



Profile and Vision of Balda AG

Balda develops, manufactures and refines precision components made from high-performance plastics. The group sells to companies in the mobile phone, automotive and medical industries.

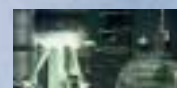
Balda's systems play a leading role world wide in tool making, manufacturing processes and surface engineering. No other systems partner can offer the mobile phone industry all the technologies they need from a single source.

Balda has a worldwide presence in the mobile phone centres of production. Besides the five plants in Germany, the Group manufactures in China, Brazil, Malaysia and Hungary.

Balda has a clear vision. The Management intends to increase the Company's goodwill continuously by profitable growth: by consistently increasing internationalisation of its worldwide technological market leadership, and at the same time taking advantage of growth potential, such as synergies from diversification into Infocom, Automotive und Medical sectors.

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Key Figures

in million EUR

	2000	2001	2002	2003	2004	Change from previous year (in %)
Revenues	160.3	158.6	198.4	272.9	377.7	+ 38.4
Total operating performance	168.5	168.9	207.3	287.0	383.3	+ 33.6
Material expenses ratio (in %) ¹	45.9	41.0	40.2	38.9	38.2	- 1.8
Personnel expenses ratio (in %) ¹	22.1	29.2	25.2	22.7	20.5	- 9.6
EBITDA	33.9	24.4	33.3	54.3	79.8	+ 46.9
EBIT	23.4	7.8	14.6	28.9	51.9	+ 79.7
EBIT margin (in %) ¹	13.9	4.6	7.1	10.1	13.5	+ 33.7
EBT	21.4	3.1	9.5	22.8	47.7	+ 109.0
Net income	13.6	1.1	4.6	11.6	28.0	+ 142.4
Sales yield (in %) after interest and taxes	8.5	0.7	2.3	4.2	7.42	+ 75.2
Cash flow	15.2	11.1	12.4	45.4	48.0	+ 5.7
Investments	76.7	92.5	16.3	18.8	17.7	- 5.8
Shareholders' equity	72.4	70.9	73.3	104.4	137.7	+ 31.9
Equity ratio (in %) ²	39.6	32.2	35.6	43.8	51.6	+ 17.8
Balance sheet total	182.9	220.4	206.1	238.1	266.7	+ 12.0
Employees (as at 31.12.)	1,628	1,980	2,919	3,599	5,532	+ 53.7
Earnings per share (in euros)	0.406	0.031	0.137	0.308	0.705	+ 128.9
End-of-year closing price (in euros)	30.50	7.80	3.51	6.18	8.47	+ 37.1
Dividend distribution (in million euros)	4.3	1.7	1.7	3.8	8.0 ³	+ 111.9
Dividend per share (in euros)	0.13	0.05	0.05	0.10	0.20 ³	+ 100.0

1) in per cent of total performance

2) in per cent of balance sheet total

3) Proposal to AGM



| 25th to 27th January: The directors and departmental managers of the Balda subsidiary present the newest technologies to Siemens managers at „Siemens Technology Days“.



| 9th to 11th March: Balda Medical has a successful show with its own booth at the important European medical exhibition MedTec in Stuttgart.

| 24th to 26th March: Balda exhibits at the regional trade fair for apprentices in Minden and presents seven of its commercial and technical career paths. The feedback is extremely positive.

| 1st April: Balda attends the student fair at Bielefeld's technical university. The Company presents itself to students and sounds out cooperation projects.

| 23rd April: The group signs an agreement with the Taiwanese company Everskill relating to the firm in Suzhou. By acquiring 25% of the shares Everskill becomes a partner in the Company incorporated under the name Balda-Everskill Solutions.



| 13th May: The Balda Group establishes a Joint Venture together with the Sauerland-based Lumberg Group. The new company acquires a factory with modern equipment in the mobile metropolis of Manaus in Brazil.

January

February

| 10th February: Balda is the only German partner in the international industry project to attend the STARK University Days at the renowned Swedish university in Borås.

March

| 30th March: Balda acquires the 50% stake of the Swiss company Mikron AG in the Balda-Mikron joint venture in the Chinese city of Suzhou, becoming the company's sole shareholder.

April



| 29th April: Around 700 shareholders take part in the fifth Annual General Meeting of Balda AG in Bielefeld's municipal hall. They vote for the motions of the Board with large majorities and determine a record dividend of 0.10 euros.

May

| During June, five analysts recommend buying Balda shares. The investors' magazine „Aktionärsbrief“ even classifies Balda's stock as „Bull of the Week“.

June

| Group Management completes an extensive road show in June. In London, Paris, Zurich, Frankfurt, Cologne and Düsseldorf they present the Company and its growth prospects to institutional investors, bankers and fund managers.

On 2nd and 9th July the first Balda Investors' Days are held. Approximately 250 shareholders accept the Board's invitation and visit the Technology Park in Bad Oeynhausen. They tour the factory and technical facilities with great interest.

23rd July: The Supervisory Board appoints Volker Brinkmann, hitherto group finance manager, as Managing Director of Finance for Balda AG.



7th September: Balda AG makes a presentation at High Tech Engineering in Frankfurt am Main, the Deutsche Börse's first symposium for the sector. Investors, analysts and industry specialists learn more about Balda's high-tech resources and growth potential.

The financial magazine „Focus Money“ recognises Balda in its „Company of the Year“ contest. Balda is ranked third on the SDAX for extraordinary profitability and transparency.

Albea becomes one of 19 companies worldwide to act as a strategic supplier to the automotive division of Siemens/ VDO.

Balda Solutions, Balda Werkzeug- und Vorrichtungsbau and IPH are awarded the new environmental certification as per DIN EN ISO 14001.

The institute for small-business economics at the University of Trier distinguishes Balda as an „Employer of the Year“ for SMEs that employ up to 5,000 people.

The Balda share was the most heavily traded on the SDAX in December 2004 with a trading volume of 15.3 million shares.

July

August

In the competition for „Best Annual Report“ held by Manager Magazin, Balda's annual report takes third place in the SDAX category.



30th August: The dry powder inhaler from the Medical division is awarded its long-awaited official licence. Production of the device for asthma patients begins immediately.

September

October

6th October: The Balda group signs a rental agreement on a property to develop its factory in Veszprém, Hungary.

18th to 20th October: The first Balda Technology Days event is held in Bad Oeynhausen. Group development experts streamline international exchange between the different production sites and discuss the development of cooperation on global mobile phone projects and the application of new technologies.

November

Balda-Heinze completes the certification process as per the new ISO standard 16949 for the automobile industry.

24th to 26th November: The Global Sales Meeting is held in Bad Oeynhausen. The focus of the discussions between the 30 participants from the Balda sales organisation is on the future global requirements of the Company's customers.

December

The new production facility for painting and assembly in the Hungarian town of Veszprém successfully starts operations after an extraordinarily short construction phase. Initially 134 employees work in production facilities covering 3000 square metres. By mid-2005, 500 employees will be working in an area of 8000 square metres.





*Joachim Gut
Chairman of the Board of Directors*

Dear shareholders,

The mobile phone market grew far beyond expectations in 2004, reaching a total of 674 million mobile phones. About 100 mobile phone models with new service features such as cameras or multimedia functions responded to the needs and lifestyles of customers worldwide. Demand and sales increased both in markets with high degrees of penetration such as Europe and the US, and in markets with large growth potential like China or Eastern Europe. Balda took advantage of the opportunities of this expanding economic trend and succeeded in extending its market share. The revenue growth achieved in 2004 of 38.4 per cent exceeds the 29.3 per cent increase in the mobile-phone market overall. Likewise, our Automotive and Medical Engineering divisions reached their planned levels during the year under review.

I am happy to join my colleagues on the Board of Directors in presenting to you an annual report that reflects the best year in Balda's corporate history. This development is borne out in the Company's share price as well. The value of your Balda share increased during the reporting year by roughly 37 per cent; more than any German stock index. The Board of Directors will propose a welcome dividend for the 2004 financial year of 0,20 euros to the annual general meeting.

Our expectations for revenue and profit have been more than fulfilled. We have implemented our strategy according to plan. In addition to the favourable market trends, a significant driver of our growth and the increasing profit potential in the Infocom division was Balda's international presence in the supply structure of the customers. The Group has acquired all shares in Balda-Mikron in Suzhou and has gained a strong partner in China in Taiwan's Everskill Group. Together with the Lumberg Group, based in the Sauerland area, we acquired two production plants in Brazil as part of a joint venture. Moreover, the Balda Group built a plant for assembly and painting in Hungary. On balance, therefore, the globalisation of Balda in 2004 was extremely positive. Also deserving special mention are the successful production start-ups worldwide and the consistent cost management in the Group. They generate customer satisfaction and strengthen our profits, allowing the Group during the year under review to expand its international competitiveness and its position as a global partner to mobile-phone producers. The earnings share of our foreign subsidiaries, particularly in China, increased beyond all proportion.

The Balda Group is indebted for its excellent financial year to its dedicated employees worldwide. Their work is characterised by a high degree of motivation and generous personal commitment. We can all be proud of what we have achieved. This achievement is also a good reason to approach the forthcoming financial year with just as much enthusiasm and fresh self-confidence. We have set ambitious goals for ourselves in 2005 as well. We intend to grow at a higher rate than the mobile-phone market.

After all, the success of Balda AG is measured in profitable growth and the enhancement of the Company's goodwill. The prerequisite to Balda Group's profitable growth is, more than anything else, good global positioning in the mobile-phone market. The central success factors of competitiveness for us decentralised management in close proximity to the markets and to customers and the continued expansion of our leading technology. These service areas continue to be the focus of Balda's strategic orientation.

Balda has adapted quickly to the demands of rapidly progressing globalisation and further growth. The Group is developing into a new, integrated, global organisation. Redivisionalisation has come a long way in the interim, but we are not yet finished. The new organisational structure of the Group consistently takes into account the demands of diversification in the Group and the globalisation of our Infocom division. The controlling companies of the three divisions are responsible for profits and report directly to the AG. This structure brings us closer to markets and customers and provides latitude and flexibility for the divisional management bodies. In future, the structure of Balda will be global, regional and local to equal degrees. The knowledge transfer from Bad Oeynhausen to the international locations, for example in technology, processes or quality, will become even more efficient and faster. We will continue to increase exchange of employees between the plants worldwide. The production of mobile-phone projects already practiced in 2004 at various international locations open up further opportunities for making optimum use of production capacities and cost advantages. The new organisational structure of the group is the basis for further optimisation of our competitive standing.

Progress was made in building our leading technology position in all three divisions during the year under review. Our customers reward speed in development, improvements in cost positions and guaranteed quality. We meet our customers' requirements both with the renewed pace of our development services - including tool making, continued reduction of cycle times in injection moulding and innovative surface finishing technologies – and in quality assurance systems based on advanced technology. We command an excellent position in technology and lead the competition. In 2004 as well, we practiced the method of the „con-

tinuous improvement process“ consistently and effectively. Our resources in research and development are now concentrated in the technology centre in Bad Oeynhausen. Moreover, every production site maintains a technology unit, allowing us to better plan global projects more quickly.

My colleagues on the Board of Directors and I are confident about the 2005 financial year. Balda will pursue globalisation with one further location in Beijing, China. We will continue expanding our service portfolio, for example with the assembly of LCDs and electronic components. We are convinced that we will make up for the impending pressure on margins effectively by deliberately shifting manufacturing operations to cost-efficient locations. The projects already in the development stages make us confident about the current financial year.

Esteemed shareholders, we are convinced that we are strategically on track for the future. This annual report will also reveal to you what we have achieved in the past year and how successful we will be in the future. My colleagues on the Board of Directors and I are confident that we will increase our Company's goodwill in the financial year to come as well. In the future as well, Balda AG promises to be a profitable investment for you. We thank you for your confidence in our work and for your continued support of Balda.

Kind regards

A handwritten signature in black ink, appearing to read 'J. Gut', written in a cursive style.

Joachim Gut.
Chairman of the Board of Directors



Joachim Gut
Chairman of the Board of Directors

Born 1962, married, one child



Volker Brinkmann
Managing Director of Finance

Born 1959, married, one child



Rainer Frilling
Managing Director of Sales

Born 1962, married, two children



Ralf Ackermann
Managing Director of Technology

Born 1958, married, two children

Dear shareholders,

The Supervisory board thoroughly examined the Company's position and development during the 2004 financial year and carried out its duties as prescribed by law and the articles of incorporation. It advised the Board of Directors as to the management of the Company, monitored the management of transactions and was directly involved in all strategic decisions.

These activities were based on the Supervisory Board meetings as well as on oral and written reports provided by the Board of Directors. The Board of Directors regularly, promptly and comprehensively informed the Supervisory Board of all issues relating to implementation of strategy, planning and development, including current risks and risk management. The departure of actual business operations from planned levels and the decisions to revise the forecast for 2004 financial year upwards were discussed with the Supervisory Board as well. The Chairman of the Supervisory Board maintained regular contact with the Board of Directors outside of meetings and was kept apprised of the current business situation. The Supervisory Board met six times during the year under review. Important topics of reporting and discussion in the course of the financial year were the audit and further implementation of the strategy, including the Group's prospects for growth. The strategy focussed on the global restructuring of Infocom and, in particular, internationalisation.

The Supervisory Board discussed the execution of the next steps in the globalisation strategy, including their financing. The board also thoroughly examined the takeover of all shares in the Balda-Mikron joint venture in Suzhou, China. The expiry of the agreement with Mikron AG was far-reaching in its significance because it simultaneously opened up new partnerships for establishing or acquiring production sites or shares in foreign companies. Everskill, a new partner of Balda in Suzhou, also underwent a diligent audit by the Supervisory Board. The Supervisory Board also extensively advised Balda's joint venture with the German partner Lumberg in Brazil. Balda's new assembly and painting plant in Hungary was the subject of in-depth consultation. During the year under review, the Supervisory Board also discussed options for further globalisation of the Infocom business line in China, Mexico and India.

The board also examined continued diversification of the product portfolio and fundamental innovations in the technology of both processes and products. In addition, on the 1st January, the Supervisory Board audited the change in the object of the Company as per Section 2 of the Company's articles of incorporation and approved the new wording.

At its meeting on 15th December 2004, the Supervisory Board also examined the financial and investment plans for the next financial year. At this meeting, the Board of Directors and the Supervisory Board also renewed the declaration of conformity with the German Corporate Governance Code as per Section 161 of the German Companies Act (AktG) with a two ex-

ceptions. First, the existing Directors & Officers insurance policy for the members of the Board of Directors and Supervisory Board shall remain without deductible. Second, the Supervisory Board will abstain from forming committees in future as well. Both the Board of Directors and the Supervisory Board expressly reaffirmed their commitment to the transparent, responsible and value-adding management and monitoring of the Company.

The 2004 annual financial statements and consolidated status report of Balda AG prepared by the Board of Directors, including the accounts and the early risk-detection system, were audited by WestAudit AG Wirtschaftsprüfungsgesellschaft and issued an unqualified certificate.

The financial statements, related documents and the audit reports were promptly made available to all members of the Supervisory Board. They were discussed at length at the Supervisory Board meeting on 9th March 2005. The auditor was present at the discussion of the annual financial statements and the consolidated financial statements. The auditor reported on the major results of the audit and was able to provide the Supervisory Board with additional information. Based on the Supervisory Board's own audit of the annual financial statements, of the consolidated financial statements and of the consolidated management report and on the proposal for the appropriation of net income, the Supervisory Board concurred with the auditor's conclusion for this audit. It approved the annual financial statements and consolidated financial statements, thereby endorsing the annual financial statements. The Supervisory Board also approved the appropriation of net income as recommended by the Board of Directors.

The events set out in this annual report underscore the Balda Group's outstanding operational and financial performance. The Supervisory Board assumes that the Group will make use of its potentials for growth and achieve the goals it has set in future as well. The Supervisory Board would like to express its gratitude to the Board of Directors, all employees and employees' representatives for their above-average dedication and conscientious work. It would also like to thank the shareholders for the confidence they have shown in the Group during the year under review.

Bad Oeynhausen, March 2005

On behalf of the Supervisory Board



Gerhard Holdijk

Corporate Governance.

The commitment to transparent and responsible corporate management aimed at sustainably adding value has traditionally been an integral part of Balda's corporate culture. The Company complies with the recommendations of the version of the German Corporate Governance Code dated 21st May 2003, and in effect since July 2003 except in two points.

Balda expressly approves the recommendations of the Cromme Commission on the Corporate Governance Standards. Balda has complied with the target regulations of the Code since before its IPO in 1999. Rather, the Company is committed to the further recommendations of the government commission. These standards are intended to make important measures, authoritative conduct and significant decisions easily traceable and comprehensible for shareholders.

The Board of Directors and Supervisory Board have unanimously and jointly resolved to implement the recommendations of the Code. Intensive examination of the recommended rules preceded this resolution. In December 2004, the Board of Directors and the Supervisory Board renewed the declaration of conformity as per Section 161 of the German Companies Act (AktG) and made it permanently available to shareholders on the Balda website.

The Company has followed, and will continue to follow, the recommendations of the government commission on the „German Corporate Governance Code“ with the following exceptions: There is a Directors & Officers insurance policy without deductible for the members of the Board of Directors and the Supervisory Board (Clause 3.8 of the Code). This is a group insurance policy for a large number of employees in and outside Germany. A higher deductible is not common outside Germany, so it does not seem appropriate to differentiate between board members and employees. As in the past, however, the Supervisory Board decided not to form committees, because it does not expect that doing so would make it work more efficiently considering its close collaboration (Clause 5.3 of the Code / see also www.balda.de/ir).

Supervisory Board. On 29th April 2004, the annual general meeting unanimously confirmed the appointment of the former Chairman of the Board of Directors, Gerhard Holdijk, to the Supervisory Board. He had already been appointed to the Supervisory Board in January by the district court and nominated by the regulatory committee as its chairman. In addition, the annual general meeting re-elected Bernd Fennel and Dietrich Fürst, members until then of the Supervisory Board, for a further term of office on the committee.

Board of Directors. Since mid-2004, the Board of Directors of Balda AG has comprised four members. The Supervisory Board appointed Volker Brinkmann, head of finances for Balda AG since 1998, as a member of the Board of Directors. He assumed responsibility on 1st July 2004, for the areas of finance, controlling and IT. These departments were previously under the responsibility of the chairman of the Board of Directors, Joachim Gut.

Implementation was jointly resolved by the Board of Directors and the Supervisory Board. |

Volker Brinkmann appointed as a Board Member. |

Accounting and Audit. During the 2004 financial year, Balda's consolidated financial statements and interim reports were once again prepared according to International Financial Reporting Standards (IFRS) - formerly known as International Accounting Standards (IAS) - whereas the annual financial statements of Balda AG were prepared according to the stipulations of the German Commercial Code (HGB). The international standard maximises transparency and allows the company's performance to be compared with that of other companies (Clause 7.1 of the Code). In 2004, Balda once again published its quarterly reports no later than four weeks after the end of the quarter, in considerably less time than recommended by the German Corporate Governance Code, which stipulates an abbreviated reporting obligation of no more than 45 days after the end of the quarter (Clause 7.1.2 of the Code). The Annual Report, including annual financial statements, is publicly available within 90 days after the end of the financial year.

The auditor, WestAudit AG Wirtschaftsprüfungsgesellschaft, issued a statement of independence in accordance with Clause 7.2.1 of the German Corporate Governance Code this year as well. The full statement of independence can be downloaded from the Balda website.

The auditor and the Supervisory Board have agreed that the Chairman of the Supervisory Board be informed immediately of any findings during the audit that are relevant to the responsibilities of the monitoring body.

The Company and all members of the Board of Directors have agreed upon fixed and variable components of their **remuneration** in accordance with Clause 4.2.3 of the Code. The remuneration of each member of the Board of Directors is separately published in the notes to the consolidated financial statements, broken down by fixed and performance-related components (as per Clause 4.2.4 of the Code). The Company further sets out the consulting and mediation mandates of its Supervisory Board members and the remuneration paid them individually in the consolidated financial statement (Clause 5.4.5 of the Code).

Insider Rules. Balda has created a company-internal list of insiders. It is available to the Federal Financial Supervisory Authority (BaFin) on request.

As a company with an international presence, the Balda Group works in accordance with relevant national standards and internationally recognised „best practices“. For Balda, corporate governance is not a prescriptive condition; it is an ongoing process that is actively integrated into the development of the Company.

Bad Oeynhausen, 7th March 2005

Balda AG

Supervisory Board

Board of Directors

Company-internal list of insiders created.



Leading Technology from East Westphalia

Bad Oeynhausen, located in East Westphalia, is the site of Balda AG headquarters. In addition to the AG and holding company, the consolidated companies Balda Solutions, Balda Medical and Balda Werkzeug- und Vorrichtungsbau are located here. Other Group companies in East Westphalia are IPH-Werkzeugbau in Löhne, along with Balda-Heinze and HeRo, based in Herford. Albea in Seelach, Baden, is the Group's competence centre for film technology. SMK in Oberlungwitz in Saxony specialises in electroplating surfaces. Bad Oeynhausen is situated between the Teutoburg Forest and Weserbergland. The airports of Mün-

ster, Paderborn and Hanover are an hour's drive away on the Autobahn. The location is particularly convenient for Balda, given its mobile communications customers in Bochum and on the Lower Rhine.

The city owes its international reputation to the thermal springs and their therapeutic effects, discovered in the mid-19th century. Crowned heads from all over Europe once improved their health in the town on the Werre and Weser. Some 100,000 people now come here each year for health spa stays or vacations, or to visit the renowned clinics.



Founded: 1908 in Dresden

Employees: 1,125

Products: Infocom: A, B, and C covers interchangeable covers, displays, functional elements, keypad mats, battery cases
Medical: dry powder inhalers, lancing devices, tubes

Technologies: tool-making, injection moulding, including under clean room conditions, IMD, painting, printing, assembly

Qualität: Quality: DIN ISO 9001 and 14001

Area: 35,000 m²

Picture left: Balda Technology Park

Picture below: Injection moulding equipment



Open, committed and solution-oriented.



Picture above: Dr. Carsten Brockmann

Picture centre left: Design for a mobile-phone case

Picture centre right: Industrial Engineering plans to build a fully automated production plant

Picture bottom left: Project meeting for the inhaler at Balda Medical

Picture bottom right: Tool design

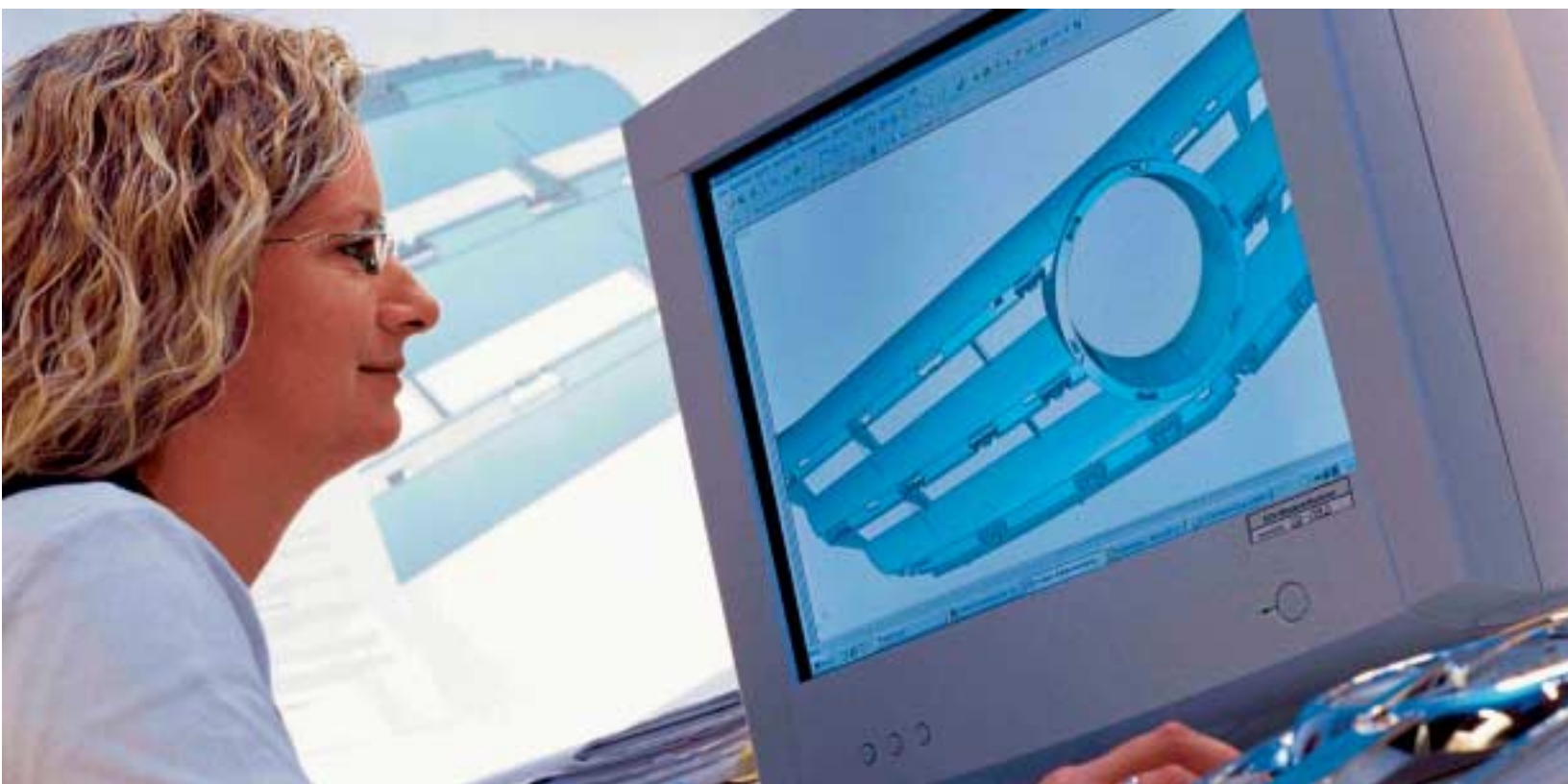
Picture right page: Inspection of 3-D data

Dr. Carsten Brockmann presents the town to us and his work at Balda. Carsten Brockmann is the head of Technology at Balda Solutions in the Infocom division. He is 38 years old and married, with two children; a five-year-old girl and an eight-year-old boy. He values Bad Oeynhausen as a small, quiet town with a lot to offer. In addition to the historic downtown, with its stylish upper-middle class houses and villas from the 19th century, he likes the gardens of the health spa, adjacent to attractive bars and restaurants – a nice spot for a stroll.

At Balda he sees the omnipresent entrepreneurial spirit as being particularly important. „This is a trademark of our East Westphalian region. Here, as is scarcely the case elsewhere, business is shaped by small- to medium-sized companies. The management and employees at Balda also adopt this direct and initiatory approach.“ Carsten Brockmann works on a team with 100 colleagues. His key function is the development of new products. He defines and coordinates all functions

for a new mobile-phone project, making it ready for mass production. In addition, he develops new methods for optimising processes and develops innovations in systems and technologies.

He praises the working climate at Balda as open, very committed and solution-oriented. Carsten Brockmann is aware of the special importance of his work. „As a Balda Group division that is a world leader in technology, we produce innovations that are instrumental in creating faster processes, reducing costs and securing jobs in the German group companies.“ Only superior concepts strengthen Balda’s worldwide leadership in technology. Thus, a high level of automation or innovative applications allows the production plant in Bad Oeynhausen to compete successfully with foreign companies. Carsten Brockmann devotes his limited free time to his family. He keeps himself fit by swimming, cycling or tennis, although personally he can’t completely shake his competitive instinct. He wants to run the Berlin Marathon.



Share and Stock Market Trends

Germany's DAX stock index and Dow Jones came in well below expectations during the 2004 trading year. Despite a year-end upturn, both indexes tended towards lateral movement. Second-line securities closed out the trading year just ended at considerably better levels. SDAX posted a sharp year-on-year rise. With a 36.6 per cent price gain, the Balda share beat the SDAX increase by a wide margin.

After the positive signs at the end of the 2003 trading year, the **2004 equity market** initially encountered a lull. The two decisive issues were oil prices and the price ratio of the euro to the dollar. Both raw materials and the European currency embarked on a mercurial rise at the middle of the year. Although both factors should have slowed the stock markets, the exchanges began a continuous rise across the globe. Over the year, the DAX showed a moderate increase of 7 per cent. The MDAX, on the other hand, rose to an all-time high. As of the end of the year it had posted growth of almost 20 per cent. The **small-cap index SDAX**, on which the Balda share is also listed, also increased by about 20 per cent. The TecDAX posted a year-end loss of about 4 per cent.

During the year under review, Balda once again reinforced the main pillars of its **Equity Story** and provided investors with convincing arguments for investing in the share:

- | Strong growth of Group revenues and earnings
- | Constant expansion of market position in Balda's key industry of cellular telephony
- | Continued internationalisation
- | Portfolio for complete value chain
- | Leading technological position
- | Considerable flexibility of production
- | Diversified product portfolio in Infocom, Automotive and Medical Engineering
- | Strong portfolio of clients who are leading manufacturers
- | Solid equity ratio of roughly 51.6 per cent for financing further growth

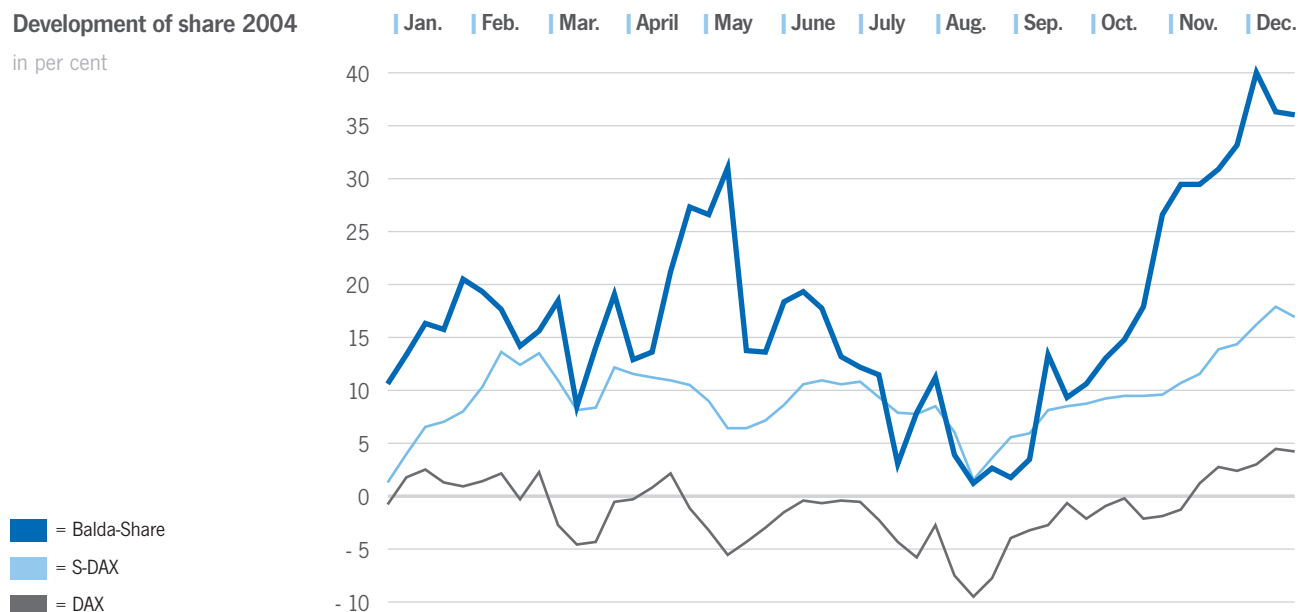
The **Balda share** entered the reporting year on 2nd January 2004 with an opening price of 6.20 euros. That was also its lowest listing. The security reached its high for the year, 8.80 euros, on 29th November. The closing price on 30th December stood at 8.47 euros. This means that the Balda share price in 2004 demonstrated a clear reaction to the positive news regarding the Company and its outstanding growth. The listing thus posted a conspicuous rise primarily on publication of the quarterly results and the upward corrections of forecasts for the mobile phone market.

Over the course of the year, the share rose by 36.6 per cent, exceeding the SDAX performance index figures by almost 17 percentage points. The annual yield thus amounts to 38.2 per cent, including the recommended dividend payout of 0.10 euros.

The **liquidity** of the Balda share came in at 25.9 million securities traded, 83 per cent more than the previous year's volume (14.1 million shares). The average daily transaction volume was 101,021 units, almost twice as high as in the previous year (55,859 units). Particularly at the end of the year, the Balda share was one of the most heavily traded on the

Development of share 2004

in per cent



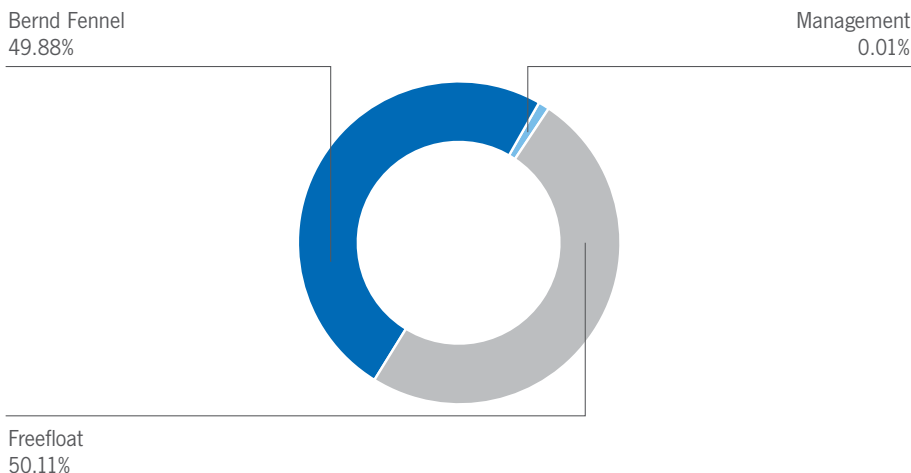
SDAX. The most active month was October, when an average of 185,440 shares were bought and sold every day. In December it listed its transaction volume at 15.3 million euros. The transaction volume for the year under review stood at some 193.5 million euros, as compared to 77.9 million euros the previous year.

A particular distinction was the share's admission to the MSCI World Index of the Morgan Stanley investment bank in 2004. It is a prerequisite for admission that the share is reasonably representative of a market and comprises about 60 per cent of the market capitalisation. This index acts as a guideline by which international fund managers orientate themselves when making investment decisions.

During the year under review, 2,225,092 shares were converted from the convertible bond placed in June 2003. The purpose of the capital measure at the time was to finance growth. Thus, since placement, 2,735,092 shares have been converted. This leaves a remainder of 523,933 units. These bonds must be converted by 31st December 2007. All converted sha-

Shareholder structure

in per cent



res are eligible for a dividend for the 2004 financial year. Thus during the year under review, the **share capital** underwent a change. It rose to 39.76 million euros from 37.53 million euros and was broken down into an appropriate number of no-par shares (cut-off date: 31.12.2004).

