SCHULER

Annual Report 2005/06

The technological and global market leader in metalforming

CONTENTS

SCHULER GROUP AT A GLANCE

		2002/03 HGB	2003/04 HGB	2004/05 HGB	2004/05 IFRS	2005/06 IFRS
Sales	*(€ million)*	481.1	558.1	564.3	561.6	563.4
– of which outside Germany	*(in %)*	52.3	52.9	70.2	70.9	71.4
New orders	*(€ million)*	560.5	562.9	550.4	547.7	515.7
Order backlog	*(as of 09/30, € million)*	566.4	571.2	557.3	377.6	330.0
EBITDA	*(€ million)*	28.1	27.9	30.9	31.2	19.3
EBIT	*(€ million)*	8.4	10.4	16.0	13.2	-1.1
Net income/loss	*(€ million)*	-2.6	3.5	4.2	0.4	-9.5
Personnel incl. apprentices	*(30. Sept.)*	3,908	3,793	3,697	3,697	3,606
Personnel expenses	*(€ million)*	207.3	207.5	200.3	197.8	211.4
Balance sheet total	*(as of 09/30, € million)*	429.3	416.2	429.2	562.8	516.1
Shareholders' equity	*(as of 09/30, € million)*	75.7	75.6	78.8	115.2	97.1
Equity ratio	*(in %)*	17.6	18.2	18.4	20.5	18.8
Gross cash flow	*(€ million)*	16.8	22.0	20.1	19.1	12.5
Capital expenditure excl. financial investments	*(€ million)*	7.6	12.1	9.4	9.6	10.1
Depreciation excl. financial investments	*(€ million)*	19.7	17.5	14.8	17.8	20.3

Title (from left):
Knuckle-joint drive of XS-extrusion press generation, gear in press with servo drive, mechanical transfer press with coil line for a supplier to the automotive industry

Forming the Future

When it comes to press systems, the name Schuler stands for quality, reliability and cutting-edge technology. Schuler is the technological and global market leader in metalforming. We supply machines, production lines, dies and services. The process know-how and systems expertise we have gained over many decades make us the partner of choice for the planning, construction and modernization of presses and press shops. Our most important clients include car manufacturers and their suppliers, as well as the electrical industry, the household equipment industry and national mints.

SCHULER

Ladies and gentlemen,

Schuler looks back on a difficult fiscal year 2005/06. Whereas the German engineering sector on average enjoyed a good year, the country's press manufacturers were unable to participate in this development. The reason for this departure from the general trend is clear: the main customer for presses, the automotive industry, suffered heavily from overcapacities and the resulting pressure on costs. As a result there was a further noticeable slowdown in investments made by car manufacturers in new production systems. In particular, there was a fall in demand for large-scale press systems and market conditions in the field of die construction remained difficult.

The Group's SPEED program represents a pro-active approach to these challenges. Launched in May 2006, the program sets out a broad agenda: we intend to improve processes and structures while reducing costs throughout the entire Group. Our target is to achieve sustained cost reductions of over € 30 million. They are to be fully effective from end of 2008 on. The structural changes connected with the SPEED program, especially in the field of die construction and large-scale press lines, resulted in non-recurring expenses of € 17.9 million in the past fiscal year. As sales remained largely unchanged at € 563.4 million, these one-off costs led to a consolidated net loss of € 9.5 million.

At the Annual General Meeting on March 29, 2007, the Board of Management and Supervisory Board will therefore propose not to pay a dividend for the fiscal year 2005/06.

The restructuring program has laid the foundation for healthy profitability. In addition to classic optimization and cost-saving measures, the program also comprises the systematic expansion of those business fields offering attractive prospects for profitable growth. Examples include the service sector, which we will continue to expand in future. We have not only set up a new, more effective service structure with a central coordination unit, but also stepped up our international market activities with the opening of a new facility in Slovakia, for example. In our automation business, we are gearing to meet the growing demand for plant modernizations, or retrofits. We will focus our sales activities and develop new products which help optimize press linkage and thus raise the productivity of the system as a whole.

A further aspect is the development of our market position in the automotive supply industry. This sector is becoming increasingly important as these suppliers assume an ever greater proportion of metalforming tasks in the car manufacturing process. In order to be successful in this sector, we have not only strengthened our sales organization but launched a new range of small presses featuring servo drives. This highly flexible press generation is tailored exactly to the needs of suppliers in the automotive sector. However, the new machines will also help us serve the needs of non-automotive engineering companies more fully in future. This market in particular offers numerous opportunities for us: in the field of electric motors, for example, we have received over 20 orders for

Board of Management of Schuler AG (from left): Dr. Wolfgang Baur, Jürgen Tonn (CEO), Joachim Beyer

notching presses and high-speed blanking lines – including the largest high-speed blanking line ever built by Schuler for a customer in Mexico. In the field of alternative energies, there has been strong growth in sales of part production for wind power plants.

As the market and technological leader in metalforming, Schuler is a company with potential. On the basis of the measures already implemented and the targeted expansion of those segments offering good prospects for profitable growth, we expect a positive development of business in our fiscal year 2006/07 with a return to profitability.

I would like to thank all employees, also on behalf of my colleagues on the Board of Management, for their tireless efforts and their willingness to help shape the company's change process. We also thank our shareholders, customers and business associates for the trust they continue to place in Schuler.

The Board of Management

Jürgen Tonn
Chief Executive Officer

Report of the Supervisory Board

The Supervisory Board fulfilled its statutory duties in the fiscal year 2005/06, while at the same time advising and monitoring the Board of Management. The Board of Management provided the Supervisory Board with prompt and thorough information on the company's situation and development, as well as on all business transactions requiring approval, the company's risk management system and corporate planning. The Supervisory Board adopted all resolutions after careful examination and on the basis of the proposals presented.

A total of six meetings were held in the fiscal year 2005/06. In addition to its scheduled meetings, the Supervisory Board remained in close contact with the Board of Management in order to gain prompt information about developments, current business activities and significant events. The Personnel Committee met twice during the past fiscal year. The Mediation Committee, pursuant to § 27, section 3 of the German Codetermination Law, was not convened during the year under review. The Audit Committee met three times to deal with questions of accounting, risk management and the auditing of the annual financial statements.

At the meetings, the Board of Management and Supervisory Board discussed the development of sales and new orders, as well as the financial position and earnings of the Group and its major subsidiaries. Further areas of focus included the risk management system and the strategic alignment of the Group and its business segments. The Supervisory Board was also informed about personnel development and various research and development projects.

At an extraordinary meeting on May 23, 2006, the Board of Management informed the Supervisory Board in detail about the Group's SPEED program aimed at raising efficiency further and reducing cost. At the meeting on September 19, 2006, the Supervisory Board was informed about measures already implemented, as well as initial results and forthcoming SPEED measures. At the same meeting, the Supervisory Board approved the new corporate structure with the two business segments »Forming Systems« and »Automation and Production Systems« and also approved a corresponding code of procedure for the Board of Management. The code states that Mr. Joachim Beyer is the Board of Management member responsible for the business segment »Forming Systems«, while Mr. Jürgen Tonn is responsible for the business segment »Automation and Production Systems« and Dr. Wolfgang Baur continues to be responsible for the Finance and Human Resources divisions. At the meeting on September 19, the Supervisory Board also made approving note of corporate planning for the fiscal year 2006/07 and planning for the following two years and was informed about the intended corporate policy.

At its meeting on November 9, 2006, the Supervisory Board and Board of Management published a joint declaration of conformity with the German Corporate Governance Code, pursuant to §161 AktG, in which Schuler follows the Code's recommendations in almost all aspects. Details concerning Schuler's Corporate Governance policy are provided on pages 16/17 of this annual report, as well as on our website *www.schulergroup.com*.

As part of a critical self-evaluation process, the Supervisory Board subjected itself to an examination of its efficiency during the fiscal year 2005/06. The results of the examination were discussed at the Supervisory Board meeting held on November 15, 2005. Several ideas for improvements were adopted and swiftly implemented.

In line with the German Corporate Governance Code, the Supervisory Board obtained a Declaration of Independence from the auditor and jointly agreed the main areas for auditing. In addition to auditing services, the auditor also provided tax advice and other services for the company.

The annual financial statements prepared by the Board of Management as of September 30, 2006, for Schuler AG and the consolidated group, as well as the management reports for Schuler AG and the consolidated group, were audited by the accountancy firm of HHS Hellinger Hahnemann Schulte-Groß GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, and received unqualified certifications. All members of the Supervisory Board were provided in time with the annual financial statements and management reports for Schuler AG and the consolidated group as well as the auditor's reports. The financial statements and reports were examined in detail – with particular reference to the earnings situation – by the Audit Committee at its meeting on February 6, 2007. It gave a detailed report at the Supervisory Board's meeting on February 13, 2007. At the meetings of the Audit Committee and the Supervisory Board, the chief auditors were on hand to report on the result of the audit and to answer questions. The audit result was accepted by the Supervisory Board.

The Supervisory Board has examined the annual financial statements of Schuler AG and the Schuler Group, the management reports for Schuler AG and the consolidated group and the proposed appropriation of profit and raises no objections. The annual financial statements of Schuler AG and the Schuler Group were approved by the Supervisory Board; the annual financial statements are thus adopted in accordance with § 172 of the German Stock Corporation Law (AktG). The Supervisory Board also endorses the Board of Management's proposal concerning the use of the unappropriated surplus.

The report concerning relations to affiliated companies, as prepared by the Board of Management pursuant to § 312 AktG, was examined by the Supervisory Board. In accordance with § 313, section 3 AktG, the chief auditor awarded the following certificate:

»On the basis of our statutory examination and evaluation, we can confirm that:

1. the details made in the report are accurate,

2. the company was compensated adequately for each transaction mentioned in the report.«

The Supervisory Board examined the affiliated companies report and raised no objections. The Supervisory Board concurs with the opinion of the independent auditor. On the basis of its own examination and that of the independent auditor, the Supervisory Board raises no objections to the Board of Management's declaration at the end of the affiliated companies report.

On October 11, 2005, Mr. Heiko Maßfeller, chief representative of the Metal Workers' Union (IG Metall) Bruchsal branch, joined the Supervisory Board as a workers' representative. He succeeded Mr. Uwe Bordanowicz, who retired from the Supervisory Board on age grounds. The Supervisory Board would like to thank Mr. Bordanowicz for his commitment and good cooperation over the years.

On September 7, 2006, the Supervisory Board appointed Mr. Jürgen Tonn as Chief Executive Officer of the Board of Management of Schuler AG with effect from October 1, 2006. He succeeded Dr. Peter Zeller, who left the company on September 7, 2006, by mutual consent. The Supervisory Board would like to thank Dr. Zeller for his work on behalf of the company.

The Supervisory Board also thanks the members of the Board of Management, as well as all Schuler Group employees and their representatives, for their efforts during the past business year 2005/06.

Göppingen, February 13, 2007

Dr. Robert Schuler-Voith
Chairman of the Supervisory Board

Forming Systems

- New press generation for the automotive supply industry
- Hot forming: important reference order
- New press line for ThyssenKrupp Automotive

The Forming Systems business segment supplies mechanical and hydraulic presses as well as press automation equipment. Our AutomotiveLine range provides solutions for car manufacturers. These are mainly large-scale, customer-specific press lines for the efficient and flexible manufacturing of car body parts. Schuler's ProfiLine range comprises modular machine concepts based on proven standard components and tailored to the growing automotive supply industry. The Forming Systems segment also includes high-speed and minting presses as well as equipment for solid forming.

Hydraulic press line with blank loader (in the front) and robot automation

New press generation for part suppliers: servo as standard

One important element of our Group program (see pages 23/24) is the expansion of our market share in the automotive supply sector and outside the automotive industry. In order to meet the needs of these customer groups as exactly as possible, we have added a new small press generation featuring servo drives to our product range. The line consists of small, highly flexible automatic blanking and forming presses with press forces of 2,500 to 6,300 kN. Flexibility is guaranteed above all by the innovative drive concept: all new presses are equipped with two servo drives which are directly connected to the eccentric wheel of the press – without clutch and flywheel. As a consequence and as the drive speed can be freely regulated, it is possible to vary the movement and force characteristics during the pressing stage and adapt them exactly to the respective application. For example, the press slide can be precisely positioned, slowed down during drawing and moved at a constant speed. This improves part quality and reduces die wear. The servo presses also offer further benefits: output can be raised by adapting the slide curve exactly to the frequency of the press automation equipment. Moreover, successfully tested press programs can be stored and called up at any time. This means that the press can be quickly set up for a variety of workpieces.

Blanking and forming press with servo drive (6,300 kN)

Hot forming: important reference order for high-potential technology

Reduced capital expenditures by car manufacturers led to a significant fall in major orders throughout the sector in the past year. Nevertheless, we still succeeded in gaining several interesting large-scale projects. These included a turnkey order for hot forming equipment from a major parts supplier. The order is of great technological and strategic importance for us, as hot forming is regarded as a process with tremendous potential. Hot forming is particularly well suited to the forming of high- and very high-strength steels, and these steels play a key role in the plans of car manufacturers with regard to safety and fuel consumption. Such steels enable them to significantly improve the body's crash safety characteristics – an increasingly important aspect, not least due to ever tougher legal regulations – while at the same time building lighter vehicles. Schuler has mastered the technology of hot forming: our lines are already being used by Volkswagen in Kassel, Germany.

Crossbar robot and Soft Shock: greater speed and precision

Crossbar robots and our patented Soft Shock technology are used above all in press lines for cutting high-strength blanks. The crossbar robot ensures fast transport between the various blanking stations of the press line – a key factor for the high output and productivity of the system. The Soft Shock damping system, which reduces stress on both machine and die, was developed especially for blanking lines.

In contrast to conventional cutting shock dampers, the Soft Shock plate compensates the energy released during the cutting action directly at the cutting edges of the die. This ensures clean cut surfaces and burr-free edges – even with high-strength materials.

Crossbar feeder: new high-speed linkage system well received

The crossbar feeder launched in 2005 has been well received by the market. This high-speed press linkage technology speeds up part transfer and offers maximum flexibility thanks to its seven different axes. We supplied the first two press lines with crossbar feeder linkage to the joint venture Changan Ford in Chonqing/China. The technology was also ordered by Fiat Tofas in Bursa, Turkey, in order to reach speeds of 13 stokes per minute on its new mechanical press line – also supplied by Schuler. Due to its high stability, the crossbar feeder can also transport very large parts. Whereas other linkage systems can often cause part vibration and inaccuracies, the crossbar feeder is both reliable and precise.

Press shop studies: a service with a bright future

Service starts at a very early stage for Schuler: on behalf of our customers, Schuler experts analyze the advantages and disadvantages of various processes right from the initial press shop planning phase. In order to optimize existing press shops, a wealth of data is collected and evaluated in order to make the overall system more transparent. This data might include energy consumption, output and downtime frequency. Using this information, Schuler can then formulate and implement improvement proposals. We also offer detailed press shop studies for new plants. The Indian car manufacturer Tata commissioned us to prepare the complete preliminary plans for a new press shop. Due to increasing demand, we intend to expand our business in this field. As an experienced systems supplier with highly developed process know-how we are ideally qualified for such services.

Automotive supply industry: new press line for ThyssenKrupp Automotive

For a new press shop of ThyssenKrupp Automotive, we supplied innovative plant technology for the manufacturing of large body panels made of high-strength steels. The equipment included a blanking line and a complete hydraulic press line with blank loaders and robot automation. Both lines are highly flexible and therefore ideally suited to the production of various supplier parts.

Impact extrusion presses: gentle but fast

In the impact extrusion process, aluminum billets of several millimeters in thickness are formed into thin-walled cylinders. Schuler launched its new XS impact extrusion press range in the past business year. The process offers new possibilities especially for the packaging industry, for example for the production of cans and tubes, or the automotive and electronics industries for the production of gas filter housings. Due to a modified drive system, the system is gentle on the die and enables smoother material flow. As a result, suppliers can offer a wider range of precisely formed, high-quality parts – and at the same time raise the stroking speed by 30%.

Hydraulic drawing press for the production of boiler parts

High-speed presses: new dimensions

The largest high-speed blanking line ever built by Schuler with a press force of 5,000 kN was supplied to a customer of the electric appliance industry in Mexico.

Non-Automotive: fast die changing for a wide part spectrum

During a recent expansion of capacity and complete renewal of its production equipment, Viessmann Werke in Allendorf, Germany, also invested in new hydraulic press technology. Schuler supplied a punch and drawing press with a capacity of 16,000 kN for the economic manufacturing of boiler parts. An automatic die change system enables a complete die change within just 130 seconds.

Solid forming: growing in global popularity

In the field of solid forming, Schuler mainly sold equipment for warm solid forming in the past fiscal year. Orders were received from America, Europe and Asia – including the first line supplied to a Japanese customer. The total number of solid forming lines sold was almost twice that of the previous year. Schuler also succeeded in entering the steel forging sector with a forging line for a Russian customer featuring a press force of 100,000 kN. The line will be used for processing high-alloy materials for the aviation industry. A first line was also sold in India with the delivery of a fully automated hydraulic 25,000 kN solid forming press with five forming stations.

Silver supplier award from Shanghai Volkswagen

At a ceremony in February 2006, Schuler was the only foreign company to receive Shanghai Volkswagen's silver supplier award. The Chinese-German joint venture praised above all the quality, reliability and punctuality of two press lines built for a new press shop in Anting. The project was handled by Schuler's international manufacturing network in a cooperation between facilities in Germany and China.

Advanced Technologies

– Important die order received
– Further development of HEATforming technology
– Reduced production time thanks to laser technology

The Advanced Technologies business segment comprises all aspects of press dies: from engineering to construction and tryout. A further major element is the field of hydroforming, in which hollow bodies are shaped with the aid of pressurized liquid or gas. This offers considerable benefits with regard to both safety and weight. The third area of activity in the Advanced Technologies segment is laser technology, which is used for cutting and welding processes. This technology is not only employed by car manufacturers, but also in the shipbuilding and aviation industries.

Ferritic material welding test

HEATforming: Using conventional methods, such parts would have to be welded together from two cylinders

Dies for complete side panels

A further major order was received from a part supplier in Poland. We were asked to supply the forming dies for the complete side panel used in the long version of the »Caddy« van, which the part supplier is producing for Volkswagen. As these are clearly visible outer panels, there were very high requirements regarding the optical characteristics of the parts. Consequently, the part geometry in the stamps and female dies of the various die sets had to be absolutely precise. Further challenges were the size of the required dies (around five meters) and the tight time schedule for the development, production and tryout of the press.

HEATforming: Schuler steps on the gas

At our Wilnsdorf facility in Germany, we are literally working under high pressure on an innovative new process. The pioneering HEATforming technology, in which pre-warmed hollow shapes are formed with the aid of pressurized gas, offers completely new possibilities for part design and production. In contrast to the conventional hydroforming process which works with liquids, HEATforming uses air, nitrogen or argon. In a first step, the workpiece, for example an aluminum tube, is heated to approx. 540 °C and placed in a preheated die. A compressor then pumps in pressurized gas and the blank is formed with an internal pressure of up to 300 bar, whereby the material is pressed against the die wall to give it the desired shape. The benefits are considerable: forming degrees of over 270%, extremely tight radii and partial forming of workpieces are all possible. HEATforming is equally well suited to the forming of thick-walled hollow bodies. A further benefit of the multi-patented technology: as only low pressures and closing forces are needed, complex parts can be produced with smaller and lighter presses. This results in greatly reduced part costs. After having achieved convincing results with aluminum, development efforts will now focus on using the process for steel forming.

Laser technology: a finished part in seven days

A special five-axis line was put into operation for Siemens Power Generation in Berlin-Moabit, Germany, for the production of inner housings for gas turbines used in peak-load electricity generation plants. The complete processing unit with loading and unloading zones will use a laser hybrid welding process which makes subsequent grinding and turning of the 3.5 ton turbine parts superfluous. The 12 mm thick blanks can be welded through in a single operation. The production time was thus reduced from 70 to seven days. There were also significant reductions in processing and scrap costs as the special welding process enables individual parts to be processed on small machines before assembly. In traditional processes the turbine housing was finished on large specialist machines after construction – any manufacturing errors meant that the whole part had to be discarded.

