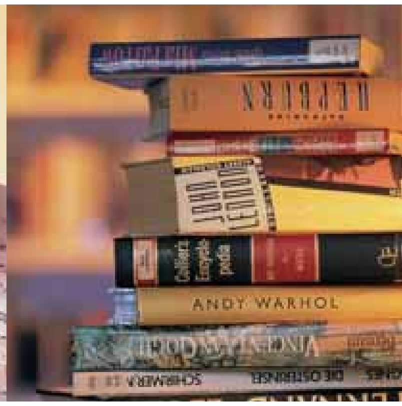
NESCHEN

Graphics | Documents | Technical Coatings

Semi-Annual Report 2008



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The Semi-Annual Report 2008 appears in German and English. If you require additional information, please contact us at the following adress:

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Key data for the group

in k€ as of June 30th	2008	2007	Diff. in %
Sales	63,286	65,622	-3.6%
Investments	709	857	-17.3%
Earnings after taxes	-1,480	-620	138.7%
Return on sales	-2.34%	-0.94%	147.5%
Earing after taxes per share (diluted)	-0.11	-0.05	138.7%
Earing after taxes per share (undiluted)	-0.11	-0.07	65.8%
EBIT	2,922	3,137	-6.9%
Return on sales	4.62%	4.78%	-3.4%
EBIT per share	0.22	0.24	-6.9%
EBITDA	4,573	4,824	-5.2%
Return on sales	7.23%	7.35%	-1.7%
EBITDA per share	0.35	0.37	-5.2%
Sales “Graphics”	55,363	58,045	-4.6%
Sales “Documents”	7,923	7,577	4.6%
EBIT “Graphics”	2,226	2,532	-12.1%
EBIT “Documents”	696	605	15.0%
Equity	2,825	8	-
Equity ratio	3.28%	0.01%	-
Sales per employee	230	235	-2.3%
Employees worldwide	551	558	-1.3%

Content

The Management Board

Stefan Zinn,

MBA,
born 17 April 1965,
Member of the Management Board
since 1998

Dr. Norbert Dieterich,

Dipl.-Ingenieur, (Degreed Engineer)
born 16 Oktober 1948,
Member of the Management Board
since 24 April 2008

Preamble

Dear Shareholders,

In the first six months of 2008 we failed to fully counter the downward trend caused by the restructuring measures undertaken in the past few years. However, we managed to continue to provide high inventory availability amid constant quality levels, which is a prerequisite condition for a lasting successful business model, in particular in an advertising market characterised by short campaigns. Following positive development in the first quarter, an unexpectedly weak second quarter gave rise to revenues below the previous year's figures.

As per 30.06.2008, sales were Euro 63.3 million, i.e. Euro 2.3 million below the previous year's figures. Following adjustments to account for exchange rate influences, the drop in sales is merely Euro 0.4 million (- 0.6%). EBIT and EBITDA are in line with expectations for the medium-term planning. The EBIT margin is 4.6% (1st six months of 2007: 4.8%), while the EBITDA margin is 7.2% (1st six months of 2007: 7.4%). We experienced a drop in sales, in particular in the USA, the UK and in the price-sensitive Asian markets.

The Documents division, as well as the Graphics division at home and in Central and Eastern Europe, saw growth in the period under review.

The weakness of the second quarter was characterised by recessionary markets in the USA and the UK; increasing raw materials prices and a drop in sales volumes among a few key customers. Among other things, one major customer appointed an additional supplier, which gave rise to a drop in sales to the tune of several hundred thousand euros.

Following targeted development, the first six months of 2008 saw the launch of numerous innovative and new products at various trade fairs. The feedback from our customers, and the new customers we have acquired, shows that we are on the right track.

At present it is crucial that we consistently push this further, secure the high inventory availability and improve our innovative capability on an ongoing basis. Neschen must push its new product launches to counter the falling demand for mounting and laminating films on the basis of the further technical development of printing systems and printable materials. To this end we developed a new marketing system in the past business year that helps us bring our entire product portfolio closer to customers, and utilise additional cross selling potentials.

Growth in the Documents division remains gratifying. Compared with the first six months in 2007, we saw an increase in sales revenues of 4.6%. However, due to the low percentage of overall sales (approx. 12%), this will not be sufficient to balance the drop in sales in the Graphics division.

Our Documents division was characterised by the expansion of activities in the archive centres. In Brauweiler we put into operation a further production facility for the machine deacidifying of individual sheets. For some months now we have been offering our Berlin customers an additional filming service. The two archive centres are operated on a three-shift basis, and are profitable.

