Balda AG

# 13 / 14

BALDA AG

# NEW PERSPECTIVES

ANNUAL REPORT 2013 / 2014

# KEY FIGURES

BALDA AG

KEY FIGURES FOR THE GROUP AT A GLANCE (PURSUANT TO IFRS)

| IN EUR MILLION | 01.07.2013 – 30.06.2014 | 01.07.2012 – 30.06.2013 |
|---|---|---|
| **Sales revenues** | **70.5** | **59.9** |
| of which Europe | 31.8 | 36.0 |
| of which America | 38.7 | 23.9 |
| **Total operating revenue** | **70.9** | **57.1** |
| **EBITDA before extraordinary items** | **4.0** | **1.8** |
| **EBITDA after extraordinary items** | **1.9** | **2.6** |
| of which Europe | –0.7 | –0.2 |
| of which America | 2.8 | 3.3 |
| of which other | –0.2 | –0.2 |
| **EBITDA-margin in % (before extraordinary items)** | **5.7** | **3.0** |
| **EBIT** | **–4.7** | **–12.6** |
| Net fixed income [1] | 10.0 | 31.3 |
| Earnings before taxes | 5.3 | 18.7 |
| Consolidated net income [2] | 5.9 | 13.5 |
| Earnings per share in EUR | 0.10 | 0.23 |

| KEY FIGURE FINANCIAL POSITION | 30.06.2014 | 30.06.2013 |
|---|---|---|
| **Total assets** | **263.3** | **359.7** |
| Equity | 241.8 | 334.5 |
| Equity ratio in % | 91.8 | 93.0 |
| Employees (Number at reporting date, continued operations) | 786 | 856 |

1 Previous year including earnings from sale of TPK shares: EUR 16.9 million.
2 Previous year including discontinued operations.

EUR 70.5 MILLION
REVENUES

EUR 4.0 MILLION
EBITDA (BEFORE EXTRAORDINARY ITEMS)

EUR 5.9 MILLION
CONSOLIDATED NET INCOME



# MISSION STATEMENT

BALDA AG

As a system developer and producer, Balda is a provider of premium-quality, sophisticated plastic solutions for the healthcare, lifestyle, automotive and entertainment electronics sectors. The company is distinguished by superior engineering services and high-quality products, matched by fast, flexible and tailored customer services. The segment's core expertise is the design, development and production of assemblies, systems and packaging in accordance with the individual specifications of Balda's customers in and outside Germany.

Balda operates in Europe and America, operating state-of-the-art production facilities at its headquarters in Bad Oeynhausen, Germany, as well as in the USA. In Europe, the company develops and produces high-quality plastic solutions for the medical technology, pharmaceutical and diagnostics markets. In America, Balda produces high-precision injection-molded plastic solutions for the optical and medical technology products sector, as well as for the entertainment electronics and automotive industries.

The success of the Balda Group is based on the deployment of leading-edge, cost-effective technologies, coupled with close and trust-based collaboration with customers. Balda's long-term strategy is focused on generating added value for its business partners, sustainable growth, a strong international presence, the continuous enhancement of the company's value, and consequently attractive returns on its shareholders' investments.

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# 01

# THE COMPANY

# REPORT OF THE SUPERVISORY BOARD

## DEAR SHAREHOLDERS,

The current Supervisory Board was elected to office after the start of the 2013/2014 financial year, namely at the Extraordinary General Meeting on 4 September 2013. For this reason, we cannot report on the events during the first months of the period under review on the basis of our own activity, but only on the basis of information that we have obtained.

**Work of the Supervisory Board in the reporting period**
During the 1 July to 3 September 2013 period, the Supervisory Board at that time held two meetings (one of which by way of telephone conference), and passed one resolution by way of written circular.

Following its election on 4 September 2013, the new Supervisory Board held a total of seven attended meetings, two more by way of telephone conference, and one by way of video conference. All members of the Supervisory Board attended all meetings. Above and beyond this, a financial experts meeting was also conducted with the auditor for the financial year as of 30 June 2013, at which Mrs. Vogler and Mr. Rueth participated.

In addition, six resolutions were adopted by circular. Due to the fact that the Supervisory Board comprises only three members, it did not form any committees in the reporting period.

**Key topics in the reporting period**
At the time we took office, neither Balda AG's separate financial statements as of 30 June 2013, nor the corresponding consolidated financial statements had been completed. Besides the usual induction activities, our work in the initial weeks therefore focused on examining the annual financial statements.

The discussions and resolutions of the Supervisory Board focused on the following issues:

- Visit in November 2013 to all operating locations of the two acquired subsidiaries in the USA; discussions with local management, steps relating to integration of the US subsidiaries;
- Recall from office and dismissal of former Management Board member Mr. Dominik Müser, including conducting corresponding proceedings at the regional court;
- Examination of compensation claims against former directors;
- Supervision and auditing of the annual financial statements of Balda AG and the consolidated financial statements as of 30 June 2013;
- Simplification of the Group structure;
- Examination of various potential corporate acquisitions and
- Intensive cost and budget discussions with both the Management Board and the managements of the operating subsidiaries.

**Corporate governance**
In February 2013, the Management Board and Supervisory Board submitted a declaration of compliance with the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG), which it published on the company's website.

This was updated in December 2013.

**Personnel matters**
The following changes occurred to the composition of Balda AG's Management and Supervisory Boards in the 2013/2014 financial year.

On 5 September 2013, Dr. Dieter Brenken was appointed as a new Management Board member. Mr. Müser was removed from office with immediate effect on 14 October 2013, the same day on which the Supervisory Board appointed Mr. Oliver Oechsle as the second Management Board member.

After the end of the period, on 28 August 2014, the Supervisory Board passed a resolution to extend the Management Board appointment of Mr. Oliver Oechsle by a further two years, in other words, until 31 October 2016. Dr. Dieter Brenken's appointment is scheduled to end on 31 October 2014.

The composition of the Supervisory Board also changed during the reporting period. At the start of the period under review, the Supervisory Board consisted of Dr. Michael Naschke (Supervisory Board Chairman), as well as Mrs. Irene Schetelig and Mr. Wilfried Niemann who had been appointed from 1 March 2013 by the Bad Oeynhausen Regional Court in response to an application by Dr. Naschke. Pursuant to Section 104 (5) of the German Stock Corporation Act (AktG), the period of office of the court-appointed Supervisory Board members Mr. Niemann and Mrs. Schetelig ended with the conclusion of the Extraordinary General Meeting of 4 September 2013, at which it recalled Dr. Naschke from office, and elected new members to the Supervisory Board. Dr. Michael Naschke also resigned from his post with effect from the end of this Extraordinary General Meeting. The Extraordinary General Meeting on 4 September 2013 elected Frauke Vogler, Dr. Thomas van Aubel and Klaus Rueth as the new Supervisory Board members who are currently in office. Dr. van Aubel was subsequently appointed as the new Supervisory Board Chairman, while Mrs. Vogler was appointed Deputy Chairman and Financial Expert as defined by Section 100 (5) of the German Stock Corporation Act (AktG).

Following the end of the reporting period, no changes occurred to the Supervisory Board.

**Separate and consolidated annual financial statements**

On 24 March 2014, the Supervisory Board engaged Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt / Main, which had been elected as the financial statement auditor by the company's Annual General Meeting on 28 January 2014, to audit the annual financial statements of Balda AG and the consolidated financial statements for the 2013 / 2014 financial year. The annual financial statements were prepared in accordance with the principles of Sections 242 to 256 and Sections 264 et seq. of the German Commercial Code (HGB) as well as the German Stock Corporation Act (AktG), while the consolidated financial statements were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the supplementary provisions of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB). The auditor audited the annual financial statements for the 2013 / 2014 financial year and the consolidated financial statements for the 2013 / 2014 financial year as well as the management report for Balda AG and the Group management report and issued these with an unqualified auditors' report dated 29 September 2014.

The Supervisory Board has examined the financial statements and the management report of Balda AG, the consolidated financial statements and Group management report, as well as the proposal of the Management Board for the appropriation of net retained profits. The Supervisory Board concurs with the Management Board's proposal to carry the total consolidated earnings forward to a new account.

The auditor took part in the Supervisory Board's discussions on 24 September 2014 of the documents submitted, reported on the principal results of its audit and responded to questions from the Supervisory Board. Above and beyond this, all Supervisory Board members had concerned themselves intensively with the Management Board with the documents relating to the annual financial statements.

A focal point of audit activities on the part of the Supervisory Board included above all:

— Effectiveness of the internal control systems;

— Review of the impairment test for the participating interests in the USA;

— Revenue recognition, especially in the tools business.

Following its own examination, the Supervisory Board came to the conclusion that the development of the company and the Group is presented and assessed correctly by the Management Board in the management report and the Group management report and that the disclosures made concur with the Supervisory Board's own assessment. The Supervisory Board considers that the annual financial statements and consolidated financial statements comply with the legal requirements and contain all of the required disclosures.

Following its own examination, the Supervisory Board concurs with the findings of the audit of the annual financial statements and consolidated financial statements. The final results of the Supervisory Board's examination did not give rise to any objections to the annual financial statements and consolidated statements prepared by the Management Board.

The Supervisory Board discussed and approved the separate annual financial statements of Balda AG and the consolidated financial statements at its meeting on 30 September 2014. The company's separate annual financial statements and consolidated financial statements have been adopted as a consequence.

**Thanks**

The Supervisory Board would like to thank the employees and the employee representatives for their conscientious work in the 2013 / 2014 financial year. In addition, the Supervisory Board would like to thank Dr. Brenken for his work and contribution. He has rendered valuable services with both the integration of the US companies and the simplification of the Group structure.

The Supervisory Board would also like to thank the employees for the interest they show in the company and especially for the trust they have placed in the Supervisory Board and their vote of confidence in the Supervisory Board.

Bad Oeynhausen, 30 September 2014

The Supervisory Board

**DR. THOMAS VAN AUBEL** CHAIRMAN OF THE SUPERVISORY BOARD

# LETTER FROM THE MANAGEMENT BOARD

## LADIES AND GENTLEMEN,

During the past 2013/2014 financial year, we have subjected Balda AG to an extensive transformation process. In this context, we have also ensured greater clarity within our company—through simplifying our internal structures and the complete integration of our newly acquired US companies. We have also redefined the company's operating segments in order to optimize our planning and steering processes: we now differentiate according to the regions of America and Europe. As a consequence, we have not only created more clarity internally, but have also significantly strengthened our market profile externally in doing so. An important element in this context was also our first joint trade fair appearance at the MD&M Show in New York in June 2014—we are now increasingly being perceived as one company, as one unit.

We have also implemented another change, and endowed our Group parent company with an expanded role—namely that of a mentor that takes on a strategic leadership role for its operating areas. The success of this new distribution of tasks and responsibilities is also evident from the fact that—with the parent company as door-opener at international level—we are proving increasingly successful in acquiring new customer contacts that have been off-limits to our individual companies to date.

The financial year elapsed was also characterized by a large number of special tasks. At the last Annual General Meeting, you had refused or postponed the discharge of some directors who had already left the company. During the period in question, we investigated the directors' actions, documented shortcomings, and notified our insurers in compliance with the relevant deadlines. As already laid out in our ad hoc announcement of October 2013, we had to bear considerable sales losses in the USA, and reorganize and realign the management of the US subsidiaries. All of these and other special tasks required a great deal of attention, and also caused some one-off costs. With this work having now been completed, Balda AG can now devote itself fully to building up its operating business.

Dear shareholders—our consolidated sales revenues grew from EUR 59.9 million in the previous year to EUR 70.5 million in the year under review, which represents a 17.7% increase. This growth primarily reflects the full consolidation for the first time of our US companies, however. In the previous year period only six months were consolidated. Overall, we have met the targets that we set for ourselves, albeit at the lower end of the forecast range. As planned, we reached an EBITDA margin including extraordinary effects in the single-digit percentage range, at 5.7%. The result before interest and tax (EBIT) and after extraordinary items amounted to EUR –4.7 million in the reporting period elapsed, compared with EUR –12.6 million in the prior-year period. At EUR 5.9 million, however, we generated a positive result after tax. The previous year's figure of EUR 20.8 million for continuing operations was still significantly impacted by the disposal of the TPK shares. At the bottom line, the Group remains on a solid financial basis thanks to its strong equity ratio of 91.8%, which forms the starting point for further growth.

Naturally, our aim is to enhance the company's value further in the future. For this reason, the past year is to be regarded as an important step for Balda: towards representing a company that is positioned even more internationally, and that secures its sustainable profitability with an expanded value chain, and even greater expertise, especially in the application of its products. We have developed a strategy that is based on four pillars to reach this objective. Firstly, as a contract developer and producer we will devote ourselves to an even greater extent to the acquisition of new customers in our existing business segment. Secondly, we will drive ahead with the development of additional business models and cooperation ventures with strategic partners along the healthcare value chain. Thirdly, we will exploit the synergy potential between our US activities and our site in Bad Oeynhausen. And fourthly, we are aiming to acquire an internationally positioned company with complementary expertise in the healthcare sector. You can rest assured that we will examine the potential acquisition of another company calmly, with the greatest care, and with all due consideration—in order to not only ensure that the purchase price is right, but that the potential new partner is definitely a good fit.

At the start of its new financial year, the Balda Group stands at a point where new prospects for both organic and acquisition-led growth are emerging as a result of the changes that it has implemented. As the Management Board, we have taken it upon ourselves to seize these opportunities with decisiveness and the requisite objectivity. Dear shareholders, the following pages of this annual report provide further details about our growth strategy. We would like to take this opportunity to extend our warm thanks to you for the trust and confidence that you have invested in Balda AG, and we look forward to knowing that you will also be accompanying us over the coming years. We would naturally also like to extend our special thanks to our employees, whose dedication and commitment have played a pivotal role in managing and realizing our transformation over the past business year.

Yours sincerely,

**DR. DIETER BRENKEN** MANAGEMENT BOARD MEMBER (CFO)

**OLIVER OECHSLE** MANAGEMENT BOARD MEMBER (COO)

# PUSHED AHEAD WITH STRATEGIC DEVELOPMENT

**DR. DIETER BRENKEN (B)** MANAGEMENT BOARD MEMBER OF BALDA AG / **OLIVER OECHSLE (O)** MANAGEMENT BOARD MEMBER OF BALDA AG

Following a year of transition during which particularly the new US companies were integrated in organizational terms, Balda AG enjoys new prospects to expand its value chain. The importance of the new management role of the parent company, and the conditions under which the company is considering the acquisition of another firm, are explained by Management Board members Dr. Dieter Brenken and Oliver Oechsle.

? **Dr. Brenken, Mr. Oechsle, you conducted your restructuring process under the motto of "Turning Potential into Performance". What have you implemented to date?**

B Our 2013/2014 business year was entirely a year of transformation for Balda AG. We implemented two preparatory organizational changes during the course of it: Firstly, we simplified our internal structures. Secondly, we integrated the US companies in organizational terms.

