Management Board

“We are moving forward with the consistent implementation of our long-term company strategy, while at the same time strengthening our position within the leading group of European gravure printers.”

LETTER TO SHAREHOLDERS

FROM THE CHAIRMAN OF THE MANAGEMENT BOARD, SCHLOTT GRUPPE AG

DEAR SHAREHOLDERS AND READERS,

Despite challenging circumstances, schlott gruppe is pleased to announce respectable results for its 2005/6 financial year, although our performance lay somewhat below our original expectations. At the beginning of the year under review we were anticipating more pronounced competition in our core print business. As it turned out, this pressure was even greater than we had expected, a fact which is reflected in our profitability over the second half of the year.

As a result of the consistent and creative efforts that we have always made to improve efficiency and reduce costs, we are in a strong position vis-à-vis our competitors in the industry.

We shall ensure that this remains the case. Our aim is to establish ourselves as cost leaders within the market in order to further boost the competitiveness of schlott gruppe.

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“Thanks to highly flexible technology, we are in a superb position to meet the growing demands of our customers throughout Europe.”

Bernd Rose, Chairman of the Management Board

Given current market conditions, this means that we shall endeavour to limit the effect of pricing pressures on profits and make every effort to maintain our earnings capacity.

As an example of the many large and small-scale measures we have introduced to enhance the company’s competitive position during the year under review, I should like to mention the commissioning of our Rotary Printing Unit 12 in Freudenstadt. The special configuration of this new machine should allow us to achieve further increases in revenue. By combining cutting-edge technology with in-line functionality, we can manufacture a much wider range of products – and do so much more efficiently than in the past.

We also opened an additional site in the Czech Republic to round off our portfolio of finishing services and thereby strengthen our *print* operations. In the year under review, *schlott gruppe* was able to acquire *reus s.r.o.*, an enterprise based in Pilsen/ Czech Republic, which is superbly located from a logistical perspective and offers highly competitive structures. We are therefore in a

good position to exploit the Eastern European printing market at an early stage through our finishing operations.

We are also moving forward successfully with the consistent implementation of our long-term corporate strategy of contributing towards the process of consolidation within the European gravure printing industry, for example through the acquisition of *biegelaar b.v.*, the second largest printer in the Netherlands. By gaining access to the production facility located south of Amsterdam, we shall be able to improve coverage of our markets in North and Western Europe and create a more balanced product and country portfolio. The acquisition, which was successfully concluded in October 2006, after the end of our 2005/6 financial year, will produce other strategic benefits – a clear focus on magazine printing and no overlaps with our existing customers. 2005/6 also saw a turnaround in our *direct marketing* segment, with our Schwandorf and Nyrany facilities in the Czech Republic reporting a balanced result at the year end.

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“We are in a very strong position and are making every effort to maintain the company’s earnings capacity.”

Bernd Rose, Chairman of the Management Board

On the downside, our Scandinavian direct marketing subsidiary ran into significant problems in a rapidly changing market environment. We conducted an in-depth analysis of its situation and prospects and took the decision to close the production site.

The associated operating losses and non-recurring restructuring costs incurred produced a loss in the *direct marketing* segment but will not affect the current 2006/07 financial year. *meiller direct is back in profit and should show an increase in earnings in the new financial year.*

Our long-standing business partners and shareholders will be aware that we prefer to avoid short-term headline-grabbing measures. *Our actions are a combination of careful reflection and determination but are always taken with a view to the longer term. Our performance might be described as solid and respectable in difficult territory. Based on these qualities, I believe our customers, shareholders, partners and workforce can continue to count on us well into the future.*

We are grateful to all those who have put their trust in us over the last financial year. Special thanks are due to our business partners, shareholders and supervisory board members for an excellent and constructive partnership and to our staff, without whose dedication, skill and determination we would not have been able to overcome the challenges of the last year with the same degree of success.

The following annual report is an invitation to enter into a dialogue with our company, to join us on a short tour of Europe and above all to discover new opportunities.

JANUARY 2007

A handwritten signature in blue ink, appearing to read 'B. Rose', with a large, stylized initial 'B' and 'R'.

BERND ROSE

Chairman of the Management Board