The newly developed book conservation system is already in the final assembly stage, and will probably be put into operation in the third quarter in Bückenburg. In the future we will therefore be able to deacidify and conserve entire books and bound archives in a single step.

If the procedure meets with our expectations, this will constitute a significant international innovation which we expect will give rise to the worldwide expansion of our deacidifying activities. Due to the labour-intensive phase of running-in the system, we expect to see notable sales with effect from 2009.

The Technical Coatings division is well below expectations. As a result of strategic changes implemented for a major customer, and the loss of an Asian customer, we expect to see a loss in the established business in the current business year. We have made considerable progress with the new developments, for example high-glossy coatings for the furniture industry, new adhesives for incision films (human medicine) and films for the glass industry.

Thanks to the positive trials and internal as well as external test results, we are convinced that we can embark on the launch of these products shortly. On the basis of the long lead times, in respect of the technical development, our customers and winning new market shares, we expect to see notable sales in these divisions with effect from 2009.

Irrespective of the emerging slight fall in Group sales, Neschen is well placed in the market for special and niche products. We have launched innovative products, and many of these have been well received in the market following a re-launch.

Furthermore, we expect to see a considerable increase in sales following the signing of a contract with a worldwide leading OEM partner for the supply of printable materials.

The increase will commence with effect from 2009 in line with our partner's sales planning. We aim to utilise additional potentials in volume markets with a new drive and various measures based on new procurement opportunities and the stated OEM contract.

The next few months will be characterised by making the greatest possible effort to complete the stated development projects, and further pushing sales activities in all divisions.

A number of new appointments in Sales and Product Management will have a positive effect. The development in some sales divisions shows that we are fundamentally on the right track. A considerable amount of additional potential must be utilised via new products and new customers to counter future setbacks involving individual customers and weaknesses in individual market segments, for example the USA and the UK, and to ultimately generate growth.

The Management Board

Interim group management report

Report on the group's income, financial and asset situation

We were unable to achieve our growth target in the first six months of the current business year. As per 30.06.2008, Group sales were Euro 63.3 million (first six months of 2007: Euro 65.6 million), and therefore fell by Euro 2.3 million. Following adjustments to account for the exchange rate impact of the US dollar, the drop in sales is merely Euro 0.4 million (-0.6%).

Nevertheless, the EBIT and EBITDA are in line with the medium-term planning. The EBIT margin is 4.6% (first six months of 2007: 4.8%), while the EBITDA margin is 7.2% (first six months of 2007: 7.4%)

The earnings situation in the USA has a considerable effect on the Group's result. While the USA saw a slightly positive EBIT in the first quarter, the earnings situation deteriorated further in the second quarter due to a recessionary market environment prompted by the real estate crisis. Without the business in the USA, the Neschen Group EBIT was 6.4%.

In the first six months, investments totalled Euro 709,000 (first six months of 2007: Euro 857,000) and were largely made up of expanding investments in Neschen AG (focus on the Documents division).

The Graphics division saw revenue of Euro 55.4 million (-4.6% compared with the previous year). The Documents division saw good development, and generated revenue of Euro 7.9 million (+4.6% compared with the previous year). Its share of overall sales therefore increased to approx. 12%.

The drop in the stated Group sales in the Graphics division is primarily attributable to the exchange rate influences of the US dollar. Although growth rates were good at home, in the key countries in Western Europe and in Eastern Europe, we were forced to accept a drop in sales in the USA, the UK and in some very price-sensitive Asian countries.

At 551 (June 2007: 558), the number of employees remained relatively constant. Sales of Euro 230,000 (June 2007: Euro 235,000) were generated for each employee.

The Group equity ratio dropped, among other things, due to set off exchange rate losses in the sum of approx. Euro 1 million to 3.3%. The equity capital at Neschen AG is 20.1 million while the equity ratio is 29.4% (according to IFRS).

Economic outlook

Following the positive development of sales and profits in the first quarter, which was in line with expectations, we were forced to accept a drop in sales in the second quarter. This had a knock-on effect on the company's profits. The traditionally weak summer months of July and August in 2008 also fell below expectations. Thanks to the new products, and the implemented initiatives, we expect to see sales develop more favourably than in the previous year.

However, no additional growth is expected for the overall year. Due to the short lead times in the graphics industry (orders on hand of less than one month is customary in the sector), the sales forecast is further characterised by uncertainty. The strong increase in the cost of raw materials is to be taken into consideration in addition to the sales development.

Neschen will be able to pass on these price increases for special products to the customers. In respect of volume products, this is only possible to a certain extent due to the fierce competitive environment. We therefore expect an operating result for the current business year in line with that of the previous year (without consideration given to the extraordinary effects resulting from the bank waiver).