We have also rebalanced the relationship between the parent company and the operating subsidiaries, which conduct their activities under the motto of "Solutions made in plastic". Although it is undeniable that a lot of good work has been performed in operational terms over the past six years.However, it is our ambition to improve the coordinating and helping hand of the parent company and to appear as one Group in the market.

O As part of these moves, we support all international activities in the operative areas of each market. This offers customers benefits in development capacity, allocation of production steps, redundancy in the supply chain, and economies of scale. All of these change processes ran to plan, and have largely been concluded—so we can now fully exploit our value chain to expand our sales activities, and also further leverage our potential at global level.

It's precisely for this reason that we have increased the parent company's role and self-image. It no longer sees itself as a pure financial holding company. Instead, the parent company has taken over the strategic management of the Group, and turned itself into a type of mentor that supports the operating business.

? **"Redefined the role of the parent company" —what does this mean exactly?**

O Well, the parent company is pushing ahead with strategic development, and intensifying international customer contacts. We regard ourselves as a type of bracket, or combining element for the operating business. If you like, the merger was completed between the parent company in the operating areas—which in turn serves to lend us a uniform market profile, and comprises a good starting base for new customer contacts.

? **Can you describe what this means in practice?**

B Generally, you first need to note that Balda Medical, where we have bundled our medical technology activities—and which generates sales revenues of between EUR 35 million and EUR 40 million—comprises a respectable medium-sized set of business operations, but they're still a bit on the small side.

O So, for this reason, when we—as the Management Board of a public stock corporation—try to establish initial contacts within industry, we're much more likely to gain access to potential customers than would be possible for the managing director of a limited liability company. We act as door-openers for our operating areas.

Moreover, there is the fact that we have expanded our expertise in the healthcare area, particularly also in regard to medical and plastic technology. With this added experience gained and the expansion of our contacts, we are increasingly able to establish connections to large customers on international markets.

OUR MOTTO:

*Solutions made in plastic*

? **How is this new type of profile faring?**

O It's making a decisive contribution to establishing new business relationships. With this orientation, we have now reached a standing on the market that lends us a significantly more effective perception among potential customers than was previously the case.

It also opens up new prospects, of course. You have to realize that industrial customers expect long-run stability from their suppliers nowadays—and this can be conveyed very credibly when we as the parent company actively support our operating units.

? **You said that the integration of the US companies has now been concluded in organizational terms. But how is dialog functioning on an everyday basis?**

B We have tangibly intensified transfer between our locations. This entails managers and staff at equivalent levels of superiority entering into dialog in order to exchange information and learn from each other. The Americans have a much stronger hands-on mentality, for example, and are more practically oriented than the Germans, which helps them in prototype development.

? **So, do two different corporate cultures clash?**

B Yes, but when people talk with each other, everything can be solved. Let's just take different national holidays as an example: in the USA, nobody would come up with the idea of arranging a telephone conference for Thanksgiving. In Germany, the same would be unthinkable on Christmas Eve. If you approach such matters with intercultural understanding, then you've already achieved a great deal.

O And we have also drawn closer together as the result of our joint trade fair appearances and our new website, which our customers have taken extremely well. And the fact that we were able to welcome our first

US customers to Bad Oeynhausen suggests that we will continue to benefit from each other.

? **To what extent do the production units in Germany and the USA complement each other?**

THE SEGMENTS OF AMERICA AND EUROPE HAVE VERY LITTLE OVERLAP, BUT COMPLEMENT EACH OTHER VERY WELL!

O On the customer side, we have hardly any overlaps between the two national companies, so we complement each other here. The qualitative difference between the plants in Germany and those in the USA consists in the fact that the US companies primarily supply parts and components, while we in Germany mainly produce finished products for customers.

We have greater vertical depth of manufacturing in Bad Oeynhausen. There we produce approximately 90% finished products for customers as part of so-called contract manufacturing. It's exactly the opposite in the USA, where most of the production is comprised of components and parts manufacturing, while the share of finished products amounts to 20 to 30%.

? **But might these differences present Balda with new challenges?**

O Yes, of course. But because we have approached the process actively, it generates new prospects to expand the American business, and upgrade it qualitatively.

**OLIVER OECHSLE:** "OUR INTERNATIONALIZATION AND THE CONSISTENT IMPROVEMENT ON OUR COMPETENCES OPEN NEW PERSPECTIVES FOR BALDA AG."

B The development is based on the joint deployment and further expansion of our technological expertise in the USA, as well as in Germany. Although this naturally entails more expense initially, the margins on finished products are significantly higher in the final analysis.

? **What does this mean specifically?**

B As part of the strategic process, the share of finished products manufactured in the USA is to rise gradually, while we aim to retain our high level in this area at Bad Oeynhausen. In other words, we are shifting our overall activities in the direction of higher value added.

This creates greater stability for our business, because Balda is no longer so easy to replace as a supplier for its customers. In contract manufacturing, we are already being included in customers' product development phases, which gives us an entirely different standing. In terms of this development, the experience that we have acquired in Germany is of major significance for the USA location.

? **Has this reorientation already registered its first successes at the US site?**

O Yes. In the Eyewear area, we are seeing a trend away from being a parts supplier to being a product supplier, which we are already benefiting from. For one customer in the USA, for example, we are now no longer producing just the plastic parts, but instead the final product, and we are also packaging the eyewear ready for dispatch—this is a good example of how the value chain has been expanded.

? **What expectations do you have of organic growth at Balda AG?**

O This is difficult to forecast. Some of the lead times for the development of new lines are very long. But if we succeed in landing a large project, growth would develop in significant leaps in sales revenue—but it can still take quite a long time to win such an order. Despite this, Balda is still a company with growth upside potential.

? **Does this mechanism apply to all product types**

O No. This is only the case with the manufacturing of finished products, but not with the production of parts and components. Because the customer is familiar with all of the product parameters in this area, and can basically dictate the price as a consequence, there's not a lot of upside potential in this business. And so this is why the manufacturing of finished products is regarded as the growth parameter in our business.

? **In the past, you've repeatedly raised the prospect of acquisition-led growth. What criteria do you apply when looking for acquisitions?**

B With an acquisition, we aim to achieve three things as far as possible: we wish to push ahead with our internationalization, bolster our healthcare area, and boost our profitability. Ideal would be a company which operates several international locations, is positioned with a complementary product and customer structure in relation to Balda, and which can demonstrate successes in healthcare.



**DR. DIETER BRENKEN:** "THE YEAR OF TRANSFORMATION HAS BEEN CONCLUDED AND WE HAVE SET THE COURSE FOR THE FUTURE."

? **What do the core elements of your growth strategy look like?**

O Our growth strategy is based on four pillars. Firstly, it targets the acquisition of new customers in our existing business segment as an order developer and producer. Secondly, it comprises the development of additional business models and cooperation ventures with strategic partners for instance along the healthcare value chain. Thirdly, we are in the process of leveraging synergies between our US activities and the German Balda Medical operation. And fourthly, as we have already explained, we are keeping an eye out for a company which fits in with us, and which offers expertise in the healthcare area. Along with strategic acquisitions, smaller topics can also be attractive that allow us to supplement and expand our know-how in special product segments, for example.

? **What role does the Asian market play in your thinking?**

O Asia is important because the markets there are growing much faster than in industrialized nations, and offer huge potential for the future. If you want to offer your products internationally, you must have a base in the Asian market in the long term.

? **What targets have you set for the new 2014/2015 financial year?**

B As far as our organic growth is concerned, we are sowing new seeds, but they will not bear fruit in the short term. We will continue to pursue our search for acquisition candidates calmly, and without pressure—a process where we are proceeding with enough care, consideration and professional distance.

? **And what about technology expertise?**

O Balda AG possesses great technical know-how in automation and industrialization processes. But we still understand relatively little about the application of our products. We aim to change this systematically by establishing internal expert knowledge and intensive dialog with our end-users—a process that we have alreadylaunched. We have already started to further strengthen Balda's innovative capacity through workshops and innovation days with customers, suppliers, product users and opinion-formers, for example.

ASIA OFFERS ENORMOUS POTENTIAL FOR THE FUTURE.

Our aim here is to develop expertise and capabilities at several points in the production process that customers do not yet have. If we look at comparable industries, this type of know-how advantage and edge on the part of the supplier can often be found in product production. Only companies that master what customers can't will be able to establish themselves long-term on the market—and also strengthen their position in price negotiations as a result. So, new prospects are opening up for us in this area, too.

**DR. BRENKEN, MR. OECHSLE, WE WOULD LIKE TO THANK YOU FOR THIS DISCUSSION.**

# THE BALDA SHARE

## 1. THE BALDA SHARE AT A GLANCE

| | |
|---|---|
| WKN/ISIN | 000521510/DE0005215107 |
| Stock exchange segment | Prime Standard/Regulated Market |
| Trading segment | Industry |
| Prime-Sector | Industrial goods |
| Sub-Sector | Industrial products + services |
| Index | SDAX [1], CDAX, Prime all Share |
| Date of initial listing | 23 November 1999 |
| Designated Sponsor | Close Brothers Seydler Bank AG [2] |
| Share capital | EUR 58,890,636 |
| Number of shares issued | 58,890,636 |
| Average daily trading volume | 218,000 |
| High for the 2013/2014 financial year | EUR 5.59 on 20 January 2014 |
| Low for the 2013/2014 financial year | EUR 3.19 on 15 April 2014 |
| Closing price for the 2013/2014 financial year | EUR 3.31 |
| Market capitalization on 30 June 2014 | EUR 194.9 million |
| Earnings per share for the 2013/2014 financial year | EUR 0.10 |

[1] Until and including 21 September 2014.

[2] Until 30 June 2014, from 1 July 2014 BHF-Bank AG.

## 2. EQUITY MARKET PERFORMANCE

In the second half of 2013, markets were significantly affected by the central banks' low interest-rate policies. The positive reaction by markets also impacted the DAX, which broke through the 9,000 level for the first time in October. At the start of 2014, markets responded with higher volatility to political tensions and disturbances in Ukraine, and the resultant Crimea crisis, although these factors failed to have a decisive effect on overall market trends. On 05 June 2013, the DAX index reached its historic record level of 10,000 points during intraday trading, although it closed below this level by the end of the day. During the reporting period of Balda AG, the low for the DAX amounted to 7,806.0 on 5 July 2013, and the high stood at 10,028.8 on 10 June 2014—reflecting an increase of 28.5%. The SDAX index even performed slightly more positively over the course of the year: recording a low of 5,778.3 on 3 July 2013, and a high of 7,571.1 on 9 June 2014, its appreciation amounted to 31.0%.

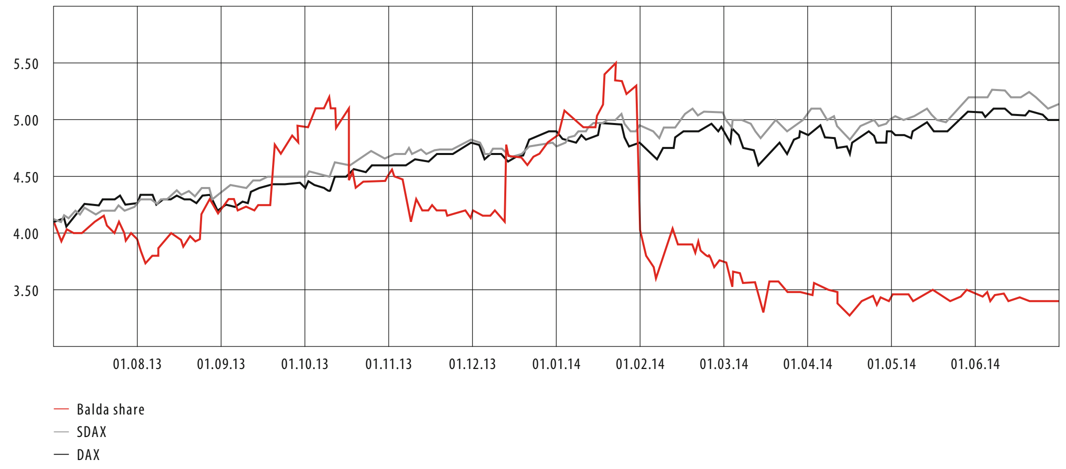
## 3. PERFORMANCE OF THE BALDA SHARE

At the start of the 2013/2014 financial year, the share of Balda AG largely performed in line with the market—albeit exhibiting significantly higher volatility. This is primarily attributable to changes to the company's boards. The share was then mainly affected by the company's AGM in January 2014, and the announcement and payment of a special dividend. The stock consequently reached its high for the year of EUR 5.59 on 20 January 2014—one week ahead of the AGM. The dividend of EUR 1.50 per share was paid out to shareholders on 29 January 2014. The low for the reporting period was registered on 15 April 2014, when the share traded at EUR 3.19. At the end of the financial year, the share of Balda AG stood at EUR 3.31, equivalent to a market capitalization of EUR 194.9 million.

After the reporting period on 3 September 2014 it was announced that in future Balda will not be part of the SDAX anymore. The index changes came into effect on 22 September 2014.

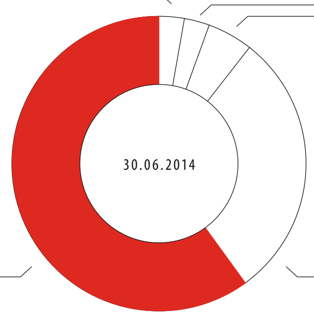
## 4. OVERVIEW OF THE SHARE PRICE PERFORMANCE COMPARED TO THE DAX AND SDAX (INDEXED SHARE PRICE PERFORMANCE 1 JULY 2013 TO 30 JUNE 2014)

OVERVIEW OF THE SHARE PRICE



## 5. SHAREHOLDER STRUCTURE

**OVERVIEW OF THE SHAREHOLDER STRUCTURE** IN %




## 6. INVESTOR RELATIONS

The aim of investor relations work at Balda AG is to supply the capital market transparently and quickly with relevant information. Along with one-on-one discussions with institutional investors, Balda AG participated in the DVFA's Small Cap Forum in Frankfurt / Main. The company presented itself as part of this investor conference, and held various one-on-one meetings. Continuous participation at capital market conferences is to be expanded in the future. For this reason, Balda AG intensified dialog with the capital market, participating after the end of the reporting period at the Small Cap Conference in Frankfurt / Main in September 2014, for example. The company also plans to participate at Deutsche Börse's Equity Capital Forum in Frankfurt / Main in November 2014.

In the 2013 / 2014 financial year, the share of Balda AG was covered by Close Brothers Seydler Research GmbH, M.M. Warburg & Co, and First Berlin Equity Research. These three research houses regularly compile analyses, valuations and recommendations relating to the Balda share. Balda AG continuously informs it shareholders about current topics on the detailed investor relations pages on the company's website. After the reporting period in August 2014 Close Bothers Seydler ended its coverage.



# 02

# GROUP MANAGEMENT REPORT

# THE GROUP

## 1. OVERVIEW OF THE GROUP STRUCTURE

THE INSIDE REAR COVER OF THIS ANNUAL REPORT CONTAINS A GRAPHICAL OVERVIEW OF THE GROUP STRUCTURE.