The free-float rose from 39.72 per cent to 50.11 per cent. It is distributed among a wide, stable **investor structure** consisting of private shareholders and institutional investors in and outside of Germany. The principal shareholder Bernd Fennel holds a total of 49.887 per cent. He fell below the threshold of 50 per cent of voting rights in Balda AG on 31.12.2004.

As share price performance improved, **market capitalisation** rose sharply: At the end of the reporting year, it stood at 336.7 million euros, 45.2 per cent more than the level at the end of the previous year of 231.9 million euros. The market capitalisation in relation to the 50 per cent free float – according to the German Stock Exchange – amounted to 161.6 million euros. This means that, as of the end of 2004, Balda ranked 18th among the 50 companies listed on the SDAX.

Earnings per share. With 39.76 million shares issued, the diluted EPS swelled to 0.705 euros in the year under review. If all the shares outstanding from the convertible bond were converted, the number of shares would stand at 40,279,025.

On 28th April 2005, the Board of Directors and the Supervisory Board will recommend paying a **record dividend** amounting to 0.20 euros per no-par share at the annual general meeting. The considerably higher dividend reflects the Company's principle of giving shareholders an appropriate share in the Group's profits. Related to the closing price of 8.47

Table of share issue numbers

	2004	2003	2002	2001	2000
Share capital (31.12.)	39,760,000	37,530,000	33,720,000	33,720,000	33,400,000
Highest price in the year ¹	8.80	7.99	9.55	32.19	45.13
Lowest price in the year ¹	6.20	3.04	2.65	5.60	25.10
End-of-year closing price ¹	8.47	6.18	3.51	7.80	30.50
Average trading volume (in millions of items)	25.9 ²	14.1	13.1	19.8	22.0
Dividends	0.20 ³	0.10 ³	0.05	0.05	0.13
Dividend yields	8,000,000 ³	3,753,000 ³	1,686,000	1,686,000	4,342,000
Market capitalisation (31.12.)	336,700,000	231,935,400	118,357,200	263,016,000	1,018,700,000
Earnings per share	0.705	0.308	0.137	0.031	0.406
PER ⁴	12.0	20.06	25.62	251.61	75.12

1) Closing Xetra-prices, after splits

2) since IPO on 23rd November 1999

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

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

euros on the stock market, this adds up to an 2.3 per cent dividend yield, compared to 1.6 per cent in 2003. At 47.6 per cent of Balda AG's net income for the year and 28.6 per cent of the consolidated net income for the year, the payout ratio is at the upper end of the payout target defined in the dividend strategy of up to one-third of consolidated profits.

In 2004, Balda's **Investor Relations** continued to focus on providing up-to-date and ongoing communication to capital-market participants. Balda's management provided financial analysts and business reporters with comprehensive information on Balda's busi-

ness development and prospects at its annual analysts' and press conference and three conference calls. Balda again stepped up its dialogue with institutional investors during the year under review. In 29 national and international road shows, the management team visited Balda's main financial centres. In addition to six appearances in London and six visits to Frankfurt, stops were also made in Paris, Zurich, Munich and Cologne. Other presentations by the Company took place in Hanover and frequently Bad Oeynhausen. During the year under review, Balda's management met a total of 84 representatives of 58 banks, funds, insurance providers and other institutional investors. Also, the Board of Directors and the management regularly answered questions in one-on-one discussions with analysts, investors and fund managers. Balda was equally assiduous about maintaining contact with private investors. Since mid-2004, they have received a shareholder's letter, „BALDA invest“, every month. The newsletter provides information about the latest occurrences on the markets and in the Company. Furthermore, the Company was visited regularly by private investors and shareholders' clubs. About 450 shareholders accepted the invitation of the Chairman of the Board of Directors, Joachim Gut, to attend the annual general meeting, and took advantage of one of the three dates set for touring the technology park in Bad Oeynhausen. After the positive signs of the previous year, Balda opened up the conference calls on its quarterly reports to all interested parties in 2004.

During the reporting year, the Board of Directors visited the editorial offices of financial and business publications to intensify its contact with opinion leaders in the media. Various one-on-one discussions and interviews also took place. The most important event in 2004 was Balda AG's fifth **annual general meeting** held on 29th April 2004 in Bielefeld. It was attended by about 700 stockholders and other guests of the Company. All told, 68.6 per cent of the capital authorised to vote was present. Of the motions presented by the Board of Directors and the Supervisory Board requiring the shareholders' approval, all were authorised by a majority of 96 per cent and above. Balda once again transmitted its annual general meeting over the internet as well, permitting shareholders to authorise proxies for voting rights on its website:

Balda's Investor Relations in 2004 pursued its principle of publishing information going beyond mandatory reporting promptly and on an ongoing basis, the maxim being to provide the same information at the same time to all target groups on the capital market. In so doing, Investor Relations contribute to providing the best possible transparency and fairness. They allow private and institutional investors, financial analysts and business reporters to realistically assess the potential of the Balda share.

Recommendations made by analysts and research institutes constitute the most important channels for shaping the opinions of shareholders and investors. All told, 21 banks, stock analysts and industry publications issued 37 recommendations on the Balda share. Recommendations to buy totalled 31, compared to only five to hold and one to sell.

Overall Economic Situation.

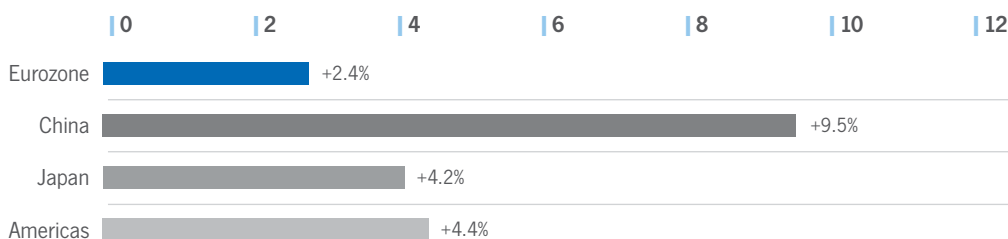
The global economy continued its upturn in 2004. The drivers of these global economic trends were the economies in Asia, above all China, the U.S. and also South America. Growth in the European Union countries was somewhat more moderate.

In the **US**, the world's largest economy, the gross domestic product saw growth of 4.4 per cent, beating prior-year levels (3.1 per cent). That was the strongest growth in five years. In addition to growth in exports of 8.1 per cent, private consumer spending was responsible for roughly two-thirds of the overall US economic performance, an increase of 3.8 per cent. Both tax relief for consumers and a declining unemployment rate – 5.5 per cent as compared to the previous year's 6.1 per cent – contributed to an improved domestic economy. The rate of inflation stood at 3.3 per cent compared to 2.3 per cent the previous year. The basis for the 2.0 per cent rise (0.5 per cent the previous year) in the **eurozone** gross domestic product was exports, which rose by 8 per cent. Once again, the insecurity prompted by economic and social reforms in several member states and the employment situation served to inhibit consumer behaviour. Private household spending increased by 1.1 per cent compared to the previous year's increase of 1.0 per cent. The rate of inflation in 2004 was 2.1 per cent, beating for the fourth time in a row the European Central Bank's mid-term price stability standard of just under 2 per cent. The unemployment rate in the eurozone during the year under review was the same as the previous year, 8.9 per cent.

Increased exports in eurozone drive GDP.

The changes in the gross domestic product 2004

in per cent



The **Asian economies** also experienced dynamic growth during 2004. China's sustained upturn, showing an increase of 9.5 per cent in economic performance, has prompted Beijing to take action in order to prevent the market from overheating. Inflation, which shot up alarmingly fast at 3.9 per cent (compared to the previous year's 1.2 per cent), feeds this concern. Price stability was hit hard particularly by increases in food and oil prices. With a record value of 60.6 billion dollars, China remained the most important target market for foreign investment. The volume of this direct investment grew by 13.3 per cent during the year under review (previous year: 39 per cent). The exports rose by 35.4 per cent (previous year: 37 per cent). The **Japanese economy** in 2004 was on its way back to its original strength with an increase in the gross domestic product (GDP) of 4.2 per cent. The unemployment rate dropped from 5.3 per cent to 4.7 per cent. **Malaysia's** gross domestic product of grew by

China hopes to keep market from overheating.

5.2 per cent in 2004 compared to 4.9 per cent the previous year. The inflation rate remained the same as the previous year at 1.1 per cent. The unemployment rate during 2004 was also steady at 3.6 per cent.

The gross domestic product of **Brazil** in 2004 is anticipated to have grown by 5 per cent (previous year: 1.5 per cent). Increases are predicted in private consumption and exports. A favourable downward trend is expected for unemployment (previous year: 9.4 per cent) and the rate of inflation (previous year: 8.4 per cent).

The gross domestic product in **Germany** rose 1.6 per cent (previous year: -0.1 per cent), the strongest growth rate seen since 2000. In spite of this, the German economy during the year under review did not achieve the level of growth of most other industrialised nations. Driving the economic revival was exports, which rose by 10 per cent (previous year: 1.8 per cent). With an export volume of 731 billion euros, German exporters led the way in a global ranking in 2004 as well. During the year under review, companies managed to defy the strength of the euro in foreign trade. The export surplus reached record heights at 155.6 billion euros.

| Private consumption dwindles. |

Private consumption dwindled in 2004, following on the heels of the previous year's stagnation with a 0.3 per cent drop. Domestic demand increased as in the previous year by 0.5 per cent. At 10.9 per cent (previous year: 10.8 per cent), the savings-to-income ratio in 2004 was at its highest point since 1995. Health reform, further social reforms and concern about the job situation put a damper on the spending habits of German consumers during the reporting year. The slight economic recovery of 2004 did not trickle down to the job market. The unemployment rate remained at the previous year's level of 10.5 per cent. After a drop of 1.0 per cent in 2003, the number of wage-earners increased by 0.3 per cent. The rate of inflation came in at 1.6 per cent on average, compared to 1.1 per cent the previous year. Reforms in health care, another rise in tobacco tax and higher energy costs pushed consumer prices upwards. The rate of inflation alone ate up any relief provided by the tax reform that took effect in 2004 and contributed to continuously cautious spending by private households. The gross domestic product of **Hungary** posted an increase of 3.9 per cent (previous year: 3.0 per cent) in 2004. The rate of inflation rose from 4.7 per cent in the previous year to 6.8 per cent. The unemployment rate remained almost level in 2004 at 5.8 per cent.

Markets.

The market for mobile phones continued its mercurial rise in 2004, mainly due to a strong last quarter causing growth of around 30 per cent. The automotive industry evidenced stable domestic business and once again reached an all-time high in exports. Manufacturers of medical engineering and pharmaceutical products showed strength in exports despite modest domestic growth.

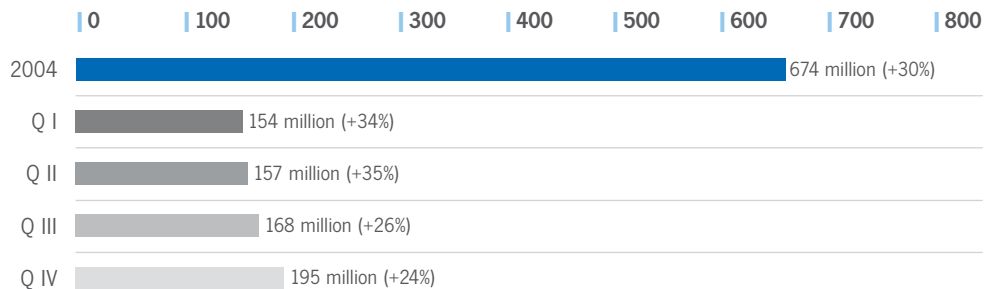
The **mobile phone market**, the world's biggest consumer-electronics market, once again saw significant growth over the previous year and racked up a new record. According to the Gartner Group market research institute, global mobile phone sales passed the 674 million mark, up from 519 million the previous year – an increase of almost one-third. The Gartner Group tracks the volume of sales to end users. On the other hand, market researchers IDC surveys the sales of manufacturers to retailers and thus arrives at different figures. According to IDC about 664 million mobile phones were supplied worldwide (2003: 533 million). That translates into growth of 29 per cent.

Even the first three quarters of 2004 showed strong growth. But particularly in the traditionally strong closing quarter of the year, the industry made its greatest strides. Across the board, sales figures came in well above forecasts of market researchers and manufacturers.

| New sales record for mobile phones. |

2004 mobile-phone sales

growth from previous year in brackets; figures rounded



The number of mobile-phone subscribers increased worldwide to about 1.3 billion. Three factors were the major growth drivers: First, the markets in the developing countries of China, India, Russia and South American nations showed an uninterrupted rise in new subscribers. With about 330 million users and over 80 million new devices, China remained the world's biggest market in 2004. Russia also achieved growth of 42 per cent with 25 million new subscribers. In these countries, sales were fuelled primarily low-priced beginner models. Second, the trend towards a second phone is growing with a very high rate of penetration (Germany: 87 per cent). The third factor contributing to the industry's upturn was the high number of new mobile phone models. Manufacturers presented about 100 new variations and launched them on the market. The most powerful driving force was the demand for new technical features like high-quality integrated digital cameras, MP3 players or navigation functions.

| Balda no. 2 worldwide among system partners. |

In 2004, Balda was the world's second-largest system partner of mobile-phone producers in providing plastic components. During the year under review, the Company managed to boost its market share from 13 per cent to 17 per cent. The Company also benefited in 2004 from the increasing concentration of manufacturers on large suppliers with international representation and strong development expertise. Strategic success factors were Balda's technology portfolio, which is at the forefront of the market, and the international production sites. With the new production sites in Brazil and Hungary, the Company has continued to expand its international market position. This includes the strategic competitive edge of being the only company able to offer all surface finishing technologies necessary for the industry from a single source.

The **market for medical engineering and pharmaceutical products** is relatively insensitive to economic fluctuations. The needs of patients drive demand. The extremely heterogeneous global market grows by about 7 per cent every year on average. Currently the markets in China, Brazil and Eastern Europe expanding at the fastest rate. According to the German Medical Technology Association (BVMed), Germany came in well below them in 2004 with an increase of only 1.5 per cent. Particularly in the first two quarters, the market developed sluggishly. The cause for the generally moderate growth in the world's third-largest market for medical products is primarily the restrictive budgeting policy of authorities responsible for medical institutions and rising price pressure as a result of health reforms.

The industry's growth is principally driven by two trends: first, the rising life expectancy of the population, leading to an increase in degenerative disorders and diseases of civilisation and to longer-lasting treatments for chronic illnesses. Second, technical and medical advances are driving innovation in diagnostic and therapeutic instruments. Balda is active in two segments that stand to benefit to a disproportionately high degree from the growth in the industry: diagnostics (lancing device for diabetics) and primary packaging for pharmaceuticals (dry-powder inhalers/ tube packaging).

| Two growth trends: increasing life expectancy and technological advances. |

| About 7 per cent of the German population, or 6.3 million people, suffer from diabetes today, requiring patients to check their blood-sugar level throughout their lives. It is this that drives the need for self-testing aids, including the lancing devices manufactured by Balda. In 2004 as well, this product group posted a revenue increase, according to the information of the German Association of the Diagnostics Industry (VDGH). For this reason, it remains one of the fastest-growing segments in the diagnostics industry. The lancing device has an average lifecycle of three years.

| For the first time ever, Germany counted more than 4 million asthma patients during the reporting year. In Europe about 80 million people suffer from it. The causes given are increasing air pollution and problems caused by particle dust. The number of asthmatics is growing particularly in countries affected by industrial emissions and road traffic. This creates long-lasting need for therapies for respiratory-tract diseases. The inhaler systems needed for them show a stable market growth of roughly 10 per cent.

| Domestic sales up for first time
in four years. |

The German **automotive industry** saw solid growth in 2004, with slight increases domestically and top figures in export. With 5.2 million vehicles produced (previous year: 5.15 million), manufacturers passed the 5-million mark for the seventh time in a row. Nationally, the number of new registrations rose for the first time in four years with 3.27 million vehicles (previous year: 3.25 million). In exports the German automotive industry set a new record. The sale of 3.7 million vehicles outside Germany means an increase of about 1 per cent over the previous year, when 3.67 million vehicles were exported. This put the export ratio at 70 per cent. The market share of German group brands in Western Europe rose slightly and stood just above 46 per cent. China's growth curve levelled off in 2004, but remains the world's most dynamic automotive market with an increase of 18 per cent.

The car manufacturers continue to reduce the degree of their vertical range of production. They are outsourcing more and more of their development, manufacturing, finishing and assembly processes to third-party companies. Only suppliers with the most comprehensive value chain possible can meet these requirements over the long term. The consolidation of the industry continued at a faster pace in 2004 as well. Supply partners with strengths in technology are reaping the advantages, thanks to their development capacities and potential. The geographical proximity to manufacturers and suppliers is also becoming increasingly important. Heavier international involvement is also expected of system partners. Balda's Automotive division is well-positioned on the market. With its broad range of products, it is a powerful system partner for European auto makers.

Business Development.

Preliminary remarks. Balda's consolidated group of companies underwent decisive changes during the reporting year. Effective 1st April 2004, Balda acquired the 50% share held by the Swiss company Mikron Holding AG in the Balda-Mikron joint venture. Therefore, since then the results from the Asian locations have been 100% consolidated (or 50% for Malaysia, respectively). The integration of Everskill on 1st May 2004 as a 25% partner in our Asian subsidiaries impacts the minority shares. Since 1st July 2004 the 50% share in the Balda-Lumberg joint venture in Brazil has been consolidated proportionately with the Lumberg Group.

Selected figures are presented on the following pages on a pro-forma basis as well. These figures assume further proportionate consolidation of the Balda-Mikron joint venture and eliminate the influences of the Balda-Lumberg joint venture. These should allow a better comparison of the development of our business. The notes of the Income Statement are related separately to the AG and to the Group.

Balda AG.

Balda AG has the function within the Balda Group of a management holding company. The operational business of Balda AG was transferred on 1st August 2003 to its subsidiary Balda Solutions GmbH & Co. KG. As this restructuring occurred the previous year, only a very limited comparison with the reporting year is possible.

During this reporting year Balda AG **sales revenues** reached 10.7 million euros, compared with 129.0 million euros in the previous year. The background to this almost 92% drop is the above-mentioned transfer of operational business. Sales revenues in the year just ended consisted of management fees from subsidiaries and rental income.

They represent the core business of the AG. At 5.3 million euros, other operating income rose by 67.3% from the previous year's level of 3.2 million euros. It consists mostly of cost transfers of disbursements such as for consultancy fees. Aside from this, accounting profits from the sale of machinery to Balda Solutions at 0.9 million euros is the biggest single item.

Changes in inventories of finished goods and work in progress can no longer be shown for the reporting year. The reduction in the previous year in the amount of 8.1 million euros resulted from the sale of the entire inventory to Balda Solutions in the course of restructuring. The AG's overall performance in the reporting year dropped by 87.1%, from 124.1 million euros to 16.0 million euros.

Since Balda AG no longer earns revenue from sales, no materials usage need be accounted for. In the previous year this item still totalled 70.0 million euros. Personnel expenses in 2004 only amounted to 3.2 million euros, because the central departments in the

Comparisons with the previous year are of very limited value.

management holding company only require a handful of employees. Compared to the previous year's level of 17.9 million euros this represents a drop of 82.3%. In view of overall performance the personnel ratio at 19.7% increased significantly (previous year: 14.4%).

Depreciation on intangible and tangible assets saw a 28.6% drop, from 10.8 million euros to 7.7 million euros. Among other things, this reflects the aforementioned sale on 1.11.2004 of machinery assets to Balda Solutions. Depreciation on financial assets and securities held as current assets amounted to 0.2 million euros compared to 3.2 million euros in the previous year. This can be mostly accounted for by currency-related depreciation on loans to subsidiaries. In 2003, the AG made a valuation adjustment in the amount of 2.7 million euros on the inclusion of the holdings in the Sächsische Metall- und Kunststoffveredelungs GmbH subsidiary.

Other operating expenses during this reporting period, equalling 9.8 million euros, negatively impacted earnings. These are now constituted in a different way due to the restructuring described above. The biggest single item in the year under review was represented by legal and consultancy costs (see commentary on the Group). The previous year's figure of 24.0 million euros, on the other hand, was impacted by personnel leasing costs in the amount of 4.7 million euros. Income from associated companies in 2004 amounted to 28.5 million euros, up from 14.5 million euros the previous year. They affected the profits of Balda Solutions GmbH & Co. KG, which only began operations in August of the previous year. Interest and other income rose as well, from 1.3 million euros in the previous year to 1.7 million euros. This increase of 28.4% reflects the Group's growing finance activities. The Interest and Similar Financing Costs item fell from 5.1 million euros to 2.4 million euros. This decrease reflects the transfer of operational business to Balda Solutions. This was due to the costs of additional financing undertaken by the Company.

Pre-tax earnings at 23.2 million euros rose 151.0% on the previous year's figure of 9.3 million euros. After deducting taxes on income and earnings in the amount of 6.4 million euros (previous year: 3.5 million euros) the net income for the year amounted to 16.8 million euros, equivalent to an increase of 193.4% from the previous year (5.7 million euros). With profit carried forward in the amount of 14.2 million euros, minus a dividend payment of 3.8 million euros, the AG's retained earnings stood at 27.2 million euros, compared with 14.2 million euros the previous year. This represents an increase of 91.9%.

The AG's **net income** for the year is the legal basis for the planned dividend distribution of 0.20 euros per share. The 8.8 million euros not used for the dividend payment will be carried forward to the new financial year.

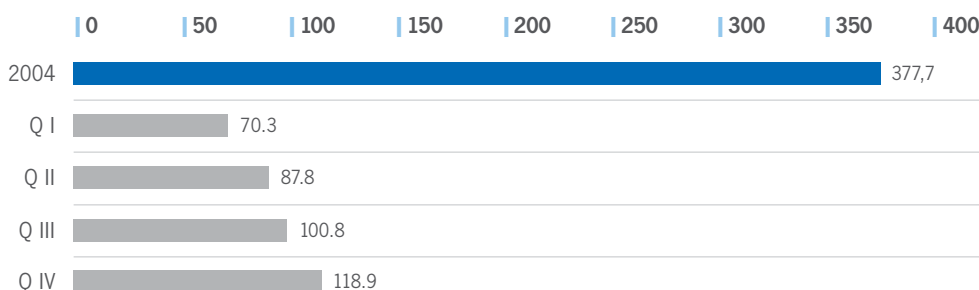
Income from associated companies nearly doubled.

Strong increase in retained earnings to 27.2 million euros.

Balda Group.

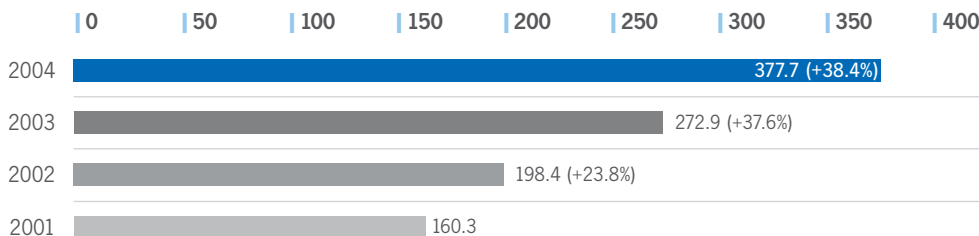
During the period under review, two factors in particular influenced business development in the Balda Group. First, a marked increase in worldwide demand for mobile phones drove the order volumes and sales revenues of the Group. Second, acquisitions shaped the development of our international presence during this reporting year. As a result of these influences the Company raised its forecasts during the course of this financial year. During the reporting period the Group scored new records in revenue and profits. **Sales revenue** came in at 377.7 million euros, slightly above revised forecasts and 38.4% above the previous year's figure of 272.9 million euros. After sales revenue of 70.3 million euros in the first quarter, 87.8 million euros in the second quarter and 100.8 million euros in the third quarter, revenue rose in the final quarter to a record high of 118.9 million euros. Without factoring in new acquisitions, this would have represented an increase of 20.5% to 328.8 million euros in sales revenue.

Revenues
in million euros
figures rounded



In the reporting year the core Infocom division more or less maintained its share of total revenues at 89.5%. The consolidation effects from the acquisitions thereby significantly influenced the increase in sales revenues in the Infocom business from 245.0 million euros to 338.7 million euros. The Medical division almost reached its earnings forecast of 10.0 million euros with figures of 9.7 million euros, thereby contributing 2.6% to group revenue (compared with 1.1% the previous year). The proportion of revenue represented by the Automotive and Others division in the amount of 29.8 million euros stood at 7.9%, compared with 9.1% the previous year. The consolidation effects in the Infocom division just mentioned more than made up for Automotive growth of 19.2%.

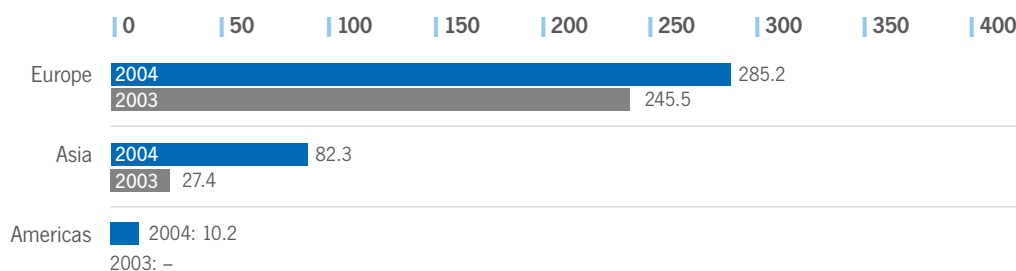
Revenues
in million euros
Growth compared to
previous year in brackets
figures rounded



All three **regions** – Europe, Asia and South America – recorded growth in this reporting year. In Europe sales revenue in 2004 came in at 285.2 million euros. In Asia – after deducting intragroup sales – the Group brought in revenues of 82.3 million euros. The consolidation effect arising from the takeover of the former Balda-Mikron joint venture amounted to 38.7 million euros. The Balda-Lumberg joint venture in Brazil, consolidated for the first time in this reporting year, contributed pro rata 10.2 million euros to group revenues. In comparison to the previous year’s figure of 245.5 million euros, revenues from the European companies rose by 14.1%. Their contribution to group revenues therefore amounted to 75.5%. This was well below the share of 90.0% the previous year. The Asian factories in China and Malaysia increased revenues from the previous year of 27.4 million euros by 200.4%. Their contribution to group revenues amounted to 21.8%. Brazil achieved 2.7%.

Revenues by region

in million euros
figures rounded



Other operating income at 6.8 million euros increased by 9.0%. In the previous year it amounted to 6.2 million euros. On one hand, consolidation effects exert an influence here. In previous years, the Group made pro rata provisions for loans to companies in the Balda-Mikron joint venture on account of currency rate changes. Full consolidation made these provisions unnecessary and allowed them to be written off, increasing income by 0.7 million euros. Income from the sale of materials in the amount of 0.9 million euros decreased significantly from the previous year’s figure of 3.1 million euros. Furthermore under this section the Group posted profits on paper from the sale of assets in the amount of 0.7 million euros as well as income from the retransfer of provisions, from rebates from insurers, rent and income from passed-on production costs.

Changes in inventories of finished goods and work in progress have altered significantly in comparison to the previous year. The Group has reduced inventory during the reporting year by 1.7 million euros. The previous year posted a reduction of 7.7 million euros. The reduction was mainly in tooling (further information can be found in the notes to the balance sheet structure).

Overall results increase to 383.3 million euros.

The Group's **overall results** improved by 33.6% from 287.0 million euros in the previous year to 383.3m in 2004. The materials ratio was reduced slightly to 38.2%. In the previous year it stood at 38.9%. Personnel concentration was reduced from 22.7% in the corresponding period to 20.5% although personnel costs increased by 13.4 million euros (further information to be found in the chapters Purchasing and Supply Chains and Employees).

Other operating costs rose by 40.4% from 55.9 million euros in the previous year to 78.5 million euros. This rise can in particular be attributed to the 38.2% higher costs for personnel leasing (20.3 million euros – previous year: 14.7 million euros) and to significantly higher legal and consultancy costs. These amounted to 5.11 million euros compared to 2.2 million euros in the previous year. On the one hand these consultancy services are reflected within the framework of the Balda group reorganisation. On the other hand the costs for Due Diligence and legal advice relating to the acquisition of the remaining shares in Balda-Mikron AG come into play. These were booked pro rata to the later sale of a 25% stake to Everskill and are therefore to be assessed under this item. Moreover energy costs have increased significantly from 3.1 million euros in the previous year to 4.8 million euros. Rental and leasing costs have also increased to 5.8 million euros from 4.5 million euros in the previous year. Furthermore higher room, maintenance and operating costs had an effect. These increased from 11.0 million euros to 12.7 million euros.

Also freight and storage costs increased from 4.9 million euros in the previous year to 5.3 million euros. Furthermore training and other personnel costs in the amount of 2.8 million euros increased by 86.4%.

The group increased **earnings before interest, taxes and depreciation (EBITDA)** in the reporting year over-proportionately by 46.4% from 54.3 million euros in the previous year to 79.8 million euros. The EBITDA margin thus increased from 18.9% to 20.8%. Balda has once again strengthened its earnings power in the year just ended. On a pro-forma basis this constituted an increase of 29.1% to 70.2 million euros.

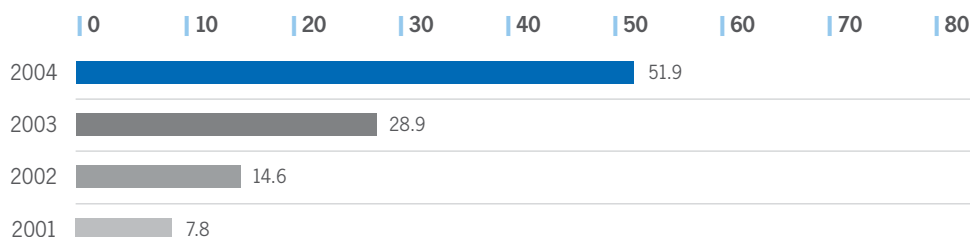
Depreciation increases under-proportionately by 9.6%.

Depreciation on tangible and intangible assets increased only under-proportionately by 9.6%. It increased from 25.5 million euros in the previous year to 27.9 million euros. This item includes, among other things, extraordinary depreciation on goodwill in the amount of 3.6 million euros. The original goodwill paid in the course of the Balda-Heinze acquisition was based on the assumption that the factory in Herford would process Infocom orders on a regular basis. Taking the current market situation into account, a reduction in the pro rata order volume from the Infocom division is however to be expected at Balda-Heinze. This development relating to order books should be compensated for by turnover in other divisions, e.g. Automotive, which however traditionally operate on lower margins. As a result of lowered earnings expectations extraordinary depreciation had to be included. Furthermore Balda has amortised certain assets on the basis of Fair Value. Nevertheless the depreciation ratio in 2004 – measured against overall performance – was significantly reduced to 7.3% compared to 8.9% in the previous year.

Group **operating results** (EBIT) amounted to 51.9 million euros in the financial year just ended and significantly exceeded the previous year's figure of 28.9 million euros by 79.7%. On a pro-forma basis the rate of increase amounted to 52.7% on the previous year's figure. Besides the positive order book situation and the factories operating at near-full capacity, recently increased productivity also contributed to the improved results. The Asian factories contributed with 15.1 million euros (previous year: 2.1 million euros) over-proportionately to the increase. Brazil reported an EBIT of 0.3 million euros. Initial consolidation effects must be taken into account with regard to the Brazilian contribution to the results. When calculating goodwill, the IFRS 3 regulations require the allocation of a certain proportion of earnings expectations from work-in-progress and stocks. Upon realisation this proportion of earnings does not produce a profit in the Profit & Loss Account. Much more it has to be offset as materials costs or as depreciation against goodwill.

EBIT

in Euro millions
figures rounded



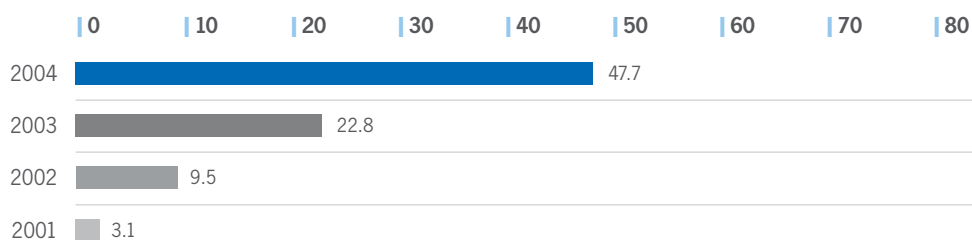
A further extraordinary effect results from Brazilian regulations. According to these a certain percentage of turnover must be reinvested in research and development. Balda-Lumberg has made agreements with its customers for them to assume these costs. However one of these agreements had not yet been signed when the balance sheet was being prepared. The corresponding total for research and development had therefore to be placed in reserve. Furthermore the expansion of the product portfolio has led to teething problems on certain orders with a greater assembly requirement. Balda-Lumberg has however in the current financial year achieved overall in operations a double-digit EBIT margin. The Group as a whole has significantly increased its EBIT margin – measured against overall results – including all divisions, from 10.1% in the previous year to 13.5%. Divided in segments, the EBIT margin for the European factories amounted to 12.5% (previous year: 11.5%). In the Asia region it amounted to 18.2% (previous year: 6.9%). On account of this considerable improvement in the results, the return on capital employed (ROCE) increased from 17.8% to 26.8%.

The Group has more than doubled its **pre-tax results** (EBT) in the reporting year with a 109.0% increase from 22.8 million euros to 47.7 million euros. Interest charges were reduced by 30.2% from 6.0 million euros in 2003 to 4.2 million euros. This positive develop-

ment can be attributed to reduced draw-down on credit facilities on account of strong cash flow. On the other hand this reflects the conversions from the convertible bond. The group has significantly increased its EBT margin from 8.0% to 12.5% in this reporting year.

EBT

in Euro millions
figures rounded



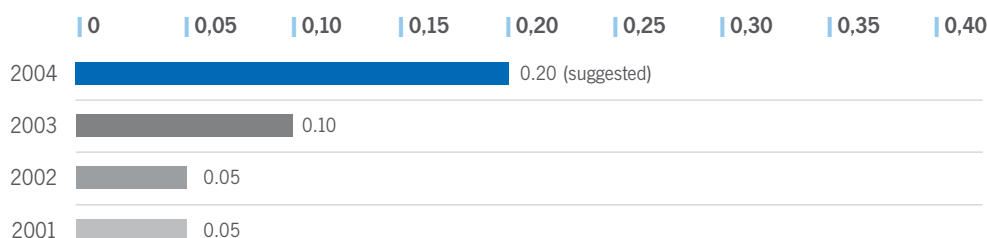
Taxes on earnings amounted to 15.5 million euros in 2004 compared to 11.3 million euros in the previous year. Based on the pre-tax results and minority interests, this gives a tax ration of 32.4%. The ratio thus lies below the previous year's level of 49.4%.

