

Interim notification to § 37 WpHG

Key figures for the 3rd quarter 2009:

	3 rd quarter 2009	2009 cumulative	3 rd quarter 2008	2008 cumulative
EBITDA margin	-2.2%	-0.5%	1.0%	5.1%
EBIT margin	-6.0%	-4.3%	-1.9%	2.4%
Return on sales before taxes	-10.3%	14.5%	-9.3%	-3.7%
Gross profit margin	41.5%	42.2%	43.1%	44.5%

Situation of the company:

Persistent weak demand in the most important sales market of Neschen AG, the graphics industry

In the 3rd quarter 2009, the Neschen group achieved a turnover of €22.9 million. The turnover was 19.5 % below that of the previous year (€28.4 million). As at 30.09., the consolidated turnover amounts to €73.1 million, corresponding to a decline from the previous year's period of 20.3% (as at 30.9.2008: €91.7 million).

The declining turnover development at Neschen AG is mainly attributable to the persistent weak demand in the graphics industry and advertising markets. The "Graphics" division makes up almost 90% of the group turnover. Although customers have now completed the reduction of their stock levels necessitated by the fall in demand, the whole industry continues to suffer from severely curtailed marketing budgets. A major indicator of this is the declining turnover figures in the area of exhibitions, events and vehicle lettering.

The turnover of the "Documents" division however, after adjustment for the sale of the archive center activities, remains at the previous year's level.

The weak business performance has had a correspondingly negative effect on the operating result of the first three quarters of 2009. The EBIT was €-3.1 million (previous year's period €+2.2 million). The company shows a profit in the amount of €10.5 million as the result before taxes (previous year's period €-3.8 million). This includes as an extraordinary result the loan waiver by J.P. Morgan in the amount of €15.9 million net. Before this one-off effect, the result after taxes was €-5.4 million (previous year's period €-3.8 million). Due to numerous cost reduction measures in almost all areas of the company, it was however possible to prevent the decline in turnover affecting the company results to the full extent.

In terms of gross profit margin, Neschen AG had to accept a slight decline in comparison to the previous year. In the 3rd quarter 2009, the company achieved a margin of 41.5 % (previous year 43.1 %). The cumulative margin for the first three quarters of the year was 42.2 %, compared to 44.5 % in the previous year. This decline is primarily attributable to the great price pressure in the market and the significant shifts in the product mix. As a result of the economic crisis, it is becoming increasingly difficult to sell technically high-quality products at good margins. The

trend is moving in favour of so-called “economy products”, which, with slightly reduced technical requirements, can also be used for certain applications, and produce a lower gross margin due to the intensity of the competition.

The gross income achieved in the reporting period was €9.5 million (previous year €12.2 million), and cumulatively at 30.09., €30.8 million (previous year’s period €40.8 million).

In the area of personnel costs, the measures implemented at the beginning of the year are now showing their positive effect. As at 30.09., the personnel costs at Neschen AG came to €17.5 million, representing a saving in the amount of approx. €2.7 million (-13 %) in comparison to the previous year. The reduction results primarily from the personnel cuts made at the beginning of the year in the USA and swingeing wage adjustments at Neschen AG (waiver of the 13th monthly salary, reduction of working hours with corresponding wage reduction).

The material costs in the first three quarters amounted to €13.7 million, representing a reduction of approx. 14% in comparison to the previous year’s period (€16.0 million).

Due to the reduced remaining useful life of the company property Works 1 in Bückeberg, depreciation increased by €0.3 million to €3.0 million.

Significant savings were recorded in the interest result (€-2.4 million). In the previous year’s period, the interest result was still €-5.5 million. This was due on the one hand to the waiver by J. P. Morgan of the mezzanine loan, and secondly to the generally reduced interest level.

The company made great efforts to reduce stock levels in line with the reduced turnover level. As at 30.09., stock levels in the group totalled €14.6 million, or €5.5 million lower than one year ago.

Due to the adjustments in the “working capital”, the reduction of stock levels, the very low investments, the significant cost savings and the interest deferment agreed with the J. P. Morgan Bank, a balanced cash-flow was achieved, despite the significant decline in turnover.

Neschen is implementing further cost reduction measures

In the first quarter of 2009 we assumed, like many other companies in the sector, that following the massive decline in turnover in the fourth quarter of 2008 and the first quarter of 2009, the market would recover again, and that a significant increase in demand could be expected shortly. This did not occur, and from the current point of view cannot be expected in the near future. We must therefore assume today that the persistent weakness in demand will continue. The objective therefore is to prepare the company for the current turnover level of approx. €100 million. All measures are aimed at achieving a positive cash-flow and positive EBIT at this turnover level.

