

## Innovative technologies. Worldwide.



▶ IMD / IML



▶ Lacquering



▶ Imprinting



▶ Injection moulding



▶ Electroplating/PVD

Surface finishing for thousands of years has captivated people from every culture on every continent. To this day, bright colours, unique shapes and striking structures are eye-catching. Smooth or nonslip surfaces appeal just as much to the sense of touch as hard or soft materials. The plasticity and variety of surface structures provided by plastics open up a vast creative spectrum for design.

Balda consistently utilises these opportunities for design and surface finishing: Balda is the only company, in which customers have the choice of all current surface techniques. The finishing of the surfaces of plastics is a technological core competence of the Group worldwide.

Surface techniques are the cover story and photo theme of this annual report. Illustrations reproduce conventional techniques for surface finishing and for design. They emphasise the original purpose and function of the respective process. Smaller illustrations represent the relevant surface technique in Balda's portfolio, based on product examples.

## Profile and Vision of Balda AG

Balda develops, manufactures, finishes and assembles precision components made from high-performance plastics. The Group supplies companies operating in the mobile communications industry and related markets around the world.

Balda's technologies in tool-making, manufacturing processes and in surface techniques have attained a leading position worldwide. No other systems partner in the mobile communications market offers all necessary technologies from one source.

The company is globally present at the key production centres for mobile phone manufacturers. In addition to five plants in Germany, the Group's production facilities include two factories in China and Brazil, as well as Malaysia and Hungary. A new factory in India is to go into operation in collaboration with a joint venture partner in mid 2006.

Balda has a clear vision. With profitable growth, the company wants to attain sales in excess of 1 billion euro by the end of 2010. To reach this ambitious target, the Group wants to grow on two directions, with the best staff and high competitiveness.

The first direction: organic growth by expanding the core business as system supplier in the mobile communications market through

- ▶ further consistent internationalisation,
- ▶ the extension of capacities in its production sites around the world,
- ▶ reinforcement of its global technological leading position and
- ▶ an increase in existing shareholdings.

The second direction: growth via technological diversification through investments in companies

- ▶ in surface finishing,
- ▶ metal processing and
- ▶ other innovative technologies.

With this strategic orientation, Balda wants to win market shares both in already-developed markets as well as open up related markets with new products and further increase added value.

# Key Figures

in Mio. EUR

in mio. euro	2005	2004	Change from 2004 in %	2003	2002	2001
Revenues	397.2	377.7	+ 5.2	272.9	198.4	158.6
Total operating performance	422.0	383.3	+ 10.1	287.0	207.3	168.9
Material expenses ratio (in %) <sup>1</sup>	39.9	38.2	+ 4.4	38.9	40.2	41.0
Personnel expenses ratio (in %) <sup>1</sup>	27.6	25.8	+ 6.9	27.8	29.1	30.8
EBITDA	71.8	79.8	- 10.0	54.3	33.3	24.4
EBIT	53.9	51.9	+ 3.8	28.9	14.6	7.8
EBIT margin (in %) <sup>1</sup>	12.8	13.5	- 5.2	10.1	7.1	4.6
EBT	49.7	47.7	+ 4.0	22.8	9.5	3.1
Net income	33.4	28.0	+ 19.2	11.6	4.6	1.1
Sales yield after interest and taxes (in %)	8.4	7.4	+ 13.2	4.2	2.3	0.7
Cash flow	31.3	48.0	- 34.7	45.4	12.4	11.1
Investments	33.9	17.7	+ 91.5	18.8	16.3	92.5
Shareholders' equity	171.0	137.7	+ 24.2	104.4	73.3	70.9
Equity ratio (in %) <sup>2</sup>	49.1	51.6	- 4.8	43.8	35.6	32.2
Balance sheet total	348.6	266.7	+ 30.7	238.1	206.1	220.4
Employees (as of 31.12.)	8.044	5.532	+ 45.4	3.599	2.919	1.980
Earnings per share (in euro)	0.832	0.705	+ 18.0	0.308	0.137	0.031
End-of-year closing price (in euro)	11.0	8.47	+ 29.8	6.18	3.51	7.80
Dividend distribution (in mio. euro)	12.0 <sup>3</sup>	8.0	+ 51.5	3.8	1.7	1.7
Dividend per share (in euro)	0.30 <sup>3</sup>	0.20	+ 48.5	0.10	0.05	0.05

1) in percent of total performance

2) in percent of balance sheet total

3) proposal to AGM

# Contents

▶ <b>Stages of 2005</b>	<b>4</b>
▶ <b>Letter to the Shareholders</b>	<b>6</b>
▶ <b>The Board of Directors</b>	<b>8</b>
▶ <b>Report of the Supervisory Board</b>	<b>9</b>
▶ <b>Corporate Governance</b>	<b>10</b>
▶ <b>Share and Stock Exchange Trends</b>	<b>14</b>
▶ <b>Management Report</b>	<b>17</b>
Overall Economic Trends	17
Status of the Mobile Phone Market	18
Business Development	19
Profit & Loss Account Balda AG	19
Profit & Loss Account Group	21
Cash flow	24
Investments	25
Balance Sheet Structure Balda AG	28
Balance Sheet Structure Group	30
Purchasing and Supply Chain Management	33
Production	35
Products and Services	40
Organisation and Legal Corporate Structure	41
Employees	43
Environmental Protection	45
Technology	47
Supplementary Report	49
Forecast	51
Risk Report	54
Dependent Company Report	59
▶ <b>Auditors' Statements</b>	<b>60</b>
▶ <b>Appendix (Notes)</b>	<b>64</b>
▶ <b>Year End Tables</b>	<b>105</b>
▶ <b>Glossary</b>	<b>124</b>
▶ <b>Index</b>	<b>127</b>
▶ <b>Financial Calendar 2006</b>	<b>128</b>





## IMD / IML



Did the mask provide the model for IMD/IML coating technology? Here, the colour-imprinted foil is shaped with heat and pressure. The foil, which is thus given new contours, is back-sprayed in the mould with plastic. Both parts are thereby firmly combined into one formed part. IMD/IML is used, for example, for the upper parts of mobile phone housings.



transform  
appearances

## ▶ STAGES OF 2005



January



February



March



April



May



June

▶ The Balda plant, which began operations in December 2004 in Veszprém, Hungary, has registered a successful start.

▶ The global market for mobile phones grew by more than 30 percent in 2004, reaching 674 million mobile phones sold.

▶ In a press release Balda's Board of Directors, confirmed that projections for 2004 were met. The share price reacted positively.

▶ Three business administration students from the Fachhochschule des Mittelstands in Bielefeld were the first German Balda Solutions interns to travel to Suzhou, China.

▶ Analysts from two banks raised their rating of Balda shares to "Buy".

▶ At month's end, Balda announced its best results, for 2004, in the company's history.

▶ Market researchers and mobile phone manufacturers projected slower growth of around 8 percent for the mobile phone market in 2005.

▶ The industry association Bitkom expected a breakthrough in UMTS technology in Germany in 2005.

▶ Already 15 percent of all Germans owned a second mobile phone. The trend was towards second and third mobile phones.

▶ Alcatel honoured Balda-Everskill in Suzhou, China, with the "2004 Outstanding Supplier Award".

▶ Balda-Lumberg in Manaus, Brazil, was also honoured for its outstanding supply services, receiving the "2004 Outstanding Supplier Award" from Siemens.

▶ The first practical tests of graphite electrodes for tool manufacturing were successfully carried out in Bad Oeynhausen.

▶ The Global Sales Meeting, which addressed such topics as global project management and global customers, was held in Suzhou, China.

▶ Twelve Balda project managers from all over the world took part in a workshop in Bad Oeynhausen, which focused on the role of "champions" within the six sigma method.

▶ At the press briefing on annual results and the analysts' conference in Frankfurt, Balda presented the best brands for the 2004 trading year, as well as projections for the current fiscal year. The response was entirely positive.

▶ Analysts from various institutes, as well as the financial media, issued "Buy" recommendations.

▶ The management team attended road shows in Frankfurt and Munich. Balda presented itself to institutional investors.

▶ The company announced the establishment of a second Chinese production site. The plant is in the Beijing area, in the Jin Ma Development District.

▶ Already a tradition, the sixth ordinary shareholders' meeting of Balda AG was held in the Bielefelder Stadthalle (Bielefeld Municipal Hall). Shareholders approved all of the Board's motions. The roughly 700 shareholders (24.51 million shares) were thoroughly satisfied with the best results in the company's history, not to mention the doubling of the dividend to 20 cents a share. The Board of Directors stressed that the current strategy would be continued.

▶ Analysts with several institutes recommended the purchase of Balda shares.

▶ The Group announced the results of the first quarter of 2005. The company surpassed expectations, with a 15 percent increase in turnover and a jump in earnings before taxes to 9.2 million euro.

▶ Several market research institutes and brand manufacturers raised their projections to a 15 percent growth rate for mobile phone sales in fiscal year 2005.

▶ An intercultural China Workshop, with 30 participants, was held in the Technology Centre. This practical training prepares Balda managers for stays in China and trains employees based in Germany regarding contact and relations with Chinese colleagues.

▶ The market gained some certainty with BenQ's takeover of the Siemens mobile phone business. Balda held initial talks with BenQ.

▶ The management team presented the company to new funds and investment companies at a two-day road show in London.

▶ Nokia honoured Balda's injection moulding and display production branches with the distinction "excellent supplier".

▶ The Global Sales Meeting was held in Bad Oeynhausen. The internationalisation of Balda's management made further progress.

▶ Balda Solutions launched a new initiative under the name of "Balda Innoba". Its goal is consistent improvement in the area of production and tool making. The focus is on cost-reduction potentials, shorter production times and integration of innovative technologies.

▶ Market researchers predict that by 2007 for every 100 Europeans, ranging from babies to senior citizens, there will be 100 mobile phones.

▶ Balda AG's share price, which remained steady in June at 8 euro, also profited from BenQ's acquisition of the Siemens mobile phone business.

▶ Analysts with various institutes recommended the purchase of Balda shares.

▶ Market research institute Gartner und iSuppli both raised their projections for mobile phone sales in 2005 to 750 million euros.

▶ At the German Industry Forum for Technology in Würzburg Balda Medical's CEO, Dr. Rolf Eilers, delivered a talk entitled "From article to system competence – Experiences and perspectives of a supplier".

▶ The Balda Technology Meeting was held in Suzhou, China, with participants from all of the Group's production sites. The focus was on the Group's continued consolidation of international technology management and innovative tool technologies.





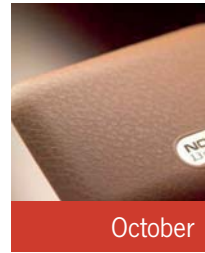
July



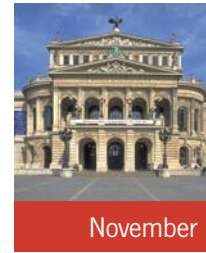
August



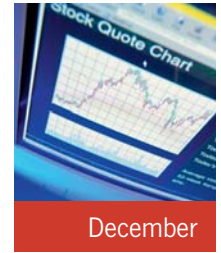
September



October



November



December

▶ With the announcement of the half-year results, Balda reported a 12.9 percent increase in turnover, equalling 178.4 million euro, and a 30 percent increase in earnings before taxes, amounting to 22.1 million euro.

▶ The Board of Directors increased projections for pre-tax results from between 42 and 44 million euro to between 45 and 47 million euro.

▶ In a favourable stock exchange environment, with a three-year record high for the DAX, the Balda share price rose from 8.20 euro to 9.44 euro by the end of the month.

▶ On the occasion of the International Tool Making Technology Meeting, the responsible managers from Suzhou and Germany met in Bad Oeynhausen. The event, which was held for the first time, dealt primarily with organisational forms of international cooperation and innovative technologies.

▶ Market research institute Gartner predicted that worldwide mobile phone sales in 2009 would surpass the billion mark for the first time. A total of 2.6 billion mobile phones could be in circulation by that time.

▶ The Balda Family Day was held at the Technology Park in Bad Oeynhausen. More than 2,000 visitors, including employees, family members and neighbours, were in attendance.

▶ Principal shareholder Bernd Fennel sold his 49.89 percent stake in Balda within the scope of a private placement. Three new large shareholders assumed control of the main portion of the share package: Sapinda International Ltd., London, with 10 percent; Cycladic Capital Management Ltd., London, with 7.4 percent; and FM Funds Management, Cayman Islands, with 14.8 percent.

▶ The German Börse rated Balda's new shareholder structure as a free float of roughly 90 percent.

▶ Since the investment by the new shareholders, Balda's share price remained over 10 euro. By month's end it was quoted at 10.35 euro.

▶ In August Balda was the top-performing Xetra listing on the SDAX, with 75 million euro in returns.

▶ Balda AG placed 8th in a high-yield test of 132 public companies in the trade journal's Prime Standard.

▶ Surface specialists with Balda subsidiary SMK in Oberlungwitz were granted the environmental certificate in accordance with ISO 14001.

▶ Display production in Bad Oeynhausen expanded its production capacity due to high demand.

▶ The Balda share remained the focus of the financial world. The increase of the free float as a result of the withdrawal of principal shareholder Bernd Fennel propelled Balda into the ranks of MDAX contenders. Balda was considered a promising candidate for upward movement, placing 49th in terms of market capitalisation and 48th in terms of liquidity on the Frankfurt exchange.

▶ With stock exchange returns of 101.4 million euro the Balda share attained the top spot on the SDAX for September as well.

▶ The share reached a yearly high of 12.20 euro, according to Onvista.

▶ Analysts with various banks corrected their price targets to marks above 12 euro.

▶ Sales specialists from all of Balda's company locations met in the Brazilian metropolises of Manaus and Sao Paulo for the Global Sales Meeting. The focus was on market and industry trends, and the analysis of customer requirements.

▶ Balda Solutions put high-speed injection moulding machines into operation. With an improved drying period the new model cuts cycle times for each plastic part produced.

▶ The announcement of the nine-month results delivered positive indexes. With an 8.8 percent increase in turnover, to 281.5 million euro, and a 14 percent gain in pre-tax results, to 35.5 million euro, Balda remained right on target.

▶ The Group acquired the PVD-coating production branch from Techno-Coat Oberflächentechnik GmbH based in Zittau (Saxony). The company integrated the production facilities, technologies and employees into the newly formed Balda Surface GmbH. The innovative PVD technology involves a coating process for thin but highly-resistant metal coatings for plastics, alloys and metals.

▶ For the first time, Balda subsidiary Albea produced leather retro-injection moulding battery covers for mobile phones from one of the world's leading manufacturers.

▶ Using stamped injection moulding technology, Balda Solutions fulfilled the special quality concepts for the latest generation of displays.

▶ The IT department initiated the B.FIT programme aimed at further developing and meeting the demands of future IT systems in the Balda Group. It investigates the requirements for future IT systems and structures in the worldwide Balda Group.

▶ Balda's share price closed at 10.46 euro at month's end.

▶ The company ranked 46th on the Prime Standard and 51st in terms of market capitalisation.

▶ DZ Bank's analysis recommended the purchase of Balda shares.

▶ Joachim Gut, Balda AG's board chairman, presented the company at the German Börse's Equity Capital Forum as well as in interviews with the television channels Bloomberg TV and WDR 3 and the newspaper Frankfurter Allgemeine Zeitung.

▶ Newly appointed to the Supervisory Board were Paul A. Stodden (CEO of debitel AG), Richard Roy (management consultant), Othmar T. Vock (management consultant) and Lutz Völker (management consultant).

▶ The Balda share closed with a plus of 28.3 percent for the year on the final day of trading. The quotation stabilised at a price of exactly 11 euro, compared to 8.57 euro on 3 January 2005.

▶ In a press statement Balda announced the targets for its 5-year plan. By the end of 2010 the Group intends to achieve 1 billion euro in turnover with a double-digit EBIT margin. Moreover, Balda intends to expand its product portfolio through acquisitions.

▶ Analysts with various banks confirmed the positive rating and recommend holding onto, or buying, Balda shares.

▶ The Board of Directors presented the company at five road shows, including shows in the financial centres of New York and London.

▶ The trading of Balda shares reached a record high in 2005. Stock exchange returns for the year totalled 458 million euro with a volume of 48,224,387 traded shares.

▶ Balda moved up to 45th place in the MDAX Performance Index and continues to hold 51st place in terms of market capitalisation amongst the MDAX ratings.

**Dear Sir/Madam,**

Balda had a very good financial year in 2005 with a new record result. When I look back at the year under review, in addition to our successes, specific changes and challenges for staff and management occupy centre stage. Above all, our globalisation and the development and integration of new technologies have demanded effort, but have also made great progress. Your company has achieved its strategic goals in the year under review:

The new production plant near Beijing has been built. The factory in Hungary has been extended. We have set the course for further internationalisation of the Group. We have strengthened our global leading position in technology with innovations and further improved productivity. The decisive contribution to these successes comes from our staff. I would like to say a big thank you to them for their committed performance and the successful utilisation of their know-how. Our earnings situation in the year under review is due to their outstanding performance.

In 2005 your company increased its turnover by 5.1 percent to 397 million euro, although these key figures distort the actual Group performance compared to the original plan for the year under review, with sales revenues of between 420 and 430 million euro. Two projects with a share of turnover for purchased electronic components of around 60 million euro were not part of the sales projections. We compensated for this omission with other projects - without purchased components that have to be assembled. The processed orders passed through the Balda value chain: from tool making, injection moulding and surface finishing to assembly-building. The contribution of these projects to the result was correspondingly higher, as you can see by our pre-tax result.

The pre-tax result (EBT) of 49.7 million euro exceeded not only the previous year's result of 47.7 million euro but also the plan for the year under review. The net income for the year amounted to 33.5 million euro. The Executive Board will propose a dividend of 0.30 euro per share to you at the shareholders' meeting.

The year under review was a period of change. The founder and main shareholder of Balda AG, Bernd Fennel, sold his share package completely in August. Financial investors took his place. The new shareholder structure led to a free float of Balda shares of 89.96 percent. This increased share volume of 35.99 million items has considerably increased the level of stock exchange sales since August. Balda was promoted to an MDAX candidate. The Balda share posted a price increase of 28.35 percent in the course of the year.

Changes also took place in our main market Infocom and amongst our customers. The mobile phone market worldwide also set a new record in 2005, with an increase of some 21 percent to 816 million phones. The product development and product lifecycles of mobile phones are becoming shorter and shorter. The technical equipment is becoming more complex. The demands made by the manufacturers on mobile phones and also on suppliers are also increasing. Balda has responded appropriately. With the new factories in Hungary and China, we have moved nearer to our customers. We have speeded up our processes and further improved quality. Your company



Joachim Gut  
CEO

has established worldwide project management and further developed itself by a series of innovations, such as, for example, the manufacture of high-quality displays for mobile phones.

Your company is continuing to grow, and thus we regularly check whether and to what extent we have adapted the organisational structure of the increasingly global operations of the Balda Group to changing customer needs. As was the case in the year under review, we shall also make structural changes in organisation in 2006.

My colleagues on the Executive Board and I have set ambitious goals for the coming years. By the end of 2010 we want to have achieved a sales mark of one billion euros, with a two-digit profit margin. The underlying plan for our strategic orientation up to 2010 is based on both organic growth and targeted technological diversification. Elements of organic growth are the expansion of capacities at our worldwide plants. Increasing existing shares in affiliated companies and new production sites are also part of this process. Organic growth therefore includes the expansion of the company as a systems supplier in the mobile communications market. Technological diversification is aimed at new technologies, in order to increase added value in new and already developed markets. Here we are thinking of investing in companies involved in surface finishing, metal processing and other technologies. I assume that we shall be informing you of concrete progress with regard to technological diversification in the course of 2006. I can already assure you here and now that the new factory near Beijing will be starting up mass production in the first quarter of the current financial year. The establishment of the site in India will probably be completed by the end of the first half of 2006.

For the current financial year we are planning organisational sales growth of around 15 percent to between 450 and 460 million euro with an EBT of between 46 and 48 million euro. We shall single-mindedly continue our existing strategy of globalisation and of expanding our technological leading position on the mobile communications market. By extending our technology portfolio, we want to take advantage of growth opportunities in already-developed and new markets with new products. I would be pleased if you continued to place your trust in us in 2006.

Kind regards

Your

A handwritten signature in black ink, appearing to be 'JG', written over a light blue horizontal line.

Joachim Gut  
CEO





▶ **Volker Brinkmann**, CFO  
Member of the Board  
Chief Financial Officer

▶ **Joachim Gut**, CEO  
Chairman of the Board  
Chief Executive Officer

▶ **Rainer Frilling**, CSO  
Member of the Board  
Chief Sales Officer

▶ **Ralf Ackermann**, CTO  
Member of the Board  
Chief Technology Officer

**Dear Shareholders,**

The Supervisory Board advised the Board of Directors with respect to the management of the company, supervised the operation of the business and dealt with all decisions of strategic importance in the financial year 2005. The Board therefore discharged the duties incumbent upon it by law and according to the Articles of Association.

The basis for their work was the meetings of the Supervisory Board as well as the verbal and written reports of the Board of Directors. In the year under review the Board held six ordinary meetings and one extraordinary meeting. The Chairman of the Supervisory Board also had regular contact with the Board of Directors in addition to the ordinary meetings and was briefed on the current situation of the company. The Board of Directors regularly informed the Supervisory Board in a timely and comprehensive manner on business development.

The Supervisory Board concerned itself with the further globalisation of the Group in the year under review, in particular with the establishment of the new production plant near Beijing. Another topic was the expansion of diversification, with the examination of potential acquisition opportunities. The Board also discussed in detail the plans of the Board of Directors for optimising the legal Group structure from the point of view of tax and issues relating to the adjustment of the organisational form of the company. In the second half of the year, the Supervisory Board discussed the further development of the corporate strategy initiated by the Board of Directors, including the question of possible partners for joint ventures regarding projects abroad. The Board also examined the purchase of assets for PVD surface coating from Techno-Coat.

During the year under review as a whole, the Supervisory Board followed and supervised the development of the company's business based on the budget with respect to actual versus target comparisons, the early warning system and risk development as well as the respective status of liquidity and finances and funding.

At its meeting held on 9 December 2005 – the first in its new composition – the Board approved the budget for 2006 and the State-

ment of Compliance applicable to the year 2005 according to Section 161 of the German Companies Act (AktG) with respect to the German Corporate Governance Code, as amended on 2 June 2005. The Supervisory Board confirmed the previously applicable exceptions and replaced the existing practice in some cases. Firstly: The existing directors' and officers' liability insurance policy for the members of the Board of Directors and the Supervisory Board will continue to apply without a deductible. Secondly: the Supervisory Board has not established any exceptions to date. Both the Board of Directors and the Supervisory Board again expressly reaffirmed their commitment to managing and supervising the company in a responsible and value-creating manner.

WestAudit AG Wirtschaftsprüfungsgesellschaft has audited the annual financial statements for 2005 prepared by the Board of Directors and the annual report of Balda AG, including the accounts and the early detection of risk system, and issued an unqualified auditors' opinion.

The Supervisory Board discussed in detail the annual financial statements and audit reports submitted on time to its members, including the Dependent company Report, at its meeting held on 24 March 2006. The auditors were present at the discussion. They reported on the essential results of the audits and were at the Supervisory Board's disposal to provide any supplementary information required. The Supervisory Board endorsed the result of the audit by the auditors based on its own audit of the annual financial statements, the consolidated financial statements, the annual report and the proposal for utilisation of the balance sheet profit. The Board approved the annual financial statements and the consolidated financial statements. The annual financial statements are therefore adopted. The Supervisory Board endorses the proposal of the Board of Directors for utilisation of the balance sheet profit.

WestAudit AG Wirtschaftsprüfungsgesellschaft also audited the report prepared by the Board of Directors according to Section 312 AktG concerning the relations with affiliated companies ("Dependent

company Report"). The auditors reported on the result of their audit and issued the following auditors' opinion:

"According to our mandatory audit and assessment, we confirm that, firstly, the actual information in the report is correct, secondly, the company's performance was not unduly high with respect to the legal transactions listed in the report and, thirdly, as regards the measures listed in the report, there are no circumstances to indicate a judgement that is fundamentally different to that reached by the Board of Directors."

The Supervisory Board audited the report by the Board of Directors concerning the relationships with affiliated companies. It did not raise any objections to the final declaration of the Board of Directors contained in the report or the result of the audit by WestAudit AG Wirtschaftsprüfungsgesellschaft.

The Supervisory Board would like to thank the former members of the Supervisory Board who resigned last year for their committed and successful work. With their work, they have provided valuable support to Balda in terms of its development to date and have therefore contributed to the company's success. In particular, the Supervisory Board would like to say a special thank you to the Board of Directors and all employees as well as the works council for their outstanding performance and valuable work in the year under review. The Board would like to thank shareholders for the trust they have placed in the company.

Bad Oeynhausen, March 2006  
for the Supervisory Board



Richard Roy

## Corporate Governance

The recommendations and suggestions of the German Corporate Governance Code have been a permanent part of Balda's corporate culture for years. They are part of the practice of company management and supervision, which focuses on creating sustained added value. In December 2005 the Board of Directors and the Supervisory Board renewed the Statement of Compliance according to Section 161 of the German Companies Act (AktG) and made it permanently available to shareholders and the general public on the Balda website. The Company complied with the standards defined in the most recent version of the Code from 2 June 2005 in the year under review with only two exceptions:

A directors' and officers' liability insurance policy without a deductible (Section 3.8 of the Code) has been taken out for the members of the Board of Directors and the Supervisory Board. This is a group insurance for a large number of employees at home and abroad. A higher deductible is however not common practice abroad. Therefore, it does not seem appropriate to differentiate between officers and employees. As was the case in the past, the Supervisory Board did not form any committees in 2005. In its former composition the Board did not expect any increase in efficiency from committees, as a close cooperation existed anyway (Section 5.3 of the Code/see also [www.Balda.de/ir](http://www.Balda.de/ir)).

At the end of February 2006, Balda AG received a motion from a major shareholder for the shareholders' meeting on 1 June 2006. At this meeting a resolution is to be passed to dispense with the individualised specification of directors' salaries for the next five years by utilising the exception defined in Section 286, Sub-Section 5 of the German Commercial Code (HGB). The Board of Directors and the Supervisory Board of Balda AG take the opinion manifested in this motion and the arguments put forward by the major shareholder seriously and respect them. Therefore, both bodies have jointly agreed to dispense with the individualised specification of directors' salaries in this annual report for the year 2005, contrary to the regulations of the Code (Section 4.2.4 of the Code). Correspondingly a new statement of compliance has today been published on Balda AG's website.

### **Supervisory Board**

The Supervisory Board of Balda AG has reformed as a result of the changed shareholder structure. The existing members of the Supervisory Board – Dr. Thomas Bentz, Dietrich Fürst, Berndt Kriete and Jochen Röfß – resigned at their own request in October respectively November 2005. The Chairman of the Supervisory Board, Gerhard Holdijk, stepped down at the end of 2005. The following members were newly appointed on 8 December:



Richard Roy, Paul A. Stodden (CEO debitel AG), Othmar T. Vock (management consultant, former CFO Givaudan SA) and Lutz Völker (management consultant). At the beginning of 2006 Mark C. Twaalfhoven (President and CEO of Teleplan International N.V. of the Netherlands) was promoted to the Supervisory Board of Balda AG. All the members of the newly formed Supervisory Board meet the requirements of the Code, particularly in terms of independence. On 2 January 2006 the Supervisory Board elected Richard Roy as its new Chairman. He works as a management consultant. He formerly held the post of vice-president at Microsoft with responsibility for the strategy of Europe, the Middle East and Africa (EMEA).

The members of the Supervisory Board received the following remuneration for the financial year 2005:

- ▶ Fixed remuneration 92,700 euro
- ▶ Variable remuneration 92,700 euro

The variable remuneration corresponds to the trend of the price of Balda stock compared to the SDAX. As the price of the stock was no more than 10 percentage points worse than the index, the basic remuneration was increased by 12,500 euro. The rules laid down for publication of directors' salaries must also apply to the remuneration of the Supervisory Board. Therefore, individualised publication was also dispensed with in this case (Section 5.4.7 of the Code).

The Company also outlines the consultancy and brokerage mandates of its Supervisory Board members and the remuneration paid for this in the appendix to the consolidated financial statements (Section 5.4.7 of the Code).

### **Board of Directors**

The Board of Directors of Balda AG acts in its composition of 1 July 2004 and remained unchanged in 2005.

The Company agreed fixed and variable elements of their remuneration with all members of the Board of Directors (Section 4.2.3 of the Code).

CEO Joachim Gut sold a total of 5,000 shares in Balda AG in the financial year 2005. Bernd Fennel, member of the Supervisory Board, sold 19,832,625 shares in the previous financial year.

### **Rendering of accounts and audit of financial statements**

The Balda Group again prepared its consolidated financial statements and interim reports for the financial year 2005 according to International Financial Reporting Standards (IFRS). The annual financial statements of Balda AG were prepared according to the regulations of the German Commercial Code (HGB). The standards of the IFRS created a high level of transparency and comparability in terms of the Company's development (Section 7.1 of the Code). In 2005 the Company again published its quarterly reports within four weeks at the latest after the end of the quarter. It was therefore well within the recommended target set by the Corporate Governance Code of a maximum of 45 days (Section 7.1.2 of the Code). The annual report with the annual financial statements will also be publicly accessible within 90 days after the end of the financial year in the current year.

### **Insider list**

Balda AG keeps a complete, regularly updated list of persons with an insider character.

### **Auditors**

The auditors from WestAudit AG Wirtschaftsprüfungsgesellschaft also submitted a declaration of independence in 2005 (Section 7.2.1 of the Code). The full declaration is published on the Balda website as a download. According to an agreement between the auditor and the Supervisory Board, the auditor informs the Chairman of the Supervisory Board on all findings from the audit of the financial statements, which are essential to the functions of the controlling board.

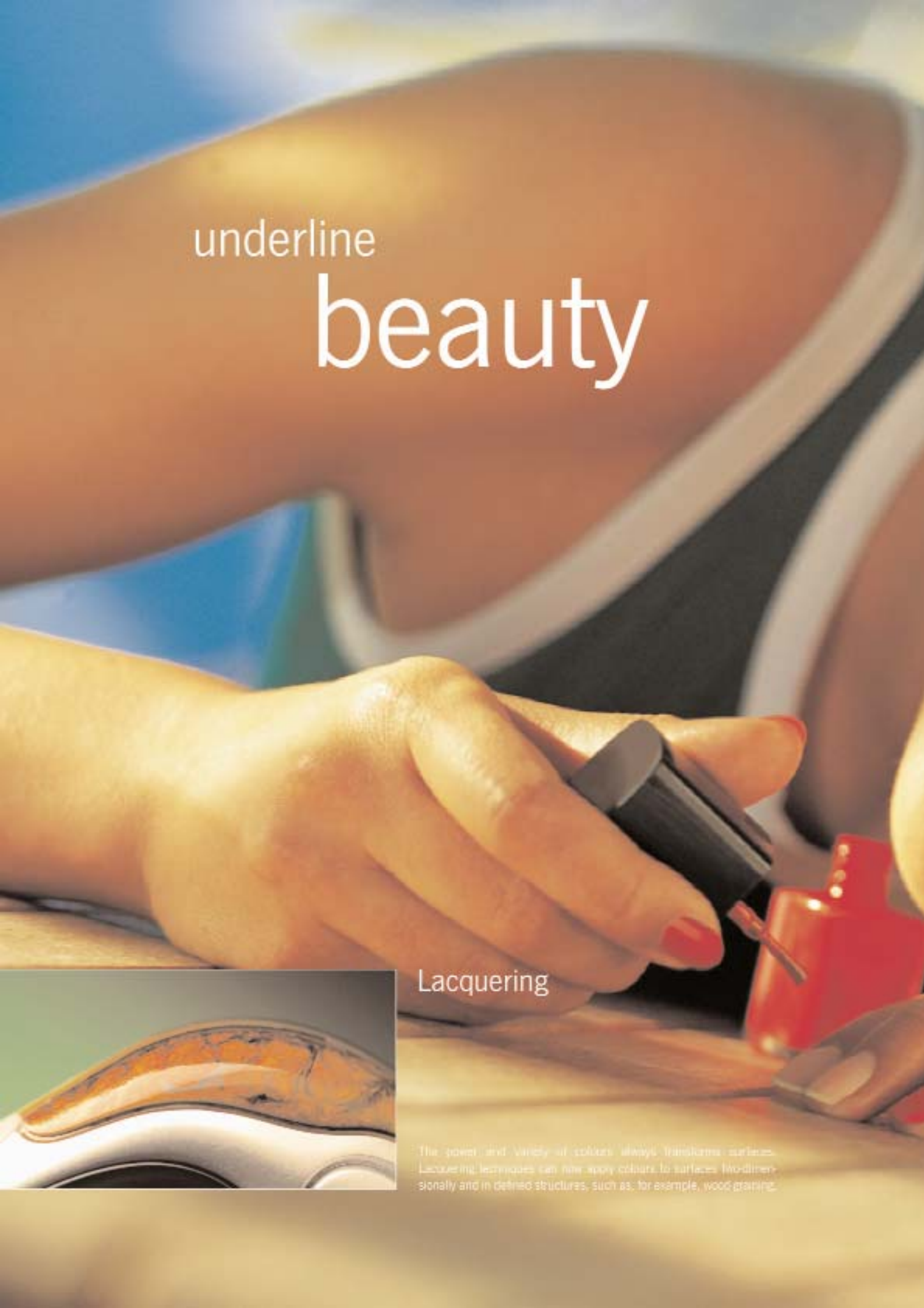
As an internationally active company, the Balda Group works in accordance with the respective national standards and internationally recognised best practices. Corporate Governance is not a static state of affairs for Balda, but a continuous process, which is part of the Company's development.

Bad Oeynhausen, 17 March 2006  
Balda AG

The Supervisory Board                      The Board Of Directors

underline

# beauty

A close-up photograph of a hand with red-painted nails holding a black brush, applying a clear lacquer to a light-colored surface. In the background, a red bottle of lacquer is visible. The lighting is warm and focused on the hand and brush.

Lacquering

A detailed close-up of a lacquered surface, showing a complex, multi-layered wood-grain pattern in shades of brown, orange, and black. The texture is smooth and glossy.

The power and variety of colors always transforms surfaces. Lacquering techniques can now apply colours to surfaces three-dimensionally and in defined structures, such as, for example, wood-graining.



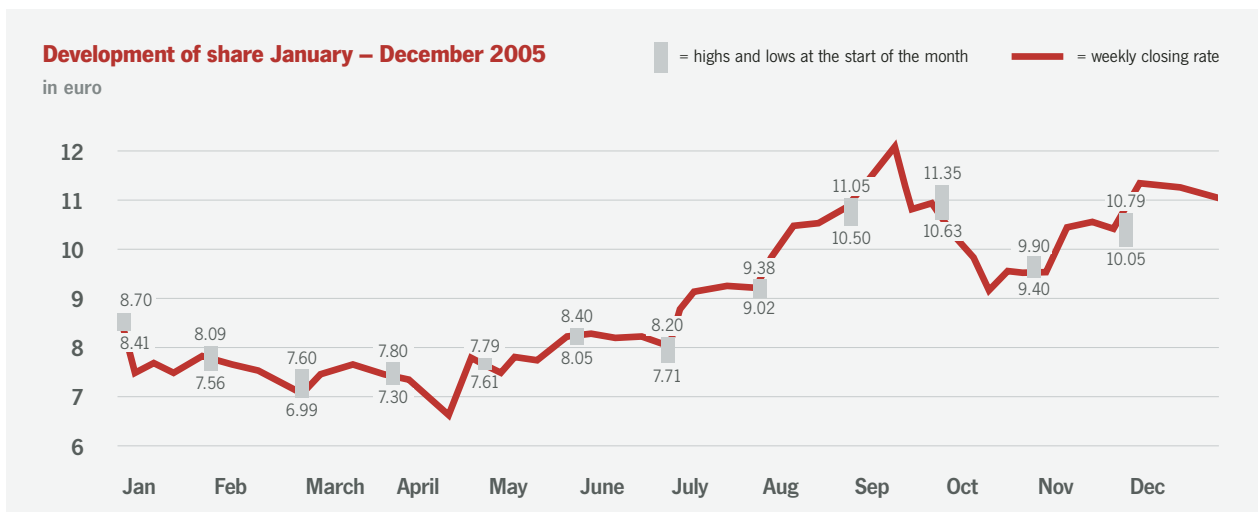


## 2005: A Very Good Year for Shares

DAX companies convince investors with profits. Private and foreign investors are returning to German stock exchanges. IPOs are booming.

The share year 2005 ended with price gains in the Euro area and in Germany. While the German share index increased by around 27 percent last year, the US stock exchange scarcely made any headway, with any movement tending to be sideways. The German second-line stocks performed positively. The MDAX increased by 36 percent. The technology shares of the TECDAX grew at any rate by 14.7 percent. The SDAX posted an increase of 35.2 percent. Balda shares closed the year with a very good price increase of 28.35 percent.

14 new issues, 2005 also brought the long-awaited breakthrough for the German capital market with respect to IPOs. The stock exchange year 2005 was played out in an encouraging economic climate and passed without any political or psychological shocks, despite new oil price records and the first interest increases for euros and dollars. Strong corporate profits, resulting in historically high dividend returns of around 3 percent, also attracted more foreign investors. The DAX posted a three-year high with over 5,400 points as of the end of the year. Other indices also went from strength to strength.



Dominant influencing factors on the worldwide stock exchange climate in 2005 were in particular the development of the price of oil and raw materials, interest increases in euroland and the USA and the central economic data and indices as well as the price ratio of euro to dollar. In Germany the expectations in the new government also played a part.