After minority interests in the amount of 4.2 million euros, **annual profit** has more than doubled from 11.6 million euros in the previous year to 28.0 million euros. Balance sheet profit including retained profits of 22.9 million euros amounted to 47.2 million euros, minus the dividend payment for the 2003 financial year.

On the basis of 39.76 million shares this gives positive earnings per share of 0.705 Euro (previous year: 0.308 Euro based on 37.53 million shares). The legal basis for the dividend payment is the annual report of Balda AG. It shows an annual profit of 16.8 million euros in 2004.

Dividends

in Euro



The Annual General Meeting will propose a resolution to pay a dividend of 0.20 Euro per share, compared to 0.10 Euro per share the previous year. From the paid-up capital of Balda AG in the amount of 39.76 million euros this represents a dividend payment of 8.0 million euros. That represents an increase on the previous year of some 4.25 million euros. For the next accounting period 8.8 million euros – that is 52.7% of the annual profit – will be retained.

Cash Flow.

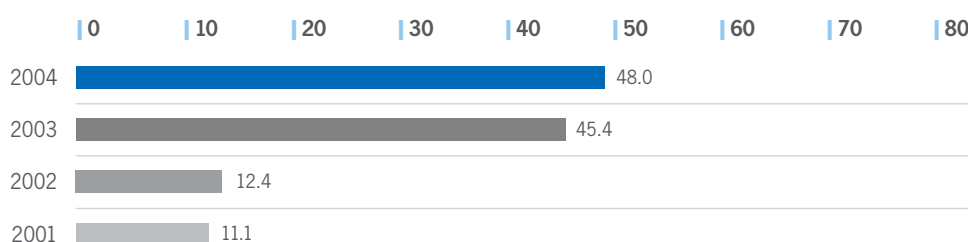
To assess the financial health of the Balda Group, cash-flow accounting is taking on a central role. Cash-flow accounting computes all payment flows of the Balda Group for the reporting year. The representation of in- and outflows of liquidity is separated according to business, investment and financing activities.

Both Cash Flow from investments and Cash Flow from financing activities are computed purely on a payment-related basis. Cash Flow from current operations however is derived indirectly from the results via the adjustment of non-payment-effective items.

Funds inflow from current operations increased in the reporting year by 2.6 million euros to 48.0 million euros, compared to 45.4 million euros in the previous year. Thus the operating results have almost doubled to 52.0 million euros. Higher tax payments were offset by lower outflows for interest payments, and well as increased non-payment-effective costs for depreciation etc.

Operating Cash Flow

in Euro millions
figures rounded



This increased inflow was set against outflows arising from the payment of contingencies from the previous year in the amount of 8.6 million euros. In the previous year 4.1 million were built up. Liabilities from deliveries of goods and services and other liabilities were payment-effectively reduced by 11.5 million euros. This item had increased in the previous year by 9.0 million euros. Set against this, only 0.1 million euros was spent on increasing stocks and debt, compared with 12.0 million euros in the previous year.

In the financial year 2004 **funds outflow from investment activity** increased by 163.1% to 41.8 million euros compared to the previous year's figure of 15.9 million euros. Here the payout for investments in fixed assets at 15.3 million euros was slightly below the previous year's level of 15.8 million euros. As a comparison: depreciation on fixed assets at 19.9 million euros was significantly above these outflows (previous year: 19.4 million euros). The payment-effective changes in financial assets resulted from an inflow of 0.7 million euros from repayments. Acquisitions and sales of subsidiaries resulted in an outflow of 27.1 million euros compared to 1.0 million euros in the previous year. Here the payments for the stake in Balda-Lumberg and the acquisition of the remaining shares in Balda-Mikron were partially offset by the inflow arising from the acceptance of Everskill as new partner in Asia.

Funds outflows arising from financing activity amounted in 2004 to 16.3 million euros, compared with an inflow of 0.1 million euros in the previous year. Of this 3.8 million euros were allocated for the dividend payment, as well as 14.0 million euros which went to repay loans to the banks. Through payments received within the framework of conversion from Tranche B of the convertible bond, the group received 1.0 million euros. A change in financial leasing terms also brought in 0.5 million euros.

In total the payment-effective changes to the balance of funds amount to an outflow of 10.1 million euros. This was offset by an inflow from consolidations of 4.9 million euros.

The **balance of funds** on the balance sheet cut-off date amounted to 28.5 million euros, down from 33.6 million euros in the previous year. The balance of funds at the end of the period included cash in hand, credit balances with banks and cheques, and is therefore the same as the balance sheet item „Liquidity“.

Net cash flow – defined as the ratio of inflow of funds from operations to the outflow of funds for investment purposes – deteriorated from 2.9 in the previous year to 1.2 in this financial year on account of acquisitions. The dynamic debt –equity ratio has improved again and stood at 0.5 years as compared to 0.8 years in 2002. This represents the time period in which net financial liabilities (including borrowings) can be serviced by cash flow from operations.

Dynamic debt-equity ratio improves to 0.5 years.

Investments.

To implement the globalisation strategy, the acquisitions were the focus of investments in the financial year 2004. The accruals from these amounted to 11.9 million euros in tangible and intangible assets. Goodwill increased to 16.0 million euros. Here the outflow through the sale to Everskill was offset by the inflow from the acquisition of the remaining shares in Balda-Mikron AG.

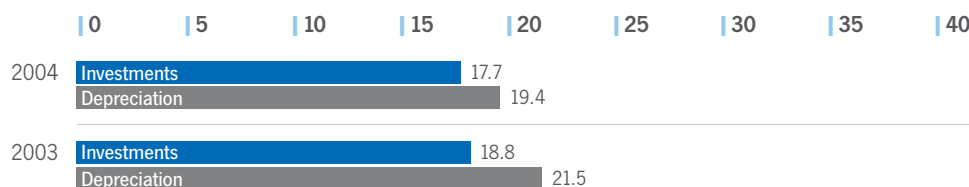
In the reporting year Balda continued its cautious, targeted investment policy from the previous year in relation to tangible and intangible assets. These investments declined from 18.8 million euros in the previous year to 17.7 million euros in 2004. Here it was primarily a case of individual scheduled replacement and expansion investments. A further 0.1 million euros was accounted for by loans to subsidiaries. Investments in tangible and intangible assets were offset by depreciation on these items of 21.5 million euros (previous year: 19.4 million euros).

Continued cautious yet targeted investment policy.

Disinvestments – without repayment of loans – amounted in 2004 to a total of 1.2 million euros, thus 47.9% below the previous year's level (2.2 million euros). They fully affected tangible assets. Net investments (investments minus disinvestments) amounted in the reporting year as in the previous year to 16.5 million euros.

Investments and Depreciation

in Euro millions
figures rounded



The Balda Group's **tangible assets** increased in 2004 by 5.5% from 90.7 million euros to 95.7 million euros. Intangible assets such as patents and software rose 36.9% to 1.8 million euros. In the previous year these amounted to 1.3 million euros. Investment in intangible assets amounted in 2004 to around 1.6 million euros (previous year 0.6 million euros). This was almost exclusively accounted for by the expansion and optimisation of software. Investments in tangible assets in the amount of 16.1 million euros (previous year: 17.0 million euros) is divided up as follows:

- Property and Buildings: 1.2 million euros (previous year: 1.7 million euros)
- Technical systems and machinery: 9.8 million euros (previous year: 9.8 million euros)
- Plant and equipment: 3.6 million euros (previous year: 2.4 million euros)
- Down payments and Plant under Construction: 1.5 million euros (previous year: 3.1 million euros)

The Balda Group's **financial assets** changed in 2004 first and foremost on account of the repayment of a long-term loan by the debtor in the amount of 0.7 million euros. This reduced the financial assets figure from 5.2 million euros in the previous year to 4.4 million euros.

Balance Sheet Structure Balda AG.

In the reporting year the balance sheet total of the joint-stock company increased by 11.1% from 152.5 million euros to 169.4 million euros. While fixed assets rose sharply as a result of the 2004 acquisitions, current assets fell.

Fixed assets increased by 53.3% from the previous year's figure of 85.7 million euros to 131.4 million euros. Tangible assets declined from 51.7 million euros to 38.0 million euros. A decline of 13.7 million euros or 26.5%. The sale of machinery to Balda Solutions on 1.11.2004 is reflected in an asset value outflow in the amount of 8.0 million euros. Financial assets however stood 178.3% above the previous year's figure of 33.4 million euros at 93.0

■ Balance Sheet Total climbs to 169.4 million euros. ■

million euros. On the one hand as an accrual we can mention the acquisition of the remaining 50% of the shares in Balda-Mikron AG (today Balda Beteiligungs-AG) in Switzerland for 20.5 million euros. On the other hand the 50% stake in Balda-Lumberg Deutschland GmbH & Co. KG with 15.1 million euros has an impact. Furthermore Balda AG placed 19.5 million euros into the reserves of Balda Solutions GmbH & Co. KG. Here the limited liability capital amounted only to 0.5 million euros up to now. (Further information can be found in the annotations to the Profit & loss account of the joint-stock company as well as in the annotations to the group's balance sheet.)

| Current assets reduced to 37.5 million euros. |

Current assets fell by 43.5% to 37.5 million euros. This development can essentially be attributed to a reduction in liquid assets that at 0.7 million euros lay well below the previous year's figure of 16.8 million euros. The reduction arises from payments for the above-mentioned acquisitions. In parallel the inflows from the turnover transaction are accrued in the accounts of Balda Solutions GmbH & Co. KG.

Accounts receivable and other assets stood 25.7% below the previous year's figure of 49.6 million euros and on balance sheet cut-off day amounted to 36.9 million euros. Accounts receivable from associated companies fell from 46.2 million euros to 34.8 million euros. The resulting inflows were also used as payment for the above-mentioned acquisitions. Sundry assets fell from 3.2 million euros to 1.9 million euros.

The joint-stock company's net assets increased sharply in the reporting year by 23.1 million euros to 121.4 million euros (previous year: 98.2 million euros). Besides the completed conversions from the convertible bond, the 91.9% increase in balance sheet profit had a particular impact. The net asset ratio improved from 64.4% to 71.7%.

In the reporting year reserves increased slightly from 6.2 million euros to 7.1 million. The increase resulted from a marked increase in tax reserves to 4.4 million euros (previous year: 2.7 million euros). Sundry reserves were accounted for mainly by personnel issues, e.g. emoluments as well reserves for outstanding invoices. These were reduced from 3.5 million euros in the previous year to 2.6 million euros.

| Reduction of liabilities to 40.9 million euros. |

The joint-stock company was able to reduce its liabilities by 14.8% from 48.0 million euros to 40.9 million euros. Credit liabilities stood at 22.0 million euros, thus 5.5 million euros below the previous year's figure. The loan balance only amounted to 5.6 million euros compared with 14.7 million euros in the previous year. This reflects the high number of converted shares from the convertible bond. Liabilities from delivery of goods and services as well as sundry liabilities essentially remained constant at a low level. Liabilities to associated companies increased markedly from 1.6 million euros to 9.7 million euros.

On the balance sheet cut-off date net financial liabilities amounted to 21.4 million euros (previous year: 10.8 million euros) and include all the joint-stock company's bank liabilities set off against liquidity. Thus net liabilities in 2004 amounted to 12.6% of the balance sheet total, as compared with 7.1% in the previous year. Taking loans into account the ratio decreased slightly from 16.7% to 15.9%. The amount rose slightly from 25.5 million euros to 27.0 million euros.

Balance Sheet Structure Balda Group.

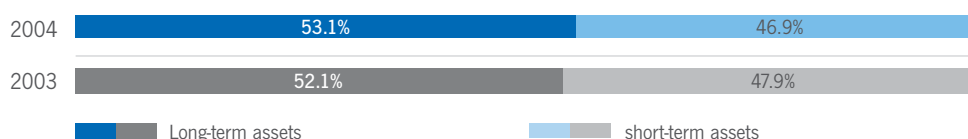
Total assets in the Group's balance sheet rose in the financial year 2004 by 12.0% to 266.7 million Euro from 238.1 million euros in the previous year. This, as a result of consolidation effects the full consolidation of Balda-Mikron, the admission of Everskill as partner and the initial consolidation of Balda-Lumberg Technologies – produced an inflow of 26.6 million euros. Short-term assets increased by 11.1 million euros to 125.1 million euros, whilst long-term assets increased by 14.1% or 17.5 million euros to 141.6m.

Liquidity on 2004 balance sheet cut-off day fell by 15.3% from 33.6 million euros in the previous year to around 28.5 million euros. The high levels of inventory on 31.12.2003 were remnants of the capital increase in November 2003. When viewing this decrease the payments made for the acquisitions must be taken into account (see annotations on Investments). The relative proportion of liquidity in the balance sheet total was therefore reduced from 14.1% to 10.6%.

Accounts receivable from deliveries of goods and services as at 31.12.2004 had risen by 49.8% from 40.1 million euros at the end of 2003 to 60.0 million euros. On the one hand the inflows from consolidation have an effect here at 13.3 million euros. On the other hand the increased total at the cut-off date can be explained by the very strong turnover figures in the final quarter; in the following months the accounts receivable will be reduced again. Thirdly the changed payment behaviour of customers has an impact. This effect from the third quarter of 2004 has however normalised again in the fourth quarter. In comparison to 30.09.2004 accounts receivable have been reduced by 4.0 million euros. **Inventory** was reduced by 11.4% from 36 million euros on the cut-off date in 2003 to 31.9 million euros in 2004. Thus the proportion of work-in-progress and stocks of finished goods at 17.4 million euros (previous year: 22.6 million euros) decreased significantly. The cut-off date reduction also includes unfinished tooling and assembly systems. Consolidation effects are reflected in this item at 5.0 million euros.

Accounts receivable from deliveries of goods and services grow to 60.0 million euros.

Structure of Assets



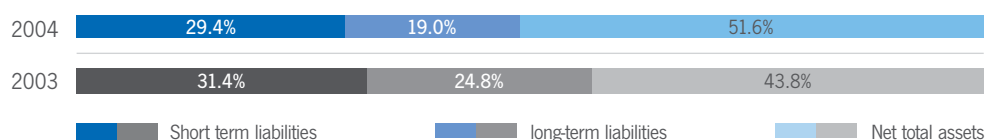
Contractual agreements with customers safeguard here both raw materials and the products themselves. Inventory as a proportion of the balance sheet total amounted on the 2004 cut-off date to 12.0% as opposed to 15.1% in the previous year. The short storage periods for raw materials and supplies contributes to this low ratio for a manufacturing company. The turnover factor (ratio inventory as proportion of overall results) rose significantly from 8.0 to 12.0.

Other short-term assets remained almost unchanged at 3.9 million euros, compared to 3.7 million euros in the previous year. These essentially consist of tax rebate claims.

The increase in **long-term assets** resulted primarily from increased tangible assets and increased goodwill. Tangible assets increased by 5.0 million euros or 5.5% to 95.7 million euros. Here consolidation effects played a role with an inflow of 13.0 million euros. De facto new investments were below the level of depreciation. Financial assets were reduced by scheduled repayments of sundry loans from the amount of 5.2 million euros to 4.4 million euros. Goodwill rose despite extraordinary depreciation on account of the above mentioned acquisitions from 22.4 million euros to 32.0 million euros.

The asset ratio (assets as a proportion of the balance sheet total) remained unchanged in the reporting year at 50.2%. The proportion of current assets however has decreased slightly. It stood at 46.9%, as compared with 47.9% in the previous year. Deferred taxation make up 2.8% of the balance sheet total. In the previous year the figure was 1.9%.

Structure of Liabilities



On the liabilities side, short-term liabilities increased only slightly from 74.5 million euros to 78.3 million euros. Credit liabilities remained almost unchanged at 15.5 million euros, compared with 15.8 million euros in the previous year; however the consolidation effects did have any impact with an inflow of 2.1 million euros. Liabilities arising out of the delivery of goods and services decreased from 21.9 million euros to 21.4 million euros (consolidation effect: 5.0 million euros). An increase from 21.2 million euros to 25.8 million euros was recorded in short-term contingencies. Here tax contingencies increased by 1.8 million euros. Other contingencies increased by 2.8 million euros. This item includes contingencies for holiday and Christmas money and similar personnel costs, for guarantees and for outstanding invoices. Consolidation effects resulted in an increase in short term contingencies of 1.5 million euros.

Other short-term liabilities increased from 9.5 million euros in the previous year to 12.6 million euros at the balance sheet cut-off date. Here a total of 6.4 million euros was accounted for by cyclical liabilities for wages and salaries as well as for income tax and social security for December 2004. Consolidation effects also contributed to the increase in the amount of 3.5 million euros.

Long-term liabilities had decreased as at 31.12.2004 from 59.2 million euros to 42.9 million euros. Here bank and financial leasing liabilities decreased as per the amortisation schedules from 38.2 million euros to 29.5 million euros.

Long-term contingencies/ pension contingencies increased on account of consolidation from 1.9 million euros to 5.1 million euros. In contrast, other long-term liabilities decreased 16.4 million euros to 5.7 million euros. Here consolidation effects accounted for approximately 3.5 million euros of this decrease. Besides these, conversions from the con-

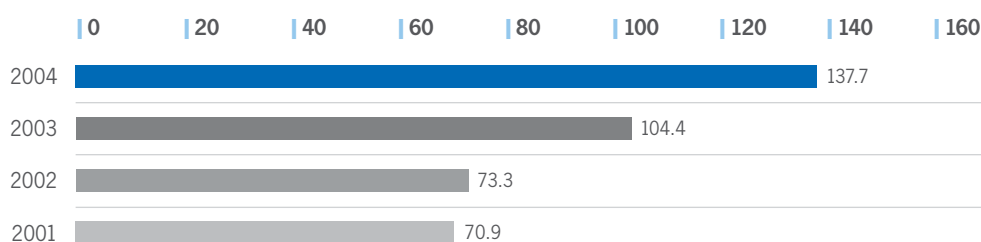
Long term Liabilities reduced to 42.9 million euros.

vertible bond issue at originally 12 million euros came into play. In 2004 a total of 2.225 million shares were converted. This led to a reduction in liabilities of 8.8 million euros. In total at balance sheet cut-off day some 111,250 shares from Tranche A and 412,683 shares from Tranche B were still to be converted.

Net financial liabilities decreased from 35.0 million euros at the end of 2003 to 22.5 million euros. These include all bank liabilities of the Balda group – including loans – set off against liquidity. Thus the Balda Group’s financing circumstances have continued to improve. Net liabilities as a proportion of the balance sheet total stood in 2004 at 8.4% down from 14.7% in the previous year. Net Gearing, the ratio of net liabilities to net total assets improved once again from 33.5% to 16.3%. The Balda Group’s debt to equity ratio (relationship between debenture capital and net total assets) has decreased in 2004 from 1.28 to 0.94. Minority interests increased on account of the integration of Everskill as new partner in the Joint Venture in Asia. In this item the shares of third parties in the assets of companies, fully consolidated by the Balda Group. On the balance sheet cut-off date these amounted to 7.8 million euros (previous year: 0.01 million euros).

Net financial liabilities decrease to 22.5 million euros.

Net total assets
in Euro millions
figures rounded



The Balda Group’s net total assets ratio improved again in 2004 from 43.8% in the previous year to 51.6% on the 2004 balance sheet cut-off date. The absolute increase in net total assets amounted to 33.3 million euros or 31.9% to a total of 137.7 million euros. Here a balance sheet profit (consisting of annual and retained profits) increase from 22.9 million euros to 47.2 million euros had an impact. On the other hand capital reserves also changed. These rose, on account of the premiums on the new shares converted from the convertible bond, from 45.5 million euros to 53.2 million euros. Currency differences not affecting net income led to a reduction of 0.9 million euros in reserves.

Altogether the Balda Group has thus continued to build on the strong, solid financial structure from the previous year.

Purchasing and Supply Chain.

The increasingly global scope of customer projects demands a greater degree of integration and interconnection of the functional areas, both within the Balda Group and with purchasers. The Company's strategy envisages streamlined co-ordination and consolidation between the sales plan submitted by the customers, its dispatch to production, and delivery.

The still closer cooperation with the customer deals not only with sales but with the management of the supply chain (Supply Chain and Supply Line Management). In the Group, this requirement has consequences first and foremost for co-ordination between Purchasing, Production and Supply Chain. The sales planning information gathered from the customer's supply chain forms the basis for calculation in Purchasing so that the raw materials may be procured. The precise co-ordination of the customer's planning values between Supply Chain and Purchasing triggers the planning of quantity and delivery date in Balda's production operations.

The Infocom division has reacted to the requirements of this globalisation speedily with a new organisational structure for the Purchasing and Supply Chain functional areas. Both areas have been or are being restructured in three parts. The supply chain is being split up into **Supply Chain Management (SCM)**, **Supply Line Management (SLM)** and Plant Logistics. SCM is designed to be global in scope; responsibility lies with the global division head. Management has the authority to issue directives for all regions. Tasks are the co-ordination and controlling of work for each area. SLM, which has already been instituted in Europe and Asia is set up by region and is subordinate to the respective regional division head. It takes over the operational tasks of logistics in the region. Plant logistics is set up locally oversees day-to-day business and is under the authority of the respective plant.

On the level of the global division heads, the Group has finalised planning for the establishment of a strategic Purchasing area. Implementation has begun. Operational purchasing activities such as procurement and dispatching are accomplished in the regions and plants. Strategic purchasing will in future co-ordinate global Purchasing and effectively set standards throughout the Group. In this way, Balda will meet the requirements of customers for globally uniform quality while exploiting the advantages of its global network. Operational procurement and dispatching will take place in proximity to the demand, thus reducing inventory risks.

In 2004, Balda once again brought in about 85 per cent of its purchasing volume with 450 of its roughly 3,000 suppliers through **Purchasing**. The Company maintains longstanding relations with 70 per cent of its suppliers. Balda's purchasing and strategic quality management areas focussed on continuing the **certification of suppliers** during the past financial year. Procurement provides one of the cornerstones for quality. The Company assists its supply partners in their growth. The consistent implementation of a list of specifications developed by Balda plays an effective role in involving suppliers even more closely in the Group's high level of quality and supply chain. The purpose of this involvement is the continued optimisation of the supply partners' capacity to process all goods and parts.

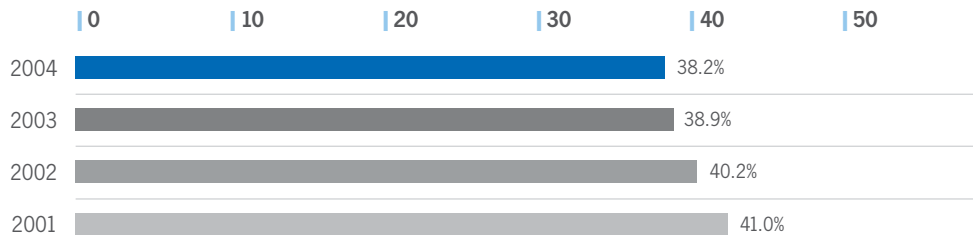
The performance level of the Infocom division's **purchasing organisation** increased considerably during the year under review. The number of purchased parts and particularly that of electronic components, expected to see continued growth in future, will further increase the auditing volume, along with the number of suppliers. Balda Solutions ranks its suppliers in a five-level rating system from A to C. Only the top-rated companies become supply partners.

Purchasing has also been integrated into the newly established project management unit for product development. The early specification and calculation of raw materials and increasingly complex purchased parts speeds up the project management process.

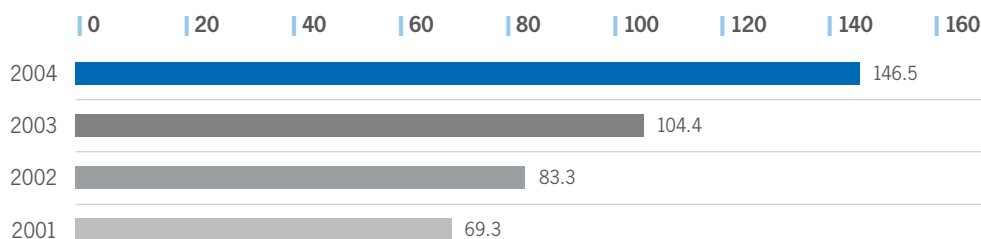
During the 2004 financial year, plastics jumped 30 percent due to higher oil prices. Balda is for the most part unaffected by these price increases. They are usually passed on to the customers. The prices for materials, electronic components and other purchased parts remained stable during the year under review. The purchase of capital goods in 2004 focused on injection moulding machines for the Suzhou location in China. In procurement of services, the focus was on loaned employees.

The **costs of materials and purchased services** increased to 146.5 million euros during the reporting year from 111.6 million euros the previous year. The roughly 31.2 per cent growth stems mainly from the higher total operating performance of the Group. Raw materials, auxiliary substances, supplies and purchased goods accounted for about 134.1 million euros (previous year: 100.0 million euros). That corresponds to a contribution of 91.5 per cent compared to 89.5 per cent in the previous year. The remaining 12.4 million euros (previous year: 11.7 million euros) come from purchased services. They are the result of the time-

Material cost ratio
in per cent



tested strategy of Balda of purchasing services externally in individual cases for economic reasons, rather than setting up additional capacities internally. The material cost ratio, measured by total operating performance of the Group, dropped slightly from 38.9 per cent the previous year to 38.2 per cent. On a pro-forma basis, the material cost ratio is 36.0 per cent. Just as with the segment reporting, this drop in the pro-forma comparison shows that the material cost ratio in Asia is considerably higher (50.0 per cent) than in Europe (34.4 per cent). This can be explained by the higher rate of purchased components, such as for completely assembled Bluetooth headphones.

Material Cost absolutin Euro millions
figures rounded

For production-related matters and to record statistics on delivery reliability, Balda installed the software of the Baan **production planning system** virtually throughout the Group at the end of the financial year. The Guardus software allows the Company to record quality statistics in the European region and to rate suppliers. During the current financial year. The Group will continue to integrate strategic quality management into the supply chain.

From the standpoint of the overall process, SCM and SLM come after sales in the **supply chain**, which in turn comes before the customer. They are of central importance as communication interfaces with the customer and as mediators of their requirements. During the 2004 financial year, Balda redefined and developed the tasks, processes and interfaces of SCM and SLM in a sweeping project in Wulferdingsen. Every customer differs in its organisation, working habits, production and delivery methods. The Company orientates itself individually to each customer. The purpose of the supply chain is to offer every buyer an expert contact. For further expansion of its market position, a globally managed network of highly qualified development and production sites is crucial to Balda. The global co-ordination and worldwide harmonisation of the supply chain contributes significantly to this end.

In 2004 Balda accommodated its customers geographically, logistically and financially. Thanks to electronic data exchange (EDI) systems, the supply chain managers in the Group are aware of the needs and volumes of the customers' production planning in real time. In **consignment warehouses** the Company stores its finished products in direct proximity to the customer. In 2004, such warehouses existed in Germany, Finland and now in Hungary and China. Parts delivered from this type of storage are only invoiced once they are taken from the warehouse. The customer's advantages of this system in the supply chain are the minimisation of risk and the higher flexibility. In this way, Balda integrates itself and its products seamlessly into the production process of the customer. Other locations for consignment warehouse are being planned.

During the year under review, Balda considered every supplier and all customers in improving the level of purchasing performance in SCM and SLM within the supply chain at all production sites. Adapting to global requirements will further increase customer satisfaction and contribute over the long term to cost reductions.

| Minimisation of risk and higher flexibility for the customers. |

Production.

Balda purposefully expanded the capacities and technology for production during the 2004 financial year. The new production plants in Hungary and Brazil combined with the factory in China enhance the global competitiveness of the Company. This international presence will secure the award of contracts to German plants and thus jobs at home. Internationalisation is the basis for the Group's further growth.

Technical innovations in tool-making, in the production process and in quality assurance led to largely smooth production runs and to a further acceleration of the production process in the year under review. Once again, utilisation of production capacity increased steadily quarter by quarter over the course of the reporting year.



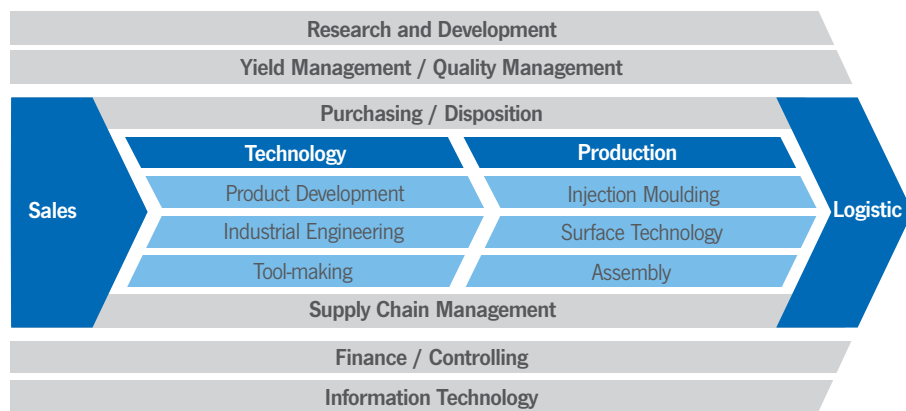
In production, Balda's service portfolio comprises the most complete value chain conceivable for a manufacturer of plastic parts. The spectrum ranges from the development of new products and the manufacture of tools, such as manufacturing systems and the injection moulding process, to all standard surface finishing techniques. In assembly, Balda puts together both self-produced components made from high-performance plastics and purchased parts for complex units. By providing complete systems, the Company fits the current requirements of its customers to a „T“. Balda's production processes rigorously pursue the strategy of the continuous improvement process. The key objectives of customer and product-controlled production are high flexibility, early recognition of optimisation approaches, constant quality and smooth production runs, and maximum economic efficiency.

Active in Europe with all three divisions.

In the **European region** Balda operates with all three divisions. The Infocom division supplies customers' European production plants from Germany and Hungary. In Germany the Group operates factories at five production sites. In addition to Balda Werkzeugbau, Balda Solutions, with injection moulding, assembly, painting and printing, and Balda Medical work at the headquarters in the Technology Park of Bad Oeynhausen. IPH Werkzeugbau is located in Löhne in East Westphalia and Balda-Heinze and HeRo Galvenotechnik in Herford. The surface specialists of SMK are based in Oberlungwitz in Saxony. And Albea Kunststofftechnik, which operates outside the three divisions as a competence centre, operates in Seelbach in Baden.

The plant in Hungary, which was put into operation in December after an exceptionally fast construction of facilities, concentrates on the painting, printing and assembly of mobile phone components. The establishment of the factory in Veszprém is Balda's response to the customers' need for ultra cost-effective production in Europe. The manual steps during assembly, as well as insertion and removal during the painting process, are less wage-intensive in Hungary. The factory has not expanded production capacities. The aim, rather, is to outsource existing resources to the new plant. With the Hungarian factory the Company has also settled in a logistically favourable position, near its customers. Division managers and other experts from Germany are supporting the new plant in helping personnel gain new qualifications and in developing production processes. Balda has boosted its competitiveness in Europe further with this new production plant

Balda Value Chain



At the German plants, Balda has the full value chain at its disposal for the **production** of precision components made from high-performance plastics. This applies to all divisions and their mobile communications, automotive and medical technology markets. Ultra-modern machinery guarantees a level of technology and precision that is well above average in tool-making and production. Loaned employees allow the Group to counteract fluctuations in demand and adapt itself flexibly to the respective order situation. A further element for controlling production capacities are flexible models for working hours. With the establish-

ment of the Technology Division and the competence centre for film, Balda is concentrating its know-how. This highly specialized knowledge is transferred systematically between the national and international plants. Hence, in 2004 the Company laid the foundations for handling global mobile communications projects with the new project management structure for developing mobile phone components (see also Technology P. 64). For shorter product life cycles the markets demand faster development phases and cross-border production at several production plants and standard project cost management.

Tool-making. Balda gives its customers' designs shape with precision and ever newer concepts. In the year under review the designers at Balda developed innovative tool types and successfully brought them to mass production. Tests with an infrared heat camera represent a further innovation in tool-making. With the new technology, Balda hopes to optimise temperature development and distribution within the tool. The correlation of temperature and pressure is a significant parameter for injection moulding. Their optimum coordination can reduce the cycle time and further stabilize the injection moulding process.

The **improvement of production processes** is a lasting strategic goal at Balda. Within the context of product orientation the Group gradually brought together processes for assembly line production in 2004. A further innovation in the Technology Park was the so-called IML process. The installation of this process creates a shorter cycle time for production displays with a reduced investment volume. First Balda designed and constructed machine units with four injection moulding machines in the year under review. This package of measures led to a substantial improvement in process quality.

Balda has the complete portfolio of **surface and finishing technologies** in the European region. In addition to painting, electroplating and printing (silk screen, digital and pad printing), the Company has also perfected film-coating and lasing at its Albea competence centre.

The application techniques for heating the painting material to spray viscosity and the use of highly complex water walls were also innovative last year. They produced an improved and environmentally friendly method for washing out the spray. This innovative process brought about reductions in paint consumption and painting time.

In **Assembly** the Company again reduced the cycle time. The level of automation at Infocom in Germany was also up to 90 per cent in 2004. The removal handling was accelerated further by optimising removal and packaging in one process phase. In addition to such fully automatic models, the Company also uses semi-automatic or manual processes. Mainly semi-automatic or fully-automatic assembly methods are used at the wage-intensive plants in Germany. On the other hand, in low-wage countries manual component placement for parts takes priority. The production of the Infocom division of the Balda Group is certified worldwide on a standard basis according to the internationally recognised DIN EN ISO 9001 quality standard. The process-oriented Balda quality management system conforms to the standard revision ISO 9001/2000.

| Innovative technologies in
tool-making. |

| Cycle times reduced again. |

The manufacture of **medical engineering products and pharmaceutical products** follows some special rules. At its Technology Centre in Bad Oeynhausen, the Company has a clean-room production facility covering 1,000 square metres. Industry leader Balda Medical carries out production in this integrated, sterile area, ranked in clean-room category 8. In combination with certified quality management, this makes Balda Medical eligible worldwide to be a system partner for pharmaceutical companies. The production facility for medical equipment satisfies all the requirements of „Good Manufacturing Practice“ (GMP), class D. It is also certified in compliance with DIN EN ISO 13485/2001. Medical has also been successful in updating its processes. In the year under review the Company introduced a state-of-the-art testing procedure for the analysis of products and processes, with the aid of a 3-D laser scanner.