The Group (also referred to below as "Balda" or "company") is an international supplier of technologically high-end plastic products. Its core competency lies in high-quality injection molded plastics that can be utilized generally in highly varied markets. They are currently deployed in the areas of healthcare, eyewear, high-quality electronics products, agriculture and automotive.

Balda Aktiengesellschaft (also referred to below as "Balda AG") has its headquarters in Bad Oeynhausen, Germany, and acts as the strategy and financial holding company for the Balda Group. Its main tasks are controlling and strategically developing the Group, securing and managing the Group's financing, as well as providing shared services such as Group accounting and controlling, investor relations and public relations as well as holding equity investments in other Group companies. The Management Board of Balda AG consists of Oliver Oechsle (COO) and Dr. Dieter Brenken (CFO).

The Balda AG share is listed in the Prime Standard segment of Deutsche Börse AG under WKN / ISIN000521510 / DE0005215107.

Balda AG holds 100% of the shares in Balda Investments Netherlands B.V., Hengelo, Netherlands, which acts as an intermediate holding company. Balda Investments Netherlands B.V. owns 100% of the shares in the intermediate holding company Balda Investments Singapore Pte. Ltd., Singapore. Balda Investments Netherlands B.V. indirectly holds all of the shares of the newly acquired Widesphere Sdn. The Malaysia-based company is the legal owner of the real estate of Balda Solutions Malaysia Sdn. Bhd., which was sold in 2013. In addition, Balda Investments Netherlands B.V. also indirectly holds 100% of the shares of the US operating companies Balda C. Brewer, Inc., Anaheim, California, and Balda Precision, Inc., Oceanside, California, (formerly: Balda HK Plastics, Inc., Oceanside, California) through the intermediate holding company Balda Investments USA LLP.

Balda AG also holds 100 % of the shares in Balda Medical GmbH & Co. KG, Bad Oeynhausen.

Balda redefined its operating segments in the 2013 / 2014 financial year in order to improve its planning and steering processes. Since December 2013, the operating business has been divided into the geographic regions of America and Europe. The Management Board is thereby realizing a clear demarcation of earnings responsibility within the individual companies, and consequently more effective international management for the Group. The Management Board is responsible for the operating segments.

The Other area comprises management functions in the Asian region, and the rental of a property in Ipoh, Malaysia.

Balda redefined its operating segments in the 2013 / 2014 financial year in order to improve its planning and steering processes. Since December 2013, the operating business has been divided into the geographic regions of America and Europe. The Management Board is thereby realizing a clear demarcation of earnings responsibility within the individual companies, and consequently more effective international management for the Group. The Management Board is responsible for the operating segments.



## 2. OVERVIEW OF BUSINESS ACTIVITIES

The Balda Group is split according to the operating segments of America and Europe. This new segmentation occurred after the integration during the financial year elapsed of the two US plastic specialist companies Balda C. Brewer and Balda HK Plastics (today: Balda Precision) that were acquired at the end of 2012.

Balda manufactures high-quality plastics products for the pharmaceutical, diagnostics and medical technology sectors, drawing on its special expertise in the development of high-end plastics solutions as well as longstanding, trust-based relationships with customers and suppliers. The segment's core expertise is the design, development and production of assemblies, systems and packaging in accordance with the individual specifications of Balda's customers, among them well-known pharmaceutical and medical technology companies in and outside Germany. Balda's product portfolio includes various handheld devices such as finger prickers, glucose level testers and tablet dispensers. Along with medical technology devices, consumables for high-end diagnostics, pipettes and reaction equipment, as well as tubes and other packaging materials, play an important role.

In addition, Balda develops and produces high precision solutions in injection molded plastic for the eyewear, electronics and automotive areas. In this context, the portfolio comprises high-quality eyeglass frames for sports and lifestyle applications, complex plastics solutions for hi-fi components in the premium range, as well as high-tech plastics products for the automotive industry. The segment's customers include global operators in their respective industries.

Balda also commands considerable expertise in the development of high-end plastics products, as well as many years of experience in research and development. As a system partner, Balda teams up with its customers to manufacture products that meet specific requirements and exhibit very different characteristics.

The Europe segment specializes in the healthcare area, while the America segment serves not only the important healthcare market but also the areas of eyewear, electronics, agriculture and automotive.

## 3. CORPORATE GOVERNANCE REPORT

Good corporate governance, defined as compliance with the principles of responsible corporate management and supervision, is an important prerequisite to fulfill so that Balda as a company can gain, maintain and foster the trust of shareholders, lenders, employees, business partners and the general public.

The commitment to open and responsible management and supervision geared to sustainable value creation forms an integral part of corporate governance in the Balda Group. In addition to the fulfillment of legal requirements, corporate governance is characterized by a high degree of personal responsibility on the part of every employee. Complying with transparency criteria and avoiding conflicts of interest comprise core elements of good corporate governance.

- The management boards and supervisory boards of listed stock corporations are required by Section 161 (1) Clause 1 of the German Stock Corporation Act (AktG) to issue a declaration at least once a year stating whether the respective company has complied and will comply with the recommendations of the German Corporate Governance Code (GCGC) published by the German Federal Ministry of Justice. If this recommendation is diverged from, management and supervisory boards must publish and justify this in their annual compliance declaration. Most recently in December 2013, the Management and Supervisory boards of Balda AG issued a declaration of compliance with the German Corporate Governance Code (DCGK) pursuant to Section 161 of the German Stock Corporation Act (AktG), which is available on the Balda website under the menu heading of Investor Relations.

WWW.BALDA-GROUP.COM/EN/INVESTORS/CORPORATE-GOVERNANCE.HTML

- Balda AG, its corporate bodies and their actions comply with the statutory regulations, the company's articles of association and the recommendations of the DCGK, unless non-compliance was otherwise justified in the declaration of compliance published on Balda AG's website. No other external codes or standards that exceed the statutory requirements are applied in the Balda Group. The current full version of the declaration on the corporate management of Balda AG is available on Balda's website, within the Investor Relations area.

WWW.BALDA-GROUP.COM/EN/INVESTORS/CORPORATE-GOVERNANCE.HTML

— The Management Board reports regularly to the Supervisory Board, usually several times a month both verbally and in writing, concerning the company's situation and specific transactions, particularly its business performance and cash flows, the market situation and developments, and the company's strategy. Key transactions are explained in detail by the Management Board to the Supervisory Board using reports, templates and presentations. The Chairman of the Supervisory Board is also regularly informed in person and by phone about all material issues by the Management Board. Upon invitation by the Supervisory Board, the Management Board sometimes participates at some Supervisory Board meetings.

THE GROUP REPORT ON OPPORTUNITIES AND RISKS CAN BE FOUND ON PAGES 41 – 50.

— Responsible handling of business risks forms one of the statutory obligations and principles of good corporate governance. Balda AG's Management Board and the Balda Group's management have at their disposal comprehensive Group-wide and company-specific reporting and control systems, which enable risks to be documented, assessed and managed. The systems are continuously refined, adapted to changing conditions and examined by the auditors. The Management Board informs the Supervisory Board on a regular basis about existing risks and changes to them. In particular, the Supervisory Board member responsible for accounting handles monitoring of the accounting process, including reporting, the effectiveness of the internal control system, risk management and the internal auditing system, and compliance as well as financial statement audits. Details concerning risk management in the Balda Group, and the accounting-related internal control and risk management system, are outlined in the Group report on opportunities and risks.

## 4. COMPENSATION REPORT

### 4.1 Management Board compensation

With the change in the Management Board structure as of 5 September 2013 and 15 October 2013, compensation of the members of the Management Board underwent fundamental change in the financial year under review.

The compensation of Management Board member Dominik Müser, who was recalled from office as of 14 October 2013, comprised monetary compensation consisting of fixed and variable components (item 4.2.3 of the Code) and fringe benefits. The fixed compensation comprises the monthly salaries paid to Management Board. The fringe benefits include the costs for the use of a company car, contributions towards the members' health insurance schemes as well as costs for accident insurance policies. No other contractually agreed pension commitments were granted.

The variable compensation of Management Board member Dominik Müser contained components that were generally oriented to the company's business and financial success and profitability (performance-based compensation). Due to the limited term of the Management Board contract and the mainly short-term nature of the targets set, the contract with the Management Board member did not contain an additional compensation component with a long-term incentive.

No variable compensation was paid to the Management Board member in the 2013 / 2014 financial year.

The company has formed a provision of EUR 1,299 thousand for disputes with the former Management Board member concerning his compensation claims in connection with the cancellation of the previous Management Board contract as of 14 October 2013. Moreover, Mr. Dominik Müser has been paid fixed compensation of EUR 72 thousand due to provisional rulings in summary proceedings.

The compensation of the Management Board members who were newly appointed on 5 September 2013 and 15 October 2013 is based on interim management contracts. To this extent, the compensation structure consists of compensation on the basis of a fixed daily rate that is paid depending on the actual working hours of the Management Board members during the respective calendar month. Ancillary payments are also made to the Management Board members that arise from costs connected with the Management Board activities (e.g. fixed rates per kilometer for business journeys, and for traveling to and from work with their own cars; accommodation costs at the place of work and on business travel; compensation of costs for utilizing personal communications equipment etc). The Management Board members invoice the company at the respective month-end for the work that they have rendered and for their ancillary costs.



Variable compensation based on the company's business and financial success and profitability (performance-based compensation), and a compensation component with long-term incentive effect have not been agreed with the Management Board members. At its own discretion, the Supervisory Board can nevertheless grant Management Board members special compensation payments to reflect their performance or success.

As far as the company is aware, the Management Board members did not receive any payments from third parties that were pledged to them for their Management Board work, or were granted in the 2013 / 2014 financial year (item 4.2.3 of the Code).

The Management Board members were bestowed the following compensation for the 2013 / 2014 financial year:

#### MANAGEMENT BOARD COMPENSATION

| 2013 / 2014 IN EUR | FIXED COMPENSATION | PERFORMANCE-BASED COMPENSATION | ANCILLARY PAYMENTS | COMPENSATION WITH LONG-TERM INCENTIVE EFFECT | TOTAL |
|---|---|---|---|---|---|
| Dr. Dieter Brenken [1] | 281,002 | 50,000 [4] | 0 | 0 | 331,002 |
| Oliver Oechsle [2] | 244,428 | 50,000 [5] | 0 | 0 | 294,428 |
| Dominik Müser [3] | 120,217 | 0 | 6,261 | 0 | 126,478 |
| **Overall total** | **645,647** | **100,000** | **6,261** | **0** | **751,908** |
| **2012 / 2013 IN EUR** | | | | | |
| Dominik Müser | 385,000 | 200,000 | 19,242 | 0 | 604,242 |
| James Lim [6] | 9,000 | 0 | 118 | 0 | 9,118 |
| **Overall total** | **394,000** | **200,000** | **19,360** | **0** | **613,360** |

[1] Management Board member from 5 September 2013.
[2] Management Board member from 14 October 2013.
[3] Management Board member until 14 October 2013.
[4, 5] The performance-based compensation was not paid out during the year under review.
[6] Management Board member until 31 December 2012.

### 4.2 Supervisory Board compensation

As a German stock corporation ("AG"), Balda is subject to German stock corporation law. For this reason, the Group operates a dual management and supervisory structure consisting of the Management Board and a three-member Supervisory Board, as stipulated in its articles of association.

The members of the Supervisory Board received the following compensation:

**SUPERVISORY BOARD COMPENSATION**

| 2013/2014 IN EUR | FIXED COMPENSATION | MEETING FEES | TOTAL COMPENSATION |
|---|---|---|---|
| Dr. Thomas van Aubel | 40,972 | 15,000 | 55,972 |
| Frauke Vogler | 30,729 | 16,500 | 47,229 |
| Klaus Rueth | 20,486 | 16,500 | 36,986 |
| Dr. Michael Naschke | 9,028 | 3,000 | 12,028 |
| Wilfried Niemann | 6,771 | 3,000 | 9,771 |
| Irene Schetelig | 4,514 | 3,000 | 7,514 |
| **Overall total** | **112,500** | **57,000** | **169,500** |
| **2012/2013 IN EUR** | | | |
| Dr. Michael Naschke | 50,000 | 15,000 | 65,000 |
| Yu-Sheng Kai | 16,667 | 9,000 | 25,667 |
| Chun-Chen Chen | 13,247 | 6,000 | 19,247 |
| Ted Gerlach | 11,753 | 4,500 | 16,253 |
| Wilfried Niemann | 12,500 | 4,500 | 17,000 |
| Irene Schetelig | 8,333 | 4,500 | 12,833 |
| **Overall total** | **112,500** | **43,500** | **156,000** |

The compensation of the Supervisory Board is determined by the shareholders of the Balda Group. Pursuant to the resolution by the Annual General Meeting on 27 May 2011 effective 01 June 2011, this compensation only includes fixed components in addition to meeting attendance fees.

Each Supervisory Board member receives fixed compensation of EUR 25 thousand accordingly. The Chairperson receives double this fixed compensation, and the Deputy Chairperson one and a half times. The Supervisory Board members also receive fixed compensation of EUR 1.5 thousand of meeting fees per meeting.

In the reporting year, the company did not commission the Supervisory Board members to provide any advisory or agency services during their term of office. In addition, Balda did not pay any separate compensation (item 5.4.4 of the German Corporate Governance Code).

## 5. RESEARCH AND DEVELOPMENT

The research & development (R&D) area plays a central role for Balda—both in expanding our expertise for the application of finished products in the Europe segment, and in expanding our technological know-how, especially in the America segment. Given this, the R&D area actively offers Balda Group operating units at international level the opportunity to jointly attend meetings with customers in the USA. This underscores Balda's R&D expertise with customers from the very start.

As part of a new R&D project in the healthcare area, Balda has developed a concept study for the reliable dispensing of tablets, and to prevent tablet abuse. This concept study is currently being discussed with various pharmaceutical companies as to its viability and market relevance. This development could significantly improve the medication of individuals suffering from dementia, for example.

Balda spent EUR 1.2 million on research and development in the 2013/2014 financial year.



## 6. GROUP MANAGEMENT

As a holding company, Balda AG performs the principal management functions for the Group. It is responsible for developing and defining the Group's basic strategy. Balda AG also ensures that the operating units comply with strategic guidelines.

MORE INFORMATION ON THE MANAGEMENT OF THE GROUP CAN BE FOUND UNDER "INTERNAL CONTROL RELEVANT TO THE FINANCIAL REPORTING PROCESS" (PAGE 49 – 50).

The Management Board is responsible for managing the Group. The Supervisory Board appoints, monitors and advises the Management Board, and is directly involved in decisions of fundamental importance for the company.

In the year under review, the new Management Board altered the management of the Group so that it now runs along regional lines. Responsibility for the operating segments' earnings in the 2013/2014 financial year lay with the Management Board. The managing directors of the operating companies themselves were responsible for attaining their targets. The managers at the subsidiaries are responsible for implementing the strategy for their regions and relevant markets as prescribed by the Management Board of Balda AG. The managing directors report directly to the Management Board of Balda AG.