The sale of shares on all German stock exchanges exceeded the previous year's value by more than a quarter with more than 3.2 trillion euro. Private investors returned to the stock exchange last year. With

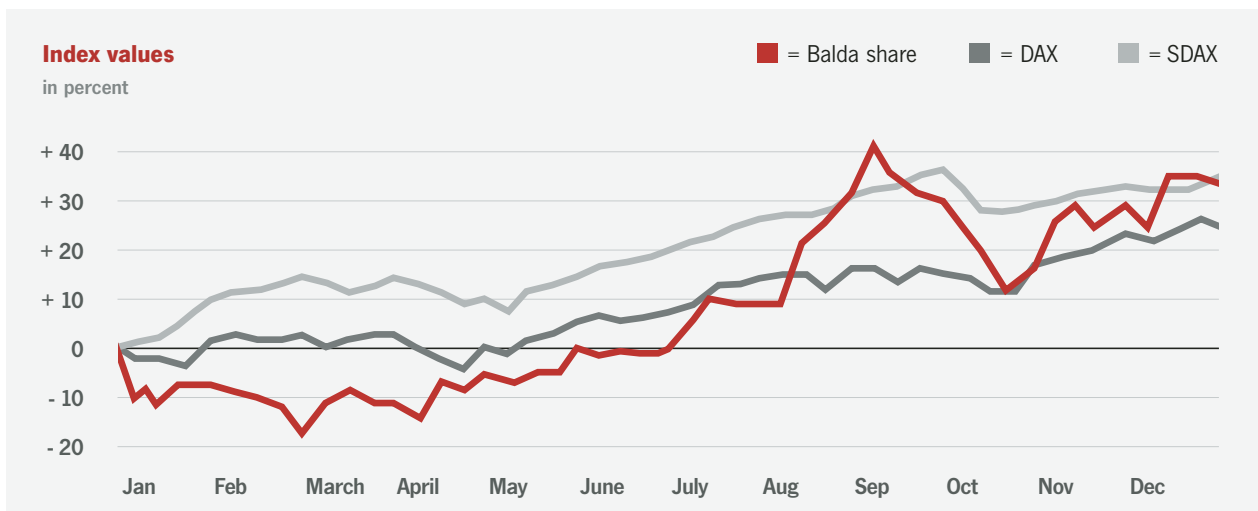
The Balda share kicked off on 3 January with an opening price of 8.57 euro. The quotation closed on 30 December 2005 with a price of exactly 11 euro after a solid final month. The Balda share therefore posted a plus of 2.43 euro or 28.35 percent in the year under review. The Balda shares therefore occupied a very good position in the growth environment of German market indices. Its increase significantly exceeded the leading index DAX30 and the TECDAX. Only MDAX and SDAX did better by around 5 percentage points.

Taking into account the price increase from 2004 of 2.43 euro and the dividend paid of 0.20 euro, the Balda shares achieved an annual return of 30.6 percent (previous year: 38.2 percent).

Trading in Balda shares reached record levels in 2005. With a stock exchange turnover of 48.2 million (previous year: 25.9 million) traded securities, the liquidity of Balda shares in 2005 was around 86.1 percent higher as an annual total than in 2004. The private

The Balda share has been listed in the MSCI World Index of the investment bank Morgan Stanley since 2004. With the price increase of 28.35 percent, the Balda shares far exceeded the growth of the index of 4.5 percent in the year under review.

In 2005, 407,866 shares from the convertible bond placed in June 2003 were converted. Since the placement 3,142,958 shares have therefore been converted. 116,067 items still remain. The debent-



placement of shares by Bernd Fennel is not included in this. The stock exchange traded 187,644 securities a day on average (previous year: 101,021 items). This is an increase of 85.7 percent. The monthly spread of trading volume ranged from around 49,000 shares in May to approximately 435,000 shares in September. The stock exchange turnover in the year under review amounted to 458.4 million euro (previous year: 193.5 million euro). This is an increase of 137 percent. Based on stock exchange turnover, the Balda share came 45th in the so-called MDAX performance rankings (comparison with MDAX securities). With respect to market capitalisation, Balda was in 51st place at the years end with 441.8 million euro (previous year 336.7 million euro). In relation to the free float of 89.96 percent of shares the market capitalisation came to 395.8 million euro. With 75 million euro stock exchange turnover in August, Balda was the strongest security on XETRA in the SDAX.

The new shareholder structure made an important contribution to the greatly improved position of the Balda share on the financial market. The sale of the shares of main shareholder Bernd Fennel in August led to three new major shareholders and to a considerably higher free float of 89.96 percent (previous year: 50.11 percent). This is equivalent to a tradable share volume of 36.0 million shares.

ture bonds can be converted until 31 December 2007. All converted shares are eligible for dividends for the financial year 2005. The nominal capital of Balda AG therefore changed in the year under review. It increased from 39.76 euro to 40.16 euro and is split into the corresponding number of individual share certificates (cut-off date: 31 December 2005).

Based on 40.16 million shares, a result of 0.832 euro per share for the period under review can be calculated from the Group's net income for the year, which increased by 19.2 percent to 33.4 euro million. This is an increase of 18.0 percent compared to the previous year's value of 0.705 euro (for 39.76 million shares). The net income for the year of Balda AG applicable to the distribution of dividends amounted to 10.5 million euro in the financial year 2005 (previous year: 16.8 million euro).

#### Dividend increases

The Executive Board and Supervisory Board will propose to pay a dividend of 0.30 euro per individual share certificate at the shareholders' meeting on 1 June 2006. This is equivalent to a 50 percent increase in the dividend in comparison to the previous year. In relation to the stock exchange closing price of 11.00 euro for the year under review, this gives a dividend return of 2.7 percent after 2.3 percent last year. The payout rate of 12.0 million euro is

## ► SHARE AND STOCK EXCHANGE TRENDS

36.0 percent of the net income for the year of the Balda Group and is 115.1 percent of the net income for the year of Balda AG. Thus, it is within the distribution goal defined in the dividend strategy of around a third of the Group's profit. The difference exceeding the net income for the year of the AG will be taken from the profit carried forward from the previous fiscal year.

### Investor relations

The Balda Group also had timely and open communication with participants in the capital market in the period under review. Investor relations are directly assigned to the CEO. This allocation of tasks underlines its significance in the Group. The Group informed financial analysts and fund managers as well as financial journalists continuously and comprehensively about business development and prospects for Balda at the annual press briefing around

quarters in Bad Oeynhausen, the company held meetings with 76 fund managers and financial analysts at the financial centres of Frankfurt, Munich, London, Zurich, Paris, Milan, Copenhagen and New York altogether. In addition, the Executive Board had various individual meetings with investors. The Investor Relations division answered numerous enquiries from private investors. They receive the shareholders' newsletter "Balda Invest" every month. The newsletter informs them about developments in the markets and on events occurring within the company.

The Executive Board also actively sought dialogue with the editorial offices of financial and business media in 2005. Various individual meetings and interviews took place with influential, nationally published media. Moreover the CEO had interviews or appeared on various TV programmes, including "plusminus" on ARD, on WDR,

XXP and Bloomberg. In addition, Balda presented itself at the Shareholders' Equity Forum of the Deutsche Börse in Frankfurt.

For shareholders, the key event in the financial year 2005 was the sixth ordinary shareholders' meeting of Balda AG on 28 April in Bielefeld. Around 700 shareholders voted for a record dividend with the distribution sum of 8.0 million euro (previous year: 3.8 million euro). The shareholders present represented 62,447 percent of the capital with voting rights. They adopted the motions of the company virtually unanimously. The speech by Joachim Gut was available on the website of Balda AG. The shareholders were able to authorise persons to represent their voting rights via the website.

**Table of share issue numbers**

	2005	2004	2003	2002	2001
Share capital (31.12.)	40,162,958	39,755,092	37,530,000	33,720,000	33,720,000
Highest price in the year <sup>1</sup>	12.20	8.80	7.99	9.55	32.19
Lowest price in the year <sup>1</sup>	6.62	6.20	3.04	2.65	5.60
End-of-year closing price <sup>1</sup>	11.00	8.47	6.18	3.51	7.80
Average trading volume <sup>2</sup> (in millions of items)	48.2	25.9	14.1	13.1	19.8
Dividends	0.30 <sup>3</sup>	0.20	0.10	0.05	0.05
Dividend yields	12,048,887 <sup>3</sup>	7,95,1018	3,753,000	1,686,000	1,686,000
Market capitalisation (31.12.)	441,800,000	336,700,000	231,935,400	118,357,200	263,016,000
Earnings per share	0.835	0.705	0.308	0.137	0.031
PER <sup>4</sup>	13.0	12.0	20.06	25.62	251.61

1) Closing Xetra-prices, after splits

2) Since IPO on 23 November 1999

3) Proposal of the Board of Directors and the Supervisory Board

4) Price-Earnings-Ratio: (Basis: End-of-year closing price)

the publication of the annual report in Frankfurt, and at three teleconferences on the publication of the quarterly figures. The Group also cultivated intensive dialogue with institutional investors in the last financial year. In addition to 18 meetings at the group's head-

In the year under review a total of 20 share analysts and trade media recommended the Balda share, in some cases several times. There were 29 buy signals as compared to 18 hold or sell recommendations.

## World Economy Grew Robustly in 2005

Whilst the USA, Asia and South America maintained their economic momentum, Europe and Germany fell behind.

The world economy continued its growth phase last year with a plus of around 4.4 percent (previous year: 5.1 percent). The engines for this conjuncture were Asia, above all China and India, but also the USA and South America. The business climate in the Euro zone, on the other hand, was sluggish.

### **Euro area**

The growth of gross domestic product in the twelve countries in the euro area fell in 2005 to 1.3 percent (previous year: 2.1 percent). In the Euro zone the economic stimulus again came from exports, which increased by 7.0 percent. Confidence and consumer spending last year remained almost unchanged and at a low level with 1.1 percent. The average inflation rate was 2.2 percent. It was therefore for the sixth time in a row higher than the level set by the European Central Bank to keep price at less than 2 percent. Above all, energy prices accelerated price development, at times reaching a record level of 70 US dollars a barrel for crude oil. At the same time, they put the brakes on private consumption. In 2005 the unemployment rate in the euro zone stood at 8.6 percent on average (previous year: 8.9 percent).

The gross domestic product of Germany rose in 2005 by 0.9 percent (previous year: 1.6 percent). Exports grew by 7.5 percent and a new record level was achieved. Exports were again the mainstay of the economy. Private consumption increased by 1.3 percent, which was somewhat less than disposable income at 1.5 percent. Inflation increased to 2.0 percent (previous year: 1.6 percent). This is the highest value since 2001. The unemployment rate stood at 11.7 percent (previous year: 10.5 percent).

### **United States of America**

After a weak final quarter the gross domestic product of the USA posted growth of 3.5 percent (previous year: 4.2 percent). The increase in consumer spending fell in 2005 to 3.6 percent (previous year: 3.9 percent). The increase in the price of mineral oil

products also reduced consumer purchasing power. Consumption was funded more by loans. The savings rate came to minus 0.5 percent. Export earnings increased by 10.4 percent (previous year: 12.6 percent). Imports climbed to 11.4 percent (previous year: 16.6 percent). The current account surplus is expected to have reached around 800 billion US dollars by the end of 2005.

### **China**

The momentum of Asian national economies continued last year. The gross domestic product of China lost some tempo, but exceeded expectations with growth of 9.9 percent (previous year: 10.1 percent). China was thus ahead of Great Britain, becoming fourth leading economic nation worldwide. The engines of the Chinese growth were again exports, with a 28.4 percent (previous year: 35.4 percent) increase, investments and increasingly also consumption. In 2005 the Middle Kingdom generated a trade balance surplus of 102 billion US dollars (previous year: 31.9 billion US dollars). The foreign currency reserves of the Chinese National Bank came to 819 billion US dollars at the end of the year. Per capita income in China increased last year to 1,700 US dollars (previous year: 1,500 US dollars).

### **Brazil**

Brazil fell short of expectations in 2005. The growth of the world's tenth largest national economy only reached 2.2 percent according to provisional estimates (previous year: 4.9 percent). Thus, the country lagged far behind the average growth rate for Latin America as a whole, which was 4.3 percent. Exports came to around 118 billion US dollars last year, i.e. 23.1 percent higher than the previous year. This export boom helped the current account to achieve a massive plus. The increasing foreign currency reserves significantly eased the debt situation in the country.



## Two Billion Mobile Phone Users

China, India and Russia are the engines of global growth.

Developing countries show a significant increase.

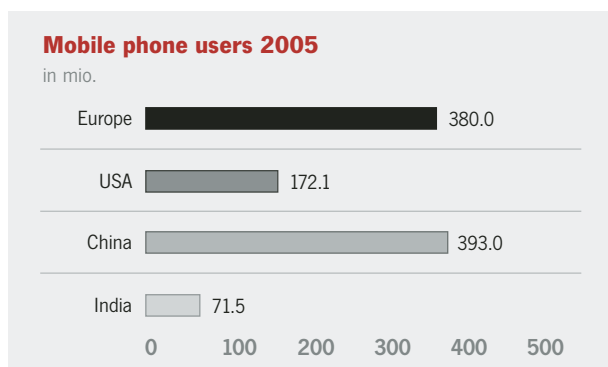
The global mobile phone market developed positively in 2005, beyond the expectations of many insiders and experts, and outstripped the record levels of previous years. Overall, mobile phone manufacturers were able to sell 816 million phones worldwide (previous year: 674 million), according to information provided by the Gartner Group market research institute. This is equivalent to an annual increase of 21 percent. The Gartner market rival IDC produced similar figures, i.e. 825.5 million phones (previous year: 707.3 million) and a growth rate of 16.7 percent.

In line with seasonal patterns, sales in the last quarter reached their highest level as the result of Christmas business, with 245.2 million (IDC) mobile phones sold, although the market proved to be surprisingly resilient in the first nine months and achieved significant growth. Given the record growth of 29 percent in 2004, the forecasts at the start of the year were somewhat cautious. Gartner predicted an increase of around 8 percent in January or 720 million mobile phones in total. Mobile phone manufacturers were somewhat more optimistic, with a forecast of around 10 percent. Gartner already increased its forecast in June to some 750 million, and in September to 779 million. At the end of the year market researchers were predicting 810 million phones and growth of more than 19 percent. They were therefore still above the expectations of sectoral leaders amongst mobile phone producers.

In total, around two billion people telephoned worldwide. The most dramatic growth was in Russia, India and China. In percentage terms, India experienced the biggest increase and reached 71.5 million mobile phone users. In China the number of mobile phone users increased to 393 million. Russia had already exceeded the 100 million mark for mobile phone users by the middle of the year. High demand and a large amount of potential were demonstrated by developing countries in the Far East, the Gulf States and in Africa. China increased its exports of mobile phones in 2005 by 56 percent to 228 million devices. Brazil, whose domestic sales increased by 10 percent, further expanded its position as a site for mobile phone producers by doubling export volume from 1.37 to 2.73 billion US dollars.

### New models as purchasing incentive

Particularly in markets such as China, India and Africa, low-cost, simple phones contributed to the high sales figures. In industrialised nations with very high saturation rates growth resulted on the other hand from the demand for spare parts and the trend for a second or third phone. In these markets the large number of new mobile phone models with new designs played a significant role. A driving factor on the technical front is the UMTS standard. It already achieved a market share of around 5 percent in 2005 with around 40 million phones. Moreover, the increasingly advanced multifunctional options of mobile phones are a considerable purchasing incentive. The key equipment features include high-quality digital cameras and MP3 players. Balda further consolidated its position as one of the world's leading system partners for plastic components of mobile phone manufacturers in 2005. The opening of new production plants in Hungary and China reinforced the company's ability to compete internationally. In addition, Balda continued to benefit from its development competence and worldwide leading technology portfolio. The company was thus once again the only company in the industry, which could offer all relevant surface techniques from one source in the year under review.



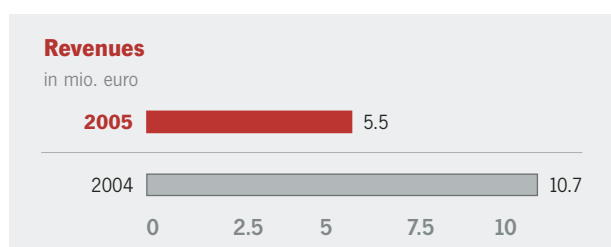
## AG Extends its Function as a Management Holding

Balda AG transfers buildings to real estate and leasing subsidiary and shall conclude a profit and loss transfer agreement.

Balda AG acts as a management holding in the Balda Group. The operating business in the Group lies with the subsidiaries.

### Loss of income from rents

The revenues of Balda AG in the last financial year consisted of revenue from rents and management fees of subsidiaries. They represent the core business of the AG. In the year under review revenues fell from 10.7 million euro to 5.5 million euro. Balda AG had already transferred part of the leased facilities to the Group companies at the end of the previous year. Therefore, rental income was no longer accrued for this machinery in the period under review.



As of 1 November in the year under review the AG then transferred the building in Bad Oeynhausen to Balda Grundstücks-Vermietungs GmbH & Co. KG. Since then this subsidiary has been leasing the building to Balda companies. The other operating income of 9.7 million euro was 82.9 percent higher than the level in the previous year of 5.3 million euro. It consisted of debiting of disbursed costs, such as consulting expenses. Specific IT systems are still being held available for the Group at the holding. The costs incurred are therefore passed onto the subsidiaries. In addition, for example, income from writing back provisions or book profit from fixed asset retirements was also accrued.

Revenues and other operating income make up the total operating performance of the AG. At 15.2 million euro, they were only slightly below the previous year's figure of 16.0 million euro in the year under review. Personnel expenses increased by 48.2 percent compared to the previous year's figure of 3.2 million euro to 4.7 million euro. In relation to total operating performance, personnel intensity, at 30.8 percent, increased considerably (previous year: 19.7 percent).

### Growing operating expenses

Due to the sales and transfers of fixed assets mentioned above, the depreciation on intangible and tangible assets fell drastically. It amounted to 2.2 million euro after 7.7 million euro in the previous year.

Other operating expenses to the sum of 11.1 million euro had a negative impact on revenues in the period under review. The biggest single item in this period was legal fees and consulting expenses (see "Notes on the Group").

### Decreasing income

Owing to the changes in the Group's legal structure, income from affiliated companies fell. It amounted to 15.2 million euro in 2005 after 28.5 million euro in the previous year. This includes the results of Balda-Heinze GmbH & Co. KG, Balda Grundstücks-Vermietungs GmbH & Co. KG and Balda Solutions GmbH & Co. KG up to their conversion as of 31 March 2005. In addition, the AG received a dividend payout from the profit carried forward from previous fiscal year of Balda Werkzeugbau GmbH. In financial year 2005 Balda AG concluded profit and loss transfer agreements with a few Group companies. The assignable income resulting from this amounts to 13.4 million euro and pertains to Balda Solutions Deutschland

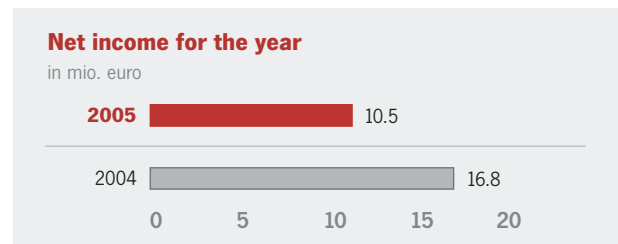
GmbH and Balda Werkzeugbau GmbH. Interest and other income rose in the year under review. It increased from 1.7 million euro in the previous year to 2.4 million euro. This increase of 41.9 percent reflects the growing financial traffic within the Group.

### Growing retained earnings

Depreciation on financial assets and current asset securities increased considerably. It amounted to 2.2 million euro after 0.2 million euro in the previous year. Owing to the reclassification of shares at Balda Investments Singapore, the AG carried out a valuation adjustment of 2.2 million euro on the shareholding valuation of the Balda Beteiligungs AG subsidiary in Zug, Switzerland. Losses were also assigned to the AG from the profit and loss transfer agreements mentioned above. They amounted to 6.3 million euro in the year under review and virtually all of them pertained to an accounting reorganisation loss at Albea Kunststofftechnik GmbH. The item "Interest and similar financing costs" virtually doubled with 4.3 million euro compared to 2.4 million euro in the previous year. This increase can be justified by the placement of a debenture loan for 40 million euro in February.

The pre-tax result fell by 32.9 percent compared to the value for the previous year of 23.2 million euro to 15.6 million euro. Taxes on income and earnings fell to 5.0 million euro (previous year: 6.4

million euro). The tax load ratio fell significantly from 39.6 percent to 33.0 percent. The net income for the year amounted to 10.5 million euro and fell by 37.7 percent compared to the figure for the previous year (16.8 million euro). With the profit carried forward from previous fiscal year of 27.2 million euro minus the dividend payout of 8.0 million euro, the retained earnings of the AG amounted to 29.8 million euro after 27.2 million euro in the previous year. This is an increase of 9.2 percent.



The net income for the year of the AG is the legal basis for the planned dividend payment of 0.30 euro per share. Based on 40.16 million shares, a dividend payout of a good 12 million euro can be calculated. The difference exceeding the net income for the year of the AG will be taken from the profit carried forward from the previous fiscal year.

## Solid Development of Earnings

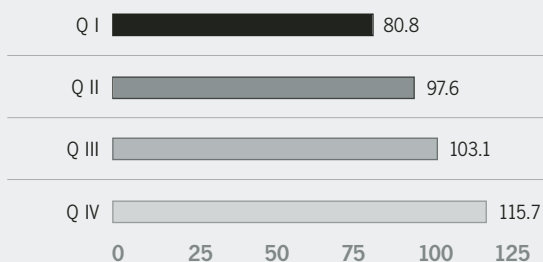
Shift of revenues and earnings shares within the group from Europe towards Asia.

Balda Group revenues in 2005 amounting to 397.2 million euro were up by 19.5 million euro or 5.2 percent over the previous year's figure of 377.7 million euro. Sales thus fell short of the company forecast of between 420 and 430 million euro. The background to this discrepancy lies in the cancellation of two mobile phone projects with a disproportionately high proportion of sales of outsourced electronic components, amounting to 60 million euro. The company compensated for this gap in sales with other projects that did not contain the same high proportion of outsourced parts. The entire Balda value-added chain was employed in the process. Consequently the Group managed to surpass forecast earnings, even though the sales target was not met.

Sales in the fourth quarter of the year under review, traditionally a good quarter for orders, amounting to 115.7 million euro, did not quite manage to match the extraordinary record figure of 118.9 million euro from the previous year. There was a slight fall of 2.7 percent. Despite that, the fourth quarter remained the best quarter of the reporting period, following 80.8 million euro in the first quarter (previous year: 70,3 million euro), 97.6 million euro in the second quarter (previous year: 87.8 million euro) and 103.1 million euro in the third quarter (previous year: 100.8 million euro).

### Revenues Q I to Q IV 2005

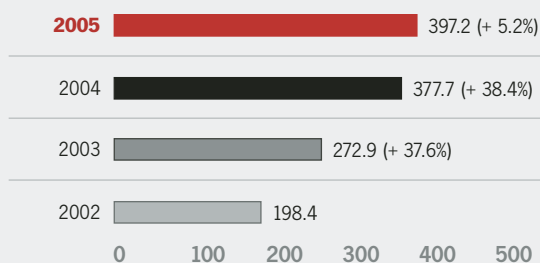
in mio. euro



The core business in the ICT sector once again earned the largest share of total Group sales, amounting to 90 percent in fiscal year 2005. In the course of the continuing development of the organisation, dissolving the divisions, Balda no longer distinguishes between the individual market areas within diversification sales. The remaining market areas together contributed 39.7 million euro to sales. In this context, the problems with the dry-powder inhaler, also indicated in the risk report, led to a significant shortfall of the sales targets for this product, originally 4.5 million euro.

### Revenues 2002 to 2005

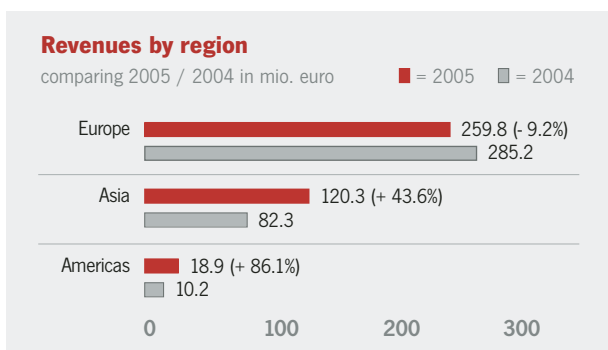
in mio. euro



While the European region did not improve its revenues in the year under review, the Asian and American regions achieved significant growth. In 2005 Europe recorded sales of 259.8 million euro (previous year: 285.2 million euro). That represents a fall of 9.2 percent. As already mentioned in the quarterly reports in the year under review, this fall is to be explained by a changed mix of products. The proportion of sales arising from expensive outsourced parts has dropped. With revenues amounting to 120.3 million euro (previous year: 82.3 million euro), the Asian region achieved 43.6 percent growth. The Balda-Lumberg joint venture, launched on 1 July of the previous year, earned sales for the American region amounting to 18.9 million euro (previous year: 10.2 million euro).



That is an increase of 86.1 percent. The European region contributed 65.3 percent to Group sales. The Asian production plants in China and Malaysia contributed 30.0 percent to Group earnings in 2005. The share of total Group sales accounted for by Brazil reached 4.8 percent in 2005.



Other operating income rose by 32.5 percent to 9.0 million euro (previous year: 6.8 million euro). In this context 2.2 million euro are accounted for by the cancellation of short-term liabilities. Of these, 0.5 million euro relate to a liability arising from a capacity utilisation guarantee towards a supplier, which ceased in the previous year. Contrary to predictions, the capacity utilisation guarantee relating to the purchase of plastic components was clearly fulfilled, with the result that the Group did not have to make any compensation payment. Furthermore, the threatened losses did not materialise to the extent once feared. As a result, Balda was able to release a sum of 0.4 million euro. In addition, the Group had stopped making allowances for outstanding accounts in the previous year. The feared cancellations or corrections to sales arose only in some cases, however, or alternatively it was possible to compensate for them by means of other deliveries. In the end, there was a sum of around 2.1 million euro to write off.

#### Increased total operating performance

The changes in the inventory of finished and unfinished goods expanded significantly to 15.0 million euro (previous year: -1.7 million euro). Solely the production plants in Hungary and China accounted for 9.2 million euro. There the company has set up consignment warehouses in its order processing for some customers. So Balda no longer invoices these customers as before on delivery, but only when goods are removed from the consignment warehouse. Despite that, these customers remain responsible for the stock in the consignment warehouse. Other internally produced and capitalised assets changed slightly from 0.5 to 0.9 million euro. The Group thus improved total operating performance by 10.2 percent, up to 422.0 million euro (previous year: 383.3 million euro).

Other operating expenses rose from 58.1 million euro in the previous year to 65.6 million euro in the period under review. That represents a rise of 7.5 million euro, or 1.9 percent. It should be noted that the figures presented here for the fiscal years 2004 and 2005 do not contain expenditure for the leasing of temporary personnel. This is shown for the first time in personnel expenses in 2005. Reclassification amounted to 20.3 million euro for the fiscal year 2004. The ratio of other operating expenses in relation to total operating performance remained virtually unchanged at 15.6 percent, following 15.2 percent in the previous year.

#### Higher other operating expenses

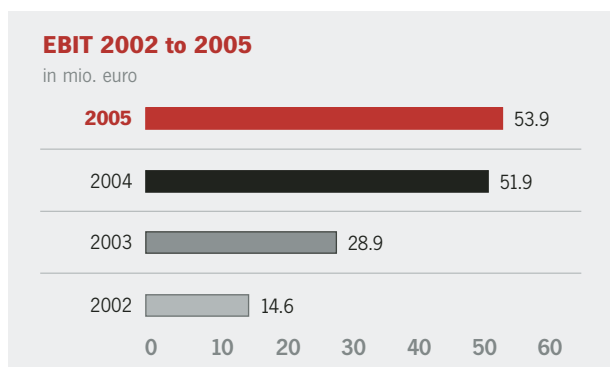
The biggest single item is premises, maintenance and operating costs. These rose from 12.7 million euro to 15.0 million euro. There were also significant increases in energy costs, up to 6.2 million euro, following 4.8 million euro in the previous year. Legal and consultancy costs rose to 6.9 million euro, in part as a result of expenditure for due diligence. The outcome of the due diligence was such that the company acquisition was not concluded. There have also been significant rises in travel/vehicle/advertising costs, as well as the cost of investor relations. They rose to 6.2 million euro. In that context, it must be taken into account that the car fleet was sold at the end of 2004 and then leased back, in order to reduce costs. The lease costs are therefore shown under this item for the first time. In addition to which the increased travel expenditure resulting from the growing globalisation of the Group also makes an impact here.

#### Excellent earning power

Earnings before interest, taxes, depreciation and amortisation (EBITDA) amount to 71.8 million euro in the year under review (previous year: 79.8 million euro). That represents a fall of 8.0 million euro, or 10.0 percent. The EBITDA margin has thus reduced from 20.8 percent to 17.0 percent. In the end, this is the effect of the increased expenditure already outlined above, especially in the personnel sector. Despite the fall in EBITDA, Balda showed excellent earning power in relation to the industry and the competition in the fiscal year just ended.

The depreciation and amortisation of tangible and intangible assets fell significantly by 35.7 percent, down to 17.9 million euro (previous year: 27.9 million euro). On the one hand the regular amortisation of goodwill is dropped in accordance with the provisions of IFRS 3. It amounted to 2.5 million euro in the previous year. On the other hand, Balda undertook an extraordinary amortisation of goodwill amounting to 3.6 million euro in the previous year. This kind of amortisation was not necessary for the year under review.

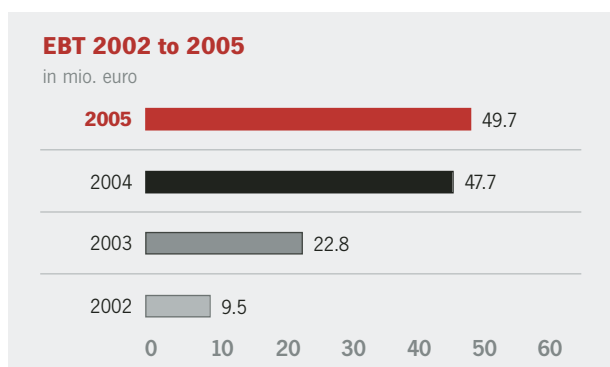
Consolidated operating income (EBIT) rose by 3.8 percent in the period under review, to 53.9 million euro (previous year: 51.9 million euro). The contribution made by the European region fell as a result of the sales and cost effects outlined above, to 23.5 million euro (previous year: 36.5 million euro). Asia, in contrast,



managed to double its earnings contribution, achieving 27.0 million euro, following the previous year's figure of 15.1 million euro. Brazil remained virtually unchanged with an EBIT of 0.4 million euro. The EBIT margin within the Group fell slightly, standing at 12.8 percent, following 13.5 percent in the previous year. The fall in Europe amounted to 3 percentage points, down to 9.5 percent (previous year: 12.5 percent). In Asia, on the other hand, the margin rose significantly to 21.6 percent, compared with 18.2 percent in the previous year. At 2.0 percent, Brazil remained virtually unchanged in terms of the margin too (previous year: 3.0 percent).

#### EBT surpasses forecast

The Group improved its earnings before tax (EBT) by 4.0 percent to 49.7 million euro (previous year: 47.7 million euro). Finance costs remained virtually constant at 4.3 million euro, compared with 4.2 million euro in the previous year. At 11.8 percent the EBT margin was just below the previous year's figure of 12.5 percent. As a result the Group even managed to surpass the earnings forecast already raised in the summer, of 46 to 48 million euro.

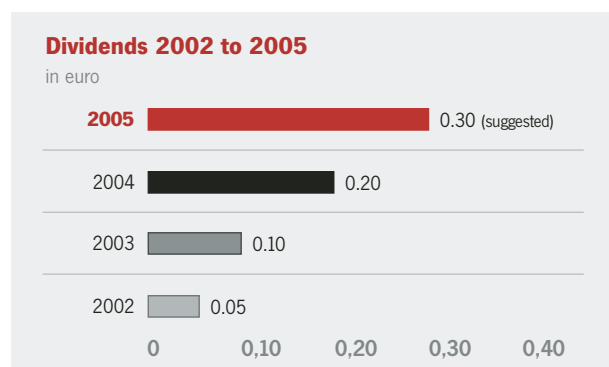


Taxes on profits within the Group fell significantly from 15.5 million euro to 10.2 million euro. That puts the consolidated tax ratio at 20.6 percent in relation to earnings before tax (EBT). In the previous year that figure was 32.4 percent.

#### Annual net income increases significantly

Following minority interests amounting to 6.0 million euro, the Group's share of annual net income amounts to 33.4 million euro. These earnings are an increase of 19.2 percent compared with the previous year's figure of 28.0 million euro. Added to the profit carried forward from the previous fiscal year, amounting to 47.2 million euro, and minus the dividend distribution for the fiscal year 2004, the retained earnings amount to 72.7 million euro.

Calculated on the basis of 40.16 million shares, the annual net income results in earnings per share of 0.832 euro. This is an increase of 18.0 percent compared with the previous year's figure of 0.705 euro for 39.76 million shares. The annual financial statement of Balda AG forms the legal basis for the dividend distribution. The annual net profit shown in it amounts to 10.5 million euro.



The Executive Board and the Supervisory Board propose to the Annual General Meeting that a dividend of 0.30 euro be paid for each share. Multiplied by the capital stock of Balda AG entitled to dividend, amounting to 40.16 million shares, this results in a dividend distribution of 12.0 million euro. This corresponds to an increase of 4.1 million euro in the dividend distribution, or 51.5 percent. The difference over and beyond annual net income will be taken from the profit carried forward from the previous fiscal year.

## Cash Flow Underscores Solid Financial Fundamentals

Cash funds grow significantly by 48.4 percent to 42.3 million euro at year-end.

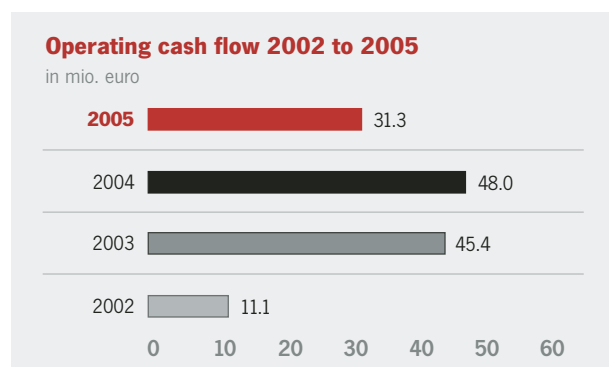
The cash flow statement has central importance for assessing the financial situation of the Balda Group. The cash flow statement thereby includes all cash flows in the Balda Group for the reporting year. The summary of in- and outflows of cash and cash equivalents is divided among operating, investment and financial activities.

The determination of cash flows from investment activities as well as of cash flows from financial activities respectively occurs purely on the basis of payment. Cash flows from current operating activities, on the other hand, are based on results, which are obtained indirectly after adjustment for non-cash items.

### Expansion of inventories and receivables

The cash inflow from current operating activities decreased in the reporting year from 48.0 million euro by 14.8 million euro to 31.3 million euro. Through reassignment of individual entries between the items, the values concerned for the past year deviate from those given in the financial report for the year 2004. The operative results were at 53.9 million euro slightly greater than those for the previous year. Higher tax payments were set off against non-cash depreciation expenses, which were 10.0 million euro lower. This decreased inflow was only partly compensated for by lower outflows due to changes in taxes levied and/or liabilities compared to the previous year. The value of - 4.7 million euro was noticeably under the value of 6.9 million euro for the previous year. Also markedly under that of the previous year was that from the inflow from the extension of provisions. The Group increased accounts payable trade as well as other liabilities by 19.8 million euro. In the previous year there was an outflow of 14.4 million euro in order to reduce this item. The greatest influence in the reporting year came from the expansion of inventories and receivables. Here the Group made cash expenditures of 42.4 million euro after an inflow of 0.4 million euro in the previous year. (See also the explanations of the balance sheet structure for the Balda Group.)

The cash outflow for investment activities remained, at 32.4 million euro, 22.4 percent under that expended in the previous year, which was 41.8 million euro. In the reporting year, only payments for investments in fixed assets were due. Compared to the values from the previous year of 15.3 million euro the outflows were more than double. In the previous year the Group had additionally spent 27.1 million euro for the acquisition and sale of subsidiaries. In the reporting year no cash outflows for this purpose occurred. (See the "Investments" section for more details.)



In fiscal year 2005 the cash inflow from financial activities amounted to 14.9 million euro after an outflow of 16.3 million euro in the previous year. For the distribution of dividends 8.0 million euro were paid out as well as 17.0 million euro for the repayment of liabilities to commercial banks. These outflows were balanced off by inflow of 39.5 million euro by taking out a promissory note loan. The Group received 1.4 million euro from payments in the framework of the conversion of tranche B in the change from convertible bonds. Changes in capital leases and the participation of external companies led together to an outflow of 1.0 million euro.

In total the relevant changes in the cash fund amounted to an inflow of 13.8 million euro.

### High level of cash and cash equivalents

On the reporting date belief cash funds totalled 42.3 million euro, compared to 28.5 million euro in the previous year. These cash and cash equivalents at the end of the period included cash in hand, immediately disposable investments, deposits at commercial banks as well as checks and are therefore identical with the

balance sheet item "Cash and cash equivalents". The self-generated financial capacity – defined as the quotient of cash inflow from current operating activities to cash outflow from investment activities – slightly declined due to intensive investment activities during the reporting year to 1.0 compared to 1.2 in the previous year. Dynamic exposure rose slightly and is now about 1.0 years compared to 0.5 years in 2004. It indicates, in which time period the net financial liabilities (including bonds) could be repaid from the cash flow from current operating activities.