Share developments

– Share price fails to follow market trend
– Much firmer trading
– No dividend payment

The positive development of the world's stock markets continued in 2006. Following a strong start to the year, there were share price corrections in the second quarter due to further commodity price hikes and expectations of a slowdown in the global economy. A seasonally untypical upturn from late summer onward and falling trading volumes resulted in firmer share prices. From October 1, 2005, to September 30, 2006, the German blue-chip index DAX grew by 18.2%, while the small-cap index SDAX improved by 14.5% and the CDAX by 19.0%. The Schuler share started the fiscal year at € 6.30 on October 1, 2005, and suffered a year-on-year decline of 5.9% to finish at € 5.93 on September 30, 2006. The share initially followed the general trend, climbing to a year-high of € 7.15 on January 6, 2006. In the following months, however, the share weakened considerably and fell to a year-low of € 5.80 on August 23. (All figures based on XETRA electronic trading.)

Increased liquidity

The number of Schuler shares traded at all stock exchanges amounted to an average of 5,470 per day during the period under review. This represents an increase of 48.7% in comparison to the previous year.

Continual communication

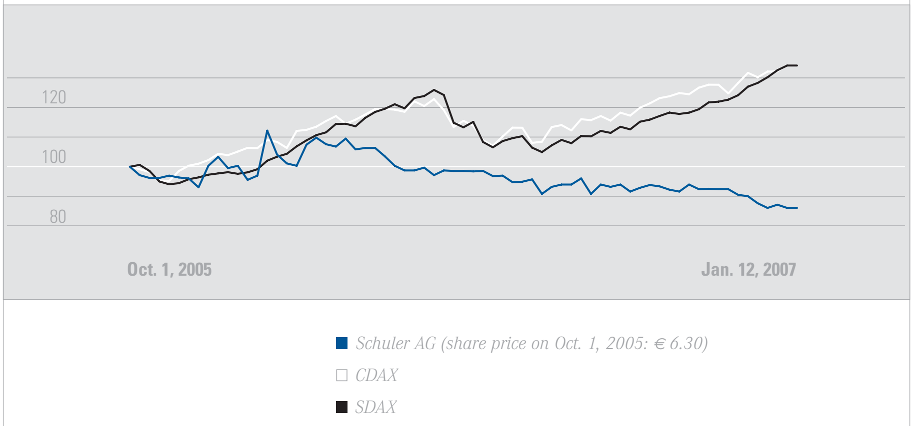
In spring 2006, Schuler was once again represented on the joint Gate-M stand at the investor fair INVEST in Stuttgart. Gate-M is a trading segment of the Stuttgart stock exchange for listed small to medium-sized enterprises (SMEs), aimed primarily at private investors. During the period under review, the company also held one analyst conference, several private discussions with potential investors and presentations with other BWSC (Baden-Württemberg Small Caps) members for institutional and private investors in Frankfurt and Stuttgart. The BWSC represents the interests of SMEs in the German state of Baden-Württemberg. The aim is to attract the interest of investors through joint appearances and active communication *(www.bwsc.de)*.

All important data on the company are provided in the Investor Relations section of Schuler's website *(www.schulergroup.com)*. The so-called »Annual Document«, in accordance with § 10 of the German Securities Prospectus Act (WpPG), presents all publications made during a specific fiscal year.

No dividend payment

The Schuler Group's SPEED program, described in detail in the Group's Management Report, is our response to the fundamental changes dominating the market. Non-recurring charges for the SPEED program were responsible for a loss in our consolidated annual financial statements. The Board of Management and Supervisory Board will therefore recommend to the Annual General Meeting that the company carries forward the unappropriated surplus posted by Schuler AG for the fiscal year 2005/06 amounting to € 9,388.13.

SCHULER STOCK PERFORMANCE *(in %)*



SHARE DATA

Security identity number	WKN 721 063 preferred no-par-value-stock WKN 721 060 common no-par-value-stock
ISIN	DE 0007210635 preferred no-par-value-stock DE 0007210601 common no-par-value-stock
Stock exchange code	SCU3
Number/type of shares	10,500,000 common no-par-value-stock 7,000,000 preferred no-par-value-stock without voting rights
Market segment	General Standard
Index	CDAX
Capital stock	€ 45,500,000
Shareholder structure	Common no-par-value-stock: 100% Schuler-Beteiligungen GmbH Preferred no-par-value-stock: 100% Free float (40% capital stock)
Stock exchanges	Official trading at the Frankfurt and Stuttgart stock exchanges since March 23, 1999
Designated sponsor	Landesbank Baden-Württemberg
Fiscal year ending	September 30

SCHULER SHARE AT A GLANCE

per preferred share		2003/04 HGB	2004/05 HGB	2004/05 IFRS	2005/06 IFRS
Earnings	€	0.40	0.34	0.08	-0.49
Dividend	€	0.20	0.20	0.20	0 [1]
Dividend yield, gross [2]	*in %*	3.0	3.1	3.1	0
Year-high	€	8.15	7.99	7.99	7.15
Year-low	€	5.10	6.20	6.20	5.80
Year-end price (Sept. 30)	€	6.66	6.38	6.38	5.93
Price/earnings ratio [2]	*in %*	16.8	18.8	–	–

[1] *Proposal to the Annual General Meeting*
[2] *Based on year-end price*

Corporate Governance

The German Corporate Governance Code was passed in February 2002 by a government commission set up by the Federal Ministry of Justice. The current version was published on June 12, 2006. The Code aims to make the rules which are valid in Germany for the management and monitoring of companies more transparent for national and international investors, in order to strengthen their trust in the management of German companies. Amongst other things, it regulates cooperation between the Supervisory Board and the Board of Management, as well as the protection of shareholder interests and the timely and transparent publication of company developments.

According to § 161 of the German Stock Corporation Law (AktG), the Supervisory Board and Board of Management of listed companies are obliged to publish a declaration of conformity once a year, in which they declare which of the Code's recommendations are being observed and which have not been applied. Schuler AG's declaration of conformity is published both in the company's annual report and on the Investor Relations pages of our website at *www.schulergroup.com*.

We would like to provide the following details on our Corporate Governance principles:

Management and corporate structure

Headquartered in Göppingen, Germany, Schuler AG is the management holding company of the Schuler Group, which consists of 23 fully consolidated companies and is divided into two business segments. The business segments operate through legally independent companies, which are responsible for their own business and profitability. The Board of Management of Schuler AG is in regular and close contact with the respective management teams of these subsidiaries. Schuler AG supports the activities of the Group's subsidiaries partly by providing funds and foreign exchange management through the Group's treasury division as well as through other group-wide services.

Schuler AG does not operate stock-option programs or any similar securities-based incentive systems.

Board of Management

The Board of Management of Schuler AG consists of three members. The individual responsibilities of these members are regulated by a document detailing the division of tasks. The remuneration of the Board of Management in fiscal 2005/06 consisted of both fixed and variable elements.

Supervisory Board

The composition of the Supervisory Board is determined by the German Codetermination Act. The Supervisory Board consists of twelve members; six of which are voted by the representatives of the shareholders and six by the company's employees. The Supervisory Board is elected for a period of five years. In the case of tied votes, the Chairman of the Supervisory Board has two votes. The Supervisory Board monitors and advises the Board of Management in its management of business. The Board of Management provides the Supervisory Board with detailed and up-to-date information. Major business transactions of the Board of Management require the prior approval of the Supervisory Board.

The Supervisory Board has formed a Personnel Committee, as well as a committee pursuant to § 27 (3) of the German Codetermination Act (MitbestG) and an Audit Committee. The Personnel Committee prepares the personnel decisions of the Supervisory Board. The Audit Committee is concerned in particular with questions of year-end accounting and risk management, as well as establishing the necessary independence of external auditors, commissioning them to audit the company's annual financial statements, deciding which areas they should focus on and agreeing their remuneration. Furthermore, the Audit Committee prepares the respective discussions and decisions of the Supervisory Board.

Directors' dealings acc. to § 15a WpHG

According to § 15a of the German Securities Trading Act (WpHG), members of the Board of Management and Supervisory Board are obliged to inform the company immediately should they buy or sell any Schuler shares. Schuler AG did not receive any such notification in fiscal 2005/06.

Annual General Meeting

Each common share entitles the owner to one vote. The preferred shares have no voting rights. All shares are represented by a global certificate in bearer form. Only those shareholders who have proven their entitlement are allowed to participate at the Annual General Meeting. Such proof is made by a written certificate of shareholding issued in German or English by the depositary institution. The proof must be related to the twenty-first day prior to the shareholders' meeting and must be received by the Company or any agent identified in the notice convening the shareholders' meeting no later than on the seventh day prior to the meeting.

Accounting and auditing

In fiscal 2005/06, the consolidated financial statements were prepared for the first time according to IFRS (International Financial Reporting Standards). The annual financial statements of Schuler AG and the consolidated group are audited by independent auditors, elected by the Annual General Meeting.

Controlling and risk management

The Board of Management has laid down principles and guidelines in the form of a risk management system, in order to detect risks as soon as possible and take the necessary corrective action. Detailed information on this topic is provided in the chapter »Risk report« in the Management Report section on page 30 of this annual report.

Declaration of conformity:

The Board of Management and Supervisory Board of Schuler AG declare that the recommendations of the »Government Commission on the German Corporate Governance Code« published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on June 12, 2006, have been complied with. The following exceptions are made:

1. D&O insurance and deductible

If the company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed (Code section 3.8).

In the case of the current D&O insurance for the Board of Management and Supervisory Board, no deductibles have been agreed. We believe that agreeing a deductible would not be a suitable method of improving the motivation and sense of responsibility for the tasks and functions with which the members of the Board of Management and Supervisory Board of Schuler AG have been entrusted.

2. Structure of Management Board compensation system

At the proposal of the committee dealing with Management Board contracts, the full Supervisory Board shall discuss and regularly review the structure of the Management Board compensation system (Code section 4.2.2). The Chairman of the Supervisory Board shall outline the salient points of the compensation system and any changes thereto to the General Meeting (Code section 4.2.3). The salient points of the compensation system shall be published in plainly understandable form and explained in the Corporate Governance report (Code section 4.2.5).

The Personnel Committee of Schuler AG, with equal representation of members, represents the Supervisory Board for the closing, amendment and termination of employment contracts with members of the Board of Management. Its members discuss and regularly monitor the structure of the remuneration system for the Board of Management.

The amount of compensation is based on the duties of the Board of Management member, as well as his performance and the business development of the Schuler Group, with suitable regard to comparative figures. The compensation system consists of fixed and variable components. Compensation components of a long-term incentive nature, such as stock options or comparable arrangements, are not granted.

3. Age limit for members of the Supervisory Board

An age limit for the members of the Supervisory Board shall be taken into account (Code section 5.4.1).

An age limit for membership of the Supervisory Board is not intended. The expert advice of our experienced Supervisory Board members, irrespective of their age, shall continue to benefit the company's development.

4. Compensation of members of the Supervisory Board

Members of the Supervisory Board shall receive fixed as well as performance-related compensation. The compensation of individual members of the Supervisory Board shall be reported in the Notes of the Consolidated Financial Statements, subdivided according to components. Also payments made by the enterprise to the members of the Supervisory Board or advantages extended for services provided *individually, in particular advisory or agency services, shall be listed separately in the Notes to the Consolidated Financial Statements (Code section 5.4.5).*

The members of the Supervisory Board receive a fixed compensation, determined by the General Meeting of Schuler AG. The Chair receives twice as much as an ordinary member of the Supervisory Board, the Vice Chair receives 1.5-times as much as an ordinary member of the Supervisory Board. Members do not receive performance-related compensation. We believe there is no direct, ascertainable connection between the skilled work of the Supervisory Board and the respective annual result of the Group.

Compensation or benefits from the company received by members of the Supervisory Board for personal services, in particular consultation and agency services, are not detailed individually. We believe the disclosure and control function derived from § 285 no. 9 HGB (German Commercial Code) in combination with § 114 AktG (German Stock Corporation Act) to be sufficient.

5. Shareholdings held by Management Board and Supervisory Board

The shareholdings, including options and derivatives, held by individual Management Board and Supervisory Board members shall be reported if these directly or indirectly exceed 1% of the shares issued by the company. If the entire holdings of all members of the Management Board and Supervisory Board exceed 1% of the shares issued by the company, these shall be reported separately according to Management Board and Supervisory Board (Code section 6.6).

We refer to the statutory disclosure pursuant to § 41 (3) WpHG in the FAZ of April 19, 2002, which we published in the notes to the consolidated financial statements of the previous year and which we shall publish again for our fiscal year 2005/06.

6. Quarterly reports

Shareholders and third parties shall be informed during the financial year by means of interim reports (Code section 7.1.1).

Schuler AG informs shareholders and third parties during the financial year by means of an interim report for the first six months.

7. Deadlines for the publication of consolidated financial statements and quarterly reports

The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period (Code section 7.1.2).

Due to the project-based nature of the Schuler Group's business, a suitable time corridor is required especially for the reliable and accurate determination of project-related accruals. Earlier disclosure would cause a disproportionate deterioration in the quality of the financial statements.

With the exception of the above-mentioned items 1 to 7, we shall continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code.

Göppingen, November 9, 2006

Management Report

Organizational and legal structure

The Schuler Group is the global market leader in metalforming. We generate around 75% of our sales with car manufacturers and their suppliers, which use our equipment predominantly for the production of car body parts. We also serve other metalworking sectors, such as the electrical industry, the household equipment industry and national mints. Our global market leadership results to a large extent from our systems expertise, i. e. the ability to supply complete and turnkey press shops. Our product range therefore comprises all aspects of metalforming technology: mechanical and hydraulic presses and press lines, transfer and tryout presses, automation equipment, die making, high-speed presses and systems for solid forming and hydroforming. In addition to our pure machine and press line business, we also offer a full range of services for our products. Services (including second-hand machine trading) currently account for almost 20% – and rising – of our sales.

Corporate structure

Until the end of fiscal year 2005/06, we divided our operating business into the two segments »Forming Systems« and »Advanced Technologies«. Apart from presses, the »Forming Systems« segment also comprised automation equipment, while the »Advanced Technologies« segment consisted of hydroforming and laser technologies, as well as engineering and the construction of press dies. As of October 1, 2006, we launched an improved corporate structure with the two business segments »Forming Systems« and »Automation and Production Systems«. Further details can be found in the Subsequent events section on page 32. The annual financial statements are based on the old corporate and reporting structure valid during fiscal year 2005/06, with the two segments »Forming Systems« and »Advanced Technologies«.

Legal structure

The consolidated Schuler Group comprises 23 companies according to IFRS (prior year: 23). Schuler AG, headquartered in Göppingen, acts as the holding company. Within the group, Schuler AG carries out centralized functions, for example in the fields of finance, insurance and communication.

Economic environment

Global economic development

Despite rising commodity prices, the global economy made good progress in 2006. According to the International Monetary Fund (IMF), global gross domestic product (GDP) probably reached around 5.1%. This global upswing was more consistent in the second half of the year than at the beginning: although the US economy was less buoyant, the Euro zone economies were somewhat stronger than expected. With a projected 2.0%, Germany achieved higher growth than predicted at the beginning of the year. In addition to strong exports, the German and Euro zone economies also benefited from a recovery in domestic capital investment. Once again, the global economy received a strong boost from Asia; China maintained its high growth rate of 10.0%.

GDP DEVELOPMENT

	2006* %	2005 %
World	**5.1**	**4.9**
USA	**3.4**	**3.2**
Euro zone	**2.4**	**1.3**
Germany	**2.0**	**0.9**
Japan	**2.7**	**2.6**
China	**10.0**	**10.2**

* *IMF forecast*

Automotive sector development

Approximately 64 million cars and small trucks were produced world-wide in 2006. Compared with 2005 (61.7 million), this represents year-on-year growth of almost 4%. This development owes much to the increased output of emerging markets, such as China, India and Eastern Europe.

Despite this rise in car production, the market environment remained difficult for Schuler. Many car manufacturers are under intense pressure to reduce costs and improve profitability. This is mainly the result of excess capacities, increased material and energy costs, as well as the heavy discounting needed to prop up sales. The expansion of Asian producers is exerting additional pressure on mass manufacturers in Western Europe and North America, with whom we enjoy traditionally strong business relations.

As a consequence, the automotive industry remained reluctant to make capital investments and demand for major projects in the field of mechanical presses was particularly disappointing. New production capacities in the automotive industry focused above all on the Asian and East European markets. In the traditional markets of Western Europe and North America, on the other hand, there was a growing trend to restructure and modernize existing facilities. These investments are aimed at reducing costs while raising the flexibility of production in view of the growing variety of car models.

During the same period, we registered increased demand from suppliers to the automotive industry, whose contribution to the value chain continues to grow. Suppliers are taking on an increasing number of metalforming tasks and are thus demanding in particular highly flexible and cost-efficient equipment. There is also growth in our activities in the service and non-automotive segments. Numerous Schuler lines installed throughout the world provide a strong basis for us to take a more active approach to our service business. Moreover, many customers prefer to invest in plant reconstruction and modernization rather than new equipment. Thanks to the continued development of various production processes, there is also increasing demand for our products from non-automotive customers, for example in the energy and packaging sectors.

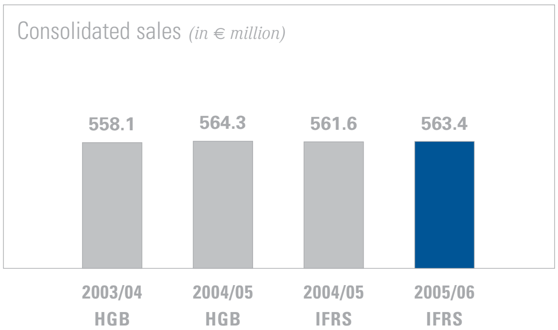
Business development

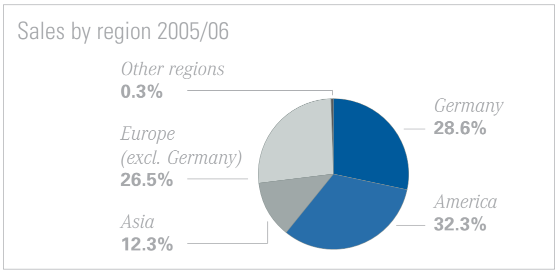
The annual financial statements for our fiscal year 2005/06 were prepared for the first time according to International Financial Reporting Standards (IFRS). The disclosed comparative figures for fiscal year 2004/05 were also calculated according to IFRS. These figures differ somewhat from those published in our Annual Report 2004/05, which were based on the accounting regulations of the German Commercial Code (HGB). Information about major differences between IFRS and HGB is provided in the Notes on page 43 et sqq. We also refer to the reconciliation charts on page 46 et sqq.

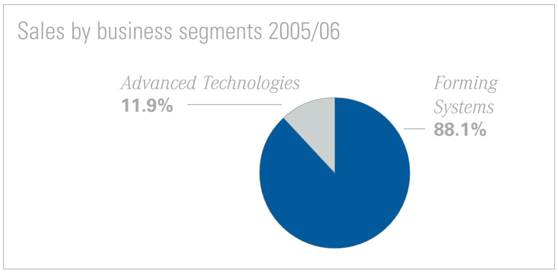
Sales remain constant

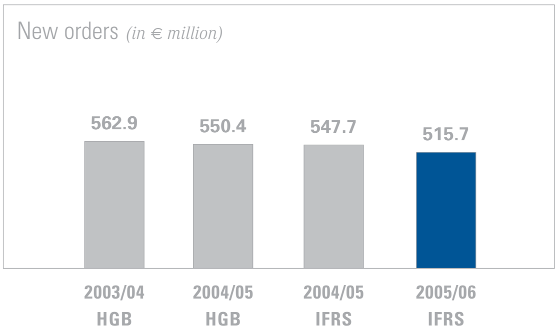
Consolidated sales of the Schuler Group remained constant in fiscal year 2005/06 at € 563.4 million (prior year: € 561.6 million). Following two years of strong sales in Asia, revenues in this region fell by 25.5% to € 69.2 million during the period under review. There was also a 7.1% fall in sales on the American market to € 182.2 million. In Germany, sales remained virtually stable at € 161.2 million (prior year: € 163.7 million). There was strong growth in the rest of Europe, where sales were up by 37.8% to € 149.1 million.

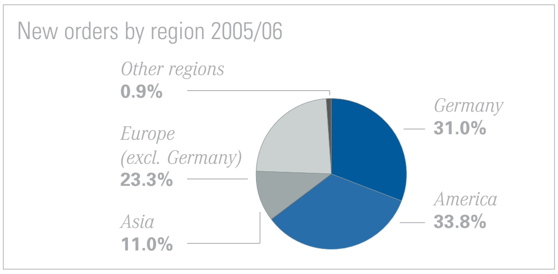
The proportion of consolidated sales generated outside Germany amounted to 71.4%, compared with 70.9% in the previous year. In the Forming Systems business segment, sales grew from € 482.6 million in the previous year to € 496.4 million – representing 88.1% of total Group sales. In the Advanced Technologies segment, sales fell from € 91.6 million to € 73.0 million.