AN OVERVIEW OF THE COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS IS PROVIDED ON PAGE 103 OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

### 6.1 Financial performance indicators and financial targets

Balda's objective is to measure and assess the Group's long-term commercial success on the basis of clearly defined financial indicators. The key performance indicators are predominantly sales, gross revenue, EBITDA, profit/loss from operations (EBIT), workforce, investments and segment assets.

## 7. INFORMATION RELATING TO TAKEOVERS PURSUANT TO SECTION 315 (4) OF THE GERMAN COMMERCIAL CODE (HGB)

### 7.1 Composition of subscribed capital

As of 30 June 2014, the company's share capital remained unchanged on the previous year at EUR 58,890,636.00 and was divided into 58,890,636 no par value shares with a notional value of EUR 1.00. Each share entitles the holder to one vote in the General Meeting

### 7.2 Restrictions affecting voting rights or the transfer of shares

As stipulated in the articles of association, all of the company's shares are freely transferable. At the reporting date, the company's Management Board was not aware of any restrictions affecting voting rights or the transfer of shares.

### 7.3 Interests exceeding 10% of the share capital

According to the information available to us, on 30 June 2014 the following shareholders directly or indirectly held interests in the company's share capital granting over 10% of the voting rights:

— Dr. Thomas von Aubel via Elector GmbH, Berlin: 29.43% of the capital and voting rights, held directly

### 7.4 Holders of shares with special rights

No shares exist with special rights that endow control authorizations.

### 7.5 Management Board authorizations with regard to the possibility to issue or repurchase shares

#### 7.5.1 Acquisition of treasury shares

Based on the resolution of the Annual General Meeting on 27 May 2011, the Management Board is authorized with the approval of the Supervisory Board to acquire treasury shares in the period up to 26 May 2016 totaling up to 10% of the share capital existing at the time of the resolution. This authorization may not be used by the company for the purpose of trading treasury shares.

The company can exercise this authorization either wholly or in partial amounts, and either once or on several occasions. Exercise can also be realized by its Group companies, or by third parties for it or for its account. The acquired shares along with the treasury shares held by the company or attributable to it pursuant to Sections 71d and 71e of the German Stock Corporation Act (AktG) may not at any time represent more than 10% of the respective share capital of the company.

The Management Board can elect to acquire the shares by way of the stock exchange or as part of a public purchase offer. If the shares are acquired on the stock exchange, the consideration paid by the company for each share (not including incidental acquisition costs) may not exceed or fall below by more than 10% the market price of the shares of the company of the same class and features determined in the opening auction in Xetra trading (or a functionally comparable successor system) on the Frankfurt Stock Exchange, Frankfurt / Main, ("Frankfurt Stock Exchange") on the date on which the obligation to purchase the shares is entered into.

If the shares are acquired in a public purchase offer to all shareholders of the company, the purchase price or threshold values of the purchase price range per share (not including incidental acquisition costs) may not exceed or fall below by more than 10% of the mean of the closing prices of the shares of the company of the same class and features in Xetra trading (or a functionally comparable successor system) on the Frankfurt Stock Exchange on the 4th to 10th trading days prior to publication of the offer. If a purchase price range is specified, the final price will be determined from the acceptance statements or offers for sale submitted. If the applicable market price determined using this method changes substantially after publication of the purchase offer, the offer can be amended. The date on which the final decision concerning the purchase price adjustment is published is then applicable in place of the date of publication of the offer. The offer volume can be limited. If the offer is oversubscribed beyond this volume, any shareholder right to tender is excluded insofar as the acquisition can be carried out pro rata to the respective tendered or offered shares, and priority can be given to small blocks of up to 100 shares per shareholder.

The Management Board is authorized with the approval of the Supervisory Board to use the treasury shares of the company for all purposes permitted by law and, in addition to disposal via the stock exchange or by way of an offer directed to all shareholders, can use them as follows:

- They can be retired in whole or in part without an additional resolution by the Annual General Meeting. The Management Board can decide to reduce the company's share capital in the event of retirement, or leave the share capital unchanged and instead increase the proportion of the share capital accounted for by the remaining shares by way of the retirement pursuant to Section 8 (3) of the German Stock Corporation Act (AktG). In this case, the Management Board is authorized to adjust the information concerning the number of shares in the company's articles of association.

- Provided the subscription rights of shareholders are excluded, they can be offered and sold as part of a merger with companies or an acquisition of companies, parts of companies, or equity investments in companies, or other assets, including receivables.

- Provided the subscription rights of shareholders are excluded, they can be used to satisfy conversion or warrant rights or obligations arising from bonds that the company or a company in which the company holds a direct or indirect majority interest issues or has issued.

- Provided the subscription rights of shareholders are excluded, they can be sold for cash consideration if the selling price does not fall substantially below the market price of the shares of the company of the same class and features at the time at which the company enters into the obligation to sell. This authorization is only valid with the proviso that the proportional amount of the company's share capital accounted for by the shares sold while excluding subscription rights pursuant to Section 186 (3) Clause 4 of the German Stock Corporation Act (AktG) may not exceed a total of 10% of the share capital either at the time of coming into force or at the time of exercise of this authorization; this maximum threshold is reduced by the proportional amount of the share capital accounted for by shares or relating to the conversion or warrant rights or obligations issued while excluding subscription rights during the term of this authorization based on other authorizations in direct or analogous application of Section 186 (3) Clause 4 of the German Stock Corporation Act (AktG).

If treasury shares of the company are sold in an offer directed to all shareholders, the Management Board with the approval of the Supervisory Board can exclude the subscription rights of shareholders for fractional amounts.

The aforementioned authorizations for the use of treasury shares can be exercised once or several times, individually or jointly and in whole or in part; they may also be exercised by its subsidiaries, or for its or their account by third parties.



The Management Board included a written report on the reasons for excluding subscription rights with the invitation to the Annual General Meeting on 27 May 2011 in accordance with Sections 71 (1) No. 8 Clause 5, 186 (4) Clause 2 of the German Stock Corporation Act (AktG).

### 7.5.2 Authorized capital

The Annual General Meeting on 11 May 2012 authorized the Management Board, with the approval of the Supervisory Board, to increase the company's share capital by a maximum of EUR 29,445,318 on one or several occasions up to 10 May 2017 by issuing up to 29,445,318 new no par value bearer shares against cash and / or non-cash contributions (Authorized Capital 2012).

As a rule, the new shares must be offered to the shareholders for subscription. However, the Management Board is authorized with the approval of the Supervisory Board to exclude the statutory subscription rights of shareholders in the following cases:

- To round fractional amounts

- To acquire companies, parts of companies or equity investments in companies, or other assets, including receivables

- To grant subscription rights to the holders of conversion or option rights or obligations that were issued by the company or a company in which the company holds a direct or indirect majority interest to the extent that they would be entitled to these after exercise of their conversion or option rights, or after their respective obligations are fulfilled

- As long as the proportion of the share capital attributable to the new shares for which subscription rights are being excluded does not exceed a total of 10% of the share capital either at the time of coming into force or at the time of exercise of this authorization, and the issuing price of the new shares does not substantially fall below the market price of the company's shares of the same class and features within the meaning of Sections 203 (1) and (2), 186 (3) Clause 4 of the German Stock Corporation Act (AktG). The proportional amount of the share capital attributable to the shares sold during the term of this authorization while excluding subscription rights in accordance with Sections 71 (1) No. 8 Clause 5, 186 (3) Clause 4 of the German Stock Corporation Act (AktG) must be counted against the limit of 10% of the share capital. Moreover, the proportional amount of the share capital attributable to the shares or relating to the conversion or option rights or obligations issued during the term of this authorization while excluding subscription rights based on other authorizations in direct or analogous application of Section 186 (3) Clause 4 of the German Stock Corporation Act (AktG) must be counted against the limit of 10% of the share capital.

Including other authorizations to exclude subscription rights, the authorization to exclude subscription rights may not exceed a total of 20% of the share capital either at the time of entry into force or when the authorization is exercised.

Otherwise, the Management Board, with Supervisory Board approval, shall decide concerning the issuing of new shares, the content of the share rights, and the terms of the share issue.

The Management Board included a written report on and made known the reasons for excluding subscription rights with the invitation to the Annual General Meeting on 11 May 2012 in accordance with Sections 203 (2) Clause 2 and 186 (4) Clause 2 of the German Stock Corporation Act (AktG).

### 7.5.3 Contingent capital

The company's share capital will be contingently increased by up to EUR 17,667,190 through the issue of up to 17,667,190 new no par value bearer shares carrying dividend entitlement from the start of the financial year in which they are issued (Contingent Capital 2012). The contingent capital increase serves the purpose of granting shares to the holders of convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds (or combinations of these instruments) issued up to 10 May 2017 by the company or entities in which the company has a direct or indirect majority holding on the basis of the authorization by the Annual General Meeting on 11 May 2012, to the extent that these are issued for cash.

It will only be exercised to the extent that the conversion or warrant rights from the aforementioned bonds are exercised, or conversion or warrant obligations from such bonds are fulfilled and not used to satisfy other forms of performance.

#### 7.5.4 Convertible bonds

The company's Annual General Meeting on 11 May 2012 authorized the Management Board, with the approval of the Supervisory Board, to issue convertible bonds and / or bonds with warrants, profit participation rights and / or profit participation bonds or combinations of these instruments (together "bonds") with a total face value of up to EUR 100 million with or without a maturity limit on one or several occasions up to 10 May 2017. The holders of the bonds may be granted conversion rights or warrants on no par value bearer shares of the company with a total stated value of up to EUR 17,667,190.00 in accordance with the details of the terms of the bonds on which the corresponding conversion or warrant obligations are based.

The bonds can be issued in euros or the equivalent in another legally valid currency. They can also be issued by companies in which Balda AG holds a direct or indirect majority interest. In such a case, the Management Board is authorized with the approval of the Supervisory Board to assume the guaranty for the bonds and to grant the holders conversion or warrant rights on no par value bearer shares of Balda AG, or create corresponding conversion or warrant obligations.

Bonds can also be issued against non-cash capital contributions.

The shareholders shall have the right to subscribe to the bonds. However, the Management Board is authorized to exclude these subscription rights with the approval of the Supervisory Board

— for fractional amounts;

— if it is necessary for granting holders of bonds with conversion or warrant rights or conversion or option obligations an exchange or subscription right to the extent to which they would be entitled after exercise of the conversion or warrant right or fulfillment of the conversion or warrant obligation;

— to the extent that bonds are issued against non-cash capital contributions and the value of the non-cash capital contributions is suitably proportional to the theoretical market value of the bonds according to generally accepted mathematical valuation models;

— to the extent that bonds with conversion or warrant rights or conversion or warrant obligations are expected to be issued against cash capital contributions and the issuing price in analogous application of Section 186 (3) Clause 4 of the German Stock Corporation Act (AktG) does not fall substantially below the theoretical market value of the bonds with conversion or warrant rights or conversion or warrant obligations determined according to generally accepted mathematical valuation models. However, this authorization to exclude subscription rights applies only to the extent that the shares issued or to be issued to satisfy conversion or warrant rights or fulfill conversion or warrant obligations do not account for more than a total of 10 % of the company's share capital at the time of coming into force and at the time of exercise of the authorization. The proportional amount of the share capital attributable to the shares issued or sold while excluding subscription rights during the term of this authorization in direct, analogous or corresponding application of Section 186 (3) Clause 4 of the German Stock Corporation Act (AktG) must be applied to this maximum threshold;

— insofar as participation rights or income bonds without conversion or warrant rights or conversion or warrant obligations are issued, provided these participation rights or income bonds are structured like straight bonds, i. e., they do not create any membership rights in the company or grant any interest in the liquidation proceeds.

The authorization to exclude subscription rights is limited to the extent that the proportional amount of share capital attributable to the new shares issued to fulfill conversion or warrant rights and satisfy conversion or warrant obligations, including other authorizations to exclude subscription rights, may not exceed a total of 20 % of the share capital either at the time of coming into force or when the authorization is exercised.



The Management Board included a written report on and made known the reasons for excluding subscription rights with the invitation to the Annual General Meeting on 11 May 2012 in accordance with Sections 221 (4) Clause 2 and 186 (4) Clause 2 of the German Stock Corporation Act (AktG).

Neither authorized nor contingent capital had been utilized as of the balance sheet date.

### 7.6 Amendments to the articles of association

Amendments to the articles of association are subject to resolution by the General Meeting. Article 18 (4) of the articles of association stipulates that, with the exception of a change in the purpose of the company or the company's duration, a simple majority of the share capital represented at the adoption of the resolution is sufficient to pass a resolution to amend the articles of association. Pursuant to article 23 of the articles of association, however, the Supervisory Board is authorized to pass resolutions on amendments to the articles of association that affect only the wording, as well as, in particular, changes to disclosures on the share capital concerning the amount of capital increases from contingent or authorized capital or capital reductions resulting from the redemption of shares.

An amendment to the articles of association was applied to article 21 (1) in the financial year under review, as the former reference to announcements by the company in the "electronic Federal Gazette" (Bundesanzeiger) had to be adjusted due to the transfer of the electronic Federal Gazette to the new Federal Gazette, and with it the related task of differentiating between the Federal Gazette and the electronic Federal Gazette.

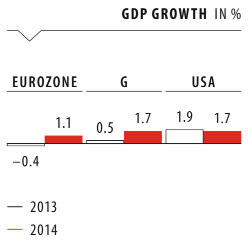
### 7.7 Compensation agreements for the instance of a takeover offer

No compensation agreements exist with members of the Management Board and the employees the instance of a takeover offer.

Other requested data according to Section 315 (4) of the German Commercial Code (HGB) are concerning issues, which are not applicable to the Balda Group.

# ECONOMIC, BUSINESS AND FINANCIAL REPORT

## 1. BUSINESS AND ECONOMIC ENVIRONMENT




### 1.1 Macroeconomic trends

In the 2013 / 2014 financial year, the global economy was characterized by the effects of the state debt crisis, and the related extreme low interest-rate policy pursued by central banks. While the Federal Reserve Bank in the USA signaled the gradual exit from its expansive monetary policy at the start of 2014, the European Central Bank (ECB) reduced its banking deposit rate for the first time to –0.1 % in June 2014, and cut its reference rate to a record low of 0.15 %. Eurozone inflation nevertheless fell further to 0.5 % in June 2014, thereby falling significantly short of the ECB's target of 2.0 %. The International Monetary Fund (IMF), among other commentators, sees this type of stubbornly low inflation as posing a risk to economic growth in Europe.

Despite such dangers and global political risks, the IMF upgraded its 2014 growth forecast for Germany, Balda's most important market, from 1.7 % to 1.9 %. Gross domestic product grew by just 0.5 % in 2013, by contrast. During the current year, Germany is meanwhile benefiting from strong domestic demand and a robust labor market. The country is also benefiting from its healthy companies and private households, as well as an improved budgetary position, according to the IMF.