## Group Doubles Investment Activities

The focus of investment activities for the Balda Group in fiscal year 2005 was the expansion of the Beijing site. In addition, the Group made targeted investments to increase capacity particularly in Hungary, but also in Asia.

### Investments doubling

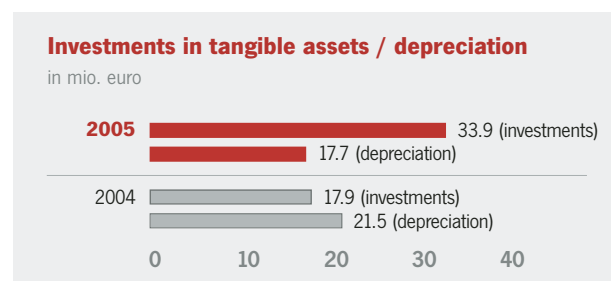
Investments in fixed assets amounting to 32.0 million euro (previous year: 16.1 million euro) can be broken down as follows:

- ▶ Land and buildings: 2.5 million euro (previous year: 1.2 million euro)
- ▶ Machinery and equipment: 14.4 million euro (previous year: 9.8 million euro)
- ▶ Factory and office equipment: 4.3 million euro (previous year: 3.6 million euro)
- ▶ Advance payments and plant under construction: 10.8 million euro (previous year: 1.5 million euro)

Investments in intangible assets in 2005 were 1.9 million euro (previous year: 1.6 million euro). They were almost exclusively devoted to the extension and optimisation of software.

Investments in tangible and intangible assets were balanced by depreciation of these items equalling 17.9 million euro (previous year: 21.5 million euro).

Disinvestments – with repayment of loans – attained a total of 1.1 million euro in 2005 and were thus almost unchanged from the previous year (1.2 million euro). Tangible assets were responsible for 1.0 million euro of this. Net investments (investments minus disinvestments) rose from 16.5 million euro in the previous year to 32.8 million euro.



### Growing tangible assets

The tangible assets of the Balda Group in the reporting year totalled 114.3 million euro, 19.4 percent above the benchmark of 95.7 million euro. The inventory of intangible assets such as patents and software increased from 1.8 million euro in the previous year by 28.3 percent to 2.4 million euro.

The financial assets of the Balda Group increased to 4.4 million euro in 2005 from 4.9 million euro in the previous year. Changes due to currency exchange contributed 0.4 million euro to this growth.



reveal

# identities



## Imprinting

Finger painting with paints is already child's play. With up to six colours in one printing operation, Esita applies a manufacturer's or provider's trademarks to the exact position on the housing of mobile phones. The identity of the mobile phone's brand is thus highlighted.



## Significant Growth of Balance Sheet Total

Fixed assets and current assets are increasing considerably.

Equity ration decreases due to growing balance sheet total.

The balance sheet total of the AG increased in the year under review by 34.2 percent from 169.4 million euro to 227.3 million euro. Both the fixed assets and the current assets increased due to re-organisation of the legal group structure.

### Transfer of fixed assets

Fixed assets increased by 19.6 percent in total, from 131.4 million euro in the previous year to 157.3 million euro, as of the balance sheet date. The transfer of real estate, including buildings under construction, to the new subsidiary Balda Grundstücks-Vermietungs GmbH & Co. KG, affected the tangible assets. This caused investments in tangible assets to fall from 38.0 million euro to 2.5 million euro. This corresponds to a 35.5 million euro decrease or 93.4 percent.

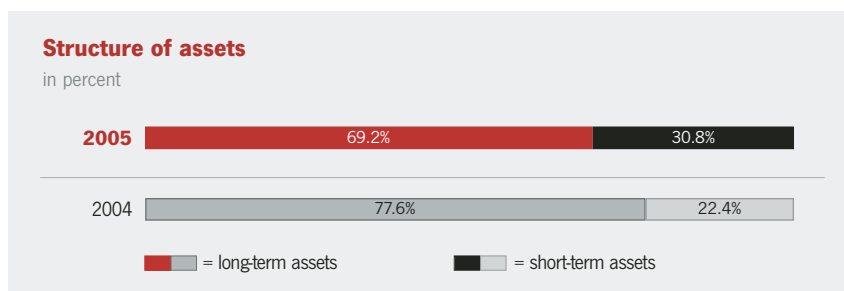
Singapore Pte. Ltd., worth 25.3 million euro, to Balda AG in the year under review. Fourthly, Balda AG acquired a stake in Balda Solutions Hungaria Kft. for 3.1 million euro. Balda Solutions Deutschland GmbH holds the remaining shares. In return, loans to affiliated companies of 6.2 million euro were reduced. (You can find additional information in the notes to the income statement of the AG and in the notes on the organisation and legal structure of the Group.)

### Current assets increasing considerably

The current assets increased by 85.4 percent to 69.6 million euro. On the one hand, the receivables and other current assets increased considerably. On the other hand, the AG allocated more liquid funds of the Group to its accounts. The inventory amounted to

21.0 million euro on the balance sheet date after 0.7 million euro in the previous year. This value includes 10.9 million euro for securities, which the AG holds in its short-term portfolio within the scope of interest optimisation.

Receivables and other current assets increased by 31.7 percent, i.e. to 48.5 million euro as of the balance sheet date.



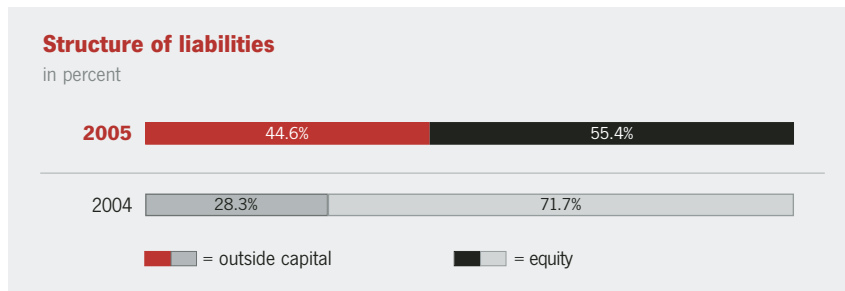
### Tax optimisation

The financial assets, on the other hand, increased by 61.0 million euro or 65.5 percent to 154.0 million euro (previous year: 93.0 million euro). Firstly, this reflects the additional investment of 30.4 million euro in the above-mentioned Balda Grundstücks-Vermietungs GmbH & Co. KG. Secondly, the holdings in Albea Kunststofftechnik GmbH and Balda-Heinze GmbH & Co. KG were transferred to Balda AG as part of the tax optimisation of the Group structure. Previously Balda AG held these stakes indirectly via Balda Werkzeugbau GmbH. These accruals amounted to 11.1 million euro altogether. Thirdly, Balda Beteiligungs AG transferred its shares in Balda Investments

### Accounts receivable growing

The accounts receivable from affiliated companies increased from 34.8 million euro to 48.0 million euro. In addition to receivables from the restructuring of fixed assets within the Group, the receivables from profit and loss transfers or investment earnings are reflected here. Other current assets fell from 1.9 million euro to 0.4 million euro.

The shareholders' equity of the AG increased slightly in the year under review from 121.4 million euro in the previous year to 125.9 million euro. This increase can be explained on the one hand by the completed conversions from the convertible bond. On the other hand, the retained earnings increased by 2.5 million euro to 29.8 million euro. The equity ratio fell due to the sharp increase in the balance sheet total from 71.7 percent to 55.4 percent.



The provisions fell slightly as of the balance sheet date from 7.1 million euro to 5.6 million euro. This reduction affected both the reserves from taxes and the other reserves.

#### Liabilities doubled

The AG more than doubled its liabilities from 40.9 million euro to 95.8 million euro. The loan liabilities increased from 22.0 million

euro in the previous year to 49.1 million euro. The additions from the debenture loan placed in February to the sum of 40 million euro were only partly compensated for by the repayments on existing loans. In addition to the regular redemption payments, Balda AG made an extraordinary redemption payment to the sum of 10.2 million euro in December. The loans and the trade accounts payable and the other liabilities only changed negligibly compared to

the previous year. Accounts payable to affiliated companies on the other hand, almost quadrupled from 9.7 million euro to 37.5 million euro. The increase was virtually completely due to the aforementioned restructuring of the stake in Balda Investments Singapore.

The net financial liabilities rose as of the balance sheet date from 21.4 million eu-

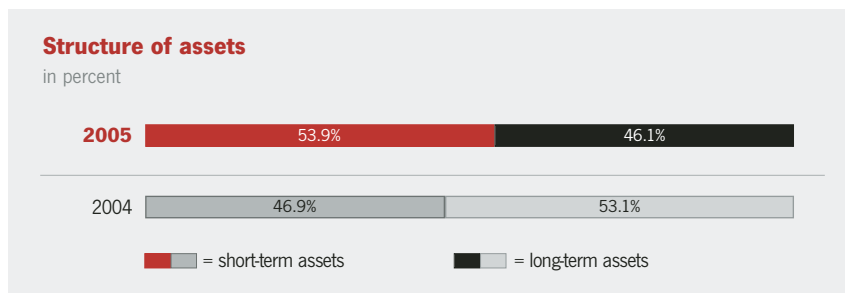
ro to 28.1 million euro and include all the indebtedness to banks of the AG balanced by the liquid funds and the securities. In relation to the balance sheet total the net liabilities stood at 12.4 percent in 2005 after 12.6 percent in the previous year. Allowing for the loans, the rate fell from 15.9 percent to 14.6 percent. The amount in this case rose from 27.0 million euro to 33.1 million euro.

## Total Assets Grow by 31 Percent

Situation of assets remains particularly solid.

The total assets of the Balda Group in the balance sheet increased in fiscal year 2005 by 82.0 million euro or 30.7 percent to 348.6 million euro (previous year: 266.6 million euro). Current assets significantly increased by 62.9 million euro or 50.3 percent to 188.0 million euro (previous year: 125.1 million euro). Long-term assets, on the other hand, increased by just 19.1 million or 13.5 percent to 160.7 million euro (previous year: 141.6 million euro).

before the reporting date. On the other, this reflects the shift in sales from Germany to Hungary. The German companies have the option, through the underwriting agreement concluded in the summer of 2003, of selling part of their trade accounts receivable to the bank syndicate via forfeiting. Balda Solutions Hungaria, however, is not included in this contract. Due to the shift in sales to Hungary, the Group was therefore unable to sell a volume of about 13.6 million euro.



Inventories have increased in comparison to the reference date in 2004 by 14.6 million euro or 45.8 percent to 46.5 million euro (previous year: 31.9 million euro). In particular, the share of work in progress and finished goods and merchandise increased sharply by 13.7 million euro or 78.5 percent to 31.0 million euro (previous year: 17.4 million euro). The main

cause of this increase was the setting up of consignment warehouses at customer locations, as was already explained in the notes to the revenues and earnings development. These inventories, as well as those of raw materials and those of finished goods at sites of the Balda Group, are covered by contractual agreements with the customers. The proportion of inventories in the balance sheet total was 13.3 percent on the reporting date for 2005 compared to 12.0 percent the previous year. The turnover ratio (ratio of total production to inventories) decreased due to the above-mentioned reasons from 12.0 to 9.1 during the reporting period.

Cash and cash equivalents had increased in 2005 by 13.8 million euro or 48.7 percent to 42.3 million euro (previous year: 28.5 million euro) on the reporting date. The increase is partly due to the issuance of a bond in February 2005 to the amount of 40.0 million euro. It was only partially used for the premature redemption of debts to the amount of 10.2 million euro in December of the reporting year. The relative share of cash and cash equivalents in the balance sheet increased from 10.7 percent to 12.1 percent compared to 2004.

### Shift in sales from Germany to Hungary

The inventories and trade accounts receivable had grown by 25.3 million euro or 42.0 percent to 85.3 million euro (previous year: 60.1 million euro) on the reporting date for 2005. On the one hand, the accounts receivable at the reporting date are always highly dependant on the exact course of sales in the final weeks and days

The claims for tax refunds for the Group, which are being separately reported for the first time, sharply increased by 6.7 million euro or 610.1 percent to 7.7 million euro (previous year: 1.1 million euro). This increase was mainly the result of the consolidation of the tax base at the level of the Balda AG. This consolidation



was the result of earnings payment contract with the German companies (see also "Organisation and Legal Corporate Structure"). It made possible the offset of taxable earnings and optimised the utilisation of any possible losses. The prepaid expenses and other current assets increased by 2.5 million euro to 6.1 million euro (previous year: 3.6 million euro). This concerns principally claims for refunds of sales tax and other advance payments.

### Increase in machinery and technical equipment

The increase in long-term assets results in the first place from the growth in fixed assets. Fixed assets grew by 18.6 million euro or 19.4 percent to 114.3 million euro (previous year: 95.7 million euro).

Above all, machinery and equipment increased by 8.0 million euro or 20.3 percent to 47.5 million euro (previous year: 39.4 million euro). The advance payments and construction in progress had increased even more clearly at the reference date by 7.8 million euro or 451.7 percent to 9.5 million euro (previous year: 1.7 million euro). Both items reflect the investments for the new site in Beijing as well as the special expansion of capacity in Hungary. The intangible assets increased by 0.5 million euro or 28.3 percent to 2.4 million euro (previous year: 1.8 million euro). The financial assets rose by 0.5 million euro or 10.6 percent to 4.9 million euro (previous year: 4.4 million euro).

Goodwill increased by 2.1 million euro or 6.4 percent to 34.1 million euro (previous year: 32.0 million euro). This reflects the regulations from the IFRS 3 concerning the revaluation through changes in currency conversion. Deferred taxes decreased by 2.5 million euro or 33.2 percent to 5.1 million euro (previous year: 7.6 million euro). Investment intensity (share of fixed assets in the total balance sheet) decreased to 44.6 percent (previous year: 50.3 percent) during the reporting period. The share of current assets, on the other hand, rose to 53.9 percent (previous year: 46.9 percent).

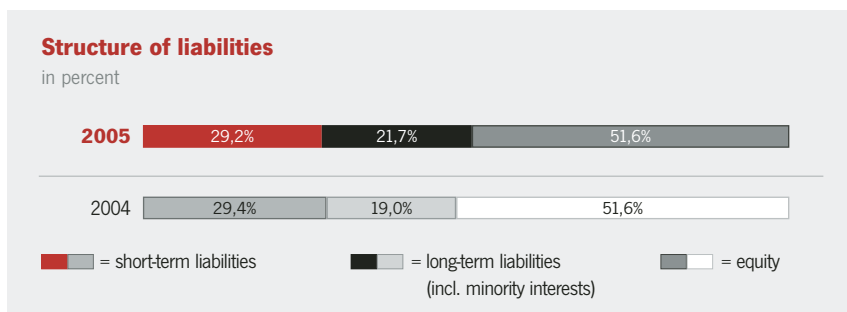
On the liabilities side, current liabilities rose by 23.5 million euro or 30.0 percent to 101.8 million euro. Credit liabilities increased by 4.9 million euro or 31.5 percent to 20.4 million euro (previous year: 15.5 million euro). Accounts payable trade showed a sharp increase from 26.6 to 48.9 million euro. This is a plus of 22.2 million euro or 83.4 percent. This increase, which was also related to the reporting date, reflected the expansion of warehouse stocks. Provisions rose by 1.0 million euro or 78.7 percent to 2.3

million euro (previous year: 1.3 million euro). Tax liabilities, reported separately for the first time, significantly decreased from 11.8 million euro in the previous year to 4.9 million euro at the end of the reporting period. This is a decrease of 6.9 million euro or 58.6 percent. This improvement is also mainly an effect of the previously mentioned consolidation of the tax base at the Balda AG level.

### Promissory note loan extends long-term liabilities

Other short-term liabilities remained almost unchanged at 22.4 million euro (previous year: 20.0 million euro). Reporting of the above-mentioned items – trade accounts payable, provisions as well as other short-term liabilities – was influenced by the reassignment of individual entries within these items. This reassignment concerns values for the past year, which are therefore not comparable to those given in the financial report for the year 2004.

Other long-term liabilities markedly increased in the reported period by 19.0 million euro or 44.4 percent to 61.9 million euro (previous year: 42.9 million euro). The entries for long-term debt increased the most dramatically. It rose by 51.1 million euro (previous year: 33.4 million euro). This is an increase of 17.7 million euro or 53.0 percent. The greatest factor influencing the increase in



long-term debt has been the Group's borrowing by promissory note loan in fiscal year 2005, which totalled 40.0 million euro. Against this, the Group's bank credits decreased from 28.4 million euro to 6.8 million euro. This is a reduction of 21.6 million euro or 76.0 percent. This was a consequence of the above-mentioned special redemption amounting to 10.2 million euro. This loan to the amount of 5.0 million euro was reported in the financial report for the year 2004 under other long-term liabilities. The item deferred taxes increased by 2.6 million euro to 3.4 million euro. This is a plus of 0.8 million euro or 28.9 percent. Under other long-term liabilities, the convertible bond issued in the year 2003 involved only 23 thousand euro. This corresponds to conversion rights for 116,067 shares, for whose conversion a further 552 thousand euro must be paid in.

**Net gearing remains almost unchanged**

The net financial liabilities of the Balda Group totalled 30.5 million euro at the reporting date at the end of 2005 (previous year: 22.5 million euro). They include all bank liabilities of the Balda Group – together with loans – balanced against cash and cash equivalents. The financial relations of the Balda Group thus continue to be extremely healthy. The ratio of the net liabilities to the balance sheet total was 8.7 percent at the end of 2005 (previous year: 8.4 percent). Net Gearing, the ratio of net financial liabilities to shareholders' equity, increased only slightly in fiscal year 2005 to 17.8 percent (previous year: 16.3 percent). The exposure of the Balda Group (ratio of debenture to equity capital) changed only minimally, from 1.04 at the end of 2005 compared to 0.94.

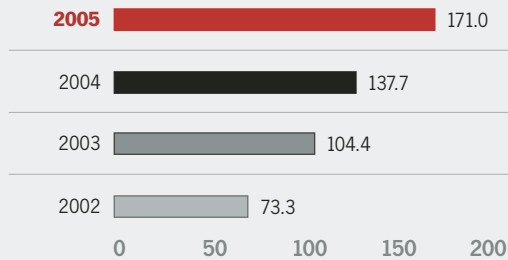
Minority interests increased by 6.1 million euro or 78.1 percent to 13.9 million euro (previous year: 7.8 million euro). This item reports the participation of third parties in company assets, which the Balda Group includes at their full amount in the consolidated Group. On the reporting date this item concerns only the share, which the joint venture partner Everskill holds in companies in Asia. This sharp increase reflects the very good results, which the region Asia contributed to Group earnings hat. At the same time, changes resulting from currency conversion have increased this item by 0.8 million euro.

The shareholders' equity ratio for the Balda Group decreased from 51.6 percent in the previous year to 49.1 percent at the end

of 2005, due to the sharp increase of the balance sheet total. In absolute figures, shareholders' equity increased in fiscal year 2005 by 33.4 million euro or 24.2 percent to a total of 171.0 million euro (previous year: 137.7 million euro).

**Net total assets 2002 to 2005**

in mio. euro (figures rounded)

**Results pushes shareholders' equity**

The gain in shareholders' equity was above all due to retained earnings during the reporting period, whose results attained 33.4 million euro. This was also the result of 7.5 million higher reserves. These rose in 2005 to 58.2 million euro (previous year: 50.7 million euro). This was above all a consequence of an increase in currency reserves. The Balda Group has thus globally further strengthened its healthy financial structure from the previous year.

## Equivalent Quality Worldwide

The Group continues to certify suppliers and establishes standard organisational form for logistics in all regions.

Purchasing and Supply Chain Management (SCM) take strategic priority in the Balda Group. They are a key factor influencing customer satisfaction, costs and processes. In 2005 the company extended the global structure of strategic purchasing. Customers' requirements for global mobile phone projects demand the same quality worldwide. In the area of SCM, the company has established a standard organisational form for logistics in all regions.

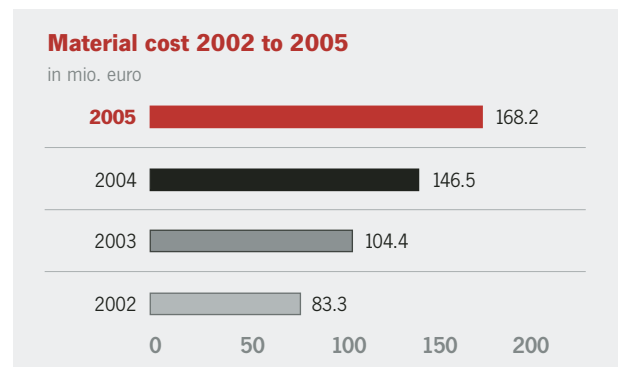
### Purchasing

In the year under review, the Purchasing department integrated "supplier quality management" into its structure in Europe. This amalgamation creates direct channels, saves time and lowers costs. Balda also consistently continued the certification of suppliers in 2005. Purchasing sets the benchmark for quality with its procurement of raw materials. Balda works closely with suppliers on the basis of clear specifications to develop quality. Balda has certified all the key suppliers. With the right quality of purchased components, Purchasing also lays the foundations for smooth and punctual production processes.

The company maintains long-standing relations with around 70 percent of its suppliers. The integration of Purchasing into global project management for the development of mobile phones, which started in 2005, has proved worthwhile. The timely availability of the increasingly complex purchased components has led to more rapid project completion.

Balda was able for the most part to pass the price increases for plastics occurring in the year under review onto customers. The prices for the majority of other purchased components largely remained unchanged. The purchase of capital goods mainly concerned machinery and equipment for the production plants in Beijing and in Hungary.

Balda uses special types of steel for tool-making and in 2005 it initiated the formation of purchasing cooperation with other companies for special types of steel. The purchase price is lower, due to the increased volume purchased. To further optimise procurement and disposition, Balda also integrated the purchasing of tools into strategic purchasing.

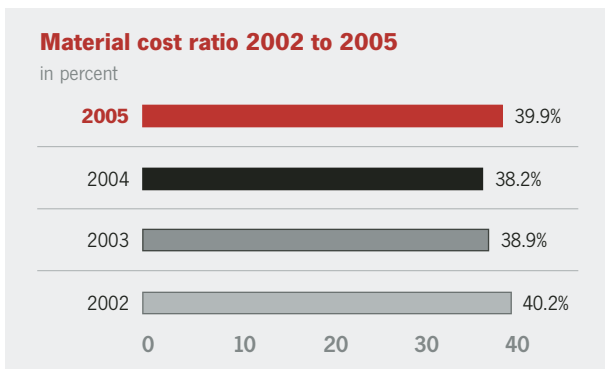


Costs of materials and purchased services of the Balda Group amounted to 168.2 million euro in the year under review as against 146.5 million euro in the same period the year before. This is an increase in material expenses of 21.7 million euro or 14.8 percent.

### Higher inventories

The slightly disproportionate increase is mainly due to the sharp rise in the item "Change in inventories of finished goods and work in progress". It amounted to 15.0 million euro in the year under review as against minus 1.7 million euro in the previous year. As the profit margin has not yet been achieved for these products via sales, the percentage of material costs is higher. Therefore, an increase in this item has to lead to a disproportionate increase in material expenses. Raw materials, auxiliary substances, supplies and purchased goods accounted for 153.5 million euro (previous

year: 134.1 million euro) in the last financial year. This is an increase of 19.4 million euro or 14.5 percent. The share of raw materials, auxiliary substances, supplies and purchased goods in the cost of materials amounted to 91.2 percent in 2005 (previous year: 91.5 percent). Purchased services accounted for 14.7 million euro (previous year: 12.4 million euro). They mainly refer to external services bought in from third parties. Balda therefore prevented the build-up of additional resources and investments and kept costs down. The material expenses ratio, measured by the Group's total performance, increased slightly, as already explained, to 39.9 percent (previous year: 38.2 percent). The



segment reporting again shows that the material expenses ratio in Asia (54.7 percent) and America (65.2 percent) significantly exceeds the ratio in Europe (31.7 percent). These ratios reflect the high percentages of purchased components for mobile phones or Bluetooth devices.

### Supply chain management

Supply chain management (SCM) reflects all the required activities company-wide, in order to plan and produce a product and

deliver it to the customer. To do this, SCM integrates all partners in a joint logistical process chain. It ranges from the purchase of raw materials to delivery to the end user. The homogeneous logistical organisation set up at all the Group's production plants in 2005 decisively optimised the basic conditions for implementing global mobile phone projects. The same contact persons with the same competences and tasks are now working in the same departments at all sites. Reporting is carried out based on a catalogue of globally identical parameters. This is an important step for capacity and material-based planning for all sites.

### New consignment warehouses

In the year under review Balda, installed a logistics service provider in Hungary. This external company carries out all material handling outside Balda's production hall. In 2005 the company opened up consignment warehouses near customers at Veszprém in Hungary, in Manaus and in Shanghai. The factory in Manaus has been integrated in the logistics department of a global logistics service provider to achieve cost benefits.

The Group started the planning and projection for an advanced planning system (APS) in 2005. The system will automate inter-site planning and replace manual work. The APS will considerably reduce the workload of SCM at a global level. The aim is to reduce warehouse stocks and to shorten throughput and delivery times. It will lead to higher inventory availability and flexibility and to an improvement in capacity utilisation. The APS will also create more transparency in the value chain. To sum up, the much more precise synchronisation of demand and supply will make a further contribution to increasing customer satisfaction.

## The Pace is Hotting Up

Balda's successfully implemented manufacturing strategy speeded up in the year under review, with innovative technologies and consistently optimised processes that accelerate production start-ups and sequences.

Balda's customers expect faster project development, successful production start-ups and accelerated manufacturing processes with reliable quality and an improved cost situation. The company's manufacturing strategy therefore also focuses on the continuous improvement of cost items. Only consistent rationalisation and cost cutting can cushion pressure on margins for customers. In order to meet the constantly increasing demands of customers, Balda pursues a targeted innovation policy, in addition to the continuous improvement process, as part of the Six Sigma method.

The Group also successfully adapted to the increasing variety of mobile phone product designs with new shapes, materials and colours by initiating a series of targeted further developments. Balda's worldwide product organisation was also consistently geared to

sales in the last financial year. The effect of ingenious production planning combined with various working time models and the flexible use of staff as contract workers contributed to the required high flexibility.

### Improved delivery performance once again

An important vehicle was also the project management system for developing new products, which is organised according to a standard model worldwide. It sets the foundations for the quality demanded by the customer based on early supplier involvement, i.e. the earliest possible integration of Balda in new projects. The working practices, which are now identical in the three regions, and the compatible processes, ranging from purchasing, project management, tool making and production to supply chain manage-

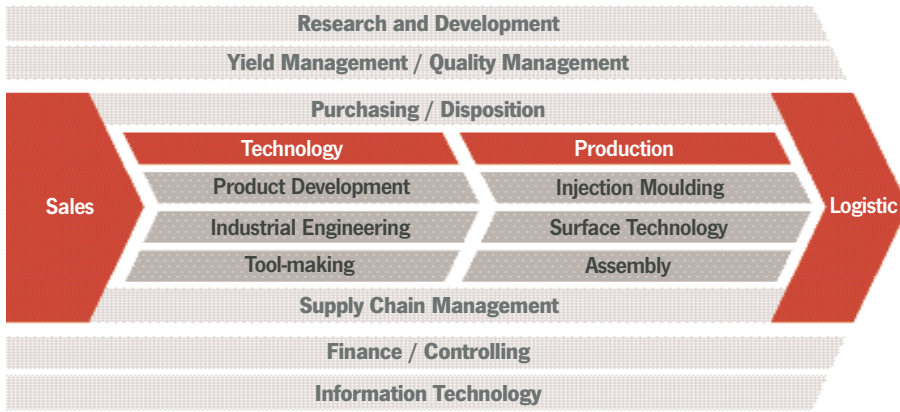




► PRODUCTION

ment, were instrumental to speeding up production processes. In conjunction with Balda's high level of responsibility for processes, the Group's delivery performance improved again in 2005.

**Balda value chain**



Balda's production performance portfolio covers the whole value chain of a manufacturer of high-precision plastic parts. The range covers all areas, from the development of new products, the manufacture of production equipment and tools, and injection moulding, together with all the latest surface techniques, to assembly. In addition to self-produced parts and systems, Balda also assembles bought-in parts and electronic components to create complex units. The company meets the current demands of its customers by delivering complete systems.

Apart from the new plant in Beijing, all Balda production plants and companies use a certified quality management system that has also been audited by customers. Before a new project reaches the serial production stage, the customer carries out thorough and careful clearance. Apart from the new production plant in Beijing, all Group sites are audited with an environmental management system.

Balda further increased its global competitiveness in the last financial year by expanding the plant in Hungary and by setting up the new production plant in China near Beijing. The increased proximity to the customer's production plants ensures direct contact and a flexible delivery capability.

**Europe**

In Europe Balda operates production plants in Germany and Hungary. The five German production plants produce for the Infocom, Automotive, Medical Technology and related industries markets. The production plant in Veszprém in Hungary, with two state-of-

the-art lacquering plants, has capacities for surface technology and for assembling mobile phone components. In the year under review, the Group extended its workforce from 100 to around 1,400 employees. Experts from Germany have accompanied this expansion process.

**Innovations**

The Technology Park in Bad Oeynhausen concentrated on the manufacture of complex, high-quality components and the targeted further development of production technology in the financial year 2005. Thus, Bad Oeynhausen used so-called hybrid machinery for the first time in the year under review with a new machinery concept. It

performs high-speed injection mould processes with reduced cycle times. The systems are mainly constructed from existing machinery components. A further innovative process, for which a patent application was filed, was the injection embossing of displays for mobile phones, which leads to a considerable improvement in terms of product quality with an optimised appearance. With this technology, which is superior to anything competitors have to offer, Balda has gained additional orders. In addition, where display manufacturing is concerned, the company has made production processes extremely flexible with the introduction of composite systems. The conversion of injection embossing machinery for a different article now takes place in a much shorter time than it was previously the case. The use of a completely new kind of labelling system in the assembly area reduces the manufacturing time as well as the investment volume and space needs.

With the successful use of new tool technologies (*see also "Technology"*), optimised processes and a new organisational form of international cooperation between the Balda sites, the Group has drastically cut the development time for tools. The company wants to link the global network of the Group even more closely in future for tool making.

**New surface technologies**

Balda is still the only mobile phone component maker that provides all the relevant surface technologies from one source. This is also documented by the PVD technology implemented in October of the year under review. It can apply decorative coats of metal or resistant material in numerous metal shades and various high-qua-

lity surface types to plastics and metal. Its special quality is the wear-resistant surface. The fully automatic vacuum coating unit from Balda Surface in Zittau (Saxony) went into operation in 2005 for the Group's mobile phone and automotive components. A further innovation in surface technology, for which a patent application was filed, was leather in-mould decoration for mobile phone battery housings by the Balda subsidiary Albea.

### **Asia**

Growth in Asia was above average in the financial year 2005 at the production plants in the quickly growing Chinese market and in Malaysia. Both companies supply international as well as local customers. The factory in Suzhou near Shanghai has the complete value chain at its disposal for producing precision components from high-performance plastics.

### **New plant in Beijing**

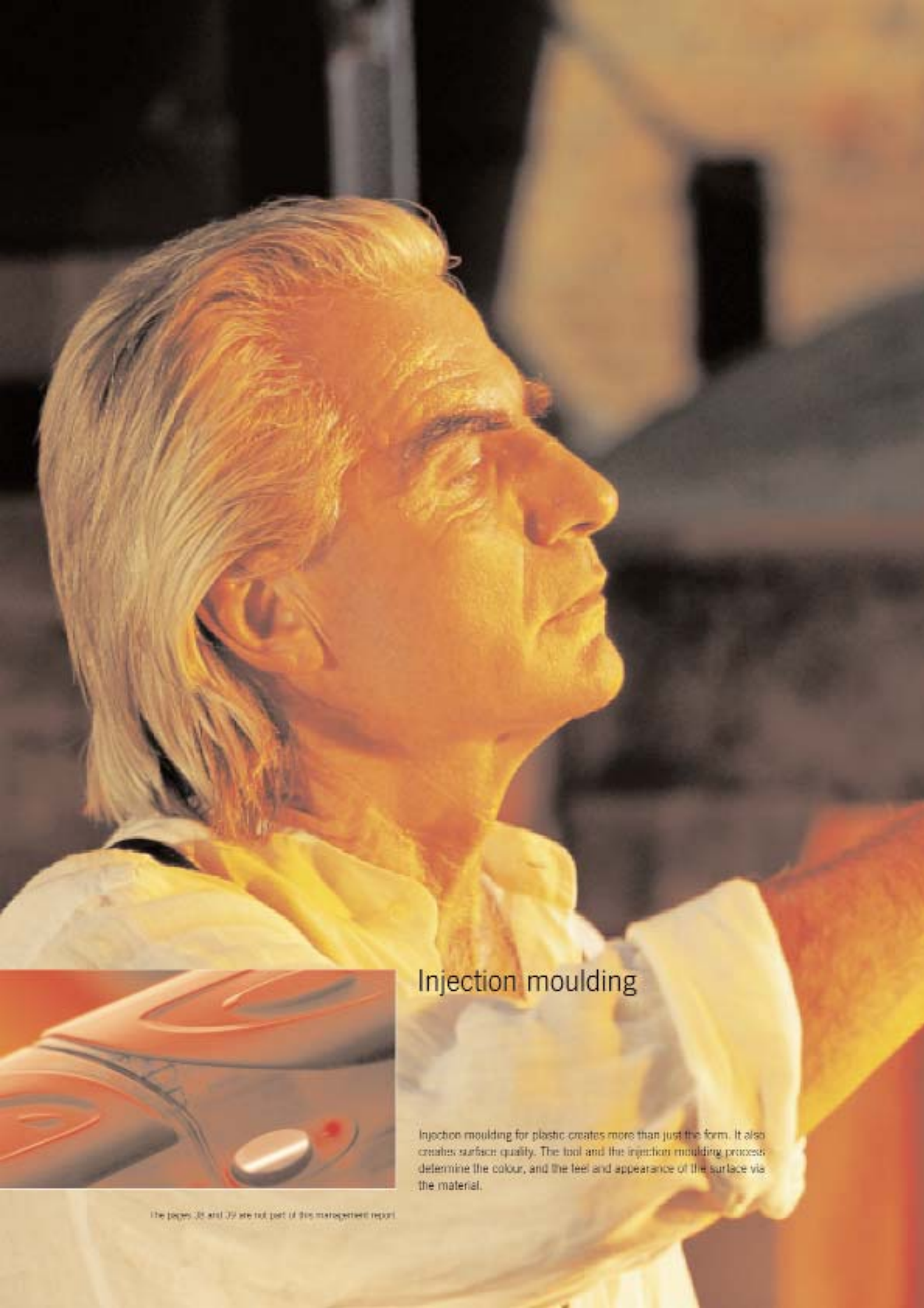
The new production plant near Beijing covers an area of 24,000 m<sup>2</sup>, 17,240 m<sup>2</sup> of which has been built on. The plant with state-of-the-art equipment has injection mould machinery with high-tech

systems from Europe. In addition to a lacquering plant, an assembly department and a warehouse, a modern office building is also available. In total, the new plant currently has a workforce of 110 employees. By the end of 2006 the number of employees is to rise to 600. The test operation started in December 2005 and mass production will commence in March 2006.

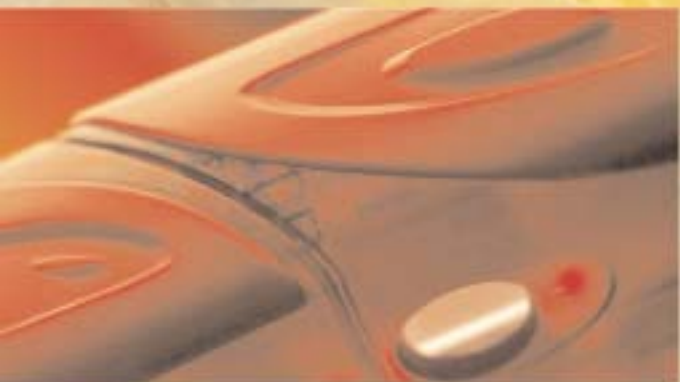
The Balda factory in Malaysia also produces Bluetooth headsets and car kits (Bluetooth hands-free speaking systems) in addition to parts for mobile phones. The company has the technical resources for inserting electronic components onto printed circuit boards and the technical equipment for developing and testing the acoustics.

### **Americas**

The South America region had to contend with a fluctuating order situation in 2005. The Group put a newly built factory, with a production area covering 1,700 m<sup>2</sup>, into operation in Jaguariúna, near Sao Paulo. The factory has injection moulding machinery, printing equipment and an assembly department.



## Injection moulding



Injection moulding for plastic creates more than just the form. It also creates surface quality. The tool and the injection moulding process determine the colour, and the feel and appearance of the surface via the material.



shape

designs

## From Components to Complete Systems

Balda AG develops and manufactures precision parts from high-performance plastics for mobile phones and, increasingly, for related markets.

The company is the only one among the global system partners for mobile phone manufacturers, with all the relevant technologies for finishing plastic surfaces. In addition, Balda constructs and builds tools and manufacturing plants for its own production worldwide.

### World market leaders as customers

The Infocom sector was still the core business of the Balda Group in the year under review with a share of turnover of more than 80 percent. In this field, the company develops and manufactures all types of plastic components used in mobile phones, landline telephones and base stations. Balda supplies leading global and regional manufacturers and component makers. In 2005 its clientele included BenQ-Siemens, Motorola, Nokia, Sagem, SonyEricsson, TCL-Alcatel and ZTE. The portfolio covers all types and structural

shapes of mobile phones, from simple phones and lifestyle designs to business models. At the plant in Malaysia, the company also produces peripheral components, such as Bluetooth headsets and car kits (Bluetooth hands-free speaking systems).

