



Semi-annual Report 2007



Key data for the group

in k€ as of 30/06	IFRS 2007	IFRS 2006	Abw.
Sales	65,622	68,144	-3.7%
Investments	857	331	158.9%
Earning after taxes	-620	497	-
Earning after taxes per share	-0.05	0.06	-
EBIT	2,976	2,366	25.8%
Return on sales	4.54%	3.47%	30.6%
EBIT per share	0.23	0.27	-16.1%
EBITDA	4,663	4,411	5.7%
Return on sales	7.11%	6.47%	9.8%
EBITDA per share	0.36	0.50	-29.5%
Sales "Graphics"	58,045	60,421	-3.9%
Sales "Documents"	7,577	7,723	-1.9%
EBIT "Graphics"	2,403	1,828	31.5%
EBIT "Documents"	573	538	6.5%
Equity	8	227	-96.5%
Equity ratio	0.01%	0.25%	-96.5%
Sales per employee*	235	246	-4.2%
Employees worldwide	564	555	0.5%

* in relation to the annual average of 558 employees, (in 2007)

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Martin E. Davies,
Degree in Mechanical
Engineering,
born 4 June 1961

Member of the
Board of Directors since
1 January 2004.
Execution officer for the
Research & Development,
Quality, Purchasing,
Production, Logistics,
Personnel and IT divisions

Stefan Zinn,
MBA,
born 17 April 1965

Spokesman for the
Execution Board of
Directors since
1 October 2004.
Execution office for the
Sales and Marketing,
Finance and Controlling
divisions.

Preamble

Dear shareholders,

Our main priority in the first half of the current financial year was to ensure the company's financing structure and to improve its capital structure. Following the undertakings given by Bear Stearns and the signing of the recapitalisation agreement with them in December 2006, the implementation of the concept was largely completed during the first few months of the year. In January the Bear Stearns Bank paid off the loans made available by the German banking pool. The detailed drafting of all the agreements with the new lender will be concluded shortly and is based on the agreement signed in December 2006. Using this as a basis, we will implement the credit waiver given by Bear Stearns in the current financial year, thereby benefiting results.

In May an essential element of the recapitalisation agreement was carried out with an increase in capital from authorised share capital. With the assistance of Bear Stearns and Värde Investment Partners it was possible to place all the new shares. The company gained Euro 4.8 million additional funds as a result of the capital increase. This increase raised the share capital from Euro 8.75 million to Euro 13.125 million. Accordingly, on June 30th 2007 Bear Stearns and Värde Investment Partners each own 14.96% of the share capital. The new shares were authorised for official trading on July 25th and are also quoted under share registration number 502130 (ISIN DE0005021307).

Neschen AG's shareholder equity as shown in its individual company financial statements prepared according to the German Commercial Code was Euro 15.8 million on June 30th (Euro 11.0 million on 31.12.2006). Its equity quota is 27.2% (35.0% according to IFRS). The capital increase wiped out the group's negative equity (- Euro 3.8 million on 31.12.2006). The implementation of the credit waiver will further strengthen equity.

The liquidity situation had already improved markedly prior to the capital increase. We were therefore able to increase the company's inventories versus the previous year. The immediate availability of goods (we deliver to the domestic market within 24 hours) is an essential pre-condition for successful business development in the fast-moving graphics business.

The Neschen-Group has recorded declining sales over the last few years. This was in part consciously accepted as a result of the withdrawal from business activities which did not belong to the core business or which did not make an adequate contribution to the company's results. We have also lost market share partly as a consequence of the group's intensive restructuring programme. The overall goal of the whole management team and Neschen's employees is directed towards reversing this sales trend and to leading the group back into the profit zone through organic growth.

We therefore introduced a large number of new products onto the market in the spring of this year. Further new products will be ready to market and will be introduced onto the market after the summer. The main thrust of this development is directed towards the expansion of our business activities in the core sectors of protective films and printable inkjet media.

We already opened our new training and exhibition rooms in Bückeberg in 2006 already as a flanking measure. We have also re-planned the showrooms in the locations occupied by the sales companies Neschen Austria and Neschen Benelux. We are also in the process of strengthening our human resources in the fields of selling, product management, research & development and applications technology.