The administration therefore decided in the summer to cut personnel numbers within the group by a total of approx. 65 employees, of which approx. 30 jobs will go at Neschen AG. A reconciliation of interests and a social plan was agreed with the Works Council in September. This measure has now been implemented in full. Special agreements have been made with a number of employees, so that ultimately only 23 redundancies had to be made in Bückeberg. The job losses mainly affect the areas of sales, logistics and administration. Due to the good level of utilisation, hardly any jobs were lost in production.

The loss of jobs abroad are spread over almost all foreign companies. These measures will also be implemented by the end of 2009 and will lead to a further reduction in personnel costs in the business year 2010 in the order of approx. €4.0 million.

In the area of material costs, the planned measures will be continued and the full cost reduction potentials exploited. These affect in particular the areas of marketing, legal and consultation costs and external support with development projects. The latter is possible since major projects such as the internal production of inkjet products and products for the furniture industry have now been completed successfully.

We therefore expect to be able to realise further cost savings in the area of material costs in the amount of approx. €3.0 million in the year 2010 compared to the current business year.

Focussing of sales activities

The largest sales market for Neschen, the graphics industry, is currently undergoing a radical structural change, triggered by the financial market crisis and the associated worldwide recession. Due to the measures already instituted in the previous year in the area of inkjet media and the improved competitiveness of Neschen in the area of so-called "commodity products" (simple protective films and uncoated inkjet media), the company is in a position to react appropriately to the changed market conditions with a competitive product portfolio.

The sales orientation has been "readjusted". This means that greater focus will be placed on major customers, both in terms of domestic business and export. Small domestic customers will be serviced in future almost exclusively via telephone sales, supported by the Internet. The sales team is concentrating on the so-called A- and B-customers and customers with growth potential. The activities in the area of private-label / OEM customers are also being intensified. Self-adhesive products and inkjet media will be produced for these customers, who sell these under their own brand. Important new customers have already been acquired in this area in 2009.

Overall, and in view of the current market situation, the new customer business is progressing satisfactorily. As at 30.09., Neschen AG alone generated turnover of approx. €1.4 million from new customers acquired in 2009.

Comprehensive range rationalisation has been carried out in the "Graphics" Division. Approximately 20% of the standard price list articles have been deleted from the range. This necessary product rationalisation does not present any problems, since

Neschen now produces the major part of the inkjet media itself using an intelligent modular system. The range rationalisation also serves to focus the company and simplify working procedures, which were important requirements for the personnel reductions that have been made.

The product orientation of Neschen is on the one hand continuing further into the area of specialised, high-quality niche products. These include in particular the coated inkjet media, high-quality protective and mounting films and panel products for advertising displays. On the other hand, the now very successful strategy in the area of “commodity products” (simple protective films and uncoated self-adhesive media) instituted in 2008 will be pursued further. Neschen has in the meantime been able to increase its market share in this area. Due to the significant volume increase in the area of “commodity products”, production utilisation at Neschen AG is satisfactory. In terms of square meters of coated products, the decline of approx. 7% in comparison to the previous year is significantly less than the decline in turnover.

In the area of “Technical Coatings”, turnover is now starting to be generated from the furniture industry, which is a new area for Neschen. The budget set for 2009 will almost be achieved. The number of concrete inquiries and projects has been significantly increased. The first turnover has also been generated in the area of the packaging industry.

Outlook

The worldwide economic crisis has placed Neschen in a difficult situation. The company reacted very quickly to the crisis with the personnel and material cost reduction measures implemented in first quarter. This proved to be insufficient however in view of the long-persisting weakness in demand. Further measures for the reduction of personnel and material costs were therefore decided and implemented in the summer.

We are working on the basis that the weakness in demand will continue in the fourth quarter of 2009. The turnover of the group for the current business year will therefore rather be below €100 million than above it. We anticipate only a slight recovery in demand for 2010. We further assume that the mix changes in the product range, i.e. erosion of niche products in favour of “commodity products”, will also continue. We are therefore not planning on turnover growth for the business year 2010. Due to the cost reduction measures instituted, and in some cases already realised, the personnel costs will be approx. €8 million lower, and the material costs approx. €7.5 million lower, in the coming business year than in the business year 2008, with a workforce of approx. 420 to 430 employees. Even with stagnating turnover income in 2010, this will result in a significant improvement to the EBITDA and a positive EBIT.

We therefore consider that with the measures taken during the course of the year 2009, we have realigned the company and prepared it for the now realistic turnover level in the order of approx. €100 million. With moderate turnover growth, we expect to return to profit from 2011 at the latest.

Legal and economic risks:

Attention is drawn to the legal and economic risks of the company described in detail in the Business Report 2008. No significant changes have occurred since the publication of the Business Report.