NESCHEN

Semi-annual Report

30 June 2005

Key Data

(in k€ as of 30/06)	2005	2004
Income	72,175	72,009
Investments	583	1,866
Group profit/loss	-3,603	-1,599
DVFA profit/loss	-1,405	-1,673
DVFA net retourn	-1.95%	-2.33%
DVFA profit/loss per share	-0.16	-0.19
EBIT	-992	1,007
Return	-1.37%	1.40%
EBIT per share	-0.11	0.12
EBITDA	1,835	3,862
Return	2.54%	5.36%
EBITDA per share	0.21	0.44
EBITDA NESCHEN	2,406	4,539
Return NESCHEN	3.3%	9.3%
EBITDA SEAL	-571	-677
Return SEAL	-0.8%	-3.0%
Balance sheet equity	6,231	25,374
Equity ratio	6.30%	21.74%
Return on equity	-47.00%	-8.01%
Turnover per employee	245	207
Employees worldwide	626	684

Consolidated Balance Sheet as of 30/06/2005

Assets (in k€ as of 30/06)	2005	2004
Expenses for start-up and expansion of the business	0.4	0.6
Fixed assets	49.8	58.2
Inventories	21.1	25.8
Receivables and other assets	24.0	27.2
Liquid assets	0.8	1.3
Current assets	45.9	54.3
Prepaid expenses	3.0	3.6
Balance sheet total	**99.1**	**116.7**

Equity and liabilities (in k€ as of 30/06)	2005	2004
Shareholders' equity	6.2	25.4
Provisions and accrued liabilities	7.0	4.9
Financial liabilities	69.4	67.5
Trade accounts payable	12.6	16.0
Other liabilities	3.8	2.7
Liabilities	85.8	86.3
Deferred income	0.1	0.1
Balance sheet total	**99.1**	**116.7**

Dear Shareholders,

as announced in our 2004 annual report and at the annual general meeting, in the current financial year, the company will be concentrating on the announced restructuring programme.

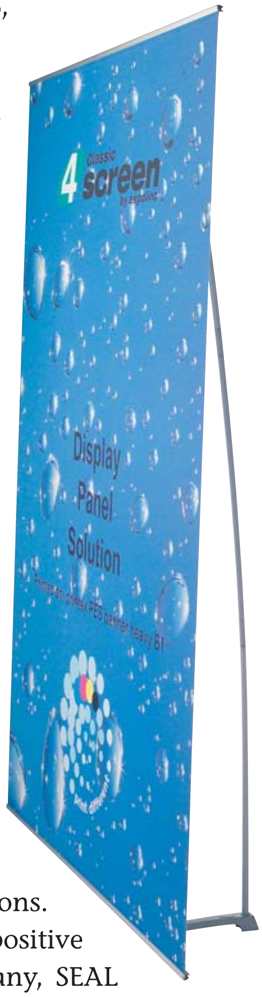
It is planned to implement the agreed measures by the end of the year, so that the the savings of EUR 5m per annum, though the reduction of staff and materials costs will take effect as of 2006. This lowers the company break-even point for sales by approximately EUR 10m, thereby improving our ability to withstand demand fluctuations and product mix changes.

Consequently, for the current financial year we have focused on the necessary structural modifications rather than achieving the announced growth targets. The goal is to return to a profitable financial status with moderate growth over the next few years through lowering costs and expenses.

As at 30 June 2005, group sales were EUR 73.1m: 1% above expectations and higher than the previous year (EUR 72.0m). After adjustments for changes made in 2004 as part of the consolidation process, organic growth came to around 4%. As a result, despite the extensive restructuring measures tying up management capacity, a good growth rate was achieved. Demand in the company's target markets in the graphics industry has improved, although variations in market performance from one country to another have been witnessed. In Germany, Eastern Europe and the US, growth rates have been healthy at well over 5%, but the markets in some west European countries have continued to be characterised by low demand. It is still very hard to reliably predict short-term market developments for the graphics industry.

In the industrial sector, particularly in the US, new projects have developed further, and revenues from these projects is expected in the current year. To date, the German industrial segment has performed to budget, but this is not the case in UK and US, here the sales are well off budget.