In spite of these measures, the Neschen-Group was forced to accept a decline in sales in the first half-year relative to the previous year. As at 30.06. group sales were Euro 65.6 million (comparable period in the previous year Euro 68.1 million). Adjusted for the termination of the coloured vinyls business in the USA in the second half of 2006, sales are 2.2% below that of the comparable period in the previous year and slightly below the budget for this part of the year.

Neschen AG and the European companies were just about on plan in the first half-year with sales Euro 1.1 million above the previous year. Especially domestic sales with growth of above 3% show the right trend, nevertheless, viewed against the background of the positive economic situation, we are still not satisfied with the development of sales in Europe and will continue to press ahead with the sales measures. The development of sales in the USA is disappointing. Sales are Euro 15.5 million and as such considerably below the previous year's level (Euro 19.4 million). Adjusted for the termination of the coloured vinyl business and exchange rate effects, the sales decline in the USA is approximately 8%. Activities in the USA are focussed on the expansion of sales and a continued reduction in unit costs in the field of machine construction, especially through the next generation of laminating machines based on a uniform platform concept.

The group EBIT is Euro 3.0 million and the EBIT-margin 4.5% (previous year 3.5%). Profit before tax is Euro 0.4 million, which is slightly above that of the previous year of Euro 0.1 million. Since the financial year 2006 was characterised by positive and negative effects and we assume that in the current year all salaries, both at home and abroad, will be paid in accordance with industry-wide agreements, these figures are only partially comparable. Up to the end of 2006 the employees made their contribution to the company's recovery through salary waivers.

The confidence of employees, suppliers and customers in the company was -understandably - reduced as a result of the profit situation and the tough measures to restore the company's fortunes. We have in the meantime largely been able to restore this confidence through comprehensive information on the new financing structure and the accompanying measures taken. Significant factors in this context are the considerable improvement in product availability and the new products which have been introduced onto the market.

Thanks to these measures we have laid the foundations for future growth and will continue to focus our attention on customer satisfaction through quality and service, product innovation and regional expansion.

We are convinced that these measures will have a positive effect on the development of sales and profit in the medium term.

The Board of Management



Interim group management report



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

It was possible to solve problems encountered in our ability to deliver, including suppliers problems in delivering bought-in goods caused by technical factors. An indispensable condition for future growth was an improvement in the availability of liquidity to the company in order to have sufficient inventories of goods ready for delivery to be able to fulfil market requirements. This problem has in the meantime been solved.

This has enabled Neschen to improve considerably the quality of its products and its delivery service throughout the world and to attain its former strength in these areas. This is also being recognised by our customers and provides the basis for the expansion of our business activities.

The group's gross profit margin is on plan and slightly below the previous year due to anticipated changes in product mix. This enabled increases in raw materials costs as a result of the overall market situation to be offset by changes in product mix and improvements in strategic purchasing.

Expenditure on personnel and other costs is on plan and, as anticipated, is accordingly below that of the previous year. It should be borne in mind when comparing personnel costs that in the financial year 2006 the employees made their contribution to putting the company back onto an even keel.

Euro 0.9 million were invested in the first half of 2007 (Euro 0.3 million in the previous year). These investments relate chiefly to capital investment measures in the American joint venture and the installation of a solvent abatement system for coating with solvent adhesives at the factory in Basildon UK. As a result of the investments which, as anticipated, were low, depreciation during the first half of 2007 was Euro 1.7 million and as such below that of the previous year (Euro 2.0 million). Total net investments of approximately Euro 2.4 million are foreseen during the whole financial year.

Profit before taxes is Euro 0.4 million and as such is only slightly below what was anticipated and above that of the previous year (Euro 0.1 million). Income taxes and other taxes of Euro 0.9 million include chiefly the write-off of deferred taxes (Euro 0.2 million) and a reserve created for the current tax audit of Neschen AG of the years 1999 to 2004 (Euro 0.2 million). An after tax loss of Euro 0.5 million was made. The loss at the group level is Euro 0.6 million. It should be borne in mind when comparing these results with the previous year that in 2006 a tax refund of Euro 1.1 million lead to a positive result after taxes.

The Neschen group was able to generate positive after tax results in Europe. An EBIT of Euro 3.4 million was achieved.

In July 2007, as a logical step in the continued expansion of the Asian business, the 49% shareholding of the Chinese partner was acquired for a price of 1 Hong Kong dollar.

Although the profit situation in the USA has improved, it still remains unsatisfactory. After tax the result was a loss of Euro 0.9 million which is only slightly worse than anticipated. The loss however was considerably lower than in the previous year (Euro 2.1 million).