We are sticking to the medium-term growth and profit forecasts. Due to the fixed cost situation and the business structure, moderate growth is very quickly having a positive effect on profits. This was clear in the first quarter.

Growth opportunities arise from the recently acquired OEM supply contract, the realisation of graphics projects (new inkjet media, new market segments such as interior design), the expansion of the Documents activities by way of expanding the export activities, expanding the individual sheet acidifying and the book acidifying system.

Several Technical Coatings are about to enter the technical realisation and launch stage.

The realisation of profitable growth in the next few quarters will facilitate the company's refinancing by way of relief in respect of the interest expenditure.

Report on opportunities and risks

This interim report merely takes into consideration the risks that vary from the points stated in the 2007 Annual Report. The opportunities are explained in detail in the enclosed forecast. The risk management system has been in place at Neschen since 2002, and is aimed at identifying in good time possible risks involving the net assets, financial position, results of operations and cash flows, and implementing measures to ward off or avoid danger. However, risks cannot be countered in all cases at short notice. This is particularly the case if unexpected external developments, such as the US American real estate crisis, have an effect on business development.

External risks – overall economic risks

The market in the USA has yet to recover from the real estate crisis. At approx. 20% of overall sales, the share of sales in this region plays a crucial role in the operating result. This gives rise to an increase in the general risk of having to accept a drop in sales or losing customers. Economic experts expect that the banks will be forced to write-off an additional USD 50 to USD 100 billion this year due to the crisis. The risk of a pending recession in the USA cannot be quantified. Experts reckon there is a 40% likelihood of a recession.

In addition to the economic problems in the USA, we see a considerable slow-down and the risk of a recession in England, possibly in Spain too – in both cases brought about by the real estate crisis. Overall, the economic experts expect a significant slow-down in economic development in Europe.

The latest surveys give reason to expect that the German advertising market will witness a slow-down this year.

Risks resulting from financing and evaluation

The contracts following the take-over of the parent company of Bear Sterns Bank plc., which is listed on the New York Stock Exchange, by JP Morgan Chase & Co have now been fully recognised. In the last six months, key performance indicators agreed upon with the external creditors under the management of Bear Stearns have not been honoured due to the failure to achieve growth. The creditors are aware of this breach of covenant. This has not given rise to effects on the Neschen Group's net assets, financial position, results of operations or cash flows.

Furthermore, there are no new risks in addition to those already stated in the 2007 Annual Report.

Internal risks – risk of production shortfall

As a general rule, any producing company runs the risk of production facilities breaking down. This is countered by way of regular maintenance and repairs. In the last few years, Neschen has not witnessed any breakdowns in its production facilities. In May of the current business year, our location in England experienced a production facility breakdown due to technical problems with a supplier as part of regular maintenance. Technical reasons prevented us from relocating the production to other systems to counter the shortfall. Thanks to various measures, and adequate warehousing, we were able to avoid serious detrimental effects for our customers.

Legal risks

In addition to the general risks stated in the 2007 Annual Report that apply to the operating business, in particular at an international level and in view of the warranty assurance, the following legal risks currently apply to the Neschen Group.

The application for a special audit, filed by the asset management company Goldschmidt, Essen, with the Hanover District Court, was decided in favour of Neschen AG. VVG has lodged an appeal with the Celle Higher Regional Court where the application for a special audit is the subject of further legal dispute.

The additional case, brought by the shareholder Dr. Wilhelm Helms, Hannover, on the grounds of alleged formal faults in the Supervisory Board Report in the 2007 Annual Report, was quashed in full in the first instance by way of the judgement dated 20 May 2008. An appeal by Dr. Helms is currently pending at the Celle Higher Regional Court. At present, we are unable to foresee how the case will develop.

Opportunities

The opportunities in the two Annual Reports are based on the forecast.

We have almost managed to reach our forecast, and medium-term profit goal, of an EBIT margin of 5.5% and an EBITDA of 8.5% to 9%.

The growth opportunities are, on the one hand, based on expansion by way of further developing new export markets, realising development projects and the launch of innovative products.

The Documents division provides additional opportunities in the form of expanding the capacity of single sheet deacidifying at the Brauweiler location, and by the launch of the book deacidifying service earmarked for the end of the year. In the medium-term, we believe the book deacidifying technology will enable us to market the deacidification of archive material worldwide .

We have increased sales personnel for the expansion of the export activities involving the self-adhesive book mounting products.

