

Neschen AG
Quarterly Report
September 30th 2000

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Chairman's Foreword

Dear Shareholders,

Neschen is the only company worldwide that has successfully integrated the symbiotic relationship between traditional protection films and the innovative liquid coating technology.

The take-over of the "Printable Textiles" division of the company Berger GmbH & Co. KG already resulted in the first successes. This is clearly a future oriented market segment and the worldwide resonance to this innovative and multifunctional media has, from the start, clearly met our turnover expectations. The actual development of this market allows us to give a projected turnover of 7 M Euro for 2001 in the field of printable textiles.

The 3rd quarter turnover of the Neschen Group increased by 26.0% over the 3rd quarter of 1999 from 16,556 TEUR to 20,865 TEUR. All three Business Units, "Graphics & Images", "Documents" and "Industry", have grown over-proportionally compared to the overall market. In the same time frame, the net income was as follows:

in TEUR	3rd Quarter 99	3rd Quarter 00	as of Sep. 30,99	as of Sep. 30,00
EBIT	1,364	1,799	5,472	5,411
EBIT margin	8.24%	8.62%	10.80%	8.94%

The profit situation conveyed in this chart lies above the branch average.

The ambitious growth plans for the near future require not only an early investment in the areas of personnel and marketing but also in capital commitments. A new coating machine has been installed this year (7,5 M EUR) and the production and warehousing areas, both in Bückeberg and abroad, have been either enlarged or newly built. Over the last two years, the area of newly built production and warehouse halls amounts to 6000 m² abroad and 9000 m² in Bückeberg. At the present, the company has over 35,000 m² of production, warehouse and office space at its disposal of which over 81% is the property of the Group.

The increased expenses in the areas of personell, marketing and capital commitments have already been reported. They amount to approx. 1 M EUR up until Sept. 30th. Increased expenditures will also be necessary the following year. Through the capital returns we are able to open new market positions which in turn fulfill the prerequisites required to enter new market segments and thus secure our growth rate.

We have now had five months of the EXPO. It is time to draw the conclusions of what this world fair has meant to our official external project. It was a once in a lifetime chance to introduce the world to the "Bückebug Conservation Procedure for Modern Archival Paper". This was success-fully carried out with various groups from Germany who attended our one day forums as well as groups from abroad where we not only organized their EXPO visit but also brought them closer to Neschen as a company.

During the EXPO Neschen AG offered a total of 14 events with presentations, tours and the complete organization including lodgings, transport, evening activities and attractions. All in all an extensive programme which brought an additional 1000 visitors from over 30 countries to Bückebug and Hanover and sent them home through-out the world with the thoughts of preserving our deteriorating written past.

I would like to offer a very special thanks to our employees who, during this time of increased activity and workload, contributed greatly to the success of this undertaking through their extra commitment and enthusiasm.

I would like to thank as well you our customers, business partners and shareholders for your attachment to Neschen.

Rolf W. Zinn
Chairman of the Board

Ratio of the Neschen Group

in TEUR	1999 as of Sept 30th	2000 as of Sept 30th	% changes to 1999
Sales	50,649	60,530	19.51
Investments	2,779	10,281	269.95
Net Income <i>after tax</i>	3,271	3,058	-6.51
DVFA-operating result	3,931	3,058	-22.21
DVFA-net yield	0.66	0.51	-22.21
EBIT	5,472	5,411	-1.10
EBIT-margin	10.80%	8.94%	-17.25
EBITDA	7,108	7,201	1.30
EBITDA-margin	14.03%	11.90%	-15.23
Reported equity	23,859	26,636	11.64
Equity ratio	51.50%	38.96%	-24.34
Equity return (ø equity)	25.41%	15.87%	-37.54
Sales per employee in TEUR (ø workforce)	182.77	183.42	0.36
Employees worldwide	401	470	17.21



Documents

Through its various activities the Business Unit "Documents" was able to increase domestic demand by 20%, and this although government funding in this area was once again decreased in 2000. Particularly the activities of the Neschen Information Service Center with its intensive customer care contributed greatly to this pleasing result.