We appointed a new chief executive for the US companies on June 1st 2007 and carried out a number of organisational and personnel changes. Personnel and other costs are developing as anticipated. In the US too management and the employees' attention is focussed on the expansion of sales activities. A sustained improvement in results can only be achieved through an expansion of the business. Measures have been initiated in this direction in the USA, including a targeted programme to gain new customers, the introduction of a large number of new products, new marketing campaigns as well as further measures to support sales.

In 2005 and 2006 the US business was massively affected by restructuring measures (including, amongst other things, the closure of branch offices), changes to the product range and the problems in the ability to deliver goods. The time required to increase market shares and to increase the share of supplies with existing customers is therefore longer than anticipated. We assume, however, that the introduction of new products already carried out and those pending for the autumn with the emphasis on inkjet media and new adhesive technologies in the USA will create the basis for the generation of growth. We are therefore still convinced that as from 2008 we will be able to achieve positive results in the USA too.

During the current year we were able to fill certain key positions involved in the expansion of business activities, both at home and internationally. These relate primarily to selling in the areas of Graphics and Documents as well as the filling of the position of "Manager of the Special Products Division" with international responsibility.

Economic outlook

The Neschen Group's equity base will improve still further towards the end of the year as a result of the credit waiver agreed with Bear Stearns.

The assurance of the company's financing and the improvement of its capital base have stabilised the company such that it can now be put onto a growth course.

Important matters which dominated the past have now been solved. These include the reduction in the number of locations, the improvement of the situation as regards personnel and other costs and clear focus on our core business. Now that the financing situation has been stabilised, the next challenges are a turn-around in the USA and the achievement of growth in the whole group. Following the turn-around in Europe, we will also achieve the same in the USA. We fulfilled important conditions for this in the first half-year as well as for organic growth and are convinced that these will have positive effects in the medium term. Following years of change and restructuring, the company needs the current financial year in order to create the basis for a return to sales growth and profitability.

In cooperation with A.T. Kearney, in the last few months we have examined the strategic options for future growth. This confirmed our existing strategy of dividing the business into the Graphics, Documents and Special Products divisions and the dual-brand strategy within the Graphics division. This also applies to the distribution channels and product range structure within Graphics and Documents.

We have identified considerable growth potential and, especially in the Special Products division, defined the market segments to which we will give particular attention in the future. These include the areas of medical products, high-quality special labels and special coatings for films. Neschen has either already achieved sales in all these areas or has developed products which are shortly to be introduced onto the market.

The planned expansion of the business forming part of the company strategy which has been defined for the next few years is therefore supported by concrete measures, projects and, in some cases, with products already. Our focus rests on the expansion of know-how, the strengthening of our ability to innovate and to expand regionally and the development of new market segments within the Special Products division. Investments in property, plant and equipment will probably be lower than annual depreciation.

Growth in the field of graphics will largely be generated by new products and the expansion of our regional presence with the emphasis on eastern Europe and Asia.

The strategy in the Documents division will be oriented towards the expansion of our export activities and the realisation of the de-acidification of whole books in addition to the existing process for de-acidifying individual pages.

The Special Products division is focussed on the new market segments mentioned above and the expansion of the existing business. We will considerably expand this division's personnel structure in the areas of research and development and selling.

We assume that the individual divisions' shares of sales will change considerably over the next few years. Our aim is to expand the Special Products division to a share of sales considerably above 15% and thereby to reduce the dependence on the graphics market. The graphics division will nevertheless remain the largest division.

We are convinced that the medium-term results will reach the goals set out in the 2006 annual report of an EBIT margin of approximately 5.5% and an EBITDA margin in the region of 8.5 to 9%. The financial year 2007 forms the basis of our future growth strategy.

Opportunities and risks report

The board of management has established principles and guidelines in a risk management system to enable risks to be identified and counter-measures to be taken at an early stage.

The opportunity to be able to identify and analyse risks and to take corrective measures is an important factor in company management. Combined with our internal monitoring system, we are able to recognise at an early stage developments which could threaten the continued existence of the company and to take counter-measures. Our risk management system uses the organisational and reporting structures already in existence in the company and has not changed versus the situation described in our 2006 annual report.

The following report therefore only describes opportunities and risks potential where significant changes have occurred since the situation described in our 2006 annual report.

