



NESCHEN

Semi-annual Report 30.06.2006

Key Data

in k€ as of 30/06	2006	2005
Sales	68,144	73,092
Investments	331	487
Earning after taxes	627	-2,803
DVFA profit/loss	1,976	-605
DVFA net return	2.90%	-2.33%
DVFA profit/loss per share	0,23	-0.07
EBIT	3,436	-28
Return on sales	5.04%	-0.04%
EBIT per share	0.39	0.00
EBITDA	5,481	2,191
Return on sales	8.04%	3.00%
EBITDA per share	0.63	0.25
Equity	227	1,217
Equity ratio	0.25%	1.32%
Sales per employee	246	234
Employees worldwide	555	626

Changes in equity	As of January 1st 2006	Earning after taxes	Exchange rate and other changes	Dividend	Decrease in reserves	As of June 30th 2006
	in k€	in k€	in k€	in k€	in k€	in k€
Subscribed capital	8,750	0	0	0	0	8,750
Capital surplus	0	0	-1,617	0	0	-1,617
Earnings reserve	0	0	0	0	0	0
Balance sheet loss	-8,050	497	0	0	0	-7,553
Minority interests inequity	517	130	0	0	0	647
Equity	1,217	627	-1,617	0	0	227

Balance Sheet

	30.06.2006	31.12.2005
Assets in k€		
Intangible assets	14,826	15,074
Plant, property and equipment	31,963	33,898
Financial assets	2,882	3,499
Deferred taxes	1,169	1,115
Long-term assets	50,840	53,586
Inventories	17,385	16,734
Trade receivables	18,792	16,854
Receivables and other assets	5,859	4,609
Cash and cash equivalents	964	687
Short-term assets	43,000	38,884
Total assets	93,840	92,470
Equity and Liabilities in k€		
Subscribed capital	8,750	8,750
Capital surplus	-1,617	0
Earnings reserve	0	0
Balance sheet loss	-7,553	-8,050
Equity incl. minority interests	-420	700
Minority interests in equity	647	517
Equity	227	1,217
Provisions for pensions and similar obligations	209	202
Provisions for deferred taxes	451	502
Liabilities due to banks	44,287	44,310
Other long-term liabilities	939	1,221
Long-term liabilities	45,886	46,235
Tax provisions	2,045	2,431
Other provisions	2,435	2,056
Liabilities due to banks	25,291	25,790
Trade liabilities	13,157	9,959
Other short-term liabilities*	4,799	4,782
Short-term liabilities	47,727	45,018
Total Equity and liabilities	93,840	92,470

*thereof subject to subordination clause: as of June 30th, 2006 1,274 k€; as of December 31st, 2005 1,265 k€

Foreword

Dear Shareholders,

the restructuring programme initiated in March 2005, was completed on time at the end of the first quarter 2006. The measures outstanding in 2006 are associated with the closure of the site in Wichita, USA and the subsequent amalgamation of the three American companies (NESCHEN Accutech Corp., NESCHEN USA LLC and SEAL Graphics Americas Corp.) into NESCHEN Americas Corporation.

During the restructuring programme, all areas of the company were analysed in detail and the necessary changes implemented. The cost structure and the complexity of the company have been substantially reduced, as well as creating the foundation for a solid profitable future. The restructuring process has led to cost reductions of approximately € 7.0 million per annum. This is already having a positive effect during the current business year; however the greater benefit will be seen in 2007.

The number of companies has been reduced from 23 to the current 18. For example, the machine manufacturing activities in Raalte, NL, have been relocated to Sun Prairie, USA. This centralisation has not only led to a significant cost reduction, but has also created a natural hedge by balancing the goods and currency flows between laminating machines shipped from USA to Europe and production material sent from Europe to USA. The operational business is now independent of changes in the dollar – Euro exchange rates. The simplification of the product range has also led to a reduction in the complexity of the company portfolio and to elimination of low margin operations, such as Foamboard.

The above measures have had an impact on the number of personnel in the group. The number of employees has been reduced from 715 (31.12.2003) to 573 (31.12.2005) and then further reduced to the current number of 555 employees as of 30.06.2006. This reduction has been accompanied by a significant increase in output per capita.

All these changes have been accompanied by a reorganization of the process structure and procedures. Many organisational methods have been changed, enabling the same output to be achieved with a smaller workforce.

The operational restructuring is now complete. Steps are currently being taken to put the company on track for a conservative and profitable growth in 2007. In addition, all options are being examined to strengthen the equity of the group and reduce the company debt, enabling the company to exploit the potential for future growth without financial restrictions.