Management certificates

Balda worldwide

Company	Standard	Area
Balda AG	ISO 9001 ISO 9001	QM-systems in general QM-systems in general
Balda Solutions	ISO 9001 ISO 14001:2004 ISO 14001:2004	QM-systems in general UM system UM system IQ-Net
Balda mould making	ISO 9001 ISO 14001:2004	QM-systems in general UM system
Balda-Heinze	ISO 9001 ISO 14001 ISO TS 16949	QM-systems in general UM system QM system automotive
Albea	ISO 9001	QM-systems in general
SMK	ISO 9001	QM-systems in general
HeRo	ISO 9001 ISO 14001	QM-systems in general UM system
Balda Medical	ISO 9001 ISO 13485	QM-systems in general QM systems medical equipment
IPH	ISO 9001 ISO 14001:2004	QM-systems in general UM system
Balda Lumberg Technologies Brazil	ISO 9001 ISO 14001	QM-systems in general UM system
Balda-Thong Fook Malaysia*	MS ISO 9001 MS ISO 14001:1997	QM-systems in general UM system
Balda Solutions Hungary	ISO 9001	QM-systems in general

*) Certificate currently still in the name of TFP Precision Industries Sdn Bhd.

Balda-Heinze is the division head for the production of **automotive components and systems**. Its key competencies lie in the development of products, and in single- or dual-component injection moulding up to 800 tons. Moreover, this division has mastered all techniques for surface finishing. The automotive specialists manufacture both hard and soft products from plastic.

Leading market position in painting and electroplating.

The Company and its divisional subsidiaries satisfy the car manufacturers' particularly demanding surface requirements with a broad portfolio of finishing techniques. Particularly in the areas of painting and electroplating, the division has a leading market position. For the exterior of cars, HeRo and SMK, belonging as they do to the automotive division, employ microporous electroplating to withstand the effects of the weather. Automotive production at Balda-Heinze expanded its quality management system in 2004 in accordance with the requirements of the car manufacturers, with additional certification from ISO 9001 to ISO/TS 16949. The new system works in project management, advance quality planning and the continual improvement of processes with measurable parameters, in continuous comparison with forecast figures.

The **Asiatic** region has developed outstandingly well in the year under review at the production plants in China, a growth market, and also in Malaysia. Both companies supply international as well as local customers. Close cooperation with Taiwanese partner Everskill has proved extremely effective in management and on the market. Balda-Everskill is enhancing its customer base by building up its business relationships with local manufacturers in China. In the plant in Suzhou, near Shanghai, Balda has at its disposal the entire value chain for the production of precision components from high-performance plastics. Sophisticated machinery is used for both mould making and production. The assembly systems employed do not, however, have the same degree of automation as the equipment used in Germany. For cost reasons, assembly is carried out with a far greater proportion of the work done by hand. The quality produced satisfies the customers' requirements completely.

„Outstanding Supplier Award“ for Suzhou.

In the year under review, the workers in Suzhou fitted liquid crystal displays (LCDs) for the first time in flip-phones. With this additional expertise, Suzhou has expanded its value chain. The customer gets a ready assembled half of a mobile phone, with all the connecting elements, and fits the electronics into the other half. One of the market's leading customers acknowledged the outstanding work of Balda-Everskill. It has given the Company its „Outstanding Supplier Award“. The transfer of expertise between the Technology Centre in Bad Oeynhausen and Suzhou has become even more intense in the year under review. There was a significant increase in the number of joint meetings and in the interchange of staff in 2004.

In addition to mobile phone components, the Balda plant in **Malaysia** produces complete headsets for the consumer. In the assembly shop, the Company fits electronic components to the circuit boards for the headsets. The plant in Ipoh also has the expertise and the technical means at its disposal for testing acoustics. The portfolio is rounded off by the manufacture of plastic components for mobile phones using modern machinery, and the assembly of the components.

In the **South American** region, Balda has started production of mobile phone components in the Brazilian city of Manaus and in Sao Paulo, along with its joint venture partner Lumberg from the Sauerland region of Germany. Manaus is one of the centres of the mobile phone industry in Brazil. Some of Balda's important international customers have their production plants there. From Manaus, these manufacturers supply the growth market that is South America. It has not been necessary to create additional local capacity. The factory that was taken over in Manaus was fully equipped with technologically sophisticated machinery.

In Sao Paulo, Balda-Lumberg produces on the premises of a customer. The production facility meets all the requirements of the mobile phone industry in terms of precision and quality. The year under review saw for the first time the handover of a mobile phone project from China to the production process in Brazil. One customer gave Balda-Lumberg an award as one of its best suppliers for its outstanding work in 2004. The interchange of technological expertise and staff is also progressing smoothly between the plant in Manaus and the Technology Centre of Balda Solutions in Bad Oeynhausen. In the year under review, Balda internationalised its production still further. The integration of the plants into the new organisation structure has made great progress. The competitiveness of the Group has increased, not least as a result of the international production plants.

| Balda-Lumberg: „One of the best suppliers“.

Products and Services.

Balda AG develops and produces precision components from high-performance plastics for mobile phones, medical equipment and cars. The Group systematically leverages synergies from these three divisions in development and production. The Company is the only business among the world's mobile phone partners that has all the surface finishing technologies required by its customers. The Group designs and builds moulds and production systems worldwide for its own production.

Balda's core business was once again in the **Infocom** division during the year under review. This business area comprises components and sub-assemblies for mobile phones of global and regional manufacturers and suppliers. In 2004 the Company supplied end customers such as Alcatel, Motorola, Nokia, Sagem, Siemens, SonyEricsson and ZTE.

The Company produces components and systems for all the mobile phones currently on the market: from flip-phones to mobile phones with cameras. The Group meets all specific requirements of the various models. In the year under review the Company again produced all plastic components used in mobile phones, cordless telephones and base stations. By agreement with its customers, Balda does not publish any details about mobile phone projects, such as production numbers, turnover or particular components.

Infocom product portfolio.

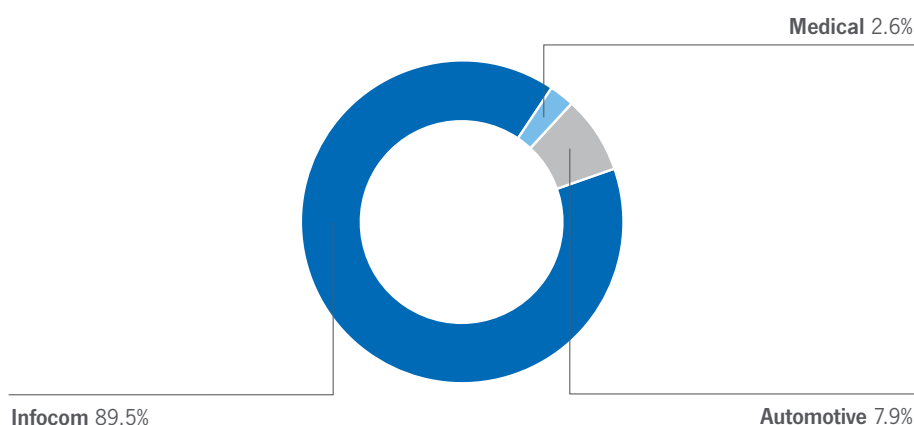
- | | |
|------------------------|---------------------------------|
| A and B covers | Electronics carriers (C covers) |
| Interchangeable covers | Displays |
| Operating elements | Keypads |
| Battery cases | |

Moreover, the Company has already produced Bluetooth-standard headsets and chat boards at its Malaysian plant. In 2004 the Group maintained and extended its leading position in the industry, with its complete portfolio of surface technologies for the finishing of mobile phone components. It ranges from all currently available painting systems, through electroplating and printing, to high-tech rear film injection. An increasingly frequent task in 2004 was the additional printing of mobile phone covers or displays with providers' brand logos. Along with the technical performance features and the brand of the mobile phone, the design was and still remains the most important element of the decision to buy. With its support at the product development stage, and its complete portfolio of surface finishing techniques, Balda makes substantial contributions to the design of the mobile phone. The Group assembles all the components into complete sub-assemblies. In addition to which the Company is to an increasing extent integrating externally sourced electronics components, such as keypad circuit boards, loudspeakers, microphones and LCDs (liquid crystal displays). The customer concentrates on the high-priced components such as circuit boards and memory chips. It combines these components with the systems supplied by Balda in the final assembly stage, completing the mobile phone.

Medical engineering. The subsidiary Balda Medical develops and produces plastic components for the medical engineering and pharmaceuticals industries. Certified quality management qualifies the Company globally as a production partner for pharmaceutical manufacturers. Balda Medical's engineers and technicians have all the skills and authority needed for developing modern medical engineering products and primary pharmaceutical packaging. In addition to the functionality of these products, design is becoming increasingly significant. In contrast to the Infocom and Automotive divisions, Balda Medical develops entire draft designs itself. In the case of surface design, the medical engineering experts can benefit from synergies across the divisions, and access the expertise of both Infocom and Automotive. In 2004 the Company developed a state-of-the-art testing procedure for the analysis of products and processes, with the aid of a 3-D laser scanner. This technology will go into series production in 2005, with a plant of its own.

Share of sales by divisions

in per cent



In 2004 Balda Medical also produced the Accu-Check® Softclicx® lancing device for Roche Diagnostics. Diabetics use this particularly ergonomic and user-friendly product in ballpoint pen format to monitor their blood sugar levels regularly and independently. Following official approval in September of the year under review, Balda Medical started production of the dry powder inhaler. The Company produces all the plastic components for this device at the Technology Park in Bad Oeynhausen, under clean-room conditions. Balda Medical holds an exclusive licence for production for the EU market until 2013. The dry powder inhaler is used by asthma sufferers and patients with allergies. Various manufacturers fill the device with their generic drugs. In the year under review, Balda Medical acquired Bayer Health Care as a new customer. In the second quarter, series production started of primary packaging in the form of a tube for a veterinary medication.

In the **Automotive** division the Company produces components and systems for the interior and exterior of cars. The interior product portfolio includes switches, decorative trim elements for air conditioning and control systems, as well as speedometer icon screens. The surface finish specialists also electroplate plastic and metal interior door handles. For the exterior of the vehicle, the Automotive division manufactures door mirror housings, front-end modules such as the radiator grille, brand logos and decorative trim. The Company supplies manufacturers of car radios with front panels and control elements. The customer portfolio includes German, European and Asian manufacturers, as well as well-known TIER1 suppliers.



The national China report on pages 50 – 53 is not part of this management report.

Boomtown with 2,500 years of history

In the Chinese city of Suzhou, Balda is indirectly a majority shareholder of Balda-Everskill Solutions, holding 75% of the shares. Suzhou lies in the southeast of China, in Yiangsou province, about 100 kilometres to the west of Shanghai, in the Yangtse basin. With its 1.7 million inhabitants, and as a special economic zone, the city is one of the country's boomtowns. 52 companies of the 500 largest businesses in the world operate production plants in Suzhou (including Adidas, Bosch, Infineon, L'Oréal, Nokia, Philips and Samsung). The key industries in this location, considered to be the high-tech centre of China, are electronics, textiles, light industry and R & D. With gross domestic product amounting to 150 billion dollars in 2003, Suzhou was up among the leaders in China. The community's transport links are excellent. The city lies on the important railway line between Shanghai and Nanjing. Shanghai and its international airport are only just over half an hour away on the motorway.

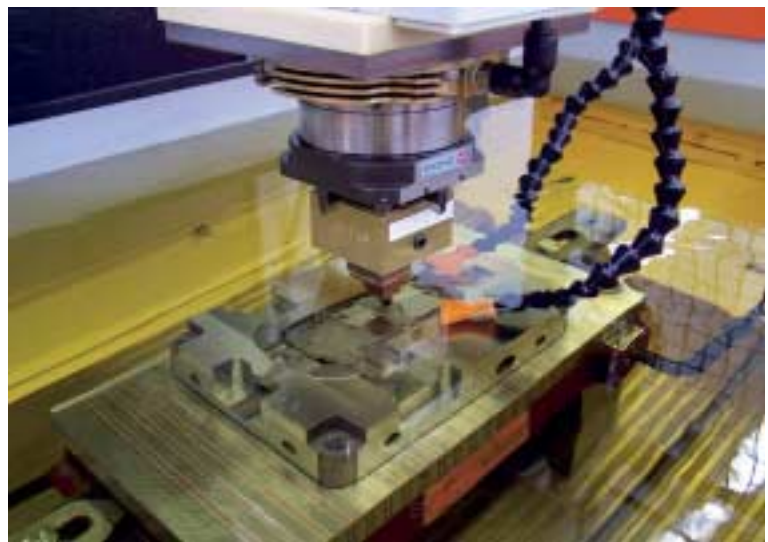
Ge Cungen, 29 years old, is a training supervisor in personnel management at Balda-Everskill Solutions. He introduces the city of Suzhou and his company. „Suzhou has a history covering more than 2,500 years. In the days of Marco Polo, the city was a centre of the silk trade. I value the many historical parks and buildings that characterise the image of our city.

Picture, top: Eroding a mould insert with a copper electrode

Picture, bottom left: Printing a mobile phone cover with a logo

Picture, bottom right: Simulation of an injection moulding process using the mould-flow procedure

Pictures, bottom of left-hand page: Project meeting





Suzhou is also called the Venice of the East, as a result of the many canals running through the city. On the other hand our city also has a multinational, global image, with its many foreign companies. I personally enjoy the contrast between past and present. In his spare time Ge Cungen enjoys getting lost in a book, he plays badminton and goes jogging. He is particularly interested in psychology. He is a member of the Psychological Society in Yangsuo province. He also benefits greatly in his professional career from this involvement. At the weekend Ge Cungen enjoys heading south from Suzhou, for Tai Fu, China's largest lake.

Ge Cungen's roles in the Company are many-layered. He produces and monitors the budgets for advanced training programmes. He is also responsible for implementing and evaluating courses.

This also includes internal and external training for new mobile phone projects. Ge Cungen's activities are integrated into project management for product development in the run-up to series production. His area of responsibility also includes the training of internal trainers. Ge Cungen has also completed various managerial advanced training programmes himself. He considers advanced training in the Company to be extremely important. „Technological progress does not take a break. Whether in mould-making, injection moulding or surface technology – employees have to be constantly ready to learn something new.“ Ge Cungen is very happy in his job. „We have a tremendous, extremely friendly working atmosphere“, he says. In his view, these are the optimum conditions to ensure the success of the Company.

Picture, top right: Manual checking of mobile phone display windows

Picture, top left: Semi-automated assembly of mobile phone components

Picture, centre: Manual assembly of mobile phone components

Picture, bottom Project engineers at the screen workstation

Picture on the right, small: Ge Cungen

Picture on the right, large: Testing dimensional stability in the mould

Tremendous, extremely friendly working atmosphere.



Location: China
Established: 1995
Employees: 1,191
Products: Infocom: A, B and C covers, interchangeable covers, displays, operating elements, keypads, battery cases
Technologies: Mould making, injection moulding IMD, painting, printing, assembly
Quality: DIN ISO 9001
Area: 23,915 m²

Organisation and Legal Corporate Structure.

Balda AG manages the three divisions of Infocom, Automotive and Medical under the umbrella holding company. The Company, which performs the function of divisional head, guides the individual national and international companies. Each division bears responsibility for its operational business.

With the introduction of its divisional organisation, the Balda Group has adapted its corporate structure to the changing conditions in global competition and among its customers. The restructured organisation is consistently aligned with the strategic corporate objectives of „diversification“ and „globalisation“.

In financial year 2004, the Group operated at ten locations on three continents and in five countries. Customer requirements in terms of delivery services and support made it necessary to set up production plants worldwide for supply partners, near to the customers. For that reason, at the end of 2004 the Infocom division started planning for a second production plant in China, near Beijing. The hectic developments in international markets represented a set of reasons for the restructuring of the Balda organisation. The second motivation for introducing the **divisional organisation** was diversification within the Group. The new structure takes full account of the growing significance of the Automotive and Medical markets for the future success of the corporate group. In addition to Infocom, Automotive and Medical are also designed to be results-oriented divisions.

The new organisational structure is consistently aligned with the strategic corporate objectives.

The structure of the divisions in detail

Infocom division

Balda Solutions
Balda moulds
IPH (mould-making)
Balda-Everskill Suzhou
Balda-Thong Fook
Balda-Lumberg Technologies

Medical division

Balda Medical

Automotive division

Balda-Heinze
HeRo
SMK

Competence centre, film

Albea

This organisational structure is also consistently in line with the need of the Infocom division for the **global networking** of its capabilities. The regions in Europe, Asia and South America have appropriate corporate responsibility and authority. Their divisional head is Balda Solutions in Bad Oeynhausen. The communications platform for a global information, decision-making and guidance structure, both between the divisional head and the regions and among the regions, has been established. Information Technology (IT) is part of this infrastructure. The setup of an IT system with homogeneous network structures, uniform hardware, storage and data backup solutions has been largely concluded.

The setup of this IT infrastructure is the basis for the consistent global implementation of Group standards. In this way the Balda Group is exploiting the potential of its synergies and achieving a high level of consistency in its processes.

Albea, as a specialist firm for film technology, functions as a competence centre outside of the three divisions. This company offers its technology and its product portfolio in film technology to the divisional companies, for their customers. Albea itself carries out active customer contact and project management outside of the divisions' customer structures.

The core objectives of this decentralised, segmented organisation are the growth-oriented exploitation of market potential, the promotion of strong customer loyalty and the accelerated development of the technology and of the product portfolio.

The **Board of Directors** of Balda AG is responsible for corporate strategy and the shareholding portfolio. The organisationally slimmed down Group headquarters coordinates and guides the global core areas of the value chain. They range from sales through technology and production, to cost-efficient management of the supply chain. The divisions can access the centrally provided financial and IT services.

The Supervisory Board appointed Volker Brinkmann, formerly Director of Group Finances, to the Board of Directors with effect from 23rd July 2004. This addition to the Board of Directors has led to some changes in the **departmental responsibilities**. Joachim Gut, Chairman of the Board of Directors, continues to be responsible for strategy, HR, audits and investor relations. He has handed over finance and cost control to the responsibility of Volker Brinkmann, into whose area information technology also falls. As before, Ralf Ackermann is responsible for the areas of production and technology, as well as global purchasing and logistics. Rainer Frilling is Managing Director of Sales.

The **companies consolidated** in the Balda Group changed in the year under review. With the separation from the Swiss company, Mikron AG, in Asia, and the start of the cooperative venture with new partner Everskill, as well as the involvement in Brazil, the shareholding ratios have been restructured. Following the takeover of Mikron AG, Balda AG held all the shares in Mikron Investments Pte Ltd., Singapore during April 2004. After the sale of 25% of these shares to Taiwanese partner Everskill, and the renaming of the company to become Balda-Everskill Investment Singapore Pte Ltd, Balda AG has held 75% of the shares since 1st May.

Balda-Everskill Investment Singapore is the sole shareholder of Balda-Everskill Solutions Ltd. in Suzhou, China. Everskill manufactures covers and plastic components for consumer electronics at its four production plants in Taiwan and China, as well as for the ICT industry. This company, with its headquarters in the Taiwanese city of Tucheng, is listed on the stock market. The indirect holding of Balda AG in Balda-ThongFook Solutions Sdn Bhd of Ipoh, Malaysia, (formerly TFP Precision Industries Sdn Bhd of Ipoh, Malaysia) changed as a result of the aforementioned steps from 25% to 37.5%, as of 1st May. Furthermore, Balda no longer owns this shareholding through Balda Beteiligungs AG. Balda-Everskill Investment Singapore Pte Ltd. has been the owner of the 50% holding in Balda-ThongFook Solutions since 2004. Following the purchase of the shares of Mikron AG in April, Balda AG holds all shares

Group headquarters coordinates and guides the global core areas of the value chain.

Shareholding ratios have been restructured.

in the company Balda Beteiligungs AG, Zug, Switzerland (previously Balda-Mikron AG, Biel, Switzerland). Following the takeover of the Mikron shares on 1st April 2004, the Company is also indirectly the sole shareholder in Balda Norge AS, Tunsberg, Norway (formerly Balda-Mikron Norge AS, Tunsberg, Norway).

Balda is sole shareholder of Balda Beteiligungs AG in Zug.

Together with Lumberg Holding GmbH & Co. KG, which has its headquarters in the Sauerland town of Sacksmühle, Balda AG has established the German joint enterprise Balda-Lumberg Deutschland GmbH & Co. KG, with its headquarters in Bad Oeynhausen. The Lumberg Group is a technology business with around 2,500 employees worldwide. The company produces plug connectors and connection systems in Germany, China, the USA and Singapore, along with antennas for the target markets of telecommunications, household appliances, automation and automotive technology.

Both companies own half of the shares in Balda-Lumberg GmbH & Co. KG, Bad Oeynhausen. The recording of this company in the Register of Companies at the district court had not yet been completed by the end of 2004. Balda-Lumberg Deutschland holds 99.8% of the shares in Balda-Lumberg Technologies Ltda. of Manaus in Brazil. Both Lumberg and Balda each hold 0.1% of the shares in this company. Balda-Lumberg Technologies Manaus, on the other hand, holds all the company shares in Balda-Lumberg Technologies Plásticos da Amazônia Industria e Comercio Ltda., based in Manaus. Furthermore the company is the sole shareholder in Balda-Lumberg Technologies in Industria e Comercio Ltda., based in Jaguariuna, Sao Paulo, Brazil.

The US company Albea Technology LLP, Germantown, Wisconsin, was sold as of 30th September.

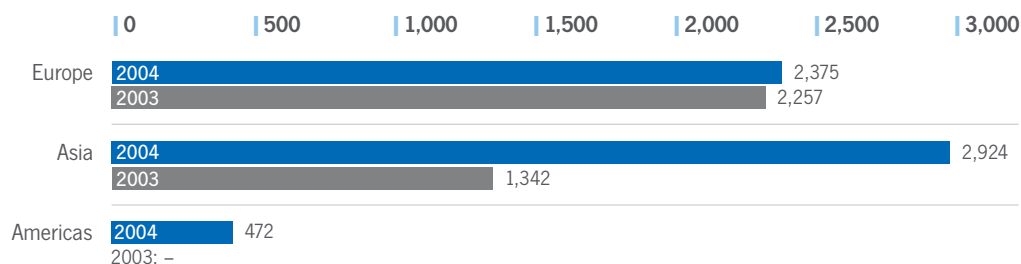
Balda AG also holds 50% of the shares in aimtec GmbH, Löhne. Balda Werkzeug- und Vorrichtungsbau GmbH is the sole shareholder of Albea Kunststofftechnik GmbH & Co. KG, of Seelbach, and of Albea Beteiligungs GmbH, which manages it. The limited partnership (KG) holds 100% of the shares in Albea Grundstücksverwaltungsgesellschaft mbH, Seelbach. Other wholly owned subsidiaries are Balda Werkzeug- und Vorrichtungsbau GmbH, Balda-Heinze GmbH und Co. KG, Herford, as well as their holding company Verwaltungs GmbH. The KG is the owner of all shares in HeRo Galvanotechnik GmbH of Herford.

Employees.

The Balda Group employees are characterised by their dedication and by their professional and personal skills. They represent the successful working culture and rapid growth of the Group. The goal of the Company's HR management strategy is to challenge and encourage growth, both on the personal as well as on the corporate level.

As the 2004 financial year drew to a close, the Balda Group boasted a total of 5,532 employees, including borrowed employees, trainees and temporary staff (previous year: 3,599). This yields an increase of 53.7 per cent or 1,933 employees. During the year under review, the group employed an average workforce of 5,492, an increase of 2,159 employees or 64.8 per cent from the previous year.

Employees in regions



By the end of 2004, staff at the German locations totalled 2,241, a drop of 16 employees or 0.7 per cent. In the **European** region the number of employees had increased slightly by the end of the year under review, to 2,372 employees (previous year: 2,257 employees). That equals a rise of 115 employees or 5.1 per cent. The increase can be attributed to the establishment of the Hungarian location. Europe's share in total number of employees in the Group was 42.9 per cent. On average, the staff in Europe during 2004 comprised 2,389 employees. In **Asia**, at the locations in China and Malaysia, Balda-Everskill showed a year-end total of 2,924 employees, following the previous year's total of 1,342. Asia thus represented 52.9 per cent of the employees in the Group. Compared to the previous year, the staff boasted 1,582 more employees, an increase of 118 per cent.

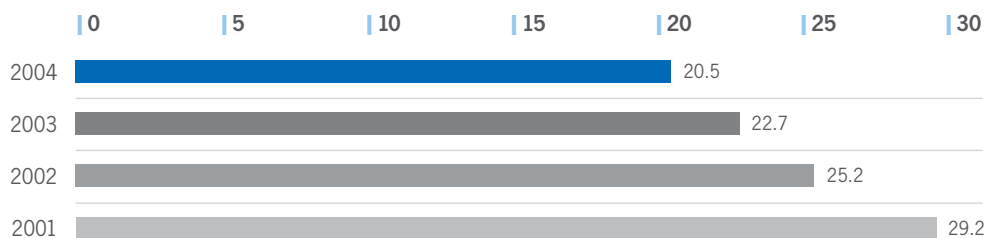
In consideration of this staff increase, it must be remembered that following the acquisition of Mikron, 100 per cent (previous year: 50 per cent) of the employees from Suzhou, as well as half of the employees from Ipoh in Malaysia (previous year: 25 per cent), joined Balda in 2004. During the past financial year, an average of 2,857 co-workers were employed by Balda. The **South American** region, newly established in 2004 with locations in Manaus and Sao Paulo, employed a staff of 472 during the year under review. This adds up to a pro-rata total of 236 employees for Balda, or 4.3 per cent of the Group's workforce. An average of 246 employees apportioned to the Group worked in Brazil during 2004.

Increase in employees due to new jobs.

The increase in employees in the Group as a whole can be attributed to new employees or those jobs at international locations that were counted on a pro-rata basis for the first time in 2004. The strategy of hiring new employees is consistently orientated towards the order situation. Nationally, the heavy utilisation of production capacities in the Infocomm division ensured a stable employment situation. In production and assembly, the use of temporary workers allowed the Group a high degree of flexibility in 2004 as well. At the end of 2004, the Group employed 1,775 borrowed employees. They accounted for a 32.1 per cent (previous year: 28.7 per cent) share of the Group's workforce. Otherwise as well, Balda keeps its production capacities elastic by means of flexible working hours and accounts in case of fluctuations in demand. The shift and flexitime models provide needs-orientated staffing and latitude of about 15 per cent in production so that employee capacities can be adjusted.

Due to the increased number of employees, the Balda Group's **wage and salary expenses**, including social security contributions, rose in 2004 by 20.6 per cent to 78.5 million euros. During the previous year, this figure was 65.1 million euros. Expenses for temporary employees are listed under other operating expenses at 20.3 million euros (previous year: 14.7 million euros). This yields cumulative personnel expenses of 98.8 million euros, following 79.8 million euros the previous year. The increase in employee spending was once again disproportionately low compared to the total operating performance of the Group, correcting the ratio of personnel expenses from 22.7 per cent to 20.5. Including outlays for temporary employees, the ratio dropped from 27.8 per cent to 25.8 per cent. The reduced ratio also reflects the comparatively low level of wages in Asia and South America.

Ratio of personnel expenses in per cent



Absenteeism decreased again in 2004.

At 3.36 per cent, the proportion of **sickness-related absenteeism** decreased slightly as of the end of the reporting year (previous year: 3.5 per cent). The average age of all employees during the 2004 financial year was 37 years old, as in the previous year. Once again during the year under review, the **age mix** of employees at Balda shows a balanced structure. The average period of employment of slightly more than seven years, particularly in conjunction with the sharp rise in the number of employees during this period, speaks volumes about the employees' strong identification with Balda and their commitment to the Company. In 2004, a total of 30 employees reached company anniversaries of 20 years and more. 63 employees celebrated anniversaries of 10 or 15 years.

During the period under review, 97 **trainees** worked for the Group as a whole. They can gain qualifications in seven different professions.

Skilled professions:

- | toolmaker
- | energy electronics engineer
- | technical illustrator
- | industrial clerk
- | process engineer
- | mechatronics engineer
- | cutting machine operator

During the past financial year as well, Balda upheld its tradition of offering all of its trainees a contract for employment in the Group once they had successfully completed their training. In 2004, the educational paths for tooling technicians and process engineers and to business professions were favourites of the young people. During the year under review, the Company in Germany accepted four degree candidates. They completed their university dissertations on a topic relevant to Balda.

The Group installed an **intranet** at all German locations. It serves as a forum for internal and external Company news. Among other things, the intranet offers internal job descriptions, important dates such as the annual general meeting and trade fairs, as well as Group directives.

With respect to technology and customer requirements, Balda Group is active in rapidly changing markets. For this reason, the systematically applied advanced training of employees in their fields of expertise is a factor in the Group's success. Regular internal and external seminars, product and language training courses ensure a consistent, needs-responsive further education programme. Balda pursues the concept of the „Learning Organisation“. The goal is to make the existing and newly acquired knowledge in the Group available to all employees as needed. In addition to the interconnection of information technology, ever-greater emphasis is being laid on training speakers internally and passing on new knowledge through what is known as cross-training. After it is completed, employees package the knowledge newly acquired in seminars or workshops in a targeted manner so that it can be passed on to their colleagues. This procedure saves costs and, through increased internal exchange, reinforces co-operation and team spirit.

Balda's **staff development** activities pursue two clear objectives in their advanced training: First, that the employees are able to meet the requirements at the workplace. Second, demand-based measures assist specialists in orientating themselves to customers' needs. During the reporting year, the Group invested in 1,100 internal speaker hours with a total of 200 seminar topics at Bad Oeynhausen. Balda employees presented topics from their area of specialisation to co-workers. 1,110 employees attended these events. Moreover, HR management undertook a series of special advanced training activities with external specialists. **Topics were**

- | Quality / process optimisation
- | Mechanical engineering
- | Intensive English courses
- | „e-learning manager“ project (with college for small business)
- | Plastics: from basics to quality management
- | Public speaking, moderating, method training, coaching

| Advances training is a factor of Balda's success. |

750 participants attended 350 external seminars. The expenses for these events came in at about 600,000 euros in 2004. Programmes and offers from this clearly orientated scheme for qualification are available to every employee.

| Balda among the top mid-sized employers in Germany. |

During the 2004 financial year, the Balda Group was among the top mid-sized employers in Germany, i.e. companies with up to 5,000 employees. These were the findings of an analysis by Inmit, the institute for small-business economics at the University of Trier. The Group came in with top marks in all crucial areas of HR management such as staff development, salary schemes, vision and management, culture and communication and family and social orientation. Particularly noteworthy is the above-average result in the category of job satisfaction among Balda's employees.

| Numerous suggestions for improvements from employees at the technology park. |

The **Company's suggestion box**, dubbed the „i-box“, can be found at numerous locations in the technology park in Bad Oeynhausen. Each employee is invited to make suggestions for improvements of any kind. A panel with managers from all manufacturing areas checks the suggestions and decides on how they will be used. At quarterly intervals, those who submitted suggestions receive answers containing assessments of their ideas. In 2004 141 suggestions were received; after being reviewed, 79 of the requests were handled individually. During the year under review, 23 made it to implementation. 21 ideas from 2004 will be implemented over the course of the 2005 financial year. The employees receive bonuses in kind.

The Board of Directors would like to thank all employees worldwide for their remarkable achievements, their personal commitment and the extraordinary flexibility they showed in their work during the year under review. Once again in the past financial year, the employees of the Group have been the driving force behind the Balda Group's excellent performance. A special word of thanks goes to the works council members for their constructive role as partners in the Company's ongoing development into an international group.

Environmental Protection.

Environmentally sound production processes rank high at Balda. The managing directors of the Group companies take responsibility for the environmental management system, and its policy and goals.

The environmental protection programme of Balda comprises in particular the economical handling of resources, such as raw materials and energy, and the reduction of emissions with respect to air, noise and odours. Moreover, careful compliance with the relevant environmental laws and legal requirements is part of the programme. All goals and measures must be economically meaningful. The respective environmental management officer regularly checks the package of measures carried out to make sure they are up-to-date. He/she documents the implementation of stipulated measures and carries out any adjustments in collaboration with the managing director. Continuous training enables employees to actively implement the environmental protection programme measures.

In the year under review three further subsidiaries were certified according to the 2004 version of the globally recognised standard **ISO 14001**. This standard demands successful environmental management that guarantees the necessary measures to protect the environment in a product and process-oriented manner. Each year external auditors control compliance with the strict regulations. After Balda-Heinze and HeRo, Balda Solutions, Balda-Werkzeug- und Vorrichtungsbau and IPH are now certified according to DIN ISO 14001 and apply the environmental management system.

One example with a model character is the Balda **energy-supply design** for supplying the building in the Technology Park at Bad Oeynhausen. It follows climate protection guidelines. These include the reduction of the use of primary energy, in that the system feeds the waste heat generated during the production process into the building's air-conditioning cycle. Moreover, the Company heats its water for industrial use by means of solar collectors, uses the outer air for cooling energy and uses rainwater for non-drinking water applications. The Company saves a considerable amount of heating energy through an ultra-modern system for **heat recovery** in the air inlet system of the painting plant. The production process conforms to all guidelines for electromagnetic compatibility as well as the legal requirements for noise emission.

The Group installed new water walls in the painting plant in the Technology Park at Bad Oeynhausen during the year under review. They led to an improved fusion of the spray produced during painting. The painting plant does not release any **solid bodies** into the air. Balda generally recommends environmentally sound paint with low solvent contents and water-based paint without solvents. Individual customers determine the paint to be used and others make selected stipulations.

The Company replaces hazardous substances where possible with **environmentally sound materials**. The hazardous substances are stored appropriately in special warehouses. As the Company rigidly follows the technical rules for flammable liquids (TRbF), the hazardous substances damage neither employees, environment nor goods. Thus, water-polluting substances such as paints, varnishes or detergents are stored in paint bunkers according to the latest standards.

| Successful environmental management. |

| Safety for employees, environment and goods. |

In the case of logistics Balda also follows the principles of a **low-packaging factory**. Multi-way packaging is used exclusively for transporting high-volume system components. In close cooperation with various partners from industry and research, Balda is constantly developing new, environmentally sound materials and products with a high recycling capability.

The concept for **waste separation** at Balda comprises 30 different types of waste and recyclable materials. The system achieves safe resource management for protection of the environment. The recycling level in the year under review was also approximately 90 per cent. The Group sells plastic waste to an audited disposal company.