Risks related to the overall economic situation:

Given the high sales share generated in the USA (approximately 25%), the weakening in the development of the US economy which is possibly to be anticipated (caused by the real estate crisis) entails additional risks. Continued uncertainty in the financial markets and a loss in value of assets (shares, real estate) can lead to a weakening of demand and therefore to losses of sales and profit of a magnitude which is difficult to estimate.

Risks related to financing and valuation:

The law reforming company taxes passed by the lower house of the German parliament on May 25th 2007 came into effect with its approval by the upper house on July 6th 2007. The changes in taxation include the following

- Reduction of the rate of corporation tax from 25% to 15%
- Lowering the trade tax assessment index from currently 5% to 3.5% and
- Abolition of the deductibility of trade tax as a business expense.

Due to the loss carry-forwards of Neschen AG in Germany, the balance sheet shows deferred tax receivables as assets established in accordance with IFRS. These amounted to Euro 1.5 million on December 31st 2006 and were reduced by Euro 0.2 million by June 30th 2007 as a consequence of releases into profit. We believe that the values shown take adequate consideration of the current legal situation.

Approximately Euro 2.1 million of the goodwill shown in the Neschen group financial statements deriving from the consolidation of the individual companies' accounts, relates to Neschen Corp. and Seal UK. These values are reviewed regularly in accordance with IFRS guidelines and are dependent on the development of the relevant companies' results. They may therefore be subject to fluctuations, entailing effects on the company's asset and income situation

Opportunities:

We have given a complete description of the opportunities deriving from Neschen AG's business activities in the sections "Report on the group's income, financial and asset situation" and "Outlook".

Report on major transactions with affiliated parties

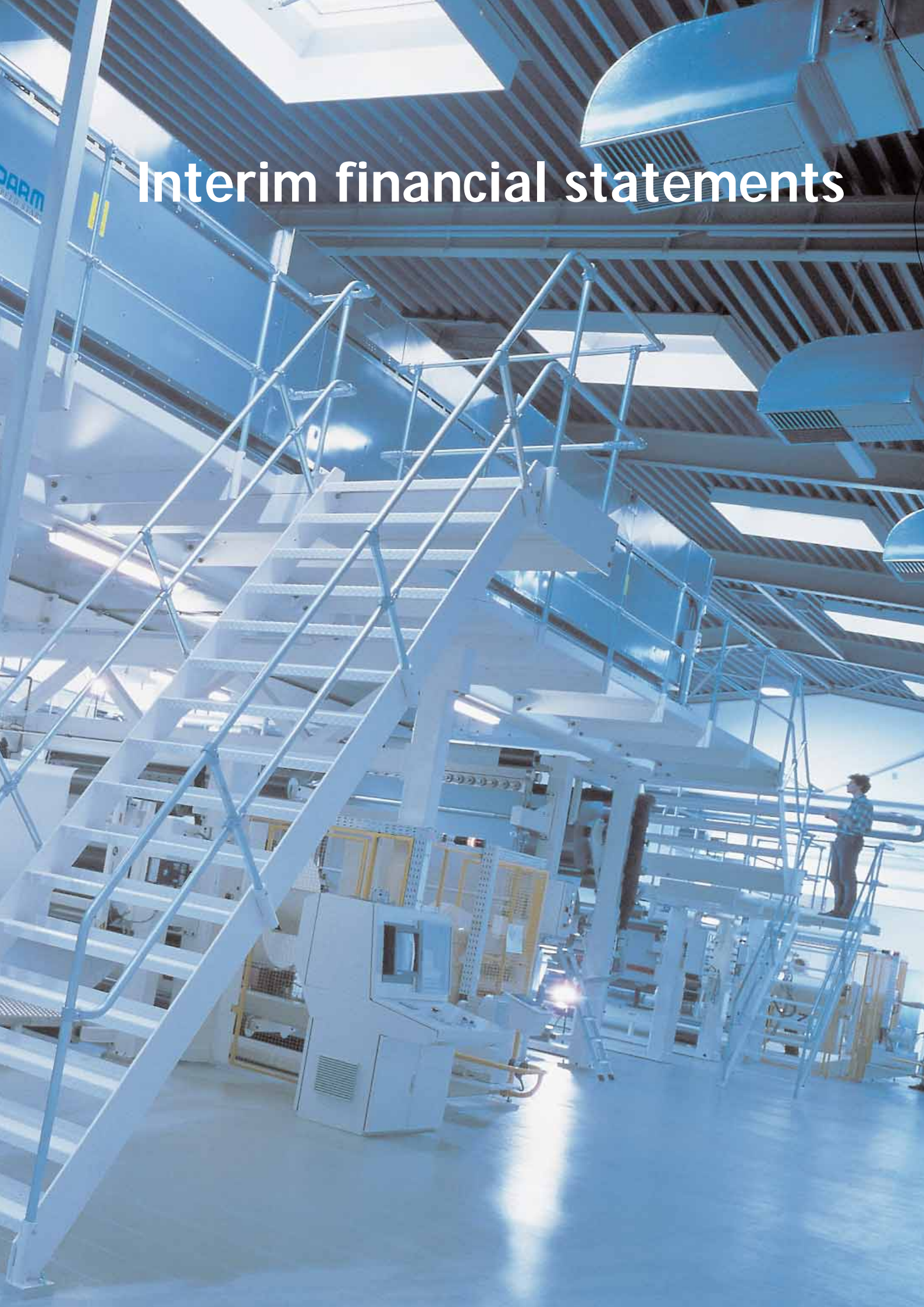
Such transactions are limited to consultancy contracts with the three members of the supervisory board.