Our activities abroad have also shown good results. Our Business Unit now has its own sales representatives in Spain and Italy, we have successfully taken part in special trade fairs in Israel and Canada to support our book protection programme and we have taken over the complete European sales and distribution programme for the company KAPCO thus complementing our own products in this area. Furthermore, our "Product Catalogue for Libraries, Archives and Picture Framers", a branch standard, has for the first time been distributed to all libraries in England and Spain.

The end of our EXPO activities was marked by an international congress with the theme - "Mass Deacidification in Practice", which brought together over 180 participants from 30 countries. The programme, organized by us, included a tour of our Archive Center.

According to the participants, the conservation of single pages through the "Bückeberg Procedure" plays an important role in the field of document preservation. Especially promising for the future is our development of a smaller conservation machine which we feel will drastically increase the interest of libraries and archives to incorporate the "Bückeberg Procedure" „in house".

Graphics & Images

In the 3rd quarter of this year the Business Unit "Graphics and Images" was fully focused on "photokina", the world's largest trade fair on the topic of picture presentation. Due to the well received introduction of many new products, this year's "photokina" was a resounding success.

Mass deacidification in practice

European Conference

Organized by:

European Commission on
Preservation and Access (ECPA)

State Archive of Lower Saxony



Main sponsor
NESCHEN

right: the stand of
Neschen AG, the
largest in the
company's history, at
the photokina 2000
in Cologne



left: the Megaphoto on the outer wall of the
Crystal Hall near the main entrance

New products such as Neschen textiles, gudy® window and the new liquid coating technology received a positive resonance and will continue to present themselves successfully.

Before the fair began, we carried out an extensive, world-wide training programme attended by employees of our subsidiaries and joint ventures and export dealers from over 40 countries. The training concentrated on new products and developments.

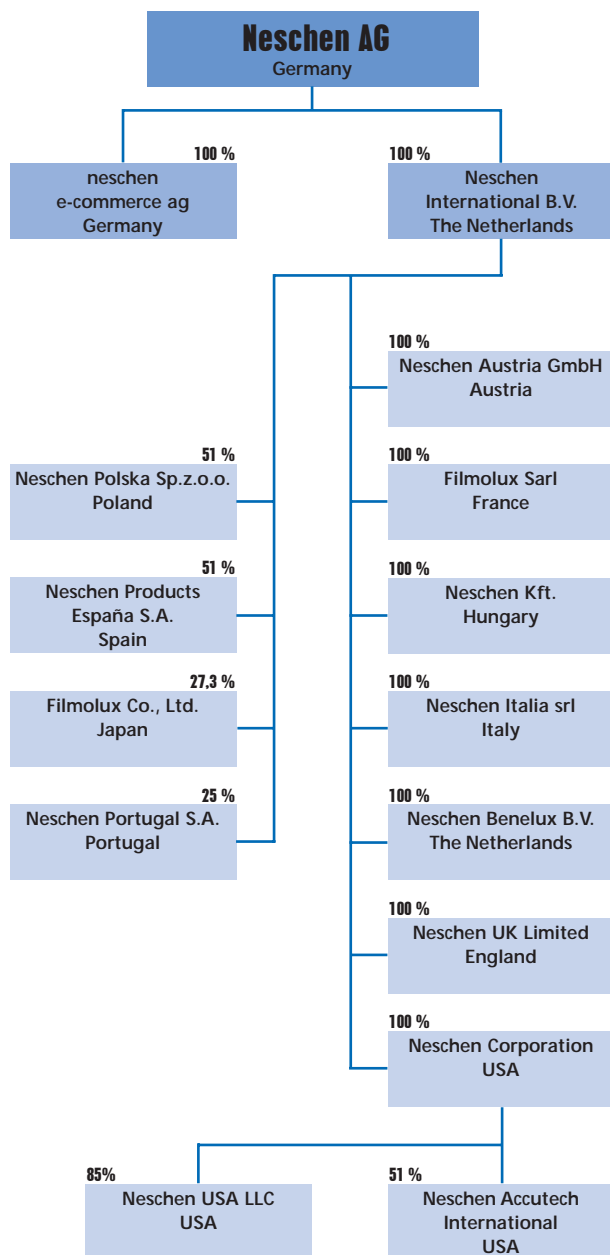
Neschen also staged a huge event at "photokina". The largest photograph in the world was presented on the outer wall of the Crystal Hall. The photo is a mosaic of 235,200 single pictures blended together using a uniquely designed software. The completed photo covers an area of 656 m² and is mounted and protected with Neschen products.