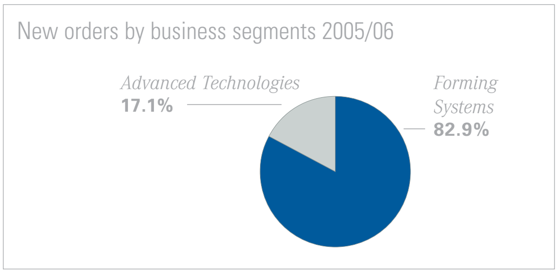












New orders down

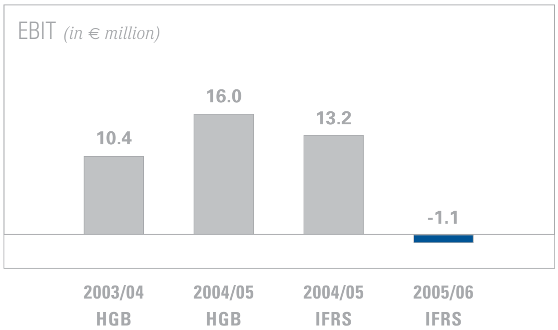
Consolidated new orders fell during the period under review by 5.8% from € 547.7 million to € 515.7 million. The reduced propensity of car manufacturers to invest in new equipment was again felt above all in Europe (excluding Germany) and Asia. Orders from European customers (excluding Germany) fell by 30.0% to € 119.9 million, and from Asian customers by 20.8% to € 56.6 million. In America, however, new orders grew strongly by 14.8% to € 174.2 million. There was also an increase in new orders of 5.2% in Germany – from € 152.4 million to € 160.3 million. The proportion of new orders received from outside Germany fell from 72.2% in the previous year to 68.9%.

New orders received by the Forming Systems segment during the period under review amounted to € 435.9 million, while the Advanced Technologies segment received new orders worth € 89.9 million.

As of the balance sheet date (September 30, 2006), the Group's order backlog amounted to € 330.0 million (prior year: € 377.6 million). The theoretical revenue stream based on the Group's order backdrop amounts to approx. 5.5 months (prior year: 6.4 months).

Earnings burdened by non-recurring costs

Important performance indicators for our business are earnings before interest and taxes (EBIT) and earnings before taxes (EBT). The main profitability ratios are our pre-tax profit margin and the return on capital employed (ROCE). ROCE compares EBIT with average capital employed in a particular period. Our medium-term targets are a pre-tax profit margin of 5.0% and a ROCE of 12.0%.



In fiscal year 2005/06, earnings were burdened by non-recurring costs of € 17.9 million relating to the Group's SPEED program. As a result, EBIT amounted to € -1.1 million (prior year: € 13.2 million) and consolidated ROCE was thus -0.3% (prior year: 3.4%). Earnings before taxes (EBT) totaled € -14.1 million (prior year: € 0.3 million) and the respective pre-tax profit margin was -2.5%. After adjustment for the non-recurring SPEED costs, all our key performance indicators were positive. The Group's net result for the past fiscal year amounted to € -9.5 million (prior year: € 0.4 million).

SPEED – improving profitability

Our market is currently undergoing a significant change process, which has accelerated further over the past few months. Car manufacturers are investing less in new press shop equipment, while demand from suppliers to the automotive industry continues to grow as they assume an ever greater proportion of metalforming work for their customers. The situation is also characterized by increased competition, the emergence of new competitors and the trend toward cheap, functional equipment. In order to take a proactive approach to these changes, Schuler's Board of Management formulated the SPEED program on the basis of an extensive status quo analysis. In addition to a strategic realignment of the Group, the program aims to raise efficiency, reduce costs and achieve a sustained improvement in profitability. In our fiscal year 2005/06, the program resulted in non-recurring costs of € 17.9 million. SPEED is focusing on the following three main areas:

1. **Cost reduction:** We aim to achieve sustained cost savings of over € 30 million. The main areas of focus are personnel costs and material procurement, which account for over 50% of total Group expenditure and thus represent the main lever for reducing cost. We intend to achieve significant cost advantages in this field by establishing a global sourcing process to enhance our international procurement efforts.

2. **Developing the supply market:** The increasingly important automotive supply industry will be exploited even more intensively and systematically in future. In addition to a dedicated sales organization, we will focus on developing a corresponding product range. We will concentrate in particular on the development of cost-efficient standard modules. A new generation of servo-drive small presses was designed specifically for the automotive supply sector.

3. **Growth:** We will expand those business fields with good growth prospects, such as service, plant modernization and automation. For example, we have set up a facility in Slovakia in order to develop our service activities in Eastern Europe. We will also accelerate our expansion in the non-automotive sector. By further developing processes such as impact extrusion, for example, we can also provide manufacturing solutions for the packaging industry.

Financial position

Within the Group, Schuler AG plays the central role with regard to finance and securing liquidity. It is responsible for almost all debt financing and provides funds to the Group's subsidiaries as and when they are required. As part of the Group's central cash pooling activities, the Treasury department of Schuler AG takes any superfluous funds from the Group's subsidiaries and provides them with liquidity. This guarantees a beneficial financial balance within the Group and reduces debt financing costs, especially for short-term funds.

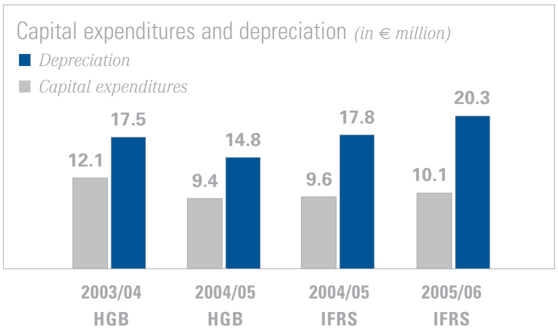
An important element of our debt financing are the promissory note loans (»Schuldscheindarlehen«) with a volume of € 50 million and terms of four and five years which were negotiated in June 2005. These loans enabled us to raise the proportion of our medium-term debts, while at the same time utilizing the low interest rate at the time of negotiation and securing follow-up finance for regular loans falling due. All other loans are mainly in EUR and BRL. Insofar as variable-interest loans were negotiated, these are mostly hedged against by interest hedging instruments or opposing positions. The average term of the fixed-interest loans is 4.7 years and that of the variable-interest loans 2.9 months. The Group also has unused bilateral credit and guarantee facilities with various credit institutes amounting to € 279.3 million.

Assets position

Thanks to effective management of working capital, net cash flow from operating activities increased in fiscal year 2005/06 from € 26.6 million to € 72.9 million. There was also a significant reduction in debt. For example, we reduced net financial debts (bank liabilities, notes payable, promissory note loans, leasing liabilities and other financial debts less cash and cash equivalents) from € 164.8 million to € 102.8 million. As of the balance sheet date, receivables amounting to € 21.6 million (prior year: € 30.4 million) were sold by means of old-line factoring. The balance sheet total decreased from € 562.8 million to € 516.1 million. As a result of the net loss for the period, equity fell from € 115.2 million to € 97.1 million.

Capital expenditures and depreciation

Following a scheduled reduction in capital expenditures in the previous year, investments in property, plant and equipment and intangible assets were up slightly in the period under review to € 10.1 million (prior year: € 9.6 million). The main focus was once again the continued expansion of »CATIA«, the Group's central system for computer-aided design, as well as SAP software. In addition, the company modernized its machines and equipment at numerous production facilities. Capitalized development costs for a new generation of servo-drive presses and standard presses for the American market amounted to € 1.0 million.



Depreciation of property, plant and equipment and intangible assets increased from € 17.8 million in the previous year to € 20.3 million.

Research and development

In the fiscal year 2005/06, a total of € 4.1 million (prior year: € 4.9 million) was invested in ongoing research and development activities (R&D expenses), of which € 1.0 million (prior year: € 0) fulfilled the IFRS capitalization criteria. After consideration of amortization on capitalized development costs of € 1.0 million (prior year: € 0.9 million), the total expense charged to profit and loss amounted to € 4.1 million (prior year: € 5.8 million). As of the balance sheet date, the carrying value of capitalized development costs amounted to € 1.9 million (prior year: € 1.9 million). The main proportion of the Group's development work is involved with major customer projects. The respective costs are charged as project costs (= cost of sales) and not included in the above mentioned R&D figures.

R&D activities are conducted locally by the respective companies of the Schuler Group. Locations which are responsible for specific areas of technology (for example mechanical and hydraulic presses, press linkage, blank loaders) drive the new developments in their particular field. Close cooperation between these centers of excellence ensures that new solutions are compatible with each other and can be seamlessly integrated into turnkey systems in the case of joint projects.

Our current development activities focus on creating standardized and modular solutions offering maximum customer benefit. An important role is played here by the Schuler press standard – a slim product catalogue based on the modular principle, which we are developing as part of the SPEED program.

New press generation with servo drive

In fiscal year 2005/06, we developed freely programmable press drives on the basis of servo technology. These enable the user to optimize slide speed and movement characteristics according to the particular process and thus raise output and die life while guaranteeing excellent part quality. An oscillating movement also means that the slide stroke can be reduced, which results in higher outputs especially in the case of progressive dies. The systems are ideally suited to processing high-strength steels as well as for sensitive tryout operations.

The press drives are scalable up to press forces of 25,000 kN and constructed using time-tested individual components. They are available as standard modules with all necessary functions, such as the drive, brake and positive acting slide locking device.

High-stroke press

In order to extend our product range in the field of precision forming, we developed a press component which enables the user to superimpose an additional slide movement over the classic knuckle-joint press kinematics. With the aid of this additional function, the slide stroke can be extended to enable the production of higher workpieces. At the same time, the press continues to benefit from the advantages of knuckle-joint technology, such as rigidity, accuracy and movement harmony. The high-stroke press is aimed at customers seeking a universal machine for flexible usage, which at the same time offers excellent forming and embossing characteristics. The press is our response to the trend toward incorporating as many forming operations in one machine as possible.

Hydraulic forging press for the production of ring blanks

The increasing need for large rings in the aviation sector and for the production of wind generators has led to investments in ring rolling lines, which are placed downstream of hydraulic pre-forming presses. The development of a hydraulic 40,000 kN forging press for the multi-stage production of ring blanks in the press middle has been largely completed. The ring blanks are produced from billet at a temperature of 1,150 °C in open dies. The blank is formed in several stages and remains in the center of the press. The active station of the multiple-station die set is moved to the center of the press on a moving bolster and a moving unit on the slide. The new press type can also be used for the production of train wheels.

Development of new orbital forming press

A further innovation in the field of hydraulics is the 10,000 kN orbital forming press which was developed at our facility in Plüderhausen, Germany. The slide completes a two-axis orbital movement on the workpiece. The process is ideally suited for the forming of axis-symmetrical parts and guarantees high part hardening and quality. The press can also be supplied with a three-axis orbital movement for the production of rotation-symmetrical parts. The orbital forming press requires much lower press forces than conventional hydraulic presses.

Flexible transfer range unveiled

In the field of automation, we modified our AT transfer range and expanded it for additional application fields. The new generation is available in three sizes. A newly developed direct-drive feeder makes the system even more dynamic and raises output by some 10%. The AT transfers can be scaled freely in terms of performance and adapted easily to a wide variety of application needs. The modular construction of the range means that they can be upgraded with additional or more powerful drives at any time.

Exclusive know-how in cutting press-hardened blanks

During the past fiscal year, Schuler developed dies for the cutting and punching of hot-formed blanks. This represented a particular technical challenge as the parts in question are large-panel tailored blanks with three different thicknesses per part. The maximum blank thickness is 1.8 mm with a high rigidity of around 1,400 kN/mm^2. Such blanks were previously cut using a time-consuming laser operation. When it comes to reaching higher outputs, however, hard cutting in the press offers many advantages. This requires special dies which can withstand tremendous strains over long periods. Our specialists therefore analyzed the die geometry and material, as well as the thickness and properties of the blanks. By acquiring exclusive know-how in this area, Schuler has improved its standing for the mass manufacturing of press-hardened blanks, which will further raise the rigidity of car bodies.

Personnel

Reduction in headcount

As of September 30, 2006, the Schuler Group employed a total of 3,606 people (including apprentices). Total headcount was thus down 91 on the previous year. This reduction resulted mainly from capacity changes due to adverse market conditions. Around 75% of staff are employed at the Group's German subsidiaries, where headcount fell by 79 to 2,700 employees. The number of staff employed by the Group's foreign subsidiaries fell by twelve to 906 (as of the balance sheet date). The overwhelming majority of staff outside Germany is employed at our facility in São Paulo (Brazil), the Group's second largest location after Göppingen, Germany (1,188 employees). Personnel expenses in the fiscal year 2005/06 rose to € 211.4 million (prior year: € 197.8 million), including non-recurring costs resulting from the SPEED program amounting to € 11.5 million.

Schuler committed to vocational training

Despite adverse market conditions, Schuler continues to stand by its commitment to providing vocational training for young people. As of September 30, 2006, the Schuler Group employed a total of 173 apprentices and thus more or less retained the high level of the previous year (177 apprentices). This corresponds to an unchanged ratio of apprentices to full-time staff of 5.0%. An apprenticeship at Schuler provides young people with a solid basis for their professional lives. It also plays an important role in ensuring that we have a sufficient supply of skilled staff, in both commercial and technical positions.

Thanks to a new training concept launched in August 2006, the quality of our apprenticeships is set to improve even further. The new concept provides more hands-on experience for apprentices, for example on-site machine assembly in order to experience cooperation with customers.

PERSONNEL BY BUSINESS SEGMENT

	09/30/2006	09/30/2005	Change in %
Schuler Group	**3,606**	**3,697**	**-2.5**
Forming Systems	**3,119**	**3,157**	**-1.2**
Advanced Technologies	**467**	**517**	**-9.7**

Theory and practice: cooperative degree course

In cooperation with the Universities of Applied Sciences in Ulm and Esslingen, we offer school-leavers with the German »Abitur« certificate (university admission qualification) the possibility to take a so-called »cooperative degree course« in electrical engineering, mechanical engineering or mechatronics. The students first complete a fast-track technical apprenticeship; this is followed by two-and-a-half years of theoretical studies which end with the Bachelor of Engineering qualification. Throughout the entire degree course, students receive a payment from Schuler.

Group-wide training program well received

In addition to CATIA and SAP courses, our group-wide training program was once again well received by our employees. There was particularly strong demand for seminars on business basics, legal questions in machine construction, and target cost management. Approximately 400 employees took part in 22 different events. In September 2006, we presented our training program for the new fiscal year. A major focus this year is the field of »value analysis and value management«, which deals mainly with the customer- and cost-oriented design of our products.

Graduate recruitment

In order to meet and directly contact those university graduates which fit to our company, we regularly attend so-called job exchanges and university fairs. Internships and dissertation projects are a further method of attracting undergraduates to our company. Internships at our subsidiaries in the USA or Brazil are an excellent way of experiencing international cooperation within the Schuler Group.

Risk report

Our risk management system is divided into four areas: the identification, classification, monitoring and controlling of risks. We have developed suitable instruments for each area, which cover both our core processes and the respective support processes. The main instrument is risk reporting, which in turn is divided into regular reporting and immediate notification in the case of unexpected risks. Our risk management system is continually optimized and adapted to any new requirements which may result from changes in the market environment. Moreover, the system is checked on a regular basis by our Internal Audit division.

General economic development

The general economic development may have an effect on the progress of our business. We therefore closely monitor the economies of the world's major economic regions. The current development of interest and capital markets, as well as legal, political and other external factors, do not indicate a significant slowdown in global economic growth. We have adapted our business to the consistently high price of steel and other raw materials: where possible, increased costs are passed on to the market and we are in the process of optimizing our procurement structures as part of the SPEED program described above.

Automotive sector

In addition to the sales and output figures of car manufacturers, we also carefully analyze the situation and the ordering behavior of our customers. We have recently observed a noticeable fall in investments with regard to major orders for the initial equipping of press shops. We have adapted to this development by expanding our growth sectors; these include our business with automotive part suppliers, as well as services and plant modernization. Nevertheless, we remain well prepared to profit from any improvement in the current level of capital investment and any subsequent upturn in demand for major projects.

We have reacted to ongoing price pressure in the automotive sector and competition from new players by introducing a wide range of measures within our SPEED program. These include, for example, the further standardization of our products and the reduction of material and personnel costs (for further information on the SPEED program, please refer to pages 23/24). In addition, our R&D activities are now geared to developing new products with measurably higher productivity and lower operating costs. In this way, we will be able to attract the attention of our customers to the overall cost benefits offered by high-quality forming systems over the long term, despite higher initial investment costs.

Risks from operating business

Our business includes supplying large-scale production systems worth tens of millions of euros, although the number of such orders has fallen recently. The processing of such orders includes certain risks, for example, if schedules or other agreements cannot be met. We endeavor to limit such risks from the outset by carefully formulating the respective contracts. In addition, we employ a comprehensive project and order management system which draws on experience gained in past projects. This system controls suppliers and the coordination of the various Schuler facilities involved in a project, for example. Risks arising from damage and liability claims are covered as far as possible by insurance policies.

Personnel risks

The knowledge and skills of our employees represent a key factor for the continued development of the Schuler Group. As a result of redundancies and staff fluctuation, the Group risks losing expertise and market advantages. We aim to raise the appeal of Schuler companies as employers and enhance staff commitment with the personnel measures described on page 29.

Risks from fair trading, patent and anti-trust regulations

In order to avoid possible risks from fair trading, patent and anti-trust legislation, the company seeks comprehensive legal advice. There are no current legal proceedings concerning fair trading, patent or anti-trust regulations which might have a negative impact on earnings and assets.

Product and environmental risks

Schuler reduces product and environmental risks by means of its quality assurance and environmental protection systems. Almost all Group companies are certified according to the quality management standard DIN ISO 9001. This enables us to meet the quality and environmental standards of our markets, as well as our own high standards. Furthermore, individual companies are also certified according to VDA 6.4/VDA 6.1, depending on their function within the Group and on the market. These certificates define the quality standards of the German automotive industry. The environmental management systems of certain Group companies are organized in line with the respective standard DIN EN ISO 14001.

Currency and financial risks

Due to its international alignment, the Schuler Group is exposed to certain interest and foreign currency risks. These include possible value fluctuations of a financial instrument due to changes in the market interest rate or exchange rate. Coverage against such risks is provided by so-called netting, whereby the values or payment flows of original financial instruments offset each other with regard to time or amount. Any remaining risks are reduced by the use of derivative financial instruments, such as forward exchange contracts and options, interest swaps and caps, and combined interest/currency swaps. Such derivatives are used as part of so-called micro-hedges, i. e. they serve to secure specific existing or planned transactions.

Foreign currency risks may result from an increase in the value of the Euro against the US Dollar, which would make products we export outside the Euro zone more expensive. We counter this risk by raising the proportion of value added by our non-European production facilities in Brazil and China. As of September 30, 2006, any remaining currency risks were covered by forward exchange contracts and foreign currency swaps with a nominal value of € 62.6 million. In order to cover interest rate risks, the company held interest swaps and interest options with a nominal value of € 97.7 million, as of the balance sheet date. All derivatives are negotiated with banks offering excellent creditworthiness.

Liquidity risks may arise from a change in the payment or pre-payment behavior of our customers. These risks are covered by our rolling liquidity planning and sufficient corporate credit lines.

Currency and financial risks are continually monitored by the central cash and foreign currency management system of the Group's Treasury department, which carries out the corresponding hedging transactions. The responsibilities of all Group companies with regard to risk management are clearly and comprehensively regulated. These include in particular the definition of the operational framework, a clear functional separation between trading and processing and the internal financial reporting system. We also regularly check the efficiency of the hedging instruments and the reliability of our internal control systems by means of internal and external audits.

Subsequent events

Jürgen Tonn new Chief Executive Officer

Dr. Peter Zeller stepped down as Chief Executive Officer of Schuler AG on September 7, 2006. In his place, the Supervisory Board appointed Mr. Jürgen Tonn as the new Chief Executive Officer as of October 1, 2006.