As in the previous year, Mr Rolf Werner Zinn was active on behalf of the business division "Documents" during the financial year 2007 as part of the continued expansion of the archive centres in Berlin und Brauweiler and provided consultancy services in developing equipment for the de-acidification of books. The conditions of this consultancy contract reflect what is customary in the market.

Mr Heinzwerner Feusser and Dr Norbert Dieterich, who have been members of the supervisory board since March 26th, provided the company with advice on strategic matters. The conditions of these consultancy contracts reflect what is customary in the market.



Interim financial statements



Neschen Group balance sheet

in k€	30.06.2007	30.06.2006	31.12.2006
Assets			
Intangible assets	13,441	14,826	13,422
Plant, property and equipment	27,810	31,963	30,058
Financial assets	2,421	2,882	2,351
Deferred taxes	1,912	1,169	2,111
Long-term assets	45,584	50,840	47,942
Inventories	18,704	17,385	16,260
Trade receivables	15,201	18,792	14,456
Receivables and other assets	6,264	5,859	4,866
Cash and cash equivalents	5,692	964	1,179
Short-term assets	45,861	43,000	36,761
Total assets	91,445	93,840	84,703
Equity and Liabilities			
Subscribed capital	13,125	8,750	8,750
Capital surplus	305	0	0
Change in shareholders' equity (not affecting net income)	-2,070	-1,617	-1,753
Earnings reserve	0	0	0
Balance sheet loss	-12,133	-7,553	-11,513
Equity incl. minority interests	-773	-420	-4,516
Minority interests in equity	781	647	721
Equity	8	227	-3,795
Provisions for pensions and similar obligations	231	209	210
Provisions for deferred taxes	123	451	123
Liabilities due to banks	0	44,287	0
Other long-term liabilities	1,430	939	1,274
Long-term liabilities	1,784	45,886	1,607
Tax provisions	987	2,045	1,574
Other provisions	3,307	2,435	1,872
Liabilities due to banks	69,992	25,291	69,783
Trade liabilities	11,575	13,157	10,912
Other short-term liabilities	3,792	4,799	2,750
Short-term liabilities	89,653	47,727	86,891
Total Equity and liabilities	91,445	93,840	84,703

Consolidated profit and loss account for the period from 01. January to 30. June 2007

in k€	2007	2006
Sales	65,622	68,144
Changes in inventories	500	-93
Other operating income	846	1,218
Cost of materials	-36,810	-37,093
Personnel expenses	-13,211	-13,567
Depreciations	-1,687	-2,044
Other operating expenses	-12,076	-13,726
Profit from business operations	3,184	2,839
Earnings from equity interests	-47	-286
Financial result	-2,708	-2,440
Investment earnings and financial result	-2,755	-2,726
Earning before taxes	429	113
Taxes	-934	514
Minority interests in income/losses	-505	627
Result after minority interests	115	130
Annual result	-620	497
Balance sheet loss previous year	-11,513	-8,050
Balance sheet loss	-12,133	-7,553

Analog to the Financial Statements 2006 we reclassified a tax fund received (Euro 1.1 million) from "other operating income" to "taxes" as of 30 June 2006.