As a system partner, Balda takes care of all the links in the value chain, from development and production, together with surface technology, and assembly to logistics. At the customer's request, Balda also assembles all the components for complete systems and integrates electronic components supplied by third-party companies. These include, for example, printed keypad circuit boards, loudspeakers and microphones. In these cases, customers concentrate on expensive technical components, such as printed circuit boards, memory chips and software.

### ▶ Product and service portfolio Infocom

A, B and C covers	Surface	Interchangeable covers
Displays	Operating elements	Keypads
Battery cases	Bluetooth-Headsets	Assembly

### Mobile phones as fashion articles

With its wide-ranging expertise in the finishing of plastic surfaces, Balda makes a vital contribution to the design of mobile phones. The "look" is one of the key elements when consumers decide which model to purchase. In this respect, the mobile phone has become a fashion article. The portfolio in surface technology ranges from all standard lacquering processes and electroplating to high-tech methods, such as foil back-spraying or the physical vapour deposition (PVD) process for metal. Balda also prints providers' logos on mobile phone housings and display frames with manufacturers' and providers' logo. As agreed with its customers, the company does not disclose any detailed information about mobile phone projects (such as quantities, components or sales).

Balda's further developed strategy will boost technological diversification and therefore extend the product portfolio with new products in new markets.



## Balda Group with Regional Organisational Structure

Operational management will be transferred to regional lead offices with responsibility for results. Legal structure of Group companies is optimised.

In the course of the international growth of the Balda Group and the further development of its strategy, the Company initiated the restructuring of its organisation in 2005.

### **Assignment of new tasks**

Balda will no longer use divisional organisational structure, although the basic organisational units will be transferred to the new structure. The existing measures for developing the divisional organisation are still of value in the new model for the regional structure, as they have already targeted the concept of the "leading factory" in the Balda regions. In general, the new organisational form will mean that the tasks allocated to the former global divisional head will be transferred in the direction of the holding or to the region. The core of the new organisational form is as follows: Balda AG will manage four lead offices in the four regions of Europe, Asia and America and, in future, also India under the umbrella of the holding.

The Group will consistently delegate operational management, with full responsibility for results, to regional lead offices. The control of Group companies by regional management units will create an effective basis for further developing the global and regional structures of the Group. With the new organisational model, Balda is also reacting to the sharp increase in turnover and staff numbers in the regions. Additional sites require more managers and technical experts.

### **Holding will be responsible for strategic management**

The Group's core business will remain the Infocom sector. In addition, Balda will develop the Automotive and Medical Technology sectors. The Company wants to establish additional sectors for related markets based on existing competences and technological diversification. The strategic management of the Group will continue to be the responsibility of the holding. The headquarters will coordinate and control the value chains in the regions. They com-

prise distribution, technology, production and supply chain management. One of the primary tasks will be the further development of the Group's global structures. The new structure will speed up the global networking of capabilities in the Group even more. The information, decision-making and controlling of structures will be more closely linked.

The regional model, which was already introduced in the former Infocom division, will now apply therefore to all Balda activities around the world. In Europe Balda Solutions at the Bad Oeynhausen site has already assumed the role of "lead office and manages Balda Solutions Hungaria as a factory belonging to the Europe region. Albea, Balda-Heinze and Balda Medical will be transferred to Europe in the course of 2006. China is currently establishing the "lead office" model with the Suzhou and Beijing sites. Balda Everskill, as the lead office in Asia, will also take over the management of Balda-Thong Fook in Malaysia.

### **Operational unit for holding**

A special operational unit will be set up in future under the supervision of the holding. This team is to consist of experts and managers responsible worldwide. They will be used to support the ongoing further development of organisation, but above all, for complex projects worldwide. These projects may, for example, consist of the establishment of new production plants or the swift introduction of new technologies. With this organisational structure, Balda aims at achieving greater proximity to customers and markets. The structure also wants to counter the intensive competition in the markets more efficiently. By focusing on the regions, standard cost management will be made easier.

The competences of the Board of Directors of Balda AG remained unchanged in the last financial year. The management body is still responsible for corporate strategy and the investment portfolio. The streamlined holding controls and coordinates distribution,

## ► ORGANISATION AND LEGAL CORPORATE STRUCTURE

technology, production and supply chain management worldwide. The divisions or sectors were also able to fall back on the financial and IT services provided by the holding in 2005.

### **Representative sales office in Taiwan**

In 2005 the interdepartmental competences within the Board of Directors were the same as those of the corresponding period in the previous year. The CEO Joachim Gut was responsible for strategy, together with acquisitions and investments, personnel, auditing and investor relations. Volker Brinkmann was responsible for finance, legal matters and controlling, as well as information technology. The number of staff working in the treasury department also increased in 2005. They were responsible for liquidity planning, any financial assets and the management of currency fluctuations. Ralf Ackermann was still responsible for production, technology, global purchasing and supply chain management. Rainer Frilling manages worldwide distribution.

The Balda Group founded a representative sales office in Taiwan in the financial year 2005. This measure is a further step towards developing the regional distribution organisation in Asia and the global distribution structure.

The Group liquidated the company Balda Norge, which originated from the takeover of the former partner Mikron, in the period under review.

### **Restructuring in line with company law**

Balda Beteiligungs AG based in Zug, Switzerland, transferred the shares in Balda-Everskill Investments Singapore Pte. Ltd. to Balda AG. Therefore, Balda Beteiligungs AG no longer holds any shares. Balda-Everskill Investments Singapore was renamed Balda Investments Singapore at the year-end.

In the year under review, Balda AG founded Balda Surface GmbH as a wholly owned subsidiary. The Group incorporated the assets from the sale of Techno-Coat, namely the PVD process, with all the associated machinery and equipment and staff, to this new company.

To optimise the legal structure of the German Group companies as regards tax law requirements, Balda initiated or completed various restructuring measures in line with company law in the previous financial year.

Balda Werkzeug- und Vorrichtungsbau GmbH transferred the shares in Balda-Heinze Verwaltungs GmbH and Balda-Heinze GmbH & Co. KG to Balda AG in the financial year 2005 in a hiving-off and acquisition agreement.

In addition, Balda Werkzeug- und Vorrichtungsbau GmbH transferred the shares in Albea Kunststofftechnik GmbH to Balda AG in the period under review. This occurred through the change of name from Albea Beteiligungs GmbH, which had previously acquired the assets of Albea Kunststofftechnik GmbH as part of the accrual of shares.

Based on the approval of the shareholders' meeting from 28 April 2005, Balda AG concluded profit and loss transfer agreements with the following companies:

- Albea Kunststofftechnik GmbH
- Sächsische Metall- und Kunststoffveredelungs GmbH
- Balda Werkzeug- und Vorrichtungsbau GmbH
- IPH Werkzeugbau GmbH

### **New real estate management company**

In November of the year under review Balda AG formed Balda Grundstücks-Verwaltungs GmbH and Balda Grundstücks-Vermietungs GmbH & Co. KG. The AG incorporated the property at the Bad Oeynhausen site, including all buildings, into the new limited partnership (KG).

Balda Solutions Verwaltungs GmbH was merged with IPH Werkzeugbau GmbH after acquiring the assets of Balda Solutions GmbH & Co. KG in the course of the accrual. IPH was then renamed Balda Solutions Deutschland GmbH.

Balda-Everskill Investments Singapore (now Balda Investments Singapore) founded Balda-Everskill Solutions (Beijing) Ltd. as a wholly owned subsidiary in the year under review. Therefore, Balda AG indirectly holds 75 percent of the shares in the new company.

## More Advanced Training for Growing Workforce

Balda's strategy for personnel management aims at providing flexible employee resources with technical qualifications and greater motivation.

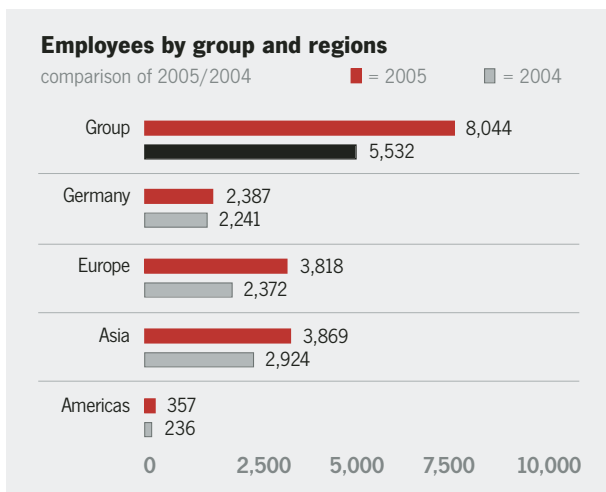
Personnel management is concentrating on the adaptation required by the Group's accelerating international growth. At the end of 2005, the Balda Group employed a total of 8,044 employees, including agency workers, apprentices and temporary workers. This was 2,512 employees or 45.4 percent more than the previous year, when 5,532 were employed. The annual average of persons employed by the entire Balda Group in 2005, including agency workers, was 6,936. In comparison to the previous year, with 5,492 employed, this represents an increase of 1,444 employees or 26.2 percent.

The workforce at the five German sites totalled 2,386 employees at the end of the reporting year (previous year: 2,241 employees). This is an increase of 145 employees, or 6.5 percent, compared

to 2004. The proportion of employees from agencies in Germany totalled 741 persons, or 31.1 percent. In the European region, the number of employees increased to 3,818 persons (previous year: 2,372 employees) at the end of the reporting year. This is an increase of 1,446 employees or 61.0 percent. This noticeable in-

crease is the result of the expansion of the Hungarian production site in Veszprém. It employed 1,432 persons at the end of the year as compared to 100 employees at the end of 2004. The growth in Hungary shows the transfer of orders away from the German sites. The proportion of the European region in the total workforce of the Balda Group during the reporting year was 47.5 percent. On the average, the workforce in Europe came to 3,166 employees in 2005.

The Asian region, which includes both sites in China and that in Malaysia, employed 3,869 persons at the end of the year (previous year: 2,924 employees). This is an increase of 945 employees, or 32.3 percent. Thus 48.1 percent of all employees in the Balda Group were in Asia during the reporting year. On average, in 2005 3,436 persons were employed in Asia compared to 2,857 employees in the previous year.



### Increase in personnel expenses

In the South American region, with sites in Manaus and Sao Paulo, 357 persons were employed at the end of the year (previous year: 236 employees). This was an increase of 121 persons, or 51.3 percent. For the Balda Group at a whole, this represents 4.4 percent of the total workforce. On the average, the American region employed 334 persons during the last fiscal year.

The increase in the Group's workforce in 2005 is due to the expansion of the new site in Hungary as well as the extension of operations in Asia.

Personnel expenses in the Balda Group increased by 17.7 percent in 2005 to 116.3 million euro due to the increased number of employees (previous year: 98.8 million euro). Here, the expenses for employees from temporary agencies, which reached 33.0 million euro (previous year: 20.3 million euro), were included under personnel expenses, unlike the previous year. In the financial state-

► EMPLOYEES

ment for 2004, they were included under diverse operating expenses. The Balda Group paid 13.3 million euro (previous year: 12.8 million euro) for social security contributions, pension expenses and support.

In relation to total expenses, spending on personnel amounted to 27.6 percent (previous year: 25.8 percent). The proportion of expenditure devoted to human resources thus increased by 1.8 percent points. This increase is due to additional expenditure for starting up production of new products in Hungary. Parallel to this, the decrease in sales in the calculation of automated systems also had an impact.



In 2005, 96 apprentices were employed in the Balda Group. They were able to qualify in seven different industrial trades, as in the previous year. In 2005 the Group again offered all its successful training graduates an employment contract at their request. Outside Germany, there is no dual system for vocational training with apprentices. Integration into professional life takes place within the firm, without vocational schools.

**Collaboration with universities**

During the reporting year the Infocom division in Germany enlisted two graduates with master's degrees. They completed their final theses on subjects, which were also useful for Balda. In total, Infocom closely collaborated with five domestic and foreign universities during the reporting year. The Medical Technology division looked after students during their work placement semester and in preparing their master's thesis in collaboration with three universities or polytechnic colleges. In future, Balda will continue its collaboration with universities and their graduates. These activities are also included in the recruitment program.

In 2005 further education once again played a central strategic role in personnel management for the entire Group. Balda is continuing to deliberately focus on the concept of learning organisation. Activities related to the further education of employees increased noticeably in the European region in 2005. Some 908 employees (previous year: 650 employees) participated in a total of 344 seminars and other educational events (previous year: 274). The main subjects chosen for further education in 2005 were technical courses, language courses, and training in methods and quality issues. In total, Balda invested 0.6 million euro (previous year: 0.6 million euro) in further education in the European region.

The Asian region carried out a comprehensive further training programme in six segments. The main element consisted of technical training for recently hired employees. In all, spending on further education the region Asia was some 0.5 million euro. The American region invested some 0.06 million euro in training activities.

The system for suggestions in the Group once again produced outstanding results in 2005. During the reporting year, a number of suggestions were submitted to the "i-box" in the Technology Park in Bad Oeynhausen for example. The review committee, composed of managers from all production sectors, studied the proposals in detail and thoroughly assessed them. Immediately practicable suggestions were put into effect. Further ideas will be implemented in the course of fiscal year 2006. The employees involved received awards in kind for their particular commitment.

	events	attending employees
<b>2005</b>	<b>344</b>	<b>908</b>
2004	274	650

The Board of Management would like to thank all employees for their outstanding achievements and their motivation in financial year 2005. The employees of the Balda Group were once again the basis for the success of the entire Group during the reporting year.

# Environmental Protection and Economy in Harmony

The stringent environmental management system characterises production processes like all other Group activities.

The clear concept for avoiding and recycling waste safeguards resources and protects the environment. The environmental protection program, which applies at all sites, is especially aimed at the effective handling of resources and at reducing emissions.

### Clear guidelines

Responsibility for the environment lies directly with the managing directors of Balda companies. All the Group's production sites have clear guidelines for preventing waste and for using all resources, such as raw materials and energy, sparingly. The reductions of emissions in the air, noise and odours also have a high priority. Of course, the careful observance of the relevant national environmental laws and legal requirements is an integral part of the Group's environmental program.

### Environment management



The managing directors check personally whether and to what extent the goals and measures of environmental protection are also expedient from an economic point of view. The persons entrusted with environmental management continuously scrutinise the packages of measures implemented. Documentation of the practiced

measures is mandatory. In close consultation with the management the programs are continually improved. Training courses sharpen employees' awareness of environmental issues. In special training sessions employees learn how to actively implement the prescribed measures.

In 2005 all German group companies were certified according to the 2004 version of the globally recognised ISO 14001 standard. Where necessary, all companies passed the recertification audit for the environmental management system without exception in 2005. The ISO standard requires a successfully established environmental management system. It must guarantee all the necessary measures for protecting the environment from the point of view of products and processes.

### Savings in thermal energy

Balda's concept for supplying energy to the production buildings in the Technology Park in Bad Oeynhausen remains exemplary. It follows the climate guidelines to the letter, for example by feeding waste heat created during the production process into the building's air-conditioning cycle. This measure reduces both the volume of primary energy and the use of solar collectors that heats industrial process water. In addition, Balda uses outside air for cooling energy and rainwater for applications that do not require drinking water. In the lacquering plant a state-of-the-art system is in operation for incoming air. By reclaiming heat, considerable savings in thermal energy are produced.

In 2005, Balda upgraded additional outdoor coolers at the refrigeration control centre in the Technology Park in Wulferdingsen. This measure reduces the running time of the refrigerating machine and, if the utilisation rate remains constant, will lead to energy savings of 200,000 kilowatt-hours per year.



The functioning of the lacquering plant is also exemplary. It does not release any solids into the air and mainly works with environment-friendly paints with low solvent content or with solvent-free water-based paints. At the production site in Veszprém in Hungary, Balda has installed an after-burning system at both lacquering plants. By after-burning the solvent content in the air, the emissions from the chimney are virtually reduced to zero. The energy for the after-burning is obtained from burning the solvent.

#### **Disposal flows optimised**

The Balda Group always substitutes hazardous substances with environmentally friendly materials wherever possible. Hazardous substances are stored appropriately. Flammable liquids are stored according to the relevant technical regulations (TRbF). Waterpolluting substances, such as paints, lacquers or cleaning agents, are stored in separate paint bunkers.

Balda's Logistics division follows the guidelines for a low-packaging factory. The Company transports high-volume system components exclusively in reusable packaging. In the year under review Balda optimised the disposal flows in the Technology Park by bundling waste with external service providers. This measure led to a cost saving of around 60,000 euro.

Balda is developing new environment-friendly materials and products with especially high recycling capabilities in close cooperation with partners from the research sector and industry.

#### **Drills and tests**

The concept for waste management stipulates the careful separation of waste. In total, 30 different types of waste and reusable materials are integrated in this concept. The level of waste recycling stood at around 90 percent in 2005, as was the case in previous years.

The subsidiary SMK in Oberlungwitz and HeRo in Herford, which specialise in electroplating coatings, have been classified in the higher danger category of chrome-4-processing enterprises due to a change in the statutes. Since November 2005, they have been deemed hazardous goods enterprises. Both companies have made provisions for the more general requirements of environmental protection.

The environmental management system of the Balda Group also stipulates preventative measures for environmental protection. These include a detailed plan of processes in cases of emergency together with the stipulation of personal competences. The company also carries out drills and tests to cope with emergencies and malfunctions. Thus, each year a fire drill is carried out, including the evacuation of employees.

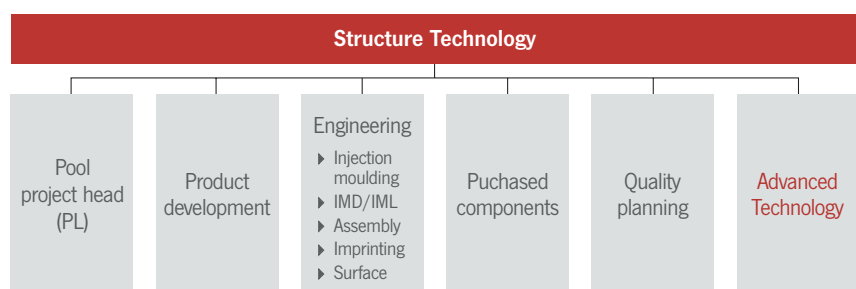
## Globally Leading Technological Position

With a high rate of innovation, the company achieves faster and more efficient production processes.

Technology is a key vehicle for the Balda Group's corporate strategy. Its leading global position in the mobile phone component making industry strengthens the Group's international competitiveness, safeguards relationships with customers and opens up new opportunities for growth in already developed and new markets.

The demands of customers also aimed at cost cutting through accelerated production processes, reliable quality and the global provision of a homogeneous level of technology.

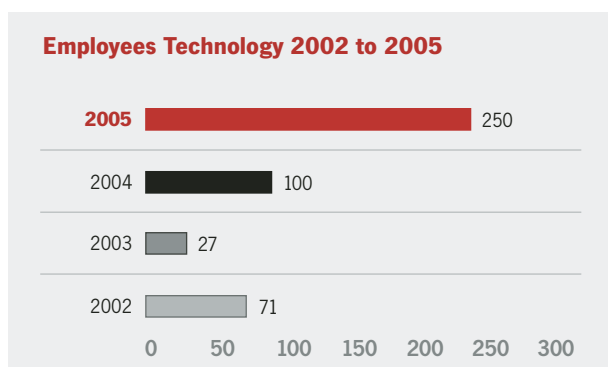
The tasks of the Technology division are exclusively application-related developments for internal projects or projects commissioned by customers. The division only carries out basic research in exceptional cases in cooperation with universities or external partners. The number of Technology employees in the three regions increased from around 100 in 2004 to 250 in the year under review. The sharp increase is especially due to the new structure of the division with the additional tasks of product development.



Balda completed the establishment of the standard worldwide organisational structure of technology in the Infocom sector in the year under review. The specialized departments in the Europe, Asia and Americas regions now work according to a standard structure and with identical processes. This set-up optimises the communication and know-how transfer between the regions. It strengthens the link-up of competences within the regions and production sites and ensured that product development of more than 100 projects in 2005 was faster and more efficient.

### Global project management

A key change is the acceptance of responsibility for product development by the Technology division. In project management for the development of new products the Technology division manages the technical realisation. In close cooperation with the technical experts, the Sales division controls the project over the entire life cycle in consultation with the customer. This concentration of competencies has helped above all global project management, a service, which is increasingly requested by customers, to achieve a high standard. Manufacturing mobile communication products worldwide in all three regions at the same time requires a standard approach by Group subsidiaries in dealing with customers at all production sites. The Technology division lays the foundations for this requirement with purchasing, product development

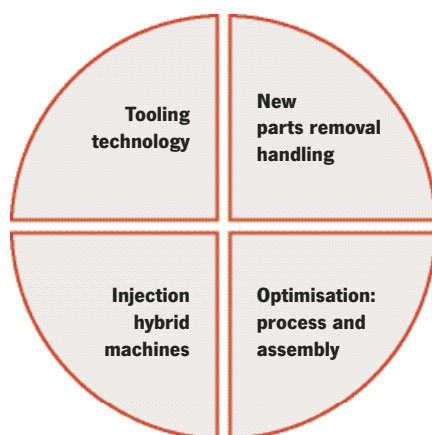


industrial engineering, the design of processes and quality planning. From the outset the focus is on the customer's specific wishes. With a ratio of expenditure in the Technology division between developments of innovative products and developments of manufacturing processes of around nine to one, production-oriented innovations appear at first glance to enjoy lesser importance. These tasks are however concentrated on important customer projects and on internal projects. The experts at Balda analyse production processes and continuously develop programs for optimisation. A continuous improvement process also took place in the year under review in line with the Six Sigma method. Balda increased productivity again in 2005.

### Increasing productivity

The reduction of cycle times for injection moulding through modified draw-off handling and the use of new hybrid injection machinery were instrumental in increasing productivity. In addition to quicker cycle times, they also achieved higher process stability. Moreover, numerous optimisations of manufacturing processes right up to assembly made a significant difference. In the display area the Technology division was involved in the construction of composite systems. The unique thing about them is that they can produce different articles in parallel, resulting in smaller investments thanks to reduced machinery requirements. The technology for injection embossing displays, which has been newly established in Bad Oeynhausen, achieves a higher quality dimension with an improved appearance. With this technology, Balda achieved gained a march on the competition in 2005.

### Instruments used to reduce cycle times



An innovation in the quality assurance process in 2005 was the introduction of magnetically operated laser scanning for all customers' products. The measuring system saves time and money when it comes to the initial sample inspection and when rectifying faults in assembly groups. It minimises the risk of errors during

assembly or when operating assembly groups. With the support of the Technology division, Albea introduced a new process for leather in-mould decoration with IML (in-mould labelling) in the year under review. This process is currently being used to coat the battery covers of mobile phones and ensured Albea met a customer requirement. Globally speaking, only the Balda Group has mastered this technology at the present time.

### Twelve patent registrations

The Automotive division has developed a completely new electroplating colour together with a renowned university and a research institute. It is intended for the interior of the models of a German premium manufacturer. Under the umbrella of newly founded Balda Surface, which is assigned to the Automotive division, the use of the PVD process for automotive assembly groups is just about to be implemented for mass production. In the year under review the cooperation and communication of the worldwide organisation of the Technology division was further expanded on a selective basis. In June 60 technical specialists from the Group from China, Malaysia and Germany took part in the Balda Technology Days in Suzhou in China. The focus was on tool technology and speeding up production. Moreover, the Balda Tool-Making Technology Days took place at the Technology Park in Bad Oeynhausen in July with participants from the Europe and Asia regions. The themes were in particular international cooperation and new technologies.

The companies of the Balda Group registered twelve patents in the year under review. In addition to a new kind of lacquering process, three applications concerned innovations for plastic components and for a moulded plastic component. The medical technology division registered four patents, including for a plunging device and for a plunging and cutting aid. The innovations registered for patents represent a section of the innovative power within the Balda Group. Not all new developments are suitable for patenting.

### Well-aimed cooperations

Balda also continued its cooperation with universities on a selective basis in the year under review. With the IKV in Aachen and the Fachhochschule des Mittelstands in Bielefeld, dissertations were produced that were practice-oriented and useful to Balda. Together with the Plastics Institute in Lüdenscheid, Balda initiated a research project on the subject of surfaces and decoration processes. The Group launched a further research project, sponsored by the Foundation for Industrial Research, together with the IKV in Aachen. The subject deals with "benchmarking in injection mould enterprises". With the iLF in Magdeburg, Balda is operating a research project to explore the subject of "lacquering mobile phone shells".

## Successful Start in 2006

The global economy developed in line with expectations in the first few months of 2006. Balda reinforced its international position with the factory in Beijing. The Group's operations were carried out according to plan.

The economic trend in the Euro zone has gathered momentum again after the decline in the last quarter of 2005. The European Central Bank corrected its growth forecasts for 2006 slightly upwards. The EU Commission is expecting an economic recovery in Germany in the current financial year and is again hoping that the largest national economy in Europe will be a driving force.

### Germany

In Germany, confidence is as high as in the boom times after reunification, according to the Ifo business climate index, which rose again in February. The GfK consumer climate index also pointed upwards again in February. The engineering industry, as an indicator for the investment climate and economic trends, reported a 2 percent increase in incoming orders for 2006. Even the construction industry is expecting an end to the crisis that has been going on for years in the current financial year. With an average growth forecast by the government and economic research institutes of 1.5 percent, a continuation of the economic recovery is expected. A real upswing will, however, be based on more robust growth expectations.

It therefore remains open whether the increasing investments in Germany will also have an effect on the demand for employment. In January and February, unemployment topped the five million mark. In addition, the income trend, which was already negative in 2005, could also inhibit consumers' inclination to spend. Even if the positive trend of exports continues as an economic motor force, there is still a question mark hanging over hopes of an economic recovery in Germany.

The index of early indicators for economic trends in the USA rose in January unexpectedly. On 21 February, the economic research institute Conference Board announced an increase of 1.1 percent compared to the previous month to 140.1 points. No economic data was available yet for China, India and Brazil when the report was being prepared.

Balda started the financial year 2006 according to plan. Despite the seasonally weak first quarter in the mobile communications market, the Group is expecting a slightly improved business trend in the first quarter.

In February, the Balda share price was very volatile, fluctuating between 9.65 euro and 11.75 euro. According to stock exchange observers and investors, this was triggered by the cautious forecast issued by Balda for the financial year 2006. The price stabilised by the end of the month to 10.41 euro.

### Balda acquires subsidiary in Malaysia

In January, Balda AG acquired the remaining 50 percent of the shares in Balda-Thong Fook Solutions in Ipoh, Malaysia, from the previous joint venture partner Thong Fook Electronics. The purchase was carried out via Balda Investments Singapore, in which the Taiwanese joint venture partner Everskill has a 25 percent stake. The production plant in Malaysia plays a key role in the global production structure of Balda's customers. The Company strengthened its global competitiveness through the takeover and thus met targets for the further developed strategy. Balda-Thong Fook Solutions generated revenues of 33.6 million euro in the year under review.

In January the Group agreed on a joint venture with the Indian partner Motherson Sumi Systems Ltd. for the construction of a production plant in Chennai, India. Balda will acquire 60 percent of the company's shares. The planned factory is to start production of mobile phone components by the end of the second quarter of the current financial year, with an investment volume of up to 10 million US dollars. The launching of the factory in India also conforms to Balda's strategy through the consistent continuation of globalisation.

#### **Start of mass production in Beijing**

The start-up of the new factory near Beijing is taking place according to plan. Mass production, with injection moulding, surface finishing and assembly, is to begin in March.

At the beginning of January the Supervisory board of Balda AG elected Richard Roy as its new Chairman. His predecessor, Gerhard Holdijk, resigned as of 31 December 2006. In mid January Mark

C. J. Twaalfhoven was newly appointed to the Supervisory Board of Balda AG. He replaces Gerhard Holdijk.

#### **Balda-Thong Fook Solutions is exempt from income tax**

The "Balda Annual Strategy Meeting" was held in February, with 60 managers from the Group, over three days in the Austrian Tyrol. The focus was on the Group's further-developed strategy, the newly designed organisational structure, improvement in the transfer of know-how within the Group and increased networking for cooperation on technological issues.

Balda-Thong Fook Solutions, a wholly owned subsidiary of Balda AG, which is based in Ipoh, Malaysia, is exempt from income tax for ten years due to its reclassification as a high-tech company. Balda paid taxes totalling 1.3 million euro in 2005 on a pre-tax income equal to 4.9 million euro. This corresponds to an actual tax rate of 26.6 percent.



## Course Set for Growth

Global growth will weaken slightly in 2006,  
 but continue at a high level overall.

Balda is expecting organic sales growth of 15 percent.

The upturn in the global economy will continue in 2006, albeit at a slightly reduced pace. Experts at home and abroad are predicting global growth of between 3.3 and 5.3 percent that will remain robust and develop at a more balanced rate in the various regions of the world. The engines of global growth will, in particular, be the economies of the USA, Russia, China and India.

### **More restrictive monetary policy to counter inflation**

Experts do not even see the worldwide risks of a pandemic associated with bird flu as a threat to global economic development. Nevertheless, military conflicts, the spread of terrorism and increases in oil prices that are well in excess of expectations could have a growth-inhibiting effect.

### **Euro zone**

The economic performance of the Euro zone is to increase by 1.9 percent in 2006, according to forecasts by the EU Commission. Brussels is expecting an even higher growth rate of 2.2 percent for all 25 EU states. The economy in the Euro zone has a more solid basis in the estimation of the EU Commission. In addition to strong exports, it cites company investments and improved consumer confidence as positive factors in the current year. It predicts that the pressure on the inflation rate due to high oil prices will also persist as well as the risk of the European Central Bank (ECB) increasing base rates. Nevertheless, they do not think either of these factors will dampen the robust upturn in the euro area. Overall the prospects in the Euro zone are looking better than they have done for the last three years, although the Commission is only expecting a small degree of positive momentum to come from the improving situation on the job market.

### **Germany**

Germany is expecting economic growth of at least 1.4 percent in 2006. The hopes of the government and individual economic re-

search institutions are even stretching to 2.0 percent. The Ifo Institute reported that its indicator of economic conditions rose significantly at the end of 2005. The expectations of industry and small business have increased. Business is expecting impetus from exports, which, at 7 percent, are still growing strongly, and also from private consumption. Optimism has never been so great since unification. The German central bank and the Association of German Banks are also predicting increased economic growth in 2006. Nevertheless, economists are still anticipating risks in 2007. The planned tax increases could put the brakes on consumption and demand. Economists also see national debt as a risk. It is supposed to stay within the limit set by the EU stability pact of less than 3 percent of GDP in 2007.

### **United States of America**

In the USA the Federal Reserve is predicting growth of around 3.5 percent in 2006 and 2007. It forecasts that the employment rate will stabilise during this period at below 5 percent. The inflation rate is to drop to less than 2 percent at the end of 2007, although an increase in base rates by the central bank and the national budget deficit of 354 billion US dollars targeted for 2006, after 432 billion US dollars in 2005, threaten to put the brakes on the US economy. The total US national debt amounted to 8.18 trillion US dollars at the end of 2005. Another risk in the opinion of economists – in contrast to the Fed – is an anticipated further increase in the current account deficit. It added around 17 percent in 2005 to approximately 800 billion US dollars. A slump in property prices could also impede consumption and with it the economy as a whole. Experts are also anticipating a devaluation of the US dollar in 2006.

### Asia and Americas

Economists are expecting China's high growth rates to continue. Previous attempts by the Chinese government to prevent economic development overheating had little success. Experts at investment bank Goldman Sachs are predicting an increase in GDP of 9.0 percent in 2006 and 8.5 percent in 2007. Foreign investment will also operate at a high level in 2006, according to experts. Export revenues are expected to keep increasing and China will further expand its position in the world market as a production location. Experts are expecting a further upturn in the Indian economy with persistently strong growth. The UN research institute Cepal is predicting growth of 3.0 percent for Brazil's economy in 2006.

### The mobile communications industry

The increase in mobile phones sales worldwide significantly exceeded original forecasts of 8 percent in 2005, with a plus of 13 percentage points to 21 percent. 816 million mobile phones were sold worldwide in 2005 (Gartner). The leading global manufacturer is expecting growth of more than 10 percent in 2006. Forecasts by market researchers covering sales of mobile phones in 2006 are not consistent. Strategy Analytics is predicting global growth of around 15 percent to 930 million units sold in total. iSuppli is forecasting that 850 million phones will be sold worldwide. IDC is predicting growth of 7 percent to 858 million. In the medium term, technology consultant Gartner is predicting a sales volume of over one billion mobile phones a year by the end of 2009. This analysis assumes that there will be around 2.6 billion mobile phone users worldwide by the end of 2009.

China, India, Eastern Europe, Russia, South America and Africa are still considered receptive markets for mobile phones. Growth engines in 2006 and subsequent years in the saturated markets of Western Europe will also be new mobile phone models with attractive designs and innovative technical performance features. As far as UMTS devices are concerned, growth of around 40 to 100 million phones is expected in 2006. A further influencing factor on the growth of mobile phone sales is the large number of new services and applications of mobile phones, in particular, mobile television. If the latter becomes technically feasible by the time the FIFA World Cup takes place in Germany, it could act as a strong sales boost, especially in Europe. Market researchers are unanimous that the continuing price pressure, particularly from saturated markets, will lead to a fall in the sale price of mobile

phones of between 4 and 5 percent in 2006. Approximately 30 percent of mobile phone owners are expected to give up their landline by 2009, leading to fundamental changes in the telecommunications industry.

### Prospects for the Group

Balda is expecting organic sales growth of around 15 percent to between 450 and 460 million euro in 2006. The share in turnover of foreign production plants will increase again to around 60 percent. The core business of the Infocom sector is to generate around 80 percent of the Group's turnover. The pre-tax result (EBT) is expected to end fiscal 2006 at between 46 and 48 million euro.

The Executive Board and the Supervisory Board are also planning to continue the dividend policy in the current financial year, provided the company develops in line with expectations, by distributing a third of the result per share.

In 2006 the Balda Group will complete the development of its organisational structure already initiated in the previous financial year. Afterwards, a regional structure will replace the existing divisional structure. A regional "lead office" in each case will manage the Europe, Asia, India and Americas regions, with a CEO at the helm. These management units will act independently and have full responsibility for results but will remain embedded within the holding company's strategy and policies. In this way, the holding company based in Bad Oeynhausen will control the activities of the lead offices.

### Further developed strategy

The Group is planning investments totalling 33 million euro in 2006, in addition to acquisitions. The investments mainly pertain to tangible and intangible assets, of which 6 million euro have been earmarked for the new plant in India.

The Balda Group made further enhancements to its growth strategy in 2005. In addition to organic growth in the Infocom market, the Group focused on technological diversification. Balda aims to extend its technological base by taking over or acquiring stakes in companies. The aim is to expand competences in the core market Infocom and to manufacture new products for new markets. To minimise typical diversification risks, the company wants to cooperate with experienced partners.

The Balda Group will also have a solid financing situation in 2006. The inventory of liquid funds at the end of 2005 and the inflows from the operating business form a comfortable base. Overall, the Balda Group has liquid reserves of 42 million euro. In addition, the company still has unused credit lines. Balda AG has secured liquidity.

#### **New production sites in 2006**

In March 2006 the new factory near Beijing is to start up mass production in full. The new production plant in Southern India, near Chennai, is expected to start up production by the middle of the year. 400 employees are expected to work there. Chennai will

be a fully inclusive factory and encompass the entire value chain for the manufacture of high-precision plastic parts.

Balda will also continue its stringently practiced environmental protection policy in the financial year 2006 and gradually expand it to additional production sites in the Group.

In December 2005 Balda published its mid- to long-term plan. In it the Group targets a sales volume of 1 billion euro by 2010. Based on this and on market forecasts, the company is also expecting further growth in 2007.

## Prudent Risk Management

The management of Balda must utilise business opportunities and so limit the associated risks.

Balda's risk management identifies and optimises risk positions.

The Balda Group is exposed to various risks, especially as a company operating internationally. Risk factors are also occurrences within and outside the company, such as active undertakings and failures. They can become a threat to business success or even the company's continued existence. The risk management introduced by Balda has established a system for detecting risks early, and for monitoring and control measures. It is a particularly important function of the Balda Executive Board to recognise risks at an early stage, to be informed about their progress, to monitor and to control them wherever possible.

The Group's Audit department must review the performance of the risk management system on a regular basis and report on this to the Executive Board. In the operational business the respective managing directors are responsible for risk management. They also impart the necessary risk awareness to the employees concerned.

### Opportunities for control

The companies and managers in all regions are integrated in the risk management system. The monthly reporting system is incorporated in the planning, control and reporting process within the Balda Group. Reporting includes the analysis of deviations from the budget and from previously confirmed estimates. In addition, the probability of specific risks occurring and the chances of being able to control them with suitable measures are the subject of reporting. The balance sheet auditors review Balda's early risk detection system each year. The main question is whether the system is capable of identifying risk factors that endanger the company's continued existence in good time.

The external and internal risks outlined below could adversely affect business development and the financial and profit situation of the Balda Group.

### General economic risks

Global economic trends could constitute risks for Balda. Two unusual risk factors are foreseeable in 2006, namely a further increase in the price of oil, as forecast by some experts, and the spread of bird flu from Asia to Europe.