Industry

Our new inkjet printable film "printlux PVC plus wp adh" has been developed by the Business Unit "Industry" in cooperation with the company AGFA. This material offers numerous advantages, in regards to processing and application possibilities, over our competition. The Business Unit "Industry" is currently working on a new development for self-adhesive mounting boards and expects to have a finished product available in the near future.



Concern Structure



Quarterly Report nine months ended September 30 (HGB)

Assets	in million Euro as of Sept. 30th	1999	2000
Start-up and expansion costs		0.1	0.0
Fixed and financial assets		14.9	25.8
Inventories		14.2	20.0
Accounts receivable and other assets		16.3	19.8
Cash assets		0.6	1.8
Current assets		31.1	41.6
RAG		0.2	1.0
Balance sheet total		46.3	68.4

Passiva	in million Euro as of Sept. 30th	1999	2000
Total Equity		23.9	26.6
Accrued liabilities		2.7	3.1
Financial liabilities		13.3	31.1
Accounts payable		4.9	5.6
Other liabilities		1.5	2.0
Liabilities		19.7	38.7
RAG		0.0	0.0
Balance sheet total		46.3	68.4

Explanation of balance sheet

The investment activities of the Neschen Group for the year 2000 are, with a volume of 10.3 M EUR, practically complete. The new coating machine, in which the production, installation and start-up have been going on for over a year, will drastically increase the production capacity for the Business Units "Graphics and Images", "Documents" and "Industry". The start-up will take place at the end of this year and by the end of the first quarter we will be able to produce all of our core products on this machine. The increased capacity will allow us to intensify our activity in the already booming U.S. market as well increasing our presence in Asia.

Naturally, the productivity of the new machine is not immediately noticeable but rather influences the result with high initial costs. Initially, the result is affected by capital commitments and the costs for personell training.

The increased accounts receivable stands in direct relation to our rate of growth. The overproportional increase in the inventory levels are due mainly to the planned increase in turnover and the initialization of the "Printable Textiles" segment. The initial warehousing levels of this expensive textile material (up to 5 meter widths for large-format printing and advertising) resulted in an increased capital commitments level. Due to this development, and also the planned introduction of further dealer goods, the inventory financial commitments will increase in the future.

Profit and Loss Account nine months ended September 30

In million Euro	9 months 1999	9 months 2000
Sales revenue from own products and goods	50.7	60.5
Inventory changes	1.8	2.4
Cap. costs of self-constructed assets	0.1	0.0
Output	52.6	62.9
Expired costs of raw materials, supplies and acquired merchandise	26.5	32.8
Gross yield	26.1	30.1
Wages and salaries	9.1	11.1
Social security levies	2.1	2.4
Advertising expenses	1.0	1.5
Depreciation of assets	1.6	1.8
Other costs	7.0	8.3
Other income	0.6	0.8
Income from investments	0.03	0.0
Misc. expenses	0.2	0.2
Income from interest and similar income	0.1	0.1
Costs of interest and other costs	0.6	1.1
Profit on ordinary activities	5.2	4.6
Extraordinary income	0.0	0.0
Extraordinary expenses	0.1	0.1
Tax	1.8	1.5
Profit	3.3	3.0
Profit from external sources	0.0	0.1
Group Profit	3.3	3.1

Notes on profit and loss account

The increase in raw material prices, due mainly to the strong dollar and rising oil prices, have made it necessary for Neschen AG to raise prices. The increases follow years of price stability and will require some time to show their effect. The price increases will nevertheless not completely compensate for the higher costs.

The result is also influenced by the various factors involved in the introduction of new products such as our printable textiles and liquid coating technique. The successful introduction of these new products, as well as our participation in various trade shows (photokina, Pro Sign) and the beginning of our project "e-commerce", led to, as reported already in March, an increase in advertising costs.