Selected information from the notes to the financial statements

Accounting and valuation methods

The Neschen Group's half-yearly financial statements, like the group financial statements, were prepared in accordance with International Financial Reporting Standards and therefore conform to the requirements of IFRS 34 for interim financial statements. Accordingly, the same accounting and valuations methods were applied as in the past.

Consolidated companies

The companies belonging to the consolidation and included in the group accounts have not changed since the group financial accounts for 2006.

Capital increase

As already announced in the 2006 group financial statements, the authorised increase in share capital of 4,375 million shares at an issue price of Euro 1.10 were recorded in the commercial register in June 2007. The current share capital is now Euro 13,125,000. We refer to the information given in the report on the company's asset, financial and income situation for further details of the uses made of the capital increase.

Dividends

No dividends were paid to shareholders during the period covered by the interim report.

Contingent liabilities

The contingent liabilities are developing in the same manner as was described in the annual financial statements. No significant new obligations were entered into.

Important events occurring after the balance sheet cut-off date

There has been no change whatsoever in Neschen AG's appraisal of the effects on the company of the application for a special audit introduced by the Vermögensverwaltung Erben Dr. Karl Goldschmidt GmbH in Essen (referred to hereafter to as "VVG") described in a press release issued on 2nd July 2007. Neschen AG's board of management continues to see no necessity to change its appraisal of the asset and profit situation, nor to question the annual financial statements prepared at that time and especially not the valuation principles used in the financial statements.

Moreover, the shareholder Dr. Helms of Hanover has submitted to the regional court of Hanover an action to rescind all the resolutions passed by Neschen AG's annual general shareholders' meeting on 21.06.2007. The legal dispute is conducted under reference number 26 O 84/07. The plaintiff supports his claim which was submitted on 27.07.2007 amongst other things with reference to formal defects in the report of the supervisory board. Neschen AG's board of management and supervisory board believe that the action is without foundation and the company will defend itself against it.

Nevertheless, the existence of the proceedings mentioned above can potentially influence the course the company is taking.

Review by the auditors

The present half-yearly report prepared on a consolidated basis was neither audited in accordance with § 317 of the German Commercial Code nor subjected to an audit review by the year-end auditors.

Cash-Flow Statement

(in k€ as of June 30th)	2007	2006
Earning after taxes	-505	627
± Write-offs / write-ups on fixed assets	1,687	2,044
± Increase / decrease in provisions	21	7
± Increase / decrease in deferred tax debts	200	-54
± Increase / decrease in deferred tax liabilities	0	-51
± Income / loss from disposals of fixed assets	10	24
± Exchange rate controlled changes in the values of fixed assets	-176	-928
Cash Flow	1,237	1,669
± Increase / decrease in inventories	-2,444	-651
± Increase / decrease in trade receivables	-745	-1,938
± Increase / decrease in other assets	-1,398	-1,250
± Increase / decrease in short-term reserves	848	-7
± Increase / decrease in trade liabilities	663	3,198
± Increase / decrease in other liabilities	1,199	-264
Change in net assets	-1,877	-912
= Inflow / outflow from current operations	-640	757
+ Payments from disposal of fixed assets	1,121	413
- Payments for investments in fixed assets	-857	-331
= Inflow / outflow from investment activities	264	82
+ Increase in capital	4,680	0
- Payments to minority shareholders	0	-40
± Decrease / increase in bank loans	209	-522
= Inflow / outflow from financing activities	4,889	-562
= Total change in cash affecting payments	4,513	277
+ Cash at the beginning of period	1,179	687
= Cash at the end of period	5,692	964

Changes in equity

	As of January 1st 2007	Earning after taxes in k€	Exchange rate and other changes in k€	Capital- increase in k€	Decrease in reserves in k€	As of June 30th 2007 in k€
Equity	in k€	in k€	in k€	in k€	in k€	in k€
Subscribed capital	8,750	0	0	4,375	0	13,125
Capital surplus	0	0	0	305	0	305
Change in shareholders' equity (not affecting net income)	-1,754	0	-316	0	0	-2,070
Balance sheet loss	-11,513	-620	0	0	0	-12,133
Minority interests inequity	721	115	-55	0	0	781
Equity	-3,796	-505	-371	4,680	0	8

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.

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