#### ► Risks to future development

General economic risks

Political climate

Market risks

Supplier and procurement risks

Technology risks

Capacity utilisation risks

Risks from foreign activities

Capital market and financing risks

Foreign currency risks

Employee risks

IT risks

Organisational risks

Legal and other risks

Legal disputes

Environmental risks

Overall risks

Higher oil prices put a strain on the balance of trade and the currency reserves of national economies. They increase the costs of companies and absorb the spending power of private households. They pose the risk that the sale of Balda products, such as mobile phones and motor vehicles, will be negatively influenced.

Even if experts consider the danger of a pandemic breaking out in human beings due to bird flu to be minimal, the risk of economic damage is high. For example, the cost of "mad cow" disease (BSE) is estimated at more than half a billion US dollars. On the

other hand, this did not have a negative impact on the global economy. Even so, temporary effects on the stock exchanges due to higher oil prices and bird flu are likely.

### **Monetary policy**

Experts are following the new course pursued by the US central bank with anticipation. They are expecting higher base rates to come from this quarter and from the European Central Bank in 2006. These measures support monetary stability, but could, on the other hand, slow down the economy worldwide. The growing US budget deficit is also worrying experts.

Nevertheless, provided warlike or violent disputes between countries or powerful pressure groups do not occur, the robust growth of the global economy will be able to continue in 2006.

Global economic trends could constitute risks for Balda. The sale of products in the mobile phone and automotive sector depends on demand in the international consumer and durables markets. A negative economic trend could weaken sales. The progress of the global economy and the development of individual markets are however not identical. The spread of growth in key economic regions ranges from one and ten percent. The forecasts that the economy would continue to perform at a high level were proved right in 2005. Particularly in Asia, the growth rate was above average. Balda can benefit from this with its production plants in China, Malaysia, and from 2006, in India. The company is carefully monitoring the general economic risks worldwide on a continuous basis.

### **Political climate**

- ▶ Higher charges
- ▶ Taxes or additional wage costs
- ▶ Legislation with a restrictive effect on Balda

The Group is also exposed to the risk of higher fiscal burdens and rising additional wage costs. Such extra burdens are always possible in the future. The emergence of general economic risks or fiscally aggravating decisions will however not generate any risks that could put Balda's continued existence at risk.

### **Market risks**

- ▶ Development of the mobile communications market
- ▶ Market success and customer acceptance of Balda products
- ▶ Competition amongst customers
- ▶ Competition amongst component makers
- ▶ Competition and price pressure

### ▶ **Market saturation**

#### ▶ **Entry of new competitors onto the market**

Balda again generated around 90 percent of its revenues in the Infocom sector in 2005. This sales mix means that the Group is dependent on demand in the mobile communications market. The decisions of mobile phone manufacturers with respect to orders placed with component makers influence the company's utilisation of production capacity and its business development. A further risk is market success in the form of the acceptance of the products manufactured by Balda in collaboration with mobile phone manufacturers among end users. A possible "flop" on the market could adversely affect the Group's order and turnover situation. In Balda's case, the importance of the aforementioned risks is reduced. The company's customers include both global market leaders amongst the mobile phone manufacturers and regional market leaders in Asia. This leads to a broad spread of risk. Thus, Balda can largely redress any diverging sales success between the individual customers and mobile phone models. A further spread of risk is produced by the more than 100 development projects that Balda worked on in 2005. The worldwide production presence of Balda in the key mobile communications production markets also stabilises the order situation. The manufacturers of mobile phones virtually exclusively demand globally represented system partners like Balda.

### **Intensive competition**

Competition amongst mobile phone manufacturers is continuing to hot up. It is reflected, for instance, in the increasing variety of mobile phones with more and more technical performance features and more complex product equipment. The result is shorter and shorter development and market launch times for new mobile phones. In addition, price pressure is growing in the sales market. This intensive competitive situation is also being passed onto component makers supplying mobile phone manufacturers, with time and margin pressure. The global capacities of the components industry have also increased. Balda successfully dealt with this situation in 2005 by restructuring project development to increase efficiency and cost-cutting technological innovations in manufacturing. A further plus, also in terms of competition within the industry, is the global production presence of Balda, which will be extended to India in 2006.

Saturation of the global mobile communications markets could be a risk, although even in European markets, with high market penetration, saturation is not foreseeable thanks to new models



with new equipment packages. The markets in Asia, South America, Eastern Europe and Africa still have growth potential. A risk to Balda's business due to the emergence of new competitors in the components market is not foreseeable at the present time.

#### **Supplier and procurement risks**

- ▶ Dependency on suppliers
- ▶ Compliance with shorter delivery times
- ▶ Supply chain management
- ▶ Global projects
- ▶ Storage risk
- ▶ Global distribution of finished goods
- ▶ Costs or price fluctuations
- ▶ Expensive components

Dependency on suppliers for raw materials does not apply due to the "dual source strategy" practiced by Balda, with two partners for one product. If anything the quality of goods delivered poses more of a risk for Balda, although the Group safeguards both the quality of goods and punctual delivery by carefully auditing its suppliers. In this respect the every shorter delivery times for customers are guaranteed. The "purchasing and supply chain management" divisions realigned to the global requirements for logistics from the supplier to the customer in the previous financial year also played a key role. Consignment warehouses near the customer's production plants minimise the storage risk and also guarantee punctual delivery. Global, need-based distribution at the various Balda sites is also guaranteed with the introduction of new IT systems. The company largely cushions the risk of any price fluctuations for purchase articles through agreements with its customers. Customers bear the cost of higher prices for raw materials for the majority of products. The purchasing and supply chain management division of Balda are well prepared for an increase in the amount of electronic bought-in parts purchased and the associated higher storage risk. The same applies to the handling of cost risks in the case of particularly expensive components. Balda continually monitors its stock on hand, even with the increasing globalisation of the Group, based on standard global IT systems. Balda fully identified and successfully dealt with the increased supplier and purchasing risks resulting from the growing number of sites in 2005.

#### **Technology risks**

- ▶ Technological change
- ▶ Non customer-related technological development

The technological change in Balda's markets operates at a fast pace. The risk of failing to use vital new technology in production

is however minimal for the Group. Clients very quickly point out any technological deficit to Balda during the regular audits. In addition, Balda is incorporated as a highly rated system partner in customers' technology roadmaps, which show future developments. However, as one of the technological leaders, Balda faces the greater risk of know-how relating to its own innovations falling, via customers, into the hands of competitors during the production process. The company can also control the risk of increasing costs for non customer-related developments. Careful cost/benefit analyses in advance prevent costly commitments. Balda also adopts this strategy before deciding to embark on research projects and cooperations with universities and external partners.

#### **Capacity utilisation risks**

- ▶ Capital-intensive production plants
- ▶ Seasonal fluctuations in demand
- ▶ Volume transfer by customers

The provision of production capacities at eleven sites is capital intensive due to investments and high overheads. Covering costs requires a specific utilisation level of capacities. Balda relies on a make-or-buy strategy that is low on investment. The company limits the expansion of the stock of machinery by delegating peak order volumes to external subcontractors. The Group counteracts fluctuations in demand by taking a flexible approach and using temporary staff. Thus, the risk of high staff costs can be controlled.

There is also a risk that customers will outsource activities to other countries, for example from Germany to China. Balda is represented in most of the key countries for Infocom business. Therefore, there is a good chance that the volumes in question would be outsourced to a Balda operating facility. On the other hand, the capacity utilisation would return to the German locations. Balda deals with this risk by increasing its diversification activities.

#### **Risk from foreign activities**

- ▶ Diverging business goals
- ▶ Legal security

A potential risk is cooperation with partners, particular those with equal rights, in joint ventures at international production sites. Business goals, strategies or interests could no longer be compatible in the course of time. The result could be a pecuniary loss. Balda controls this risk through continuous, open and intensive dialogue with partners in foreign companies. According to a thorough inspection by experienced legal advisers, no risks can be expected from commitments at international sites from the point of view of the respective national law.

### Capital market and financing risks

Balda currently sees no risks on the capital market in addition to the typical valuation risks on the stock exchange. The company's equity position is solid. The Group already secured the financing of future projects planned in 2006 in the year under review. Liquidity is guaranteed based on the budget and medium-term plan. The credit lines are sufficient based on current conditions in all regions.

### Foreign currency risks

Balda is also increasingly exposed to currency risks with production based at foreign sites. The Group set up its own Treasury department in 2005 to control these risks. In general, local currency risks are limited because purchases in foreign currencies are mostly hedged via agreements with customers. The Group continuously monitors relevant currency fluctuations. The Executive Board is informed on more extreme fluctuations and initiates control measures, if necessary, in close consultation with the Supervisory Board. The repatriation of profits from abroad is guaranteed and is not dangerous from a tax point of view due to the structures, which have been created.

### Employee risks

- ▶ Competition for qualified specialists and managers
- ▶ Recruitment
- ▶ Selection risks

The competition for highly qualified specialists and managers with technical or industry-specific know-how is increasing worldwide. The company promotes the recruitment of academically trained staff by, for example, cooperating with universities and polytechnics. The company also actively targets personnel fairs. Moreover Balda specifically utilises its reputation as a nationally known, attractive employer. The career opportunities offered by the Group at home and abroad also appeal to trainee managers. In this respect Balda did not identify any risks in 2005. The company rigorously controls the risk of key staff being absent by establishing the deputy principle.

The company realises that the planned growth will necessitate an expansion of management capacities. New and especially internationally oriented managers are to prevent recognised risks or cope with them.

### IT risks

Risks can result from the necessary high availability of computer systems and networks and through unauthorised internal or external access to IT systems. Balda has prevented the failure of its systems by storing parts of the IT infrastructure at an internationally active computer centre. "Firewalls" and additional security

systems protect the Group's IT systems from unauthorised intrusion by third parties. The compatibility of systems in the Balda Group has been established through the virtually blanket introduction of a standard ERP system or through existing concepts for the integration of other ERP systems.

### Organisational risks

- ▶ Reorientation of organisation
- ▶ Integration of new sites
- ▶ Integration of new partners
- ▶ Controllability of growth

To further adapt the Group's organisation to customers' global requirements and to increase efficiency, the Executive Board and the Supervisory Board approved plans to realign the organisation structure from the divisional principle to the regional principle in 2005. The project envisages autonomous management for all companies and all existing divisional activities in each region. The introduction phase of this further developed organisational form, which was launched in 2005, could lead to risks. The Group is aware of this and has carefully prepared the realignment. The integration of new sites, such as for example in China and India, as well as of company takeovers could cause risks. The establishment of sites in Hungary has demonstrated this in the last few months. Especially when capacities are increased very quickly at the same time as the ramp-up of new projects, a new organisational structure can be pushed to its limits. Balda has recognised what has to be done, initiated or successfully implemented measures and therefore established an additional wealth of experience for setting up sites in future. The company can therefore fall back on tried and trusted and successful systems and structures from the past. They have proven the Group's ability to integrate and take over new companies. This also applies to integration and cooperation with new partners, such as those belonging to new Group subsidiaries.

A general risk could be the controllability of Group growth in the future. Balda published its five-year plan in 2005 with a growth target of 1 billion euro by 2010. In addition to organic growth in the Infocom section, acquisitions with respect to technological diversification and the development of new markets are to underpin the expansion. Especially diversification with new products in new markets constitutes a general risk. Balda wants to limit these risks in the new sectors by cooperating with experienced partners and through products in related markets. The Group does not anticipate any risks emerging through the acquisition of companies.

### Legal and other risks

- ▶ Differences between national legal systems
- ▶ Loss of receivables
- ▶ Recall measures
- ▶ Liability risks
- ▶ Legal disputes

Balda delegates responsibility for dealing with the differences between national legal systems in the three regions, for example, with respect to the structure of contracts, issues pertaining to trade law or matters under public law, to internationally active legal advisers. The Group covers risks arising from liability, in particular, from product liability, recall measures or loss of receivables, with insurance policies. In the year under review technical problems arose regarding the powder inhalator from the medical technology segment. Balda is not responsible for these difficulties, but sales, which were slow anyway, came to a standstill as a result of this problem. The company fully discharged its responsibility to exercise proper care in this case. Even so, the customer sued Balda for damages. The company has made adequate provisions to take account of damages, which are not covered by insurance. The Balda Group is not involved in any legal disputes.

### Environmental risks

The Group's two electroplating enterprises, SMK and HeRo, have been assigned to a higher hazard class due to a change in the law and have therefore been classified as hazardous enterprises (see also "Environmental Protection"). Both companies have taken

appropriate precautions. Balda's environmental policy sets clear guidelines for all Group companies with regard to environmental goals and programs. The environmental management system of virtually all the companies in the Group is certified according to the DIN EN ISO 14001 environmental standard. In this respect the Balda Group cannot identify any noteworthy environmental risks.

### Overall risk

Like every company, especially one that operates internationally, Balda encounters a large number of opportunities in addition to various risks. In summary we can confirm that the Group's risk management system successfully records and evaluates risks and further pursues their development rigorously. Balda still focuses on the market risks and its dependency on customers from the mobile communications industry. Moreover the Group is aware that the planned expansion poses risks.

Balda controls in-house functions and processes in a purposeful and careful manner. They are classified as less prone to risk. Balda has taken sufficient precautions against typical commercial risks likely to have a negative impact on the Group's development.

Based on the information and findings currently available, no transactions of significance are known that pose a considerable risk to the company's planned development or its continued existence.

## Dependent Company Report

The Board of Directors is required under Section 312 of the German Companies Act (AktG) to prepare a dependent company report. We complied with this requirement for the financial year 2005 in March 2006. The report concludes with the statement of the Board of Directors below.

Closing statement by the Board of Directors: "Given the facts and circumstances known to the Board of Directors when legal transactions were carried out with the affiliated companies, and when measures were taken or not taken at the behest or in the interest of such companies, the Company received adequate consideration in every legal transaction and has not been disadvantaged by measures taken or not taken."

Bad Oeynhausen, 17 March 2006  
Board of Directors of Balda AG

## AUDITOR'S STATEMENT – GROUP

We have audited the consolidated financial statements prepared by Balda AG for the financial year 1 January to 31 December 2005, consisting of the consolidated balance sheet, the consolidated income statement, the changes to equity, the cash flow statement and the consolidated notes – as well as the annual report, which is combined with the annual report of Balda AG. The preparation of the consolidated financial statements according to International Financial Reporting Standards (IFRS), as they apply in the European Union, and German commercial law additionally applicable according to § 315a[1] German Commercial Code (HGB) is the responsibility of the Company's Board of Directors. It is our responsibility, on the basis of the audit conducted by us, to present our evaluation of the consolidated financial statements and the consolidated annual report.

We conducted our consolidated annual audit in accordance with § 317 HGB and the principles laid down by the German Institute of Auditors (IDW) for proper auditing. These determine that the audit is to be planned and conducted in such a way that any inaccuracies or infringements that have a significant effect on the true presentation of the company's assets, financial position and earnings by means of the consolidated financial statements and by means of the combined annual report, taking into account the applicable statutory accounting requirements, are detected with sufficient certainty. In determining the actions to be taken in the course of the audit, knowledge about the business activity and the commercial and legal environment of the Group is taken into account, as are any expectations relating to possible errors. In the context of the audit, the effectiveness of the billing-related internal monitoring system and evidence of the accuracy of the details

in the consolidated financial statements and combined annual report are predominantly assessed on the basis of random samples. The audit includes an evaluation of the annual financial statements of the companies included in the consolidated financial statements, the differentiation of all the companies to be consolidated, the accounting and consolidation principles applied and the key projections of the Board of Directors as well as an appraisal of the overall presentation of the consolidated financial statements and the combined annual report. We are of the opinion that our audit provides an adequate secure basis for our considered judgement.

Our audit identified no cause for exception.

In our considered opinion, based on the knowledge gained during the audit, the consolidated financial statements conform to the IFRS, as they apply in the European Union, and German commercial law additionally applicable according to § 315a [1] HGB and give a true and fair view of the assets, the financial position and the earnings of the Group as well as the financial year's payment flows.

The summarised annual report conforms to the consolidated financial statements and as a whole gives an accurate view of the situation of the Group, representing opportunities and potential future risks in an appropriate manner.

Bad Oeynhausen, 20 March 2006  
WestAudit AG Wirtschaftsprüfungsgesellschaft

Dipl.-Kfm. G. Spielmann  
Auditor

Dipl.-Kfm. N. Weinberger  
Auditor



## AUDITOR'S STATEMENT – AG

We have audited the financial statements, consisting of the balance sheet, the income statement and the notes – including the accounts and the annual report, which is combined with the consolidated annual report of Balda AG, for the financial year from 1 January to 31 December 2005. In accordance with German commercial law, the accounts and the preparation of financial statements and the combined annual report are the responsibility of the Company's Board of Directors. It is our responsibility, on the basis of the audit conducted by us, to present our evaluation of the financial statements, including the accounts, and the combined annual report.

We conducted our consolidated annual audit in accordance with § 317 of the German Commercial Code (HGB) and the principles laid down by the German Institute of Auditors (IDW) for proper auditing. These determine that the audit is to be planned and conducted in such a way that any inaccuracies or infringements that have a significant effect on the true presentation of the company's assets, financial position and earnings by means of the financial statements and by means of the combined annual report, taking into account the principles of proper accounting, are detected with sufficient certainty. In determining the actions to be taken in the course of the audit, knowledge about the business activity and the commercial and legal environment of the group is taken into account, as are any expectations relating to possible errors. In the context of the audit, the effectiveness of the billing-related internal monitoring system and evidence of the accuracy of the details

in the accounts, the financial statements and the combined annual report are predominantly assessed on the basis of random samples. The audit includes an evaluation of the principles of accounting applied and key projections of the Board of Directors as well as an appraisal of the overall presentation of the financial statements and the combined annual report. We are of the opinion that our audit provides an adequately secure basis for our considered judgement.

Our audit identified no cause for exception.

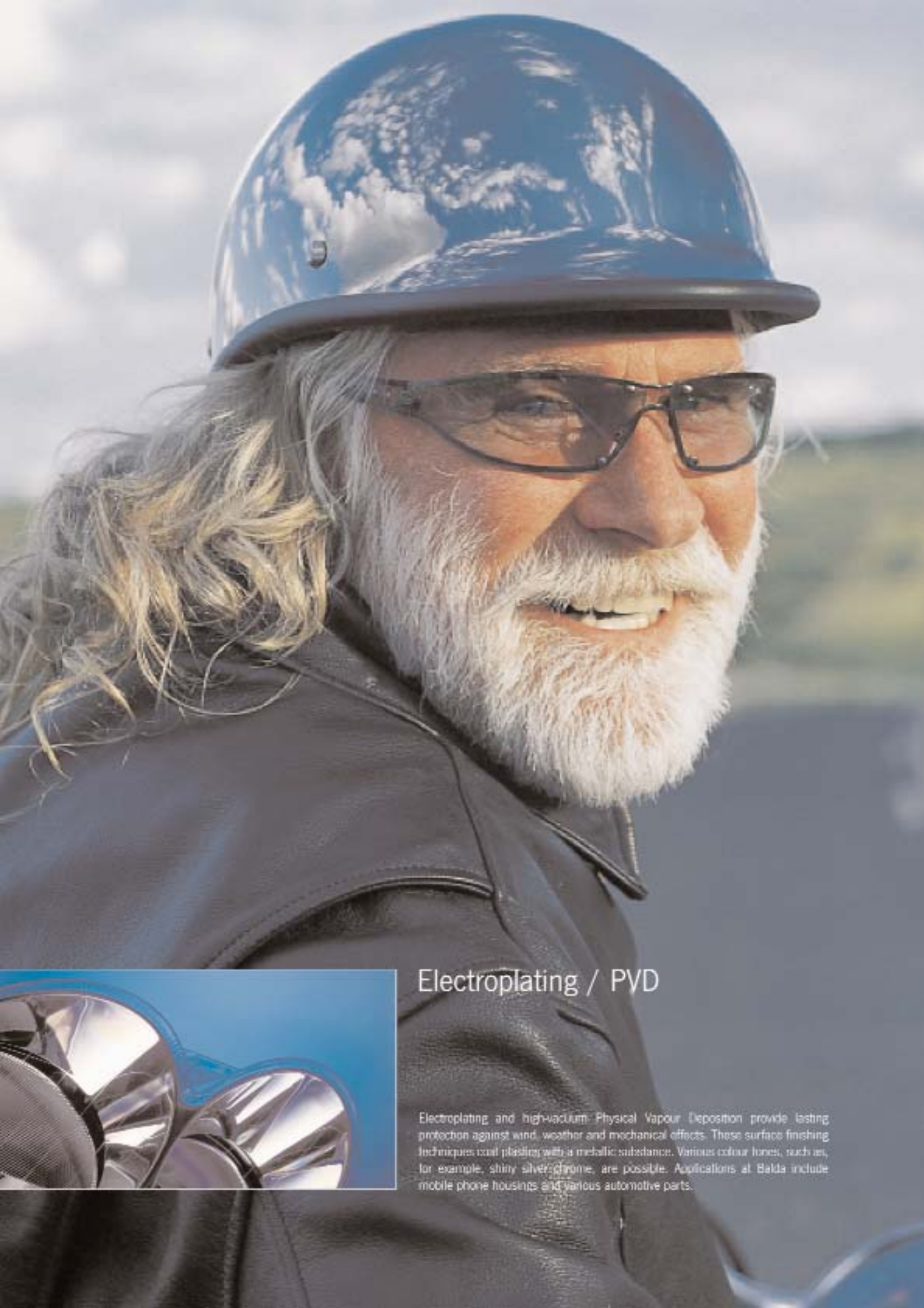
In our considered opinion, based on the knowledge gained during the audit, the consolidated financial statements comply with the law and give, in compliance with the principles of proper accounting, a true and fair view of the assets, the financial position and the earnings of Balda AG. The summarised annual report conforms to the consolidated financial statements and as a whole gives an accurate view of the situation of the company, representing opportunities and potential future risks in an appropriate manner.

Bad Oeynhausen, 20 March 2006

WestAudit AG Wirtschaftsprüfungsgesellschaft

Dipl.-Kfm. G. Spielmann  
Auditor

Dipl.-Kfm. N. Weinberger  
Auditor



## Electroplating / PVD



Electroplating and high-vacuum Physical Vapour Deposition provide lasting protection against wind, weather and mechanical effects. These surface finishing techniques coat plastic with a metallic substance. Various colour tones, such as, for example, shiny silver-chrome, are possible. Applications at Balda include mobile phone housings and various automotive parts.

protect

valuables

# NOTES TO THE ACCOUNTS

## for the Group Financial Statement

### as of 31 December 2005

#### **I. General explanatory notes**

##### **1. General details on Balda AG**

Balda Aktiengesellschaft's registered office is located in Bad Oeynhausen, Germany.

The business activities of the Balda Group range from materials development, engineering, mould making, and manufacturing hardware components to surface engineering. Above all, the company supplies the infocom, automotive and medical engineering sectors and related industries.

##### **2. Details of the Balda AG consolidated Financial Statement**

The Balda AG Group Financial Statement was prepared according to the International Financial Reporting Standards (IFRS). The applied financial reporting methods comply with the European Union Directives on financial reporting for group financial statements.

Unless stated otherwise, all figures are stated in thousands of euros (TEUR).

Pursuant to IAS 1, we have made use of the option and prepared the Group financial statement according to the maturities, starting with the short-term due dates. All asset and debt items with a residual period of less than one year are classified as short-term. In preparing the Group financial statement, Balda AG has therefore met the Deutsche Börse AG requirements as regards structured quarterly statements.

The segment reporting according to IAS 14 is shown in the Annex.

The financial statements of the companies included in the Group financial statement are based on uniform financial reporting and evaluation principles that conform to the IFRS.

##### **3. Details on consolidation**

###### **a. Scope of consolidation**

The Group financial statement includes the financial statements of Balda AG and the companies in which it holds a majority stake (its subsidiaries) up until December 31st of each year. Majority stakes are deemed to exist if the company has the possibility of determining the financial and business policy of a subsidiary to subsequently gain economic benefit.

The Group financial statement of Balda AG includes thirteen domestic and five foreign subsidiaries on the way to full consolidation. Furthermore, three foreign and two domestic subsidiaries are included on a pro rata basis. One associated company is reported using the equity method.

The following subsidiaries are included in the Group financial statement for the first time as part of the full consolidation:

- ▶ Balda Surface GmbH (from 1 November 2005)
- ▶ Balda Grundstücks-Verwaltungs GmbH (from 1 November 2005)
- ▶ Balda Grundstücks-Vermietungs GmbH & Co. KG (from 1 November 2005)
- ▶ Balda-Everskill Solutions (Beijing) Ltd. (from 29 July 2005)

Balda Surface GmbH and Balda Grundstücks-Verwaltungs GmbH were acquired as inventory companies and subsequently renamed.



Balda Grundstücks-Vermietungs GmbH & Co. KG and Balda-Everskill Solutions (Beijing) Ltd. were newly-established in the 2005 financial year.

Due to the mergers with other subsidiaries, the scope of consolidation was reduced as of 31 December 2005 to the following companies:

- ▶ ALBEA Kunststofftechnik GmbH & Co. KG (created from Albea Beteiligungs GmbH, which in turn was renamed Albea Kunststofftechnik GmbH)
- ▶ Balda Solutions GmbH & Co. KG (created from Balda Solutions Verwaltungs GmbH)
- ▶ Balda Solutions Verwaltungs GmbH (following the growth of Balda Solutions GmbH & Co. KG merged with IPH Werkzeugbau GmbH, which in turn was renamed Balda Solutions Deutschland GmbH)
- ▶ Balda-Lumberg Technologies Ltda. (merged with Balda-Lumberg Technologies Plasticos da Amazonia Industria e Comercio Ltda.)

In addition, Balda Norge AS was liquidated on 5 December 2005.

Valuation details in respect to the changes in the scope of consolidation have been waived because they are of secondary importance.

The consolidation is based on the financial statements of the Group companies that were consolidated in full and on a pro rata basis as of 31 December 2005.

#### **b. Consolidation method**

The capital was consolidated using the acquisition method. In the case of the acquisition of a company, the assets and debts of the respective subsidiaries are valued at their attributable market value at the time of acquisition. If the cost of acquiring a company exceeds the attributable current market value of the acquired, identifiable, assets and debts, the difference is given as goodwill. The interests of minority stakeholders are reported as the part of the attributable current values of the stated assets and debts that corresponds to the minority interest.

The earnings of the subsidiaries acquired or sold during the course of the year are incorporated in the Group income statement according to the actual time of acquisition or up until the actual time of disposal.

Receivables and corresponding liabilities or provisions between the Group companies are mutually offset.

Revenues resulting from inter-company deliveries and other intra-group income are set off against the corresponding expenses. Interim profits resulting from intra-group trading shall be eliminated.

Interests in jointly-managed companies are given in the balance sheet by means of pro rata consolidation. The Group aggregates per item the pro rata share of their income, expenses, assets and debts as well as cash flows with similar Group items.

The earnings, as well as assets and debts of associated companies are incorporated in this Group financial statement by the equity method. Interests in associated companies are given in the balance sheet at acquisition cost and adjusted by the changes in the Group's share of the net profit following the time of acquisition and losses due to depreciation. Losses that exceed the Group's share in associated companies are not reported.

### c. Currency conversion

All foreign companies of the Balda AG Group administer the financial, economic and organisational aspects of their business independently. The incorporated financial statements have been prepared in the respective national currencies.

The assets and debts of the Group's foreign companies are converted at the market price on reporting date as part of the consolidation. The expenses and income are converted at the annual average rate. The amounts that differ from the market price on the reporting date are stated separately in the currency reserves (less payable deferred taxes) without affecting profits.

Currency differences resulting from the consolidation of debts and expenses/earnings are set off as income.

The goodwill resulting from the acquisition of foreign subsidiaries is treated as assets and debts of the respective independent subsidiary, and converted at the market price on reporting date (IAS 21.47). The resulting currency differences are stated in the currency reserves.

## II. Details of the Balda AG consolidated financial statement

### 1. Financial reporting and evaluation principles

The fundamental financial reporting and evaluation methods used to prepare this Group financial statement are set out in the following sections. With the exception of the following changes compared with the previous year, the financial reporting and evaluation methods have, in principle, not been amended.

The following amendments were made so that the financial statement provides more reliable and relevant information on the effects of business transactions and other events or conditions on the company's assets, liabilities, financial position and profit or loss. The previous year's figures have been adjusted accordingly.

Claims for reimbursement from income taxes are stated in a separate balance sheet item. The other assets are reduced accordingly.

In TEUR	31.12.2005	31.12.2004
Tax refund	+ 7,740	+ 1,090
Prepaid expenses and other current assets	- 7,740	- 1,090

The unforeseeable commitments for outstanding invoices of TEUR 2,982 contained in the short-term provisions are allocated to the trade accounts payable (previous year: TEUR 5,240). The tax liabilities pursuant to IAS 12 of TEUR 4,891 (previous year: TEUR 11,807) are stated by way of analogy to the tax refund in a separate item, and are taken from the short-term provisions and other current liabilities. The reallocation of the short-term provisions to other current liabilities (TEUR 5,813; previous year: TEUR 7,464) largely applies to outstanding personnel commitments.

In TEUR	31.12.2005	31.12.2004
Trade accounts payable	+ 2,982	+ 5,240
Short-term provisions	- 13,686	- 24,511
Tax liabilities	+ 4,891	+ 11,807
Other current liabilities	+ 5,813	+ 7,464



The loan has been reallocated from the other long-term liabilities to the long-term debts.

In TEUR	31.12.2005	31.12.2004
Long-term debt	+ 5,000	+ 5,000
Other long-term liabilities	- 5,000	- 5,000

The cost of temporary workers have been allocated to personnel expenses in the income statement for the first time. To date, these costs had been stated in other operating expenses.

In TEUR	31.12.2005	31.12.2004
Personnel expenses	+ 32,982	+ 20,311
Other operating expenses	- 32,982	- 20,311

The valuation option has been exercised uniformly in the Group, and is unchanged compared with the previous year.

Receivables and other assets are stated at nominal value. Individual value adjustments were used to adequately take account of all foreseeable risks in respect of estimated uncollectable amounts at the time of preparing the balance sheet. Short-term foreign currency claims are converted at the market value on reporting date.

The inventories were valued at acquisition or manufacturing cost or at the lower, expected, net profit on sale. Acquisition and manufacturing costs are calculated using the weighted average method or on a first-in-first-out principle.

In addition to the material and prime costs, manufacturing costs include manufacturing-related overhead surcharges and depreciation. The tool orders are valued using the completed contract method.

The tangible and intangible assets are valued at acquisition and manufacturing cost less scheduled, straight-line, depreciation and, where applicable, less depreciation expenses. As a general rule, depreciation is based on the following operating life expectancies:

	Years
Buildings	33 to 50
Technical equipment and machinery	3 to 10
Other plant, factory and office equipment	3 to 10
Intangible assets	3 to 5

Depreciation commences once the asset has been completed or once the operating condition has been achieved.

The manufacturing costs account for all manufacturing-related expenses.

Leased items that are to be allocated to the companies as beneficial ownership are capitalised by way of IAS 17 and depreciated over their useful life expectancy (Finance Lease). The leasing rates stated in the commercial law income statements are subdivided into an interest and a repayment part.

The useful lives of all intangible assets are limited. The development costs and company-manufactured intangible assets are capitalised if the reporting conditions pursuant to IAS 38 are met.

The tangible and intangible assets were depreciated by the lower recoverable amount where applicable, pursuant to IAS 36.

On each balance sheet date the Group reviews the book values of its tangible and intangible assets to determine whether these assets should be depreciated. If they are to be depreciated, the recoverable amount is estimated to determine the scope of the possible depreciation expenses. If the recoverable amount for an individual asset cannot be estimated, the recoverable amount of the cash generating unit of this asset, is estimated.

The recoverable amount is the higher value taken from the fair value less costs to sell and the value in use. In the case of determining the value in use, the estimated future payments are discounted by the present value at the current marketable input pre-tax interest rate that reflects the specific asset risks, which are not taken into consideration in the payments.

If the estimated recoverable amount of an asset (or a cash generating unit) falls below the book value, the book value of the asset (the cash generating unit) is reduced by the recoverable amount. The depreciation expense is stated immediately as income.

In the case of the subsequent reversal of depreciation, the book value of the asset (cash generating unit) is increased by the newly-estimated recoverable amount. In this respect the increase in the book value is restricted to the value that would have been determined if no depreciation expenses had been reported for the asset (cash generating unit) in previous years. A reversal of the depreciation expenses is stated immediately as income.

The interests stated in the financial assets are reported in the balance sheet at acquisition cost. The interests do not exert a significant influence. The loans and other financial assets are reported at their nominal value or at the lower recoverable amount.

The goodwill is stated as an asset and reviewed annually in respect of depreciation. Insofar as depreciation expenses are determined during the review of the value amounts stated pursuant to IAS 36, these are immediately reported as income. There is no subsequent increased valuation.

Deferred taxes are the expected tax burdens or relief from the differences of the book values of assets and debts in the Group financial statement and the value amount stated in the tax balance sheet. In this respect, use is made of the balance sheet oriented liability method. Deferred tax liabilities and deferred tax claims are reported for all taxable temporary differences insofar as it is likely that taxable profits are available for which the deductible temporary differences can be used. Deferred taxes on temporary differences from goodwill are not stated.

The book value of the deferred tax claims is reviewed each year on the reporting date and reduced, if it is no longer likely that sufficient taxable income is available to fully or partially realise the claim.

The expected income tax burden at the time of realising the differences is taken as a basis for the temporary differences pursuant to IAS 12 in respect of valuing the deferred taxes. Deferred taxes are generally reported as income, apart from items that are directly booked in shareholders' equity.

All current liabilities are reported at their repayment amount. Short-term foreign currency liabilities are converted on the reporting date.

Provisions are set up for legal or effective commitments which originated in the past if it is likely that honouring the commitment gives rise to an outflow of Group resources, and the amount of commitment can be reliably estimated.

The provision is reported at present value if a significant compound interest effect results from the time at which the commitment is honoured.

Provisions for warranties are reported at the time at which the respective product is sold. The amount is based on the best estimate of the expenses by the management which are required to honour the Group obligation.

Pursuant to IAS 39, financial liabilities were reported at the time of acquisition at acquisition cost. Costs that can be directly allocated to the acquisition (transaction costs) have been taken into consideration. In the following period, compounding is applied in accordance with the effective interest method such that the repayment amount arises at the end time.

The pension provisions are determined with due regard to the 2005 guiding figures of Dr. Klaus Heubeck and a rate of interest of 4.5% according to the projected unit credit method.

## **2. Segment reporting**

In the Balda Group the primary segment was reported according to the geographical allocation, and was therefore unchanged compared with the previous year.

In the Balda Group the primary segment is divided into the Europe, Asia and America regions. In all segments, the location of the segment assets largely covers the revenues generated in dealings with third parties in the respective segments. The America segment largely corresponds with the existing joint venture in that region.

The secondary segment reporting is geared towards the business areas and is subdivided into the "Development, Engineering and Mould Making" and "Plastics Processing and Surface Treatment" business areas.

Primary Segments	Europe		Asia		America		Intersegment correction		Group	
In TEUR	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenues	259,785	286,153	120,321	83,801	18,904	10,157	- 1,831	- 2,435	397,179	377,676
<i>Change from previous year</i>	- 9.2 %		43.6 %		86.1 %				5.2 %	
Total operating performance (1)	278,538	292,817	125,032	82,851	20,406	10,446	- 1,964	- 2,817	422,012	383,297
<i>Change from previous year</i>	- 4.9 %		50.9 %		95.3 %				10.1 %	
Material expenses	88,375	100,722	68,440	41,387	13,305	7,429	- 1,902	- 3,037	168,218	146,501
<i>in % of total performance</i>	31.7 %	34.4 %	54.7 %	50.0 %	65.2 %	71.1 %			39.9 %	38.2 %
Personnel expenses	99,757	86,863	13,239	10,744	3,330	1,223	0	0	116,326	98,829
<i>in % of total performance</i>	35.8 %	29.7 %	10.6 %	13.0 %	16.3 %	11.7 %			27.6 %	25.8 %
Other operating expenses	50,214	44,788	12,641	11,858	2,848	1,283	- 62	220	65,641	58,149
<i>in % of total performance</i>	18.0 %	15.3 %	10.1 %	14.3 %	14.0 %	12.3 %			15.6 %	15.2 %
EBITDA	40,192	60,445	30,712	18,862	923	511	0	0	71,827	79,818
<i>in % of total performance</i>	14.4 %	20.6 %	24.6 %	22.8 %	4.5 %	4.9 %			17.0 %	20.8 %
Depreciations (2)	13,464	18,246	3,690	2,790	455	133	0	0	17,609	21,169
<i>in % of total performance</i>	4.8 %	6.2 %	3.0 %	3.4 %	2.2 %	1.3 %			4.2 %	5.5 %
EBITA	26,728	42,200	27,022	16,072	468	378	0	0	54,218	58,649
<i>in % of total performance</i>	9.6 %	14.4 %	21.6 %	19.4 %	2.3 %	3.6 %			12.8 %	15.3 %
Depreciation of goodwill	260	5,681	0	981	65	65	0	0	325	6,727
<i>in % of total performance</i>	0.1 %	1.9 %	0.0 %	1.2 %	0.3 %	0.6 %			0.1 %	1.8 %
EBIT	26,468	36,519	27,022	15,091	403	313	0	0	53,893	51,922
<i>in % of total performance</i>	9.5 %	12.5 %	21.6 %	18.2 %	2.0 %	3.0 %			12.8 %	13.5 %
Investments (3)	20,991	10,219	11,019	7,061	1,963	593	0	0	33,973	17,873
Segment assets (4)	164,611	142,533	100,481	77,075	23,832	15,869	- 307	- 11,089	288,617	224,388
<i>EBITDA in % of the segment asset</i>	24.4 %	42.4 %	30.6 %	24.5 %	3.9 %	3.2 %			24.9 %	35.6 %
Segment liabilities (5)	46,386	41,764	30,962	13,074	5,392	4,910	- 278	- 8,772	82,462	50,976
<i>Expenses not affecting payments. without write-offs</i>	0	0	0	0	0	0	0	0	0	0
Number of employees as of 31.12. (6)	3,818	2,372	3,869	2,924	357	236	0	0	8,044	5,532

(1) Total operating performance = revenues plus other operational income plus/minus inventory changes plus own work capitalised

(2) Without depreciation on added value

(3) Investments = investments in tangible assets including intangible assets

(4) Segment assets = long-term assets plus current assets without interest-bearing assets, deferred tax and tax refined

(5) Segment liabilities = non-interest-bearing liabilities and provisions without tax liabilities

(6) Number of employees as of 31 December = including loan workers, temporary workers and apprentices

Depreciation expenses due to impairment tests on goodwill did not arise in the year under review.