Alone the positions advertising and interest costs decreased the profit on ordinary activities, up to Sept. 30th 2000, by 1 M EUR as compared to last year.

The EXPO programme, with over 1000 visitors, also contributed to an increase in advertising expenditures. Neschen AG used the EXPO 2000 as a once-in-a-lifetime opportunity to present itself to an interested public from all over the world.



Personnel figures

➤ Domestic	306
➤ Abroad	164
➤ Total	470

Funds Statement nine months ended September 30

in Euro	September 2000
Profit / loss for the year	3,058,197
± Depreciation / appreciation on fixed assets	1,789,243
= Cash flow out of operations	4,847,440
± Increase / decrease of liability reserves	1,306,073
± Loss / profit from sale of assets	214,035
± Increase / decrease of accounts receivable and other assets	-9,979,724
± Increase / decrease of accounts payable and other liabilities	2,471,636
= Increase / decrease of funds from current operations	-1,140,540
+ Cash flow from asset disposal (remaining book value increased by profit and reduced by loss from disposal of assets)	0
- Outpayments for investment in assets	-10,495,335
= Increase / decrease of funds from investment activity	-10,495,335
+ Inpayments from increase of share capital and contributions from shareholders	0
- Outpayments to shareholders (dividends, repayment of capital and misc.)	-1,547,00
± Increase / decrease of consolidation of investment shares with outside investors	382,773
+ Inpayments of flotation of shares and from raising finance loans	0
- Outpayments for repayment of loans and finance credits	14,250,434
= Increase / decrease of funds from financing operations	13,086,207
= Total of effective changes to financial resources	1,450,332
+ Total financial resources at beginning of period	354,748
= Total financial resources at end of period	1,805,080
Transition to operating result	
DVFA-result	3,058,197
- Non-recurrent costs post tax	0
= Profit / loss	3,058,197

Outlook

Dedication of the new buildings and the start-up of the new coating machine

The company will continue to take all necessary steps to keep it on its successful course. The high investment costs of the first 3 quarters will be justified with the new buildings being occupied and the new coating machine being put into operation by the end of the year.

Our subsidiary in Italy moved into new administrative and warehousing premises on Nov. 1st, 2000. This move reinforces our ever increasing presence in the Italian market as well as providing Neschen Italia s.r.l. with considerable logistic advantages.

On Dec. 1st, 2000, at the production facility in Bückeberg, 3 new objects will be presented within the framework of a festive dedication attended by numerous guests:

First of all, the dedication of the new administration building, responsible for the area "technical control". Numerous modernly outfitted offices and conference rooms provide the capacity for the current administrative needs as well as providing capacity for the planned future growth in various new business areas.

Secondly, the start-up of our new, ultra-modern coating machine. This machine has a coating width of up to 205 cm and will considerably increase our production capacity thus fulfilling capacity prerequisites for our planned growth.

Finally, the installation of the „Mega Photo“ on the Neschen Plant II premises. This photo was introduced at the photokina 2000 and, with a complete area of 656 m², is the largest photograph in the world. The "Mega Photo" serves as a spectacular eye-catcher and is an impressive example of Neschen's core competence in a practical application.

We are certain that all these efforts will have a positive effect on the result in the near future. The turnover for the year will be between 84 M and 86 M EUR. The 4th quarter is seasonally weaker and will put somewhat of a strain on the EBIT-margin. It will nevertheless lie above 8%.

Despite the current office and warehouse area of 35,000 m², further expansion, in the way of new buildings, will be undertaken in the spring of 2001. This expansion is mainly necessitated by a planned turnover increase of 7 M EUR from the business unit "Graphics and Images". Especially the introduction of the new printable textiles into our product programme require additional production and warehousing space.

With an increased product range, Neschen AG offers complete systems for all types of digital imaging. The technical prerequisites for the expansion of these product systems are laborous and more time-consuming as originally planned. Therefore a part of the planned 2000 turnover will need to be transferred to next year.

We are confident that all of these developments form a good basis for our future growth and expansion.



Investor Relations

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Financial Dates 2000/2001

Analyst meeting in Frankfurt
November 16th 2000

Annual Report 2000
March 2001

Request form



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