Production and other types of waste

| Recyclable substances of plastic

ABS / PC		PPS
ABS / PC	painted	PA
PP		PC
PS		ABS
PET		LCP
PMMA		IXEF
PMMA	painted	PA
PPS		PC

| Recyclable substances of metal

Aluminium
Iron
Copper
Brass

| Other recyclable substances

Old glass
Biowaste
Coloured foil
Green Dot packaging
Wood
Clear foil
Cardboard / paper

| Substitute fuels

Mixed no longer recyclable plastic materials with a heat value greater than 11,000 Kj/Kg. Delivery e.g. to generators via disposal companies.

| Waste for recycling

Used oil
Electronic scrap
Cooling lubricants
Polluted thinners and detergents

| Waste for disposal

Old batteries
Fluorescent tubes

| Residual waste for thermal recycling

Out of the entire production waste more than 80% is recycled, incl. thermal utilisation. The rest goes to the incinerating plant in Bielefeld and is converted into energy there.

The environmental management system of the Group also deals with preventive measures for environmental protection. In addition to detailed contingency plans and the stipulation of personal competencies for emergencies or malfunctions, exercises and tests are also scheduled. These include an annual trial alarm with evacuation of employees and an inspection of the sprinkler system through simulation. Balda's environmental management system and production is subject to a continuous improvement process.

Technology.

The growing number of customers, the increasing complexity of products, the globalisation of customer projects and diversification have confronted the Group's Technology segment with new tasks. Posing a particular challenge for the Company's product development operations are the ever-shortening development periods and lifecycles of mobile phones. The growing number of mobile-phone projects at the global production sites bears this out. The Technology segment's strategy concentrates on accomplishing these tasks.

Balda has adapted quickly to the changing demands of markets and customers. The Company has restructured the way its former Research and Development segment was organised. The segment now goes by the name of **Technology**. The particular focus in 2004 was global project management and the smooth transition from one project phase to the next, above all the starting production of new products. A further important objective is the reduction of development times and even closer co-ordination between Technology and production in the conceptual design phase.

The Group intends to establish a **global Technology structure for the Infocom division**. In 2004 the Company introduced reorganised Technology units in Europe and Asia. In these regions, the respective regional head assumes responsibility for controlling and co-ordinating development activities for the production plants. Balda Solutions in Bad Oeynhausen is responsible for Europe. In Asia, Balda-Everskill in Suzhou manages Technology. In Brazil the Technology segment is still being set up. The Group's strategy allows for flexibility for local and regional distinctions. However, the result envisaged by the Group is an approach to the customer that is uniform across the globe. Balda's simultaneous production of global mobile-phone on three different continents for a single customer demands a homogeneous presence ranging from the development process and quality specifications all the way to the efficiency of the supply chain.

| New Technology units in Europe and Asia. |

The re-organised corporate segment comprises **five departments** in each region:

- | | |
|----------------------|---------------------|
| Project Manager Pool | Product Development |
| Engineering | Quality Planning |
| Advanced Technology | |

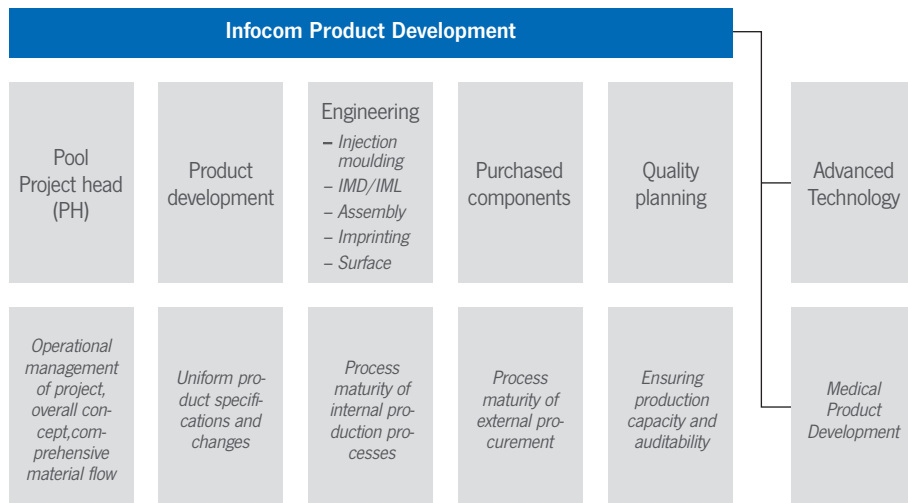
The project managers are responsible for controlling the operations of the relevant project all the way to product launch. Their responsibility extends to quality targets, the specific requirements of the customers and fidelity to deadlines. They co-ordinate constantly and closely with sales. Product development deals with overall product specification and any changes that become necessary. Engineering ensures the maturity of the internal production processes. The job of quality planning is to examine the design of products and processes taking into account the previously determined needs of the customer. Advanced Technology is res-

possible for process development and the crafting of future technology projects. The object of all three divisions is the process-based development of internal projects to increase efficiency in production. On the other hand, products are developed exclusively on behalf of customers.

The number of **Technology employees** in Europe almost quadrupled from 27 to 100 due to organisational reassignments during the year under review, as a result of restructuring. For 2005 15 more jobs are planned, 13 in the Infocom division and two in Medical Engineering.

The new organisational structure of the Infocom division preserves the close cooperation between **Sales and Technology** in developing new products. In Europe, both areas are under the uniform management of Balda Solutions. Project Management, however, has been reorganised and adapted to global requirements. Technology promotes technical implementation. Sales manages the project throughout its entire lifecycle. It fulfils the key function of guiding the project. It monitors the achievement of the customers' objectives. Moreover, it assigns the orders for implementation and any changes to Technology. Key Account and product managers in Sales answer to the customer for product development. Within the framework of project management, Technology is responsible for the technical development, engineering, purchasing and quality planning. In addition, the segment is also the customer's contact for all technical questions.

**New organisational structure:
Technology**



This division of labour and the clear definition of interfaces already proved itself admirably during the year under review in the management of a number of projects, even international ones. This makes collaboration with customers and the cooperation within the Group's segments between international locations progress more securely and speedily.

The **Advanced Technology** department deals not only with collaboration on customer projects but also with future projects and the development of processes. The employees closely examine existing processes, particularly those in production. On the basis of the ana-

lyses, they develop improvement programmes. Also within their purview is the continuous monitoring of technology on the market to identify and assess new technical options. Moreover, the engineers of Advanced Technology construct test setups and equipment for quality assurance. Because it is directly involved in the Technology segment, the department remains close to product development and the interface with production. Advanced Technology learns firsthand of customers' tasks and needs and of those emanating from project management.

During the year under review, Advanced Technology developed a new technology for painting the cases of mobile phones with a 3-D effect. This procedure is ready for production and will be used in the current financial year. Another important topic was metallic surfaces. Advanced Technology dealt intensively with new technologies in electroplating. Both nickel-free metallic surfaces and new shades were subjects of development. They may open up new opportunities for surface design of mobile phones and thus the impression of very expensive products. Laser welding was also a significant development focus. The object is to connect the display to the mobile phone shell. One of Advanced Technology's high-tech projects was the development of a non-contact scanning system. Since 2004, it has checked the precision of the outer dimensions of mobile-phone cases. This innovative measurement system is an example of cutting-edge technology and reduces development time, speeding initial sample testing and elimination of errors in modules before serial production begins. Adherence to tolerances dictated by the design is crucial.

Balda effectively expanded **Medical Product Development** during the year under review. The Medical division has at its disposal all resources for the development of plastic medical-engineering and pharmaceutical products. The division develops the product design and oversees clinical trials. It supplies all preconditions for manufacturing. The customer effects the official approval of the product.

The development of products in medical engineering is as complex as it is demanding. The development department of Medical currently employs a staff of seven. In 2005, two more specialists will join them. The central development task of Medical is to gather products appropriate as materials and for manufacturing. The core competence of the specialists is knowledge of the factors influencing plastics processing and their ideal fine-tuning. The development process in medical engineering is very different from development in Infocom. Structured in four phases, it can extend for years, while a mobile phone reaches product launch within several weeks.

In the definition phase of medical engineering product development, the design is qualified together with the feasibility. The concept phase comprises not only brainstorming and problem-solving but also developing specifications and risk management. The object of the actual development phase is the design, implementation and qualification of the function. The elaboration phase runs from detailed design to start-up of operations. The multi-layered process is documented completely during these four phases and in about 85 steps.

| Innovations in surface finishing technologies. |

| Medical: Complex process for product development. |

The **Automotive** division does not maintain its own organisational unit for the development of plastic components. It purchases its development services mainly from Technology and from external third parties. However, HeRo and SMK, which belong to the Automotive division, develop innovative electroplated surfaces themselves for special requirements in the automotive industry.

Over the past few years, Balda has extended and expanded **co-operative efforts with universities and industrial partners**. The objective of these co-operative efforts is the direct transfer of research findings to industrial use. The Company is a member of the Fraunhofer Institute for Production Technology (IPT) in Aachen and of the Association of Sponsors for the Institute of Plastics Processing (IKV) at Aachen Technical University. Moreover, the Group carries on collaborations with various national and international universities.

Balda pursues research and industrial projects in process and production technology with the IPT and in metrology and quality engineering. Technology planning is a further topic. The development of innovative tooling technologies and new production processes is a priority for the Group. Membership in the IKV allows Balda to have a direct impact on topics of research and to be incorporated into the information flow on current research projects. Participation in projects with partners nationally and internationally is also open to the Company. The IKV's extensive material analyses, component inspections or simulation of shaping procedures like injection moulding are of particular interest to Balda.

During the reporting year, the Advanced Technology department oversaw a dissertation by IKV in Aachen about tool temperature-control schemes. The results have provided new knowledge on optimisation of the manufacturing process.

Other co-operative projects in 2004 were with the universities of Bielefeld and Lüdenscheid. The subject of research in the project with Bielefeld University was an analysis of heat distribution in an injection mould. Together with the Plastics Institute in Lüdenscheid, Balda investigated optimisation options for surface decoration in high-performance plastics.

Balda-Everskill maintains a co-operative effort with the University of Shanghai. The project deals with the development of an integrated manufacturing information system (IMIS). The high-tech programme links the recording of design information and the planning of tools to production processes. The system will record and check all processes occurring in manufacturing. Objectives are to lower tool costs and reduce set-up times.

During the year under review, the Technology segment filed a total of **four patents**. Medical Engineering and Infocom were each responsible for two applications for these. By agreement with its customers, the Balda Group maintains strict secrecy regarding the subjects and content of patent applications.

During the 2004 financial year, the Group set the pace for the future of the Technology segment. The organisational structure, particularly that of the Infocom division, is now eminently equipped for global challenges.

Research in process and production technology.

IT cooperation with the University of Shanghai.

Supplementary Report.

The growth rate of the global economy slowed down somewhat in the first two months of 2005. The business trend of Balda went according to plan and started the new financial year with a utilisation of capacities that was typical for the season.

Overall Economic Situation. The USA and the Southeast Asian national economies continued their growth in the first few months of 2005 at a slightly lower level. In the USA there are fears of negative influences on the consumption of private households given the rising national debt and the upward oil price due to winter. The employment problem in the largest national economy in the world remained largely unchanged at the start of the year. The vigorous growth in China also stayed at a virtually unchanged level in the first few months of the year. The restrictive credit policy was already starting to be felt in the automotive market.

At the start of 2005 the economic trend in the eurozone suffered from the lessening momentum of the economy that had already started to take effect in the last quarter. The European Central Bank already reduced its growth forecast for 2005 as a whole by 0.2 to 0.4 percentage points.

In **Germany** the economic indicators pointed in different directions at the start of the year. On one hand, institutes and economists observed a noticeable brightening of the climate in private consumption. On the other hand, the economic prospects for companies – depending on the industry – are indifferent. While mechanical engineering companies – an important indicator for economic development – are posting a decline in domestic orders of 19 per cent, other industries, such as, for example, the chemicals or pharmaceuticals industry, are confident. The automotive industry, which is so representative of economic development in Germany, was also restrained at the start of the year. Unemployment, which rose to 5.2 million euros in January, brought movement into the economic debate concerning the acceleration of further reforms. Against this backdrop and in view of the oil price, which rose to 55.2 dollars per barrel, initial institutes decreased their forecasts for the gross domestic product in Germany 2005 to 1.0 per cent. Hopes of an upturn in the cyclical decline are also based on exports at the start of the year.

Situation of the Company after the End of the Financial Year. Balda started the new financial year according to plan. As experience shows, the first quarter in the mobile communications market is the weakest period in the year. Therefore, the Group anticipates business development at the same level as the previous year in the first quarter.

In the course of the continued restructuring of the corporate organisation, Balda consistently further implemented the restructuring of the divisional organisation initiated in the year under review in the first few months of 2005. The adjustment of the structures to the requirements of the worldwide markets and globally active customers is well advanced. The following corporate changes of a legal nature have occurred: in Brazil, Balda-Lumberg Technologies Ltda. In Manaus merged with Balda-Lumberg Technologies Plasticos da Amazonia Industria e Comercio Ltda. with effect as of 01.01.2005. No further changes with

| U.S. and Asia see further growth. |

| Hopes for economic upturn based on exports. |

regard to corporate law have occurred since the start of the year. On 4th and 5th February the Group's international sales conference was held at the Balda-Everskill subsidiary in Suzhou, China. This event dealt mainly with optimising management of worldwide mobile phone projects, along with the expansion of business activities.

| Exchange programme for young engineers. |

On 24 February Balda took part in the international conference of the renowned Swedish university in Boras for the sixth time. As the only German corporation among 20 international companies, Balda is an active partner in the exchange programme of the institute for Engineering Sciences. Each year several students have the opportunity to gather practical experience at Balda within the framework of defined industrial projects.

At the beginning of February, the medical engineering division of Balda exhibited at the MEDTEC fair and conference event in Stuttgart for the third time. The fair is one of the leading events in Germany and internationally for manufacturers of medical products and with 400 had a third more exhibitors than in the previous year. Over 5,200 trade visitors informed themselves about market innovations.

At the same time, Balda made its first appearance at the Medical Device Technology fair in Birmingham in England. The fair was already taking place for the twelfth time and is England's leading sectoral event, although, in contrast to the Stuttgart MEDTEC, it is also geared to trade visitors from all over Europe and overseas. The appearance proved so positive that Balda Medical is already planning another fair appearance next year.

| Financial freedom for internal and external growth. |

With the contract signed 16th and 17th February, respectively, Balda AG, in collaboration with the IKB Deutsche Industriebank AG, is issuing a bond for over 40 million euros. The effective interest stands at 4.01 per cent with a term of 5 years. With this issue, the Balda AG Board of Directors hopes both to guarantee the current favourable interest level and to create the financial freedom for further internal and external growth together with strong cash flow in the first few months of 2005.

Forecast.

Economic growth will continue in 2005 worldwide, although with lessening momentum. According to estimates by market researchers, the rate of growth in the mobile communications market will slow down. The medical engineering market is developing at a consistently high level, whereas the prospects for the global automotive market are more restrained. The global economic situation will be outlined for the five national economies relevant to Balda.

Overall Economic Situation. The upswing of the world economy should continue in 2005 despite the high oil price (HWWA), although global growth will be weaker in the current year with 2.8 per cent, compared to 2004 with 3.7 per cent. In the **USA** economic researchers are anticipating a slow-down in the growth phase of 4.4 per cent in 2004 to 3.8 per cent in the current year. The unemployment rate is expected to fall to 5.2 per cent on average in 2005. The improved employment rate should give impetus to private consumption. On the other hand, economic researchers are expecting base rates to increase further and a record deficit in the national budget. Together with the savings rate, which fell to under 2 per cent in 2004, and the chronic current account deficit, these risks could slow private consumption and economic growth.

The economic recovery throughout the **eurozone** as a whole is to continue in 2005, but is not expected to develop any great momentum. The gross domestic product should increase by 2.4 per cent in the current year. This positive trend is attributable to the robust growth in the USA, China and Japan, which will boost world trade. The forecast for 2005, however, is subject to great uncertainty. A more restrictive monetary and financial policy in China and the USA could also slow growth in the eurozone. Higher base rates of the European Central Bank could also depress the economy.

Economic research institutes in **China** are expecting the boom to continue. The Chinese gross domestic product is likely to grow by 8.5 per cent in 2005. After an initial increase in the base rates in October 2004, further interest steps are expected in Beijing. The economic boom of 2004 in Latin America, with growth of 5.5 per cent, is expected to cool off in 2005. The national economies of Latin America are nevertheless set to increase by 4 per cent. Chile, at the top, is expected to achieve growth of 5.3 per cent, Venezuela 4.7 per cent and **Brazil** 3.9 per cent. In contrast to previous upward phases of Latin America, the region is currently growing under its own steam and not with loans. Therefore, the economic momentum, despite uncertain oil prices, investment pressure and the risk of a weak dollar, are regarded as sustainable.

The forecasts of economists for the development of the gross domestic product in **Germany** fluctuate between 1.0 and 2.0 per cent. An improved mood among consumers will likely increase domestic demand and private consumption, according to the annual economic report of the federal government. Private consumption is to grow by 0.7 per cent. On the other hand, the export engine is expected to run more slowly in 2005. The export volume is expected to stand at 5.5 per cent. The unemployment rate is set to increase only slightly to 10.7 per cent. On the other hand, economists expect strong growth in equipment spending from

| Question mark over the development of the US economy. |

| Boom in China continues. |

1.3 per cent in 2004 to 5.5 per cent in the current year. The consumption climate among consumers improved significantly at the start of the year. Export-oriented companies see risks in the oil price and in the exchange rate trend of the euro, but are generally cautiously optimistic.

Industry Situation: Mobile Phones. After growth in 2004 that came in well above expectations, the forecasts of market researchers for 2005 fluctuate between 8 per cent and an optimistic 10 per cent growth rate. The most important growth engine in the industrialised nations with high market penetration remains in the current year replacement demand, which was underestimated as recently as last year. The wealth of new mobile phone models, innovative technical performance features and the explosive expansion of services and applications could also stimulate sales above expectations in 2005. A further potential growth factor in 2005 could be the market launch of UMTS mobile phones in Europe, currently setting in on a broad front. Asia, and in particular China and India, Eastern Europe and Latin America will also be growth markets in 2005. Here the sale of more technically sophisticated mobile phones should increase. The research company IDC is expecting a global increase in mobile phone users of around 100 million to 1.7 billion people.

Declining growth in the mobile phone market. |

Industry Situation: Medical Engineering. The market for medical engineering is heavily fragmented into various segments. Its development does not allow a standard assessment. Balda is active in three submarkets that can expect above-average growth rates. The increasing average age and the frequently inappropriate eating habits increase the number of diabetes sufferers. In Germany alone the number of patients is set to increase from the current 6.5 million persons to 10 million by 2010 according to the German Diabetes Union. This trend will also increase the demand for the lancing device for diabetics produced by Balda. The number of asthma patients is to increase by more than 20 per cent by 2010. The market for inhalation systems, such as the dry powder inhaler from Balda, is to grow by 16 per cent annually.

Industry Situation: Automotive. For 2005, the Association of the German Automobile Industry (VDA) is expecting slight growth in the world market of around 1 per cent. The association is only cautiously optimistic for the German car manufacturers. Domestic car production is to exceed the limit of 5 million vehicles for the eighth year in a row in 2005. Overall the association is anticipating a consolidation at a high level. In Germany and Western Europe the German brands are to further expand their market share. According to B&D Forecast, the German car market will only really start to gather momentum in 2006 with around 3.4 million newly registered cars. The market researchers see only moderate growth for 2005 of 1.6 per cent. The unemployment and persistently high fuel prices will slow down demand initially. In the second half of the year newly appearing volume models will stimulate the market.

Recovery in the automotive market not expected until second half of the year. |

Future corporate situation. Balda is anticipating organic sales growth of around 12 per cent in 2005 to between 420 million and 430 million euros. With around 60 per cent of Group sales, the Company will realize more than half its sales abroad for the first time. The core division Infocom is to generate 370 million euros or around 87.1 per cent of Group sales. The budgeting of Balda is thus once again higher than the forecasts for the mobile commu-

| Declining tax rate and increased net earnings. |

nications market in 2005. In terms of budgeting, the automotive division is expected to contribute 40 million euros or 9.4 per cent to revenue. Medical is budgeted at 15 million euros or 3.5 per cent.

Pre-tax earnings (EBT) are to be in the region of 42 million and 44 million euros in the current financial year. The further increasing sale and profit share of the production plants outside Germany will lead to a declining tax rate and hence to an improved net income and to higher earnings per share.

The Board of Directors and the Supervisory Board intend to stick to the tried-and-true strategy as regards scheduled business development and continue the **dividend policy** by paying a third of the earnings per share.

The Group plans to make investments to a sum of 25 million euros in 2005. New production plants, such as in Beijing, are not included in the projected figures yet. The investments mainly refer to tangible and intangible assets.

Acquisitions of companies or participations at home and abroad will also be considered in the financial year of 2005, provided that an acquisition helps to satisfy the **corporate strategy** or to strengthen the product or service portfolio. Diversification into completely new business or product segments is not planned. It is not possible to give information about possible acquisitions at the present time.

Balda also has a solid financing situation in 2005. Cash and cash equivalents on hand at the end of 2004 and the inflows from business operations form the basis of this. With the funds from the bond issued in February 2005 in the sum of 40 million euros, Balda has laid the foundation for the new formation or acquisition of further production capacities and growth in know-how. The Company also has credit lines at its disposal in addition to liquid funds. The credit line, in the sum of 60 million euros, runs until mid 2006. The liquidity of Balda AG is protected.

| 500 new employees in 2005. |

The workforce will rise by roughly 500 **employees** according to current budgets, without taking into account any acquisition of companies. The workforce at the production plants in Hungary and China will increase significantly. Overall, Balda will consciously continue its strategy of flexible production through the use of loan workers and flexitime, by way of adjusting to a fluctuating order situation .

Currently the future of the mobile phone division at Balda's mobile communications customer Siemens is the subject of much public debate. Recent Siemens reports make shut-down of mobile phone production hardly likely. Restructuring, a strategic or operative partnership with a third manufacturer or sale to a third party are being discussed in the media as well. The management of Balda assumes that should any of the three aforementioned options be implemented, a globally established partner will be required as a system supplier for the plastic components of mobile phones. In this respect the Company is unreservedly confident of being the supply partner for Siemens mobile phones.

As regards **materials procurement**, the Group is also anticipating further increases in the oil price and hence higher costs when purchasing plastics in 2005. Nevertheless, the Company can largely pass on these general price increases to customers. For the procurement of electronics components, purchased parts and other materials, the Company is not anticipating any exceptional fluctuations. The Company will resolutely continue the integration of suppliers into Balda processes and their certification in 2005.

| Further optimize the global integration of the production link and project management. |

Deliberations concerning a further production plant near Beijing are entering the crucial phase. A decision will be made in the first quarter of 2005. Moreover, the Group will concentrate on further optimising the global integration of the production link and worldwide project management. In the current financial year the trend towards the installation of electronics components will increase further. The Company is working at full capacity on the necessary process optimization and the required technologies. In general Balda hopes to expand its leading position in production technology.

In the financial year of 2005 Balda will consolidate and wrap up the Group's **divisionalisation** process. Changes to the legal corporate structure are not planned in this connection. By decentralising the structure of the Company into the three divisions of Infocom, Automotive and Medical, the Company is positioned appropriately in terms of markets and customers. The divisions can make optimum use of the potential of intra-group synergies.

Balda will also continue its strict corporate policy with respect to **environmental protection** in the financial year of 2005. The goals of environmental protection are fully considered when developing new processes and production technologies and when developing products. In future further subsidiaries will receive the environmental protection certification according to the latest version of ISO 14001.

Risk Report.

The most significant responsibility of the management of Balda is to capitalise on business opportunities while minimising any associated risks. The Company's risk management identifies, assesses and tracks the development of risks.

Risk management. As a multinational company, the Balda Group is exposed to a number of risks. Internal and external events can be mentioned here, as well as acts and omissions that might jeopardise the success or existence of the Group. In order to deal effectively with risks, Balda has established a control and monitoring system and incorporated it into an early risk-detection system. This system constitutes an integral part of Balda's planning, control and reporting process. The Board of Directors in its entirety is responsible for overseeing risk management. The consolidated audit regularly monitors compliance with the risk management system and reports to the Board of Directors. In daily business operations, managers function as „risk owners“, as they are called, taking responsibility for risk management within their division or area.

Risk management and early risk-detection systems at Balda are far from static. The scope of the risks expands or diminishes proportionate to actual business development. Thus, during the year under review, the incorporation of the international locations into the risk management system continued to improve. By setting up divisional controlling, the Infocom division established and standardised a global reporting system. Reporting is done on a monthly basis by the respective managing director. Topics of reporting are management statements on quality statistics, rates of capacity and other relevant factors. They analyse the deviations of actual data from the budget. Further topics are the probability of certain risks and opportunities for averting them by means of precautionary or preventive measures. The auditor examines Balda's early risk-detection system every year. He checks whether the system is capable of spotting factors that jeopardise the existence of the Company. The **potential future risks** listed below could impair the business development, financial standing and performance of the Balda Group.

| Global reporting system established. |

Macroeconomic Risks.

- | Cyclical economic trends
- | Additional charges due to changes in current conditions, such as those regarding taxes or ancillary wage costs.

Cyclical trends are a potential risk for Balda. Through our customers, the products manufactured by the Company are sold worldwide. Cyclical economic trends worldwide influence the purchasing power of consumers. However, cyclical trends do not take a uniform course. While Europe achieved only moderate growth rates during the year under review, Asia, the U.S. and South America experienced an upturn. The distribution of Balda's customers across the globe has more than made up for the drop in global economic trends in the 2004 financial year, both in mobile phones and in the products of car manufacturers. The meanwhile heavy globalisation of Balda's production operations also functions as a risk prevention package. It secures orders and jobs in Germany as well. The Medical division, on the other hand, is for the most part not dependent on cyclical trends.

Also among the macroeconomic risks for Balda are additional charges from taxes or ancillary wage costs, which cannot be ruled out for the future. However, currently there are no obvious risks arising from the overall economic development that would endanger the continued existence of Balda as a going concern.

Market Risk.

- | Cyclical trends in the mobile-phone market
- | Pressure on margins
- | Low acceptance of new products
- | Intensive competition in the mobile-phone market
- | Competition among supply partners
- | Order situation
- | Saturated markets
- | Market entry of new competitors

Because the Infocom division's share of revenue stands at roughly 90 per cent, Balda is especially dependent on cyclical trends in the mobile-phone market. All suppliers are normally exposed to the risk of cyclical trends in the crucial market. Minimising the risk for Balda's order situation is the fact that its customers, with a share of more than 60 per cent in the world market, are the market leaders in the industry. The Group can compensate for the varying degrees of acceptance of new mobile phones on the market with the wide variety of its customers and mobile-phone projects. The Company counteracts any pressure on margins due to intensive competition among mobile-phone manufacturers and suppliers by continually improving its costs in production and using innovative technologies or making them more flexible. Moreover, the international production locations, with their low-salary structures, have a stabilising effect. Although the risk of market saturation is on the rise, developing markets and innovative mobile phones with new performance features offer the potential of double-digit growth by covering the demand for replacements in markets that are quite saturated. Entry into the market of a new competitor or the introduction of innovative technologies as yet unknown to Balda are not foreseeable.

The diversification of the Medical Engineering and Automotive product portfolio, comparatively recent in the case of Balda, played a minor role in minimising the risk of dependency on the mobile-phone market during the year under review. Both divisions are in the process of development and have considerable opportunities for growth.

Supplier and Procurement Risks.

- | Compliance with ever-shorter delivery periods
- | Supply chain from the supplier and to the customer
- | Reliance on third parties
- | Price fluctuations
- | Costs
- | Increased purchasing of LCDs and electronic components
- | Technically more complex assembly
- | Inventory risk
- | Globalisation

| Customers' market share world-wide minimises risk. |

| Training of employees to prevent risk. |

By reorganising the Purchasing and Supply Chain and Supply Line-Management functional areas, Balda provided the preconditions for meeting global requirements in logistics, both from the supplier and to the customer. By means of diligent audits of suppliers, the Company ensures the quality of goods and timely delivery. Consignment stock at Balda and near the production sites of customers also guarantee on-time delivery. The Company minimises dependency on supply partners or logistics companies by means of careful monitoring. Balda's Procurement Management has set up systems for eliminating any delivery shortages. For every item, Balda has at least two supply partners. The Company counters the risk of price fluctuations for purchased items as much as possible through agreements with its customers. The customers bear the cost of any price increases in the case of most products. As the main market of Infocom changes, there is an ever-increasing possibility of Balda assuming greater responsibility in the area of manufacturing components. Increased buying of liquid crystal displays (LCDs) and electronic components would lead to greater use of logistics, a higher inventory risk and additional cost risks. The Board of Directors is aware of this and has initiated appropriate measures for orientating the organisation towards this possibility and acquiring qualified staff. Installation and assembly of these electronic parts require a higher degree of know-how. Appropriate training sessions for employees are planned or are being prepared. All told, the Company tracks its inventory of raw materials or finished goods on an ongoing basis. The accumulation of cost-intensive quantities is thus promptly identified or, as the case may be, minimised. Finally, the increasing globalisation of the Group magnifies the supplier and procurement risks. However, in reorganising, Balda has taken adequate precautionary measures.

Technology Risks.

- | Technological change
- | Flopped product launches
- | Expenses for basic research

In all three markets, technological change is proceeding at an ever-faster pace. However, the risk that Balda will miss out on a decisive trend in production technology is minimal. At the very latest, in the course of regular auditing by customers, the Company would learn of any technological deficits or omissions. Even the risk that a product will not be accepted by the market is minimal. The customers accompany every phase the development of new projects. The specifications for the products are co-ordinated with the customer down to the last detail. Balda analyses the cost-benefit ratio of non-customer-specific innovations very carefully prior to release of projects. That also applies to co-operations with universities and other companies.

Capacity Risks.

- | Production capacities with high fixed costs
- | Fluctuations in demand

Obtaining production capacities in ten locations and five countries required considerable investments. Although these production facilities are the basis of the Company's success, they also give rise to sizeable fixed costs, making a certain usage of capacity necessary.

To protect its investments, Balda pursues a make-or-buy strategy. Order volumes that exceed capacity are also covered by external suppliers. Fluctuations in the demand of mobile-phone customers can also bring about lower usage of production capacities. By hiring part-time staff, Balda has made its internal cost structures more flexible and can thus control the risk of unused capacities. On the other hand, Medical Engineering, due to its multi-year product lifecycles and lack of reliance on economic trends, faces a lower capacity risk.

Risks from Activities Abroad.

- | Different objectives for business policy
- | Legal certitude

The globally positioned production sites of Balda comply with customer requests, thereby enhancing the competitive standing of the company. Potential risks are also posed by the partners at the international sites, in particular those joint venture partners with equal rights. Changing policy objectives and strategies might prompt clashes, resulting in financial loss. Balda counters this risk by maintaining a continuous and open dialogue with partners in the joint venture companies. Balda's international involvements undergo careful scrutiny as regards applicable national law. No risks are expected in this area.

Capital market and financing Risks. Currently, Balda sees no risks in capital markets. Since the capital measures taken during the 2003 financial year, the Company's equity position has strengthened considerably. The credit line in Germany is good until mid-2006. The Company tracks liquidity requirements by means of budgeting and mid-range planning, which safeguards the financing framework. In Asia, the Company has a good credit line at its disposal. In Brazil the cash items provide adequate resources. Although the increased purchasing volume in electronic components intensifies the need for financing, it is covered by the existing lines of credit.

| Secure funding framework. |

Currency Risks.

- | Inflation
- | Transfer of profits

Relocating production operations abroad increases currency risks due to such things as inflation. The local currency risks are covered by the fact that most of the respective country units do their purchasing in the local currency as well. Purchases in foreign currencies are mainly protected by agreements with the customers. The Board of Directors monitors the impact of currency fluctuations on the Group in close co-ordination with the Supervisory Board. Currently, neither body sees the necessity for further measures. Transfers of profits from abroad are safeguarded and, thanks to the structures that are in place, do not jeopardise our tax status.

Staffing Risks.

- | Competition for highly qualified employees and executives
- | Recruitment
- | Attrition risks

The competition for highly qualified employees and executives with technical or industry-specific backgrounds is fierce at all of Balda's production sites. Balda leverages its partnerships with universities and colleges to recruit staff. In addition, the Company is vigorous in attending relevant trade fairs. Balda continues to develop its acknowledged position as an attractive employer. The Company's staff development activities offer a broad range of further-education programmes and a multitude of career opportunities. Balda takes a leading position as a training enterprise. Balda has implemented a substitution policy to avoid the risk posed by the loss of key employees.

Cooperative efforts with universities.

IT Risks.

- Failure of computer systems and networks
- Unauthorised access from the outside

Risks may result from the failure of computer systems and networks, as well as from the possibility that the Company's IT systems may be accessed from outside. By relocating parts of the IT infrastructure to a data centre with international coverage, Balda has taken precautions against a possible system failure. A firewall and other security systems guarantee protection against third-party attacks on the Company's systems.

Organisational Risk.

- Supply chain management
- Purchasing management
- New „Technology“ unit
- Project management for reorganisation

Outsourcing of parts of IT infrastructure.

The reorganisation of the supply chain (Supply Chain and Supply Line Management) could pose a risk if there are problems during start-up. The steps taken to date to re-organise the supply chain in the Company have met with success. The logistics partners outside the Company are subject to an exhaustive controlling procedure. The new purchasing management system has also run smoothly to date. The new structure and the introduction of streamlined processes in the Technology division proved to be successful in the year under review. Leaving the overall re-organisation within the Group under the control of Project Management could generate risks. However, the subdivision of fields of activity into priorities by the Board of Directors in 2004 specified the right objectives at the right pace. Any risks that might occur during the re-organisation of the Group appear fully controllable.

Legal and Other Risks.

- Differing national legal systems
- Legal disputes
- Liability risks
- Recalls
- Bad debts
- Official approval of medical and pharmaceutical products

International legal advice.

Balda deals with risks arising from differences between national legal systems at the various sites – such as those in the drafting of contracts – by seeking internationally active legal counsel. Balda is not involved in any legal disputes that would impact consolidated earnings negatively. The Company is insured against risks arising from liability (including product liability), from recalls or from bad debts. The underlying agreements are reviewed on an ongoing basis and coverage amounts adjusted as needed. In the case of medical engineering and pharmaceutical products, Balda is dependent on the approval of the German Federal Institute for Drugs and Medical Devices (BfArM). Here, too, the official approval process could cause delays in production start and thus also cost risks. Balda will continue to cover this risk class with careful projections and planning.

Environmental Risks. Alongside Balda Heinze, Balda Solutions, Balda Werkzeug- und Vorrichtungsbau and IPH Werkzeugbau have gained certification under the DIN EN ISO 14001 environmental standard. On the basis of a clearly orientated environmental policy, the consolidated companies have developed environmental targets and defined an environmental programme from them. Environmental activity is determined and documented by means of clear assignment of responsibility to staff members. Training sessions for employees and targeted internal and external communication measures ensure that legal provisions and the strict standards set by Balda itself are complied with. Special attention is paid to the storage and handling of hazardous materials, advance planning of emergency procedures and optimisation of the system. Currently, no environmental risks can be identified.