The income from affiliates reported according to EBIT in the income statement (TEUR 46) is allocated to the region Europe.

Secondary segments  in TEUR	GF1 Development, engineering and mould making		GF2 Plastics processing and surface treatment		Group	
	2005	2004	2005	2004	2005	2004
Revenues	40,288	65,267	356,891	312,409	397,179	377,676
Comparison with 2005 in %	- 38.3 %	- 5.8 %	14.2 %	53.4 %	5.2 %	38.4 %
Investments (1)	6,589	6,339	27,384	11,534	33,973	17,873
Segment assets (2)	24,161	21,104	264,456	203,284	288,617	224,388

(1) Investments = investments in intangible and tangible assets (incl. initial consolidation)

(2) Segment assets = short and long-term assets without interest-bearing assets, active deferred taxes and tax refund

### 3. Cash flow statement

The cash flow statement has been prepared according to the IAS 7 Cash flow Statements. Payments are classified according to business, investment and financing activity.

The development and composition of payments are enclosed in a cash flow statement as a separate element of the Group financial statement.

The individual cash flow statement items are as follows:

#### a. Cash flow from current business activity

The cash flow from the current business activity was reduced by TEUR 16,672 to TEUR 31,347. In addition to the lower expenses for depreciation, the fall in the operating result is attributable, above all, to the establishment of inventories and receivables. This is largely contrasted with an increase in liabilities.

#### b. Cash flow from the investment activity

In the 2005 financial year, the Group acquired tangible and intangible assets amounting to TEUR 33,914. Payments to the sum of TEUR 32,421 were effected for the acquisition of tangible and intangible assets.

#### c. Cash flow from the financing activity

The changes in liabilities which are due to banks and affect payments are fully attributable to loans and the repayment of current account liabilities.

These outflows are juxtaposed to an inflow of funds from loans secured to the sum of TEUR 39,492.

The Group received payments of TEUR 1,411 as part of the conversion of convertible bonds.

In the year under review, no new leasing contracts were entered into which complied with the finance lease criteria. These liabilities were repaid to the sum of TEUR 267.

#### d. Changes to cash and cash equivalents affecting payments

In total the financial resources increased by TEUR 13,848 to TEUR 42,312.

#### **4. Explanations on individual consolidated financial statement items**

##### **Current assets**

##### **a. Cash and cash equivalents**

The cash and cash equivalents contain cash on hand, capital investments saleable at any time, cash in banks and cheques.

##### **b. Trade accounts receivable**

The trade accounts receivable amount to TEUR 85,308 on the balance sheet date. The increase by TEUR 25,252 is largely attributable to the increased sales in the last quarter.

Receivables due from associated companies for rendered services amount to TEUR 30.

The value adjustments for receivables amount to TEUR 1,858 on the balance sheet date.

All receivables have a residual term of less than one year.

##### **c. Inventories**

The inventories on the balance sheet date were depreciated by TEUR 5,038 (previous year: TEUR 8,040) at the lower net price on sale.

##### **d. Tax refund**

The tax refund are solely for income taxes pursuant to IAS 12.

##### **e. Prepaid expenses and other current assets**

The other current assets contain, among others, refund claims for value added tax equal to TEUR 3,228 (previous year: TEUR 1,799).

##### **Long-term assets**

We refer to our statement on the development of long-term assets, which we have enclosed with the Notes to the Accounts as an Annex, as regards the changes in the individual areas of the long-term assets (without deferred taxes).

##### **f. Tangible assets**

The balance sheet values in the Group financial statement are made up of the book values of individual statements and the added value from the initial consolidation less the accumulated depreciation. The residual book values at the end of the year largely correspond to the value in use.

The financial year saw depreciation expenses for tangible assets equal to TEUR 99 (previous year: TEUR 1,103).

Land charges and ownership transfers as security, to the sum of TEUR 27,483 (previous year: TEUR 40,109), were used to secure long-term liabilities.

Insofar as the Balda Group companies are responsible for the opportunities and risks associated with leased assets (finance leasing), these are reported pursuant to IAS 17 at the acquisition cost that would have applied in the event of acquisition.



The book values of the leased assets – stated in "Technical Equipment and Machinery" – are made up as follows:

In TEUR	31.12.2005	31.12.2004
Acquisition costs	1,602	2,067
Accumulated depreciation	366	692
Book value	1,235	1,375

#### **g. Intangible assets**

The intangible assets are, above all, software acquired against payment.

The development costs and company-manufactured intangible assets will probably be capitalised pursuant to IAS 38, subject to the conditions stated therein. The total research and development costs in the 2005 financial year amount to about 2.5 million euro (previous year: about 2.3 million euro). The lion's share is attributable to the development costs. The development costs are not capitalised, as the costs were not deemed to adequately constitute assets.

The identifiable differences with respect to orders (TEUR 104) determined pursuant to IFRS 3 from the company evaluation of the acquisition of the joint venture Balda Lumberg were further depreciated in the financial year at TEUR 39 (previous year: TEUR 65).

#### **h. Financial assets**

The interests were held as "available-for-sale". All other financial assets are loans (loans and receivables originated by enterprise).

The interests in associated companies amount to the interest in aimtec GmbH reported at equity. The income from affiliates amounted to TEUR 46 on a pro rata basis.

The loans to Group companies contain a loan in the sum of TEUR 2,022, for which interest is currently charged at 5.7% p.a. A partial amount of TEUR 2,019 falls due in 12 months' time.

In the case of the acquisition of the joint venture Balda Lumberg, part of the purchase price has been transferred to a trust account held by a notary public. This serves to cover threatened risks that were incorporated in the balance sheet at market value at the time of acquisition. These contingent claims changed on a currency-related basis by TEUR 426 to TEUR 1,781, and have a maximum term of 2 years.

Due to the agreed conditions, the attributable market value of the loans varies insignificantly from the book value.

#### **i. Goodwill**

The reporting of goodwill in the Group financial statement is based on the initial consolidation of the acquired interests, insofar as differences cannot be distributed to the individual assets on the asset side as added value.

Impairment tests are carried out regularly in accordance with the intra-group standards. The value as a going concern was determined on the basis of the discount of the cash flow planning. The capitalisation yields before taxes that were taken as a basis amounted to between 14.5% and 18.5% (previous year: 19.0%). The value in use determined according to this method exceeded the book values on 31 December 2005. Depreciation expenses were therefore not reported in the financial year, pursuant to IAS 36 (previous year: TEUR 3,915).

#### **j. Deferred taxes**

In the 2005 financial year, the deferred taxes on the asset side contain the following amounts for temporary differences:

In TEUR	31.12.2005	31.12.2004
Tax reduction claims and realisable loss carryovers	3,059	4,061
Currency differences	0	1,635
Consolidation effects	730	1,002
Provisions	1,266	871
<b>Total</b>	<b>5,055</b>	<b>7,569</b>

On the balance sheet date loss carryovers were reported amounting to TEUR 17,542 (previous year: TEUR 23,532) to be set off against future profits. A deferred tax claim was reported in full.

The StVergAbG dated 16 May 2003 resulted in a suspension of the reimbursement of reduced corporation tax (so-called moratorium) and an extension of the transition period up until 31 December 2019. In 2004, deferred taxes to the sum of TEUR 633 were liquidated for claims for the reduction of corporation tax from the imputation system that are probably unrealisable. Due to the end of the moratorium from 2006, we have increased the value of foreseeable utilisation of reductions to the sum of TEUR 200.

The deferred taxes created in respect of currency differences were also liquidated in 2005 without affecting profits.

The taxation rate is based on the respective company circumstances in the individual Group companies. The calculation of the deferred corporation tax in the case of domestic companies limited by shares is based on the current valid taxation rate of 25.0 % (previous year: 25.0 %).

#### **Current liabilities**

##### **k. Current portion of finance lease obligations**

The current liabilities from leasing contracts amount to TEUR 391 (previous year: TEUR 442) on the balance sheet date and apply to the amounts due within one year from the finance lease.

##### **l. Short-term debts and current portion of long-term debts**

The current liabilities due to banks increased by TEUR 4,885.

The current portion of long-term debt applies to the repayment rates of medium-term and long-term loans due within the next 12 months. All amounts, therefore, fall due within one year. The current portion of long-term debt is largely secured by way of land charges.

##### **m. Trade accounts payable**

The liabilities largely arise from material supplies and services. Compared to the previous year, they increased by TEUR 22,237.

Liabilities due to associated companies amount to TEUR 412 (previous year: TEUR 597).

**n. Advanced payments received**

The advanced payments received largely amount to payments received on orders for assembly systems and tools that are already in production. This item was almost unchanged compared with the previous year.

**o. Short-term provisions**

The short-term provisions following reallocation are as follows:

In TEUR	Status 01.01.2005	Currency differences	Utilisation	Reversal	Accruals	Status 31.12.2005
Short-term provisions	1,317	0	869	58	1,964	2,354

The provisions apply, above all, to compensatory damages. The amounts were reported using the most likely value of the estimates for faulty products on the basis of previous experience.

**p. Tax liabilities**

The tax liabilities solely apply to commitments for income tax pursuant to IAS 12.

**q. Other current liabilities**

The other current liabilities largely take account of the following:

In TEUR	2005	2004
Wages and salaries incl. social security contributions	5,906	5,138
Other personnel expenses (holiday, shares in profits, bonuses, etc.)	5,494	4,505
Value added tax, wage and church tax	3,714	2,101
Outstanding credits to customers	1,879	1,748
Other outstanding invoices	5,362	6,550
<b>Total</b>	<b>22,355</b>	<b>20,042</b>

**Long-term liabilities**

**r. Long-term debt**

The due dates of the repayment obligations from loans are based on the following table:

In TEUR	Variable interest rates 3.8 % to 7.0 % p.a.	Fixed interest rates 3.8 % to 6.5 % p.a.	Total
2007 - 2010	1,044	47,916	48,960
After 2010	0	2,172	2,172
<b>Total</b>	<b>1,044</b>	<b>50,088</b>	<b>51,132</b>

In February 2005 a bonded loan (TEUR 40,000) was issued at a fixed rate of interest of 3.8% and with a final maturity of February 2010. The effective interest rate of the loan is 4.2 %.

The liabilities are largely secured by way of land charges and ownership transfers as security.

**s. Long-term finance lease obligations**

The long-term finance lease obligations of TEUR 856 (previous year: TEUR 1,072) apply to the repayment amounts of the liabilities from the "finance lease". All liabilities will fall due after one but prior to five years.

**t. Deferred taxes**

In TEUR	2005	2004
Consolidation effects	398	1,121
Evaluation corrections according to IFRS	1,824	1,481
Currency differences	1,132	0
<b>Total</b>	<b>3,354</b>	<b>2,602</b>

The adverse deferred taxes contain, among others, TEUR 325 (previous year: TEUR 368) for the added value of the tangible assets discovered in the case of the initial consolidation.

The deferred taxes for currency differences were created without affecting profits.

The taxation rate is based on the respective company circumstances in the individual Group companies. The calculation of the deferred corporation tax in the case of domestic companies limited by shares is based on the current valid taxation rate of 25.0 % (previous year: 25.0 %).

**u. Long-term provisions / pension accruals**

The provision development is as follows:

In TEUR	Status 01.01.2005	Currency differences	Utilisation	Reversal	Accruals	Status 31.12.2005
Long-term provisions / pension accruals	5,070	827	78	54	579	6,344

The long-term provisions contain pension commitments to the sum of TEUR 1,539 (previous year: TEUR 1,477). The contingent liabilities reported, pursuant to IFRS 3, as part of the acquisition of the subsidiaries of the joint venture Balda-Lumberg increased on a currency-related basis by TEUR 827 to TEUR 3,852. These liabilities are juxtaposed to contingent claims to the sum of TEUR 1,781 (see Item II. 4.g.).

**v. Other long-term liabilities**

A total of TEUR 1,969 was injected into shareholders' equity from the other long-term liabilities out of the shares converted in 2005. The interest expenditures from the convertible bond amounted to TEUR 27 in the financial year.

#### w. Minority interests

The development of the minority interests is as follows:

	TEUR
Status on 1 January 2004	9
Reduction due to acquisition of company interests	- 9
Increase due to sale of company interests	3,554
Share in net income 2004	4,249
<b>Status on 31 December 2004</b>	<b>7,803</b>
Share in net income 2005	6,030
Distribution of profits	- 738
Currency differences	801
<b>Status on 31 December 2005</b>	<b>13,896</b>

In the year under review the minority stakeholders received an advance distribution to the sum of TEUR 738.

Currency differences in the sum of TEUR 801 have been taken into consideration from the conversion of assets and debts at exchange rates on the reporting date.

#### x. Shareholders' equity

The development of the shareholders' equity of the Balda Group is enclosed in a shareholders' equity change statement as a separate part of the Group financial statement.

The capital stock on the balance sheet date was TEUR 40,163. It is divided into 40,162,958 individual share certificates in bearer form that are fully eligible for dividends.

The subscribed share capital increased by TEUR 408 and the capital reserves by TEUR 1,561, due to the shares converted in the year under review.

The differences from the currency conversion of the balance sheets and income statements of the foreign companies prepared in foreign currencies are allocated to the currency reserves, without affecting profits, but with due regard to the deferred taxes pursuant to IAS 21

### 5. Explanations on individual Group income statement items

#### a. Revenues

In the case of the Balda Group companies, the revenues are only realised once the service is rendered in full (completed contract method). Insofar as the service has not been rendered in full, the service that is valued at manufacturing costs is capitalised in the inventories.

Of the revenues of the Balda Group in the financial year, TEUR 125,477 are attributable to domestic activities (previous year: TEUR 151,482) and TEUR 271,702 were generated abroad (previous year: TEUR 226,194).

**b. Other operating income**

The other operating income in the Group financial statement is made up of the following:

<b>Other operating income in TEUR</b>	<b>2005</b>	<b>2004</b>
Income from reversal of valuation reserves on accounts receivable	2,091	1,270
Income from sales of material	788	889
Book gains from the disposal of fixed assets	73	674
Income from the reversal of short-term liabilities	2,255	597
Others	3,816	3,380
<b>Total</b>	<b>9,023</b>	<b>6,810</b>

The other operating income contains, among others, currency differences from the debt consolidation (TEUR 172).

**c. Changes in inventories of finished goods and work in progress**

The item largely applies to inventory changes in respect of products manufactured by the Group, in particular production systems and tools, and injection-moulded products.

**d. Own work capitalised**

This shows Group services for items stated in the tangible assets

**e. Material expenses**

Compared with the previous year, the cost of materials for the Balda Group increased by TEUR 21,717 to TEUR 168,218. In the 2005 financial year, the materials usage quota, as the ratio of the materials expenses to the total performance, was 39.9 % (previous year: 38.2 %).

**f. Personnel expenses**

Group personnel expenses increased by TEUR 17,497 from TEUR 98,829 to TEUR 116,326. In the 2005 financial year, expenses for temporary workers were initially taken into account under the Personnel Expenses item. In 2005 personnel expenses without temporary workers increased by TEUR 4,826 to TEUR 83,344.

**g. Depreciations**

Depreciations declined by TEUR 9,962 to TEUR 17,934. In addition to scheduled depreciations on goodwill (TEUR 2,812), depreciation expenses for impairment tests (TEUR 3,915) were reported in the previous year's depreciation. In the 2005 financial year, depreciation expenses pursuant to IAS 36 did not apply to tangible assets and goodwill.



#### **h. Other operating expenses**

The other operating expenses largely apply to the following:

<b>Other operating expenses in TEUR</b>	<b>2005</b>	<b>2004</b>
Building, maintenance and operating costs	14,954	12,687
Rental and leasing expenses	5,925	5,761
Outbound freight and storage costs	6,637	5,337
Legal and consultant's costs	6,941	5,082
Energy costs	6,239	4,772
Travelling / vehicle / advertising costs and investor relations	5,416	3,994
IT costs	3,909	2,946
Employee training / incidental personnel costs	3,092	2,766
Administrative costs	2,358	1,966
Insurance	2,318	1,580
External research & development	1,660	930
Others	6,192	10,328
<b>Total</b>	<b>65,641</b>	<b>58,149</b>

Of the expenditure and income consolidation, a total of TEUR 376 has been incorporated in the Group result with an affect on costs.

#### **i. Financing costs**

The financing costs are made up of the following:

<b>In TEUR</b>	<b>2005</b>	<b>2004</b>
Interest expenditures	5,818	5,040
Interest yield	1,539	820
<b>Total</b>	<b>4,279</b>	<b>4,220</b>

#### **j. Taxes on income and earnings**

In taxes on income and earnings, deferred taxes of TEUR 383 were taken into consideration with an affect on costs.

The tax on the Group's pre-tax profit varies from the theoretical amount, which in the case of using a theoretical income tax rate of 38.6% (previous year: 38.6%) on earnings before tax, as follows:

In TEUR	2005	2004
Earnings before income taxes	49,660	47,749
Theoretical tax expenditure 2005: 38.6 % (previous year: 38.6 %)	19,169	18,418
Taxation rate differences	- 7,466	- 6,535
Non tax deductible expenses and income	- 1,750	3,756
Taxes of previous year	261	- 170
<b>Actual tax expenditure</b>	<b>10,214</b>	<b>15,469</b>

**k. Net income for the year**

The annual net income is based on setting off the share of outside group partners at TEUR 33,416.

**l. Earnings per share – undiluted**

The undiluted earnings per share are as follows:

	2005	2004
Group share in net income for the year according to income statement (TEUR)	33,416	28,031
Weighted average of issued shares (figures in thousands)	39,897	38,576
Earning per share according to IAS 33 (euro)	0.838	0.727

**m. Earnings per share – diluted**  
**Diluted earnings**

In TEUR	2005	2004
Group share in net income for the year according to the income statement (TEUR)	33,416	28,031
Interest yield of potential shares from issue of convertible bonds less deferred taxes	126	323
Diluted earnings	33,542	28,354

**Diluted number of shares**

Figures in thousands	2005	2004
Weighted average of issued shares – undiluted	39,897	38,576
Weighted average of potential shares from issue of convertible bond	382	1,703
Weighted average of number of shares – diluted	40,279	40,279

The diluted earnings per share according to IAS 33 are 0.833 euro (previous year: 0.704 euro).

### III. Other details

#### a. Average number of employees

The following details apply to the persons employed at the Balda Group, including agency staff, but without assistants and apprentices:

	2005	2004
Executive Board	4	4
Clerical employees	769	677
Technical and commercial employees	2,706	2,679
Temporary agency staff	3,284	1,902
<b>Total</b>	<b>6,763</b>	<b>5,262</b>

For more information, we refer to our comments on employees in the Management Report.

#### b. Contingent liabilities

The Group contingent liabilities are as follows:

In TEUR	2005	2004
From guarantees	511	511
From warranty contracts	27	12
<b>Total</b>	<b>538</b>	<b>523</b>

#### c. Other financial commitments

In TEUR	2005	2004
2006	5,187	6,954
2007 - 2010	8,262	9,137
After 2010	7,081	7,806
<b>Total</b>	<b>20,530</b>	<b>23,897</b>

At TEUR 1,651 the other financial commitments in the Group apply to commitments from orders for investments, which will be paid out in total in 2006. Group financial commitments from renting and leasing contracts amount to TEUR 18,879. At TEUR 10,535 a commitment from a real estate leasing contract with a residual term of 15 years is a key Group item.

The Group's commitments from renting and leasing contracts amount solely to contracts in which the Group companies are not beneficial owners according to IFRS (operating lease). In this respect, TEUR 3,536 are attributable to a residual term of up to one year, TEUR 8,262 are attributable to a residual term in excess of one year and up to five years, and TEUR 7,081 are attributable to a residual term in excess of five years.

Acceptance commitments resulting from a contract entered into with a utility company give rise to an arithmetical amount of TEUR 2,327 and a residual term of four years.

#### d. Scope of consolidation and shareholding

Below we have illustrated the scope of consolidation of the Balda Group as of 31 December 2005:

Company	Registered office	Holding	Share percent	Shareholders' equity TEUR	Earning before interest TEUR
<b>Fully consolidated companies</b>					
<b>Partnerships</b>					
Balda-Heinze GmbH & Co. KG	Herford	direct	100.00%	3,273	2,404
Balda Medical GmbH & Co. KG	Bad Oeynhausen	direct	100.00%	126	- 1,062
Balda Grundstücks-Vermietungs GmbH & Co. KG	Munich	direct	100.00%	30,379	115
<b>Companies limited by shares</b>					
Balda AG	Bad Oeynhausen	direct	100.00%	125,866	10,466
ALBEA Kunststofftechnik GmbH	Seelbach	direct	100.00%	4,038	0
ALBEA Grundstücksverwaltungs-gesellschaft mbH via ALBEA Kunststofftechnik GmbH	Seelbach	direct indirect	5.17% 94.83%	1,393	329
Balda Solutions Deutschland GmbH	Bad Oeynhausen	direct	100.00%	21,426	0
Sächsische Metall- und Kunststoffveredelungs GmbH	Oberlungwitz	direct	100.00%	4,238	0
Balda Medical Verwaltungs-gesellschaft mbH	Bad Oeynhausen	direct	100.00%	17	1
Balda Werkzeug- und Vorrichtungsbau GmbH	Bad Oeynhausen	direct	100.00%	3,781	0
Balda Surface GmbH	Bad Oeynhausen	direct	100.00%	- 1	- 26
Balda Grundstücks-Verwaltungs GmbH	Munich	direct	100.00%	23	- 2
Balda Beteiligungs AG	Zug (Switzerland)	direct	100.00%	37,638	15,299
Balda-Heinze Verwaltungsgesellschaft mbH	Herford	direct	100.00%	30	1
Balda Solutions Hungaria Kft. via Balda Solutions Deutschland GmbH	Veszprem (Hungary)	direct indirect	73.47% 26.53%	2,576	2,443
HeRo Galvanotechnik GmbH via Balda-Heinze GmbH & Co. KG	Herford	indirect	100.00%	246	0
Balda Investments Singapore Pte. Ltd.	Singapore (Singapore)	direct	75.00%	31,096	14,444
Balda-Everskill Solutions Suzhou Ltd. via Balda Investments Singapore Pte. Ltd.	Suzhou (China)	indirect	75.00%	38,729	21,366
Balda-Everskill Solutions (Beijing) Ltd. via Balda Investments Singapore Pte. Ltd.	Beijing (China)	indirect	75.00%	5,064	- 427

Company	Registered office	Holding	Share percent	Shareholders' equity TEUR	Earning before interest TEUR
<b>Pro rata consolidated companies</b>					
<b>Partnerships</b>					
Balda-Lumberg Deutschland GmbH & Co. KG	Bad Oeynhausen	direct	50.00%	29,517	- 11
<b>Companies limited by shares</b>					
Balda-Lumberg Verwaltungsgesellschaft mbH via Balda-Lumberg Deutschland GmbH & Co. KG	Bad Oeynhausen	indirect	50.00%	25	2
Balda-Lumberg Technologies Plasticos da Amazonia Industria e Comercio Ltda. via Balda-Lumberg Deutschland GmbH & Co. KG	Manaus (Brazil)	direct indirect	0.10% 49.90%	42,209	741
Balda-Lumberg Technologies Industria e Comercio Ltda. via Balda-Lumberg Deutschland GmbH & Co. KG	Sao Paulo (Brazil)	indirect	50,00%	- 736	- 750
Balda-Thong Fook Solutions Sdn. Bhd. via Balda Investments Singapore Pte. Ltd.	Ipoh (Malaysia)	indirect	37.50%	19,437	3,622
<b>Associated companies (consolidation at equity)</b>					
aimtec GmbH	Bad Oeynhausen	direct	50.00%	1,383	145

#### e. Balda AG executive bodies

##### Supervisory Board of Balda AG

- ▶ Mr Gerhard Holdijk (Chairman), Bad Oeynhausen  
Managing Director of Holdijk Beratungs GmbH
- ▶ Mr Bernd Fennel (Deputy Chairman), Löhne  
Managing Director of Fennel Systems GmbH and Fennel GmbH & Co. KG
- ▶ Mr Dietrich Fürst, Braunschweig (to 30.11.2005)  
Management Consultant
- ▶ Mr Dr. Thomas Bentz, Minden (to 30.11.2005)  
Personally liable partner of Melitta Unternehmensgruppe Bentz KG
- ▶ Mr Berndt Kriete, Löhne (to 30.11.2005)  
Managing Director of Gemeinnützige Gesellschaft für Möbel, Kunst und Kultur mbH

- ▶ Mr Jochen Röfhs, Düsseldorf (to 31.10.2005)  
Auditor and Management Spokesman, Röfhs WP Partner AG
- ▶ Mr Richard Roy, Dreieich (from 08.12.2005)  
Management Consultant
- ▶ Mr Paul A. Stodden, Munich (from 08.12.2005)  
Chairman of the Executive Board of debitel AG
- ▶ Mr Othmar Vock, Itlingen, Switzerland (from 08.12.2005)  
Management Consultant
- ▶ Mr Lutz Völker, Rheinbreitbach (from 08.12.2005)  
Managing Director of aspect corporate advisors GmbH

Mr Gerhard Holdijk (Chairman of the Supervisory Board) retired of his own volition with effect from 31 December 2005.

Mr Richard Roy took up the position of Supervisory Board Chairman with effect from 2 January 2006.

Furthermore, Mr Mark C. Joseph Twaalfhoven was appointed a new member of the Supervisory Board with effect from 10 January 2006. He replaces Mr Gerhard Holdijk as a Supervisory Board member.

In addition to their individual functions on behalf of Balda AG, the Supervisory Board members listed below are members of the following boards:

- ▶ Mr Bernd Fennel simultaneously holds the following supervisory and advisory board positions:
  - Fennel Stiftung, Löhne (Chairman of the Board of Trustees)
  - Fennel Cosmed GmbH & Co. KG, Bad Oeynhausen (Advisory Board Chairman)
- ▶ Mr Dietrich Fürst simultaneously holds the following supervisory and advisory board positions:
  - GP Papenburg AG, Schwarmstedt (Supervisory Board Chairman)
  - Baugenossenschaft Wiederaufbau eG, Braunschweig (Supervisory Board Chairman)
  - Termath AG, Wolfsburg (Supervisory Board Chairman)
  - Teleson AG, Munich (Deputy Supervisory Board Chairman)
  - Böhm Fertigungstechnik GmbH, Suhl (Advisory Board Chairman)
  - Stiftung Mundstock, Wedtlenstedt (Deputy Advisory Board Chairman)
- ▶ Dr. Thomas Bentz simultaneously holds the following advisory board position:
  - Goldbeck GmbH, Bielefeld (Advisory Board Member)
- ▶ Mr Berndt Kriete simultaneously holds the following board of trustee positions:
  - Wittekindshof – Diakonische Stiftung für Menschen mit Behinderungen, Bad Oeynhausen (Board of Trustees Member)
  - Stiftung Oikos. Menschen Heimat geben, Bad Oeynhausen (Board of Trustees Member)
- ▶ Mr Richard Roy simultaneously holds the following supervisory and executive board positions:
  - Swisscom AG, Bern, Switzerland (Executive Board Member)
  - Update Software AG, Vienna, Austria (Supervisory Board Member)
  - Premiere AG, Munich (Deputy Supervisory Board Chairman)
  - Realtech AG, Walldorf (Deputy Supervisory Board Chairman)



- ▶ Mr Paul A. Stodden simultaneously holds the following supervisory board positions:
  - Midray GmbH, Cologne (Supervisory Board Chairman)
  - debitel Danmark A/S, Albertslund, Denmark (Supervisory Board Chairman)
  - debitel France S.A., Chaville, France (Supervisory Board Chairman)
  - debitel Nederland B.V., Hoofddorp, the Netherlands (Supervisory Board Chairman)
  - debitel Telekomunikacije d.d., Ljubljana, Slovenia (Supervisory Board Chairman)
- ▶ Mr Othmar Vock simultaneously holds the following executive board positions:
  - Swisscom AG, Bern, Switzerland (Executive Board Member)
  - Ivoclar-Vivadent, Schaan, Liechtenstein (Executive Board Member)
  - SWX Swiss Exchange (Member of the Securities Admission Control Board)

### **Balda AG Executive Board**

- ▶ Mr Joachim Gut, Schermbeck (Chairman of the Executive Board)  
Human Resources, Investor Relations, Internal Audits, Strategy
- ▶ Mr Rainer Frilling, Bad Oeynhausen  
Sales, Marketing
- ▶ Mr Ralf Ackermann, Bad Oeynhausen  
Technology
- ▶ Mr Volker Brinkmann, Bad Oeynhausen  
Finances, Controlling, IT

Mr Gut is simultaneously Chairman of the Executive Board of Balda Beteiligungs AG, Zug Switzerland, Chairman of the Board of Directors Balda Investments Singapore Pte. Ltd., Singapore Singapore, Deputy Chairman of the Board of Directors of Balda-Everskill Solutions Suzhou Ltd., Sozhou China and Deputy Chairman of Board of Directors of Balda-Everskill Solutions (Beijing) Ltd., Beijing China.

Mr Frilling additionally holds the position of Deputy Chairman of the Executive Board of Balda Beteiligungs AG, Zug Switzerland and is a member of the Board of Directors of Balda-Thong Fook Solutions Sdn. Bhd., Ipoh Malaysia.

Mr Ackermann is a member of the Board of Directors of Balda-Everskill Solutions Suzhou Ltd., China and Balda-Everskill Solutions (Beijing) Ltd., Beijing China.

Mr Brinkmann is simultaneously a member of the Executive Board of Balda Beteiligungs AG, Zug Switzerland, a member of the Board of Directors of Balda Investments Singapore Pte. Ltd., Singapore Singapore, a member of the Board of Directors of Balda-Thong Fook Solutions Sdn. Bhd., Ipoh Malaysia, a member of the Board of Directors of Balda-Everskill Solutions Suzhou Ltd., Suzhou China and a member of the Board of Directors of Balda-Everskill Solutions (Beijing) Ltd., Beijing China.

### **Executive Board and Supervisory Board emolument**

In 2005 the supervisory board members' emoluments amounted to TEUR 186. The remuneration of supervisory board members is divided into a fixed, annual amount, (TEUR 93) and a variable share (TEUR 93).

The variable remuneration is based on the development of the price of the Balda share in relation to the SDAX. TEUR 13 was taken as a basis for calculation because the price development was almost identical to that of the SDAX.

In 2005 the emoluments of the members of the board of directors of Balda AG amounted to TEUR 2,953. Of this, TEUR 887 were attributable to fixed annual amounts while the variable share accounted for TEUR 2,066.

The variable elements of the remuneration were calculated on the basis of the earnings before taxes (EBT) of the Balda Group. There are no share option programmes or similar incentive schemes based on securities in place.

### Executive body shareholdings

	31.12.2005	31.12.2004	Change
J. Gut	5,000	10,000	- 5,000
V. Brinkmann	410	410	0
R. Frilling	10,000	10,000	0
R. Ackermann	800	800	0
<b>Executive Board total</b>	<b>16,210</b>	<b>21,210</b>	<b>- 5,000</b>
B. Fennel	0	19,832,625	- 19,832,625
G. Holdijk	20,000	20,000	0
R. Roy	0	0	0
P. Stodden	0	0	0
L. Völker	0	0	0
O. Vock	0	0	0
<b>Supervisory Board total</b>	<b>20,000</b>	<b>19,852,625</b>	<b>- 19,832,625</b>

Mr Bernd Fennel sold all the shares he held in Balda AG (19,832,625 shares) on 17 August 2005. The shares were sold as part of a private placement.

There were no additional significant acquisitions or sales by the executive bodies in 2005.

### f. Relations with affiliated companies and persons

In addition to the Group companies incorporated in the Group financial statement, the Balda Group was associated with the following companies, within the meaning of IAS 24, via the major shareholder Bernd Fennel:

Companies with business associations:

- ▶ KTF GmbH & Co. KG, Förderstedt
- ▶ Fennel GmbH & Co. KG, Bad Oeynhausen
- ▶ Fennel Systems GmbH, Bad Oeynhausen
- ▶ Fennel UK Ltd., Barrowford, Lancashire
- ▶ Beckmann GmbH & Co. KG, Bad Salzflen
- ▶ aimtec GmbH, Löhne \*
- ▶ Stratos GmbH, Löhne
- ▶ Hotel Restaurant Wittekindsquelle GmbH & Co. KG, Bad Oeynhausen
- ▶ 2H Jara-Profile GmbH & Co. KG, Löhne
- ▶ Profi-Line GmbH, Bad Oeynhausen
- ▶ Bohemia Kovy e Plasty SRL, Most
- ▶ Transfergesellschaft OWL mbH, Bad Oeynhausen

- ▶ Haus der innovativen Ausbildung und Qualifizierung GmbH, Bad Oeynhausen
- ▶ FIS GmbH & Co. KG, Tecklenburg
- ▶ DF Bau- und Transportgesellschaft mbH, Bad Oeynhausen
- ▶ Fennel Cosmed GmbH, Bad Oeynhausen

(\*) Services of aimtec GmbH are to be stated in the procured and rendered services, as Balda AG holds 50% of the shares, while the remaining 45% are attributable to Bernd Fennel.

Up until the sale of his shares on 17 August 2005, Bernd Fennel held some 49.8% of the shares in Balda AG. Bernd Fennel held no shares on 31 December 2005.

We have drawn up a dependent company report for all the business transactions set out below up until 31 August 2005. In our concluding remarks hereto we confirmed that these business transactions did not have a detrimental effect on the Balda AG Group. This report was audited by our auditor, WestAudit AG Wirtschaftsprüfungsgesellschaft, and contains an unqualified audit certificate.

### **Services purchased by the Balda AG Group up until 31 August 2005**

Balda AG paid to Mr Fennel a fee totalling TEUR 77 as part of a consulting contract.

Beckmann GmbH & Co. KG carried out repairs on tools, new tool constructions and alterations amounting to TEUR 1,345.

The Balda Group called on the services of Stratos GmbH totalling TEUR 425 for processing transport services.

Some products as well as unused tools and machines were stored at Stratos GmbH until dispatch because the storage capacities at Balda Solutions GmbH & Co. KG had been exhausted. In this regard, storage and handling fees of TEUR 1,822 were charged.

aimtec GmbH charged a total of TEUR 2,294 for IT services. The Balda Group procured assets via aimtec GmbH totalling TEUR 798. Furthermore, aimtec GmbH granted discounts amounting to TEUR 308.

The Balda Group temporarily hired personnel from the Fennel Group. The total amount was TEUR 29.

Furthermore, the following services were procured from Fennel GmbH & Co. KG up until 31 August 2005:

	<b>TEUR</b>
Plastic parts	3,026
Personnel / services	247
Rent / leasing	124
Telephone switchboard	135
Electricity / water	46

Due to capacity bottlenecks, Fennel GmbH & Co. KG manufactured components and modules made of plastic for various Balda Solutions GmbH & Co. KG customer projects.

Fennel GmbH & Co. KG invoiced the provision of personnel for the respective hours at the actual costs.

Fennel GmbH & Co. KG charged the Balda Group space rental for using certain commercial and office space.

Fennel GmbH & Co. KG passed on the leasing costs for using certain machines to the Balda Group without a surcharge. It remains a lessee.

The Balda Group used Fennel GmbH & Co. KG's telephone switchboard. The costs were passed on without a surcharge.

Fennel GmbH & Co. KG passed on the cost of the ordered quantities of electricity and water for the paint shop without a surcharge.

Other costs totalling TEUR 218 include, among others, pro rata maintenance costs in respect of software licences issued by Fennel Systems GmbH, courier services, services from Wittekindsquelle, FIS GmbH and the Fennel Innovation Centre as well as various expenses for outlays that were passed on.

In July 2005, Balda AG and Fennel GmbH & Co. KG declared, in the form of an addendum to the service contract entered into in 2004, that Balda Solutions GmbH & Co. KG had accepted the agreed amount of manufacturing services and that no equalisation payments were due. Both parties honoured the contract, which has therefore been dealt with.

#### **Services rendered by the Balda Group up until 31 August 2005**

The sale of plastic or zinc moulded parts totalling TEUR 1,246 to Fennel GmbH & Co. KG refers to electroplating treatment services. These services were charged at conditions customary in the market.

Tools to the sum of TEUR 33 were sold to Beckmann GmbH & Co. KG.

<b>Personnel / services</b>	<b>TEUR</b>
Beckmann GmbH & Co. KG	8
Fennel GmbH & Co. KG	11

Insofar as employees were seconded to, or worked on behalf, of these companies, the respective costs were calculated on the basis of recorded hours. Furthermore, repair work that was settled via the Balda Group and outlays were passed on without a surcharge.

Assets were sold to the Balda Group at customary market conditions:

<b>Sale of assets</b>	<b>TEUR</b>
Fennel GmbH & Co. KG	21
KTF GmbH Co. & KG	15

aimtec GmbH invoiced the Fennel Group for EDP services less discounts totalling TEUR 577.