The Graphics division offers growth opportunities in the form of the launch of new inkjet coatings for water-based and solvent technologies. In the future, the simplification of the inkjet coatings, and new developments, will improve the share of own production. Furthermore, new software will considerably increase the customer benefits in respect of using these products because they will be able to manufacture almost all product applications in the future for all typical printers by way of a uniform printer setting. Further opportunities present themselves in the form of the recently concluded OEM contract which will see Neschen supply a complete programme with printable materials for a worldwide leading manufacturer. This business will be processed via Neschen AG and the US company.

This OEM contract gives rise to further opportunities for Neschen. Additional purchasing opportunities for raw materials are currently the subject matter of a strategy for entry in volume markets within the Graphics division. The target consists of increasing the overall level of awareness via these products, and considerably improving the capacity utilisation at the manufacturing facilities.

Interim financial statements

Neschen Group balance sheet

in k€	30.06.2008	30.06.2007	31.12.2007
Assets			
Intangible assets	12,889	13,441	13,028
Plant, property and equipment	25,787	27,810	27,093
Financial assets	1,934	2,421	2,181
Deferred taxes	1,861	1,912	1,860
Long-term assets	**42,471**	**45,584**	**44,162**
Inventories	20,165	18,704	18,779
Trade receivables	15,094	15,201	13,873
Receivables and other assets	5,422	6,264	4,577
Cash and cash equivalents	2,880	5,692	1,823
Short-term assets	**43,561**	**45,861**	**39,052**
Total assets	**86,032**	**91,445**	**83,214**
Equity and Liabilities			
Subscribed capital	13,125	13,125	13,125
Capital surplus	305	305	305
Change in shareholders' equity (not affecting net income)	-4,617	-2,070	-3,722
Earnings reserve	0	0	0
Balance sheet loss	-7,486	-12,133	-6,006
Equity incl, minority interests	**1,327**	**-773**	**3,702**
Minority interests in equity	1,498	781	1,125
Equity	**2,825**	**8**	**4,827**
Provisions for pensions and similar obligations	265	231	241
Provisions for deferred taxes	69	123	71
Liabilities due to banks	51,100	0	51,400
Other long-term liabilities	1,250	1,430	1,250
Long-term liabilities	**52,684**	**1,784**	**52,962**
Tax provisions	863	987	895
Other provisions	8,782	3,307	7,118
Liabilities due to banks	3,247	69,992	3,823
Trade liabilities	15,639	11,575	11,027
Other short-term liabilities	1,992	3,792	2,562
Short-term liabilities	**30,523**	**89,653**	**25,425**
Total Equity and liabilities	**86,032**	**91,445**	**83,214**

Consolidated profit and loss account for the period from 1 January to 30 June

in k€	2008	2007
Sales	63,286	65,622
Changes in inventories	-48	500
Other operating income	1,059	846
Cost of materials	-34,771	-36,810
Personnel expenses	-13,457	-13,211
Depreciations	-1,651	-1,687
Other operating expenses	-11,523	-12,076
Profit from business operations	**2,895**	**3,184**
Earnings from equity interests	27	-47
Other equity investment income	0	0
Financial result	-3,651	-2,708
Investment earnings and financial result	**-3,624**	**-2,755**
Earning before taxes	**-729**	**429**
Taxes	-502	-934
Result after minority interests	**-1,231**	**-505**
Minority interests in income/losses	249	115
Annual result	**-1,480**	**-620**
Balance sheet loss previous year	-6,006	-11,513
Transfers from capital reserves	0	0
Transfers from surplus reserves	0	0
Balance sheet loss	**-7,486**	**-12,133**

Selected Annex details

Accounting and valuation methods

The half-yearly report for the Neschen Group, and the Consolidated Financial Statement, was prepared in accordance with the International Financial Reporting Standards and therefore complies with IFRS 34 for interim statements.
Accordingly, the accounting and valuation methods are unchanged.

Group of consolidated companies

The group of consolidated companies, and the companies incorporated in the statement, has not changed compared with the 2007 Consolidated Financial Statement.

Dividends

No dividends were paid to shareholders in the interim reporting period.

Contingency liabilities

The contingency liabilities developed by way of analogy with the presentation in the Annual Financial Statement. No new liabilities of considerable importance have been entered into.

Significant events after the appointed balance sheet date

Further to the comments in the Opportunities and Risk Report, the application for a special audit, filed by Vermögensverwaltung Goldschmidt, Essen, at the Hanover District Court, gave rise to a ruling in favour of Neschen AG. VVG has lodged an appeal against this ruling at the Celle Higher Regional Court. Neschen AG further disputes the application for a special audit.