New corporate structure introduced on October 1, 2006

Our new corporate structure came into force on October 1, 2006. Our activities are still divided into two business segments, however the composition of the segments themselves has changed. The Forming Systems segment still remains but now consists exclusively of our press business. Automation technology, which formerly belonged to the Forming Systems segment, is now part of the new Automation and Production Systems segment launched on October 1. In addition to automation technology, the new Automation and Production Systems segment comprises the areas of hydroforming, car body technology and laser technology. In the former corporate structure these areas belonged to the Advanced Technologies segment, which now no longer exists.

Both business segments are headed by a member of the Board of Management with overall responsibility for earnings. Jürgen Tonn is responsible for Automation and Production Systems and Joachim Beyer for Forming Systems. By allocating overall responsibility for earnings, we can manage our activities with greater profit orientation than it was previously the case. The efforts of individual companies belonging to a business segment can be pooled more efficiently, responsibilities more clearly structured and the time needed for decisions shortened.

Old corporate structure (fiscal year 2005/06)

SCHULER AG	
Forming Systems	**Advanced Technologies**
Mechanical and hydraulic metalforming systems	Car body technology
Automation systems	Hydroforming
	Laser technology

New corporate structure (as of October 1, 2006, fiscal year 2006/07)

SCHULER AG	
Forming Systems	**Automation and Production Systems**
Mechanical and hydraulic metalforming systems	Automation systems
	Car body technology
	Hydroforming
	Laser technology

Impact of SEStEG (SE-Tax Draft)

As a result of legislation about the tax implications of introducing the European Company (Societas Europea) and the change in further tax regulations (SEStEG or SE-Tax Draft), the corporate tax credit balance of Schuler AG amounting to € 5.6 million is to be paid out in ten equal yearly amounts, on September 30 of each year starting in 2008, and irrespective of dividend payments. This claim is to be capitalized as of December 31, 2006, at present value and will result in a non-recurring special tax income of € 4.4 million.

Merger of Automation and Laser Technology

With a shareholder resolution as of December 18, 2006, the two Group companies Schuler Automation GmbH & Co. KG and Schuler Lasertechnik GmbH & Co. KG were merged. The new company trades under the name Schuler Automation GmbH & Co. KG; its registered office is located in Heßdorf.

Outlook

Global economy

The IMF expects a further year of solid growth for the global economy in 2007. At 4.9%, however, growth is expected to be slightly slower than in 2006 (+ 5.1%). The IMF also forecasts slower growth of 2.9% for the USA and approximately 2.0% for the Euro zone. This slowdown is expected to be slightly stronger in Germany, as an increase in sales tax on January 1, 2007, will probably have a dampening effect on consumer spending; the IMF forecasts growth of 1.3%. The ongoing dynamic development in China, however, indicates continued growth of around 10%. Risks for the global economy result in particular from the disequilibrium between the trade balances of various nations. This applies in particular to the trade deficit of the USA, compared with huge surpluses of Asia's exporting nations. A further cooling down of the overheated US real estate sector may also curb consumer spending, which has recently been strong.

Automotive industry: rising production

Global production of cars will continue to rise in the coming years. Production of light vehicles (= cars and small trucks) is expected to grow by around 7 million units to almost 69 million in the years 2005 to 2010. Asia will probably be responsible for almost half of this additional output. Car manufacturers are expected to locate most of their new factories in emerging countries, in order to exploit local cost advantages and growth potential. Locations such as Mexico, India, Eastern Europe and China are expected to profit most. A significant slowdown in output growth is predicted for established car markets, such as North America, Western Europe and Japan. The annual growth rate in Germany for the period up to 2010 will probably amount to around 1.5%.

GDP DEVELOPMENT

	2007* %	2006* %
World	**4.9**	**5.1**
USA	**2.9**	**3.4**
Euro zone	**2.0**	**2.4**
Germany	**1.3**	**2.0**
Japan	**2.1**	**2.7**
China	**10.0**	**10.0**

**IMF forecasts*

Business development

We see the following prospects for Schuler's business in the coming years: due to our excellent international presence and expertise in reliably completing global projects, we expect to benefit from the creation of new press shop capacities in the emerging nations. We already have our own local companies in India and China, while the South and Central American nations are served by our Brazilian subsidiary and Eastern Europe by our German companies and a local service facility. Despite increased output in the automotive industry, our market environment remains difficult. The main opportunities will be in the field of services, and especially the restructuring and modernizing of existing plants and our spare part business. Due to the high number of lines installed by Schuler over the years, we enjoy excellent prospects in these fields. We will therefore intensify our efforts in this area as well as our business with automotive part suppliers.

In the case of part suppliers, demand for press shop equipment is likely to grow strongly as they assume an ever greater share of value added in the automotive sector. We will also continue to steadily expand our business in the non-automotive sector. Thanks to the timely measures taken to reduce cost and develop our growth businesses, we feel well prepared for the future. We therefore already expect positive earnings again in our business segments in the current fiscal year, despite a continued postponement of investment by car manufacturers. In the following year, we expect further improvements in earnings.

Göppingen, January 19, 2007

The Board of Management

Consolidated financial statements (IFRS)

for the fiscal year 2005/06
of Schuler Aktiengesellschaft, Göppingen

CONTENTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

from October 1, 2005, to September 30, 2006, of Schuler Aktiengesellschaft, Göppingen

	Notes		2005/06 T€		2004/05 T€
1. Sales	(1)	563,361		561,593	
2. Increase or decrease of finished goods and work in progress		1,102		11,320	
3. Own work capitalized		2,373		694	
4. Other operating income	(2)	25,705	592,541	22,521	596,128
5. Cost of materials	(3)	264,210		271,405	
6. Personnel expenses	(4)	211,440		197,767	
7. Depreciation and amortization of intangible and tangible assets	(5)	20,335		17,845	
8. Other operating expenses	(6)	97,608	593,593	95,811	582,828
9. Operating result			**-1,052**		**13,300**
10. Interest income		5,572		5,765	
11. Interest expense		18,638		18,722	
12. Other financial result		0		-80	
13. Financial result	(7)		**-13,066**		**-13,037**
14. Earnings before taxes			**-14,118**		**263**
15. Income taxes	(8)		-4,606		-177
Consolidated net profit or loss			**-9,512**		**440**
– of which attributable to shareholders of Schuler AG			-9,544		332
– of which attributable to minority interests	(18)		32		108
Earnings per share in € (undiluted and diluted)	(9)				
Earnings per common share			-0.59		-0.02
Earnings per preferred share			-0.49		0.08

CONSOLIDATED BALANCE SHEET

as at September 30, 2006, of Schuler Aktiengesellschaft, Göppingen

ASSETS	Notes	09/30/2006 T€	09/30/2005 T€
A. Non-current assets			
1. Intangible assets	(10)	28,606	27,755
2. Property, plant and equipment	(11)	135,220	148,532
3. Interests in affiliates and participations		2,258	1,379
4. Other receivables and financial assets	(12)	6,657	6,870
5. Deferred tax assets	(8)	35,412	28,161
		208,153	**212,697**
B. Current assets			
1. Inventories	(13)	88,722	93,100
2. Trade receivables	(14)	61,395	73,751
3. Future receivables from long-term construction contracts	(15)	68,531	105,694
4. Income tax receivables		1,488	294
5. Other receivables and financial assets	(12)	28,852	48,496
6. Cash and cash equivalents	(16)	58,936	28,746
		307,924	**350,081**
		516,077	**562,778**

LIABILITIES	Notes	09/30/2006 T€	09/30/2005 T€
A. Equity	(17) (18)		
1. Share capital		45,500	45,500
2. Capital reserves		36,400	36,400
3. Retained earnings		8,259	20,253
4. Accumulated other comprehensive income		5,487	11,521
		95,646	**113,674**
5. Minority interests		1,503	1,516
		97,149	**115,190**
B. Non-current liabilities			
1. Financial liabilities	(19)	110,428	114,960
2. Other liabilities	(20)	1,784	4,688
3. Pension provisions	(21)	40,613	38,968
4. Other provisions	(22)	29,409	21,574
5. Deferred tax liabilities	(8)	4,052	7,887
		186,286	**188,077**
C. Current liabilities			
1. Financial liabilities	(19)	51,354	78,590
2. Trade payables	(23)	41,787	43,419
3. Other liabilities	(20)	71,324	68,657
4. Income tax provisions		3,135	2,479
5. Other provisions	(22)	65,042	66,366
		232,642	**259,511**
		516,077	**562,778**

STATEMENT OF RECOGNIZED INCOME AND EXPENDITURE WITHIN THE SCHULER GROUP

for the fiscal year 2005/06

	2005/06 T€	2004/05 T€
Cash flow hedges:		
– changes in value recognized directly in equity	4,487	8,175
– recognized in the profit and loss account	-10,700	-6,761
Deferred taxes not recognized	1,968	-172
Changes in currency translation differences relating to foreign Group companies	-1,834	6,511
Income and expenditure recognized directly in equity	**-6,079**	**7,753**
Consolidated net profit or loss	**-9,512**	**440**
Total income and expenditure recognized in the fiscal year	**-15,591**	**8,193**
– of which attributable to shareholders of Schuler AG	-15,578	8,008
– of which attributable to minority interests	-13	185

An explanation of equity is provided in Notes (17) and (18).

CASH FLOW STATEMENT OF THE SCHULER GROUP

from October 1, 2005, to September 30, 2006

		2005/06 T€	2004/05 T€
Profit or loss after tax		**-9,512**	**440**
+/-	Depreciation, amortization and impairments/impairment reversals of non-current assets	20,335	18,005
+/-	Increase/decrease in pension provisions (less indemnity claims)	1,653	608
Gross cash flow		**12,476**	**19,053**
-/+	Profit/loss from disposal of non-current assets	-179	-509
-/+	Increase/decrease in inventories	3,510	-14,038
-/+	Increase/decrease in receivables and other assets not relating to investing or financing activities	50,490	24,783
-/+	Increase/decrease in provisions (excluding pension provisions)	7,546	5,379
-/+	Increase/decrease in liabilities not relating to investing or financing activities	-923	-8,111
Cash flow from operating activities		**72,920**	**26,557**
	Proceeds from disposals of tangible and intangible assets	1,151	5,415
-	Investments in tangible and intangible assets	-9,039	-9,648
-	Additions from capitalized development costs	-1,030	0
+	Proceeds from disposals of financial assets	0	100
-	Investments in financial assets	-879	0
Cash flow from investing activities		**-9,797**	**-4,133**
	Dividend payments Schuler AG	-2,450	-1,400
+	Proceeds from non-current financial liabilities	16,784	51,405
-	Redemption of non-current financial liabilities	-18,574	-36,307
+/-	Proceeds from/redemption of current financial liabilities	-25,576	-38,083
-	Repayment of financial leases	-2,526	-4,659
Cash flow from financing activities		**-32,342**	**-29,044**
	Change in cash and cash equivalents	30,781	-6,620
+/-	Change in cash and cash equivalents due to exchange rate fluctuations	-591	8,370
Net change in cash and cash equivalents		**30,190**	**1,750**
+	Cash and cash equivalents at beginning of period	28,746	26,996
Cash and cash equivalents at end of period		**58,936**	**28,746**

The cash flow statement is explained in Note (24).

General

Schuler Aktiengesellschaft (»Schuler AG«) is the management holding company of the Schuler Group; its registered office is located in Bahnhofstrasse 41, 73033 Göppingen. Schuler is a leading international supplier of metalforming machines, systems, dies and services. Its most important clients include car manufacturers and their suppliers, as well as the electrical industry, the household equipment industry and national mints.

The consolidated financial statements of Schuler AG for the fiscal year 2005/06 were prepared for the first time in accordance with international accounting regulations, the International Financial Reporting Standards (IFRS), and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The mandatory standards of the International Financial Standards Board (IASB) applicable in the EU as of the balance sheet date were applied. In addition to the reporting obligations of IFRS, the company also observed the supplementary regulations of § 315a (1) German Commercial Code (HGB) and the articles of Schuler AG. The prior-year figures presented for comparison were also prepared on the basis of the standards applied in fiscal year 2005/06. The accounting and valuation principles applied, as well as the calculation methods according to IFRS, have not been changed compared with the disclosed prior-year figures.

The IASB has passed various standards and interpretations which have already been recognized by the European Union, but which were not mandatory as of the balance sheet date and not applied prematurely by Schuler on a voluntary basis:

- IAS 1 *»Presentation of Financial Statements«* – »Capital Disclosures«
- IAS 19 (revised) *»Employee Benefits«*
- IAS 21 *»The Effects of Changes in Foreign Exchange Rates«* – amendment to »Net Investment in a Foreign Operation«
- IAS 39 *»Financial Instruments: Recognition and Measurement«* – amendment to »Cash Flow Hedge Accounting of Forecast Intragroup Transactions«, »The Fair Value Option«, »Financial Guarantee Contracts«
- IFRS 4 *»Insurance Contracts«* – amendment to »Financial Guarantee Contracts«
- IFRS 6 *»Exploration for and Evaluation of Mineral Resources«*
- IFRS 7 *»Financial Instruments: Disclosures«*
- IFRIC 4 *»Determining whether an Arrangement contains a Lease«*
- IFRIC 5 *»Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds«*

- IFRIC 6 *»Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment«*
- IFRIC 7 *»Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies«*
- IFRIC 8 *»Scope of IFRS 2«*
- IFRIC 9 *»Reassessment of Embedded Derivatives«*

The mandatory application of these standards from fiscal year 2006/07 onward (with the exception of IAS 1 and IFRS 7: from fiscal year 2007/08) is not expected to have any significant impact on Schuler's consolidated financial statements. Schuler intends to always apply new standards in the first year in which they are mandatory.

The consolidated financial statements published in the previous year were prepared on the basis of the accounting standards of the German Commercial Code (HGB). As of the transition date October 1, 2004, and for the preparation of the present IFRS annual financial statements, Schuler observed the mandatory exceptions from the retrospective application of individual IAS/IFRS standards and applied the following exempting provisions of IFRS 1 *»First-time Adoption of International Financial Reporting Standards«*:

a) Business combinations

In accordance with IFRS 1, Appendix B, there was no retrospective application of IFRS 3 *»Business Combinations«* as part of capital consolidation for transactions prior to the transition point.

b) Employee benefits

Accumulated actuarial profits and losses according to IAS 19 were fully recognized at the point of transition pursuant to IFRS 1.20.

c) Accumulated translation differences

In accordance with IFRS 1.22 (a), accumulated translation differences resulting from the annual financial statements of consolidated non-German subsidiaries accounting in foreign currencies were set to zero at the point of transition.

The consolidated financial statements present a true and fair view of the net assets, financial position and earnings of the Schuler Group.

For the purposes of clarity, various items of the balance sheet and profit and loss account have been combined. These items are listed separately and explained in the Notes. The profit and loss account was prepared according to the total cost method. Balance sheet items are presented according to maturity.

The consolidated financial statements were prepared in euro (€). Unless otherwise stated, all amounts are stated in thousands of euros (T€).

The consolidated financial statements and the annual financial statements of the parent company are disclosed separately and have been filed with the Commercial Register of the District Court of Ulm under the number HRB 530210.

Transition to IFRS accounting

The accounting, valuation and consolidation methods according to German Commercial Code were changed with the initial application of International Financial Reporting Standards (IFRS) for the consolidated financial statements. The major areas of difference to the previous accounting system are as follows:

- In accordance with IFRS 3, goodwill is no longer amortized in scheduled amounts but is subjected to an annual impairment test. The value of goodwill is only adjusted with an effect on profit and loss in those cases in which the expected value of the segment, to which goodwill is attributable, is less than the carrying value of the net assets of this segment plus goodwill.
- In accordance with IAS 38, development costs are capitalized as intangible assets provided that the production of the developed products and processes is expected to have an economic benefit for the Schuler Group.
- In accordance with IAS 16, the carrying values of property, plant and equipment are always depreciated in scheduled amounts using the straight-line method. Depreciation is calculated on the basis of economic useful life, rather than the former tax-based useful life. Special tax-based depreciation amounts are not considered in the IFRS financial statements.
- Leased property, plant and equipment is capitalized and carried at the same time as a liability, providing economic ownership of the assets pursuant to IAS 17 can be attributed to the Group companies.

- In accordance with IAS 2, inventories must be valued at production-related total costs. For the Schuler Group, this resulted in only minor changes to those cost elements included in the cost of conversion.
- In accordance with IAS 11, income contributions from construction contracts are accounted for using the percentage-of-completion method and carried as receivables. Prorated order income of a period is recognized as sales revenue. Payments received on account are netted with the corresponding receivables on a contract-specific basis. Payments received on account for other inventories are no longer deducted on the assets side.
- Receivables and liabilities in foreign currencies are translated at the exchange rate applicable on the balance sheet date, even if receivables are consequently valued above and liabilities below their respective acquisition costs.
- Derivative financial instruments used to hedge against currency and interest risks are carried at their fair value, even if this exceeds acquisition cost. Changes in value resulting from the fair value measurement of such derivative financial instruments are generally recognized in the profit and loss account, unless they are part of an effective hedging arrangement. Should the hedging arrangements be regarded as effective, pursuant to IAS 39, the value changes of these derivatives are disclosed as a separate reserve item and not recognized in the income statement.
- Deferred taxes are determined using the balance sheet oriented temporary method. Deferred tax assets are recognized for tax losses carried forward, providing it is probable that such tax losses can be utilized in future.

- In accordance with IAS 19, pension provisions are calculated according to the projected unit credit method under consideration of future salary and pension increases.
- Pursuant to IAS 37, provisions may only be formed if there is an obligation in respect of third parties. Provisions for neglected maintenance work may therefore not be formed. Individual items which were hitherto disclosed as provisions continue to be carried as liabilities in the IFRS financial statements, as the respective obligations are sufficiently specified pursuant to IAS 37. Calculation of provisions is also based on the expected obligation amount, whereas the German Commercial Code often leads to somewhat higher provision amounts due to its emphasis on the prudence principle.
- Medium- and long-term provisions are carried at their present values.
- Medium- and long-term liabilities are measured using the effective interest method and including the cost of borrowing.

The adjustment of accounting and valuation methods to IFRS regulations was effected in the opening IFRS balance sheet of October 1, 2004, as if IFRS had always been applied. In accordance with IFRS 1.11, balance sheet measurement adjustments were disclosed in retained earnings without recognition in the income statement.