By contrast, the Eurozone economy shrank in 2013, by 0.4 %.

In the USA, the economy grew by 1.9 % in 2013, when measured in terms of gross domestic product. For the current year, both the World Bank and the IMF forecast 1.7 % growth, reflecting a downgrade from originally 2.8 %. The hard winter in the USA, which already placed a significant brake on growth during the first quarter of 2014, is the main reason for the worsening of the outlook.

### 1.2 Sector trends

#### 1.2.1 The plastics market

Worldwide, the plastics industry turns over around EUR 800 billion per year. In Europe alone, a total of approximately 1.4 million individuals work in the plastics industry, compared with around 0.9 million in the USA.

The plastics industry continued to report further growth during the second half of 2013, according to sector association PlasticsEurope. The association sees further production growth in 2014, too. The plastics industry in Europe currently generates around EUR 300 billion of sales revenue.

The German Plastics Processing Industry Association (GVK) also registered growth in Germany, Balda's main market. The plastics processing industry generated EUR 57.5 billion of sales in 2013, reflecting 3.0 % year-on-year growth. Further growth of between 4.0 and 5.0 % is anticipated for the current year, according to the GKV.

#### 1.2.2 Europe Segment

In its Europe segment, Balda operates exclusively in the growth market of healthcare. Around 30.0 % of its business is currently attributable to the diagnostics area. At its Bad Oeynhausen site, the company also manufactures medical technology products, and conducts its research and development.



#### 1.2.3 America Segment

The America segment is positioned in a more diversified manner, although most of the business is generated in the healthcare area in the USA, too. The manufacturing of high-value eyewear comprises a further major proportion the business. In addition, Balda in the USA also serves smaller areas such as automotive, agriculture and consumer electronics, which are subsumed under "Technical".

#### 1.2.4 Balda-specific sectors

**Healthcare**

The healthcare industry markets of relevance for Balda AG as a service provider and systems supplier (pharmaceuticals, diagnostics and medical technology) continue to report stable growth, and significant innovation potential in the area of Balda core competencies. Specifically, these are:

**Pharmaceutical**

Balda AG is well positioned in the pharmaceuticals area to take on new projects—both in Bad Oeynhausen and at its American sites. The market for technical products for the precise and patient-adapted dosing and application of pharmaceutical industry medicament is growing at between 5.0 and 10.0 % annually in both the USA and Europe, and at more than 10.0 % annually in Asia and South America. Additional innovations in the effectiveness of medical products is allowing medicaments' application areas to be supplemented, and their patented lives to be extended.

**Diagnostics**

The diagnostics sector is recording growth worldwide, which is also benefiting Balda currently. Balda enjoys a very successful customer base in the diagnostics area. Demand is high for this reason, and Balda is currently growing in this segment in both the USA and Europe.

**Medical technology**

Growth of 5.0 to 10.0 % annually is being registered presently in the medical technology area worldwide. The Asian market is reporting particularly significant growth. The trend in medical technology is heading in the direction of devices that combine both electronic components and mechanics. Balda AG's roots in camera and mobile telephony technology are helping us to tap this market for the Balda Group.

The sales revenue of medical technology in Germany grew by 2.6 % in 2013, compared with 4.0 % the previous year according to the German Medical Technology Association (BVMed). German medical technology last year performed less well than in previous years, although it outperformed the German economy, thereby confirming that medical technology remains a growth sector. Global sales revenue was up by 4.4 % in 2013.

**Eyewear**

The eyewear market-segment is distinguished by its global business, although it is served only by Balda America. The sector is recording significant growth in emerging economies—especially Brazil, China and India. High-quality eyewear products are regarded as status symbols, and consequently comprise goods that are enjoying demand. With the "Made in California" suffix, Balda's production site in the USA has a USP that is attractive for our customers, especially in the high fashion, sports segment.

**Technical**

Balda AG utilizes this term to aggregate its other business activities for the sectors of automotive, agriculture and consumer electronics. In the Technical area, Balda has established good customer relationships that are both very stable and increasingly demand higher production. This business has grown mostly from customer relationships of many years' standing, and partially through the very local proximity of production plants.

## 2. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

**General**

These consolidated financial statements for the period ended 30 June 2014 were prepared in compliance with the International Financial Reporting Standards (IFRS) as applicable in the EU. Information on the basis of consolidation can be found in the notes to the consolidated financial statements.

The US companies that were acquired at the end of 2012 were consolidated for the first time in the period under review on the basis of twelve months, and in the previous year for only six months. The periods are comparable to only a limited extent as a consequence.

After the sale of the Malaysian company Balda Solutions Malaysia in the 2012/2013 financial year, it is no longer included in the consolidated financial statements. However, Balda via Widesphere remains the legal owner of the real estate (land and factory building). In the income statement of the 2012/2013 reference year, the earnings after taxes of the company sold are reported as "net profit/loss from discontinued operations" in accordance with IFRS in a separate item after "net profit/loss from continuing operations."

The Balda Group's remaining investment in TPK Holding Co., Ltd. was sold in its entirety during the 2012/2013 financial year. In January 2014, a further dividend arising from the proceeds from the sale of the shares in TPK was distributed to the shareholders.

### 2.1 Significant events in the financial year

#### Extraordinary General Meeting on 18 July 2013

Balda AG held an Extraordinary General Meeting in Berlin on 18 July 2013. The company's Berlin-based shareholder Elector GmbH had convened the meeting on the basis of an authorization by Bad Oeynhausen District Court. The sole agenda item was the complete replacement of Balda's Supervisory Board. The former Supervisory Board Chairman and meeting chair Dr. Michael Naschke declared that the Extraordinary General Meeting was unable to pass resolutions. This was said to be due to a formal error on the part of the convening shareholder Elector GmbH.

#### Extraordinary General Meeting elects new Supervisory Board on 4 September 2013

At Balda AG's Extraordinary General Meeting in Berlin on 4 September 2013, new members were elected to the three-person Supervisory Board of Balda AG. This was the only item on the agenda. The shareholders elected Ms. Frauke Vogler, lawyer/tax advisor, Berlin, Dr. Thomas van Aubel, lawyer, Berlin, and Mr. Klaus Rueth, Darmstadt, to the Supervisory Board. At the subsequent inaugural meeting, Dr. van Aubel was elected as Chairman of the Supervisory Board. The previous Supervisory Board Chairman, Dr. Michael Naschke, was voted off the board. He had already announced at the beginning of the General Meeting that he was stepping down with immediate effect.

#### Changes to the Management Board

The Supervisory Board of Balda AG resolved on 5 September 2013 to appoint Dr. Dieter Brenken as a further Management Board member with immediate effect.

On 14 October 2013, the Supervisory Board dismissed the CEO, Mr. Dominik Müser, with immediate effect and appointed Mr. Oliver Oechsle as a further member of the Management Board.

#### Annual General Meeting on 28 January 2014

The Annual General Meeting of Balda AG was held in Bielefeld on 28 January 2014. The meeting approved a dividend of EUR 1.50 per share. The dividend distribution of EUR 88.3 million occurred on 29 January 2014.

#### Restructuring in the USA

The activities in the USA underwent corporation law restructuring as of 01 April 2014: The plastic injection molding business of Balda HK Plastics Inc. was transferred to Balda C. Brewer Inc. The remaining business of Balda HK Plastics Inc., which comprises high precision turned parts, continues to be operated at Balda Precision Inc.

#### Joint profile of the Balda Group

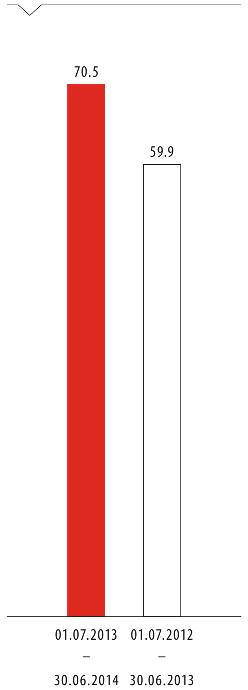
After the successful integration of the US companies, Balda AG appeared together with its subsidiaries Balda Medical GmbH & Co. KG and Balda C. Brewer Inc. for the first time with a joint Group profile at the MD&M Show in New York on 10 June 2014. All of the operating units' Internet presence was previously published under the domain www.balda-group.com. This consolidation milestone reflects Balda's transformation process over the course of the past business year.



### 2.2 Results of operations

Consolidated sales revenues grew from EUR 59.9 million in the previous year to EUR 70.5 million in the year under review, which represents 17.7% growth. This growth is a result of the full-year consolidation for the first time of the US companies.

**REVENUES** IN EUR MILLION




Other operating income was down from EUR 7.4 million to EUR 4.0 million with extraordinary effects of EUR 1.8 million (comparable period: EUR 4.7 million).

Cost of materials amounted to EUR 26.9 million, compared with EUR 23.8 million in the previous year—an increase that is primarily attributable to the 12-month inclusion of the American companies. The less materials-intensive injection molding business of the US locations and lower material usage from the tool and plant business of Balda Medical GmbH & Co. KG catered cumulatively for a reduction in the cost of materials ratio to 38.0% (comparable period: 41.8%).

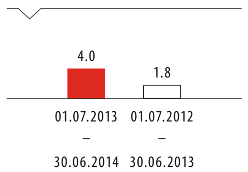
Staff costs rose to EUR 29.3 million, after EUR 21.2 million in the previous year. This especially affects the full-year consolidation of the US companies for the first time, and deferrals of EUR 1.7 million due to the departure from the company of staff, including the former Management Board member. The staff cost ratio rose from 37.2% to 41.3%.

Depreciation, amortization and impairment losses fell to EUR 6.7 million, compared with EUR 15.2 million in the prior-year period, when this item was strongly impacted by goodwill impairment losses. Impairment losses, intangible assets and financial assets of EUR 1.7 million were included in the period under review.

Other operating expenses of EUR 16.8 million were at the previous year's level. When adjusted to reflect extraordinary items, other operating expenses rose from EUR 13.3 million in the previous year to EUR 15.2 million in the year under review. The smaller proportional increase in adjusted expenses (approximately 14.0%) compared with the sales revenue growth (approximately 18.0%) reflects the improved Group structures.

Extraordinary items of EUR 2.1 million affected EBITDA in the reporting year. These include other operating income (mainly insurance reimbursements, and income unrelated to the reporting period arising from the derecognition of liabilities and insolvency payments) of EUR 1.8 million. This was offset by extraordinary staff costs (particularly deferred costs arising from the departure of staff from the company) of EUR 2.3 million, and other operating expenses (primarily analysis history, acquisition costs, IT restructuring and the processing of legacy liabilities) of EUR 1.6 million.

**EBITDA** IN EUR MILLION



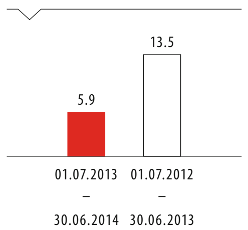

In the 2013/2014 financial year, the Balda Group posted earnings before interest, taxes, depreciation and amortization (EBITDA) before extraordinary items of EUR 4.0 million (prior-year period: EUR 1.8 million), which is equivalent to a 5.7% EBITDA return on gross revenue.

After taking into account depreciation, amortization and extraordinary items, the company reported a result before interest and taxes (EBIT) of EUR –4.7 million, compared with EUR –12.6 million in the previous-year period.

Within the net financial result, net interest income fell by EUR 0.7 million to EUR 1.6 million due to the continued phase of low interest rates, and a reduction in the cash position due to dividend payments.

Earnings before taxes (EBT) of EUR 5.3 million were significantly below the previous year's EUR 18.7 million, which included the proceeds from the sale of the remaining TPK shares.

**CONSOLIDATED COMPREHENSIVE INCOME** IN EUR MILLION




Earnings after taxes on continuing operations amounted to EUR 5.9 million, after EUR 20.8 million in the prior-year period. Here, too, the change chiefly reflected the sale of the remaining TPK shares.

In the reporting period no loss from discontinued operations is recorded, having been burdened in the previous year by EUR –7.3 million from the sale of Balda Solutions Malaysia.

As a consequence, Balda AG reports consolidated comprehensive income of EUR 5.9 million in the 2013/2014 financial year, compared with EUR 13.5 billion in the previous-year period.

Earnings per share fell accordingly from EUR 0.23 to EUR 0.10, both on a basic and diluted basis.

## 2.3 Financial position

### 2.3.1 Principles and objectives of financial management

The primary objective of the financial management function is to ensure that the Balda Group remains able to repay its debts and retains a healthy equity-debt structure. The Group has implemented a system with appropriate parameters for managing short-term, medium-term and long-term financing and liquidity requirements.

Even after a potential acquisition, the goal is to guarantee that the Group has a healthy cash flow. Minimum cash reserves are also held for the purpose of continuing to avoid possible liquidity bottlenecks in the financing of the Group's operations.

The Group prevents liquidity risks by holding sufficient cash funds available. Given the persistent uncertainty on financial markets, the specific aim of investing excess cash reserves is not to maximize profit, but to preserve assets on the basis of a risk-minimized investment strategy.

### 2.3.2 Cash flows

The following disclosures analyze the cash flows in the 2013 / 2014 and 2012 / 2013 financial years. The statement of cash flows has been prepared in accordance with the provisions of the IFRS and is designed to aid an assessment of the Group's financial capabilities.

The individual sections of the statement of cash flows are as follows:

**Cash flow from operating activities**

EUR 7.7 MILLION

OPERATIVE CASH FLOW—SIGNIFICANT IMPROVEMENT COMPARED TO PREVIOUS YEAR

The Balda Group generated a cash inflow EUR 7.7 million from operating activities in 2013 / 2014 financial year (previous year: EUR 1.4 million). Higher business volumes and cash inflows from lease receivable (EUR 1.3 million), in particular, exerted a positive impact. Working capital reduction contributed positively to operating cash flow.

**Cash flow from investing activities**

The cash inflow from investing activities totaled EUR 174.2 million (previous year: EUR 167.5 million).

Cash inflows from investing activities in the period under review arose primarily from the sale of EUR 179.7 million of bonds. In the previous year, the Group applied funds of EUR 41.7 million for this purpose. By contrast, deposits to secure bank borrowings (EUR 2.9 million) capital expenditure in property, plant and equipment and intangible assets fed through to EUR 2.8 million of cash outflows.

The year was significantly impacted by income from the sale of TPK shares (EUR 242.9 million) and cash outflows arising from the acquisition of the interests in the USA (EUR 37.6 million).

**Cash flow from financing activities**

The cash outflow from financing activities totaled EUR 89.3 million (previous year: cash outflow EUR 117.8 million) and stemmed in particular from the dividend payment of EUR 88.3 million to the shareholders of Balda AG in January 2014. In the previous year, Balda AG paid dividends of EUR 117.8 million to its shareholders.

**Cash and cash equivalents at the end of the financial year**

The Group's total cash and cash equivalents at the reporting date of 30 June 2014 amounted to EUR 160.5 million (previous year: EUR 68.2 million) and correspond to the net cash reported in the consolidated statement of financial position.