As of 30.06.2006, the group turnover was € 68.1 million, that is, € 4.9 million below last year's turnover (-6.8%), and slightly below budget (-1.5%). Adjusted to make allowance for the abandoned Foamboard business, the difference in turnover is -2.8% compared to the previous year.

The declared profit after tax is € 0.6 million, considerably better than in the previous year (€ 3.6 million loss). This figure for 2006 includes a one-off sum of € 1.1 million under the item, "Other operational income", due to tax refund claims which are to be capitalized in the Dutch holding. In addition to this, the one-off expenditures of € 1.7 million, which have accumulated to date in 2006, are listed under various expenditure items. These one-off expenditures are

mainly the sum of the costs for the measures announced and carried out in the USA in the first quarter, the costs connected with endeavours to strengthen equity and the costs for a legal dispute in the USA. Adjusted to make allowance for the offset of these one-off effects, the operational profits of the group amount to € 1.2 million after tax (budget-adjusted € 1.4 million).

It is also important to point out that the gross profit margin has significantly increased. It is presently 45.5% as of 30.06.2006, compared to 43.2% last year. Against the background of the considerable increases in the price of raw materials and tougher competition, we consider these operating figures to be confirmation of the positive effects of the restructuring measures which we have initiated.

The credit institutions which have been financing the NESCHEN group for years in the context of a collateral pool extended the existing basic credit lines until 30.09.2006. Based on the positive comments from the pool the Board continues to assume that the banks will continue further financing of the NESCHEN group beyond the date of 30.09.2006. In addition to this, as already reported, the Board and Supervisory Board, with the support of the banks, continue to work on strengthening the equity. The type, extent and time of possible capital changes will be announced in due course.

As announced at the recent shareholders' meeting, it is still the company's intent to achieve an operational profit for the business year of 2006.

Bückeberg, August 2006

The Board

Business performance details

Various supply issues in 2005 relating to our suppliers of trade goods, had a serious effect on the turnover in 2005. These issues are being eliminated but continue to have an impact on turnover and delivery service in 2006. Over the next few months it is expected that a lasting improvement will become evident, as a result of the measures carried out by ourselves and our suppliers.

We see a positive development in the sales market, from which, however, NESCHEN is still not in a position to profit from fully, after the extensive restructuring. With the help of the improvements in the delivery service, the market launch of new products and the expansion of our export activities, we are convinced that in the near future we will be able to grow in alignment with the fundamental market growth.

The group's overall positive margin development is to be emphasized and confirms that the measures which were carried out in 2005 and 2006, relating to range simplification, standardisation of raw materials and increases in the sales prices, were correct. It has therefore been possible to compensate for the increases in the price of raw materials or to pass them on to the market.

With the implementation of the restructuring programme, the number of employees has been reduced by a further 11% to 555 (previous year 626). It has therefore been possible to increase the per capita output in the group to € 245,000.

The investments in the first half of the current business year amount to a mere € 331,000. Due to the high level of investments in the previous years, the investment requirement remains low and in 2006 will be less than the budgeted volume of €1.8 million.

The results for NESCHEN AG show a turnover of € 39.9 million and an improved gross profit margin compared to 2005. As of 30.06.2006, the EBIT as per the German Commercial Code was € 1.9 million (EBIT margin 4.7%) and post-tax profits amounting to € 0.5 million (previous year € -1.6 million). This reflects the successful implementation of the restructuring programme. The SEAL product range within NESCHEN AG is making a positive contribution to the results. We are assuming that NESCHEN AG will also continue to develop positively in the second half of the year.

As of 30.06.2006, the Dutch holdings and the subsidiaries outside of America, were positive with results after tax of € 2.7 million (previous year € 1.4 million without Seal Graphics Europe, Raalte, NL).

The consolidated USA business closed the first half of 2006 with a higher loss than expected. The results after tax show a loss amounting to € 2.2 million (budget € -0.7 million). The turnover at € 19.0 million is around 5.5% above budget (€ 18.0 million). It has also been possible to increase the gross profit margin of NESCHEN Americas Corp. to 35.8% (previous year 33.2%). However, the first half of 2006 has been negatively influenced by the costs and one-off effects of the closure of the Wichita site, the amalgamation of the distribution companies and the expansion of the machine manufacturing activities, with its associated start-up costs. Furthermore, storm damage at the Wichita site and the legal dispute with a minority shareholder has put an additional strain on the results. The operational results of the total US activities as at 30.06.2006 amount to € -1.1 million (budget € -0.1 million).