RECONCILIATION OF CONSOLIDATED EQUITY

as at October 1, 2004 (transition date)

	HGB T€	Effect of IFRS change T€	IFRS T€
Intangible assets	5,256	2,197	7,453
Goodwill	16,947	2,737	19,684
Property, plant and equipment	118,584	40,459	159,043
Financial assets	7,114	-5,558	1,556
Deferred tax assets	9,413	13,845	23,258
Inventories	227,676	-150,956	76,720
./. payments received on account	-100,897	100,897	0
Trade receivables	87,983	5,587	93,570
Future receivables from long-term construction contracts	n.a.	107,802	107,802
Other assets/prepaid expenses	41,355	5,521	46,876
Cash and cash equivalents	2,805	24,191	26,996
Assets	**416,236**	**146,722**	**562,958**
Pension provisions	38,632	4,897	43,529
./. indemnity claims	n.a.	-5,172	-5,172
Other provisions	108,539	-25,784	82,755
Deferred tax liabilities	0	6,321	6,321
Financial liabilities	135,627	72,336	207,963
Trade payables	40,285	8,146	48,431
Payments received on account	n.a.	30,372	30,372
Other liabilities	17,602	22,760	40,362
Liabilities	**340,685**	**113,876**	**454,561**
Net assets	**75,551**	**32,846**	**108,397**
Share capital	45,500	0	45,500
Capital reserves	36,400	0	36,400
Retained earnings	-3,472	24,793	21,321
Accumulated other comprehensive income	-4,241	8,086	3,845
Equity	**74,187**	**32,879**	**107,066**
Minority interests	1,364	-33	1,331
Consolidated equity	**75,551**	**32,846**	**108,397**

RECONCILIATION OF CONSOLIDATED EQUITY

as at September 30, 2005

	HGB T€	Effect of IFRS change T€	IFRS T€
Intangible assets	6,252	1,819	8,071
Goodwill	15,762	3,922	19,684
Property, plant and equipment	107,628	40,904	148,532
Financial assets	7,935	-6,556	1,379
Deferred tax assets	11,392	16,769	28,161
Inventories	258,826	-165,726	93,100
./. payments received on account	-121,473	121,473	0
Trade receivables	73,473	278	73,751
Future receivables from long-term construction contracts	n.a.	105,694	105,694
Other assets/prepaid expenses	53,496	2,164	55,660
Cash and cash equivalents	15,901	12,845	28,746
Assets	**429,192**	**133,586**	**562,778**
Pension provisions	39,616	5,095	44,711
./. indemnity claims	n.a.	-5,743	-5,743
Other provisions	113,491	-23,072	90,419
Deferred tax liabilities	0	7,887	7,887
Financial liabilities	142,188	51,362	193,550
Trade payables	36,985	6,434	43,419
Payments received on account	n.a.	31,481	31,481
Other liabilities	18,125	23,739	41,864
Liabilities	**350,405**	**97,183**	**447,588**
Net assets	**78,787**	**36,403**	**115,190**
Share capital	45,500	0	45,500
Capital reserves	36,400	0	36,400
Retained earnings	-694	20,947	20,253
Accumulated other comprehensive income	-3,898	15,419	11,521
Equity	**77,308**	**36,366**	**113,674**
Minority interests	1,479	37	1,516
Consolidated equity	**78,787**	**36,403**	**115,190**

RECONCILIATION OF CONSOLIDATED PROFIT OR LOSS

from October 1, 2004, to September 30, 2005 (comparative period to transition year)

	HGB T€	Effect of IFRS change T€	IFRS T€
Sales	564,310	-2,717	561,593
Increase or decrease of finished goods and work in progress	29,117	-17,797	11,320
Own work capitalized	694	0	694
Other operating income	15,789	6,732	22,521
	609,910	**-13,782**	**596,128**
Cost of materials	289,122	-17,717	271,405
Personnel expenses	200,315	-2,548	197,767
Depreciation and amortization of tangible and intangible assets	14,751	3,094	17,845
Other operating expenses	89,730	6,081	95,811
	593,918	**-11,090**	**582,828**
Operating result	**15,992**	**-2,692**	**13,300**
Interest income	-8,745	-4,212	-12,957
Other financial result	-37	-43	-80
Financial result	**-8,782**	**-4,255**	**-13,037**
Earnings before taxes	**7,210**	**-6,947**	**263**
Income taxes	2,982	-3,159	-177
Consolidated net profit or loss	**4,228**	**-3,788**	**440**

Consolidated group

In addition to Schuler AG, the consolidated annual financial statements comprise all major domestic and foreign subsidiaries which Schuler AG directly or indirectly controls (control relationship), with generally more than 50% of the voting stock. These include special purpose entities whose assets are attributable to the Group from an economic point of view. Consolidation begins from the moment at which control is possible and ends when this possibility no longer exists.

Subsidiaries with limited activities (management or smaller sales companies) are not consolidated as their influence on the assets, liabilities, financial position and earnings of the Group is only minor. In accordance with IAS 27 and 39, they are carried at fair value or amortized cost.

The Schuler Group comprises the following number of companies:

	09/30/2006	09/30/2005
Schuler AG and fully consolidated subsidiaries		
Domestic	18	18
Foreign	5	5
Subsidiaries carried at amortized cost		
Domestic	11	11
Foreign	5	5
	39	**39**

Principles of consolidation

The financial statements of domestic and foreign companies included in the consolidation are all prepared using standard accounting and valuation methods. These methods and the consolidation principles applied remain unchanged in respect of the previous year.

According to IFRS 3 all business combinations must be accounted for using the purchase method. Capital consolidation of subsidiaries being consolidated for the first time is performed at the date of acquisition by netting the purchase price with the newly valued prorated net assets of the subsidiary. The assets, liabilities and contingent liabilities of the subsidiaries are measured at their full fair value, irrespective of the size of any minority interests. Intangible assets are disclosed separately from goodwill if they can be separated from the company or result from a contractual or other right. Restructuring provisions may not be formed as part of the purchase price allocation. Any excess of acquisition cost over net assets acquired is recognized as goodwill. Negative goodwill resulting from initial consolidation is booked as income.

According to IFRS 3 in conjunction with IAS 36, the values of capitalized goodwill are to be reviewed annually or on indication of any impairment by means of an impairment test. Should the carrying value of a cash generating unit to which goodwill is assigned exceed the recoverable amount, then the assigned goodwill is initially subjected to non-scheduled amortization by the amount of the difference. Any further devaluation needs are considered by a prorated reduction in the carrying values of the other non-current asset items. During the removal of companies from consolidation, the residual value of capitalized goodwill is considered in the calculation of profit or loss from disposal.

Assets acquired in a business combination and newly recognized at their respective fair values are depreciated in scheduled amounts over their expected useful lives.

Income and expenditure between consolidated companies is eliminated, as are payables and receivables; the same applies to the obligatory notes concerning liabilities and other financial obligations. The consolidated income statement has been adjusted for dividend payments and loss assumptions from consolidated companies. Intercompany profits from sales and services are eliminated from non-current assets and inventories, insofar as they are not minor. Consolidation processes with an effect on the income statement are carried as deferred taxes, whereby deferred tax assets and liabilities from individual consolidation measures are not netted.

Foreign currency translation

Transactions in foreign currencies are translated at the corresponding exchange rates valid at the time of transaction in the individual financial statements of the consolidated companies. Monetary items in foreign currencies are translated at the average of the buying and selling rates effective on the balance sheet date. The resulting exchange rate profits and losses are recognized in the income statement.

Foreign companies belonging to the Schuler Group are generally treated as financially, economically and organizationally independent units. Their annual financial statements are thus translated into euros in accordance with the functional currency concept, pursuant to IAS 21. With the exception of equity, balance sheet items are translated at the average exchange rate on the balance sheet date. Equity, on the other hand, is translated at historical rates. Foreign currency translation differences resulting in the prior-year comparison are disclosed separately under equity without affecting profit or loss until the subsidiary is disposed of.

Income and expense items in the profit and loss account are translated into euros at average annual exchange rates.

The following exchange rates were used for the translation of foreign currencies:

Currency	1€ =	Closing rate		Average rate	
		09/30/2006	09/30/2005	2005/06	2004/05
Great Britain	GBP	0.6775	0.6824	0.6845	0.6877
Canada	CAD	1.4115	1.4075	1.4012	1.5495
USA	USD	1.2669	1.2049	1.2346	1.2718
Brazil	BRL	2.7512	2.6619	2.7182	3.2386
PR China	CNY	10.0178	9.7503	9.8976	10.4725

Intangible assets

Intangible assets are carried at their amortized cost of acquisition of conversion. With the exception of goodwill, all intangible assets have a measurable useful life and are thus amortized in scheduled amounts. Software for commercial and technical applications is subject to straight-line depreciation over five to eight years; the useful life of industrial property rights and licenses is up to ten years.

Development expenses are capitalized if a newly developed product or process can be clearly identified, is technically feasible and is intended for the company's own use or for sale. Moreover, there must be a reasonable degree of certainty that the assignable expenses of the intangible asset can be reliably assessed during its development period and recovered after completion by future cash flows. Development expenses which fulfill these criteria are capitalized at the cost of conversion, whereby the cost of conversion comprises all costs which can be directly allocated to the development process as well as a reasonable proportion of development-related overheads. Financing costs are not capitalized. Capitalized development costs are amortized from the start of production in scheduled amounts over the expected sales life of the products. Research costs are entered as expenditure in the period in which they are incurred.

According to IFRS 3 in conjunction with IAS 36, goodwill amounts are not amortized in scheduled amounts but reviewed annually or on indication of any impairment by means of an impairment test. This is normally based on the asset's value in use. In order to measure impairment, goodwill is generally assigned to a particular segment as the cash generating unit. As of the balance sheet date, goodwill amounted to T€ 19,338 for the Forming Systems segment and T€ 346 for the Advanced Technologies segment. The future cash flows of these cash generating units are forecast and discounted on the basis of the 3-year plans approved by the Board of Management and valid at the time of the impairment tests. Cash flows after the planning period are extrapolated without consideration of any growth rate. The forecasts are based on past experience and expectations of future market developments. Discounting is based on cost of capital before tax rates, taking into account the risk class assigned to the respective segment. In the period under review, these rates ranged from 9.0% to 9.5% (prior year:

8.7% to 9.2%). In the case of impairment, i. e. the carrying value of the cash generating unit to which the assets and liabilities are assigned exceeds the calculated value in use, goodwill is subject to non-scheduled amortization.

Property, plant and equipment

Property, plant and equipment are carried at acquisition or conversion cost less scheduled and – where necessary – non-scheduled depreciation. Investment grants are generally deducted from the acquisition or conversion cost of the subsidized asset. The cost of conversion comprises individual direct costs as well as prorated material and production overheads including depreciation and production-related administrative costs. Interest payments for borrowed capital are not capitalized, but carried as a current expense. Property, plant and equipment are depreciated using the straight-line method according to the asset's standard useful life. The remaining useful life is reviewed and adjusted where necessary on each balance sheet date.

Scheduled depreciation amounts are based mainly on the following useful lives:

	Useful lives
Buildings	33 to 50 years
Land improvements	10 to 15 years
Machines and technical equipment	10 to 30 years
Other equipment, factory and office equipment	5 to 15 years

In accordance with IAS 36, property, plant and equipment are subject to non-scheduled depreciation if there is any indication that the recoverable amount of the asset in question has fallen below the carrying value. The recoverable amount is the higher of net realizable value and the asset's value in use. The value in use is calculated on the basis of current planning, as approved by the Board of Management and valid at the time of the impairment test. Forecasts are based on past experience and expectations of the market's future development. Should the reasons for non-scheduled depreciation carried out in previous years no longer apply, a corresponding reversal of impairment loss must be undertaken.

Property, plant and equipment which is planned to be sold within one year of the balance sheet date and which is no longer used in the production process is disclosed separately under current assets, providing the sale is already very likely as of the balance sheet date and corresponding sales measures have been initiated. Such assets are valued at the lower of carrying value and the expected net realizable value.

In the case of leased property, plant and equipment, the prerequisites of IAS 17 for financial leases are met when all significant risks and rewards incident to ownership are transferred to the respective Group company. In such cases, the respective property, plant and equipment is capitalized at acquisition or conversion cost, or the lower present value of the minimum lease payments, and depreciated using the straight-line method over economic useful life or the shorter lease term. The useful lives applied correspond to those of comparable acquired assets. Payment obligations resulting from future leasing payments are discounted and carried as a liability.

If the prerequisites for financial leases are not met, leasing or rental payments are expensed directly in the profit and loss account (operating lease conditions). In such cases, the leased object is not capitalized in the Schuler Group.

Financial assets

Interests in non-consolidated subsidiaries and other equity investments are generally valued at their respective acquisition cost, as there are no active markets for these companies and their fair value cannot be ascertained with reasonable effort. Lower fair values are used whenever there is any indication of such value. Changes in the carrying values are recognized directly in the profit and loss of the period.

Financial instruments

Financial instruments are contracts that result in a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. A financial instrument is recognized in the balance sheet if the Group becomes a party to the contractual provisions of the instrument. Derecognition of financial assets takes place when the Group's claims in respect of cash flows from the financial instrument expire or when the financial instrument was transferred to another party including the control or all major risks and rewards.

Financial liabilities are derecognized when the Group's obligations specified in the contract expire, or are lifted or terminated. In the case of a regular purchase or sale of financial assets, the instruments are recognized on the transaction day, i. e. the day on which the Group becomes a party to the contractual provisions of the instrument. In accordance with IAS 39, financial assets and liabilities must be allocated to one of the following four categories:

- financial assets/liabilities measured at fair value through profit and loss
- held-to-maturity financial investments
- loans and receivables
- available-for-sale financial assets

Financial assets/liabilities measured at fair value through profit and loss pursuant to IAS 39 include derivative financial instruments, all financial instruments held for trading and all financial instruments which a company voluntarily allocates to this category. A financial asset is allocated to this category if it was acquired essentially with the intention of a short-term sale, or if the financial asset is so designated by management. The Schuler Group only allocates derivative financial instruments to this category, and only if they do not meet the strict criteria of a hedging arrangement pursuant to IAS 39. The Schuler Group uses derivative financial instruments exclusively to hedge against interest or currency risks. It can occur, however, that a hedging arrangement which makes sound economic sense does not meet the requirements of hedge accounting pursuant to IAS 39. In such cases, the respective hedging instruments are allocated to the at-fair-value-through-profit-or-loss category of financial assets/liabilities.

Financial instruments held by the Schuler Group are carried at amortized acquisition cost or fair value.

The amortized acquisition cost of a financial asset or liability is the amount,

- at which the financial asset or liability was initially recognized, including transaction costs,
- less subsequent repayment amounts and non-scheduled amortization for impairment or uncollectibility and,

- where applicable, plus or minus the difference (premium) between the original amount and the amount to be repaid on maturity, which is spread over the expected life of the financial asset or liability using the effective interest method.

In the case of short-term receivables and liabilities, the amortized acquisition cost is generally identical with the nominal or repayment amount.

Fair value is generally the market or stock exchange value, i. e. the price at which the financial instrument can be freely traded between independent business partners in a current transaction. If there is no active market, fair value is calculated using recognized actuarial methods.

Originated financial instruments

Loans, receivables, liabilities and held-to-maturity investments are financial instruments not quoted on any active market with fixed or measurable payments. They are generally carried at amortized acquisition cost using the effective interest method and after deduction of impairment loss, where necessary. They mainly include:

- trade receivables and payables,
- other receivables and financial assets and liabilities,
- financial debts.

Available-for-sale financial assets are non-derivative financial assets, which were either allocated to this category or which cannot be allocated to any of the other aforementioned categories. They belong to non-current assets, providing management does not intend to sell them within twelve months of the balance sheet date. In general, there are no fixed or measurable payments and terms. They are measured at fair value, whereby changes to fair value – except for allowances – are recognized directly in equity under consideration of deferred taxes. In the case of asset disposals, the reserve is reversed with an effect on profit or loss.

The amount of originated financial instruments can be seen in the consolidated balance sheet. As no general netting agreements are made with customers, the total amount disclosed under assets is also the maximum credit risk – irrespective of existing collateral. In the case of all underlying performance relations in respect of originated financial instruments, collateral is requested to minimize the credit risk – depending on the type and size of the respective performance. Moreover, credit informtion/references are requested or historical data used from past business transactions, especially regarding payment behavior. Insofar as there are recognizable credit risks in respect of individual financial assets, such risks are accounted for by impairment losses. Bad debt allowances formed for originated financial instruments amount to T€ 3,363 (prior year: T€ 3,166). The credit risk in connection with derivative financial instruments is minimized by only conducting business with top-rated contractual partners. The general credit risk resulting from derivative financial instruments is therefore regarded as not material. There is no recognizable concentration of credit risk from relations with individual debtors or groups of debtors.

Derivative financial instruments/hedge accounting

The Schuler Group uses derivative financial instruments solely for hedging balance sheet positions and future cash flows.

In the case of fair value hedges, the company hedges the risk of changes in the fair value of balance sheet items. In this case, both the hedging and underlying transaction are carried at fair value and both value adjustments are recognized in the profit and loss account.

Cash flow hedges serve to hedge against future cash flows. The hedging instruments are again carried at fair value. Unrealized profits and losses from hedging transactions, as a result of changes in market values, are first recognized (less a proportion for tax) in a special reserve without effect on the profit and loss account. They are not transferred to the income statement with an effect on profit or loss until the hedged item has been realized. That proportion of the market value change of a derivative instrument which is not covered by the basic transaction is recognized directly in profit or loss. If no hedge accounting can be used – contrary to Schuler's standard practice – the market value change is recognized directly in profit or loss.

Construction contracts

Customer-specific construction contracts are measured pursuant to IAS 11 according to the percentage-of-completion method (PoC method), i. e. according to the project's effective state of progress. The percentage-of-completion of a particular order is measured on the basis of the ratio between costs incurred to date and the anticipated overall cost of construction (cost-to-cost method). If the profit of a construction contract cannot be reliably estimated, revenue is estimated to be only the amount of the incurred contract costs (zero-profit method). Expected contract losses are recognized as a loss in the period of recognition by means of allowances for the disclosed receivable. Should the expected contract loss exceed the capitalized receivable, a provision is also formed. Possible contract losses are calculated on the basis of concurrent estimations and under consideration of all recognizable risks.

As the PoC method is based on estimations of the costs incurred until completion of the contract, it may be necessary to subsequently adjust the underlying calculations. Such corrections of income and expense are recognized in the income statement in the period in which the deviations are determined.

Orders are disclosed under receivables or payables. As soon as accumulated services (incurred contract costs and disclosed profits) exceed payments received on account for a particular contract, the construction order is disclosed under future receivables from customer construction contracts. If there is a negative balance after deducting the customer's payments on account, a liability is disclosed within the payments received on account for construction contracts.

In order to take into consideration the special requirements of the Schuler Group's integrated manufacturing network, whereby partial services are provided by various Group companies for a single customer contract, the partial services performed by individual Group companies are totaled in the consolidated financial statements while netting intercompany receivables and payables.

Inventories

Inventories are measured at the cost of acquisition or conversion, or at the lower net realizable value. The cost of conversion comprises individual direct costs as well as a reasonable proportion of material and production overheads, including production-related depreciation which can be directly attributed to the manufacturing process. Administrative and social costs are capitalized insofar as they can be allocated to production. Interest payments for borrowed capital are not included.

Current customer contracts are carried without loss. Risks arising from storage duration, reduced usability or similar occurrences are accounted for by value reductions. If the reasons leading to a value reduction of inventories no longer exist, then the value reduction is reversed. Similar inventory objects are generally valued using the average cost method.

Deferred taxes

In accordance with IAS 12, deferred tax assets and liabilities are generally formed for temporary differences between tax-based and IFRS-based valuations of assets and liabilities. Deferred tax assets also recognize tax reduction claims from existing tax loss carryforwards and unused tax credits, providing it is likely that they can be used in the following years. In addition, there is generally a need for recognition in the case of consolidation transactions with an effect on profit or loss. Deferred tax assets are also recognized in the case of future benefits from tax losses carried forward, providing it is likely that they can be used in the following years.

Allowances are made for deferred tax assets whose realization is not expected within a foreseeable period.

Income taxes relating to items recognized directly in equity are recognized in the relevant equity category and not in the profit and loss account.

Deferred taxes are measured according to the expected size of the tax burden or benefit in future years under consideration of the tax rates valid or expected at the time of realization. In the case of domestic companies and consolidation transactions, a tax rate of 38% is applied. For foreign subsidiaries, deferred taxes are calculated on the basis of the valid local tax rates.

Deferred tax assets and deferred tax liabilities are offset where taxes are levied by the same taxation authority and relate to the same tax period.

Pension provisions

Actuarial valuation of pension provisions is based on the projected unit credit method in respect of post-employment benefits in accordance with IAS19. The valuation is not only based on pension payments as known at the balance sheet date, but also includes future increases in salary and pensions. Actuarial gains and losses are recognized in the income statement over the average remaining service period of employees receiving pensions, providing they exceed a corridor of 10% of the maximum obligation or plan assets. In the case of indemnity claims with insurance companies, these are offset as plan assets with pension obligations if they meet the criteria of IAS 19. The interest portion of the addition to provisions is disclosed in the financial result.

Other provisions

In accordance with IAS 37, provisions are recognized where a present legal or constructive obligation exists in respect of third parties as a result of a past event, where a future outflow of resources is probable and where a reliable estimate of that outflow can be made. The valuation generally includes all cost elements which are capitalized in inventories – especially in the case of impending losses, subsequent costs and warranties.

Provisions not resulting directly in an outflow of resources in the following year are recognized at their settlement value discounted to the balance sheet date. Discounting is based on the relevant market interest rates. The settlement value also reflects cost increases expected at the balance sheet date. Provisions are not offset against claims for reimbursement.

Provisions are reviewed on an annual basis to ascertain whether and to what degree they are still permissible. If the reasons for forming the provision no longer apply, the provision is reversed. Should there be a change in the estimated size of the obligation, the amount of the provision is adjusted accordingly.

Liabilities

With the exception of derivative financial instruments, non-current liabilities are recorded at amortized cost in the balance sheet. Differences between historical cost and the repayment amount are considered using the effective interest method.

Liabilities under finance leases are carried at the present value of the future minimum lease payments, providing the fair value of the capitalized leasing object is not lower.

With the exception of derivative financial instruments, current liabilities are recognized at their repayment or settlement value.

Income and expense recognition

Sale revenue and other operating income are recognized only when the relevant service has been performed and the risk has thus passed to the customer. The exception to this principle are customer-based construction contracts, where revenue is realized according to the percentage-of-completion method. Royalties are measured according to the economic content of the relevant agreements and capitalized pro rata temporis. Income and expenses are capitalized pro rata temporis using the effective interest method; dividend income is recognized at the time it comes into legal existence. State subsidies are generally deducted from the acquisition costs of the subsidized assets. Public sector expense grants are recognized at the time of the incurred expense as other operating income.