As a result of the sale of all shares in TPK Holding Co. Ltd., and after the distribution of the dividend for the 2012 / 2013 financial year, the Group has sufficient liquidity reserves further strategic investments. Information is exchanged continuously with the company's banks so that financing requirements can be covered or extended at short notice.

### 2.3.3 Investments and depreciation, amortization and impairment losses

In the 2013 / 2014 financial year, the Balda Group invested EUR 2.8 million in property, plant and equipment, and in intangible assets (2012 / 2013 financial year: EUR 4.2 million). Of the investments, EUR 1.7 million are attributable to the America segment (previous year: EUR 2.2 million) and EUR 1.1 million to the Europe segment (previous year: EUR 1.6 million). They relate mainly to replacement investments and the optimization of production capacities.

Depreciation and amortization across the Group amounted to EUR 4.9 million (2012 / 2013 financial year: EUR 3.7 million). Depreciation and amortization includes EUR 2.1 million of amortization arising from the purchase price allocation. In addition, a review of the residual useful lives of capitalized customer relationships fed through to impairment losses of EUR 0.7 million and intangible assets. Further impairment losses of EUR 0.7 million were necessitated as part of arranging the IT infrastructure more cost-efficiently. Lease receivables reported among financial assets include write-downs of EUR 0.3 million to take credit risk into account.

## 2.4 Net assets

### 2.4.1 Changes in net assets

The Balda Group reported EUR 263.3 million of total assets as of 30 June 2014. This represents a EUR 96.4 million decline compared with the previous year's EUR 359.7 million. The chief factor influencing the change in the statement of financial position was the payment of a dividend of EUR 88.3 million in January 2014.

Non-current assets reduced from EUR 54.9 million to EUR 47.5 million, mainly due to depreciation, amortization and impairment losses applied to both property, plant and equipment, and intangible assets. Property, plant and equipment fell from EUR 21.0 million to EUR 19.4 million. Intangible assets reduced from EUR 9.6 million to EUR 6.7 million.

The decrease in financial assets from EUR 5.2 million to 3.2 million years is attributable to the scheduled repayment of lease liabilities connected with the renting of the real estate in Malaysia. The reduction in goodwill from EUR 14.7 million EUR 14.0 million is a currency-related decline due to the exchange rate between the US dollar and the euro.

Current assets reduced by a net EUR 89.0 million to EUR 215.8 million. Therein, trade receivables fell by EUR 1.7 million to EUR 8.5 million due to customer payments. The other current assets item reduced by EUR 178.9 million to EUR 36.2 million. This fall is particularly due to the utilization of short-term money deposits to pay the dividend in January 2014. This item is also affected by a reduction in money deposits with terms of less than three months, which are now reported among cash and cash equivalents.

Cash and cash equivalents grew accordingly by EUR 92.3 million to EUR 160.5 million, compared with the previous year EUR 68.2 million.

### 2.4.2 Changes in equity

On the equity and liabilities side of the statement of financial position, the Balda Group reports EUR 241.8 million of equity as of 30 June 2014 (30 June 2013: EUR 334.5 million), with the decline being primarily attributable to dividend payments rendered. The EUR 8.8 million reduction in reserves to EUR 31.0 million reflects currency-related reasons. Equity ratio declined from 93.0 % on reference day to 91.8 % on 30 June 2014.

91.8 %

EQUITY RATIO

### 2.4.3 Changes in liabilities

Non-current liabilities fell by EUR 0.5 million year-on-year between the balance sheet date to EUR 6.5 million, due chiefly to a reduction in bank borrowings.

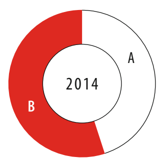
Current liabilities reduced by EUR 3.1 million to EUR 15.1 million, with this fall being strongly impacted by the repayment of EUR 2.0 million of corporation income tax liabilities.

### 2.4.4 Capital structure

A significant objective of capital management is to continue to be able to secure the Group's congruent maturity capital structure. Such a capital structure existed on the balance sheet date. Current assets showed a surplus in relation to current liabilities of EUR 200.7 million.

## 3. SEGMENT TRENDS

SEGMENT REVENUES IN %




— A Europe 45.1 %
— B America 54.9 %

### 3.1 America segment

The America segment generated EUR 38.7 million of sales revenue in the year under review, after EUR 23.9 million in the 2012 / 2013 financial year. These figures can be compared with each other to only a limited extent, however, as the US companies that were acquired at the end of 2012 were consolidated for only six months in the previous year. Overall, sales revenues in the USA were under pressure due to declines in the eyewear business area. Having introduced efficiency enhancement measures, this segment's earning situation is showing its first successes. EBITDA before extraordinary items improved in absolute terms from EUR 1.5 million in the comparable period to EUR 2.9 million. In relation to gross revenue (EUR 38.5 million), this represents 7.4 %, compared with 6.7 % in the previous year. Segment EBITDA after extraordinary items stood at EUR 2.8 million, following EUR 3.3 million in the previous-year period.

### 3.2 Europe segment

The Europe segment reported sales revenue of EUR 31.8 million for the 2013 / 2014 financial year, compared with EUR 36.0 million in the prior-year period. This reduction is due to a lower level of invoicing of plant projects. EBITDA of EUR –0.7 million was close to the previous year's level of EUR –0.2 million due to extraordinary items. After adjusting for extraordinary items, EBITDA in the year under review of EUR 1.4 million was EUR 0.6 million above the reference figure. Influenced by holding company costs, the EBITDA margin amounted to 4.3 %, and 2.4 % in the prior-year period.

### 3.3 Other

In the Other area in Asia, general holding company costs fed through to slightly negative EBITDA of EUR –0.2 million (previous year: EUR –0.2 million).

## 4. NON-FINANCIAL PERFORMANCE INDICATORS

In addition to defined financial control parameters, non-financial performance indicators are also important for the long-term success of the Balda Group. These indicators relate to particular strengths and skills whose relevance can be derived from the Group segments' individual business models.

For all customer and product segments, these primarily comprise the following aspects:

— Development and industrialization know-how: Given its 100-year corporate history, Balda can look back on first-class results in the development and subsequent industrialization of high-quality products. Many of these plastic products combined mechanical and electronic components. Optical, haptic and other technical challenges and problems required solutions. When examining the entire income and expense period for a product life-cycle, it is clear that—especially during the first months of development—decisions need to be taken that massively affect expenditure over the entire product life-cycle. Balda's developers have made a massive contribution to allowing products to be manufactured efficiently, and consequently cost-effectively. Many of our products today benefit from this unique, cross-disciplinary experience that has been acquired over many years. This experience also provides us with competitive advantages when developing new, intelligent products, including for improved patient medication, for example.

— Plastics and process know-how: Plastics in the areas of medical technology, diagnostics and other specialist areas are today high-performance materials that have been adapted and optimized specially for their deployment. Along with standard plastics, Balda also utilities more complex high-performance plastics in the healthcare market segment and has established a leading position through the creation and expansion of this materials and process know-how among its staff.

COMPLETE VALUE CHAIN: FROM DEVELOPMENT VIA PRODUCTION TO THE POINT OF GLOBAL LOGISTICS.

— Expert system partner: Balda utilizes a customized logistics solution to manage products from the development stage, through to production, quality assurance and finally on to the customer. This allows us to implement maximum product quality, product availability, supply capacity and delivery punctuality for our customers at competitive prices.



— International presence: Internationally operating customers frequently also expect internationality among their suppliers. Globally operating companies expect a capability to operate internationally, manage intercultural projects and exclude currency risks through targeted location selection, and exploit logistics benefits and advantages. We have come a long way in this direction with the integration of our US interests. We can also look back on a history and our extensive experience with internationality.

The customers in the healthcare market-segment:

— New management of the international healthcare market at Balda AG: At the end of the 2013 / 2014 financial year, Balda AG created a center to head up the development and coordination of the international healthcare market, and staffed it with related experts. To support sales efforts, Balda AG together with the local operating unit addresses potential, globally-operating customers. In ongoing business, Balda AG coordinates cross-border topics relating to current customer relationships.

— Cleanroom capacity expanded: In order to process existing customer orders, cleanroom production capacity was expanded from 3,600 m² to 4,600 m² in the 2013 / 2014 financial year. An expansion of capacities in the USA is also forthcoming, although the scheduling of these works is still open.

4.600 m²

CLEANROOM CAPACITY

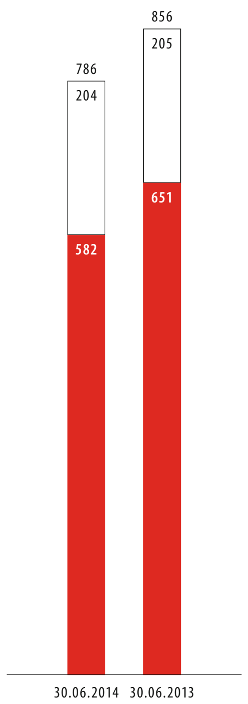
For customers in the eyewear and other products market-segment:

— Greater depth of vertical manufacturing: Following the sharp fall in sales in summer 2013 at our Irvine site, we acquired new customers on the fashion sunglasses market. We expanded value creation at the location to include assembly and packaging, and today we are supplying products on a finished basis ready for display at retailers. This ability makes Balda particularly interesting for medium-sized high-fashion manufacturers of eyewear. Balda will further market this know-how through its presence at specialist trade fairs.

### 4.1 Personnel report

The Balda Group employed a total of 786 staff as of the 30 June 2014 reporting date, including part-time workers, and trainees. This compares with 856 individuals at the end of the previous year (30 June 2013). The fall is particular attributable to the reduced production volumes in the USA and additional automation successes.

EMPLOYEES




— Europe
— America

#### 4.1.1 America segment

As of 30 June 2014, the America segment employed a total of 582 staff in Anaheim, Ontario, Irvine, and Oceanside, California, USA. Balda America employed 651 staff in the previous year. The reduction of 69 staff is primarily due to capacity adjustments and efficiency enhancement at the America site. Overall, 385 individuals were employed on a fixed basis (previous year's reporting date: 432) and 197 staff were provided through employment agencies (previous year: 219).

#### 4.1.2 Europe segment

As of 30 June 2014, the Europe segment employed a total of 204 staff at its location in Bad Oeynhausen in Germany, and in our office in Hengelo, Netherlands, compared with 205 as of the previous years reporting date. Of these, 194 individuals were employed on a fixed basis (previous year: 193 staff) and 10 individuals were provided by employment agencies (previous year's reporting date: 12).

#### 4.1.3 Staff costs

The staff costs of the Balda Group amounted to EUR 29.3 million in the 2013 / 2014 reporting period, ahead of the previous year's EUR 21.2 million. This higher amount is attributable to the full integration of the US companies, compared with a consolidation period of just six months in the previous financial year. In addition, a total of EUR 1.7 million was deferred for laying off staff, including the former Management Board member. Measured in terms of consolidated gross revenue, the staff cost ratio amounted to 41.3 %, compared with 37.2 % in the previous year.

#### 4.1.4 Continuing education and training expenses

The Balda Group regards continuing education and training as a strategic, Group-wide and continuous process that allows the potentials within the workforce to be leveraged and constantly developed further with an eye to the company's objectives. A training plan for all staff is generated on the basis of periodic surveys of training requirements.

This systematic approach enables us to ensure that the entire workforce has a level of knowledge that is up-to-date and in accordance with their functions, and that such knowledge is expanded consistently.

Given this, we conduct continuing education training measures that are not just product or process related—we also convey methodological expertise. Multi-period continuous education training offerings also serve to promote soft factors such as employee loyalty and motivation. Moreover, as an international operating Group, we make great efforts to expand our staff members' foreign language capabilities.

In addition to the further training of the workforce, we are also committed to the qualified training of young people, thereby also creating the potential to structure future growth from our own resources. Training in both technical and administrative professions offers young people outstanding prospects to play a positive role in structuring the start of their professional lives within a technologically high-end and international corporate group.

At the bottom line, the strategic approach to our continuous education and training measures serves to expand Balda's overall competences in order to thereby create the basis for gradually expanding the company's value chain in the future.

### 4.2 Environmental management and occupational health & safety

#### General

The conservation of natural resources and the protection of employees form intertwined and integral elements of the Balda Group's corporate policy. Balda is committed to its social and environmental responsibility and therefore aims to continually improve environmental protection and health and safety in all areas of the company. In order to pursue this goal as efficiently as possible, all segment employees are actively involved in the segments' improvement processes.

Efficient, responsible use of resources and the reduction of emissions and noise levels are key tasks for environmental protection in the Group. The systematic saving of energy, the prevention of waste from by-products and the reuse of materials are at the heart of the Group's environmental activities.

#### Recycling

Balda consistently recycles the waste that arises as part of its production processes, particularly in plastic injection molding. Non-reusable plastics are recycled thermally under conditions that minimize environmental pollution as far as possible. The environmental measures also include environmentally friendly, conscious use of water.

#### Stringent safeguards

The Balda Group works with paints and dyes in its production processes. Use of these chemicals is subject to strict controls. These substances are used in accordance with the provisions of the EU's REACH regulation.

REACH = REGISTRATION, EVALUATION, AUTHORISATION AND RESTRICTION OF CHEMICALS

Particular attention is paid to the handling and careful storage of hazardous substances. Here, risk prevention measures take priority. Environmental pollution is considered as much of a danger as the risk of fire or explosion.

#### Certified environmental management systems

In the Europe segment, Balda Medical GmbH & Co. KG has implemented an integrated management system for health, safety and environment management (HSEE) in line with the BS OHSAS 18001, DIN EN 14001 and DIN EN 50001 standards. The main objective of the health, safety and environment policy of Balda Medical GmbH & Co. KG is the efficient and environmentally friendly utilization of resources and the reduction of emissions. The integrated management system ensures compliance with the relevant environmental laws and legislation as well as a high degree of sustainability and safety for man and the environment. It was certified by TÜV Rheinland CERT GmbH. In the America segment the environmental management complies with the statutory provisions.

#### Efficient energy management

By calculating important energy aspects and realizing corresponding energy targets, the Balda Group achieves a considerable efficiency enhancement in handling energy within the company. The optimization of energy consumption —with the requirement of achieving appreciable reductions—contributes both to environmental protection and cost efficiency. Since 2014, energy management at Balda Medical GmbH & Co. KG has been certified according to the DIN EN ISO 50001 standard as a component of the HSEE management system.



#### Close involvement of customers and suppliers

The Group's customers have been integrating the systems partner Balda into their environmental programs for many years. As part of its quality management activities, Balda regularly checks its supply partners' environment management systems with its own audits, or by requesting information from suppliers. Balda has been working for many years on integrating its suppliers into its environmental policy.

#### Higher operational safety standards

Balda Medical GmbH & Co. KG has the status of an Authorized Economic Operator (AEO). The company is thereby regarded as particularly reliable and trustworthy. For this reason, it benefits from many advantages in the context of international merchandise trade. The AEO-F certification is the highest version of the security and safety seal awarded by the customs authorities. It includes both the security-related conditions of the AEO-S (Security) status and the customs simplifications of the AEO-C (Customs) status.