Overall Risk. In summary, it may be said that in taking advantage of the enormous opportunities, Balda devotes its attention predominantly to economic and market risks and to its dependency on customers in the mobile-phone industry

No known processes that threaten development or continued existence.

The Company is able to continue controlling any risks arising from internal processes and business processes or in project management. The Company has taken precautions against other external risks with negative impact on the business situation of Balda, for example by taking out insurance.

According to information and results available as of today, no occurrences are known to us that might jeopardise planned development or the continued existence of the Company as a going concern.

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 2004 financial year in March 2005. 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, 9th March 2005

Board of Directors of Balda AG

Auditor's Statement - AG

Having completed our audit we have issued the following unrestricted audit certificate, dated 7th March 2005, for the financial statements of 31st December 2004 (annexes 1 to 3) and the summary annual report for the financial year 2004 (annex 4) of Balda AG, Bad Oeynhausen.

„We have audited the financial statements, including the accounts and the annual report which is combined with the consolidated annual report of Balda AG, for the financial year from 1st January to 31st December 2004. In accordance with German commercial law and the additional regulations contained in the articles of incorporation, the accounts and the presentation of financial statements and annual report are the responsibility of the legal representatives of the company. 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 annual report.

We conducted our 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 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 company 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 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 provided by the company's legal representatives, as well as an appraisal of the overall presentation of the financial statements and the 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, the financial statements, prepared in compliance with the principles of proper accounting, give a true and fair view of the assets, the financial position and the earnings of the company. The summary annual report as a whole gives an accurate view of the situation of the company, representing potential future risks in an appropriate manner.

We provide the above audit report in compliance with the legal regulations and principles of proper reporting for annual audits (IDW PS 450).

Any use of the audit certificate reproduced above outside the context of this audit report requires our prior consent. In the case of publication or transmission of the financial statements and/or of the summary annual report in any form which deviates from the certified version (including translation into other languages) we must first be consulted again in the event that our audit certificate is cited or reference is made to our audit; see § 328 of the German Commercial Code (HGB).

Bad Oeynhausen, 9th March 2005

WestAudit AG

Auditors

Dipl.-Kfm. J. Möbius

Auditor

Dipl.-Kfm. G. Spielmann

Auditor

Auditor's Statement - Group

Having completed our audit we have issued the following unreserved audit certificate for the consolidated financial statements of 31st December 2004 for Balda AG, Bad Oeynhausen, hereby attached as annexes 1 to 5, and the summary annual report for the 2004 financial year, attached as annex 6.

„We have audited the consolidated financial statements prepared by Balda AG for the financial year from 1st January to 31st December 2004, consisting of the consolidated balance sheet, the consolidated income statement, changes to equity, cash flow statement and the consolidated notes, which are combined with the notes for Balda AG. The presentation and contents of the consolidated financial statements are the responsibility of the Company's Board of Directors. It is our responsibility, on the basis of the audit conducted by us, to assess whether the consolidated financial statements comply with the International Financial Reporting Standards (IFRS).

We conducted our consolidated annual audit in accordance with the German auditing regulations and the principles laid down by the German Institute of Auditors (IDW) for proper auditing. According to these, the audit is to be planned and conducted in such a way that it is possible to assess with adequate certainty whether the consolidated financial statements are free of seriously erroneous assertions. 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 evidence for the figures and details in the consolidated financial statements is assessed on the basis of random samples. The audit includes an evaluation of the principles of accounting applied and key projections provided by the company's legal representatives, as well as an appraisal of the overall presentation of the consolidated financial statements. We are of the opinion that our audit provides an adequately secure basis for our considered judgement.

In our considered opinion the consolidated financial statements, prepared in compliance with the IFRS, 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.

Our audit, which, according to German auditing regulations, also covered the consolidated annual report prepared by the Board of Management for the financial year from 1st January to 31st December 2004, which is combined with the annual report of Balda AG, identified no cause for exception.

In our considered opinion, the summary annual report, together with the remaining details of the consolidated financial statements as a whole, gives an accurate impression of the situation of the Group, representing potential future risks in an appropriate manner. We further confirm that the consolidated financial statements and the summary annual report for the financial year from 1st January to 31st December 2004 fulfil the requirements for exemption of the company from the preparation of a consolidated financial statement and consolidated annual report under German law.“

We provide the above audit report in compliance with the legal regulations and principles of proper reporting for annual audits.

Any use of the audit certificate reproduced above outside the context of this audit report requires our prior consent. In the case of publication or transmission of the consolidated financial statements and/or of the summary annual report in any form which deviates from the certified version (including translation into other languages) we must first be consulted again in the event that our audit certificate is cited or reference is made to our audit; see § 328 of the German Commercial Code (HGB).

Bad Oeynhausen, 9th March 2005

WestAudit AG

Auditors

Dipl.-Kfm. J. Möbius

Auditor

Dipl.-Kfm. G. Spielmann

Auditor

Industrial metropolis in the jungle

In Manaus, a city with two million inhabitants in the middle of the jungle, Balda has established the Balda Lumberg joint venture, along with its partner Lumberg. Manaus is Brazil's most northerly city, and the capital of Brazil's biggest federal state, Amazonas. The region has been a free-trade zone since 1967, and also partially exempted from taxes.

Under these favourable conditions, some 600 industrial companies from at home and abroad have set up business on the edge of the city, including well-known manufacturers of proprietary goods, primarily of electronics products. Manaus is also considered the capital of the mobile phone industry in South America. The city is practically inaccessible overland. There is just one track heading north to Venezuela. The cutters and small boats on the Amazon River serve as transport for the locals. Anyone who does not have a lot of time to spare for the enormous distances, takes the plane.



Fabiana Patrocínio introduces us to Manaus, a town that grew rich from rubber in the 19th century. She is 19 years old and works for Balda-Lumberg as a skilled worker in the assembly of mobile phone components. „I like working for Balda-Lumberg. The eleven colleagues in my team and I received good technical training to enable us to carry out our high-precision work.“ Fabiana is proud of having worked on the production of six different mobile phones that are extremely successful on the Brazilian market.

„Today our city still conveys an impression of why it used to be called the Paris of the tropical rainforest. The Teatro Amazonas dating from 1896, with its striking dome, represents that epoch.“ Today it is the focal point of Brazilian opera, unique in the whole of South America. „I too am a member of a theatre group, and I dance the Capoeira, a very expressive dance.“ Many people here are enthusiastic dancers. With the Rio Negro palace from the 19th century, the Forest of Science containing the entire variety of species from the

Amazonian rainforest, the Eco-Park and what is known as the Ape Jungle, Manaus has many unique sights to offer.

Fabiana Patrocínio particularly likes the beach on the river at da Ponta Negra, with its many restaurants and bars. „This is where our city comes to life.“ She finds the confluence of the rivers Rio Negro and Rio Solimoes, not far from Manaus, fascinating. Inky blue and lemon yellow water mix slowly together over 10 kilometres to the Amazon, the river containing the most water in the world.

Picture, right: Laser measuring of a mobile phone cover

Picture, bottom left: Fabiana Patrocínio

Picture, bottom centre: Purchasing processing

Picture, bottom right: Manual assembly of automotive components

Picture, next page: Manual removal of an injection-moulded motorcycle speedometer housing



Good technical training for high-precision work.



Location: Brazil
Established: 1999
Employees: 460
Products: A, B and C covers, displays for mobile phones, cockpit systems for motorcycles

Technologies: Injection moulding, IMD, assembly
Quality: DIN ISO 9001
Area: 5,000 m²

Consolidated Notes to the Financial Statements
for the 2004 Financial Year.

Consolidated Notes to the Financial Statements for the 2004 Financial Year.

I. General information

1. General information on Balda AG

Balda Aktiengesellschaft (AG) has its principal place of business in Bad Oeynhausen, Germany. The business activities of the Balda Group range from the development of materials to engineering, mould production and the manufacture of hardware components through to surface technology. It primarily supplies the Infocom sector, as well as the automotive, medical technology and similar industries.

On 1 August 2003 the Balda AG transferred its operative business to the wholly-owned subsidiary Balda Solutions GmbH & Co. KG and has since then operated as a management holding company.

All amounts stated are in thousands of euros (TEUR) unless otherwise specified.

2. Reporting of the consolidated financial statements of Balda AG

The annual financial statements of Balda AG have been drawn up in accordance with the regulations of the German Commercial Code (HGB) for a large capital-stock company as defined by Section 267 Subsection 3 HGB and in accordance with the supplementary regulations of the German Companies Act (AktG). The notes to the annual financial statement of Balda AG were prepared in conjunction with the notes to the group financial statement in keeping with section 298 Subsection 3 HGB (in short „Appendix”).

3. Reporting of the consolidated financial statements of the Balda Group

As the parent company listed on the stock exchange, Balda AG have made use of the option provided for in Section 292a HGB, to draw up the consolidated financial statements in accordance with internationally recognised principles of accounting. On the basis of this provision, the International Financial Reporting Standards (IFRS), formerly: International Accounting Standards (IAS), were applied.

We have exercised this option in accordance with IAS 1 and have chosen to structure the consolidated balance sheet by maturities, beginning with current maturities. Current maturities are all those assets and liabilities that have a term to maturity of less than a year. In doing so Balda AG complies with the requirements of Deutsche Börse AG with regard to the compilation of structured quarterly balance sheets.

Segment reporting in accordance with IAS 14 is shown in the notes to the financial statements.

The financial statements of the companies included in the group financial statements are based on uniform accounting and valuation principles that are in conformity with IFRS.

4. Principles of consolidation

a. Consolidated companies

Apart from the Balda AG, thirteen fully consolidated domestic subsidiaries and five fully consolidated foreign subsidiaries are included in the group financial statement. Four of these foreign companies were fully consolidated for the first time on 1 April 2004 as a result of the acquisition of the remaining 50 per cent of the shares from the foreign joint venture with Mikron AG.

The joint venture entered into with Lumberg Connect GmbH & Co. KG with the five companies involved have been included in the Group since 6 July 2004 by way of 50 per cent consolidation according to IAS 31.

Albea Technologies LLP, Germantown (USA) was deconsolidated on 30 September 2004. Up to this date the company was also taken into account within the Group in accordance with IAS 31 by way of proportionate consolidation. Up to the date of deconsolidation the Albea Technologies LLP was listed as a joint venture. The joint venture was dissolved on 30 September 2004.

In addition an affiliated company is valued within the framework of the equity method.

The subsidiaries are listed individually under Section IV of the notes to the financial statements.

The consolidation on 31 December 2004 is based on the financial statements of the fully and proportionately consolidated group companies.

On the respective date of acquisition, the acquisition of subsidiaries had the following effect on assets and liabilities:

	in millions euros
Current assets	20.6
Long-term assets	11.9
Current liabilities	15.6
Long-term liabilities	4.3

The effects of changes to the consolidated companies on assets, liabilities and profitability during the fiscal year 2004 were as follows:

	in millions euros
Cash and cash equivalents	4.2
Accounts receivable	13.3
Inventories	5.0
Tangible and intangible assets	13.0
Liabilities to banks	2.1
Trade accounts payable	5.0
Provisions	1.5
Other current liabilities	3.5
Long-term liabilities	3.5
Revenues	48.2
Material expenses	25.6
Gross earnings	22.0
Personnel expenses	5.0
Other operating expenses	7.6
Earnings before taxes (EBT)	7.0

b. Method of consolidation

Consolidation was done according to the acquisition method, in which the acquisition costs of the shares purchased are offset against the value of the shareholder's equity of the company purchased. Any resulting differences from this offsetting are allocated to the balance sheet items of the subsidiary up to current market value. Any remaining asset-side differences are capitalised as goodwill and written down as scheduled over 15 years.

On 31 March 2004 the IASB (International Accounting Standards Board) adopted the new IFRS 3 standard, which partially replaces IAS 22 and thus provides a new regulation for preparing and publishing annual financial statements of mergers. The fundamental element of this standard is the commitment to the application of the acquisition method as well as the prohibition of scheduled depreciation of goodwill, in place of which there is an impairment test.

In accordance with this, the goodwill from investment consolidation is continued in compliance with IAS 22 at acquisition cost, less acquisition-cost reductions and scheduled depreciation. In the case of consolidation in accordance with IFRS 3 there is an impairment test of the goodwill.

Accounts receivable and corresponding liabilities and/or provisions among group companies have been offset against each other.

Revenues from internal deliveries and other intragroup earnings have been offset against corresponding expenses. Intercompany receivables have been eliminated.

c. Currency conversion

All foreign companies within the Balda AG conduct their business independently with respect to finances, management and organisation. The financial statements are compiled in their respective national currencies.

Assets and liabilities have been converted at the market price on the reporting date. Expenses and income have been converted according to the average annual rate. Any balances resulting from the difference in the market price on the reporting date have been listed separately in a currency reserve in the shareholders' equity without affecting the operating result.

Currency differences arising from debt consolidation and from the consolidation of expenditure and income have been offset against each other with an effect on annual net income.

d. Corporate governance

In accordance with Section 161 German Companies Act (AktG), the board of directors and supervisory board issued a declaration on corporate governance in December 2004 and made this statement accessible to shareholders on the website of the Balda AG (www.balda.de).

II. Notes to the annual financial statements of Balda AG

1. Accounting and valuation methods

The annual financial statements of Balda AG are compiled in accordance with principles set forth in Sections 242 to 256 of the German Commercial Code (HGB) and Sections 264 et seq. of the HGB. The relevant provisions of the German Companies Act are also taken into account.

Intangible and tangible assets are stated at their acquisition and/or manufacturing costs, minus scheduled straight-line depreciation. The depreciation is based on the following projections of expected useful life:

	Years
Intangible assets	3
Buildings including those on outside landholdings	33
Technical equipment and machinery	3 to 10
Other plant, factory and office equipment	4 to 10

Depreciable movable fixed assets of low value are written off in full in the year of acquisition in accordance with Section 6 Subsection 2 of the Income Tax Law (EStG).

Financial assets are stated at acquisition cost.

Insofar as the value of assets determined in accordance with the principles above of the assets exceeds the value attributed on the reporting date, this is taken into account by means of non-scheduled depreciation.

Receivables and other current assets are stated at their face value. Valuations are made for foreseeable risks, while general risk exposure is taken into account by a lump sum valuation adjustment on accounts receivable trade. Current foreign currency receivables are converted at the rate on the reporting date.

The provisions take into account all recognizable risks and uncertain receivables.

The accounting and valuation methods remain fundamentally unchanged compared to the previous year.

2. Notes to individual items of the balance sheet

a. Fixed assets

For further details we make reference to the changes to fixed assets following the notes.

On the balance sheet date, non-scheduled depreciation was taken for a piece of land with a building on it to the lower assumed value of TEUR 595.

The shares in affiliated companies increased essentially through the purchase of the remaining 50 per cent of Balda Beteiligungs AG (formerly Balda-Mikron AG), amounting to TEUR 20,498 and through a capital increase of Balda Solutions GmbH & Co. KG (TEUR 19,500).

As a result of the acquisition of a majority share in the Balda Beteiligungs AG a reclassification of the shares purchased in 2001 of the holdings of shares in affiliated companies occurred, amounting to TEUR 19,322.

By reason of the purchase of all shares in Balda Beteiligungs AG, the loan made to a subsidiary was transferred from other loans to the loans made to affiliated companies.

As a component of the purchase price of the remaining shares of Balda Beteiligungs AG a loan made to a subsidiary by the seller was adopted (TUSD 4,093).

In addition foreign currency loans were written down on the reporting date by TEUR 153 to the lower assumed value of TEUR 6,201.

The holdings decreased on the one hand due to the transfer of shares in Balda Beteiligungs AG from the holdings in shares of affiliated companies and increased on the other hand due to the purchase of shares in the joint venture Balda-Lumberg of TEUR 15,145.

Apart from scheduled debt repayments (TEUR 660) the decline in other loans is above all attributable to the transfer of debt to the loans to affiliated companies.

b. Accounts receivable and other assets

The accounts receivable from affiliated companies include trade receivables of TEUR 14,731 (previous year: TEUR 5,288).

All receivables have a time to maturity of less than a year.

c. Cheques, cash in hand, deposits with the Bundesbank, and other commercial banks

This item includes cash in hand and deposits in current and time-deposit accounts.

The reduction in cash and cash equivalents is attributable in particular to financial investments funded by operating funds.

d. Deferred charges and prepaid expenses

Included in the deferred charges and prepaid expenses is, among other things, a discount of TEUR 289 (previous year: TEUR 325).

e. Shareholders' equity

The shareholders' equity of the Balda AG developed as shown below:

	Subscribed share capital TEUR	Capital reserves TEUR	Statutory reserves TEUR	Retained earnings TEUR
As of 1 January 2004	37,530	46,510	2	14,197
Dividend	0	0	0	-3,753
Conversion of convertible bonds	2,225	7,878	0	0
Net income for the year	0	0	0	16,793
As of 31 December 2004	39,755	54,388	2	27,237

The equity capital on the balance sheet date was TEUR 39,755. It is divided among 39,755,092 bearer shares, which entitle their holders fully to dividends.

The annual general meeting resolved on 29 April 2004 that the Board of Directors with the approval of the Supervisory Board may carry out an increase in the equity capital by TEUR 18,975 (approved capital) without a further resolution by the company in general meeting. On the balance sheet reporting date the approved capital still existed to its full amount.

Overall the equity capital increased in 2004 as a result of further conversions of convertible bonds by 2,225,092 on the bearer shares. The premium amounting to TEUR 7,878 was returned to the capital reserve. Consequently on the balance sheet closing day conversion rights remained on 523,933 individual share certificates. As a result on the balance sheet closing day an amount of TEUR 17,174 remained as authorized but un-issued capital.

The balance sheet result includes a profit carried forward from the previous year on the balance sheet date of TEUR 10,443.

f. Provisions

Other provisions include amounts for outstanding credit notes for debtors (TEUR 1,786), royalties (TEUR 400) and for outstanding invoices (TEUR 227).

g. Liabilities

Among the liabilities to banks, TEUR 5,480 is due within one year and TEUR 6,195 has a residual term of more than five years. All other liabilities are due within less than one year. Long-term debt has been repaid in the fiscal year according to schedule.

Apart from the borrowers' note loan (TEUR 5,000), the loans also include the still open amount repayable on the balance sheet closing date from the convertible bonds issued amounting to TEUR 581. Loans are secured by encumbrances on real property amounting to TEUR 12,000.

Of the loans TEUR 194 are due within one year and TEUR 5,397 after one to five years.

For the liabilities to banks securities amounting to TEUR 15,339 have been generated from encumbrances on real property. To secure the debt (TEUR 15,400) from the acquisition of the shares of the Balda Beteiligungs AG in 2001 these shares, including claims on a future share in annual net profits, have been pledged. Property was transferred as an additional security.

Included in the obligations to affiliated companies are liabilities from trade amounting to TEUR 34 (previous year TEUR 2).

Debts (TEUR 62) owed to companies with a shareholding relationship result completely from trade (previous year: TEUR 0).

3. Notes to individual items of the income statement

As a result of the transfer of the operative business to Balda Solutions GmbH & Co. KG in 2003, the individual items in the income statement of the fiscal year 2004 are not comparable with those of the fiscal year 2003.

a. Revenues

	2004 TEUR	2003 TEUR
On-charges for personnel provision, rent, etc	10,749	5,708
Plastics processing and surface technology	0	96,935
Development, engineering, mould construction	0	26,310
Total amount	10,749	128,953

b. Depreciation and amortisation of tangible and intangible assets

In the fiscal year 2004 moveable assets were sold to the Balda Solutions GmbH & Co. KG. This transfer of moveable assets in particular led to lower write-offs in the fiscal year 2004.

In 2004 non-scheduled depreciations amounting to TEUR 595 were only undertaken with regard to land, titles to land and buildings on third-party land.

c. Income from participating interests

The income from participating interests pertains to the net income for 2004 of Balda Solutions GmbH & Co. KG.

d. Depreciation on financial assets and on securities in the current assets

This item includes depreciation on other loans to affiliated companies (TEUR 153).

e. Earnings per share

	2004	2003
Net income for the year (TEUR)	16,793	5,723
Weighted average of the shares issued (in thousands)	38,576	34,152
Earnings per share (EUR)	0,435	0,168

High tech and constant growth



Location: Malaysia
Founded: 1990
Employees: 932
Products: A-, B and C-covers, displays for mobile phones, headsets

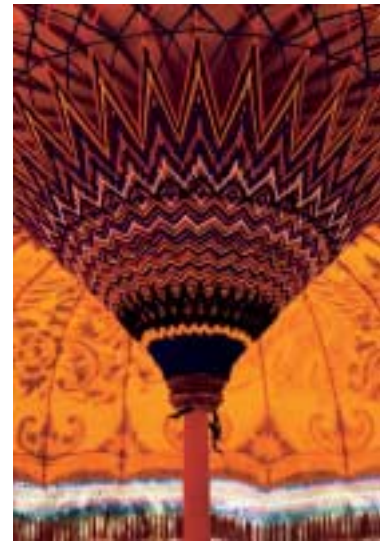
Technologies: tool-making, injection moulding, printed circuit board (pcb) assembly, assembly, IMD
Quality: DIN ISO 9001 and 14001
Area: 17,280 m²

The Malaysia country report on pages 96 to 99 is not part of the appendix.

In Malaysia, Balda AG indirectly (through Balda-Thong Fook Solutions Sdn. Bhd.) holds 37.5 per cent of the shares in the company operating since September 2004 under the name Balda-Thong Fook Solutions Sdn. Bhd.

The factory is based in Ipoh in the Zarib Industrial Park. With 560,000 inhabitants Ipoh is the third largest city in Malaysia. Industry in the municipality has been growing for years. The location has outstanding transport connections: Ipoh is located 200 km north of Kuala Lumpur, on the central railway line between Singapore and the provincial capital. The airport, which in the main only handles domestic flights, is only 15 minutes from the city centre. Balda-Thong Fook Solutions has short distances to the production locations of its mobile communications customers. Numerous high tech companies are based in the neighbourhood of the Zarib Industrial Park.

In the company of John Lee, 32 years old, an engineer at Balda-Thong Fook Solutions, we hope to get to know Ipoh better. John Lee likes the cheerfulness of his multicultural city, inhabited by roughly 65 per cent Malaysians, 20 per cent Chinese and circa 7 per cent Chinese live. In his free time he reads books, but he also likes to visit the numerous festivals in the old city centre.



Buddhist temples and modern skyline.

He appreciates the traditional architecture of the well preserved houses in the inner city. Modern blocks of flats and offices dominate the appearance of the city around the city centre. „Ipoh,” says John Lee, „is also famous for its Buddhist temples and for the chalk cliffs looming up around the city.” John Lee likes to go mountain hiking or fishing there. But his profession seldom leaves him time for it.



Balda-Thong Fook Solutions in Ipoh makes headsets, casings for mobile phones and displays as well as surface finishings, among other things. John Lee is responsible for the assembly of mobile telephones. He is in charge of automatic or rather semi-automatic as well as manual printed circuit board assembly of mobile phones with electronic components. The repair and maintenance of assembly installations is also within his area of responsibility. Forty-one employees work on his team.

The young engineer has attended numerous advanced training courses. The focus was on quality management with the aim of zero

defects in production. Among other things, he is certified as a Six Sigma „Green Belt”. He intends to obtain further qualifications in Six Sigma and lean manufacturing. John Lee praises the good team spirit at Balda-Thong Fook Solutions, which he describes as young, willing to work and success oriented. He is proud to work for Balda-Thong Fook Solutions. And he is proud of his country. „Malaysia,” says John Lee, „offers young people with good qualifications outstanding prospects.” The growth in the mobile communications market will continue, and with its highly modern technical plant in Ipoh, Balda-Thong Fook Solutions will further expand its growth too.



Picture above left: John Lee tests the components in the SMI process with a colleague

Picture above right: printed circuit board function test

Picture centre: soldering preparation of a printed circuit board

Picture below: adhesion of plastic parts

Picture right side: function test of a printed circuit board

Young, willing to work and success-oriented.



III. Notes to the consolidated financial statements of Balda AG

1. Accounting and valuation principles

The accounting and valuation principles have remained fundamentally unchanged compared to the previous year.

The uniform valuation options exercised within the Group were maintained in the year under review.

Receivables and other assets have been reported at face value. Adequate individual allowances were created for all risks foreseeable at the time the balance sheet was prepared. Current foreign-currency receivables were converted at the market price on the reporting date.

Inventories are stated at the lower of either acquisition and manufacturing costs or anticipated net proceeds.

Besides the prime costs of materials and manufacture, manufacturing costs also include the overhead rate and write-downs. Tool-making orders were valued according to the completed contract method.

The tangible and intangible assets are valued according to the acquisition and manufacturing costs, less scheduled straight-line depreciation. Depreciations are based in principle on the following projections of useful life:

	Years
Buildings	33 to 50
Machinery and equipment	3 to 10
Other plant, factory and office equipment	4 to 10
Intangible assets	3

The manufacturing costs take all expenses related to manufacturing into account.

In application of IAS 17, leased objects which must be allocated to the companies acting as equitable owners have been recorded as assets and depreciated according to their normal useful life (finance lease). The leasing rates recorded in the income statements under commercial law have been divided into an interest and a repayment portion.

With regard to tangible assets a depreciation at the lower of market value or cost was applied, insofar as this was necessary under IAS 36.

The shares in affiliated companies recorded under financial assets are carried in the balance sheet at acquisition cost. There was no controlling interest in these affiliated companies. The loans and other financial assets are carried in the balance sheet at their face value and/or the lower recoverable use value.

The shares in affiliated companies are reported in the balance sheet according to the equity method. The acquisition costs are increased or decreased according to the future net earnings for a given period. The goodwill calculated is based on an effective economic life expectancy of 5 years, which is written down according to straight-line depreciation. The depreciation resulting from this is offset directly against the book value.

A significant depreciation of the financial assets was not necessary for the 2004 financial year.

As a matter of principle goodwill is written off according to a straight-line depreciation method over 15 years. Insofar as during the inspection of valuations in accordance with IAS 36 impairment expenses are identified, these are taken into account under expenditure as non-scheduled depreciation.

In assessing deferred taxes, the tax on earnings expected at the time that temporary differences were realised was applied to these differences in accordance with IAS 12 .

All current liabilities are carried in the balance sheet with their repayment amount. The difference between the amount repayable and the payout amount is deferred. Current foreign currency liabilities have been converted at the market price on the reporting date.

Provisions are made for legal or effective obligations, which have their origin in the past, when it seems likely that the fulfilment of the obligation will lead to an outflow of group resources and a reliable estimate of the amount of the obligation can be made.

In accordance with IAS 39 financial obligations are reported in the balance sheet at the acquisition cost on the date of purchase. Expenses directly attributable to the purchase (transaction costs) were taken into account. In the ensuing period an accumulation will be undertaken in accordance with the effective yield method, so that the repayable amount will result on the final date.

The pension provisions were determined taking the 1998 orientation tables of Dr Klaus Heubeck and an interest rate of 5 per cent into account, according to the projected unit credit method.

2. Segment reporting

In the Balda Group the reporting format of the primary segment is broken down according to geographical location, as in the previous year.

Within the Balda Group the primary segment is subdivided according to the regions of Europe, Asia and the Americas. In all segments the location of the segment assets essentially corresponds to the revenues achieved in these segments vis-à-vis third parties.

Primary segments in TEUR	Europe		Asia		Americas		Intersegment correction		Group	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenues	286,153	250,715	83,801	29,576	10,157	0	-2,435	-7,404	377,676	272,887
<i>Change from previous year in %</i>	14.1%		183.3%						38.4%	
Total operating performance (1)	292,817	263,848	82,851	30,539	10,446	0	-2,817	-7,413	383,297	286,974
<i>Change from previous year in %</i>	11.0%		171.3%						33.6%	
Material expenses	100,722	103,105	41,387	16,752	7,429	0	-3,037	-8,211	146,501	111,646
<i>in % of total performance</i>	34.4%	39.1%	50.0%	54.9%	71.1%				38.2%	38.9%
Personnel expenses	68,510	60,901	8,918	4,208	1,090	0	0	0	78,518	65,109
<i>in % of total performance</i>	23.4%	23.1%	10.8%	13.8%	10.4%				20.5%	22.7%
Other operating expenses	63,141	49,767	13,683	5,285	1,416	0	220	819	78,460	55,871
<i>in % of total performance</i>	21.6%	18.9%	16.5%	17.3%	13.6%				20.5%	19.5%
EBITDA	60,445	50,075	18,862	4,294	511	0	0	-21	79,818	54,348
<i>in % of total performance</i>	20.6%	19.0%	22.8%	14.1%	4.9%				20.8%	18.9%
Depreciations (2)	18,246	18,012	2,790	1,375	133	0	0	0	21,169	19,387
<i>in % of total performance</i>	6.2%	6.8%	3.4%	4.5%	1.3%				5.5%	6.8%
EBITA	42,200	32,063	16,072	2,919	378	0	0	-21	58,649	34,961
<i>in % of total performance</i>	14.4%	12.2%	19.4%	9.6%	3.0%				15.3%	12.2%
Amortisation of goodwill	5,681	1,767	981	797	65	0	0	3,509	6,727	6,073
<i>in % of total performance</i>	1.9%	0.7%	1.2%	2.6%	0.6%				1.8%	2.1%
EBIT	36,519	30,296	15,091	2,122	313	0	0	-3,530	51,922	28,888
<i>in % of total performance</i>	12.5%	11.5%	18.2%	6.9%	3.0%				13.5%	10.1%
Investments (3)	10,219	15,346	7,061	2,244	593	0	0	0	17,873	17,590
Segment assets (4)	142,533	169,839	77,075	26,172	15,869	0	-11,089	-2,783	224,388	193,228
<i>EBITDA in % of segment assets</i>	42.4%	29.5%	24.5%	16.4%	3.2%				35.6%	28.1%
Segment liabilities (5)	41,764	38,763	13,074	7,564	4,910	0	-8,772	-2,817	50,976	43,510
Expenses not affecting payments, without write-offs	0	0	0	0	0	0	0	0	0	0
Number of employees as of 31.12. (6)	2,372	2,257	2,924	1,342	236	0	0	0	5,532	3,599

(1) Total performance – revenues plus other operating expenses plus/minus inventory changes plus other internally produced and capitalised assets

(2) Without depreciation on added value

(3) Investments – investments in tangible and intangible assets

(4) Segment assets – fixed assets plus current assets without non-interest bearing assets and without tax claims

(5) Segment liabilities – non interest bearing liabilities and provisions including SoPo for investment allowances / without tax liabilities and/or tax provisions

(6) Number of employees as of 31.12 – including subcontracted workers, temporary workers and trainees

The reporting of the secondary segments depends on the business area and is subdivided into the business areas „Development, engineering, mould making and other” and „Plastic processing and surface technology”.

On account of the impairment test carried out depreciations were taken in the European segment to the lower recoverable use value of goodwill amounting to TEUR 3,915.

Secondary segments in TEUR	GF1 Development, engineering and mould making		GF2 Plastics processing and surface technology		Group	
	2004	2003	2004	2003	2004	2003
	Revenues	65,267	69,293	312,409	203,594	377,676
Change from previous year in %	5.8%	48.5%	53.4%	34.2%	38.4%	37.6%
Investments (1)	6,339	818	11,534	16,772	17,873	17,590
Segment assets (2)	21,104	24,919	203,284	168,309	224,388	193,228

(1) Investments – investments in tangible and intangible assets (including initial consolidation)

(2) Segment assets – fixed assets plus current assets without interest bearing assets and without tax claims

3. Cash Flow statement

The cash flow statement has been compiled in accordance with IAS 7 Cash Flow Statements. Cash flow can be broken down according to business, investment and financing activity. The cash and cash equivalents recorded in the cash flow statement comprise the liquid funds.

The development and composition of the cash flows are attached in a cash flow statement as a separate constituent part to the group financial statement.

Changes from the acquisition and sale of subsidiaries affecting payments are recorded as outflow of funds and/or injection of new funds from investment activity.

The effects from changes in the consolidated group have been adjusted correspondingly in the individual items of the cash flow statement.

The individual items in the cash flow statement are as follows:

a. Cash Flow from operating activities

The cash flow from operating activities increased by TEUR 2,604 to TEUR 48,019. The increase in operative earnings is in contrast above all to a decrease in provisions and liabilities.

b. Cash Flow from investment activity

In the year under review 2004 the group acquired fixed assets amounting to TEUR 16,129. Payments amounting to TEUR 15,293 were made for the purchase of the fixed assets.

Financial assets consist of cash and cash equivalent consist of repayment of loans to third parties.

We regard the sale of the 25 per cent share in Balda-Everskill Investment Singapore Pte. Ltd, together with the acquisition of the remaining 50 per cent share in the joint venture Balda-Mikron as a financial matter, not least on account of their close proximity in time. Together with the acquisition of the shares in the joint venture Balda-Lumberg this produced an outflow of funds of TEUR 27,143.

In detail the accruals in assets and debts, each valued at their current market value, as well as the changes in the in- and outflows of cash and cash equivalents is as follows:

	in TEUR
Liquid funds	4,939
Inventories, receivables and other current assets	15,706
Tangible and intangible assets	11,845
Financial liabilities	-4,713
Other liabilities	-15,159
	12,618
Goodwill	23,025
Purchase price total	35,643

The net outflow of cash funds amounts to TEUR 30,704

The inflows from sales amounting to TEUR 8,500 were offset against disposals of assets and debts consolidated as minority shares of TEUR 3,554. Disposals of goodwill amounting to TEUR 6,962 have occurred.

c. Cash Flow from financing activities

Changes in liabilities to banks affecting payments result to their full extent from repayments of debt as well as repayments of current account liabilities.

Cash-related changes in finance lease obligations affect inflows of TEUR 908. Liabilities amounting to TEUR 406 were fully redeemed.

d. Change in cash and cash equivalents

Overall the stock of cash and cash equivalents decreased by TEUR 5,139 to TEUR 28,464.

4. Notes on individual items in the consolidated balance sheet

Current assets

a. Cash and cash equivalents

The cash and cash equivalents include cash in hand, deposits with banks and Post Office giro deposits.

b. Trade accounts receivable

On the balance sheet closing date the trade accounts receivable amounted to TEUR 60,056. The increase of TEUR 19,957 is essentially attributable to a rise in revenues in the last quarter and consolidation effects.

The discounts on accounts receivable amounted to TEUR 3,705 on the balance sheet closing date.

All accounts receivable have a time to maturity of less than one year.

c. Inventories

A depreciation of TEUR 8,040 (previous year: TEUR 2,832) was assigned to the inventories on hand on the balance sheet closing date to the lower net realisable value.

d. Prepaid expenses and other current assets

The active prepaid expenses essentially contain discount amounts totalling TEUR 374 (2003: TEUR 422). They will be retransferred in equal instalments during the term of the underlying liabilities.