The Balda Group invoiced the Fennel Group for other cost outlays to the sum of TEUR 10 without a surcharge.

The following receivables and liabilities existed as of 31 August 2005 from services in dealings with affiliated companies:

<b>Accounts receivable</b>	<b>TEUR</b>
2H Jara Profile GmbH & Co. KG	44
Beckmann GmbH & Co. KG	71
Bohemia Kovy e Plasty SRL	13
Fennel GmbH & Co. KG	422

	<b>TEUR</b>
Fennel Systems GmbH	151
KTF GmbH Co. & KG	120
Stratos GmbH	96
<b>Liabilities</b>	
aimtec GmbH	397
Beckmann GmbH & Co. KG	18
Bernd Fennel	12
Fennel GmbH & Co. KG	562
Stratos GmbH	186

#### **Relations with affiliated companies abroad**

Balda-Thong Fook Solutions SDN. BHD. (Malaysia) paid TEUR 127 for management consulting and travelling expenses to Thong Fook Corporation SDN. BHD. Nordenia-Thong Fook (M) SDN.BHD. invoiced Balda-Thong Fook Solutions SDN.BHD. for TEUR 3 for procured plastic parts.

The partner in Malaysia holds interests in both stated companies.

Balda Lumberg Technologies Plásticos da Amazônia Indústria e Comércio Ltda. (Brazil) procured material totalling TEUR 3,595 and fixed assets of TEUR 675 from Lumberg Connect GmbH & Co. KG in Schalksmühle. Material in the sum of TEUR 18 was purchased from Lumberg Electronics Shanghai Ltd. (China).

At the end of the year, Lumberg Connect GmbH & Co. KG in Schalksmühle had receivables of TEUR 33 and liabilities of TEUR 267.

#### **g. Events after balance sheet**

In January Balda AG acquired the remaining 50 percent of the interests in Balda-Thong Fook Solutions in Ipoh, Malaysia from the former joint venture partner Thong Fook Electronics. The interests were acquired via Balda Investments Singapore, in which the Taiwanese joint venture partner Everskill holds a 25% stake.

In January the Group entered into a joint venture with the Indian partner Motherson Sumi Systems Ltd to set up a manufacturing facility in Chennai. Balda shall assume 60 percent of the interests.

**h. Auditor's fee**

The following fees are stated as auditor's expenses in the year under review:

	<b>TEUR</b>
For the final audit	250
For other confirmation or evaluation services	8
For tax consulting services	44
For other services	7
<b>Total</b>	<b>309</b>

**i. Proposal for appropriation of the retained earnings**

A proposal shall be put forward at the AGM to distribute a dividend of 0.30 euro per share.

Bad Oeynhausen, dated 17 March 2006

The Executive Board

Joachim Gut

Volker Brinkmann

Rainer Frilling

Ralf Ackermann



# BALDA AKTIENGESELLSCHAFT

## NOTES to the accounts for the 2005 financial year

### **I. General explanatory notes**

Balda Aktiengesellschaft's registered office is located in Bad Oeynhausen, Germany. It is operated solely as a holding company.

In the 2005 financial year, Balda AG retroactively entered into the profit and loss transfer agreements below as per 1 January 2005 with the following subsidiaries, following approval granted at the AGM on 28 April 2005:

- ▶ Balda Werkzeug- und Vorrichtungsbau GmbH
- ▶ ALBEA Kunststofftechnik GmbH (formerly: ALBEA Beteiligungs GmbH)
- ▶ Sächsische Metall- und Kunststoffveredelungsgesellschaft mbH
- ▶ IPH Werkzeugbau GmbH (now: Balda Solutions Deutschland GmbH)

Following the growth of Balda Solutions GmbH & Co. KG, Balda Solutions Verwaltungs GmbH merged retroactively as of 1 April 2005 with IPH Werkzeugbau GmbH. IPH Werkzeugbau GmbH was subsequently renamed Balda Solutions Deutschland GmbH.

The business activities of the Balda subsidiaries range from materials development, engineering, mould making, and manufacturing hardware components to surface engineering. Above all, the company supplies the infocom, automotive and medical engineering sectors and related industries.

### **II. Details on the Balda AG annual financial statement**

Balda AG is regarded as a major company limited by shares pursuant to Section 267, sub-section 3, sentence. 2 of HGB because it makes use of an organised market within the meaning of Section 2, sub-section 5 of WpHG due to its shares issued within the meaning of Section 2, sub-section 1, sentence 1 of WpHG.

As of 1 November 2005, key parts of the fixed assets (in particular land and buildings) were incorporated in the newly established Balda Grundstücks Vermietungs GmbH & Co. KG as an affiliated company. This means that the figures for the year under review merely allow for a limited comparison with those of the previous year.

In view of the profit and loss transfer agreements, the Income Statement has been expanded to include "Income from Profit Transfer Agreements" and "Expenses from Transfer and Losses".

Unless stated otherwise, all figures are stated in thousand euros (TEUR).

The Balda AG Notes to the Accounts have been prepared separately for the first time with effect from the 2005 financial year. In the previous years, the Annual Financial Statement Notes to the Accounts were incorporated in the Consolidated Financial Statement Notes to the Accounts.

#### **1. Financial reporting and evaluation methods**

The Balda AG Annual Financial Statement has been prepared according to the principles of Sections 242 to 256 of HGB and Section 264 et seq. of HGB.

The intangible and tangible assets are stated at acquisition or manufacturing cost less scheduled straight-line depreciation. As a general rule, depreciation is based on the following expected useful lives:

	<b>Years</b>
Software	3 to 5
Buildings, including buildings on non-owned land	33
Technical equipment and machinery	3 to 10
Other plant, factory and office equipment	4 to 10

Minor assets are depreciated in full pursuant to Section 6, sub-section 2, of EStG in the year of acquisition.

The stated financial assets are valued at acquisition cost.

Insofar as the value of the fixed assets determined according to the aforementioned principles exceeds the attributable value on the appointed date, this shall, as a general rule, be taken into account by way of non-scheduled depreciation.

Receivables and other assets are stated at nominal value. Foreseeable risks are taken into account by way of value adjustments, while the general credit risk is covered by a general bad debt charge on accounts receivable from trading. Short-term foreign currency liabilities are converted at the market price on the reporting date or at the rate valid at the time of the business transaction.

Marketable securities are stated at acquisition cost or at the lower market rate on the reporting date.

The provisions account for all foreseeable risks and unforeseeable commitments.

The liabilities are stated in the balance sheet at their repayment amount. The difference between the repayment and disposable amount is deferred as assets. Short-term foreign currency liabilities are converted at the respective higher rate on the reporting date or at the rate valid at the time of the transaction.

As a general rule the financial reporting and valuation methods are unchanged compared with the previous year.

## **2. Explanations in respect of individual balance sheet items**

### **a. Fixed assets**

As regards details, we refer to the development of the fixed assets attached to the Notes to the Accounts as an Annex.

#### **Tangible assets**

As of 1 November 2005, the land and buildings at the Bad Oeynhausen site and large parts of the technical equipment and machinery and fixtures, furniture and office equipment totalling TEUR 30,379 were transferred to Balda Grundstücks Vermietungs GmbH & Co. KG as part of a non-cash contribution. Further parts of the fixed assets in the sum of TEUR 4,137 have been sold to subsidiaries.

On the balance sheet date, land containing a building was the subject of non-scheduled depreciation at the lower attributable value of TEUR 99.

#### **Financial assets**

A non-cash contribution (TEUR 39.379) was used to incorporate large parts of the fixed assets of Balda AG in the interest in Balda Grundstücks Vermietungs GmbH & Co. KG, which at TEUR 30,381 euro was a key acquisition in 2005.

Balda AG acquired the interests in Balda Investments Singapore Pte. Ltd., Singapore, from Balda Beteiligungs AG, Zug, through the contract dated 15 December 2005. Shares in affiliated companies have been capitalised in the sum of the purchase price (TCHF 38,991), which converts to TEUR 25,295.

The valuation of the investment in Balda Beteiligungs AG, Zug, has been depreciated in the sum of TEUR 2,183 at the lower attributable value.

Accounts receivable of TEUR 900 were added to the capital reserves of the subsidiary to reinforce the shareholders' equity of Balda Medical GmbH & Co. KG.

Furthermore, Balda AG acquired Blitz 05-237 GmbH by way of the contract dated 10 October 2005 and renamed it Balda Surface GmbH. The purchase price was TEUR 27.

Balda Werkzeug- und Vorrichtungsbau GmbH's interests in Balda Heinze Verwaltungs GmbH and Balda Heinze GmbH & Co. KG were transferred to Balda AG at the participation book value TEUR 6,927 as part of a spin-off.

The shares in ALBEA Kunststofftechnik GmbH were transferred to Balda AG at TEUR 30 by way of a spin-off. Balda AG has further increased the capital in ALBEA Kunststofftechnik GmbH by way of contributing accounts receivable to the sum of TEUR 4,000, resulting in an investment valuation of TEUR 4,030 on the balance sheet date.

Due to the spin-off of shares in Balda-Heinze Verwaltungs GmbH, Balda-Heinze GmbH & Co. KG and ALBEA Kunststofftechnik GmbH, a partial disposal has been taken into consideration from the investment valuation of Balda Werkzeug- und Vorrichtungsbau GmbH to the sum of TEUR 1,440. These expenses are juxtaposed with the revenue created from the spin-off of TEUR 1,556, resulting in total in a profit created from the spin-off of TEUR 116, which is stated in Other Operating Income.

The loans to Balda Investments Singapore Pte. Ltd., Singapore (31 December 2004: TEUR 6,201) were repaid in full in the year under review.

**b. Receivables and other current assets**

The receivables due from affiliated companies (TEUR 48,039) include receivables from the trading operations to the sum of TEUR 10,867 (previous year: TEUR 14,731).

All receivables have a residual term of less than one year.

**c. Securities**

In addition to a corporate bond, which may be sold at any time, of Daimler Chrysler Australia/ Pacific PTY LTD (TEUR 5,008) and a DIT money market fund bond (TEUR 1,949), bearer debentures in the sum of TEUR 3,992 were stated on the balance sheet date.

**d. Cash on hand and in the Federal Bank, cash in banks and cheques**

In addition to cash on hand, deposits with the Bundesbank and other commercial banks and cheques this item consists of money held in current business accounts.

In the year under review, Balda AG accrued liquid funds in the sum of TEUR 39,200 from a granted debenture loan.

**e. Prepaid expenses**

The prepaid expenses item includes, among others, a loan discount in the sum of TEUR 333 (previous year: TEUR 289).

#### f. Shareholders' equity

Balda AG's shareholders' equity has developed as follows:

TEUR	Subscribed share capital	Capital reserves	Earnings reserves	Balance sheet result
<b>Status 1 January 2005</b>	<b>39,755</b>	<b>54,388</b>	<b>2</b>	<b>27,237</b>
Dividend	0	0	0	7,951
Emission conversion of convertible bonds	408	1,561	0	0
Net income for the year 2005	0	0	0	10,466
<b>Status as per 31 December 2005</b>	<b>40,163</b>	<b>55,949</b>	<b>2</b>	<b>29,752</b>

The capital stock was TEUR 40,163 on the balance sheet day. It is divided into 40,162,958 individual share certificates in bearer form, which have a full dividend entitlement.

On 29 April 2004 a decision was taken at the AGM that the Executive Board may, following approval by the Supervisory Board, increase the shareholders' equity by TEUR 18,975 (authorised capital) without an additional resolution adopted at the AGM.

In 2005 the capital stock was increased due to further conversions of convertible bonds in total by 407,866 individual share certificates in bearer form. The premium in the sum of TEUR 1,561 was added to the capital reserves. On the balance sheet date, the conversion privileges therefore remained at 116,067 individual share certificates.

On the balance sheet date, an amount of TEUR 16,766 remained as contingent capital.

According to a resolution adopted at the AGM on 28 April 2005, the dividend distributed in the financial year was TEUR 7,951.

The balance sheet result on the balance sheet date contained profit carried forward from the previous fiscal year after dividends (- TEUR 7,951) of TEUR 19,286.

#### g. Provisions

The Other Provisions largely contain amounts from joint and several liability for warranty commitments from former contracts (TEUR 1,291), bonuses (TEUR 272) and for outstanding invoices (TEUR 253).

#### h. Liabilities

The residual terms of the liabilities are as follows:

TEUR	31.12.2005	< 1 year	1 to 5 years	> 5 years
Bonds	5,023	23	5,000	0
Liabilities due to banks	49,107	6,888	41,156	1,063
Trade accounts payable	943	943	0	0
Accounts due to affiliated companies	37,525	37,525	0	0
Accounts due to other group companies	24	24	0	0
Other liabilities	3,185	3,185	0	0
<b>Total</b>	<b>95,807</b>	<b>48,588</b>	<b>46,156</b>	<b>1,063</b>

In addition to a debenture loan (TEUR 5,000), on the balance sheet date the bonds contain the outstanding repayment amount from the issued convertible bonds of TEUR 23. This gives rise to a maximum conversion in 116,067 shares. Land charges have been registered for the convertible bond as a security in the sum of TEUR 12,000. The land charges in the land register were cancelled on 22 February 2006.

In February 2005, Balda AG took out a debenture loan totalling TEUR 40,000 with a final maturity on 23 February 2010. The loan is subject to interest at 3.75 % p.a.

In the 2005 financial year, loans in the sum of TEUR 10,204 were repaid prior to maturity. The cancellation of the land charges was entered in the land registry on 22 February 2006.

Securities in the sum of TEUR 959 from land charges still exist for the liabilities due to banks. To secure the loan (TEUR 15,400) resulting from the acquisition of interests in Balda Beteiligungs AG in 2001, these interests, including future profit entitlements, have been pledged. Furthermore, ownership was transferred by way of security.

The accounts due to affiliated companies (TEUR 37,525 / previous year: TEUR 9,715) are juxtaposed to Group financing operations in the sum of TEUR 38,109 (previous year: TEUR 9,681) and accounts receivable from trading in the sum of TEUR 584 (previous year: trade accounts payable in the sum of TEUR 34).

The accounts due to other Group companies (TEUR 24) result entirely from the trading operations (previous year: TEUR 62).

#### **i. Contingent liabilities and other financial commitments**

Balda AG's contingent liabilities are as follows:

<b>TEUR</b>	<b>2005</b>	<b>2004</b>
From guarantees	511	5,960
From warranty commitments	34,431	30,134
<b>Total</b>	<b>34,942</b>	<b>36,094</b>

Balda AG assumed warranty commitments for subsidiaries in the sum of TEUR 34,404 (previous year: TEUR 30,122). On the balance sheet date there were no commitments resulting from guarantees for subsidiaries (previous year: TEUR 5,449).

Balda AG's other financial commitments resulting from limited contracts are as follows:

<b>TEUR</b>	<b>2005</b>	<b>2004</b>
< 1 year	477	1,469
2 to 5 years	65	471
> 5 years	0	0
<b>Total</b>	<b>542</b>	<b>1,940</b>

Furthermore, there are annual commitments of TEUR 68 resulting from a building tenancy agreement entered into for an unlimited period with Balda Grundstücks Vermietungs GmbH & Co. KG.

The other financial commitments arise solely from tenancy and leasing commitments.

### 3. Explanations on individual income statement items

#### a. Revenues

The revenues largely arise from rents and personal services. An itemisation according to areas of activity or geographical markets can be waived due to the homogeneous sales structure.

#### b. Other operating income

The other operating income contains amounts from liquidating provisions (TEUR 1,786), charging off liabilities that have fallen under the statute of limitations (TEUR 1,434) and other amounts not relating to the period (TEUR 366).

#### c. Depreciation

The depreciation of TEUR 2,169 contains non-scheduled depreciation on the lower attributable value to the sum of TEUR 99 on land, buildings and outside facilities of rented real estate.

#### d. Depreciation on investments and on investments on tangible assets

The depreciation item contains depreciation at the lower attributable market price on reporting date for marketable securities of TEUR 22 and depreciation on the investment valuation of Balda Beteiligungs AG, Zug, of TEUR 2,183.

#### e. Taxes on income and earnings

Balda AG's result was adversely affected by TEUR 5,005 due to taxes on income and earnings. Taxes on income and earnings contain amounts from previous years of TEUR 302.

#### f. Retained earnings

With due consideration to a profit carried forward from the previous fiscal year of TEUR 19,286, the retained earnings are TEUR 29,752.

#### g. Earnings per share

	2005	2004
Net income for the year (TEUR)	10,466	16,793
Weighted average of issued shares (in thousands)	39,897	38,576
Earnings per share (EUR)	0,262	0,435

### III. Other details

#### a. Average number of employees

In the 2005 financial year, Balda AG employed an average of 20 people.

#### b. Company executive bodies

##### Balda AG Supervisory Board

- ▶ Mr Gerhard Holdijk (Chairman), Bad Oeynhausen  
Managing Director of Holdijk Beratungs GmbH
- ▶ Mr Bernd Fennel (Deputy Chairman), Löhne  
Managing Director of Fennel Systems GmbH and Fennel GmbH & Co. KG



- ▶ Mr Dietrich Fürst, Braunschweig (to 30/11/2005)  
Management Consultant
- ▶ Mr Dr. Thomas Bentz, Minden (to 30/11/2005)  
Personally liable partner of Melitta Unternehmensgruppe Bentz KG
- ▶ Mr Berndt Kriete, Löhne (to 30/11/2005)  
Managing Director of Gemeinnützigen Gesellschaft für Möbel, Kunst und Kultur mbH
- ▶ Mr Jochen Rölfs, Düsseldorf (to 31/10/2005)  
Auditor and Management Spokesman, Rölfs WP Partner AG
- ▶ Mr Richard Roy, Dreieich (from 08/12/2005)  
Management Consultant
- ▶ Mr Paul A. Stodden, Munich (from 08/12/2005)  
Chairman of the Executive Board of debitel AG
- ▶ Mr Othmar Vock, Itlingen/Switzerland (from 08/12/2005)  
Management Consultant
- ▶ Mr Lutz Völker, Rheinbreitbach (from 08/12/2005)  
Managing Director of aspect corporate advisors GmbH

Mr Gerhard Holdijk (Chairman of the Supervisory Board) retired of his own volition with effect on 31 December 2005.

Mr Richard Roy took up the position of Supervisory Board Chairman with effect from 2 January 2006.

Furthermore, Mr Mark C. Twaalfhoven was appointed a new member of the Supervisory Board with effect from 10 January 2006. He replaces Mr Gerhard Holdijk as a Supervisory Board member.

In addition to their individual functions on behalf of Balda AG, the Supervisory Board members listed below are members of the following boards:

Mr Bernd Fennel simultaneously holds the following supervisory and advisory board positions:

- ▶ Fennel Stiftung, Löhne (Chairman of the Board of Trustees)
- ▶ Fennel Cosmed GmbH & Co. KG, Bad Oeynhausen (Advisory Board Chairman)

Mr Dietrich Fürst simultaneously holds the following supervisory and advisory board positions:

- ▶ GP Papenburg AG, Schwarmstedt (Supervisory Board Chairman)
- ▶ Baugenossenschaft Wiederaufbau eG, Braunschweig (Supervisory Board Chairman)
- ▶ Termath AG, Wolfsburg (Supervisory Board Chairman)
- ▶ Teleson AG, Munich (Deputy Supervisory Board Chairman)
- ▶ Böhm Fertigungstechnik GmbH, Suhl (Advisory Board Chairman)
- ▶ Stiftung Mundstock, Wedtlenstedt (Deputy Advisory Board Chairman)

Dr. Thomas Bentz simultaneously holds the following advisory board position:

- ▶ Goldbeck GmbH, Bielefeld (Advisory Board Member)

Mr Berndt Kriete simultaneously holds the following board of trustees positions:

- ▶ Wittekindshof Diakonische Stiftung für Menschen mit Behinderungen, Bad Oeynhausen (Board of Trustees Member)
- ▶ Stiftung Oikos. Menschen Heimat geben, Bad Oeynhausen (Board of Trustees Member)

Mr Richard Roy simultaneously holds the following supervisory and executive board positions:

- ▶ Swisscom AG, Bern, Switzerland (Executive Board Member)
- ▶ Update Software AG, Vienna, Austria (Supervisory Board Member)
- ▶ Premiere AG, Munich (Deputy Supervisory Board Chairman)
- ▶ Realtech AG, Walldorf (Deputy Supervisory Board Chairman)

Mr Paul A. Stodden simultaneously holds the following supervisory board positions:

- ▶ Midray GmbH, Cologne (Supervisory Board Chairman)
- ▶ debitel Danmark A/S, Albertslund, Denmark (Supervisory Board Chairman)
- ▶ debitel France S.A., Chaville, France (Supervisory Board Chairman)
- ▶ debitel Nederland B.V., Hoofddorp, the Netherlands (Supervisory Board Chairman)
- ▶ debitel Telekomunikacije d.d., Ljubljana, Slovenia (Supervisory Board Chairman)

Mr Othmar Vock simultaneously holds the following executive board positions:

- ▶ Swisscom AG, Bern, Switzerland (Executive Board Member)
- ▶ Ivoclar Vivadent, Schaan, Liechtenstein (Executive Board Member)
- ▶ SWX Swiss Exchange (Member of the Securities Admission Control Board)

#### **Balda AG Executive Board**

- ▶ Mr Joachim Gut, Schermbeck (Chairman of the Executive Board)  
Human Resources, Investor Relations, Internal Audits, Strategy
- ▶ Mr Rainer Frilling, Bad Oeynhausen  
Sales, Marketing
- ▶ Mr Ralf Ackermann, Bad Oeynhausen  
Technology
- ▶ Mr Volker Brinkmann, Bad Oeynhausen  
Finances, Controlling, IT

Mr Gut is simultaneously Chairman of the Executive Board of Balda Beteiligungs AG, Zug, Switzerland, Chairman of the Board of Directors Balda Investments Singapore Pte. Ltd., Singapore, Singapore, Deputy Chairman of the Board of Directors of Balda Everskill Solutions Suzhou Ltd., Suzhou/China and Deputy Chairman of Board of Directors of Balda Everskill Solutions (Beijing) Ltd., Beijing, China.

Mr Frilling additionally holds the position of Deputy Chairman of the Executive Board of Balda Beteiligungs AG, Zug, Switzerland and is a member of the Board of Directors of Balda Thong Fook Solutions Sdn. Bhd., Ipoh/Malaysia.

Mr Ackermann is a member of the Board of Directors of Balda Everskill Solutions Suzhou Ltd., China and Balda Everskill Solutions (Beijing) Ltd., Beijing, China.

Mr Brinkmann is simultaneously a member of the Executive Board of Balda Beteiligungs AG, Zug, Switzerland, a member of the Board of Directors of Balda Investments Singapore Pte. Ltd., Singapore, Singapore, a member of the Board of Directors of Balda Thong Fook Solutions Sdn. Bhd., Ipoh, Malaysia, a member of the Board of Directors of Balda Everskill Solutions Suzhou Ltd., Suzhou, China and a member of the Board of Directors of Balda Everskill Solutions (Beijing) Ltd., Beijing, China.

#### **Executive Board and Supervisory Board emoluments**

In 2005 the Supervisory Board members' emoluments amounted to TEUR 186. The remuneration of Supervisory Board members is divided into a fixed, annual amount, (TEUR 93) and a variable share (TEUR 93).

The variable remuneration is based on the development of the price of the Balda share in relation to the SDAX. TEUR 13 was taken as a basis for calculation because the price development was almost identical to that of the SDAX.

In 2005 the emoluments of the members of the Board of Directors of Balda AG amounted to TEUR 2,953. Of this, TEUR 887 were attributable to fixed annual amounts while the variable share accounted for TEUR 2,066.

The variable elements of the remuneration were calculated on the basis of the earnings before taxes (EBT) of the Balda Group. There are no share option programmes or similar incentive schemes based on securities in place.

#### Executive body share holdings

	31.12.2005	31.12.2004	Change
J. Gut	5,000	10,000	- 5,000
V. Brinkmann	410	410	0
R. Frilling	10,000	10,000	0
R. Ackermann	800	800	0
<b>Executive Board total</b>	<b>16,210</b>	<b>21,210</b>	<b>- 5,000</b>
B. Fennel	0	19,832,625	- 19,832,625
G. Holdijk	20,000	20,000	0
R. Roy	0	0	0
P. Stodden	0	0	0
L. Völker	0	0	0
O. Vock	0	0	0
<b>Supervisory Board total</b>	<b>20,000</b>	<b>19,852,625</b>	<b>- 19,832,625</b>

Mr Bernd Fennel sold all the shares he held in Balda AG (19,832,625 shares) on 17 August 2005. The shares were sold as part of a private placement.

#### c. Affiliated companies and holding companies (shareholdings)

Below is a list of the interests held in Balda AG.

Company	Registered office	Holding	Share %	Shareholders' equity TEUR	Year-end result TEUR
<b>Partnerships</b>					
Balda-Heinze GmbH & Co. KG	Herford	direct	100.00 %	3,273	2,404
Balda Medical GmbH & Co. KG	Bad Oeynhausen	direct	100.00 %	126	- 1,062
Balda Grundstücks Vermietungs GmbH & Co. KG	Munich	direct	100.00 %	30,379	115
Balda-Lumberg Deutschland GmbH & Co. KG	Bad Oeynhausen	direct	50.00 %	29,517	- 11

Company	Registered office	Holding	Share %	Shareholders' equity TEUR	Year-end result TEUR
<b>Companies limited by shares</b>					
ALBEA Kunststofftechnik GmbH	Seelbach	direct	100.00 %	4,038	0
ALBEA Grundstücksverwaltungsgesellschaft mbH via ALBEA Kunststofftechnik GmbH	Seelbach	direct indirect	5.17 % 94.83 %	1,393	329
Balda Solutions Deutschland GmbH	Bad Oeynhausen	direct	100.00 %	21,426	0
Sächsische Metall- und Kunststoffveredelungs GmbH	Oberlungwitz	direct	100.00 %	4,238	0
Balda Medical Verwaltungsgesellschaft mbH	Bad Oeynhausen	direct	100.00 %	17	1
Balda Werkzeug- und Vorrichtungsbau GmbH	Bad Oeynhausen	direct	100.00 %	3,781	0
Balda Surface GmbH	Bad Oeynhausen	direct	100.00 %	- 1	- 26
Balda Grundstücks Verwaltungs GmbH	Munich	direct	100.00 %	23	- 2
Balda Beteiligungs AG	Zug (Switzerland)	direct	100.00 %	37,638	15,299
Balda-Heinze Verwaltungsgesellschaft mbH	Herford	direct	100.00 %	30	1
Balda Solutions Hungaria Kft. via Balda Solutions Deutschland GmbH	Veszprém (Hungary)	direct indirect	73.47 % 26.53 %	2,576	2,443
HeRo Galvanotechnik GmbH via Balda-Heinze GmbH & Co. KG	Herford	indirect	100.00 %	246	0
Balda Investments Singapore Pte. Ltd.	Singapore	direct	75.00 %	31,096	14,444
Balda-Everskill Solutions Suzhou Ltd. via Balda Investments Singapore Pte. Ltd.	Suzhou (China)	indirect	75.00 %	38,729	21,366
Balda-Everskill Solutions (Beijing) Ltd. via Balda Investments Singapore Pte. Ltd.	Beijing (China)	indirect	75.00 %	5,064	- 427
Balda-Lumberg Verwaltungsgesellschaft mbH via Balda-Lumberg Deutschland GmbH & Co. KG	Bad Oeynhausen	indirect	50.00 %	25	2
Balda-Lumberg Technologies Plasticos da Amazonia Industria e Comercio Ltda. via Balda-Lumberg Deutschland GmbH & Co. KG	Manaus (Brazil)	direct indirect	0.10 % 49.90 %	42,209	741
Balda-Lumberg Technologies Industria e Comercio Ltda. via Balda-Lumberg Deutschland GmbH & Co. KG	Sao Paulo (Brazil)	indirect	50.00 %	- 736	- 750
Balda-Thong Fook Solutions Sdn. Bhd. via Balda Investments Singapore Pte. Ltd.	Ipoh (Malaysia)	indirect	37.50 %	19,437	3,622
aimtec GmbH	Bad Oeynhausen	direct	50.00 %	1,383	145

**d. Publication of notices pursuant to Section 25, sub-section 1, of WpHG**

Below is a list pursuant to Section 25, sub-section 1, of WpHG of notices, of interests held, issued pursuant to Section 21, sub-section 1, of WpHG:

**"Balda AG, Bad Oeynhausen**

**WKN 521510, ISIN DE0005215107**

**Notice pursuant to Section 25, sub-section 1, of WpHG**

Absolute Return Europe Fund Iron Shore Corporate Services Ltd., George Town, Grand Cayman, Cayman Islands, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company exceeded the threshold of 5% on 16 August 2005, and that it now amounts to 8.63%.

FM Fund Management Limited, George Town, Grand Cayman, Cayman Islands, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company exceeded the threshold of 5% and 10% on 16 August 2005, and that it now amounts to 14.775%. Thereof, 14.775% of the voting rights are attributable to FM Fund Management pursuant to Section 22, sub-section 1, nos. 1 and 6, of WpHG.

CSI Asset Management Establishment, Vaduz, Liechtenstein, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company exceeded the threshold of 5% and 10% on 16 August 2005, and that it now amounts to 14.775%. Thereof, 14.775% of the voting rights are attributable to CSI Asset Management Establishment pursuant to Section 22, sub-section 1, nos. 1 and 6, in conjunction with sentence 2, of WpHG.

Bad Oeynhausen, August 2005

Balda AG, Bergkirchener Str. 228, 32549 Bad Oeynhausen"

**"Balda AG, Bad Oeynhausen**

**WKN 521510, ISIN DE0005215107**

**Notice pursuant to Section 25, sub-section 1, of WpHG**

Cycladic Catalyst Master Fund, London, England, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company exceeded the threshold of 5% on 18 August 2005, and that it now amounts to 6.80%.

Cycladic Capital Management Limited, London, England, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company exceeded the threshold of 5% on 18 August 2005, and that it now amounts to 7.39%.

Thereof, 7.39% of the voting rights is attributable to Cycladic Capital Management Limited pursuant to Section 22 sub-section 1, nos. 1 and 6, of WpHG.

By means of the letter dated 24 August 2005, Mr Bernd Fennel, Löhne, Germany, informed us pursuant to Section 21, sub-section 1, of WpHG that his share of voting rights in our company fell below the threshold of 25% on 18 August 2005 and now amounts to 0%.

Bad Oeynhausen, August 2005

Balda AG, Bergkirchener Str. 228, 32549 Bad Oeynhausen"

**"Balda AG, Bad Oeynhausen**

**WKN 521510, ISIN DE0005215107**

**Publication pursuant to Section 25, sub-section 1, of WpHG**

Sapinda International Limited, London, England, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company exceeded the thresholds of 5%, 10% and 25% on 18 August 2005, and that it now amounts to approx. 27.26% (10,866,777 shares). Thereof, 27.26% of the voting rights is attributable to Sapinda International Limited pursuant to Section 22, sub-section 1, sentence 1, no. 2, of WpHG.

Sapinda International Limited, London, England, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company fell below the threshold of 25% on 19 August 2005, and that it now amounts to approx. 10.04% (4,000,000 shares). Thereof, no voting rights are attributable to Sapinda International Limited.

Bad Oeynhausen, August 2005

Balda AG, Bergkirchener Str. 228, 32549 Bad Oeynhausen"

**"Balda AG, Bad Oeynhausen**

**WKN 521510, ISIN DE0005215107**

**Publication pursuant to Section 25, sub-section, of 1 WpHG**

Credit Suisse, Zurich, Switzerland, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company exceeded the thresholds of 5%, 10% and 25% on 18 August 2005, and that it now amounts to approx. 27.44% (10,916,772 shares). Thereof, approx. 0.13% is attributable to the Credit Suisse Group (50,000 shares) due to the indirect parent-subsidiary relationship to Credit Suisse First Boston (Europe) Ltd., London, England, pursuant to Section 22, sub-section 1, sentence 1, no. 1, of WpHG.

Credit Suisse Group, Zurich, Switzerland, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company exceeded the thresholds of 5%, 10% and 25% on 18 August 2005, and that it now amounts to approx. 27.44% (10,916,772 shares). Thereof, approx. 27.44% is attributable to the Credit Suisse Group (10,916,772 shares) due to its indirect parent-subsidiary relationship to Credit Suisse and Credit Suisse First Boston (Europe) Ltd. pursuant to Section 22, sub-section 1, sentence 1, of WpHG.

Credit Suisse, Zurich, Switzerland, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company fell below the thresholds 25%, 10% and 5% on 19 August 2005, and that it now amounts to approx. 0.87% (348,400 shares). Thereof, approx. 0.13% is attributable to the Credit Suisse Group (50,000 shares) due to its indirect parent-subsidiary relationship to Credit Suisse Boston (Europe) Ltd., London, England, pursuant to Section 22, sub-section, 1, sentence 1, no. 1, of WpHG.

Credit Suisse Group, Zurich, Switzerland, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company fell below the thresholds 25%, 10% and 5% on 18 August 2005, and that it now amounts to approx. 0.87 % (348.400 shares). Thereof, approx. 0.87% is attributable to the Credit Suisse Group (348,400 shares) due to its indirect parent-subsidiary relationship to Credit Suisse and Credit Suisse First Boston (Europe) Ltd. pursuant to Section 22, sub-section 1, sentence 1, no. 1, of WpHG.

Bad Oeynhausen, September 2005

Balda AG, Bergkirchener Str. 228, 32549 Bad Oeynhausen"

**"Balda AG, Bad Oeynhausen**

**WKN 521510, ISIN DE0005215107**

**Publication pursuant to Section 25, sub-section 1, of WpHG**

Sapinda International Limited, London, England, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company exceeded the threshold of 5%, 10% and 25% on 18 August 2005, and that it now amounts to approx. 27.26% (10,866.777 shares).

Sapinda International Limited, London, England, has informed us pursuant to Section 21 sub-section 1 WpHG that its share of voting rights in our company exceeded the threshold of 25% on 19 August 2005, and that it now amounts to approx. 10.04% (4,000,000 shares).

Bad Oeynhausen, October 2005

Balda AG, Bergkirchener Str. 228, 32549 Bad Oeynhausen"

**"Balda AG, Bad Oeynhausen**

**WKN 521510, ISIN DE0005215107**

**Publication pursuant to Section 25, sub-section 1, of WpHG**

Absolute Capital Management Holdings Limited, Grand Cayman, Cayman Islands, has informed us pursuant to Section 21 sub-section 1 WpHG that its share of voting rights in our company fell below the threshold of 10% on 20 January 2006, and that it now amounts to approx. 7.892%. Thereof, 7.892% of the voting rights is attributable to Absolute Capital Management Holdings Limited pursuant to Section 22, sub-section 1, nos. 1 and 6, of WpHG.

CSI Asset Management Establishment, Vaduz, Liechtenstein, has informed us pursuant to Section 21 sub-section 1 WpHG that its share of voting rights in our company fell below the threshold of 10% on 20 January 2006, and that it now amounts to approx. 7.892%. Thereof, 7.892% of the voting rights is attributable to CSI Asset Management Establishment pursuant to Section 22, sub-section 1, nos. 1 and 6, in conjunction with sentence 2, of WpHG.

Absolute Return Europe Fund Limited, George Town, Grand Cayman, Cayman Islands, has informed us pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company fell below the threshold of 5% on 20 January 2006 and now amounts to 3.733%.

Bad Oeynhausen, January 2006

Balda AG, Bergkirchener Str. 228, 32549 Bad Oeynhausen"

**"Balda AG, Bad Oeynhausen**

**WKN 521510, ISIN DE0005215107**

**Publication pursuant to Section 25, sub-section 1, of WpHG**

FM Fund Management Limited, George Town, Grand Cayman, Cayman Islands, informed us on 27 January 2006 pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company fell below the threshold of 5% and 10% on 9 December 2005 and now amounts to 0%.

Absolute Capital Management Holdings Limited, Grand Cayman, Cayman Islands, informed us on 27 January 2006 pursuant to Section 21, sub-section 1, of WpHG that its share of voting rights in our company exceeded the threshold of 5% and 10% on 16 August 2005, and that it now amounts to 14.775%. Thereof, 14.775% of the voting rights is attributable to Absolute Capital Management Holdings Limited pursuant to Section 22, sub-section 1, nos. 1 and 6, of WpHG.

Bad Oeynhausen, January 2006

Balda AG, Bergkirchener Str. 228, 32549 Bad Oeynhausen"



**e. Corporate Governance**

In December 2005, the Executive Board and Supervisory Board issued a statement pursuant to Section 161 of AktG on Corporate Governance and made it available on a permanent basis on the Balda AG website (<http://www.balda.de>).

**f. Auditor's fee**

The following fee is reported for the financial year as regards the auditor within the meaning of Section 319, sub-section 1, sentences 1 and 2, of HGB:

	<b>TEUR</b>
For the audit	80
For other confirmation or evaluation services	5
For tax consulting services	40
For other services	7

**g. Proposal for the appropriation of the retained earnings**

A proposal shall be put forward at the AGM to distribute a dividend of EUR 0.30 per share.