#### Segment management responsibility

The segment managing directors are responsible for compliance with laws, regulations and measures that protect the environment and employees. They are personally responsible for monitoring and achieving the environmental targets set. They are also responsible for the continual review of the environmental measures practiced. Performance is measured based on the degree to which targets are achieved and on profitability. The managing directors report directly to the Management Board of Balda AG. The effectiveness of the measures is monitored by internal environmental audits and the annual recording of key figures. The results form the basis for further improvements to the most important targets, programs and measures.

The local environmental officers report to the site's management on the status of the environmental management activities based on an internal comparison of the actual and the desired situation. The environmental officer is responsible for the communication with and training of employees at the Group's production facilities.

In the 2013 / 2014 financial year, the Balda Group once again held several information events and training courses for the workforce on environmental and health and safety issues.

## 5. OVERALL STATEMENT OF THE FINANCIAL YEAR

The Balda Group grew in line with its forecast during the 2013 / 2014 financial year, registering 17.7 % sales revenue growth. The company consequently generated EUR 70.5 million of sales revenue, compared with EUR 59.9 million in the prior-year period. This revenue growth is largely attributable to the full-year consolidation for the first-time of the US companies.

17.7 %

REVENUE GROWTH

Consolidated earnings before interest, tax, depreciation and amortization (EBITDA) and before extraordinary items amounted to EUR 4.0 million in the period under review, reflecting a doubling compared with the EUR 1.8 million reported in the previous year. The EBITDA margin stood at 5.7 % as a consequence. The loss before interest and taxes (EBIT) reduced markedly to EUR –4.7 million, following EUR –12.6 million in the previous year.

Consolidated net income for the entire Group stood at EUR 5.9 million in the 2013 / 2014 financial year, compared with EUR 13.5 million in the prior-year period. The previous year's result was influenced by gains from the disposal of the remaining TPK shares and extraordinary depreciation and impairment losses amortization.

The end of the last financial year also sees the conclusion of a transformation and consolidation process at Balda AG. The company has implemented considerable changes at three levels. Along with personnel changes on the Supervisory and Management boards, these new structures primarily comprise the complete consolidation and integration of the US companies into the Group, and the identification and partial elimination of legacy liabilities, including legal.

PROCESS OF TRANSFORMATION AND CONSOLIDATION HAS BEEN CONCLUDED.

Balda is now increasingly perceived on the market as a supplier of high-quality integrated plastic solutions. This external impact is becoming clear as the result of joint trade fair appearances, and especially the new integrated Group website. This forms an important component of Balda's growth and internationalization strategy, and opens up new prospects for the Group.

# EVENTS AFTER THE REPORTING PERIOD

## CHANGES TO THE MANAGEMENT BOARD

Following the end of the period under review, on 28 August 2014, the Supervisory Board announced that the interim management agreement of Dr. Dieter Brenken would end at the end of October, as planned. In this connection, Mr. Oliver Oechsle was appointed for a further two years to the Management Board of Balda AG.

## COUNTERCLAIM AGAINST FORMER MANAGING BOARD MEMBER

On 24 September 2014 the Supervisory Board of Balda AG has passed a resolution to put forward a lawsuit against a former organ. The subject matter of the counterclaim are the company's loss compensation receivables due to serious infringements of duty in 2013.

After the 30 June 2014 reporting date, no other events occurred of important significance for the Group's net assets, results of operations and financial position.



# REPORT ON OPPORTUNITIES AND RISKS

## 1. STRATEGIC FOCAL POINTS AND OPPORTUNITIES

After spinning off its Asian locations, which concluded with the sale of the interest in Malaysia in April 2013, the Balda Group had repositioned itself in terms of markets. Balda Medical GmbH & Co. KG, Bad Oeynhausen, Germany, which has operated since 2003, has become the company's core business. Two further companies were acquired in the USA to bolster the former operating segment of Balda Medical. At the same time, Balda gained access to other markets such as eyewear. These companies have now been integrated, with the resultant reorientation generating opportunities on these active markets. Current discussions with existing and new customers and bring further opportunities to light, as reflected in growing planning revenues.

## 2. THE MANAGEMENT OF OPPORTUNITIES AND RISKS AT THE BALDA GROUP

The Group has an effective, tried-and-tested opportunities- and risk management system that was further refined and optimized in the financial year just ended. The following section describes how our opportunities- and risk management system functions.

### 2.1 Functionality of the Balda Group's opportunity and risk management system

| | IDENTIFICATION › | ASSESSMENT › | AGGREGATION › | ANALYSIS › | REPORTING › | CONTROLLING › |
|---|---|---|---|---|---|---|
| PROCESS ELEMENTS | Ongoing monitoring of company and its general business environment | Assessment of the peak influences of opportunities / risks on EBITDA | Aggregation of related opportunities / risks into categories of opportunities and risks | Analysis of opportunities and risks in order to implement (counter) measures | General, quarterly reporting | Local entity, Group steering committees |
| | Identification of all aspects of an opportunity / a risk | Assessment of (counter) measures | Consolidation of local opportunities and risks to regional portfolios | Identification of further (counter) measures on a regional and local basis | Quarterly reporting to Management Board and Supervisory Board | Implementation of (counter) measures |
| | Identification of entities included and of the business environment | Assessment based upon the guidelines and Group-wide specifications | Consolidation of regional portfolios and Group-wide opportunities and risks into one Group portfolio | | Ad hoc reports | |
| TOP-DOWN RESPONSIBILITY LIES WITH | Management Board Functional areas | Management Board Functional areas | Management Board Functional areas | Management Board Functional areas Local entity | Management Board Functional areas | Management Board Functional areas Group steering committees |
| BOTTOM-UP RESPONSIBILITY LIES WITH | Functional areas Local entity Local Mgmt. | Functional areas Local entity Local Mgmt. | | Functional areas Local entity Local Mgmt. | Functional areas Local entity Local Mgmt. | Functional areas Local entity Local Mgmt. |

Risks are recorded quarterly, and reported to the Management and Supervisory boards on the basis of functional areas and individual companies.

In addition, risks that are identified during the course of the quarter that exert an effect on the Balda Group's results are reported on an ad hoc basis to the Management Board. This occurs at periodic review meetings between the managing directors, the heads of the functional areas, and the Management Board. The Management Board then reports to the Supervisory Board at regular Supervisory Board meetings. Where required, appropriate measures are approved and initiated.

Operating opportunities are identified, documented and analyzed in review meetings at local and regional level, as well as within the Management Board. Measures to implement strategic and operating opportunities through local and regional projects are also approved at these discussions. The recording and success of the implementation of potential opportunities are followed up and checked as part of monthly reporting and quarterly forecasts. Strategic opportunities are included as strategy assumptions in the medium-term planning that is prepared annually. Identified opportunities and risks are assessed using systematic valuation processes, and quantified as to their financial effects. This entails determining event probabilities and effects on budgeted earnings metrics.

In order to analyze the overall risk to the Balda Group and launch appropriate countermeasures, we aggregate the risks of the local business units and segments as well as Group-wide risks into a risk portfolio. The consolidation scope of risk management corresponds to the consolidation scope utilized in the consolidated financial statements in this context.



We also split risks according to the type and functional area that they impact. This enables specific risks to be aggregated in a structured manner into risk groups. Along with individual risk steering, this aggregation also allows us to identify trends, and especially Balda-specific risk types, in order to thereby sustainably influence and reduce risk factors for particular risk types.

### 2.2 Opportunities- and risk portfolio of the Balda Group

As part of preparing and monitoring and opportunities- and risk profile, we assess the financial effects of opportunities and risks applying three categories that derive in relation to the EBITDA of the specific company or Group.

I Low: up to 5 % of current EBITDA
II Moderate: up to 25 % of current EBITDA
III High: up to 25 % of current EBITDA

The effects presented always take into account the impact of measures and countermeasures that have been launched. This forms a net valuation of the opportunities and risks.

We measure the event probabilities of individual opportunities and risks on a scale of 1 to 5. These are then aggregated within categories.

Improbable = 1
Possible = 2 – 3
Probable = 4 – 5

## 3. OPPORTUNITIES AND RISKS

Risks which are significant for the Group are described in the following chapters.

### Economic risks

The success and probability of the Balda Group depends to a not insignificant extent on macroeconomic trends in its sales markets and its customers' sales markets. For this reason, the Balda Group takes global economic trend indicators into account in both its planning and its opportunities and risk management.

In order to gage macroeconomic trends, Balda primarily utilizes forecasts produced by generally recognized institutions such as the IMF, the Bundesbank and renowned economic research institutions. Global growth of 3.4 % is anticipated for 2014 as a consequence. Potential upside beyond this growth level represents an opportunity for Balda. Flexible production structures allow capacities to be expanded quickly in order to respond to higher demand. We regard it as possible that the economic situation improves significantly worldwide to an extent that would moderately affect our earnings. For the Asian region, we also see the potential for a positive divergence compared with the assumptions on which a planning is based. We nevertheless identify risks that could run counter to our forecast, and these are reflected in our risk management. While taking into account the strained budgetary position of numerous countries in EMEA and America, and the politically uncertain situation of some states such as Ukraine, Afghanistan, the Middle East, or the Arab states of North Africa, we regard a weakening of the global economy as unlikely. Should these factors nevertheless affect global demand, the financial effects for the Balda Group could be moderate to high compared with planning.

### Sector-specific and technological opportunities and risks

Balda continuously monitors economic trends in individual countries and trade flows. Where required, this allows sales risks to be countered through capacity adjustment. It should nevertheless also be noted that Balda has worked together over many years on the basis of trust in its healthcare area, and is consequently less susceptible to cyclical economic fluctuations. In the non-healthcare area, which mainly reflects the US companies Balda C. Brewer and Balda Precision, sales risks are reduced through a heterogeneous customer structure and corresponding product diversification. The Balda Group's international reach in various business areas minimizes the Group's risks from regional influences. In addition, the increasingly diversified product and customer structure in both operating segments diminishes sales risk in sub-markets. A further factor contributing to this development is the continued push for organic growth at our companies with the aim of finding new customers for interesting and technically groundbreaking projects.

INVESTMENTS IN TECHNICAL PLANTS TO KEEP RISKS LOW HAVE INNOVATIVE CAPACITY.

Balda is aware the importance of constantly offering state-of-the-art technologies in order to remain competitive and innovative. For this reason, Balda realizes most of its investments in technical plant and machinery. As far as this risk is concerned, however, Balda also identifies the opportunity to prove persuasive to customers as the result of it innovative strength and capacity. Moreover, Balda involves customers in new developments at an early juncture. Constant coordination during the entire course of projects averts the development of technological errors and runaway costs. We counter long-term sector-specific opportunities and risks through a consistent innovation policy and market analyses. We consequently ascribe low event probabilities to sector-specific and technology risks. We gage potential financial effects as low. Balda identifies potential opportunities to acquire new customers as a result of its innovative strength and capability, technical know-how and international presence. We gage the potential financial effects as moderate.

**Corporate strategy opportunities and risks**

AG TAKES ON NEW STRATEGIC MANAGEMENT ROLE.

In its new parent company role as a mentor that takes on a strategic management role for the operating areas, Balda AG has increasingly succeeded in establishing new customer contacts at international level, thereby also establishing projects that are important for the future business trends of the operating companies.

The company also plans to expand both the healthcare and the non-healthcare area (eyewear, high-quality electronics products and automotive) through both organic growth and acquisitions. It aims to boost consolidated sales revenue to a level of EUR 100 to150 million in the medium term.

The respective measures (e.g. the identification of target companies and target regions) were launched as part of the M&A strategy. The strategy aims to expand presence on existing markets, and to tap new markets that offer attractive growth potential. In this context, Balda generally sees its production sites within the respective regions of its sales markets.

Balda is planning a location in Romania for 2014/2015 in this connection. Assembly services for specific future projects will be located there. Balda is thereby securing its competitiveness in the for small and midsized batches market segment.

Balda is investing continuously in the research and development of new, more efficient process technologies, as well as in developing proprietary products. This focus on developing new technologies, products and solutions, and on improving them, will bolster the Balda Group's competitive position and innovative capacity.

This consistent strategic orientation comprises the foundation for Balda to generate medium and long-term potential opportunities. As a consequence, Balda gages the effect of the strategy as potential, and the potential financial effects as moderate.

Erroneous estimations in relation to the Group's strategic orientation and its market potentials, as well as any potential failure by customers to accept newly developed products, cannot be excluded, however, and can negatively affect the Balda Group's competitive position and sales revenues. Balda monitors the market environment and its competitors, and conducts customer and supplier surveys in order to avoid strategic risks.

We consequently regard the materialization of strategic risks as improbable, and the potential financial effects as moderate.

**Operational opportunities and risks**

**Raw materials**

The materials deployed at Balda, especially plastic granulate, are subject to the risk of price fluctuations. The global economy also indirectly affects price trends. The individual segments themselves are responsible for the purchasing of raw materials and the negotiations of the related prices. A multi-supplier strategy is deployed as far as possible in this context in order to reduce dependency. The company continues to endeavor to enter into supply agreements with the longest terms possible, in order to hedge the volatility risk relating to raw materials prices. This allows Balda to minimize materials purchasing risks, and to make it easier to calculate price fluctuations.



Balda identifies the potential for prices to rise due to positive growth forecasts for the global economy. We nevertheless anticipate only minor financial effects due to the aforementioned approach in purchasing materials. Moreover, a portion of materials price increases can be passed on to customers. We see it as unlikely that raw materials prices will fall. We nevertheless gage the potential financial effects from falling raw materials prices as low.

**Suppliers and dependencies on important suppliers**

The discontinuation of deliveries by suppliers and dependencies on individual suppliers can result in shortfalls in raw materials, thereby negatively affecting the Group's operating activities. In order to minimize such risk, we work only with reliable and innovative suppliers that meet our high quality standards. The Balda Group nevertheless depends on suppliers, as some customers prescribe suppliers. Supplier audits are conducted within the quality management function. Alternatives are evaluated if indications exist that suppliers will be unable to deliver, or that certain products will be undeliverable. Balda's supplier relationships nevertheless tend to be long-term in nature due to the product life cycles of Balda products. For this reason, Balda knows its supplies, and is informed about changes to their statuses. Consequently, we evaluate a low risk relating to the discontinuation of deliveries from suppliers and the extent of the related potential financial loss. Balda nevertheless also identifies opportunities as the result of its proactive approach with both existing and new supplier relationships. We identify a potential divergence compared with planning, with a low impact.

**Quality and processes**

CERTIFICATES PROVE QUALITY OF PRODUCTS AND WILL LOWER QUALITY RISKS.