The other assets include claims to reimbursement for tax payments on earnings totalling TEUR 1,089 (2003: TEUR 690).

Long-term assets

With regard to changes in the individual areas of the long-term assets (without deferred taxes) we refer to our presentation of the development of long-term assets, which is attached as an annex.

e. Tangible assets

The balance sheet item values in the group financial statement are composed of the book values of the individual financial statements and the goodwill from the initial consolidation, minus the accrued depreciations. The net book value essentially corresponds to the use value.

Non-scheduled depreciations were undertaken totalling TEUR 1,103.

To secure the long-term liabilities, encumbrances on real property and assignments as security totalling TEUR 40,109 exist.

Insofar as the companies of the Balda Group bear the opportunities and risks associated with leased tangible assets (finance leasing), such assets are reported in accordance with IAS 17 at the acquisition costs that would have been incurred if they had been purchased.

The book value of the leased assets – reported under „Machinery and equipment” as well as under „Other plant, factory and office equipment” – comprises the following:

	31.12.2004 TEUR	31.12.2003 TEUR
Acquisition costs	2,067	1,711
Accrued depreciations	692	1,170
Book value	1,375	541

f. Intangible assets

Intangible assets consist primarily of software acquired for consideration.

The development costs and self-constructed intangible assets may be activated in accordance with IAS 38 under the preconditions mentioned there. As in the previous year the overall research and development costs in the fiscal year 2004 amounted to around EUR 2.3 million. The overwhelming proportion of these involved development costs. An activation of the development costs did not occur, since the asset characteristics of the costs were not sufficiently certain.

The amounts identified in accordance with IFRS 3 from the valuation of the acquisitions as differing from the orders position (104 TEUR) were depreciated at TEUR 65 during the financial year.

g. Financial assets

The shares in affiliated companies were kept as available for sale; all other financial assets are loans and receivables originated by the enterprise.

The shares in affiliated companies refer to the interest in aimtec GmbH, accounted for „at equity”. The direct investment income of pro rata TEUR 152 is offset by depreciations of goodwill of TEUR 105.

A debt of TEUR 2,025 currently paying variable interest of 5.3 per cent is recorded under loans to subsidiaries and affiliates. Of the loan amount, a partial sum of TEUR 2,022 will come due after 12 months.

The other loans were repaid as scheduled during the 2004 financial year.

On acquisition of the companies in the Balda-Lumberg joint venture, a part of the purchase price was deposited in a trust account with a notary. This is to cover imminent risks, which at the purchase date were included in the balance sheet at their current market value. These contingent receivables totalling TEUR 1,355 have a maximum time to maturity of 3 years.

The fair value of the loans does not significantly deviate from the book value on account of the agreed conditions.

h. Goodwill

The valuation of goodwill in the group financial statement is a result of the initial consolidation of shares acquired in affiliated companies, insofar as active differential amounts cannot be distributed as goodwill among the individual assets. The goodwill reported in the balance sheet according to IAS 22 will essentially be written off on schedule within a period of 15 years.

The calculations of goodwill from the acquisition of the second 50 per cent share of the former joint venture Balda-Mikron take into account the pro rata disposal resulting from the sale of the 25 per cent shares in the former Mikron Singapore Investments Pte. Ltd. Retirement of book value was calculated according to the order of use procedure („last in, first out“). This yielded a disposal of book value in the amount of TEUR 6,962.

In accordance with the group internal standards regular impairment tests are carried out. Goodwill was valued by discounting the cash flow budgets. The capitalisation interest rate assumed before taxes equalled 19 per cent. In accordance with this it was necessary to devalue the goodwill of Balda-Heinze GmbH & Co. KG by TEUR 3,634 (also see the notes to the management report on the income statement).

On the balance sheet date, non-scheduled depreciations to the lower recoverable value of TEUR 3,915 as a whole are recorded as impairment expense in accordance with IAS 36.

i. Deferred taxes

Under the active deferred taxes the following amounts are reported for temporary differences in the fiscal year 2004:

	31.12.2004 TEUR	31.12.2003 TEUR
Tax abatement claims & realisable losses brought forward	4,061	1,655
Currency differences	1,635	1,173
Consolidation differences	1,002	1,000
Provisions	871	654
Total amount	7,569	4,482

For anticipated unrealised corporate tax abatement claims arising from the full tax credit system, deferred taxes of TEUR 633 were written off in 2004.

The deferred taxes on currency differences were accumulated without affecting the operating result.

The tax rate depends on the individual company circumstances in the particular group companies. The calculation of the corporate tax for domestic incorporated companies is based on the currently valid tax rate of 25 per cent.

Current liabilities

j. Current portion of the finance lease obligations

The current obligations from lease agreements amounted to TEUR 442 (previous year: TEUR 286) on the balance sheet date and involved sums due within a year from finance leasing.

k. Short-term debt and current portion of long-term debt

Current liabilities to banks decreased by TEUR 261.

The current portion of long-term debt consists of redemption payments due within the next 12 months of medium- and long-term debt. All amounts are therefore due within a year. The current portion of long-term debt is on the whole secured by encumbrances on real property.

l. Trade accounts payable

The liabilities essentially result from material deliveries and services and dropped by TEUR 511 from the previous year.

With regard to affiliated companies, liabilities totalling TEUR 597 exist.

m. Advance payments received

The advance payments received refer on the whole to receipts of payment for orders of assembly plant and tools already in production. They decreased by TEUR 3,329.

n. Provisions

Changes to short-term provisions were as follows:

	Balance on 1.1.2004	Changes in the consoli- dated group	Currency differences	Consumption	Retransfer	New Allocation	Balance on 31.12.2004
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Tax reserves	8,716	0	0	7,151	108	9,122	10,579
Holiday entitlements	2,871	666	-225	3,311	0	2,829	2,830
Outstanding balances	2,999	159	-24	3,083	44	4,937	4,944
Outstanding credits to the customers	2,491	221	-39	693	233	1	1,748
Other short-term provisions	4,117	309	-84	3,231	502	5,118	5,727
Total	21,194	1,355	-372	17,469	887	22,007	25,828

o. Other current liabilities

Other current liabilities are in large part salaries and wages not yet paid out together with the accompanying incidental wage costs totalling TEUR 5,138 (previous year: TEUR 4,142) and tax liabilities of TEUR 3,330 (previous year: TEUR 2,245).

Long-term liabilities**p. Long-term debt**

The due-dates of the repayment obligations from loans can be seen in the following table:

	Variable interest rates 5.24% to 7.9% p.a.	Fixed interest rates 3.85% to 6.5% p.a.	Total
	TEUR	TEUR	TEUR
2006 – 2009	7,016	13,424	20,440
After 2009	0	7,988	7,988
Total	7,016	21,412	28,428

The liabilities are for the most part secured by encumbrances on real estate and assignments.

q. Long-term finance lease obligations

The long-term finance lease obligations of TEUR 1,072 (2003: TEUR 726) consist of redemption payments for finance lease liabilities. All of these liabilities are due after one and before five years.

r. Deferred taxes

	2004 TEUR	2003 TEUR
Effects of acquisitions and dispositions	1,121	849
Revised evaluation according to IFRS criteria	1,481	1,812
Total	2,602	2,661

Deferred tax liabilities consist, among other things, of TEUR 368 (previous year: TEUR 528) for added value in tangible assets discovered in initial consolidation. The tax rate is calculated according to the company-specific conditions at individual Group companies. The deferred corporation income tax for domestic capital-stock companies is based on the current tax rate of 25.0%.

s. Long-term provisions / pension accrual

The changes in long-term provisions were as follows:

	Balance on 1.1.2004	Changes in the consoli- dated group	Currency differences	Consumption	Retransfer	New Allocation	Balance on 31.12.2004
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Long-term provisions / pension accrual	1,875	2,530	64	90	5	696	5,070

The long term provisions include obligations for pensions in the amount of TEUR 1,477 (previous year: TEUR 1,280). The accruals from changes in the consolidated group are with respect to contingencies and commitments noted in the balance sheet with respect to the acquisition of the subsidiaries of the joint ventures Balda-Lumberg as set down in IFRS 3. These obligations are balanced by contingent claims worth TEUR 1,355 (see also Point III. 4 g.)

t. Other long-term liabilities

Of the loans, TEUR 5,000 pertain to a note loan and TEUR 464 to the carrying acquisition cost of the convertible bond. Interest rates are fixed and stand at 6.5% and 5.75% p.a.

Of those shares that were converted in 2004 a total of TEUR 8,905 was added to the shareholder's equity from other long-term liabilities. Interest expenditure for the convertible bond amounted to TEUR 389 in the financial year.

Due to the take-over of the other 50% of the Balda-Mikron joint venture and the resulting full consolidation of the subsidiaries, there is a consolidation effect that results in a reduction in the other long-term liabilities of TEUR 1,757.

In addition, this item includes public subsidies for investments in tangible assets that were retransferred affecting income over the economic life of the subsidised assets. This item carried a residual amount of TEUR 245 as of the balance sheet date.

u. Minority interest

Changes in minority interest were as follows:

	TEUR
Balance on 1st January 2004	9
Reduction due to take-over of company shares	- 9
Increase due to sale of company shares	3,554
Dividends 2004	4,249
Balance on 31st December 2004	7,803

Through the acquisition of a 1% share of the Albea Grundstücks-Verwaltungsgesellschaft mbH from the third-party shareholder, the minority interests have been effectively dissolved.

With the sale of the 25% share of Mikron Singapore Investments Pte. Ltd. (now: Balda-Everskill Investments Pte. Ltd.) on the 23rd April, 2004, minority shares worth TEUR 3,554 were accounted for in the consolidated financial statements.

The profit shares from the yearly profit 2004 as of the time of purchase have been added to the minority shares.

v. Shareholder's equity

The development of shareholders' equity of the Balda Group is shown in a statement of changes in shareholders' equity attached separately to the consolidated financial statements.

Due to the shares converted in the reporting period, subscribed capital increased by TEUR 2,225 and the capital reserves by TEUR 7,662.

Differences arising from the currency translations of the balance sheets and income statements prepared in foreign currencies are paid into the currency reserves not affecting net income in accordance with IAS 21.

5. Notes on individual items of the consolidated income statement**a. Revenues**

For the companies of the Balda Group, revenues are calculated using the Completed Contract Method. If the goods and services have not been completed, the activation is evaluated at production costs and listed under inventories.

Of this year's revenues TEUR 151,482 (previous year: TEUR 148,548) were generated in Germany and TEUR 226,194 (previous year: TEUR 124,339) abroad.

b. Other operating income

Other operating income shown in the consolidated financial statements consists of the following:

Other operating income	2004 TEUR	2003 TEUR
Income from forwarded production costs	1,656	1,016
Income from the cancellation of adjustments of value on accounts receivable	1,270	426
Proceeds from the sale of materials	889	3,065
Book gains from the disposal of fixed assets	674	42
Retransfer of provisions	597	336
Other	1,724	1,361
Total	6,810	6,246

The income from the cancellation of adjustments of value on accounts receivable include, due to the initial full consolidation of the subsidiaries, a sum of TEUR 736.

The remainder of other operating income includes the differences in currency resulting from the cost and earnings consolidation (TEUR 388).

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

this item primarily consists of the change in the inventory of products manufactured by the Group, in particular production facilities, tools and injection-moulded items.

d. Other internally produced and capitalised assets

This section shows the Group's contribution to tangible assets.

e. Material expenses

The material expenses of the Balda Group increased by TEUR 34,855 to TEUR 146,501. The material usage ratio, defined as the ratio of materials used to total performance, was 38.2% for 2004 (previous year: 38.9%).

f. Personnel expenses

The Group's personnel expenses increased from TEUR 65,109 to TEUR 78,518.

g. Cost of depreciation and amortisation

Depreciation and amortisation increased by TEUR 2,436 to TEUR 27,896.

The income statement of the Balda Group is impacted by TEUR 2,812 in scheduled depreciation on added value from initial consolidation. In addition, TEUR 3,915 in non-scheduled depreciation to the lower of market or cost was made on goodwill.

h. Other operating expenses

Other operating expenses primarily consist of the following:

Other operating expenses	2004 TEUR	2003 TEUR
Temporary employees	20,311	14,696
Office space and maintenance costs	12,687	11,017
Rent and leasing expenses	5,761	4,465
Outgoing freight and inventory costs	5,337	4,880
Legal counsel and consulting costs	5,082	2,167
Energy costs	4,772	3,067
Travel / car / advertising and investor relations	3,994	2,597
IT costs	2,946	2,170
Employee training / fringe costs	2,766	1,484
Administrative costs	1,966	791
Insurance	1,580	1,317
External research and development	930	1,136
Other	10,328	6,084
Total	78,460	55,871

The consolidation of obligations has had a TEUR 210 effect on the Group's income statement.

i. Financing costs

The financing costs consist of the following:

	2004 TEUR	2003 TEUR
Interest paid	5,040	6,531
Interest received	820	487
Total	4,220	6,044

j. Taxes on income and earnings

The taxes on income and earnings include deferred taxes in the amount of TEUR 3,013 that reduce expenses.

The actual amount of taxes paid in the amount of TEUR 15,469 is TEUR 2,949 lower than the expected tax bill of TEUR 18,418, which would theoretically be due with a tax rate of 38.6% (previous year: 39.9%).

	2004 TEUR	2003 TEUR
Earnings before income taxes	47,749	22,844
Theoretical tax expenditure 2004 38.6% (previous year: 39.9%)	18,418	9,115
Difference in tax rates	-6,535	-1,487
Non-deductible expenses and income	3,756	3,217
Taxes from previous years	-170	433
Actual tax expenditure	15,469	11,278

k. Net income for the year

After offsetting the share of interest held by parties outside the Group, net income amounts to TEUR 28,031.

l. Earnings per share - undiluted

Undiluted earnings per share are as follows:

	2004	2003
Share of the Group in net income according to the income statement (TEUR)	28,031	11,563
Weighted average of the shares issued (in thousands)	38,576	34,152
Earnings per share in accordance with IAS 33 (EUR)	0.727	0.339

m. Earnings per share – diluted

Diluted earnings (TEUR)

	2004	2003
Share of the Group in net income according to the income statement	28,031	11,563
Interest income of potential shares from the convertible bond issue less deferred taxes	323	335
Diluted earnings	28,354	11,898

Diluted number of shares (in thousands)

	2004	2003
Weighted average of shares issued – undiluted	38,576	34,152
Weighted average of potential shares from the convertible bond issue	1,703	1,635
Weighted average of number of shares issued – diluted	40,279	35,787

Diluted earnings per share according to IAS 33: EUR 0.704 (previous year: EUR 0.332).

IV. Additional information

a. Average number of employees

The following numbers refer to employees of the Balda Group and exclude temporary employees and trainees.

	Group		Balda AG	
	2004	2003	2004	2003
Board of Directors	4	3	4	3
Administrative staff	677	456	14	81
Technical and commercial staff	2,679	1,943	0	281
Total	3,360	2,402	18	365

On the balance sheet date, the Balda Group had a total of 3,520 employees (previous year: 2,457).

For more information please see the status report.

b. Guarantees and other commitments

Contingencies in the Group and Balda AG are as shown in the following table:

	Group		Balda AG	
	2004 TEUR	2003 TEUR	2004 TEUR	2003 TEUR
from bonds	511	511	5,960	8,687
from guarantee agreements	12	3,504	30,134	38,634
Total	523	4,015	36,094	47,321

The guarantees that the Balda AG took on in the past with respect to the Asian banks for its Chinese subsidiary ended in 2004. Further, the obligations have been reduced due to the regular payments.

The Balda AG has posted bonds worth TEUR 5,449 (2003: TEUR 8,176) and taken on guarantees worth TEUR 30,122 (2003: TEUR 31,743).

c. Other financial obligations

	Group		Balda AG	
	2004 TEUR	2003 TEUR	2004 TEUR	2003 TEUR
2005	6,954	9,013	1,469	2,084
2006 – 2009	9,137	11,450	471	3,925
after 2009	7,806	9,968	0	665
Total	23,897	30,431	1,940	6,674

The other financial obligations of the Group consist TEUR 2.375 from ordering commitments for investments that will be due in their entirety in 2005. The Group's financial obligations from rental and leasing contracts amount to TEUR 20,724 (Balda AG: TEUR 1,940). A substantial item in the amount of TEUR 11,226 is the Groups obligation arising out of a real estate leasing contract with a residual term of 16 years.

Within the Group, the obligations arising from rental and leasing contracts result exclusively from such contracts in which the Balda companies are not the equitable owners according to IFRS (operating lease).

There are purchase commitments arising from the conclusion of a contract with a power company with a residual term of five years and a computed amount of TEUR 2,770.

d. Consolidated group of companies and share property

The following represents the consolidated Group of Balda Group. Insofar as direct holdings of Balda AG exist, the information provided corresponds to the share of Balda AG:

Fully consolidated companies**Unincorporated companies**

Company:	Balda-Heinze GmbH & Co. KG
Headquarters:	Herford
Shareholding Balda AG:	indirectly through Balda Werkzeug- und Vorrichtungsbau GmbH with 100%
Equity capital:	TEUR 5,781
Net income:	TEUR 2,508
Company:	ALBEA Kunststofftechnik GmbH & Co. KG
Headquarters:	Seelbach
Shareholding Balda AG:	indirectly through Balda Werkzeug- und Vorrichtungsbau GmbH with 100%
Equity capital:	TEUR 7,356
Net income:	TEUR 3,356

Company: Balda Medical GmbH & Co. KG
 Headquarters: Bad Oeynhausen
 Shareholding Balda AG: directly with 100%
 Equity capital: TEUR 288
 Net loss: TEUR 1,777

Company: Balda Solutions GmbH & Co. KG
 Headquarters: Bad Oeynhausen
 Shareholding Balda AG: directly with 100%
 Equity capital: TEUR 49,879
 Net income: TEUR 29,879

Incorporated companies

Company: Balda AG
 Headquarters: Bad Oeynhausen
 Equity capital: TEUR 121,382
 Net income: TEUR 16,793

Company: Sächsische Metall- und Kunststoffveredlungs GmbH
 Headquarters: Oberlungwitz
 Shareholding Balda AG: directly with 100%
 Equity capital: TEUR 4,238
 Net income: TEUR 577

Company: Balda Medical Verwaltungsgesellschaft mbH
 Headquarters: Bad Oeynhausen
 Shareholding Balda AG: directly with 100%
 Equity capital: TEUR 16
 Net income: TEUR 1

Company: Balda Werkzeug- und Vorrichtungsbau GmbH
 Headquarters: Bad Oeynhausen
 Shareholding Balda AG: directly with 100%
 Equity capital: TEUR 17,664
 Net income: TEUR 4,355

Company: Balda-Heinze Verwaltungsgesellschaft mbH
 Headquarters: Herford
 Shareholding Balda AG: indirectly through Balda Werkzeug- und
 Vorrichtungsbau GmbH with 100%
 Equity capital: TEUR 29
 Net income: TEUR 1

Company:	Albea Beteiligungs GmbH
Headquarters:	Seelbach
Shareholding Balda AG:	indirectly through Balda Werkzeug- und Vorrichtungsbau GmbH with 100%
Equity capital:	TEUR 33
Net income:	TEUR 1
Company:	HeRo Galvanotechnik GmbH
Headquarters:	Herford
Shareholding Balda AG:	indirectly through Balda Werkzeug- und Vorrichtungsbau GmbH with 100%
Equity capital:	TEUR 246
Net income:	TEUR 0
Company:	IPH Werkzeugbau GmbH
Headquarters:	Löhne
Shareholding Balda AG:	directly with 100%
Equity capital:	TEUR 1,403
Net income:	TEUR 213
Company:	Albea Grundstücks-Verwaltungsgesellschaft mbH
Headquarters:	Seelbach
Shareholding Balda AG:	indirectly through Balda Werkzeug- und Vorrichtungsbau GmbH and the Albea Kunststofftechnik GmbH & Co. KG with 100%
Equity capital:	TEUR 1.063
Net income:	TEUR 318
Company:	Balda Solutions Verwaltungs GmbH
Headquarters:	Bad Oeynhausen
Shareholding Balda AG:	directly with 100%
Equity capital:	TEUR 23
Net income:	TEUR 0
Company:	Balda Solutions Hungaria Kft.
Headquarters:	Veszprém, Hungary
Shareholding Balda AG:	indirectly through Balda Solutions GmbH & Co. KG with 100%
Equity capital:	TEUR 257
Net loss:	TEUR 396

Company: Balda Beteiligungs AG (formerly: Balda-Mikron AG)
 Headquarters: Zug (formerly: Biel), Switzerland
 Shareholding Balda AG: directly since 1st April, 2004 with 100%
 Equity capital: TEUR 22,649
 Net loss: TEUR 19,038

Company: Balda Norge AS (formerly: Balda Mikron Norge AS)
 Headquarters: Tunsberg, Norway
 Shareholding Balda AG: indirectly since 1st April, 2004 through Balda Beteiligungs AG with 100%
 Equity capital: TEUR -1,845
 Net loss: TEUR 992

Company: Balda-Everskill Investments Singapore Pte. Ltd. (formerly: Mikron Investments Pte. Ltd.)
 Headquarters: Singapore
 Shareholding Balda AG: indirectly since 1st April, 2004 through die Balda Beteiligungs AG with 75%
 Equity capital: TEUR 14,518
 Net income: TEUR 2,710

Company: Balda-Everskill Solutions Suzhou Ltd. (formerly: Balda-Mikron Suzhou Ltd.)
 Headquarters: Suzhou, China
 Shareholding Balda AG: indirectly since 1st April, 2004 through die Balda Beteiligungs AG and the Balda-Everskill Investments Singapore Pte. Ltd with 75%
 Equity capital: TEUR 29,326
 Net income: TEUR 19,089

Proportionally Consolidated Companies

Unincorporated companies

Company: Balda-Lumberg Deutschland GmbH & Co. KG
 Headquarters: Bad Oeynhausen
 Shareholding Balda AG: directly since 6th July, 2004 with 50%
 Equity capital: TEUR 29.528
 Net loss: TEUR 23

Incorporated companies

Company:	Albea Technologies LLP
Headquarters:	Germantown, Wisconsin, USA
Shareholding Balda AG:	indirectly through Balda Werkzeug- und Vorrichtungsbau GmbH und die Albea Kunststofftechnik GmbH & Co. KG with 50% up until
30th September, 2004	
Equity capital:	TEUR -414
Net loss:	TEUR 257
Company:	Balda-Thong Fook Solutions Sdn. Bhd. (formerly: TFP Precision Industries Sdn. Bhd.)
Headquarters:	Ipoh, Malaysia
Shareholding Balda AG:	indirectly, since 1st April, 2004 through Balda Beteiligungs AG and the Balda-Everskill Investments Singapore Pte. Ltd with 37.5%
Equity capital:	TEUR 13,460
Net income:	TEUR 1,824
Company:	Balda-Lumberg Verwaltungsgesellschaft mbH
Headquarters:	Bad Oeynhausen
Shareholding Balda AG:	indirectly since 6th July, 2004 through Balda- Lumberg Deutschland GmbH & Co. KG with 50%
Equity capital:	TEUR 24
Net loss:	TEUR 1
Company:	Balda-Lumberg Technologies Ltda.
Headquarters:	Manaos, Brazil
Shareholding Balda AG:	indirectly since 6th July, 2004 through Balda- Lumberg Deutschland GmbH & Co. KG with 50%
Equity capital:	TEUR 29,365
Net loss:	TEUR 140
Company:	Balda-Lumberg Technologies Plasticos da Amazonia Industria e Comercio Ltda.
Headquarters:	Manaos, Brazil
Shareholding Balda AG:	indirectly since 6th July, 2004 through Balda- Lumberg Deutschland GmbH & Co. KG and the Balda-Lumberg Technologies Ltda. With 50%
Equity capital:	TEUR 31,503
Net income:	TEUR 1,068

Company:	Balda-Lumberg Technologies Industria e Comercio Ltda.
Headquarters:	Jaguariuna, Sao Paulo, Brazil
Shareholding Balda AG:	indirectly since 6th July, 2004 through Balda-Lumberg Deutschland GmbH & Co. KG and Balda-Lumberg Technologies Ltda. with 50%
Equity capital:	TEUR -1.327
Net loss:	TEUR 256

Equity – Evaluation

Company:	aimtec GmbH
Headquarters:	Bad Oeynhausen
Shareholding Balda AG:	directly with 50%
Equity capital:	TEUR 1,131
Net income:	TEUR 182

e. Individual Board Members of Balda AG

Supervisory Board of Balda AG

Mr. Gerhard Holdijk (Chairman), Bad Oeynhausen

Mr. Bernd Fennel (Vice-Chairman), Löhne

Managing Director of Fennel Systems GmbH and Fennel GmbH & Co. KG

Mr. Dietrich Fürst, Braunschweig

Mr. Jochen Rölfs, Düsseldorf

Auditor and Spokesman for the Board of Management, Rölfs WP Partner AG

Mr. Berndt Kriete, Löhne

General Manager of Gemeinnützigen Gesellschaft für Möbel, Kunst und Kultur mbH

Dr. Thomas Bentz, Minden

General Partner Melitta Unternehmensgruppe Bentz KG

Pursuant to the decision of the courts of 14th January, 2004 and the approval of said decision on 20th January, 2004 Herr Holdijk was appointed to the Supervisory Board of Balda AG. The Supervisory Board elected Mr. Holdijk Chairman of the Board on 20th January, 2004.

Bernd Fennel concurrently serves on the following supervisory and advisory boards:

Fennel Technologies AG in Löhne (Vice Chairman of the Supervisory Board)

Fennel Foundation in Löhne (Chairman of the Board of Trustees)

Fennel Cosmed GmbH & Co. KG (Chairman of the Advisory Board)

Dietrich Fürst concurrently serves on the following supervisory boards:

GP Papenburg AG in Schwarmstedt (Chairman of the Supervisory Board)

Baugenossenschaft Wiederaufbau eG in Braunschweig (Chairman of the Supervisory Board)

Termath AG in Wolfsburg (Chairman of the Supervisory Board)

Teleson AG in Munich (Deputy Chairman of the Supervisory Board)
Böhm Fertigungstechnik GmbH in Suhl (Chairman of the Advisory Board)
Stiftung Mundstock in Wedtlenstedt (Deputy Chairman of the Advisory Board)

Berndt Kriete concurrently serves on the following supervisory and advisory boards:

Energos Deutschland GmbH (Supervisory Board) – until June 2004
GVoA Gesellschaft zur Verwertung organischer Abfälle GmbH & Co. KG in Hille
(Supervisory Board) – until November 2004
Wittekindshof – Foundation for People with Disabilities.
Bad Oeynhausen (Foundation Board)
Stiftung Oiko. Foundation providing People with Homes.
Bad Oeynhausen (Foundation Board)

Dr. Thomas Bentz concurrently serves on the following supervisory and advisory boards:

Goldbeck GmbH in Bielefeld (Advisory Board)

Board of Directors of Balda AG

Joachim Gut, Schermbeck

(Business administration, Chairman of the Board)

Rainer Frilling, Bad Oeynhausen

(Sales, Marketing)

Ralf Ackermann, Bad Oeynhausen

(Technology)

Volker Brinkmann, Bad Oeynhausen

(Finances, Controlling, IT)

Volker Brinkmann was appointed the Supervisory Board as member to the board on 23rd July 2004.

Joachim Gut concurrently serves as Chairman of the Administrative Board of Balda Beteiligungs AG in Switzerland, Chairman of the Board of Directors of Balda-Everskill Investments Singapore Pte. Ltd. in Singapore, and Deputy Chairman of the Board of Directors of Balda-Everskill Solutions Suzhou Ltd. in China.

Volker Brinkmann is also member of the Administrative Board of Balda Beteiligungs AG in Switzerland, member of the Board of Directors of Balda-Everskill Investments Singapore Pte. Ltd. in Singapore, and member of the Board of Directors of Balda-Thong Fook Solutions Sdn. Bhd. in Malaysia.

Rainer Frilling concurrently serves as Deputy Chairman of the Administrative Board of Balda Beteiligungs AG in Switzerland and as member of the Board of Directors of Balda-Thong Fook Solutions Sdn. Bhd. in Malaysia.

Ralf Ackermann is member of the Board of Directors of Balda-Everskill Solutions Suzhou Ltd. in China.

Remuneration of the Board of Directors and the Supervisory Board

Members of the Supervisory Board received the following payments for 2004:

Gerhard Holdijk	TEUR	25	fixed
	TEUR	30	variabel
Bernd Fennel	TEUR	19	fixed
	TEUR	23	variabel
Dietrich Fürst	TEUR	13	fixed
	TEUR	15	variabel
Jochen Rölfs	TEUR	13	fixed
	TEUR	15	variabel
Berndt Kriete	TEUR	13	fixed
	TEUR	15	variabel
Dr Thomas Bentz	TEUR	13	fixed
	TEUR	15	variabel

Remuneration of members of the Supervisory Boards is divided into a fixed annual amount and a variable component.

The variable remuneration is based on the performance of the Balda share relative to the SDAX index. Since the share price exceeded the SDAX index by more than 10%, TEUR 15 was established as a basis.

Members of the Board of Directors of Balda AG received the following payments for 2004:

Joachim Gut	TEUR	285	fixed
	TEUR	332	variabel
Rainer Frilling	TEUR	230	fixed
	TEUR	332	variabel
Ralf Ackermann	TEUR	191	fixed
	TEUR	332	variabel
Volker Brinkmann (from 23rd July 2004)	TEUR	79	fixed
	TEUR	257	variabel

The variable component of remuneration is calculated based on pre-tax earnings (EBT) of the Balda Group. There are no stock option programmes or similar securities-based incentive schemes.

Shareholdings of the Individual Board Members

	31.12.2004	30.09.2004	Veränderung
Mr. Gut	10,000	10,000	0
Mr. Brinkmann	410	410	0
Mr. Frilling	10,000	10,000	0
Mr. Ackermann	800	800	0
Board of Directors Total	21,210	21,210	0
Mr. Fennel	19,832,625	20,200,499	-367,874
Mr. Holdijk	20,000	24,514	-4,514
Mr. Fürst	0	0	0
Mr. Rölfs	0	0	0
Mr. Dr Bentz	0	0	0
Mr. Kriete	0	0	0
Supervisory Board Total	19,852,625	20,225,013	-372,388
Individual Board Members Total	19,873,835	20,246,223	-372,388

Bernd Fennel sold 367,874 shares of Balda AG in the year under review. Because of the simultaneous increase of share capital due to shares converted from the convertible bond, Bernd Fennel's share in the Balda AG fell to 49.9%. This information was made public on the Balda website.

No other major purchases or sales by the Individual Board Members took place in 2004.

f. Relations to affiliated companies and persons

In addition to the Group companies included in the consolidated financial statements, the Balda Group maintains close relations with the following companies as defined by IAS 24 through the principal shareholder Bernd Fennel:

Companies with business relationships:

- KTF GmbH & Co. KG, Förderstedt
- Fennel GmbH & Co. KG, Bad Oeynhausen
- Fennel Systems GmbH, Bad Oeynhausen
- Fennel Technologies AG, Löhne
- Fennel International GmbH, Bad Oeynhausen
- Fennel UK Ltd., Barrowford/Lancashire
- Shanghai Fennel Plastic Parts Co. Ltd., Shanghai, China
- VDT-Vobra GmbH, Enger
- Beckmann GmbH & Co. KG, Bad Salzuffen
- aimtec GmbH, Löhne*
- Heinze Technik GmbH & Co. KG, Löhne
- Stratos GmbH, Löhne

DGTH GmbH, Heiligenhaus
 Hotel Restaurant Wittekindsquelle GmbH & Co. KG, Bad Oeynhausen
 ToolTec GmbH, Wolfmannshausen
 Gebr. Krallmann GmbH, Hiddenhausen
 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
 DGTH Produktions GmbH, Heiligenhaus
 FIS GmbH & Co. KG, Tecklenburg
 DF Bau- und Transportgesellschaft mbH, Bad Oeynhausen

** Services provided by aimtec GmbH are reported as both received and rendered services since Balda AG and Bernd Fennel each own 50% of the company's shares.*

Mr. Fennel held about 49.9% of the shares in Balda AG as of 31st December 2004.

In accordance with Section 312 of the German Companies Act (AktG), we have prepared a dependent company report for all the business transactions listed below. We have confirmed in the closing statements contained therein that the Balda AG Group has not been adversely affected by these transactions. This report has been audited by an auditor from WestAudit AG and was provided with an unqualified audit certificate.

Products and services received from the Balda AG Group

In 2004, the Balda AG paid Bernd Fennel an annual fee in the amount of TEUR 115 for consulting services rendered in accordance with a consulting contract.

Purchase of Tools	TEUR
Beckmann GmbH & Co. KG	1,271
Gebr. Krallmann GmbH	342
Fennel Technologies AG	46

The Balda Group retained the services of Stratos GmbH to provide transportation services, for which Stratos GmbH was compensated in the amount of TEUR 659.

Because storage capacity was exhausted at Balda Solutions GmbH & Co. KG, some products, as well as tools and machines which were not being used, were kept in storage at Stratos GmbH until dispatch. Costs in 2004 for storage and handling were charged in the amount of TEUR 2,475.

aimtec GmbH charged a total of TEUR 2,404 for IT-services rendered in 2004. Furthermore, aimtec GmbH charged training costs in the amount of TEUR 154 for the BaaN introduction at the Albea Kunststofftechnik GmbH & Co. KG. The Balda AG Group bought fixed assets through aimtec GmbH in the amount of TEUR 1,166.

The Balda Group had periodically borrowed personnel from the Fennel Group. The total amount amounted to TEUR 109 in the fiscal year.

DF Bau- und Transportgesellschaft mbH sold to the Balda Group an injection moulding machine with a residual book value of TEUR 120. Furthermore, the Balda Group was charged fees based on fair market prices for courier services in the amount of TEUR 138 and other services in the amount of TEUR 48.

In addition, the following goods and services were obtained from Fennel GmbH & Co. KG:

	TEUR
Plastic parts	1,933
Personnel provision / services	557
Rent / leasing	268
Telephone system	189
Electricity / water	81

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

On 9th March 2004, a service contract was signed between the Balda AG and Fennel GmbH & Co. KG, whereby Fennel GmbH & Co. KG commits to keeping capacity free for Balda. In doing so Balda hoped to prevent capacity bottlenecks. Non-utilized capacity is to be compensated at fair market prices. The total value of the contract amounts to TEUR 1,456. The contract is binding until 31st December 2005.

Personnel provision for billable hours was based on the cost price of Fennel GmbH & Co. KG.

Fennel billed the Balda Group for rent for use of designated trade parks and office spaces.

Fennel GmbH & Co. KG charged the Balda Group the leasing rates without mark-up for the use of certain machinery. The company continues to be the lessee.