Operating expenses affect profit or loss at the moment the service is utilized or incurred.

Estimates and assumptions by management

Preparation of the consolidated financial statements in accordance with IFRS regulations requires management to make certain assumptions about future events that affect the reported amounts of assets and liabilities, and income and expenses, as well as the related disclosure of contingent assets and liabilities of the reporting period. Such estimates relate primarily to the assessment of the recoverability of intangible assets, and especially of goodwill, the standard definition of useful lives of items of property, plant and equipment, the profit development of construction contracts, the collectibility of receivables and deferred taxes, and the recognition and measurement of provisions. The judgements are based on underlying assumptions that reflect the current state of available knowledge at the time the consolidated financial statements were prepared. This concerns, for example, individual factors such as discount rates or future salary developments as well as an overall assessment of expected business development and the sector-specific environment. Developments that differ from these assumptions may result in amounts that differ from the original estimates. In such cases, the estimates and, where necessary, the carrying amounts of the assets and liabilities affected are adjusted.

At the date of preparation of these consolidated financial statements, the underlying assumptions and estimates were not exposed to any material risks. At present, management does not therefore believe that there will be a requirement in the following fiscal year for any material adjustment to the carrying amounts of assets and liabilities reported in the consolidated balance sheet.

Consolidated profit and loss account disclosures

[1] Sales

For segment reporting purposes, consolidated sales is presented by the Group's business segments and regions. Revenue from construction contracts calculated according to the PoC method amounts to T€ 246,398 (prior year: T€ 320,200).

[2] Other operating income

	2005/06 T€	2004/05 T€
Income from reversal of provisions	14,295	7,347
Income from rent and leases	2,603	2,538
Insurance compensations, costs refunded by third parties	2,320	1,426
Labor Office reimbursements for semi-retirements	1,525	645
Currency gains	636	262
Other operating income	4,326	10,303
	25,705	**22,521**

[3] Cost of materials

	2005/06 T€	2004/05 T€
Expenses for raw materials, supplies and goods purchased	221,909	229,140
Expenses for services purchased	42,301	42,265
	264,210	**271,405**

[4] Personnel expenses

	2005/06 T€	2004/05 T€
Wages and salaries	173,720	161,663
Social security expenses	37,720	36,104
	211,440	**197,767**
– of which for pensions	2,517	2,123

Staff costs include expenses resulting from the termination of working contracts amounting to T€ 11,517 (prior year: T€ 502). The annual average number of employees developed as follows:

	2005/06	2004/05
Salaried staff	1,849	1,880
Non-salaried staff	1,624	1,680
	3,473	**3,560**
Apprentices	154	171
	3,627	**3,731**

[5] Depreciation and amortization of intangible and tangible assets

	2005/06 T€	2004/05 T€
Intangible assets	2,527	2,439
Tangible assets	17,808	15,406
	20,335	**17,845**

In the fiscal year 2005/06, property, plant and equipment were subject to non-scheduled depreciation of T€ 2,453 (prior year: T€ 35). They mainly concern a 100,000 kN press of Schuler Hydroforming GmbH & Co. KG, Wilnsdorf, and company premises of Schuler AG in Heusenstamm.

[6] Other operating expenses

	2005/06 T€	2004/05 T€
Packaging, outgoing freight costs, duties	13,966	16,687
Travel costs for machine assembly, other travel expenses	12,791	10,890
Transfers to lump-sum provisions (impending losses, subsequent costs, warranty/ex gratia settlements)	11,962	16,283
Advertising, trade fair and exhibition costs, commissions	9,641	8,011
Repairs, servicing, maintenance	9,298	9,303
Other operating expenses	39,950	34,637
	97,608	**95,811**

Exchange rate losses included in other operating expenses amount to T€ 495 (prior year: T€ 964).

[7] Financial result

	2005/06 T€	2004/05 T€
Interest income	5,572	5,765
– of which from affiliated companies	132	239
Interest expenses	-18,638	-18,722
– of which to affiliated companies	-32	-23
Interest result	**-13,066**	**-12,957**
Income from investments	0	80
– of which from affiliated companies	0	80
Amortization of financial assets	0	-160
– of which for affiliated companies	0	-160
Other financial result	**0**	**-80**
Financial result	**-13,066**	**-13,037**

[8] Income taxes

	2005/06 T€	2004/05 T€
Current tax expense, Germany	1,661	1,626
Current tax expense, abroad	2,942	1,566
Current income tax expense	**4,603**	**3,192**
– of which relating to other periods	-88	-1,022
– of which reduction of current income tax expense due to tax loss carryforwards not considered in previous years	640	2,145
Deferred taxes from temporary valuation differences	-4,544	-4,531
Deferred tax income from loss carryforwards	-4,665	1,162
Deferred taxes	**-9,209**	**-3,369**
	-4,606	**-177**

As of the balance sheet date, there were tax loss carryforwards amounting to T€ 150,454 (prior year: T€ 122,510), of which T€ 92,182 (prior year: T€ 73,784) resulted from domestic trade tax. The total amount includes loss carryforwards of T€ 57,227 (prior year: T€ 51,353) deemed to be not usable. Of this amount, T€ 45,505 (prior year: T€ 40,957) can be carried forward indefinitely, while T€ 2,257 (prior year: T€ 3,068) of foreign Group companies can be used within the next two (prior year: three) fiscal years and a further T€ 9,465 (prior year: T€ 7,328) can be used to reduce tax within a period of up to twenty years.

No deferred tax claims were capitalized for deductible temporary differences amounting to T€ 2,010 (prior year: T€ 2,817).

As of the balance sheet date, there are tax claims of Schuler AG not recognized in the balance sheet amounting to T€ 5,592 which result from retained profits of previous years subject to higher corporation tax rates. As a result of the amended § 37 (5) of German Corporation Tax Law (KStG), in connection with the SE-Tax Draft, the claim must be capitalized at present value on completion of December 31, 2006 (see Note 30).

In order to calculate the expected tax expense, profit before tax is multiplied by a tax rate of 38%. This rate comprises corporation tax (25%), the solidarity surcharge (5.5% of corporation tax) and trade tax (15%), under consideration of the deductibility of trade tax for the calculation of corporation tax.

The nominal income tax rates valid at year-end for the Group’s foreign subsidiaries were between 33% and 34%.

Compared with the previous year, the applicable tax rate changed only for our French subsidiary – from 34.83% to 33.33%.

The main causes for deviations between expected and disclosed income tax expense are presented in the following reconciliation calculation.

	2005/06 T€	2004/05 T€
Result before income taxes	-14,118	263
Income tax rate	38.0%	38.0%
Expected income taxes	**-5,365**	**100**
Tax-free income	-87	-380
Non-deductible expenses	197	160
Current tax expense relating to other periods	-88	-1,022
Addition to allowances for temporary differences and tax loss carryforwards	4,775	1,305
Reversal of allowances for temporary differences and tax loss carryforwards	-3,465	0
Use of loss carryforwards (not capitalized in previous years)	-244	-199
Deviation from foreign tax rates	-245	-276
Effects from tax rate changes	1	122
Other	-85	13
Disclosed income taxes	**-4,606**	**-177**
Effective tax rate	32.6%	-67.3%

In addition to the deferred taxes included in the profit and loss account with an effect on earnings, deferred tax liabilities of T€ 443 (prior year: T€ 2,412) in connection with the market valuation of cash flow hedges were charged directly to the respective reserves without an effect on profit or loss.

The following deferred tax assets and liabilities in the balance sheet refer to recognition and valuation differences between tax balance sheets and the consolidated balance sheet for individual items and to capitalized tax carryforwards:

	Deferred tax assets		Deferred tax liabilities	
	09/30/2006 T€	09/30/2005 T€	09/30/2006 T€	09/30/2005 T€
Non-current assets	5,272	5,637	5,950	7,150
Inventories and receivables	10,494	126	15,743	18,144
Tax loss carryforwards	29,724	23,916	n.a.	n.a.
Other assets	3,017	3,641	1,073	4,373
Pension provisions	390	316	778	765
Other provisions	4,469	4,009	1,133	1,224
Liabilities	15,366	25,108	1,200	198
Gross value	**68,732**	**62,753**	**25,877**	**31,854**
Allowances for deferred tax assets	-11,495	-10,625	n.a.	n.a.
Offsetting	-21,825	-23,967	-21,825	-23,967
Balance sheet recognition	**35,412**	**28,161**	**4,052**	**7,887**

In the period under review, an amount of T€ 1,968 (prior year: T€ -172) was taken directly to equity from changes in deferred taxes without effect on profit or loss. Currency translation differences without effect on profit or loss in connection with deferred taxes of foreign subsidiaries amounted to T€ -91 (prior year: T€ 140). All other changes were recognized in the income statement.

[9] Earnings per share

Earnings per share are calculated as the ratio of the Group's profit or loss and the weighted average number of common and preferred shares outstanding during the fiscal year. This ratio may be diluted by so-called potential shares (mainly stock options and convertible bonds). In the period under review, there were no outstanding potential shares with a dilutive effect. The diluted earnings per share figure is therefore identical with that of undiluted earnings per share.

The calculation of earnings per common and preferred share takes consideration of the statutory dividend preference amounting to € 0.10.

	2005/06 T€	2004/05 T€
Group profit or loss	-9,512	440
Profit attributable to minority interests	-32	-108
Profit attributable to shareholders of Schuler AG	**-9,544**	**332**
Weighted number of shares outstanding:		
Common shares (number)	10,500,000	10,500,000
Preferred shares (number)	7,000,000	7,000,000
Earnings per common share (€)	**-0.59**	**-0.02**
Earnings per preferred share (€)	**-0.49**	**0.08**

[10] Intangible assets

Changes in intangible assets between October 1, 2005, and September 30, 2006:

	Concessions, industrial and similar rights, as well as licenses in such rights and assets T€	Capitalized development costs T€	Goodwill T€	Total T€
Cost of acquisition/production				
Balance at October 1, 2005	**24,734**	**3,449**	**31,480**	**59,663**
Foreign exchange differences	-88	-40	–	-128
Additions	2,363	1,030	–	3,393
Transfers	49	–	–	49
Disposals	4,444	–	–	4,444
Balance at September 30, 2006	**22,614**	**4,439**	**31,480**	**58,533**
Amortization and impairment				
Balance at October 1, 2005	**18,566**	**1,546**	**11,796**	**31,908**
Foreign exchange differences	-61	-29	–	-90
Additions	1,545	982	–	2,527
Disposals	4,418	–	–	4,418
Balance at September 30, 2006	**15,632**	**2,499**	**11,796**	**29,927**
Carrying amount				
Balance at October 1, 2005	**6,168**	**1,903**	**19,684**	**27,755**
Balance at September 30, 2006	**6,982**	**1,940**	**19,684**	**28,606**

There are no restrictions on right of use in respect of intangible assets.

The following amounts were recognized in the income statement for research and development activities in the period under review:

	2005/06 T€	2004/05 T€
Research costs and non-capitalized development costs	3,065	4,851
Amortization of capitalized development costs	982	938
R&D costs recognized in the income statement	**4,047**	**5,789**

In addition to the amortization of capitalized development costs, the research and development costs recognized in the income statement in the period under review comprise mainly personnel and material costs, as well as depreciation and amortization of tangible and intangible assets used for these activities. In total, the research and development costs incurred in fiscal year 2005/06 amounting to T€ 1,030 (prior year: T€ 0) fulfilled the conditions for capitalization pursuant to IAS 38.

As a technology group, the main proportion of Schuler's development work is involved with major customer projects. The respective costs do not constitute R&D expenditure in the stricter sense of accounting and are therefore charged as project costs (= cost of sales).

[11] Property, plant and equipment

Changes in property, plant and equipment between October 1, 2005, and September 30, 2006:

	Land, land rights and buildings, including buildings on third-party land T€	Technical equipment and machinery T€	Other equipment, factory and office equipment T€	Payments on account and assets under construction T€	Total T€
Cost of acquisition/production					
Balance at October 1, 2005	**160,364**	**125,608**	**63,302**	**854**	**350,128**
Foreign exchange differences	-1,055	-1,082	-325	-10	-2,472
Additions	6	2,885	2,503	1,283	6,677
Transfers	193	945	89	-1,276	-49
Disposals	–	1,553	2,361	202	4,116
Balance at September 30, 2006	**159,508**	**126,803**	**63,208**	**649**	**350,168**
Depreciation and impairment					
Balance at October 1, 2005	**61,012**	**85,780**	**54,804**	**–**	**201,596**
Foreign exchange differences	-270	-747	-268	–	-1,285
Additions	6,479	8,882	2,447	–	17,808
Disposals	–	926	2,245	–	3,171
Balance at September 30, 2006	**67,221**	**92,989**	**54,738**	**–**	**214,948**
Carrying amount					
Balance at October 1, 2005	**99,352**	**39,828**	**8,498**	**854**	**148,532**
– of which leased assets	2,628	9,403	102	–	12,133
Balance at September 30, 2006	**92,287**	**33,814**	**8,470**	**649**	**135,220**
– of which leased assets	2,404	7,325	–	–	9,729

The Schuler Group is the lessee of assets under financial leases in the field of real estate, technical equipment and machinery and factory equipment. The agreed purchase options are likely to be exercised. In addition, there are operating leases mainly concerning the use of vehicles and IT hardware. At the end of these lease terms there are no purchase or prolongation options at terms better than the expected market conditions or residual value guarantees.

Future lease payments due are shown as of the balance sheet date in the table below:

	Due			09/30/2006
	up to 1 year	from 1 to 5 years	over 5 years	Total
	T€	T€	T€	T€
Future payments for finance leases	2,837	4,002	0	6,839
Interest component	313	377	0	690
Carrying/present value	**2,524**	**3,625**	**0**	**6,149**
Future minimum payments for operating leases	2,853	4,966	301	8,120

In the period under review, payments recognized in the income statement for operating leases amount to T€ 4,863 (prior year: T€ 4,232).

The Group also leases self-produced machines and equipment to its customers under operating lease agreements. Straight-line depreciation is applied with useful lives of ten to forty years. As of the balance sheet date, acquisition and conversion costs amount to T€ 27,565 (prior year: T€ 28,518) following net disposals of T€ 446; depreciation in the period under review amounts to T€ 2,425 (accumulated T€ 17,833, prior year: T€ 15,959). After accounting for translation differences (T€ -84, prior year: T€ 44), the carrying value as of September 30, 2006, amounts to T€ 9,648 (prior year: T€ 12,603).

The following payments from the above mentioned non-cancelable operating leases with third parties are expected to be received over the coming years:

	Due			09/30/2006
	up to 1 year	from 1 to 5 years	over 5 years	Total
	T€	T€	T€	T€
Future payments received from operating leases	1,833	6,909	0	8,742

[12] Non-current and current other receivables and financial assets

	Remaining term		09/30/2006	Remaining term		09/30/2005
	up to 1 year T€	over 1 year T€	Total T€	up to 1 year T€	over 1 year T€	Total T€
Receivables from other taxes	14,359	3,145	17,504	21,194	3,143	24,337
Positive fair values of derivatives	2,504	295	2,799	10,075	148	10,223
Payments on account	4,026	0	4,026	4,426	0	4,426
Other assets	7,963	3,217	11,180	12,801	3,579	16,380
	28,852	**6,657**	**35,509**	**48,496**	**6,870**	**55,366**

There are no material restrictions on title or right of use in respect of the disclosed other receivables and financial assets. Default risks are accounted for by means of valuation allowances, which amount to T€ 910 as of the balance sheet date (prior year: T€ 1,236).

The carrying values of disclosed other receivables and financial assets mainly correspond to their fair values: foreign exchange receivables are generally translated at the exchange rate valid on the balance sheet date; derivatives are valued by means of option pricing models incorporating market values valid on the balance sheet date; credit risk is accounted for by means of valuation allowances; and non-current, non-interest-bearing receivables are discounted.

[13] Inventories

	09/30/2006 T€	09/30/2005 T€
Raw materials, consumables and supplies	19,213	24,244
Work in progress	63,771	62,525
Finished goods and purchased merchandise	5,738	6,331
	88,722	**93,100**

In the period under review, valuation allowances for raw materials, consumables and supplies amounting to T€ 3,413 (prior year: T€ 1,938) were recognized as material expenses in the income statement. The devaluation of unfinished and finished goods booked as a reduction in inventories amounts to T€ 7,634 (prior year: T€ 3,445). Of the total inventories, T€ 18,471 (prior year: T€ 20,589) is recognized at net realizable value.

[14] Trade receivables

	09/30/2006 T€	09/30/2005 T€
Trade receivables from		
– third parties	60,665	73,104
– affiliated companies	656	449
– companies in which an investment is held	74	198
	61,395	**73,751**

The fair values of trade receivables correspond to the carrying amounts. In the period under review, valuation allowances of T€ 516 (prior year: T€ 478) were recognized in the income statement.

[15] Future receivables from long-term construction contracts

	09/30/2006 T€	09/30/2005 T€
Contract costs incurred, including partial profits	187,344	195,686
Payments received on account for construction contracts not yet invoiced	-128,614	-102,694
Impending loss provisions	-9,125	-13,637
Future receivables from construction contracts, net	**49,605**	**79,355**
– of which contracts with net receivables	68,531	105,694
– of which contracts with net payables	18,926	26,339

Future receivables from construction contracts comprise those claims calculated according to the degree of completion and resulting from customer-specific, long-term contracts for which the customer has not yet been invoiced. Work already invoiced is included in trade receivables.

Capitalized production costs incurred, including profit portions, are netted with payments received on account according to the specific contract. Contracts with a remaining positive balance after deduction of payments received on account are disclosed as future receivables from long-term construction contracts, while all others are carried as liabilities under payments received on account.

[16] Cash and cash equivalents

Cash and cash equivalents amounting to T€ 58,936 (prior year: T€ 28,746) include bank balances (T€ 58,877, prior year: T€ 28,429), checks and cash in hand (T€ 59, prior year: T€ 317). As of the balance sheet date, the average effective interest rate for short-term bank deposits amounted to 2.90% in EUR (prior year: 2.00%), 3.00% in USD (prior year: 2.71%), 14.25% in BRL (prior year: 19.50%) and 2.03% in CNY (prior year: 1.07%). These deposits have terms of between two and 107 days.

[17] Equity

	Shareholders of Schuler AG							Minority interests	Total
				Accumulated other comprehensive income					
	Share capital T€	Capital reserve T€	Retained earnings T€	Currency trans-lation T€	Reserve for cash flow hedges T€	Total T€	Equity T€	Equity T€	Con-solidated equity T€
Balance at Oct. 1, 2004	**45,500**	**36,400**	**21,321**	**n.a.**	**3,845**	**3,845**	**107,066**	**1,331**	**108,397**
Dividend payment	–	–	-1,400	–	–	–	-1,400	–	-1,400
Valuation changes recog-nized directly in equity	–	–	–	6,434	1,242	7,676	7,676	77	7,753
Consolidated net profit 2004/05	–	–	332	–	–	–	332	108	440
Balance at Sept. 30, 2005	**45,500**	**36,400**	**20,253**	**6,434**	**5,087**	**11,521**	**113,674**	**1,516**	**115,190**
Dividend payment	–	–	-2,450	–	–	–	-2,450	–	-2,450
Valuation changes recog-nized directly in equity	–	–	–	-1,789	-4,245	-6,034	-6,034	-45	-6,079
Consolidated net profit/loss 2005/06	–	–	-9,544	–	–	–	-9,544	32	-9,512
Balance at Sept. 30, 2006	**45,500**	**36,400**	**8,259**	**4,645**	**842**	**5,487**	**95,646**	**1,503**	**97,149**

Issued capital remains unchanged at € 45,500,000.00. It is divided into 10,500,000 no-par-value common shares and 7,000,000 no-par-value preferred shares without voting rights. Each share has thus a notional share of nominal capital amounting to € 2.60. The shares are made out to the bearer. There are no possible dilutive effects from the conversion of potential shares; earnings per common/preferred share are therefore only disclosed at undiluted values.

On the basis of a resolution adopted by the Annual General Meeting (AGM) of April 3, 2003, the Board of Management is authorized until December 31, 2007, with the approval of the Supervisory Board, to raise capital stock by up to a total of € 18,200,000.00 either in one or several new issues of new common and/or preferred shares for cash contribution (authorized capital). With the approval of the Supervisory Board, the Board of Management is further authorized to issue preferred shares whose rights concerning the distribution of profits and the company's assets are equal to those preferred shares previously issued. With the approval of the Supervisory Board, the Board of Management is also authorized to determine the further details of capital increases from authorized capital. During the period under review no stock was issued as a result of this authorization.