The additional case, brought by the shareholder Dr. Wilhelm Helms, Hannover, on the grounds of alleged formal faults in the Supervisory Board Report in the 2007 Annual Report, was dismissed in full in the first instance by way of the judgement dated 20 May 2008. An appeal by Dr. Helms is currently pending at the Celle Higher Regional Court.

At present, we are unable to foresee how the case will develop or quantify potential effects on the share price as a result.

Furthermore, Neschen Americas Corp., Elkridge USA and Wells Fargo Business Credit, Baltimore, USA entered into a three-year factoring contract. The size of accounts receivable earmarked for sale, less the appertaining fees, will have an effect on the Neschen Group's net assets, financial position, results of operations and cash flows.

Audit overview

This half-yearly financial report on a consolidated basis was neither audited in accordance with § 317 HGB nor subject to an audit overview by a balance sheet auditor.

Cash-Flow Statement for the period from 1 January to 30 June

in k€		2008	2007
Earning after taxes		-1,231	-505
±	Write-offs / write-ups on fixed assets	1,651	1,687
±	Increase / decrease in provisions	25	21
±	Increase / decrease in deferred tax debts	2	200
±	Zunahme / Abnahme der latenten Steuerrückstellungen	1	0
±	Increase / decrease in deferred tax liabilities	14	10
±	Exchange rate controlled changes in the values of fixed assets	-334	-176
Cash Flow		128	1,237
±	Increase / decrease in inventories	-1,386	-2,444
±	Increase / decrease in trade receivables	-1,221	-745
±	Increase / decrease in other assets	-805	-1,398
±	Increase / decrease in short-term reserves	1,632	848
±	Increase / decrease in trade liabilities	4,612	663
±	Increase / decrease in other liabilities	-528	1,199
Change in net assets		2,304	-1,877
=	Inflow / outflow from current operations	2,432	-640
+	Payments from disposal of fixed assets	210	1,121
-	Payments for investments in fixed assets	-709	-857
=	Inflow / outflow from investment activities	-499	264
+	Increase in capital	0	4,680
-	Payments to minority shareholders	0	0
±	Decrease / increase in bank loans	-876	209
=	Inflow / outflow from financing activities	-876	4,889
=	Total change in cash affecting payments	1,057	4,513
+	Cash at the beginning of period	1,823	1,179
=	Cash at the end of period	2,880	5,692

Changes in equity

Equity in k€	As of January 1st 2008	Earning after taxes	Exchange rate and other changes	Capital-increase	Decrease in reserves	Dividends	As of June 30th 2008
Equity	13,125	0	0	0	0	0	13,125
Subscribed capital	305	0	0	0	0	0	305
Change in shareholders' equity (not affecting net income)	-3,722	0	-895	0	0	0	-4,617
Balance sheet loss	-6,006	-1,480	0	0	0	0	-7,486
Minority interests inequity	1,125	249	124	0	0	0	1,498
Equity	4,827	-1,231	-771	0	0	0	2,825

Details on key business transactions with affiliated companies and persons

Companies that may directly or indirectly exert a dominant influence upon the reporting company, or are subject to a dominant influence, are deemed affiliated companies.
Furthermore, the group includes natural persons or their relatives who dominate the company under obligation to report, or who may exert a significant influence on the company. A majority interest also applies in this sense if the natural person has a majority of votes in conjunction with the spouse's voting rights. If the aforementioned persons have shares and voting rights of less than 50%, a dominant influence may also apply if the shares are sufficient for a lasting, so-called, attendance majority at the Annual General Meeting. Management members in key positions, and their relatives, are also classified as affiliated persons.

This regulation in accordance with IAS 24 gives rise to the following details for Neschen AG: as in the previous year, the Supervisory Board member, Mr Rolf-Werner Zinn, acted in a consulting capacity in the first six months of the current business year for the Documents division as part of further expansion of the archive centres in Berlin and Brauweiler and the development of book deacidifying machines. The conditions of this consulting contract are in line with customary sector conditions.
The international manufacturing and sales locations give rise to Group-wide delivery and payment flows that are entered into and settled in line with customary sector conditions.

Declaration by the company's legal representatives

We confirm that, to the best of our knowledge, the interim group financial statements, prepared in accordance with the accounting principles applicable to interim group reporting, gives a true and fair picture of the group's assets, financial position and income and that the interim group management report presents the development of the business, including the business results achieved and the situation of the company, in such a way that a true and fair picture of the actual situation is given and that the risks and opportunities involved in the probable development of the group during the remainder of the financial year are correctly described.

The Management Board of Neschen AG

Bückeburg, 25 August 2008

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