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## INSIGHT. PURPOSE. OUTLOOK.

THE COMPANY'S STRATEGY

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— I. BY LOOKING CLOSER, WE CAN SEE FURTHER

*We believe that efficiency in production is a reflection of efficiency across the organisation.* Our range of products and services is designed to meet the needs of two main sectors in Europe.

*schlott print offers a full spectrum of printing services* for the production of magazines, advertising supplements and catalogues for all print runs.

*meiller direct delivers comprehensive production and service solutions to the entire interactive media industry.* We are able to secure a competitive advantage through our position as one of the few providers able to offer such in-depth process support from planning and operational scheduling to the distribution of personalised mailings and catalogues.

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*Anticipating the future.* We want to ensure that our company continues to increase in value. To achieve this, we need to create profitable growth. This is the only way to counteract the less favourable factors affecting our business over which we have very little control. It is also the only way we can remain a strong and dependable partner to our customers, an attractive employer to our staff and an interesting investment to our shareholders. Such growth is of little value, however, without a set of guiding principles.

*Our guiding principles.* We see our customers as partners in a team-based environment. Partnership is based on trust and can only thrive if each carries out his obligations in a reliable manner. For this reason we have identified a set of guiding values in which we believe and which we endeavour to embrace as part of our



day-to-day operations. We are open and sincere in our dealings with others. In our own actions we aim for transparency, a personal touch, individual attention and commitment. We believe that this approach is the best way of responding to the needs of customers, shareholders and employees alike.

*Securing a competitive advantage in difficult territory. The market has tended to work against our sector rather than for it.* The market in our core printing business continues to be marked by fierce price competition between providers. This has led to many of our competitors accepting orders under terms that may well generate a high volume of work but that make it impossible to operate profitably over the long term. This very short-term approach to business finds no place in the company strategy pursued by *schlott gruppe*. Nevertheless, we expect to benefit from this

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development in the medium to long term. Such price competition increases the pressure on many providers and tends to favour the process of consolidation that *schlott gruppe* has been instrumental in promoting for some years.

Taken as a whole, too, the market is undergoing a radical upheaval. Changes made by the large mail-order companies to their traditional catalogue scheduling have brought about major changes in the requirements made of us. Instead of two main catalogues, customers now receive up to four updated seasonal issues. These increasingly feature methods of advertising that reflect those used by store-based retailers.

*This trend represents a great opportunity for schlott gruppe to apply its experience and expertise in targeting specific customer groups through mass advertising techniques.*



We have adapted our organisational structure, our technology and our processes to respond to these new customer demands and aim to strengthen our excellent position as a total solutions provider.

— II. FORESIGHT PROVIDES THE BASIS FOR INCISIVE ACTION

*We have done a considerable amount of groundwork during the year under review. This should allow us to achieve solid earnings over the long term.*

*Focus I: Internationalisation. By acquiring the well-placed Dutch firm *biegelaar*, we have strengthened our position among the European market leaders and improved our access to the attractive markets of Northern and Western Europe.*



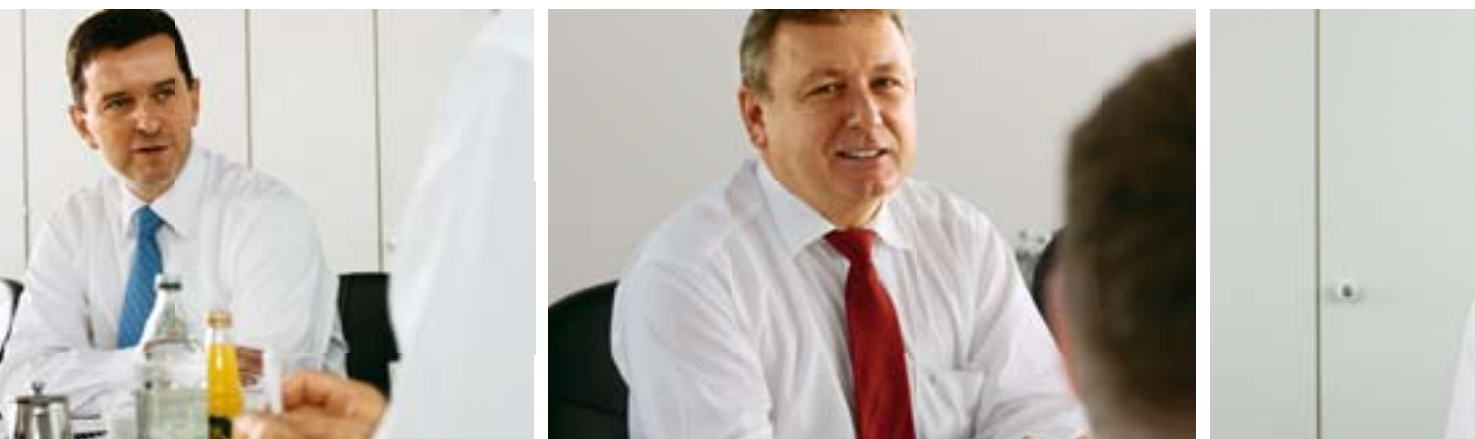
The takeover of *reus s.r.o.* in the *Czech Republic* rounds off our portfolio of finishing services. In addition, thanks to the highly specialised nature of the production site, we have acquired a superb base from which to exploit the Eastern European printing market.