Capital reserves contain the share premium from the issue of company shares, while retained earnings consist of the Group's undistributed profits and losses from past years.

Changes in the fair value from cash flow hedges (after deferred taxes) and currency translation differences arising from the calculation of foreign financial statements are disclosed under accumulated other comprehensive income.

The dividend paid in 2005/06 for the previous fiscal year amounted to T€ 2,450 (€ 0.10 per common share and € 0.20 per preferred share).

Profit participation rights

On the basis of a resolution adopted by the AGM of April 7, 2005, the Board of Management is authorized, with the approval of the Supervisory Board, to issue individual or several profit participation rights with a total nominal amount of up to T€ 30,000. The Board of Management is only authorized to issue profit participation rights without conversion or subscription rights to preferred shares of the company. The authorization can be exercised wholly or in partial amounts, once or several times, in order to pursue one or several objectives; it is limited until April 6, 2010. When issuing the profit participation rights, the Board of Management can exclude the subscription rights of shareholders, providing the profit participation rights do not grant a share of liquidation proceeds and providing – subject to participation in balance sheet losses – the amount of interest is not based on the size of the net income, the balance sheet profit, the dividend or any other of the company's key performance indicators and is at the usual market rate.

Issue is made for consideration, which must at least correspond to the nominal amount of the profit participation rights. The Board of Management, with the approval of the Supervisory Board, shall determine all other details concerning the issuance amount, maturity and interest as well as the terms of the profit participation rights. No profit participation rights were issued in the period under review.

Proposed appropriation of profit

In accordance with § 58 (2) of the German Stock Corporation Act (AktG), the dividend payment made by Schuler AG is based on the balance sheet profit disclosed in its annual financial statements. The Board of Management proposes to carry forward the balance sheet profit of Schuler AG as at September 30, 2006, amounting to € 9,388.13 to the next reporting period.

[18] Minority interests

The minority interest in equity is attributable to minority shareholders of Shanghai Schuler Presses Co. Ltd. and Eclips Vermietungsgesellschaft mbH & Co. Objekt Göppingen Kommanditgesellschaft.

[19] Non-current and current financial liabilities

	Remaining term			09/30/2006	Remaining term			09/30/2005
	up to 1 year T€	from 1 to 5 years T€	over 5 years T€	Total T€	up to 1 year T€	from 1 to 5 years T€	over 5 years T€	Total T€
Liabilities to banks	47,816	38,572	17,984	104,372	74,799	35,452	22,310	132,561
Promissory note loan	0	49,715	0	49,715	0	49,623	0	49,623
Bills of exchange	301	0	0	301	276	0	0	276
Financial lease liabilities	2,524	3,625	0	6,149	2,505	6,225	80	8,810
Other financial debts	713	532	0	1,245	1,010	1,270	0	2,280
	51,354	**92,444**	**17,984**	**161,782**	**78,590**	**92,570**	**22,390**	**193,550**

Of the financial liabilities disclosed, a total of T€ 48,034 (prior year: T€ 77,958) is secured by real estate liens and similar rights. This total includes a proportion of T€ 28,011 (prior year: T€ 31,782) for leasing companies initially consolidated under IFRS pursuant to IAS 27 in conjunction with SIC 12.

In June 2005, the company negotiated a promissory note loan with variable interest rate and a total volume of T€ 50,000 in tranches of four (T€ 40,000) and five years (T€ 10,000). Interest is based on the concurrent refinancing rate (Euribor) plus a margin calculated according to the ratio of net financial debt to EBITDA. The loan can only be terminated prematurely by the lenders if certain agreed key performance indicators are not met. According to calculations of Schuler AG, the agreed indicators were met as of the balance sheet date.

Liabilities to banks include fixed-interest loans with a carrying value of T€ 34,492 (prior year: T€ 56,761) and a fair value of T€ 34,539 (prior year: T€ 57,967). In the case of variable-interest loans, the disclosed carrying values correspond largely to the fair values due to regular interest adjustment dates.

As of the balance sheet date, the weighted average interest rates for fixed-interest liabilities amounted to 5.28% in EUR (prior year: 5.61%) and 6.18% in USD (prior year: 7.50%). In the case of variable-interest liabilities, the corresponding figures amounted to 5.33% in EUR (prior year: 4.06%), 5.48% in USD (prior year: 4.28%) and 10.96% in BRL (prior year: 12.87%). The average remaining term of fixed-interest liabilities amounts to 4.74 years as of September 30, 2006 (prior year: 4.41 years), the average term (interest adjustment dates) of variable-interest liabilities is around 2.9 months (prior year: 4.3 months).

Variable-interest liabilities are secured in part by interest swaps and caps or opposing positions. The remaining unsecured variable-interest liabilities amount to T€ 6,015 (prior year: T€ 43,351); these are exposed to an interest-related cash flow risk.

Of the liabilities to banks, a total of T€ 2,107 (prior year: T€ 10,585) is payable in USD and T€ 53,062 (prior year: T€ 36,237) in BRL. Loans in EUR make up the remaining amount.

There are bilateral credit and guarantee lines totaling T€ 442,196 (prior year: T€ 422,560) with various banks. Credit/guarantee lines used at present amount to T€ 162,868 (prior year: T€ 147,945).

[20] Non-current and current other liabilities

	Remaining term			09/30/2006	Remaining term			09/30/2005
	up to 1 year T€	from 1 to 5 years T€	over 5 years T€	Total T€	up to 1 year T€	from 1 to 5 years T€	over 5 years T€	Total T€
Payments on account received in respect of construction contracts (net)	9,801	0	0	9,801	12,702	0	0	12,702
Other payments on account received from customers	25,213	0	0	25,213	18,779	0	0	18,779
Liabilities in respect of staff benefits and compensation (incl. social security)	21,719	126	0	21,845	23,966	84	0	24,050
Liabilities from other taxes	5,027	0	0	5,027	6,327	0	0	6,327
Negative fair values of derivatives	118	1,462	0	1,580	1,511	3,522	0	5,033
Other liabilities	9,446	172	24	9,642	5,372	1,025	57	6,454
	71,324	**1,760**	**24**	**73,108**	**68,657**	**4,631**	**57**	**73,345**

Liabilities in respect of staff benefits and compensation mainly comprise wages, salaries, social security, accrued holiday and Christmas money, and special payments not yet due as of the balance sheet date. The respective fair values do not differ significantly from the disclosed carrying amounts.

[21] Pension provisions

Pension provisions are formed for obligations in respect of future entitlements and current payments to entitled active and former employees and their dependants. Pensions vary according to the legal, fiscal and economic circumstances of the respective country and are generally based on the years of service and remuneration of employees. The overwhelming proportion of pension provisions formed by the Schuler Group concern domestic subsidiaries.

Company pension schemes are generally divided into defined contribution plans and defined benefit plans. In the case of defined contribution plans, the company has no other legal or constructive obligation than the payment of contributions to an external provider. The contributions are recognized as expenses in the income statement as of their due date. Total defined contribution plan expenses in the period under review amount to T€ 12,986 (prior year: T€ 13,183). This total includes employer contributions to the German state pension fund of T€ 11,966 (prior year: T€ 11,979).

The Schuler Group has mostly defined benefit plans, in which the company undertakes to make agreed payments to active and former employees. The amount depends on one or several factors, such as age, years of service and salary. The actuarial risk and investment risk are mainly borne by the company.

Schuler's pension obligations are overwhelmingly financed internally by means of provisions, which mainly concern the Group's German subsidiaries. Only part of these obligations are covered by reinsurance policies, which qualify as plan assets. The present value of pension obligations is calculated using the projected unit credit method, which is prescribed by IAS 19.64 for the valuation of provisions. Future obligations are measured on the basis of the ratable benefit entitlements earned as of the end of the fiscal year, while also considering assumptions as to future trends. In addition to assumptions on life expectancy, which were based for the first time on Klaus Heubeck's »RICHTTAFELN 2005 G« for the current balance sheet date, the following assumptions were used for the calculation of pension obligations of domestic subsidiaries:

	2005/06	2004/05
Discount rate	4.2%	5.5%
Future salary increases	2.5%	1.5%
Automatic adjustment of vested benefit claims for entitled staff with income-independent benefit arrangements	0.0%	1.0%
Adjustment of current benefits acc. to § 16 BetrAVG (every 3 years)	2.0%	1.5%

Increases or decreases in either the present value of the defined performance plan obligation or the fair value of the plan asset can result in actuarial profits or losses, whose causes include changes in the calculation parameters, changes in assumptions in respect of the risk development of pension obligations and deviations between actual and expected income from the plan asset. Such actuarial profits or losses are only recognized in the income statement if they exceed a tolerance corridor of 10% of the higher amount of pension obligation or the present value of the plan asset at the beginning of the fiscal year. The amount exceeding this corridor is amortized over the future average remaining service period of the active employees.

Past service cost is recognized immediately in the income statement if the changes in the pension plan do not depend on the employee remaining in the company for a determined period (period until date when rights can no longer expire). In such cases, the past service cost is recognized in the income statement in a straight line up to the point when rights can no longer expire.

The financial status of the defined benefit obligations as of the balance sheet date is as follows:

	09/30/2006 T€	09/30/2005 T€
Present value of externally financed benefit obligations	11,786	12,193
Fair value of reinsurance policies	-5,506	-5,743
Funding gap	6,280	6,450
Present value of internally financed benefit obligations	41,453	40,979
Present value of defined benefit obligations	**47,733**	**47,429**
Unrecognized actuarial gains/losses	-7,120	-8,461
Pension provisions recognized in the balance sheet	**40,613**	**38,968**

The amount recognized as income or expense in the profit and loss account resulting from defined benefit plans consists of the following items:

	2005/06 T€	2004/05 T€
Current service cost	1,784	1,766
Interest cost: accumulation of vested claims	2,174	2,329
Income from reinsurance policies	-649	-383
Amortization of actuarial gains/losses	267	n.a.
Expense from defined benefit plans	**3,576**	**3,712**

During the past fiscal year, the balance sheet value of net pension provisions developed as follows:

	2005/06 T€	2004/05 T€
Pension provisions as of Oct. 1	**38,968**	**38,357**
Net expense recognized in the income statement	3,576	3,712
Pension payments	-2,808	-2,920
Payments from/for reinsurance policies	886	-188
Currency translation differences	-9	7
Pension provisions as of Sept. 30	**40,613**	**38,968**

[22] Non-current and current other provisions

	Other taxes T€	Contract costs T€	Personnel expenses T€	Other obligations and risks T€	Total T€
Balance at Oct. 1, 2005	**387**	**62,766**	**19,125**	**5,662**	**87,940**
– of which current	387	56,334	4,025	5,620	66,366
Foreign exchange differences	-11	-197	-26	-51	-285
Utilization	-75	-29,257	-4,736	-2,369	-36,437
Reversals	-247	-9,395	-952	-965	-11,559
Additions	112	37,510	14,390	2,437	54,449
Unwinding of discount	0	121	622	0	743
Interest rate changes	0	-105	-295	0	-400
Balance at Sept. 30, 2006	**166**	**61,443**	**28,128**	**4,714**	**94,451**
– of which current	166	55,142	5,311	4,423	65,042

Provisions for contract costs comprise provisions for impending losses from pending transactions, subsequent costs from invoiced orders, warranties and settlements, commissions and penalties. Provisions for warranties and settlements are measured on the basis of experience from previous damage claim transactions. Provisions for employee expenses are recognized mainly for the part-time scheme for employees approaching retirement, ERA (new German unified payment system for workers and employees), service anniversaries, severance pay and similar obligations concerning employees.

Other obligations and risks concern identifiable risks and uncertain obligations which are carried in the amount of their expected settlement value.

Other provisions classified as current are expected to be used in the course of the following fiscal year. Non-current other provisions are expected to be used within a period of two to five years.

As of the balance sheet date, expected refunds capitalized as assets amounted to T€ 1,383 (prior year: T€ 657).

[23] Trade payables

	2005/06 T€	2004/05 T€
Trade payables to		
– third parties	32,776	36,729
– affiliated companies	1,059	769
Liabilities from outstanding invoices	7,952	5,921
	41,787	**43,419**

Fair values do not differ materially from the disclosed carrying amounts.

[24] Cash flow statement

The cash flow statement shows the source and application of funds. In accordance with IAS 7, the statement is divided into cash flows from operating, investing and financing activities. Within the cash flows from operating activities section, Schuler also discloses gross cash flow as a further key financial indicator for operations.

The cash flow statement includes only cash and cash equivalents disclosed in the balance sheet, i. e. cash in hand, checks and bank balances, providing they are available within three months. There are no restrictions on right of use in respect of cash and cash equivalents.

Cash flows from operating activities are derived indirectly from consolidated net profit/loss. As part of this indirect calculation, recognized changes in balance sheet items connected with operating activities are adjusted to eliminate effects from currency translation and changes in the consolidated group. As a result, they cannot be compared with the corresponding changes compared with previous years on the basis of the published consolidated balance sheet. Payments of interest and income taxes during the fiscal year are as follows:

	2005/06 T€	2004/05 T€
Interest received	5,545	3,669
Interest paid	16,584	16,368
Income taxes paid	5,105	1,911

Investing activities include additions to property, plant and equipment, and financial assets, as well as additions to intangible assets including capitalized development costs. Investments by means of financial leases are non-cash transactions and thus not included in cash flows from investing activities. The Schuler Group did not conclude any new financial leases in the period under review.

Financing activities include dividend payments of Schuler AG as well as proceeds from and redemption of financial liabilities. Disbursements also include the redemption of liabilities from financial leases. With the exception of the above mentioned cases, the cash flow statement according to IFRS is generally comparable with the HGB structure used by Schuler.

[25] Segment reporting

Segment information by division

Segmentation by division is based on the products and services supplied by the Group's business segments Forming Systems and Advanced Technologies. This segmentation is also the basis for internal reporting to the Board of Management and Supervisory Board (primary segment reporting format). The secondary reporting format is based on geographical regions. The companies belonging to each segment can be seen from the list of shareholdings at the end of these Notes.

The products of the Forming Systems segment include mechanical and hydraulic metalforming systems as well automation systems and the corresponding services.

The Advanced Technologies segment comprises car body technology and corresponding services as well as the future technologies hydroforming and laser technology.

The column »Schuler AG/Consolidation« includes amounts which cannot be allocated to the segments. These include non-allocated expenses of the Group's headquarters and consolidations for reconciliation with the Group's disclosures.

The segment reporting figures are based on the same accounting and valuation principles as applied for the consolidated financial statements. Intercompany transactions are generally transacted at market prices and thus correspond to those with external third parties (armslength principle).

	Forming Systems		Advanced Technologies		Schuler AG/ Consolidation		Schuler Group	
	2005/06 T€	2004/05 T€	2005/06 T€	2004/05 T€	2005/06 T€	2004/05 T€	2005/06 T€	2004/05 T€
Sales to third parties	492,032	472,111	71,329	89,482	0	0	563,361	561,593
Intercompany sales[1]	4,402	10,517	1,689	2,114	-6,091	-12,631	0	0
Segment sales	**496,434**	**482,628**	**73,018**	**91,596**	**-6,091**	**-12,631**	**563,361**	**561,593**
EBIT	**14,422**	**19,431**	**-11,238**	**-1,591**	**-4,236**	**-4,620**	**-1,052**	**13,220**
Depreciation[2]	13,309	12,420	5,110	3,846	1,916	1,579	20,335	17,845
– of which non-scheduled	538	0	1,115	35	800	0	2,453	35
Other material non-cash expenses	58,857	38,898	10,367	8,033	2,375	2,965	71,599	49,896
Segment assets	352,315	426,714	43,598	56,373	22,070	21,111	417,983	504,198
Segment debts	194,530	189,883	32,249	38,052	23,180	15,737	249,959	243,672
Capital expenditures	6,533	6,292	2,174	1,756	1,362	1,600	10,069	9,648
Personnel[3]	2,996	3,051	458	490	19	19	3,473	3,560

[1] *sales to other business segments*
[2] *without amortization of financial assets*
[3] *annual average (excluding apprentices)*

Segment information by region

Segment information by region divides sales revenue according to customer location. Capital expenditures and segment assets are calculated according to the location of the respective Group subsidiaries.

	Sales to third parties		Segment assets		Capital expenditures	
	2005/06 T€	2004/05 T€	09/30/2006 T€	09/30/2005 T€	2005/06 T€	2004/05 T€
Germany	161,200	163,677	326,128	386,518	5,719	6,590
Europe (excluding Germany)	149,085	108,162	6,130	7,346	16	62
America	182,205	196,120	139,097	217,872	4,261	2,804
Asia	69,235	92,907	7,203	8,519	73	192
Other	1,636	727	0	0	0	0
Consolidation	–	–	-60,575	-116,057	–	–
Schuler Group	**563,361**	**561,593**	**417,983**	**504,198**	**10,069**	**9,648**

Group profit or loss is reconciled with the performance indicator used in segment reporting (EBIT) as follows:

	2005/06 T€	2004/05 T€
EBIT	**-1,052**	**13,220**
Interest result	-13,066	-12,957
Income taxes	4,606	177
Consolidated net loss/profit	**-9,512**	**440**

Segment assets and segment debts disclosed in segment reporting are reconciled with the corresponding figures of the consolidated balance sheet as follows:

	09/30/2006 T€	09/30/2005 T€
Total segment assets of the Group	**417,983**	**504,198**
plus:		
– Financial assets	2,258	1,379
– Cash and cash equivalents	58,936	28,746
– Income tax claims	36,900	28,455
Gross assets acc. to the consolidated balance sheet	**516,077**	**562,778**

	09/30/2006 T€	09/30/2005 T€
Total segment debts of the Group	**249,959**	**243,672**
plus:		
– Financial liabilities	161,782	193,550
– Income tax debts	7,187	10,366
Gross debts acc. to the consolidated balance sheet	**418,928**	**447,588**

[26] Hedging policy and financial derivatives

Interest and currency risks

Due to its international alignment and long-term project business, the Schuler Group is exposed in particular to interest and foreign currency risks. These include possible value fluctuations of a financial instrument (e. g. receivables or payables) due to changes in the market interest rate or exchange rate. In accordance with guidelines adopted by the Board of Management, such risks are continually monitored by the central cash and foreign currency management system of the Group's Treasury department, which carries out the corresponding hedging transactions. The responsibilities of all Group companies with regard to risk management are clearly and comprehensively regulated by binding group-wide guidelines. Financial risk management is subject to strict monitoring, which is guaranteed in particular by a clear functional separation between trading, processing and control. In addition to financial reporting to the Board of Management and Supervisory Board, regular internal and external audits in respect of adherence to guidelines, the efficiency of hedging instruments and the reliability of our internal control systems provide a high degree of transparency and permanent function control.

Coverage against the above mentioned risks is provided initially by means of naturally closed positions, or netting, whereby the values or payment flows of originated financial instruments offset each other with regard to time or amount. Any remaining risks are reduced by the use of derivative financial instruments. Such derivatives are used solely for hedging purposes which are tied to the corresponding existing or planned transactions. Schuler does not enter into pure trading positions with the aim of optimizing income. Hedging by means of financial derivatives comprises booked, pending and anticipated transactions. When interpreting the positive and negative fair values of derivative financial instruments it is therefore important to note that opposing transactions generally cover each over and that there is therefore only a limited market risk arising from price changes on the financial markets. Moreover, fair values do not necessarily correspond to the amounts which the Group will receive under current market conditions. Hedging transactions are only made with prime-rated banks.

In order to hedge against the above mentioned risks, the Group uses forward exchange contracts and options, interest swaps, caps, combined interest/currency swaps and Forward Rate Agreements (FRA). All derivative financial instruments are recognized as assets or liabilities at those fair values valid on the balance sheet date and irrespective of their purpose. Fair values of derivative financial instruments reflect the respective price at which third parties would accept the rights/obligations of the instruments on the balance sheet date. They indicate what effect closing the positions would have had on earnings as of the balance sheet date – without consideration of opposing value developments from the underlying transactions. Positive fair values stand for potential profits as of the balance sheet date, negative for potential losses. The derivative financial instruments used are valued according to generally recognized discounted cash flow models and methods. Valuation is hereby made according to the present value method or the option pricing model (Black-Scholes). The main calculation parameters are based on the market prices and interest rates valid on the balance sheet date as well as the agreed hedging and exercise prices.