Business performance details

Operationally in USA, there have been increased personnel costs (particularly in machine manufacturing) and freight costs, as well as a decrease in efficiency in the adhesive coating. We anticipate an improvement in these areas in the second half of the year, as a result of the measures which have been initiated.

Furthermore, during the 2nd half of the year, USA will benefit from the following positive effects: the increased margin due to the improvement in the machine manufacturing efficiency; the reduced cost structure due to the closure of the Wichita site (the transfer costs to the Elkridge site are borne in the first half yearly results); and the amalgamation of the distribution companies, which is already leading to improved market development and has been seen positively by customers.

A future positive development in USA machine manufacturing will be a new platform concept for the laminating machines. This is in preparation and will be implemented during 2007. For the graphics sales, we expect a continuation of the positive development in turnover, supported by the further expansion of the activities in the areas of inkjet, liquid lamination machines and display.

After the long development and start-up phase, the first successes are becoming evident in the area of special products. We have gained customers with high coating volumes and from the 4th quarter we are expecting to see a clear improvement in efficiency resulting from this new business.

The group accounts as at 30.06.2006 were drawn up in accordance with IFRS on the basis of regulations which are unchanged from those in force at the year-end 31.12.2005.

The equity in the group accounts as of 30.06.2006 amounts to € 0.2 million; in comparison with 31.12.2005, this is a decrease of € 1.0 million. This is due to provision for the unrealised exchange rate losses in the context of debt consolidation, amounting to € 1.6 million and has to be seen in the light of the half-year profits of € 0.6 million.

The individual financial statement drawn up for NESCHEN AG as of 30.06.2006 was also produced in accordance with the German Commercial Code on the basis of specifications which are unchanged from those in force at the year-end 31.12.2005. The equity amounts to € 10.7 million. The increase in equity corresponds to NESCHEN AG's results after tax of € 0.5 million in the first half of 2006.

Due to the seasonal fluctuations of the business, we are expecting a low turnover during the summer months, a strong autumn, and a traditionally very quiet business performance at year-end. This will lead to a weaker operational result in the second half-year compared to the first half. In contrast, the one-off expenditures compared to the first half-year will be confined to the areas of USA legal proceedings and the strengthening of equity. All in all, we continue to expect positive operational results for 2006.

The challenge now lies in gearing up the business and associated operations, to get us on track for profitable growth after the difficult years of cost reductions and considerable restructuring costs. In this, we continue to trust in the support of our employees, customers and business partners.

Consolidated Income Statement



as of June 30th	2006	2005
Sales	68,144	73,093
Changes in inventories	-93	-770
Other operating income	2,288	979
Cost of materials	-37,093	-41,001
Personnel expenses	-13,567	-14,695
Depreciations	-2,044	-2,220
Other operating expenses	-13,726	-15,319
Profit from business operations	3,909	67
Earnings from equity interests	-286	57
Other investment earnings	0	0
Financial result	-2,440	-2,441
Investment earnings and financial result	-2,726	-2,384
Earning before taxes	1,183	-2,317
Taxes	-556	-487
Earning after taxes	627	-2,803
Minority interests in income/losses	130	233
Result after minority interests	497	-3,037

Cash Flow Statement

(in k€ as of June 30th)	2006	2005
Earning after taxes	627	-2,803
± Write-offs / write-ups on fixed assets	2,044	2,219
± Increase / decrease in provisions	7	1
± Increase / decrease in deferred tax debts	-54	34
± Increase / decrease in deferred tax liabilities	-51	0
± Income / loss from disposals of fixed assets	24	5
± Exchange rate controlled changes in the values of fixed assets	-928	698
Cash Flow	1,669	154
± Increase / decrease in inventories	-651	-42
± Increase / decrease in trade receivables	-1,938	-2,329
± Increase / decrease in other assets	-1,250	-75
± Increase / decrease in short-term reserves	-7	1,820
± Increase / decrease in trade liabilities	3,198	-1,230
± Increase / decrease in other liabilities	-264	1,709
Change in net assets	-912	-147
= Inflow / outflow from current operations	757	7
+ Payments from disposal of fixed assets	413	166
- Payments for investments in fixed assets	-331	-487
= Inflow / outflow from investment activities	82	-321
+ Increase in capital	0	
- Payments to minority shareholders	-40	0
± Decrease / increase in bank loans	-522	-539
= Inflow / outflow from financing activities	-562	-539
= Total change in cash affecting payments	277	-853
+ Cash at the beginning of period	687	1,689
= Cash at the end of period	964	836



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