The Balda Group uses the telephone system owned by Fennel GmbH & Co. KG. The costs thereby incurred will be calculated without mark-up.

Fennel GmbH & Co. KG forwarded the charges without mark-up to the Balda Group for the quantity of electricity and water used for the paint shop.

Other expenses totalling TEUR 231 include but are not limited to prorated maintenance costs for licenses of the Fennel Systems GmbH, services rendered by Wittekindsquelle, FIS GmbH, and the Innovationszentrum Fennel, and various on-charges for cost outlays.

Products and services provided by the Balda AG Group

Sale of tools	TEUR
Beckmann GmbH & Co. KG	106
Fennel Technologies AG	69

Sale of plastic and zinc die-cast parts	TEUR
Fennel Technologies AG	2,932
DGTH Produktions GmbH	1,189
Fennel GmbH & Co. KG	979
DGTH Druckgusstechnik GmbH	59

The sale of plastic and zinc die-cast parts refers to galvanized finishing processes. These services were charged according to generally accepted market terms.

Personnel provision / services	TEUR
DGTH Produktions GmbH	59
Fennel technologies AG	25
Fennel GmbH & Co. KG	21
Gebr. Krallmann GmbH	6

If employees were assigned to the companies, i.e. were employed by them, the incurred costs were calculated based on total hours recorded. Repair services and cost outlays billed to the Balda Group were on-charged.

In fiscal 2004, production at the Fennel Group was carried out on leased machinery owned by the Balda Group. This only refers to a few months for the individual companies since the machinery was later sold to the Fennel Group. The calculated lease in the amount of TEUR 24 was based on depreciation and imputed interest.

Balda AG leased the property in Bad Salzflen to Fennel Technologies AG; the lease was signed on 15th July 2002. The lease was calculated at cost and totalled TEUR 252 in 2004.

In 2002, Fennel Systems GmbH assumed the repayment of the loan of Balda AG to Beckmann GmbH & Co. KG. All agreed payments have been met until 2004, so that the debt has been settled.

In 2004, aimtec GmbH billed the Fennel Group a total of TEUR 2,569 for IT services.

The following receivables and liabilities exist primarily from trade and service transactions with affiliated companies:

Receivables	TEUR
2H Jara Profile GmbH & Co. KG	33
Beckmann GmbH & Co. KG	74
DGTH Produktions GmbH	959
Fennel GmbH & Co. KG	1,093
Fennel International GmbH	58
Fennel Systems GmbH	145
Fennel Technologies AG	1,776
Fennel UK Ltd.	11
Gem. Gesell. Haus der innovativen Ausbildung	18
KTF GmbH Co. & KG	98
Stratos GmbH	205
VDT-Vobra Druckgießtechnik GmbH, Enger	11

Liabilities	TEUR
2H Jara Profile GmbH & Co. KG	13
aimtec GmbH	597
Beckmann GmbH & Co. KG	97
Bernd Fennel	10
Fennel GmbH & Co. KG	348
Stratos GmbH	188

g. Proposal for the distribution of retained earnings

A proposal will be made at the annual general meeting that a dividend be paid in the amount of EUR 0.20 per share.

Bad Oeynhausen, 9th March 2005

The Board of Directors

Joachim Gut Volker Brinkmann Rainer Frilling Ralf Ackermann

Veszprém: Between Vienna and Budapest





In December 2004, Balda opened an assembly and painting plant under the name of Balda Hungaria in Veszprém in south Hungary. With a population of approx. 63,000, Veszprém is the district capital. Located close to the Plattensee lake district, the new Balda plant is only a 1-hour drive to the country's capital, Budapest, and a 2-hour drive to Vienna in Austria.

town in Hungary has national significance. A university and engineering college provide qualified and talented new trainees." In his free-time, Zoltan enjoys trips to the nearby Balcony Mountains. His favourite hobby is assembling model cars and airplanes. Zoltan Szatori used to play professional handball, but now he plays football and bikes around the Plattensee lakes.

Traditionally, the food-processing industry has been strongly represented in Veszprém. In the last few years, the area has attracted global automotive suppliers such as Deutsche Continental and the French company, Valea. Balda took over the exceptionally well equipped production building from the former tenant, IBM.

Zoltan Szatori is a process engineer at Balda Hungaria. He works in both the assembly and painting areas. In addition to process planning and quality assurance, his responsibilities also include training new employees. He also monitors finished products and measures the precision of assembly systems.

Zoltan Szator introduces the city and the youngest Balda enterprise. „The castle constitutes the historic centre of the city, and Veszprém is built on the five hills surrounding this epicentre. Due to its importance as a royal city and Episcopal seat, this now-peaceful

The working atmosphere at the young company is exceptionally friendly and helpful, and he feels at ease working at Balda. Szatori is convinced that the European telecommunication site in Hungary will prove to be very successful for the company's customers.



Picture page 129 left: Adding mobile-phone cases to goods carriers

Picture page 129 right: Manual insertion of the camera lens cover

Picture top: Zoltan Szatori operates the control unit for the enamelling line

Picture middle: Adding goods carriers to enamelling line

Picture bottom: Packaging enamelled and pre-assembled mobile-phone cases

Exceptionally friendly and helpful.



Location: Hungary
Established: 2004
Employees: 131
Products: A and B covers

Technologies: Painting, assembly
Quality: DIN ISO 9001
Area: 3,000 m²
(from mid-2005: 8,000 m²)

Financial Calendar.

17th March 2005	Publication of Annual Results 2004 Discussion of annual financial statements, Frankfurt am Main DVFA Analyst Conference, Frankfurt am Main Press Statement
26th April 2005	Interim Report 1st Quarter 2005 (January 1 – March 31) Press Statement Conference call with analysts and reporters
28th April 2005	Annual General Meeting 11:00 a.m., Stadthalle Bielefeld Webcast
26th July 2005	Interim Report 2nd Quarter (April 1 – June 30) Press Statement Conference call with analysts and reporters
26th October 2005	Interim Report 3rd Quarter (July 1 – September 30) Press Statement Conference call with analysts and reporters

Balance Sheet of Balda Group, as of 31 December 2004

Balance Sheet of Balda Group, as of 31 December 2004 – Assets

	Notes III	31.12.2004 TEUR	31.12.2003 TEUR
A. CURRENT ASSETS			
I. Cash and Cash Equivalents	4.a.	28,464	33,603
II. Trade accounts receivable	4.b.	60,056	40,099
III. Inventories	4.c.		
1. Raw materials and supplies		12,408	10,928
2. Work in progress and finished goods and merchandise		17,389	22,564
3. Advance payments		2,068	2,483
		31,865	35,975
IV. Prepaid expenses and other current assets	4.d.		
1. Prepaid expenses		795	644
2. Other current assets		3,900	3,704
		4,695	4,348
Total Current Assets		125,080	114,025
B. FIXED ASSETS			
I. Tangible assets	4.e.		
1. Land and buildings		46,276	44,819
2. Machinery and equipment		39,446	35,668
3. Fixtures, furniture and office equipment		8,237	7,032
4. Advance payments and construction in progress		1,726	3,139
		95,685	90,658
II. Intangible assets	4.f.	1,844	1,347
III. Financial assets	4.g.		
1. Holdings		4	4
2. Shares in affiliated companies		1,050	1,003
3. Loans to companies with which there is a shareholding relationship		2,025	2,028
4. Other financial assets		1,355	2,148
		4,434	5,183
IV. Goodwill	4.h.	32,034	22,374
V. Deferred taxes	4.i.	7,569	4,482
Total Fixed Assets		141,566	124,044
TOTAL ASSETS		266,646	238,069

Balance Sheet of Balda Group, as of 31 December 2004 – Total Liabilities and Shareholders' Equity

	Notes III	31.12.2004 TEUR	31.12.2003 TEUR
A. CURRENT LIABILITIES			
I. Current portion of capital lease obligation	4.j.	442	286
II. Short-term debt and current portion of long-term debt	4.k.	15,508	15,769
III. Trade accounts payable	4.l.	21,411	21,922
IV. Advance payments received	4.m.	2,540	5,869
V. Provisions	4.n.	25,828	21,194
VI. Other current liabilities	4.o.	12,578	9,480
Total Current Liabilities		78,307	74,520
B. LONG-TERM LIABILITIES			
I. Long-term debt	4.p.	28,428	37,497
II. Long-term finance lease obligations	4.q.	1,072	726
III. Deferred taxes	4.r.	2,602	2,661
IV. Long-term provisions / pension accrual	4.s.	5,070	1,875
V. Other long-term liabilities	4.t.	5,708	16,401
1. Bonds		5,464	14,280
2. Others		244	2,121
Total Long-term Liabilities		42,880	59,160
C. MINORITY INTEREST	4.u.	7,803	9
D. SHAREHOLDERS' EQUITY	4.v.		
I. Subscribed share capital		39,755	37,530
II. Capital reserves		50,715	43,942
III. Retained earnings		47,186	22,908
1. Result current fiscal year		28,031	11,563
2. Profit / loss carried forward		19,155	11,345
Total Shareholders' Equity		137,656	104,380
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		266,646	238,069

Income Statement of Balda Group

Income Statement of Balda Group

	Notes III	2004 TEUR	2003 TEUR
1. Revenues	5.a.	377,676	272,887
2. Other operating income	5.b.	6,810	6,246
3. Changes in inventories of finished goods and work in progress	5.c.	-1,727	7,687
4. Other internally produced and capitalised assets	5.d.	538	154
5. Material expenses	5.e.	146,501	111,646
a) Cost of raw materials, supplies and purchased goods		134,079	99,958
b) Cost of purchased services		12,422	11,688
6. Personnel expenses	5.f.	78,518	65,109
a) Wages and salaries		65,654	54,169
b) Social security contributions, expenses and support		12,864	10,940
7. Depreciations	5.g.	27,896	25,460
8. Other operating expenses	5.h.	78,460	55,871
9. Operating income		51,922	28,888
10. Financing costs	5.i.	-4,220	-6,044
Earnings / expenses from associated undertakings		47	
11. Earnings before income taxes (and minority interest)		47,749	22,844
12. Taxes on income and earnings	5.j.	15,469	11,278
13. Earnings before minority interest		32,280	11,566
14. Minority interest		-4,249	-3
15. Net income/loss	5.k.	28,031	11,563
16. Profit / Loss carried forward from previous fiscal year		22,908	13,031
17. Dividend		-3,753	-1,686
18. Balance sheet result		47,186	22,908
Earnings Per Share – undiluted (EUR)	5.l.	0.727	0.339
Earnings Per Share – diluted (EUR)	5.m.	0.704	0.332

Cash Flow of Balda Group

Cash Flow of Balda Group

	Notes III	2004 TEUR	2003 TEUR
Earnings before extraordinary items and taxes and interests		51,969	28,888
- Interest payments		-3,466	-5,556
- Tax payments on earnings		-10,223	-4,524
+ / - Write-offs / write-ups on fixed assets (excluding deferred taxes)		27,896	25,460
+ / - Other non-effective expenses and earnings		2,016	0
+ / - Increase/Decrease in provisions (including deferred taxes)		-8,561	4,118
- / + Increase/Decrease in inventories, trade accounts receivable and other assets not itemised within investment or financing activities		-92	-11,953
+ / - Increase/Decrease in accounts payable and other liabilities not itemised within investment or financing activities		-11,520	8,982
= Cash Flow from operating activities	3.a.	48,019	45,415
Cash Flow from investing activities			
+ / - Change in fixed assets affecting payment		-15,293	-15,822
+ / - Change in financial assets affecting payment		660	945
+ / - Change from the acquisition and sale of subsidiaries affecting payment		-27,143	-1,003
Cash Flow from investing activities	3.b.	-41,776	-15,880
Cash Flow from financing activities			
- Payments from dividends		-3,753	-1,686
+ / - Change in liabilities to banks affecting payment		-14,052	-33,678
+ Cash inflow from the issue of bonds		0	16,659
+ Cash inflow from capital increase		982	19,445
+ / - Change in finance lease obligations affecting payment		502	-616
Cash Flow from financing activities	3.c.	-16,321	124
Change in cash and cash equivalents affecting payment	3.d.	-10,078	29,659
+ / - Change in cash funds from changes in the consolidated group		4,939	0
+ Cash and cash equivalents at the beginning of the fiscal year		33,603	3,944
Cash and cash equivalents at the end of the fiscal year		28,464	33,603
Total financial resources at end of fiscal year			
+ Cash funds		28,464	33,603
		28,464	33,603

Segment Reporting Balda Group
Primary Segments according to IFRS, as of 31 December 2004

Segment Reporting Balda Group / Primary Segments according to IFRS, as of 31 December 2004

Primary Segments in TEUR	Europe		Asia		America		Intersegment correction		Group	
	2004	2003	2004	2003	2004	2003	2004	2003		
Revenues <i>Change from previous year</i>	286,153 14.1%	250,715	83,801 183.3%	29,576	10,157	0	-2,435	-7,404	377,676 38.4%	272,887
Total operating performance (1) <i>Change from previous year</i>	292,817 11.0%	263,848	82,851 171.3%	30,539	10,446	0	-2,817	-7,413	383,297 33.6%	286,974
Material expenses <i>in % of total performance</i>	100,722 34.4%	103,105 39.1%	41,387 50.0%	16,752 54.9%	7,429 71.1%	0	-3,037	-8,211	146,501 38.2%	111,646 38.9%
Personnel expenses <i>in % of total performance</i>	68,510 23.4%	60,901 23.1%	8,918 10.8%	4,208 13.8%	1,090 10.4%	0	0	0	78,518 20.5%	65,109 22.7%
Other operating expenses <i>in % of total performance</i>	63,141 21.6%	49,767 18.9%	13,683 16.5%	5,285 17.3%	1,416 13.6%	0	220	819	78,460 20.5%	55,871 19.5%
EBITDA <i>in % of total performance</i>	60,445 20.6%	50,075 19.0%	18,862 22.8%	4,294 14.1%	511 4.9%	0	0	-21	79,818 20.8%	54,348 18.9%
Depreciations (2) <i>in % of total performance</i>	18,246 6.2%	18,012 6.8%	2,790 3.4%	1,375 4.5%	133 1.3%	0	0	0	21,169 5.5%	19,387 6.8%
EBITA <i>in % of total performance</i>	42,200 14.4%	32,063 12.2%	16,072 19.4%	2,919 9.6%	378 3.6%	0	0	-21	58,649 15.3%	34,961 12.2%
Added value depreciation costs <i>in % of total performance</i>	5,681 1.9%	1,767 0.7%	981 1.2%	797 2.6%	65 0.6%	0	0	3,509	6,727 1.8%	6,073 2.1%
EBIT <i>in % of total performance</i>	36,519 12.5%	30,296 11.5%	15,091 18.2%	2,122 6.9%	313 3.0%	0	0	-3,530	51,922 13.5%	28,888 10.1%
Investments (3)	10,219	15,346	7,061	2,244	593	0	0	0	17,873	17,590
Segment assets (4) <i>EBITDA in % of the segment assets</i>	142,533 42.4%	169,839 29.5%	77,075 24.5%	26,172 16.4%	15,869 3.2%	0	-11,089	-2,783	224,388 35.6%	193,228 28.1%
Segment liabilities (5)	41,764	38,763	13,074	7,564	4,910	0	-8,772	-2,817	50,976	43,510
Expenses not affecting payments, without write-offs	0	0	0	0	0	0	0	0	0	0
Number of Employees as of 31 December (6)	2,372	2,257	2,924	1,342	236	0	0	0	5,532	3,599

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

(2) without depreciation on added value

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

(4) Segment assets = fixed assets plus current assets without interest-bearing assets and without tax receivables

(5) Segment liabilities = non-interest-bearing liabilities and provisions including extraordinary items for investment grants / without tax liabilities or tax provisions

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

Development of long-term assets (not including deferred taxes),
Balda Group, in the fiscal year 2004

Development of long-term assets (not including deferred taxes), Balda Group, in the fiscal year 2004

	ACQUISITION AND MANUFACTURING COSTS						ACCUMULATED DEPRECIATIONS						NET BOOK VALUES		
	01.01.2004 TEUR	Initial con- solidation TEUR	Currency differences TEUR	Accruals TEUR	Disposals TEUR	Reclassi- fications TEUR	31.12.2004 TEUR	01.01.2004 TEUR	Initial con- solidation TEUR	Currency differences TEUR	Accruals TEUR	Disposals TEUR	31.12.2004 TEUR	3.12.2004 TEUR	31.12.2003 TEUR
TANGIBLE ASSETS															
Land and buildings	50,142	3,215	-496	1,239	100	345	54,346	5,322	321	-71	2,508	10	8,070	46,276	44,819
Machinery and equipment	69,979	10,419	-1,415	9,789	2,957	2,634	88,448	34,310	2,972	-615	14,674	2,339	49,002	39,446	35,668
Fixtures, furniture and office equipment	14,047	1,480	-211	3,615	1,437	145	17,638	7,015	748	-133	2,701	930	9,401	8,237	7,032
Advance payments and construction in progress	3,139	266	-42	1,487	0	-3,124	1,726	0	0	0	0	0	0	1,726	3,139
	137,307	15,380	-2,164	16,129	4,494	0	162,158	46,647	4,042	-820	19,883	3,279	66,474	95,684	90,658
INTANGIBLE ASSETS	3,535	1,010	-65	1,582	29	0	6,033	2,188	495	-77	1,612	29	4,189	1,844	1,347
FINANCIAL ASSETS															
Holdings	1,007	0	0	47	0	0	1,054	0	0	0	0	0	0	1,054	1,007
Loans to companies with which there is a shareholding relationship	2,028	0	0	0	3	0	2,025	0	0	0	0	0	0	2,025	2,028
Long-term securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other financial assets	2,565	-597	47	0	660	0	1,355	417	-417	0	0	0	0	1,355	2,148
	5,600	-597	47	47	663	0	4,434	417	-417	0	0	0	0	4,434	5,183
GOODWILL	34,478	16,063	0	0	0	0	50,541	12,105	0	0	6,401	0	18,506	32,035	22,374
	180,920	31,856	-2,182	17,758	5,186	0	223,166	61,357	4,119	-897	27,896	3,307	89,169	133,997	119,562

Changes to shareholders' equity capital

Changes to shareholders' equity capital

	Subscribed share capital TEUR	Capital reserves TEUR	Statutory reserves TEUR	Retained earnings TEUR	Currency reserves TEUR	Sharehol- ders' equity TEUR
Balance on 1st January 2003	33,720	27,422	2	13,031	-853	73,322
Shares issued	3,300	16,146	0	0	0	19,446
Issue and conversion of convertible bonds	510	1,947	0	0	0	2,457
Dividend	0	0	0	-1,686	0	-1,686
Share of the Group in 2003 net income	0	0	0	11,563	0	11,563
Currency reserve	0	0	0	0	-722	-722
Balance on 31st December 2003	37,530	45,515	2	22,908	-1,575	104,380
Balance on 1st January 2004	37,530	45,515	2	22,908	-1,575	104,380
Conversion of convertible bonds	2,225	7,662	0	0	0	9,887
Dividend	0	0	0	-3,753	0	-3,753
Share of the group in net income 2004	0	0	0	28,031	0	28,031
Currency reserve	0	0	0	0	-889	-889
Balance on 31st December 2004	39,755	53,177	2	47,186	-2,464	137,656

Balance Sheet of Balda AG, as of 31 December 2004

Balance Sheet of Balda AG, as of 31 December 2004 – Assets

	Notes II.	31.12.2004 TEUR	31.12.2003 TEUR
A. FIXED ASSETS	2.a.		
I. Intangible assets			
1. Concessions, industrial and property rights and similar rights and values as well as licences to such rights and values		261	609
2. Advance payments		152	0
		413	609
II. Tangible assets			
1. Land, titles to land and buildings including buildings on third-party land		31,700	33,299
2. Machinery and equipment		5,531	16,189
3. Fixtures, furniture and office equipment		750	2,207
		37,981	51,695
III. Financial assets			
1. Shares in affiliated companies		70,685	9,464
2. Loans to affiliated companies		6,201	0
3. Holdings		16,149	20,327
4. Other loans		0	3,635
		93,035	33,426
		131,429	85,730
B. CURRENT ASSETS			
I. Receivables and other current assets	2.b.		
1. Trade accounts receivable		141	0
2. Accounts receivable from affiliated companies		34,794	46,208
3. Receivables from subsidiaries		25	243
4. Other current assets		1,901	3,167
		36,861	49,618
II. Cheques, cash in hand, deposits with the Bundesbank and other commercial banks	2.c.	667	16,777
		37,528	66,395
C. DEFERRED CHARGES AND PREPAID EXPENSES	2.d.	399	360
TOTAL ASSETS		169,356	152,485

Balance Sheet of Balda AG, as of 31 December 2004 – Total Liabilities and Shareholders' Equity

	Notes	31.12.2004 TEUR	31.12.2003 TEUR
A. SHAREHOLDERS' EQUITY	2.e.		
I. Subscribed share capital		39,755	37,530
II. Capital reserves		54,388	46,510
III. Earnings reserves		2	2
IV. Balance sheet result		27,237	14,197
		121,382	98,239
B. PROVISIONS	2.f.		
1. Reserves from taxes		4,434	2,678
2. Other reserves		2,635	3,548
		7,069	6,226
C. LIABILITIES	2.g.		
1. Bonds		5,581	14,705
- thereof convertible: TEUR 581 (previous year: TEUR 9,705)			
2. Liabilities to banks		22,042	27,578
3. Trade accounts payable		2,209	2,159
4. Accounts payable to affiliated companies		9,715	1,553
5. Liabilities to subsidiaries and affiliates		62	14
6. Other liabilities		1,296	2,011
- thereof from taxes: TEUR 367 (previous year: TEUR 1,100)			
- thereof from social security: TEUR 33 (previous year: TEUR 20)			
		40,905	48,020
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		169,356	152,485

Income Statement of Balda AG

Income Statement of Balda AG

	Notes II.	2004 TEUR	2003 TEUR
1. Revenues	3.a.	10,749	128,953
2. Increase or decrease in inventories of finished goods and work in progress		0	-8,096
3. Other internally produced and capitalised assets		0	73
4. Other operating income		5,283	3,157
5. Material expenses		0	-70,008
a) Cost of raw materials, supplies and purchased goods		0	-66,193
b) Cost of purchased services		0	-3,815
6. Personnel expenses		-3,152	-17,852
a) Wages and salaries		-2,998	-15,269
b) Social security contributions, expenses and support		-154	-2,583
7. Depreciations	3.b.		
- Depreciation on intangible and tangible assets as well as capitalised expenses for the commencement and expansion of business operations		-7,706	-10,791
8. Other operating expenses		-9,816	-23,960
9. Income from participating interests	3.c.	28,473	14,453
- thereof from affiliated companies: TEUR 29,879 (previous year: TEUR 14,453)			
10. Income from other long-term investments and loans		244	261
11. Other interest and similar income		1,664	1,296
- thereof from affiliated companies: TEUR 1,222 (previous year: TEUR 818)			
12. Abschreibungen auf Finanzanlagen und auf Wertpapiere des Umlaufvermögens	3.d.	-153	-3,156
13. Zinsen und ähnliche Aufwendungen		-2,372	- 5,078
- davon an verbundene Unternehmen: TEUR 75 (Vorjahr: TEUR 89)			
14. Result of ordinary operations		23,214	9,252
15. Taxes on income and earnings		-6,351	-3,525
16. Other taxes		-70	-4
17. Net income for the year		16,793	5,723
18. Profit carried forward from previous fiscal year		14,147	10,160
19. Dividend		-3,753	-1,686
20. Balance sheet result		27,237	14,197

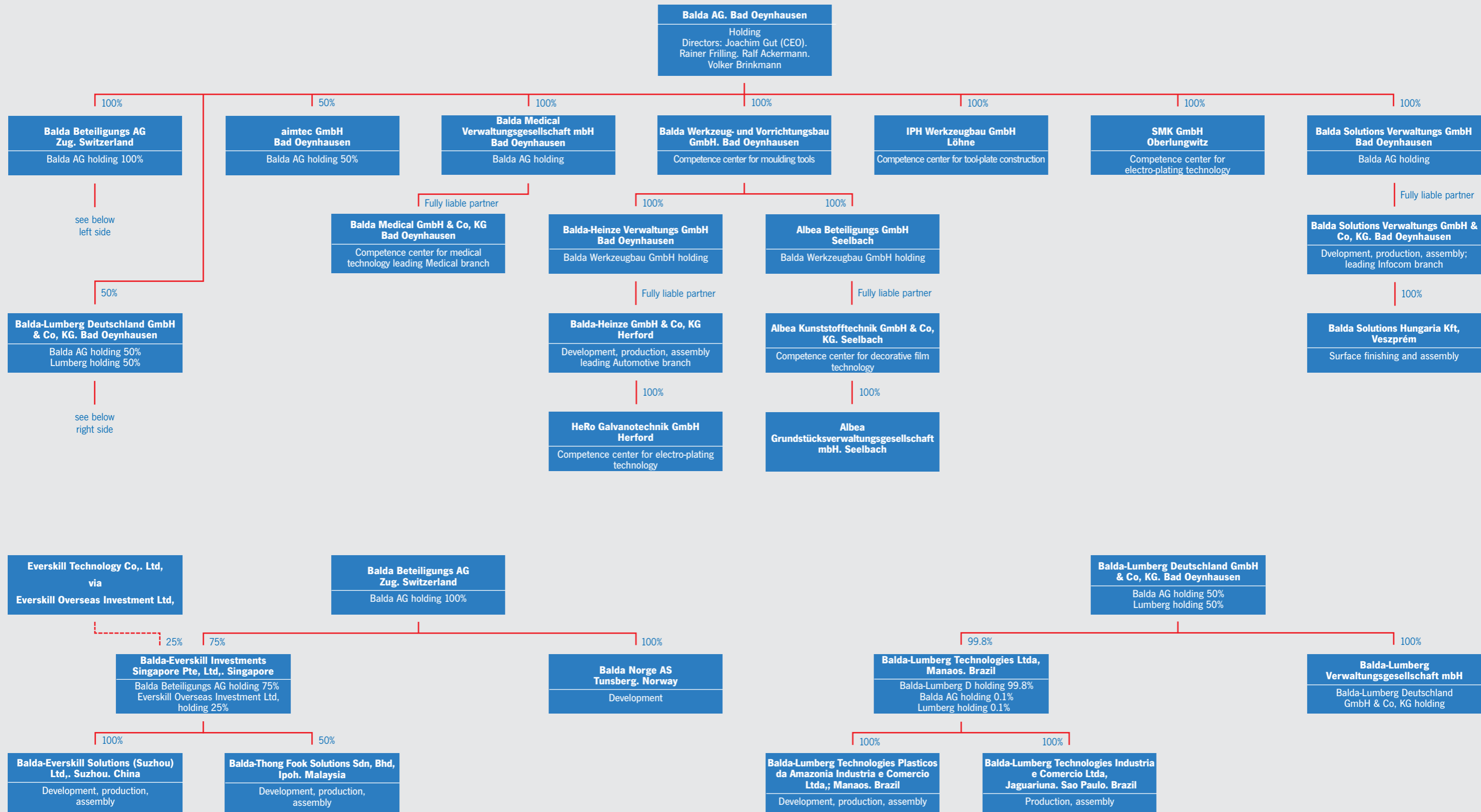
Assets analysis for Balda AG for the fiscal year 2004

Assets analysis for Balda AG for the fiscal year 2004

	ACQUISITION AND MANUFACTURING COSTS					ACCUMULATED DEPRECIATIONS				NET BOOK VALUES		
	01.01.2004 TEUR	Accruals TEUR	Disposals TEUR	Reclassifications TEUR	31.12.2004 TEUR	01.01.2004 TEUR	Accruals TEUR	Disposals TEUR	Reclassifications TEUR	31.12.2004 TEUR	31.12.2004 TEUR	31.12.2003 TEUR
INTANGIBLE ASSETS												
Concessions, industrial and property rights and similar rights and values as well as licences to such rights and values	1,519	192	1,173	0	538	910	358	991	0	277	261	609
Advance payments	0	152	0	0	152	0	0	0	0	0	152	0
	1,519	344	1,173	0	690	910	358	991	0	277	413	609
TANGIBLE ASSETS												
Land, titles to land and buildings including buildings on third-party land	37,279	309	0	0	37,588	3,980	1,908	0	0	5,888	31,700	33,299
Machinery and equipment	32,948	437	22,162	0	11,223	16,759	4,780	15,847	0	5,692	5,531	16,189
Fixtures, furniture and office equipment	4,330	664	3,857	0	1,137	2,123	660	2,396	0	387	750	2,207
	74,557	1,410	26,019	0	49,948	22,862	7,348	18,243	0	11,967	37,981	51,695
FINANCIAL ASSETS												
Shares in affiliated companies	13,498	41,899	0	19,322	74,719	4,034	0	0	0	4,034	70,685	9,464
Loans to affiliated companies	0	3,378	0	3,810	7,188	0	152	0	835	987	6,201	0
Holdings	20,327	15,144	0	-19,322	16,149	0	0	0	0	0	16,149	20,327
Other loans	4,470	0	660	-3,810	0	835	0	0	-835	0	0	3,635
	38,295	60,421	660	0	98,056	4,869	152	0	0	5,021	93,035	33,426
	114,371	62,175	27,852	0	148,694	28,641	7,858	19,234	0	17,265	131,429	85,730

Corporate Structure of Balda Group

Corporate Structure of Balda Group



Technical Glossary.

Black Belt. Team leader in charge of the measurement, analysis, improvement and monitoring of key processes that influence customer satisfaction and increased productivity, among other things. A Black Belt project is always aimed at commercial success.

„Breathing“ production. A flexible way of organising production so that it is consistently orientated towards day-to-day demand. Resources: such as flexible working hours, hiring part-time staff.

Bluetooth. Internationally standardised wireless data interface, particularly for controlling and monitoring small mobile devices. Typical application: wireless connection between mobile phone and headset.

Clean-room production. The production of components for medical engineering demands precise control of the atmospheric factors influencing the production environment. In addition to room temperature and humidity, clean rooms also maintain predefined levels of airborne particles. A sophisticated filter system provides for a constant exchange of “unclean” air for processed air with low levels of airborne particles. Distinctions are made between various types of clean rooms with different specifications as to the number and size of particles permitted.

Consignment warehouse. Warehouse for products belonging to the supplier, payment for which takes place after shipment from the consignment warehouse.

Dual-component injection moulding. This technology involves sequentially passing two separate plastics of different colours or materials into an injection mould tool. The plastics bond together, forming a new injection mould piece consisting either of two separate colours or two different materials.

EDI. Abbreviation for Electronic Data Interchange. Exchange of business transactions between computer systems using standardised data formats.

Electroplating. Metallic finishing of plastics, as in chrome finishing.

Generics. Tried and tested drugs, the active ingredients of which are identical in terms of quality and quantity to those of the original preparation. Once the patent on the active ingredient of the original drug has expired, manufacturers of the generic drug, known as secondary applicants, can gain access to the documentation of the initial applicants. The generic drug for the original preparation can then be marketed under the international, non-proprietary name or a new trade name.

GMP (Good Manufacturing Practice). A set of rules developed by the World Health Organization (WHO) laying down technical standards for the manufacture of drugs and protecting their quality.

Green Belt (see also Black Belt). Expert member of the project team.

High-tech film rear injection. See IMD.

IMD (In-Mould Decoration). This process represents a combination of hot-stamping and film rear injection in which a modified hot-stamping film is passed through the injection mould. In contrast to conventional rear injection, however, the decoration detaches from the film backing when the melt hits it and transfers to the moulded part.

IML Method. IML (In-Mould Labelling). This method involves putting a pre-fabricated, printed film in the injection mould that bonds with the plastic during the injection process, becoming part of the moulded piece.

Injection viscosity. Consistency (fluidity) of melted plastic during the injection process, or of paint in the painting process.

LCD (Liquid Crystal Display). An LCD is made of two thin glass plates that polarise light. Between these glass plates is a layer of liquid crystals, the optical qualities of which change when electric current is applied.

Lean Manufacturing. The focus of the lean manufacturing production system is to eliminate all activities that provide no added value to customers, thereby eliminating the associated costs. Overproduction, inventory overhang and unnecessary shipping of parts are among these production process cost factors.

Make-or-buy strategy. Concentration on a company's core competencies, involving outsourcing of services on the basis of expertise and economic aspects.

Powder Inhaler. Dosing device for the inhalation of powdered medications.

Six Sigma method. An analytical process for solving technical or organisational problems. The central idea is to determine the number of process errors and systematically eliminate them to achieve error-free results.

SCM (Supply Chain Management). The supply chain reflects all activities throughout a company necessary for the planning, production and delivery of products. Supply chain management focuses on the complex network of business relationships between suppliers, manufacturers, merchants and service providers. It involves the complete integration of all partners within a particular logistical process chain, from the procurement of raw materials all the way to delivery to the customer.

SLM (Supply Line Management). Maps all supply chain activities within a specific market segment.

TIER1 supplier. Suppliers who deliver complete, pre-assembled component groups and systems to manufacturers of end products (OEM).

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.

Consolidation. See (Initial) consolidation.

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.

Cromme Commission. This government commission, appointed by the Justice Minister in September of 2001, adopted the German Corporate Governance Code on 26 February 2002, under the directorship of Dr. Gerhard Cromme, Chairman of the Supervisory Board of ThyssenKrupp AG. The commission monitors the evolution of Corporate Governance in theory and practice, checking at least once a year whether the Code requires revision.

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.

Equity story. Equity story refers to a report that summarises a business/stock corporation, including its opportunities and risks (also on the occasion of its IPO). The information is intended to allow investors to draw their own conclusions concerning a particular company.

Equity valuation. Valuation of shareholdings in affiliated companies according to their proportionate shareholders' equity and share of earnings.

Fair Value. A concept derived from options trading for determining the appropriate valuation of options based upon a mathematical model. The determining factors are the price of the underlying security, the strike price, volatility, maturity, dividends and interest rates.

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 IASB (International Accounting Standards Board), 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.

(Initial) Consolidation. (Initial) consolidation of balance sheets and income statements of subsidiaries within a parent-company's annual financial statements.

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.

Key Account Manager. The task of the Key Account Manager is to conduct systematic and professional strategic customer marketing, establishing successful partnerships with key customers. The goal of successful key account management is to improve customer relationships and increase professionalism. An increasing proportion of revenues is attributable to large buyers and business partners; typically, 20 percent of a customer base accounts for 80 percent of revenue. For this reason, professional servicing of key customer accounts is steadily gaining in importance.

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.

Pro-forma. This term refers to all financial figures of a company and/or accounts of its financial position or business performance that do not correspond to GAAP (General Accepted Accounting Principles).

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.

ROCE (Return on Capital Employed). Ratio of EBIT to total net working capital and assets. This indicates the earnings-generating capacity of total company assets.

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.

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