Bad Oeynhausen, dated 17 March 2006

The Executive Board

Joachim Gut

Volker Brinkmann

Rainer Frilling

Ralf Ackermann

## Year End Tables

**Balda Group – Balance Sheet as of 31 December 2005 – Assets**

	Notes II.	31.12.2005 TEUR	31.12.2004 TEUR
<b>A. CURRENT ASSETS</b>			
I. Cash and cash equivalents	4.a.	42,312	28,464
II. Trade accounts receivable	4.b.	85,308	60,056
III. Inventories	4.c.	46,468	31,865
1. Raw materials and supplies		14,626	12,408
2. Work in progress and finished goods and merchandise		31,040	17,389
3. Advance payments		802	2,068
IV. Tax refund	4.d.	7,740	1,090
IV. Prepaid expenses and other current assets	4.e.	6,116	3,605
<b>Total Current Assets</b>		<b>187,944</b>	<b>125,080</b>
<b>B. LONG-TERM ASSETS</b>			
I. Tangible assets	4.f.	114,272	95,685
1. Land and buildings		47,423	46,276
2. Machinery and equipment		47,460	39,446
3. Fixtures, furniture and office equipment		9,867	8,237
4. Advance payments and construction in progress		9,522	1,726
II. Intangible assets	4.g.	2,365	1,844
III. Financial assets	4.h.	4,904	4,434
1. Investments		4	4
2. Shares in affiliated companies		1,097	1,050
3. Loans to associated companies		2,022	2,025
4. Other financial assets		1,781	1,355
IV. Goodwill	4.i.	34,085	32,034
V. Deferred taxes	4.j.	5,055	7,569
<b>Total Long-term Assets</b>		<b>160,681</b>	<b>141,566</b>
<b>TOTAL ASSETS</b>		<b>348,625</b>	<b>266,646</b>

**Balda Group – Balance Sheet as of 31 December 2005 – Total Liabilities and Shareholders' Equity**

	Notes II.	31.12.2005 TEUR	31.12.2004 TEUR
<b>A. CURRENT LIABILITIES</b>			
I. Current portion of finance lease obligation	4.k.	391	442
II. Short-term debt and current portion of long-term debt	4.l.	20,393	15,508
III. Trade accounts payable	4.m.	48,888	26,651
IV. Advance payments received	4.n.	2,520	2,540
V. Short-term provisions	4.o.	2,354	1,317
VI. Tax liabilities	4.p.	4,891	11,807
VII. Other current liabilities	4.q.	22,355	20,042
<b>Total Current Liabilities</b>		<b>101,792</b>	<b>78,307</b>
<b>B. LONG-TERM LIABILITIES</b>			
I. Long-term debt	4.r.	51,132	33,428
1. Loans		5,000	5,000
2. Bonded loans		39,322	0
3. Bank loans		6,810	28,428
II. Long-term finance lease obligations	4.s.	856	1,072
III. Deferred taxes	4.t.	3,354	2,602
IV. Long-term provisions / pension accruals	4.u.	6,344	5,070
V. Other long-term liabilities	4.v.	217	708
<b>Total Long-term Liabilities</b>		<b>61,903</b>	<b>42,880</b>
<b>C. MINORITY INTEREST</b>	<b>4.w.</b>	<b>13,896</b>	<b>7,803</b>
<b>D. SHAREHOLDERS' EQUITY</b>			
I. Subscribed share capital		40,163	39,755
II. Reserves		58,220	50,715
III. Retained earnings		72,651	47,186
1. Net income for the year		33,416	28,031
2. Profit carried forward		39,235	19,155
<b>Total Shareholders' Equity</b>		<b>171,034</b>	<b>137,656</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>348,625</b>	<b>266,646</b>

**Balda Group – Balance Sheet as of 31 December 2005**

## Balda Group – Income statement for the fiscal year 2005

	Notes II.	2005 TEUR	2004 TEUR
1. Revenues	5.a.	397,179	377,676
2. Other operating income	5.b.	9,023	6,810
3. Changes in inventories of finished goods and work in progress	5.c.	14,921	- 1,727
4. Own work capitalised	5.d.	889	538
5. Material expenses	5.e.	168,218	146,501
a) Cost of raw materials, supplies and purchased goods		153,481	134,079
b) Cost of purchased services		14,737	12,422
6. Personnel expenses	5.f.	116,326	98,829
a) Wages and salaries		70,005	65,654
b) Social security contributions, expenses and support		13,339	12,864
c) Expenses for temporary workers		32,982	20,311
7. Depreciations	5.g.	17,934	27,896
8. Other operating expenses	5.h.	65,641	58,149
<b>9. Operating income</b>		<b>53,893</b>	<b>51,922</b>
10. Financing costs	5.i.	- 4,279	- 4,220
11. Earnings from affiliated companies		46	47
<b>12. Earnings before income taxes (and minority interest)</b>		<b>49,660</b>	<b>47,749</b>
13. Taxes on income and earnings	5.j.	10,214	15,469
<b>14. Earnings before minority interest</b>		<b>39,446</b>	<b>32,280</b>
15. Minority interest		- 6,030	- 4,249
<b>16. Net income for the year</b>	<b>5.k.</b>	<b>33,416</b>	<b>28,031</b>
17. Profit carried forward from previous fiscal year		47,186	22,908
18. Dividend		- 7,951	- 3,753
<b>19. Retained earnings</b>		<b>72,651</b>	<b>47,186</b>
Earnings per Share – undiluted (EUR)	5.l.	0.838	0.727
Earnings per Share – diluted (EUR)	5.m.	0.833	0.704

**Balda Group – Income statement for the fiscal year 2005**



## Balda Group – Cash flow for the fiscal year 2005

	Notes II.	2005 TEUR	2004 TEUR
Net income before extraordinary items and income taxes and financing costs		53,939	51,969
- Interest payments		- 2,546	- 3,466
- Payments on tax on income and earnings		- 13,038	- 10,223
+ / - Write-offs/write-ups on long-term assets (excluding deferred taxes)		17,934	27,896
+ / - Other not-affecting expenses and earnings		0	2,016
+ / - Increase/decrease in tax refund and tax liabilities (including deferred taxes)		- 4,709	- 6,939
+ / - Increase/decrease in provisions		2,311	824
- / + Increase/decrease in inventories, trade accounts receivable and other assets not itemised within investment or financing activities		- 42,366	309
+ / - Increase/decrease in accounts payable and other liabilities not itemised within investment or financing activities		19,822	- 14,367
<b>= Cash flow from operating activities</b>	<b>3.a.</b>	<b>31,347</b>	<b>48,019</b>
<b>= Cash flow from investing activities</b>			
+ / - Change in fixed assets affecting payment		- 32,421	- 15,293
+ / - Change in financial assets affecting payment		0	660
+ / - Change from the acquisition and sale of subsidiaries affecting payment		0	- 27,143
<b>Cash flow from investing activities</b>	<b>3.b.</b>	<b>- 32,421</b>	<b>- 41,776</b>
<b>= Cash flow from financing activities</b>			
- Payments from dividends		- 7,951	- 3,753
+ / - Change in liabilities to banks affecting payment		- 17,025	- 14,052
+ Cash inflow from the issue of bonded loans		39,492	0
+ / - Change in shares of external shareholders		- 738	0
+ Cash inflow from capital increase		1,411	982
+ / - Change in finance lease obligations affecting payment		- 267	502
<b>Cash flow from financing activities</b>	<b>3.c.</b>	<b>14,922</b>	<b>- 16,321</b>
Change in cash and cash equivalents affecting payment	3.d.	13,848	- 10,078
+ / - Change in cash funds from changes in the consolidated group		0	4,939
<b>+ Cash and cash equivalents at the beginning of the fiscal year</b>		<b>28,464</b>	<b>33,603</b>
<b>= Cash and cash equivalents at the end of the fiscal year</b>		<b>42,312</b>	<b>28,464</b>
<b>Total financial resources at end of the fiscal year</b>			
Cash funds		42,312	28,464
		<b>42,312</b>	<b>28,464</b>

**Balda Group – Cash flow for the fiscal year 2005**

## Balda Group – Segment reporting for the fiscal year 2005

Primary Segments	Europe		Asia	
	2005	2004	2005	2004
<b>In TEUR</b>				
Revenues	259,785	286,153	120,321	83,801
<i>Change from previous year</i>	<i>- 9.2 %</i>		<i>43.6 %</i>	
Total operating performance (1)	278,538	292,817	125,032	82,851
<i>Change from previous year</i>	<i>- 4.9 %</i>		<i>50.9 %</i>	
Material expenses	88,375	100,722	68,440	41,387
<i>in % of total performance</i>	<i>31.7 %</i>	<i>34.4 %</i>	<i>54.7 %</i>	<i>50.0 %</i>
Personnel expenses	99,757	86,863	13,239	10,744
<i>in % of total performance</i>	<i>35.8 %</i>	<i>29.7 %</i>	<i>10.6 %</i>	<i>13.0 %</i>
Other operating expenses	50,214	44,788	12,641	11,858
<i>in % of total performance</i>	<i>18.0 %</i>	<i>15.3 %</i>	<i>10.1 %</i>	<i>14.3 %</i>
EBITDA	40,192	60,445	30,712	18,862
<i>in % of total performance</i>	<i>14.4 %</i>	<i>20.6 %</i>	<i>24.6 %</i>	<i>22.8 %</i>
Depreciations (2)	13,464	18,246	3,690	2,790
<i>in % of total performance</i>	<i>4.8 %</i>	<i>6.2 %</i>	<i>3.0 %</i>	<i>3.4 %</i>
EBITA	26,728	42,200	27,022	16,072
<i>in % of total performance</i>	<i>9.6 %</i>	<i>14.4 %</i>	<i>21.6 %</i>	<i>19.4 %</i>
Depreciation of goodwill	260	5,681	0	981
<i>in % of total performance</i>	<i>0.1 %</i>	<i>1.9 %</i>	<i>0.0 %</i>	<i>1.2 %</i>
EBIT	26,468	36,519	27,022	15,091
<i>in % of total performance</i>	<i>9.5 %</i>	<i>12.5 %</i>	<i>21.6 %</i>	<i>18.2 %</i>
Investments (3)	20,991	10,219	11,019	7,061
Segment assets (4)	164,611	142,533	100,481	77,075
<i>EBITDA in % of the segment assets</i>	<i>24.4 %</i>	<i>42.4 %</i>	<i>30.6 %</i>	<i>24.5 %</i>
Segment liabilities (5)	46,386	41,764	30,962	13,074
Expenses not affecting payments, without write-offs	0	0	0	0
Number of employees as of 31.12. (6)	3,818	2,372	3,869	2,924

(1) Total operating performance = revenues plus other operational income plus/minus inventory changes plus own work capitalised

(2) Without depreciation on added value

(3) Investments = investments in tangible assets including intangible assets

(4) Segment assets = long-term assets plus current assets without interest-bearing assets, deferred tax and tax refined

(5) Segment liabilities = non-interest-bearing liabilities and provisions without tax liabilities

(6) Number of employees as of 31 December = including loan workers, temporary workers and apprentices

America		Intersegment corrections		Group	
2005	2004	2005	2004	2005	2004
18,904 86,1 %	10,157	- 1,831	- 2,435	397,179 5.2 %	377,676
20,406 95,3 %	10,446	- 1,964	- 2,817	422,012 10.1 %	383,297
13,305 65.2 %	7,429 71.1 %	- 1,902	- 3,037	168,218 39.9 %	146,501 38.2 %
3,330 16.3 %	1,223 11.7 %	0	0	116,326 27.6 %	98,829 25.8 %
2,848 14.0 %	1,283 12.3 %	- 62	220	65,641 15.6 %	58,149 15.2 %
923 4.5 %	511 4.9 %	0	0	71,827 17.0 %	79,818 20.8 %
455 2.2 %	133 1.3 %	0	0	17,609 4.2 %	21,169 5.5 %
468 2.3 %	378 3.6 %	0	0	54,218 12.8 %	58,649 15.3 %
65 0.3 %	65 0.6 %	0	0	325 0.1 %	6,727 1.8 %
403 2.0 %	313 3.0 %	0	0	53,893 12.8 %	51,922 13.5 %
1,963	593	0	0	33,973	17,873
23,832 3.9 %	15,869 3.2 %	- 307	- 11,089	288,617 24.9 %	224,388 35.6 %
5,392	4,910	- 278	- 8,772	82,462	50,976
0	0	0	0	0	0
357	236	0	0	8,044	5,532

**Balda Group – Segment reporting for the fiscal year 2005**

**Balda Group – Development of long-term assets (except deferred taxes) in the fiscal year 2005**

In TEUR	ACQUISITION AND MANUFACTURING COSTS					31.12.2005
	01.01.2005	Currency differences	Accruals	Disposals	Reclassifications	
<b>TANGIBLE ASSETS</b>						
Land and buildings	54,346	1,120	2,520	274	54	57,766
Machinery and equipment	88,449	4,157	14,423	2,697	2,403	106,735
Fixtures, furniture and office equipment	17,638	506	4,320	2,167	280	20,577
Advance payments and construction in progress	1,726	66	10,764	76	- 2,958	9,522
	<b>162,159</b>	<b>5,849</b>	<b>32,027</b>	<b>5,214</b>	<b>- 221</b>	<b>194,600</b>
<b>INTANGIBLE ASSETS</b>	<b>6,033</b>	<b>324</b>	<b>1,887</b>	<b>1,161</b>	<b>221</b>	<b>7,304</b>
<b>FINANCIAL ASSETS</b>						
Investments	4	0	0	0	0	4
Shares in affiliated companies	1,050	0	47	0	0	1,097
Loans to associated companies	2,025	0	0	3	0	2,022
Long-term securities	0	0	0	0	0	0
Other financial assets	1,355	426	0	0	0	1,781
	<b>4,434</b>	<b>426</b>	<b>47</b>	<b>3</b>	<b>0</b>	<b>4,904</b>
<b>GOODWILL</b>	<b>50,515</b>	<b>441</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>50,960</b>
	<b>223,141</b>	<b>7,040</b>	<b>33,965</b>	<b>6,378</b>	<b>0</b>	<b>257,768</b>

01.01.2005	Currency differences	DEPRECIATIONS			NET BOOK VALUES		
		Accruals	Disposals	Reclassifications	31.12.2005	31.12.2005	31.12.2004
8,070	156	2,189	73	1	10,343	47,423	46,276
49,003	1,258	11,171	2,168	11	59,275	47,460	39,446
9,401	266	2,977	1,922	- 12	10,710	9,867	8,237
0	0	0	0	0	0	9,522	1,726
<b>66,474</b>	<b>1,680</b>	<b>16,337</b>	<b>4,163</b>	<b>0</b>	<b>80,328</b>	<b>114,272</b>	<b>95,685</b>
<b>4,189</b>	<b>253</b>	<b>1,597</b>	<b>1,100</b>	<b>0</b>	<b>4,939</b>	<b>2,365</b>	<b>1,844</b>
0	0	0	0	0	0	4	4
0	0	0	0	0	0	1,097	1,050
0	0	0	0	0	0	2,022	2,025
0	0	0	0	0	0	0	0
0	0	0	0	0	0	1,781	1,355
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,904</b>	<b>4,434</b>
<b>18,481</b>	<b>- 1,606</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16,875</b>	<b>34,085</b>	<b>32,034</b>
<b>89,144</b>	<b>327</b>	<b>17,934</b>	<b>5,263</b>	<b>0</b>	<b>102,142</b>	<b>155,626</b>	<b>133,997</b>



**Balda Group – Development of long-term assets (except deferred taxes) in the fiscal year 2005**

## Balda Group – Changes to shareholders' equity in the fiscal year 2005

	Subscribed share capital TEUR	Capital reserves TEUR	Revenue reserves TEUR	Currency reserve TEUR	Retained earnings TEUR	Sharehol- ders' equity TEUR
<b>Balance on 1 January 2004</b>	<b>37,530</b>	<b>45,515</b>	<b>2</b>	<b>- 1,575</b>	<b>22,908</b>	<b>104,380</b>
Conversion of convertible bonds	2,225	7,662	0	0	0	9,887
Dividend	0	0	0	0	- 3,753	- 3,753
Net income 2004	0	0	0	0	28,031	28,031
Currency reserve	0	0	0	- 889	0	- 889
<b>Balance on 31 December 2004</b>	<b>39,755</b>	<b>53,177</b>	<b>2</b>	<b>- 2,464</b>	<b>47,186</b>	<b>137,656</b>
<b>Balance on 1 January 2005</b>	<b>39,755</b>	<b>53,177</b>	<b>2</b>	<b>- 2,464</b>	<b>47,186</b>	<b>137,656</b>
Conversion of convertible bonds	408	1,561	0	0	0	1,969
Dividend	0	0	0	0	- 7,951	- 7,951
Net income 2005	0	0	0	0	33,416	33,416
Currency reserve	0	0	0	5,944	0	5,944
<b>Balance on 31 December 2005</b>	<b>40,163</b>	<b>54,738</b>	<b>2</b>	<b>3,480</b>	<b>72,651</b>	<b>171,034</b>

**Balda Group – Changes to shareholders' equity in the fiscal year 2005**

**Balda AG – Balance Sheet as of 31 December 2005 – Assets**

	Notes	31.12.2005	31.12.2004
	II.	TEUR	TEUR
<b>A. FIXED ASSETS</b>	<b>2.a.</b>		
I. Intangible assets			
1. Concessions, industrial and property rights and similar rights and values as well as licences to such rights and values		577	261
2. Advance payments		159	152
		736	413
II. Tangible assets			
1. Land, titles to land and buildings including buildings on third-party land		1,030	31,700
2. Machinery and equipment		133	5,531
3. Fixtures, furniture and office equipment		614	750
4. Advance payments and construction in progress		738	0
		2,515	37,981
III. Financial assets			
1. Shares in affiliated companies		137,853	70,685
2. Loans to affiliated companies		0	6,201
3. Investments		16,149	16,149
		154,002	93,035
		<b>157,253</b>	<b>131,429</b>
<b>B. CURRENT ASSETS</b>			
I. Receivables and other current assets	2.b.		
1. Trade accounts receivable		49	141
2. Accounts receivable from affiliated companies		48,039	34,794
3. Receivables from associated companies		4	25
4. Other current assets		441	1,901
		48,533	36,861
II. Securities	2.c.	10,949	0
1. Other securities		10,949	0
III. Cash in hand, deposits with the Bundesbank, other commercial banks and cheques	2.d.	10,078	667
		<b>69,560</b>	<b>37,528</b>
<b>C. PREPAID EXPENSES</b>	<b>2.e.</b>	<b>454</b>	<b>399</b>
		<b>227,267</b>	<b>169,356</b>

**Balda AG – Balance Sheet as of 31 December 2005 – Total liabilities and shareholders' equity**

	Notes	31.12.2005	31.12.2004
	II.	TEUR	TEUR
<b>A. SHAREHOLDERS' EQUITY</b>	<b>2.f.</b>		
I. Subscribed share capital		40,163	39,755
II. Capital reserves		55,949	54,388
III. Revenue reserves		2	2
IV. Retained earnings		29,752	27,237
		<b>125,866</b>	<b>121,382</b>
<b>B. PROVISIONS</b>	<b>2.g.</b>		
1. Tax provisions		3,427	4,434
2. Other provisions		2,167	2,635
		<b>5,594</b>	<b>7,069</b>
<b>C. LIABILITIES</b>	<b>2.h.</b>		
1. Bonds		5,023	5,581
- thereof convertible: TEUR 23 (previous year: EUR 581)			
2. Liabilities to banks		49,107	22,042
3. Trade accounts payable		943	2,209
4. Liabilities to affiliated companies		37,525	9,715
5. Liabilities to associated companies		24	62
6. Other liabilities		3,185	1,296
- thereof from taxes: TEUR 1,481 (previous year: TEUR 367)			
- thereof from social security: TEUR 32 (previous year: TEUR 33)			
		<b>95,807</b>	<b>40,905</b>
		<b>227,267</b>	<b>169,356</b>

**Balda AG – Balance Sheet as of 31 December 2005**

## Balda AG – Income Statement for the fiscal year 2005

	Notes II.	2005 TEUR	2004 TEUR
1. Revenues	3.a.	5,509	10,749
2. Other operating income	3.b.	9,661	5,283
3. Personnel expenses		- 4,672	- 3,152
a) Wages and salaries		- 4,470	- 2,998
b) Social security contributions, expenses and support		- 202	- 154
4. Depreciations	3.c.		
a) Depreciation on intangible and tangible assets as well as capitalised expenses for the commencement and expansion of business operations		- 2,169	- 7,706
5. Other operating expenses		- 11,123	- 9,816
6. Income from participating interests - thereof from affiliated companies: TEUR 15,164 (previous year: TEUR 28,473)		15,164	28,473
7. Income from profit transfer agreements		13,397	0
8. Income from other long-term investments and loans - thereof from affiliated companies: TEUR 136 (previous year: TEUR 218)		242	244
9. Other interest and similar income - thereof from affiliated companies: TEUR 1,793 (previous year: TEUR 1,578)		2,361	1,664
10. Depreciations on investments and on investments on tangible assets	3.d.	- 2,205	- 153
11. Expenses from transfer of losses		- 6,261	0
12. Interest and other expenses - thereof to affiliated companies: TEUR 320 (previous year: TEUR 131)		- 4,323	- 2,372
<b>13. Result of ordinary operations</b>		<b>15,581</b>	<b>23,214</b>
14. Taxes on income and earnings	3.e.	- 5,005	- 6,351
15. Other taxes		- 110	- 70
<b>16. Net income for the year</b>		<b>10,466</b>	<b>16,793</b>
17. Profit carried forward from previous fiscal year		27,237	14,197
18. Dividend		- 7,951	- 3,753
<b>19. Retained earnings</b>	<b>3.f.</b>	<b>29,752</b>	<b>27,237</b>



**Balda AG – Income Statement for the fiscal year 2005**

## Balda AG – Development of fixed assets in the fiscal year 2005

In TEUR	ACQUISITION AND MANUFACTURING COSTS			
	01.01.2005	Accruals	Disposals	Reclassifications
<b>INTANGIBLE ASSETS</b>				
Concessions, industrial and property rights and similar rights and values as well as licences to such rights and values	538	403	174	103
Advance payments and construction in progress	152	165	0	- 158
	<b>690</b>	<b>568</b>	<b>174</b>	<b>- 55</b>
<b>TANGIBLE ASSETS</b>				
Land, titles to land and buildings including buildings on third-party land	37,588	23	34,634	0
Machinery and equipment	11,223	56	8,200	0
Fixtures, furniture and office equipment	1,137	185	467	0
Advance payments and buildings under construction	0	683	0	55
	<b>49,948</b>	<b>947</b>	<b>43,301</b>	<b>55</b>
<b>FINANCIAL ASSETS</b>				
Shares in affiliated companies	74,719	70,791	1,440	0
Loans to affiliated companies	7,189	0	7,189	0
Investments	16,149	0	0	0
	<b>98,057</b>	<b>70,791</b>	<b>8,629</b>	<b>0</b>
	<b>148,695</b>	<b>72,306</b>	<b>52,104</b>	<b>0</b>

31.12.2005	01.01.2005	DEPRECIATIONS		31.12.2005	NET BOOK VALUES	
		Accruals	Disposals		31.12.2005	31.12.2004
870	277	175	159	293	577	261
159	0	0	0	0	159	152
<b>1,029</b>	<b>277</b>	<b>175</b>	<b>159</b>	<b>293</b>	<b>736</b>	<b>413</b>
2,977	5,888	1,099	5,040	1,947	1,030	31,700
3,079	5,692	691	3,437	2,946	133	5,531
855	387	204	350	241	614	750
738	0	0	0	0	738	0
<b>7,649</b>	<b>11,967</b>	<b>1,994</b>	<b>8,827</b>	<b>5,134</b>	<b>2,515</b>	<b>37,981</b>
144,070	4,034	2,183	0	6,217	137,853	70,685
0	988	0	988	0	0	6,201
16,149	0	0	0	0	16,149	16,149
<b>160,219</b>	<b>5,022</b>	<b>2,183</b>	<b>988</b>	<b>6,217</b>	<b>154,002</b>	<b>93,035</b>
<b>168,897</b>	<b>17,266</b>	<b>4,352</b>	<b>9,974</b>	<b>11,644</b>	<b>157,253</b>	<b>131,429</b>

**Balda AG – Development of fixed assets in the fiscal year 2005**

# Technical Glossary

▶ **Certification**

Issuing of a certificate after having passed an inspection of a defined capability, mostly on the basis of an audit.

▶ **Display**

Protective cover made of crystal-clear plastic for a mobile phone's window.

▶ **Dual Source Strategy**

In terms of purchasing/materials procurement, a company always cooperates with at least two suppliers, in order to minimise risk.

▶ **Early Supplier Involvement**

Earliest possible involvement of the development partner in a new project.

▶ **Holding**

Holding company that manages and controls several companies, in which it owns shares, without providing any goods or services itself.

▶ **Hybrid machines**

Injection moulding machines for processing plastics, with which the final process can be performed electrically or hydraulically.

▶ **IMD (Inmould Decoration)**

Inmould decoration (decoration in the mould) is a sophisticated injection moulding process that results from a combination of hot stamping and film insert moulding. During the process, a colour film is guided by an injection-moulding tool. When it hits the plastic cast, the decoration releases itself from the film carrier and is transferred to the mould. IMD is used to produce displays for mobile phones, among other things.

▶ **Lead Office**

In Balda's organisational structure, each region (Europe, Asia, America, India) is managed by a Lead Office on the basis of the strategy set by the holding company. The Lead Offices have far-

reaching powers in terms of decision-making, are solely responsible for their economic and financial results, and are headed by their own management team. They excel in terms of their close proximity to markets and customers.

▶ **Leading Factory**

In Balda's organisational structure, each region (Europe, Asia, America, India) has a production site or assembly plant which, as the Leading Factory, is responsible for coordinating and controlling a uniform level of technology as well as the development, manufacturing processes, supply chain management and quality management.

▶ **Project management**

Management method for designing, planning and executing time-limited tasks (especially new project development), while working with a great deal of autonomy on the basis of a defined budget and under the responsibility of a project manager with a chosen project team.

▶ **PVD (Physical Vapour Deposition)**

A coating process carried out under a high pressure vacuum, with which metals, alloys or chemical compounds such as plastic are coated with a metallic surface, via the introduction of thermal energy or as a result of bombarding them with particles. The procedure allows for very thin but highly-resistant metal coatings.

▶ **Scheduling model**

Concept in which a company's work schedules are arranged and made more flexible, reconciling the necessities and requirements of the orders situation with the individual needs of employees.

▶ **Value-added chain**

Organisation of the strategic activities important for a company's added value, in order to record the added value or compare it with the competition. It is distinguished between primary activities for the provision of services (development, production) and supporting activities.

# Financial Glossary

## ▶ Annual return

Difference between the price at the start of the year and the closing price at the end of the year, plus any dividends distributed over the course of the year.

## ▶ Audit

A systematic review of a business enterprise or a division of the enterprise by independent auditors on the basis of specific criteria.

## ▶ Cash Flow

The balance of the flow of cash funds in and out of a business. Cash flow is calculated based on a company's annual financial statements.

## ▶ Conference Call

Telephone conference for such purposes as updating analysts on the current status of a company and relevant business events.

## ▶ Convertible bonds

Convertible bonds may be converted into the common shares of the issuing company. The bonds may only be issued with shareholder approval. A majority vote is required for approval with a quorum of at least three-fourths of the share capital represented (see Section 221, Stock Corporation Act).

## ▶ Corporate Governance

The German Corporate Governance Code is designed to increase transparency of the rules governing corporate management and oversight in Germany for both domestic and international investors in order to boost confidence in the management of German business organisations. Companies subscribing to this body of rules incur the obligation of declaring any deviation on their part from the principles of Corporate Governance.

## ▶ Debt-equity ratio

This figure represents the ratio of outside capital to shareholders' equity.

## ▶ Declaration of conformity

A declaration by the Board of Directors and Supervisory Board according to Section 161 of the Stock Corporation Act (AktG) regarding the implementation of the recommendations by the government's commission for the German Corporate Governance Code.

## ▶ Directors & Officers Insurance

Directors & Officers Liability Insurance (D & O insurance) is a liability insurance policy covering claims for pecuniary damages against agents of legal entities such as corporate executives. Interest in this kind of coverage reflects an increasing desire on the part of business partners, shareholders and creditors to hold corporate managers and supervisory bodies personally liable. Liability claims enforced by companies against its own agents are being seen more and more frequently.

## ▶ Divestment

This refers to the disposal of assets. The book value of assets divested is reported.

## ▶ Dynamic debt/equity ratio

Ratio of net financial liabilities to cash from operating activities. This figure indicates the period of time in which operating cash flow will be able to retire net financial liabilities.

## ▶ EBIT

Operating income (earnings) before interest and taxes. Subtracting taxes and interest from operating income yields net earnings. The advantage of using this figure is that it excludes single-instance effects. EBIT is used internationally as a benchmark for business performance because of the high degree of comparability it offers, since it factors out both debt financing and varying country-specific taxation rates.

## ▶ EBIT margin

Equals EBIT divided by total revenue. The higher this figure is, the greater the earning power of the company.

## ▶ EBITDA

Earnings before interest, taxes, depreciation and amortisation.

## ▶ EBITDA margin

Equals EBITDA divided by total revenue. The higher the figure, the greater the earning power of the company.

## ▶ EBT

Earnings before taxes.

▶ **Equity ratio**

A tool for capital structure analysis showing shareholders' equity in relationship to total assets. The higher this figure is, the lower the level of debt.

▶ **Free float**

Free float denotes the number or percentage of shares issued by a stock corporation in relation to the overall shares outstanding that are not permanently held and are thus available for trading on the stock market. Ownership of more than five percent of company shares by one party constitutes a permanent holding.

▶ **Goodwill**

Goodwill is created upon initial consolidation following the acquisition of a company or a stake in it, representing the difference between the acquisition price and the value of net assets acquired.

▶ **IAS / IFRS**

International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are accounting regulations issued by the IASC (International Accounting Standards Committee), an international industry organisation. The objective of these organisations is to provide for transparent and comparable accounting on an international basis. Annual financial statements prepared in accordance with IAS / IFRS provide investors with information about a company's assets and earnings to assist in decision-making. By contrast, the information in annual financial statements according to HGB (German Commercial Code) is geared towards the protection of creditors.

▶ **Internal financing capacity**

Ratio of cash flow from operating activities to cash flow from investment activities. The higher this figure is, the greater the company's internal financing capability. Internal financing means a company raises the required funds from its own resources, i.e. business operations.

▶ **Joint venture**

A business partnership between two or more companies. Joint ventures are formed either via agreement between existing corporate structures or by the establishment of a new joint subsidiary or associated company.

▶ **Market capitalisation**

This is the market value of a company as determined by the current stock price multiplied by the number of shares that have been issued. Alongside trading volume, market capitalisation is a key criterion for inclusion in an equity index.

▶ **MSCI index**

The MSCI index tracks the price of 1,470 stocks from 20 different countries, representing approximately 60% of these countries' market capitalisation. It appears both as a global index and in the form of regional indices (North America, Europe, Scandinavia, Pacific region and Far East, 20 country indices and 38 industry indices). It is published by Morgan Stanley Capital International on all days when the market is open for trading.

▶ **Net gearing ratio**

Interest-bearing liabilities less cash and cash equivalents in relation to shareholders' equity. The lower this figure is, the greater the proportion of shareholders' equity to debt.

▶ **Risk management**

A systematic approach for identifying and evaluating potential risks as well as determining and implementing measures to address these risks.

▶ **Roadshow**

The roadshow is an Investor Relations tool in which the company goes on the road to make presentations about itself at financial centres or to institutional investors.

▶ **SDAX**

German index of 50 companies from representative industries just below the MDAX stock index in terms of trading volume and market capitalisation (small-caps). Balda AG is also listed in this index.

▶ **SDAX performance index**

Unlike a price index, a performance index is adjusted to reflect dividends, changes in capital and/or interest payments. In calculating a stock performance index, dividends and other distributions to shareholders are reinvested into the theoretical portfolio. Bond indices are calculated factoring in interest income, i.e. reinvesting the discounted average annual coupon rate. The German securities exchange calculates the most important equity and fixed income indices on both a price and performance basis.

<b>▶ A</b>	
Advanced training	44
Analysts' conference	4
Annual General Meeting	4, 6, 10, 15f, 23, 42, 90f, 94, 104
Appendix	64
Assets	19, 22, 25, 28, 31, 52, 66ff, 71ff, 78, 91ff, 107, 111, 115
Auditors' Statements	60f
Automotive	41, 48
<b>▶ B</b>	
Balance sheet	30f, 63f, 66, 68, 72f, 107, 119
Balance Sheet Structure	24, 28f, 30
Board of Directors	4f, 6f, 9ff, 15f, 23, 41f, 44, 52, 54ff, 59, 60f, 81, 85f, 90, 95, 98f, 104
<b>▶ C</b>	
Cash flow	24f, 71, 111
Cash flow statement	111
Certification	33,45
Corporate Governance	9, 10f, 104
Corporate structure	9, 19, 28
Cycle time	5, 36, 47f
<b>▶ D</b>	
Declaration of Conformity	8, 10
Dependent Company Report	59
Depreciations	18, 20, 22, 24f, 67, 71ff
Directors & Officers Insurance	9f
Display	4f, 6, 15f, 23, 90, 94, 104
Dividend	4, 6, 15f, 23, 90, 94, 104
Divisional organisation	41
Dual Source Strategy	56
<b>▶ E</b>	
Earnings per share	16, 23, 80, 96, 108
Economic situation	14f, 17, 49ff, 52, 54f
Employees	4f, 6, 35ff, 43ff, 47, 53, 57, 81, 88, 113
Environmental Protection	45
Equity	28f, 30f, 32, 66
Expenses for materials	33f, 78, 109
<b>▶ F</b>	
Financial calendar	128
Forecast	4f, 18, 21ff, 49, 51ff, 55
Free float	15
<b>▶ G</b>	
Goodwill	22, 31, 65f, 68, 70, 71, 78, 107, 115
Gross domestic product (GDP)	17, 51f
<b>▶ H</b>	
Holding	19, 41f, 52, 91
<b>▶ I</b>	
IMD (Inmould Decoration)	47
Infocom	6, 40ff, 47, 52, 58, 64, 91
Injection moulding	4, 6, 36, 48, 50
Inventories	30, 67, 72
Investments	17, 24f, 31, 48ff, 56, 70f, 113
Investor Relations	16, 42
<b>▶ J</b>	
Joint venture	21, 50, 89
<b>▶ L</b>	
Leading Factory	41
Lead Office	41, 52
Logistics	34, 46, 56
<b>▶ M</b>	
Market capitalisation	5, 15f
Medical	4, 41
Mobile Phone Market	4, 6, 18
<b>▶ O</b>	
Organisation	5, 7, 9, 21, 41, 44, 48, 54, 57
<b>▶ P</b>	
Personnel expenses	19, 22, 43, 67, 78
Personnel expenses ratio	19, 44
Procurement	33f, 54, 56
Project management	4, 7, 30, 35f, 47
Provisions	19, 24, 29, 31, 65ff, 69f, 74ff, 92, 94, 96, 107, 111, 119
PVD (Physical Vapour Deposition)	5, 9, 36, 40, 42, 48
<b>▶ Q</b>	
Quality management	36
<b>▶ R</b>	
Remuneration	11, 85, 98f
Restructuring	41
Risk management	54
Risks	9, 51, 54ff, 60, 67f, 72, 92
<b>▶ S</b>	
Sales	4f, 18, 34, 52, 54f
Segment reporting	34, 64, 69ff, 113
Share	4f, 6f, 11, 14ff, 20f, 32, 49, 52, 77f
Share capital	15f, 77, 94
Shareholdings	86, 99
Share issue numbers	16
Shareholder structure	15f, 10
Stages	4f
Supervisory Board	5, 9ff, 15f, 22, 50, 52, 57, 83ff, 94, 96ff, 104
Supply Chain Management	33f, 63, 41f, 56
Surface finishing	6f
<b>▶ T</b>	
Tangible assets	24f, 28f, 68, 76, 78, 91
Temporary employees	35, 43, 67, 78
Turnover	4f, 6f, 16, 19ff, 30, 41, 49, 51ff, 55, 65, 69ff, 77, 96, 109, 113
<b>▶ V</b>	
Value-added chain	6, 21, 34, 36f, 40f, 53
<b>▶ W</b>	
Working hours model	35
World economy	17, 45, 51, 55



## Financial Calendar 2006

- ▶ **29 March 2006**      **Publication of Annual Results 2005**  
Discussion of Annual Financial Statements, Frankfurt am Main  
DVFA Analyst Conference, Frankfurt am Main  
Press Statement
- ▶ **26 April 2006**      **Interim Report**  
1st Quarter 2006 (1 January – 31 March)  
Press Statement  
Conference Call with analysts and reporters
- ▶ **01 June 2006**      **Annual General Meeting**  
11.00am, Stadthalle Bielefeld  
Webcast
- ▶ **26 July 2006**      **Interim Report**  
2nd Quarter 2006 (1 April – 30 June)  
Press Statement  
Conference Call with analysts and reporters
- ▶ **25 October 2006**      **Interim Report**  
3rd Quarter 2006 (1 July – 30 September)  
Press Statement  
Conference Call with analysts and reporters

▶ **Investor Relations Contact**

Cersten Hellmich

Kathrin Wiederrich

Fon +49 (0) 5734 / 922-2706

Fon +49 (0) 5734 / 922-2751

Fax +49 (0) 5734 / 922-2691

chellmich@balda.de

kwiederrich@balda.de

▶ **Imprint**

Publisher

Balda AG, Bad Oeynhausen

Concept, design and realisation

PR Partner Societät für Öffentlichkeitsarbeit GmbH, München

Printing

Druckhaus Kirchner GmbH & Co. KG, Kirchlengern

▶ **Photography**

Balda AG, PR Partner GmbH, Stadt Frankfurt am Main

Balda Aktiengesellschaft  
Bergkirchener Str. 228  
D-32549 Bad Oeynhausen  
Germany  
Telephone +49 (0)5734 922-0  
Fax +49 (0)5734 922-2747  
info@balda.de  
www.balda.de