The disclosed notional amount of derivative financial instruments represents the gross totals of all purchase and sale amounts or the contract values of the hedged transactions. The size of the notional amount provides an indication of the scope of derivatives used, but not of the risk involved in using such derivatives.

The terms of the derivative financial instruments are based on those of the underlying transactions.

	Notional value	Market value			Notional value	Market value		
		Remaining term		09/30/2006		Remaining term		09/30/2005
	T€	up to 1 year T€	over 1 year T€	Total T€	T€	up tp 1 year T€	over 1 year T€	Total T€
Forward exchange contracts and swaps	62,640	2,504 -108	78 -1	2,582 -109	149,602	10,074 -1,367	50 -302	10,124 -1,669
Currency derivatives, net	**62,640**	**2,396**	**77**	**2,473**	**149,602**	**8,707**	**-252**	**8,455**
Interest swaps	48,643	0 0	0 -1,461	0 -1,461	44,392	0 -144	6 -3,220	6 -3,364
Interest options	29,041	0 0	217 0	217 0	30,247	0 0	92 0	92 0
FRA	20,000	0 -10	0 0	0 -10	0 0	0 0	0 0	0 0
Interest derivatives, net	**97,684**	**-10**	**-1,244**	**-1,254**	**74,639**	**-144**	**-3,122**	**-3,266**
	160,324	**2,386**	**-1,167**	**1,219**	**224,241**	**8,563**	**-3,374**	**5,189**

The disclosed derivative financial instruments are mainly in the form of cash flow hedges and assigned directly to the underlying transactions. The market value of these derivatives (cash flow hedges) amounts to T€ 1,242 as of the balance sheet date (prior year: T€ 5,255). The market value of those derivatives which were not classified as cash flow hedges due to strict hedge accounting requirements, or are ineffective, amounts to T€ -23 (prior year: T€ -66). In the period under review, market value changes amounting to T€ 29 (prior year: T€ -681) were recognized immediately in the income statement.

In the case of non-German Group subsidiaries outside the Euro zone, tied net assets are generally not secured against exchange rate fluctuations. Moreover, Schuler does not generally hedge against the translation risk from exchange rate fluctuations for revenues and profits of subsidiaries outside the Euro zone.

Credit risk (rating or default risks)

The risk of default involved in investments and the use of derivative financial instruments is limited by concluding such financial transactions only with primerated contractual partners. Risk management in the credit process is based on the corresponding corporate guideline which regulates such aspects as obligatory rating checks for customer inquiries, checks for any grouping of exposures, the use of standard terms of payment and staggered approval requirements from the finance division. Receivables are also permanently monitored and payment behavior analyzed. The risk of default involved in trade receivables is accounted for by taking out credit insurance policies where necessary. Any other default risks identifiable on the balance sheet date are covered by forming appropriate valuation allowances in the balance sheet.

Liquidity risks

Liquidity risks occur mainly as a result of changed customer payment behavior, especially with regard to payments to be received on account. Liquidity is safeguarded by corresponding liquidity planning, the ability to issue securities on the capital market, the use of modern financial instruments and the Group's provision with sufficient credit lines.

Cash flow and fair value interest rate risk

The Group's interest rate risk results from medium-term and long-term interest-bearing liabilities. Liabilities with variable interest rates expose the Group to a cash flow interest rate risk, whereas liabilities with fixed interest rates result in a fair value interest rate risk (cf. Note [19]).

The cash flow interest rate risk is mainly hedged against centrally by the use of interest rate swaps. Such interest rate swaps have the economic purpose of converting variable-interest loans into fixed-interest loans.

[27] Contingent liabilities

	09/30/2006 T€	09/30/2005 T€
Discounted bills	367	602
	367	**602**

Contingent liabilities are possible or existing obligations based on past events and for which an outflow of funds is unlikely. As there is only a low degree of probability for such an outflow of funds, these obligations are not recognized in the consolidated balance sheet. The disclosed volume of obligations in respect of contingent liabilities corresponds to the scope of liability existing as of the balance sheet date.

[28] Other financial obligations

	Payments			09/30/2006	09/30/2005
	up to 1 year T€	from 1 to 5 years T€	over 5 years T€	Total T€	Total T€
Rent and lease payments (operating leases)	2,853	4,967	300	8,120	9,805
Purchases commitments (tangible assets)	865	0	0	865	1,951
Other obligations	326	104	0	430	639
	4,044	**5,071**	**300**	**9,415**	**12,395**

[29] Litigations

Neither Schuler AG nor any of its Group companies is party to any current or foreseeable legal or arbitration proceedings which may have a material effect on the economic position of the Group, or has had such an effect within the last two years. Appropriate provisions have been formed by the respective Group company for any potential costs arising from other legal or arbitration proceedings.

[30] Significant events after the balance sheet date

The present consolidated financial statements and Group management report were approved by the Board of Management on January 22, 2007, for submission to the Supervisory Board. During the preparation of the balance sheet, the upper house of the German parliament (Bundesrat) approved the law concerning the tax implications of introducing the European Company (Societas Europea) and the change in further tax regulations (SEStEG or SE-Tax Draft), as passed by the lower house (Bundestag) on November 24, 2006. As a result, the corporate tax credit balance of Schuler AG resulting from the former tax imputation method is to be paid out in ten equal yearly amounts from 2008 onward. The payment claim comes into effect on completion of December 31, 2006, and is to be capitalized as of this moment at a present value of around € 4.4 million.

With a shareholder resolution as of December 18, 2006, the two Group companies Schuler Automation GmbH & Co. KG and Schuler Lasertechnik GmbH & Co. KG were merged. The new company trades under the name Schuler Automation GmbH & Co. KG; its registered office is located in Heßdorf.

[31] Related party disclosures

Related parties as defined by IAS 24 are companies or persons that the reporting entity has the ability to control or over which it can exercise significant influence, or parties that have the ability to control or exercise significant influence over the reporting entity.

In addition to the subsidiaries included in the consolidated financial statements, Schuler AG has direct or indirect relations with non-consolidated subsidiaries and equity investments in the course of its normal business operations. There are also business relationships with other companies which qualify as related parties. All business relations with such companies are transacted on an arm’s length basis. Major related, affiliated companies which are controlled by the Schuler Group or over which it can exercise significant influence are included in the list of shareholdings under Note 35 – arranged according to business segment.

The following table presents the volume of transactions between the Schuler Group and these related companies during the period under review:

– on Group basis –	2005/06				2004/05			
	Supplies and services rendered T€	Interst income T€	Supplies and services received T€	Interest expenses T€	Supplies and services rendered T€	Interest income T€	Supplies and services received T€	Interest expenses T€
RSV Finanzdienstleistungen Geschäftsführungs GmbH	–	–	80	–	–	–	69	–
Other management companies of subsidiaries	–	–	79	27	–	–	228	23
Schuler Presses UK Limited	1,096	93	162	4	743	196	37	–
Schuler Ibérica S.A.	61	–	198	–	148	–	227	–
Graebener Press Systems Inc.	298	–	56	–	669	–	11	–
Schuler India Private Limited	1	–	258	–	–	–	72	–
Tianjin SMG Presses Co. Ltd.	35	39	74	–	23	42	259	–
Tianjin GMTSC Machine Tool Service Co. Ltd.	397	–	133	–	276	–	77	–

In the period under review, a dividend of € 0.10 per common share (= € 1,050,000.00) was distributed to Schuler-Beteiligungen GmbH, Göppingen, as the sole owner of common shares in Schuler AG.

Open balances as of the balance sheet date are shown below:

– on Group basis –	09/30/2006		09/30/2005	
	Receivables from T€	Payables to T€	Receivables from T€	Payables to T€
RSV Finanzdienstleistungen Geschäftsführungs GmbH	–	–	–	80
Other management companies of subsidiaries	–	750	–	635
Schuler Presses UK Limited	656	–	2,723	–
Schuler Ibérica S.A.	–	93	–	47
Graebener Press Systems Inc.	–	14	13	–
Schuler India Private Limited	–	194	–	42
Tianjin SMG Presses Co. Ltd.	–	8	–	45
Tianjin GMTSC Machine Tool Service Co. Ltd.	74	–	198	–

There were no business relations between members of the Board of Management, the Supervisory Board or the managers of Group companies nor members of their families on the one side and Group companies on the other during the period under review. Some members of the Supervisory Board of Schuler AG are also members of supervisory boards of other companies with which Schuler AG or its subsidiaries have relations in the course of normal business operations. All business with such companies is carried out on an arm's length basis.

Disclosed participations

On April 19, 2002, the following statutory disclosures according to § 41 (3) WpHG were made in the Frankfurter Allgemeine Zeitung:

Schuler-Beteiligungen GmbH, Göppingen, holds the voting rights for 10,500,000 common shares (100% of voting rights) of Schuler AG, without being attributable pursuant to § 22 WpHG.

Pursuant to § 22 (1) sentence 1, no. 1 WpHG, the entire voting rights are attributable to Vermögensverwaltung Schuler-Voith GbR, Munich, and Dr. Robert Schuler-Voith, Munich.

[32] Declaration on the German Corporate Governance Code acc. to § 161 AktG

On November 9, 2006, the Board of Management and Supervisory Board issued its fifth declaration of conformity acc. to § 161 AktG (German Stock Corporation Law) and made it permanently available to shareholders via the company's website.

[33] Auditors' fees

The audit fees of the Group's auditors recognized as expenses in the period under review are as follows:

	2005/06 T€
Audits of financial statements	1,062
Tax advisory services	347
Other services for parent or subsidiary companies	104
	1,513

[34] Executive bodies

Board of Management

Jürgen Tonn *(since October 1, 2006)*	Chief Executive Officer, Automation and Production Systems
Dr. Peter Zeller *(until September 7, 2006)*	Chief Executive Officer, Sales, Operations Advanced Technologies
Dr. Wolfgang Baur	Finance/Personnel
Joachim Beyer	Forming Systems, Coordination Service

Remuneration of members of the Board of Management amounted to T€ 1,775 in fiscal year 2005/06 (prior year: T€ 1,820), of which T€ 264 (prior year: T€ 612) were in the form of variable, earnings-related payments. There were no remuneration components of a long-term incentive nature. The current service cost for these persons included in pension obligations amounted to T€ 314 (prior year: T€ 260).

Total remuneration of former members of the Board of Management or management and their surviving dependants amounted to T€ 856 (prior year: T€ 774) in the year under review. The provisions formed for such current and future pensions amount to T€ 11,981 (prior year: T€ 12,266).

Supervisory Board

Dr. Robert Schuler-Voith	*Chairman of the Supervisory Board* Chairman of the Board of Management, Schuler-Beteiligungen GmbH, Göppingen
Roland Matheis *)	*Vice Chairman of the Supervisory Board* Lathe Operator Chairman of the Labor Council, Schuler Pressen GmbH & Co. KG, Göppingen
Prof. Dr. h.c. Roland Berger	Chairman of Roland Berger Strategy Consultants GmbH, Munich
Thomas Bohlender *)	Power supply electrician Chairman of the Labor Council, Schuler SMG GmbH & Co. KG, Waghäusel
Renate Gmoser *)	Chief Representative of the Metal Workers' Union (IG Metall), Göppingen-Geislingen branch
Prof. Dr. Hartmut Hoffmann	Ordinarius for Metal Forming and Casting at the Technical University of Munich, Head of the Institute for Materials and Processing of the Faculty for Mechanical Engineering at the Technical University of Munich
Heiko Maßfeller *)	Chief Representative of the Metal Workers' Union (IG Metall), Bruchsal branch
Dieter Merkle *)	General Manager Highspeed/Minting, Schuler Pressen GmbH & Co. KG, Göppingen
Ingrid Wolfframm *)	Purchaser Chairperson of the Group Labor Council, Schuler AG, Göppingen Labor Council member, Schuler Pressen GmbH & Co. KG, Göppingen
Frank Wobst	Former Chairman and CEO – Huntington Bancshares Incorporated, Huntington National Bank, Columbus, OH, USA
Helmut Zahn	Member of the Board of Management, Schuler-Beteiligungen GmbH, Göppingen
Dr. Dr. h.c. Walther Zügel	Former Chairman of the Board of Management, Landesgirokasse, Stuttgart

*) *worker representatives*

Supervisory Board committees

Permanent Committee acc. to § 27 (3) Codetermination Law

Dr. Robert Schuler-Voith *(Chairman)*
Roland Matheis *(Vice Chairman)*
Renate Gmoser
Dr. Dr. h.c. Walther Zügel

Personnel Committee

Dr. Robert Schuler-Voith *(Chairman)*
Roland Matheis *(Vice Chairman)*
Renate Gmoser
Dr. Dr. h.c. Walther Zügel

Audit Committee

Helmut Zahn *(Chairman)*
Thomas Bohlender
Dieter Merkle
Dr. Dr. h.c. Walther Zügel

Total remuneration of the Supervisory Board in fiscal 2005/06 amounted to T€ 352 (prior year: T€ 345).

Additional seats on supervisory boards held by members of the Board of Management and Supervisory Board

Seats held by members of the Board of Management

Jürgen Tonn

- Hansen Sicherheitstechnik AG, Munich *(Chairman)*
- Prensas Schuler S.A., São Paulo, Brazil *(Chairman)* *(since November 29, 2006)*
- Schuler Incorporated, Columbus, OH, USA *(Chairman)* *(since November 15, 2006)*
- Schuler Hydroforming Incorporated, Canton, MI, USA *(Chairman)* *(since November 14, 2006)*

Dr. Peter Zeller

- Prensas Schuler S.A., São Paulo, Brazil *(Chairman)* *(until September 7, 2006)*
- Schuler Incorporated, Columbus, OH, USA *(Chairman)* *(until September 7, 2006)*

Dr. Wolfgang Baur

- Prensas Schuler S.A., São Paulo, Brazil
- Schuler Incorporated, Columbus, OH, USA
- Schuler Spiertz S.A., Strasbourg, France
- Schuler Ibérica S.A., Barcelona, Spain
- Competence Call Center AG, Vienna, Austria

Joachim Beyer

- Prensas Schuler S.A., São Paulo, Brazil
- Schuler Incorporated, Columbus, OH, USA
- Shanghai Schuler Presses Co. Ltd., Shanghai, PR China *(Chairman)*
- Schuler Hydroforming Incorporated, Canton, MI, USA *(Chairman)* *(until November 14, 2006)*

Additional seats held by members of the Supervisory Board

Dr. Robert Schuler-Voith

- Leifheit AG, Nassau
- Prensas Schuler S.A., São Paulo, Brazil
- Schuler Incorporated, Columbus, OH, USA

Prof. Dr. h.c. Roland Berger

- Alcan Inc., Montreal, Canada
- bmp Aktiengesellschaft, Berlin *(Chairman)* *(until June 27, 2006)*
- FIAT Group, Turin, Italiy *(since May 3, 2006)*
- Wilhelm von Finck AG, Grasbrunn *(Vice Chairman)*
- Humaine Gesellschaft für Klinikmanagement mbH, Munich *(Chairman)*
- Loyalty Partner GmbH, Munich
- WMP EuroCom AG, Berlin *(Chairman)*

Dieter Merkle

- Schuler India Pvt. Ltd., Mumbai, India

Frank Wobst

- National Electric Coil Corp., Columbus, OH, USA
- Schuler Incorporated, Columbus, OH, USA

Helmut Zahn

- Leifheit AG, Nassau
- Flossbach & von Storch Vermögensmanagement AG, Cologne

Dr. Dr. h.c. Walther Zügel

- SHB Stuttgart Invest AG, Stuttgart *(Vice Chairman)*
- Stihl AG, Waiblingen *(Vice Chairman)*
- Stuttgarter Hofbräu Verwaltungs AG, Stuttgart
- Allgaier Werke GmbH, Uhingen
- capiton AG, Berlin
- Berthold Leibinger GmbH, Ditzingen
- Dr.-Ing. h.c. F. Porsche AG, Stuttgart

[35] Fully consolidated Group companies as at September 30, 2006

	Registered office	Equity interest (%)
Forming Systems		
Schuler Systems & Services GmbH & Co. KG [1]	Göppingen, Germany	100.00
Schuler Pressen GmbH & Co. KG [1]	Göppingen, Germany	100.00
Gräbener Pressensysteme GmbH & Co. KG [1]	Netphen, Germany	100.00
Schuler SMG GmbH & Co. KG [1]	Waghäusel, Germany	100.00
Schuler Hydrap GmbH & Co. KG [1]	Plüderhausen, Germany	100.00
Schuler Automation GmbH & Co. KG [1]	Heßdorf, Germany	100.00
Schuler Guß GmbH & Co. KG [1]	Göppingen, Germany	100.00
Vögtle Service GmbH & Co. KG [1]	Eislingen, Germany	100.00
Eclips Vermietungsgesellschaft mbH & Co. Objekt Göppingen Kommanditgesellschaft	Düsseldorf, Germany	94.00
Rena Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs-KG	Mannheim, Germany	100.00
Schuler Financial Services GmbH & Co. KG	Göppingen, Germany	100.00
Schuler Spiertz S.A.	Strasbourg, France	100.00
Schuler Incorporated	Columbus/Ohio, USA	100.00
Prensas Schuler S.A.	São Paulo, Brazil	100.00
Shanghai Schuler Presses Co. Ltd.	Shanghai, PR China	79.38
Advanced Technologies		
Schuler Cartec GmbH & Co. KG [1]	Göppingen, Germany	100.00
Schuler Cartec Engineering GmbH & Co. KG [1]	Weingarten, Germany	100.00
Schuler Modelltechnik GmbH	Weingarten, Germany	100.00
Schuler Cartec Verwaltungs GmbH	Weingarten, Germany	100.00
Schuler Lasertechnik GmbH & Co. KG [1]	Dietzenbach, Germany	100.00
Schuler Hydroforming GmbH & Co. KG [1]	Wilnsdorf, Germany	100.00
Schuler Hydroforming Incorporated	Canton/Michigan, USA	100.00

[1] *Companies making use of the relief afforded by § 264b HGB*

A complete list of all shareholdings of Schuler AG is filed with the Commercial Register of the District Court of Ulm under the number HRB 530210.

Göppingen, January 19, 2007

Schuler AG

The Board of Management

Jürgen Tonn   Dr. Wolfgang Baur   Joachim Beyer

We have audited the consolidated financial statements – comprising the balance sheet, the profit and loss account, statement of changes in equity, cash flow statement and notes to the consolidated financial statements – and the Group management report for the fiscal year October 1, 2005, to September 30, 2006, as prepared by Schuler Aktiengesellschaft. The preparation and content of the consolidated financial statements and Group management report according to IFRS, as applied in the EU, and the supplementary commercial law regulations of § 315a (1) German Commercial Code (HGB) are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on these consolidated financial statements and Group management report based on our audits.

We conducted our audits pursuant to § 317 HGB in accordance with generally accepted auditing standards established by the German Institute of Certified Public Accountants (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations which significantly affect the presentation of the net assets, financial position and results of operations as conveyed by the financial statements, in compliance with the applicable accounting standards, and by the management report are recognized with reasonable assurance. In planning the audit, we also take into consideration knowledge of the business activity, economic and legal environment as well as expectations of possible errors. An audit of the consolidated financial statements includes examining the efficacy of the internal controlling system as well as evidence, on a test basis, supporting the amounts and disclosures in the consolidated financial statements and consolidated management report. The audit also includes reviewing the scope of companies included in consolidation, assessing the accounting, valuation and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and consolidated management report. We believe that our audits provide a reasonable basis for our opinion.

Our audits did not give rise to objections.

In our opinion, the consolidated financial statements comply with IFRS, as applied in the EU, and the supplementary commercial law regulations of § 315a (1) HGB and give a true and fair view of the Group's net assets, financial position, results of operations and cash flows for the fiscal year. On the whole, the Group management report corresponds to the consolidated financial statements and provides a suitable understanding of the Group's position and suitably presents the opportunities and risks to future development.

Stuttgart, January 22, 2007

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FINANCIAL CALENDAR 2006/07

Annual press conference 2005/06	**February 14, 2007, Stuttgart**
Analysts' meeting	**February 15, 2007, Frankfurt**
Annual General Meeting	**March 29, 2007, Municipal Hall (Stadthalle) Göppingen**
Interim report for the first two quarters (October 2006 – March 2007)	**Late May 2007**
Annual press conference 2006/07	**January 30, 2008, Stuttgart**
Analysts' meeting	**January 31, 2008, Frankfurt**

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