*Focus 2: Enhancing Flexibility.* One of the great strengths of *schlott print* is that we offer our customers a considerable degree of freedom in their production planning. Our own production facilities in Freudenstadt, Hamburg, Landau, Lübeck and Nuremberg (soon to be joined by Maarsse in the Netherlands) form an integral part of a specialised production network that boasts the very latest equipment – ensuring a shorter *time to market* and highly responsive and flexible print production. Our location strategy also takes into account possible future problems in terms of logistics.



A combination of *decentralised production with central planning and coordination* helps to shorten transport routes, optimise logistical costs and reduce emissions.

*In Freudenstadt we have completely renewed substantial elements of our equipment.* We constructed a new 7,000 m<sup>2</sup> production unit with pride of place going to our newly commissioned Rotary Printer 12, which has significantly boosted process efficiency at the site. We can now carry out higher quality print runs more economically and with a greater variety of technical options using the rotary machine, where they previously had to be performed using an offset printer. This gives our customers additional flexibility and is a distinct benefit when it comes to printing supplements.



*Focus 3: Customer Retention. Our new acquisition reus s.r.o. comes to us with a well-established customer base in our own target group. Indeed, some of these customers were already working with both reus s.r.o. and schlott gruppe. Our aim is to strengthen and develop these relationships with our customers. The acquisition of a high-tech industrial finishing company in the Czech Republic also serves to optimise our service portfolio for major customer segments. The new venture also represents a sound investment for the long term by allowing us to respond more comprehensively to the requirements of large customers who are themselves opening up new markets in Eastern Europe.*



*Focus 4: Restructuring.* One of our defining strengths is our capacity to identify and find permanent solutions for problems as they arise at our production sites. During the year under review, our direct marketing subsidiary *meiller lithorex* in Sweden began to report unexpectedly poor results. Following a rapid yet comprehensive analysis of the situation, we took the decision to close the site and relocate existing production lines to Schwandorf. Thanks to the efficient use of human resources in Schwandorf, production at that facility will now be more profitable. Our withdrawal from Scandinavia only affects production. We shall continue to provide on-site support for our Scandinavian customers and have in fact expanded our sales team.



“BY CREATING  
CLEAR STRUCTURES  
AND FOCUSING ON OUR STRENGTHS,  
WE HAVE BEEN ABLE  
TO STEER MEILLER DIRECT  
BACK TOWARDS PROFITABILITY.”

BERND ROSE

*Chairman of the Management Board*

*Apart from the clearly attributable problems we experienced in Scandinavia, our direct marketing segment was able to return to profit in the year under review. Segment turnaround has now been achieved. We are focusing our activities on the areas of finishing, lettershop and personalised / individualised finishing. Labour-intensive orders are mostly carried out in Nyrany in the Czech Republic, while Schwandorf specialises in complex and technically very demanding and data-sensitive orders. Capacity planning and order management are coordinated centrally. Our aim is to simplify processes, optimise the management of those processes and maximise the use of available capacity so that we can respond quickly, flexibly and cost-sensitively to customer needs.*

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— III. BY TAKING INCISIVE ACTION FOR THE FUTURE, WE CAN ENSURE OUR CONTINUED SUCCESS

*We are prepared for ongoing changes in our target European markets. We can exploit market trends through investment, optimisation and focused growth. The future of European gravure printing will be determined by a small number of top-performing companies. We are one of the engines driving this process forward. Thanks to its attractive position within the industry, schlott gruppe should be able to benefit from new opportunities for growth.*

*Our strategic aim is to establish schlott gruppe with a clearly defined service portfolio as one of the leading providers within a consolidated European market. In order to achieve this, we need to anticipate future developments. We can only progress by offering what our customers need.*