The group's gross profit margin is slightly lower than anticipated at 44.2%, but still significantly higher than the second half of 2004 (41.7%).



This indicates that the measures taken to improve profit margins have begun to take effect. Further measures for improving gross earnings will be required and are currently in the pipeline.

The group posted an after-tax loss of EUR 3.6m (2004: EUR -1.6m) for the first six months of 2005.

The figures include staff costs[1] for redundancies incurred before 30 June of around EUR 1.8m. Restructuring costs[2] reduced results by a further EUR 0.7m. In accordance with the German Commercial Code (Handelsgesetzbuch), expenses for future redundancies[3] in Bückeburg and Raalte (around EUR 1.8m in total) were set aside as at 30 June. However, all restructuring costs have been factored into the budget for 2005. The earnings statement as at 30 June therefore contains the bulk of costs arising from the group's restructuring process.

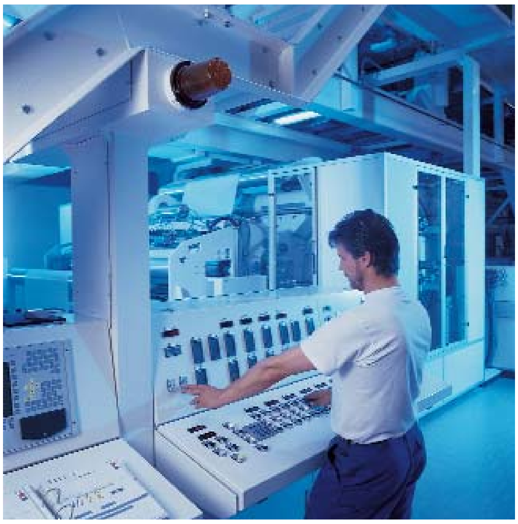
The operative result as at 30 June is lower than anticipated. One reason for this, is the unforeseen EUR 0.9m reduction in output, which brought earnings down, although the subsequent stock reduction had a positive effect on cash flow.

Results in the US have continued to be under the company's expectations. Although three of the four operating companies had moved back into positive figures, as of 30 June, the EUR 1.5m loss recorded by the largest company, SEAL Graphics Americas, was considerably higher than expected. The reasons for this loss were the product mix, the delayed impact of certain improvements, as well as the higher costs associated with the transfer of the machine manufacturing from Raalte to Wisconsin. This last point was directly related to the delays due to the time-consuming closure process in the Netherlands.The company is confident, that the changes made in the organisation will begin to take effect at SEAL Graphics Americas in the second half of the year and will lead to a reduction of the losses compared to the first half of the year.

In view of the disappointing performance of the Seal UK production facility, the group is considerably behind its sales targets and posted a substantial loss as of 30 June. Although sales activities have been boosted, these will begin to take effect at the end of the year, at the earliest.

The restructuring programme in Germany has made good headway. The proposed staff cuts at the Bückeburg headquarters were implemented as planned in March, after the works council agreement and the redundancy programme were successfully approved. In total, 44 staff (14%) were made redundant across all divisions.

[1] Under the heading "Staff costs"
[2] EUR 0.6m entered against "Exceptional items" and EUR 0.1m under "Materials costs".
[3] Under "Exceptional items"



Further measures such as concentrating the product range, improving the production efficiency and organisational changes, have already been completed or are currently being implemented.

The changes at NESCHEN AG have worked very well. As a result the company figures as of 30 June were in line with expectations.

The planned closure of the SEAL Graphics Europe B.V. site in Raalte (Netherlands) can now go ahead, with manufacturing being transferred to the US and logistics moving to Germany. The closure will be completed by the end of the year, although due to tough negotiations with management and the workforce and the lengthy procedures in the Netherlands, the closure was delayed by three months. However, the smooth transfer of the SEAL Graphics Europe B.V. to the other sites will be crucial. We are confident that the changes will be made successfully, with no adverse effects on our ability to supply products and our high levels of customer service. The delay in the Netherlands will negatively affect the 2005 results by around EUR 0.5m.

In the first half of 2005, all major changes began or were completed. The majority of the anticipated restructuring costs have been absorbed in the half-year results being issued.

As at 30 June, the group employed 626 staff (684 in 2004). The staff cuts already made, notably the closure of the SEAL Graphics Europe site in Raalte, will only take effect in fourth quarter of 2005 and will bring staff numbers down to 573 by year-end. The result of this will be an 18% per capita increase to EUR 245,000 for unchanged revenue levels (2004: EUR 207,000).

Investment in the first half of 2005 came to EUR 0.6m (2004: EUR 1.9m), in line with expectations. After very high investment levels over the past years, no further major investment will be required.

On 1 June the Board of Management was expanded from two to three members. Since then, Dr Wolfram Meiritz has been responsible for the finance, financial controlling and HR departments. The spokesman of the Management Board, Stefan Zinn, will focus on sales and marketing and strategic partnerships.

The company is confident that the restructuring measures will reduce costs as anticipated and will begin to have a positive effect from 2006. In view of the number of changes taking place across the group and the general market situation in the sales and procurement markets, it is hard to give an earnings forecast at the moment. Earnings over the next months will be determined by market trends in the traditionally strong autumn months, as well as the developments in the US business.

Bückeburg, August 2005

The Board of Management

6 Consolidated Financial Statement of Income

(in k€ as of 30/06)	2005	2004
Sales of own poducts and goods	73.1	72.0
Stock movements	-0.9	0.1
Own work capitalized	0.0	0.0
Performance	72.2	72.1
Cost of raw materials, consumables and goods for resale	40.3	38.4
Gross earnings	31.9	33.6
Wages and salaries	11.,4	12.2
Social security	2.6	2.6
Advertising expenses	1.3	1.1
Depreciation on fixed assets	2.8	2.9
Miscellaneous operating expenses	12.9	13.2
Oher operating income	0.7	0.7
Income from investments	0.0	-0.1
Other operating expenses	0.3	0.8
Interest and similar income	0.1	0.1
Interest and similar expenses	2.4	2.3
Profit/loss from ordinary operations	-1.0	-0.8
Extraordinary income	0.1	0.0
Extraordinary expenses	2.4	0.2
Taxes	0.3	0.7
Net income	-3.6	-1.6
Profit/loss for the account of others	0.2	0.1
Group profit/loss	-3.8	-1.7

7 Capital Flow Statement

(in k€ as of 30/06)	2005	2004
Net income / Net loss	-3,836,688	-1,672,886
± Write-offs / write-ups on fixes assets	2,826,421	2,854,654
= Cash flow from operations	**-1,010,267**	**1,181,768**
± Increase / decrease in provisions	2,442,610	1,609,676
± Income / loss from disposals of fixed assets	-26,511	-18,849
± Increase / decrease in inventories, trade accounts, receivable and other assets	-2,826,771	-6,834,256
± Increase / decrease in trade accounts payable and other liabilities	305,470	124,188
= Inflow / outflow of funds from current operations	**-1,115,468**	**-3,937,472**
± Payments from disposals (e.g. sales revenues, repayment amounts) of fixed assets (book value of the disposals increased by profits and reduced by losses from the disposal of assets)	222,346	2,595,177
- Payments for investments in fixed assets	-582,494	-1,866,328
= Inflow / outflow of funds from investment activities	**-360,148**	**728,849**
+ Payments from capital increases and shareholders' grants	0	12.134.937
- Payments to shareholders (dividends, capital repayments, other distributions)	0	0
± Increase / decrease in capital consolidation, shares on minority interest	1,096,260	337,253
+ Payments from issurance of debt and from taking out of financial loans	0	0
± Increase / decrease in liablities owned to banks	475,824	-8,704,700
= Inflow / outflow of funds from financing activities	**620,436**	**3,767,491**
= Total of the change in cash effective for payments	-855,180	559,775
+ Cash at the beginning of period	1,690,005	704,226
= Cash at the end of period	**834,825**	**1,264,000**
Translation to operating profit/loss		
DVFA profit/loss	-1,405,304	-1,672,886
- Expenses of one-time character - adjusted for taxes	2,431,384	
Net income / Net loss	**-3,836,688**	**-1,672,886**

NESCHEN

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