Balda Group products are subject to high customer requirements in terms of performance, quality and operational reliability. For this reason, a key success factor to secure sustainable corporate success is the continuous assurance of product quality so that Balda Group products deliver critical added value for its customers. In this context, the Balda Group is also caught between cost leadership and quality assurance. The resultant risk is structured through far-reaching quality assurance measures, and a focus on innovative and value-creating solutions that meet customer requirements. Balda also holds various certifications such as SIX Sigma, DIN EN ISO 9001 and DIN EN ISO 13485. For this reason, we see a potential for quality risks to materialize, while we gage the potential financial effects as low due to existing insurance against losses.

As at other companies, Balda always endeavors to realize cost advantages, and to thereby strengthen its competitive position. We anticipate positive impulses for the Balda Group's operating activities from the development and implementation of initiatives that are oriented to the areas of cost discipline, continuous improvement of processes in all functions and all areas of the company, optimization of supply chain management and manufacturing processes. As we are constantly following up the improvement process, we anticipate positive deviations in the area of these processes. We identify potential for cost reductions. As we have already planned optimizations arising from production processes, and have structured these production processes very efficiently, however, we regard the probability of short-term financial effects from a deviation from plan as low. These optimization processes are nevertheless of great significance for the company on a long-term view, as they secure the company's competitive position.

**Customers**

BALDA HAS LONGTERM CUSTOMER RELATIONSHIPS.

Customer risks arise from dependency on important customers that generate a not insignificant proportion of sales revenue. Such customers might exploit their negotiating strength and increase pressure on our margins. Falls in demand or the loss of such customers can exert negative effects on the Balda Group's results. For this reason, new order intake and customer behavior is monitored constantly in order to identify potential customer risks at an early stage. In addition, Balda maintains long-term relationships with its customers, and the projects that are entered into with such customers are generally of a long-term nature. Moreover, Balda enjoys a more diversified customer portfolio in some areas, which reduces the financial effects of customer risks. In 2013/2014, Balda made with three customers more than 10.0% of its revenues. Overall, we identify a potential risk of dependency on customers and their risks. We gage the potential effects as low to moderate. We have expanded our customer portfolio based on our objective of further expanding our markets. In particular, it is already becoming clear that the project pipeline in the healthcare area has enlarged significantly compared with the previous year. It should nevertheless be noted in this context that projects in this area have longer lead times. The pipeline in the non-healthcare area also comprises new customers and orders. Overall, we identify probable possibilities for positive deviations from plan arising from a growing number of customers and projects. We gage the potential and financial effects as moderate.

**Opportunities and risks in personnel management**
The success and profitability of the Balda Group depends on its staff's commitment, innovative capacity, know-how and integrity. The departure of staff members with key competences and bottlenecks in terms of appropriate staff capacities could negatively affect our operating activities. Competition for the most talented staff is becoming increasingly intense due to demographic trends and a shortage of specialist and technical staff in Western industrialized economies. Balda counters such risks with far-reaching continuous education and training programs. Balda also encourages its staff to be oriented to the company's success and profitability through variable compensation schemes, however. In parallel, our staff also participate in the continuous further development of the Balda Group through staff surveys and improvement campaigns. Representation arrangements and a corresponding distribution of responsibilities also exist that promote mutual communication and the exchange of information. This hedges the Balda Group against risks that can arise as the result of the departure of particular staff members.

Overall, we see the potential for personnel risks to materialize, although we regard the associated potential financial risks as low due to the aforementioned personnel policy measures.

We also identify opportunities to secure the Balda Group's business capacity through the further development of our employees through corresponding further education and training measures. As far as possible, Balda continues to offer its staff additional services such as participation in fitness courses, health checks, and family-friendly working time models. In line with the aforementioned measures, Balda promotes the maintenance and establishment of knowledge within the company, where we identify an opportunity for the future development of the Balda Group, whose success we regard as probable. We regard the direct financial success probability as somewhat low. The personnel measures nevertheless positively affect the Group's financial success long-term.

**IT-related opportunities and risks**
The ability to access and exchange information quickly, completely and appropriately, and to deploy performant IT systems, is of central importance to innovative and global companies such as Balda. A far-reaching outage could result in interruptions to operating activities or the disclosure of sensitive corporate information. For this reason, Balda has implemented appropriate measures to avoid and reduce these types of risks. A central IT department located within the holding company steers the individual units with respect to the standardization of systems and system solutions in terms of archiving, protection and data availability. Staff access to sensitive information is ensured with the help of authorization concepts tailored to corresponding centers and functions while taking into account the functional separation concept. IT systems deployed in the production area are doubled in order to reduce risks. Potential risks are also taken into account through early planning and the creation of appropriate transition solutions. We gage it as unlikely that IT-related risks will materialize in all regions. We gage the potential financial effects as low to moderate. Opportunities in the IT area derive particularly from potentials relating to process standardization and optimization across all Balda Group units. We regard these as probable, and anticipate the financial effects at a low level.

**Financial opportunities and risks**

**Currency**

CURRENCY RISK CAN INFLUENCE OUTLOOK.

Risks arise also primarily from changes in the exchange rates between the US dollar and the euro. The Group's sales invoiced in foreign currencies could diminish when converted into euros if the foreign currency weakens. This would result in a fall in reported sales for the Balda Group.

Currency risks from operating activities are manageable because sales and purchasing are both generally conducted in the relevant local currency. We gage it as probable that risks arising from changes to currency exchange rates will materialize. We nevertheless gage the potential financial effects as low because purchasing and sales are performed in local currencies.

We monitor currency exchange rate trends continuously, and hedge them with derivatives where it makes sense. We perceive opportunities in exchange rate parities between the US dollar and the euro changing to benefit the Balda Group. We gage the related event risk as possible, and the attendant potential financial risk as low, as the aforementioned sales revenues are realized in local currency.

**Liquidity and default risks**
The Balda Group encounters the risk of cash flow variability by holding a minimum reserve of cash and cash equivalents to meet medium-term operation obligations. Potential loss of accounts receivable are encountered by Balda Group by the closing of insurance contracts and by regular analyses of receivables respectively.

**Legal opportunities and risks**
Legal risks may result from the many regulations and laws which concern the company. In order to prevent possible risks, the decisions and transactions of Balda AG are based on extensive international legal advice.

An analysis of the company's history shows that some former directors acted in error. On 24 September 2014 the Supervisory Board of Balda AG has passed a resolution to prepare a lawsuit against a former organ. Out of consideration for the directors concerned, it is currently impossible for the Management Board to make any statements concerning these matters.

The legal risks referred to in the 2012 / 2013 annual report no longer exist.

In October 2013, Balda AG received a lawsuit from two shareholders relating to the resolutions relating to the new elections to the Supervisory Board that were approved at the Extraordinary General Meeting on 4 September 2013. This legal dispute was settled as the result of a ruling by the Dortmund Regional Court of 24 April 2014. The details are related in the German Federal Gazette (Bundesanzeiger).

Provisions have been formed in the annual financial statements for all other legal risks that are known to us.

No other material legal disputes or litigation risks existed as of the end of the financial year on 30 June 2014.

**Tax law risks**
Tax risks may arise due to the international integration and structure of the Group with regard to loans or dividend payments, for example. Hence there are differing assessments on the part of a German taxing authority regarding a concluded intragroup loan.

Balda seeks the advice of renowned tax consulting firms in all relevant tax matters in order to minimize tax risks. Where possible, important tax deductible issues are discussed before implementation with the tax authorities. Nevertheless, the final tax assessment is the responsibility of the respective local tax authorities.

Ongoing queries from tax authorities exist. These along with the external tax audit in Singapore that is still ongoing are being processed. These have not yet resulted any further findings apart from the matters that have already been recognized in the financial statements.

**Assessment by the Management Board of the overall opportunities and risk portfolio**
The overall Group position is derived from aggregating all opportunities and individual risks of all of the categories of the business units and functions. While taking into account the event probabilities and potential financial effects, as well as the background to the current business prospects, the Management Board of the Balda Group anticipates no individual or aggregated risk that might jeopardize the Group as a going concern.

In summary, the opportunities and risk position of Balda is as follows:

## CHANCE AND RISK PORTFOLIO OF BALDA GROUP

| | EVENT PROBABILITIES | | | FINANCIAL EFFECTS | | |
|---|---|---|---|---|---|---|
| | IMPROB-ABLE (1) | POSSIBLE (2–3) | PROBABLE (4–5) | LOW | MODERATE | HIGH |
| **Volkswirtschaftliche Risiken** | | | | | | |
| Risks | * | | | | * | |
| Opportunities | | * | | | * | |
| **Sector-specific and technological opportunities and risks** | | | | | | |
| Risks | * | | | * | | |
| Opportunities | | * | | | * | |
| **Corporate strategy opportunities and risks** | | | | | | |
| Risks | * | | | | * | |
| Opportunities | | * | | | * | |
| **Operational opportunities and risks** | | | | | | |
| Raw materials | | | | | | |
| Risks | | * | | * | | |
| Opportunities | * | | | * | | |
| Suppliers and dependencies on important suppliers | | | | | | |
| Risks | | * | | * | | |
| Opportunities | | * | | * | | |
| Quality and processes | | | | | | |
| Risks | | * | | * | | |
| Opportunities | | * | | * | | |
| Customers | | | | | | |
| Risks | | * | | | * | |
| Opportunities | | | * | | * | |
| **Opportunities and risks in personnel management** | | | | | | |
| Risks | | * | | * | | |
| Opportunities | | | * | * | | |
| **IT-related opportunities and risks** | | | | | | |
| Risks | * | | | | * | |
| Opportunities | | | * | * | | |
| **Financial opportunities and risks** | | | | | | |
| Currency | | | | | | |
| Risks | | | * | * | | |
| Opportunities | | * | | * | | |

## 4. FINANCIAL REPORTING PROCESS (ICS)

The Group's internal risk and control management systems are designed to ensure a proper financial reporting process. All business transactions are recorded in the accounts in full and in a timely manner in accordance with IFRS standards. The structures and processes are defined to ensure that the financial reporting complies with all of the relevant laws, regulations and standards.

### 4.1 Interaction of systems

The two systems complement each other. On the one hand, flaws in the control system can be detected by identifying new risks. Additional controls can eliminate these shortcomings. On the other hand, monitoring of the control system might result in the conclusion that certain risks require more effective control.

Balda has established a standard process for the Group to monitor the effectiveness of the control system. It defines necessary controls, uniform standards for documentation, and ensures regular tests are carried out.

The responsibility for setting up and effectively maintaining appropriate controls for financial reporting lies with the Management Board of Balda AG. The Supervisory Board assesses at the close of every financial year the appropriateness and effectiveness of the control system. For the 2013/2014 financial year, the Supervisory Board of Balda AG has conclusively assessed and verified the effectiveness of the internal controls for financial reporting. Every control system is limited though with regard to its effectiveness. No control system is able to eliminate or reveal all incorrect information.

### 4.2 Structures, processes and control

The Group finance division of Balda AG, together with the accounting and controlling departments, manages the Group's accounting processes. Standard guidelines apply throughout the Group for accounting, bookkeeping and controlling. They are set out in the Group accounting manual. The Group also has a standard set of accounts. The Group accounting department continually analyses new laws, applicable IFRS accounting standards and other announcements with regard to their relevance for and impact on the consolidated financial statements and the management report. Relevant requirements are included in the guidelines for Group accounting. These rules are communicated promptly to the Group's segments. Together with the Balda AG financial statements calendar that is applicable throughout the Group, they form the basis for the process of preparing the consolidated financial statements.

At Balda, the process of uniform and proper accounting within the Group is supported by supplementary procedures, standardized reporting formats and IT-assisted reporting and consolidation processes. Accounting data that are received or forwarded are checked constantly for completeness and accuracy, including by way of random checks for instance.

The consolidated financial statements are prepared based on the financial statement information reported by the Group companies. They are based on the transactions posted in the Group companies. The units supply Balda AG's Group controlling department with clearly defined reports on a monthly basis. The reports contain pre-programmed plausibility checks. In addition, appropriate processes ensure the Group-wide and standard implementation of reporting requirements.

Besides inquiries with the persons responsible for accounting and bookkeeping in the operational units, this involves, in particular, plausibility checks and analyses in the form of period and time series comparisons as well as analyses of individual items in the income statement. The holding company's controlling department discusses any differences with the responsible unit located in the segments. Local accounting departments are responsible for the proper bookkeeping and accounting of the operational companies. The causes of any validation message or warning are to be corrected by the supplying units before final approval of the financial statement information.

The Group controlling department aggregates the figures by segment and prepares them for the Management Board as the main operating decision-maker. Specifically, these comprise the key performance indicators of sales, gross revenue, EBITDA, EBIT and EBT, investments, segment assests and headcount. The Management Board provides monthly reports to the Supervisory Board.

Aggregated Group reporting is also conducted on a quarterly basis including the income statement, statement of financial position, and cash flow.

The employees who are involved in the accounting process of the Balda Group are suitable in terms of professional expertise and undergo regular training. The Group companies in the segments are responsible for compliance with the guidelines and procedures that are applicable across the entire Group and for the proper and timely processing of their accounting processes and systems. The local companies are supported by personnel from the holding company throughout the accounting process.

Internal controls that have been determined in terms of risk considerations are built into the accounting process of the Balda Group. Balda's control system includes both preventive and detection control elements. They comprise a systematic separation of functions and IT-based and manual coordination. Furthermore, Balda's ICS works in accordance with the principle of dual control and with general IT controls. The financial systems used are protected against unauthorized access by appropriate IT measures. An internal access authorization system and constant monitoring of this system ensure that no unauthorized access is possible.

The departments involved in the accounting process are suitably staffed in terms of both quantity and quality. In the event of any shortages, recourse is made to qualified external consultants. The principle of dual control is applied in all accounting processes.

The clear demarcation of responsibility ensures that business transactions are recorded, processed and documented in accordance with legal regulations, the articles of association and internal guidelines and posted in a timely manner and correctly in the accounts. At the same time it is ensured that assets and liabilities are recognized, reported and measured correctly and that reliable and relevant information is provided in full and in a timely manner.

**4.3 Deviations from budgets**
Comparison against budget data forms a key controlling parameter. In the event of significant deviations from budgets, the Management Board of Balda AG immediately initiates control and steering measures based on trend analyses.

The internal control system for the financial reporting process, the key features of which have been explained above, ensures that business transactions are always recorded, processed and assessed correctly and included in the accounts.

**4.4 Involvement of the Supervisory Board**
The Supervisory Board is integrated into the control system. It monitors the accounting process, the effectiveness of the control system and the internal audit system as well as the audit of financial statements in advance. It is also responsible for the preliminary examination of documents for the consolidated financial statements. The entire Supervisory Board also discusses the consolidated financial statements and the management report with the Management Board and the auditor.

**4.5 Internal auditing system**
The Balda Group's internal audit department is responsible as a further element of the control system for compliance with the guidelines, the independent examination of the effectiveness of the control system, and for assuring the control system's quality. The company generally delegates the audit activities to external consultants. Planning and audits by the internal audit function also comprise taking into account risks in the consolidated financial statements and within the financial accounting process. External auditors are equipped with extensive information, auditing and access rights in order to conduct their tasks.



# OUTLOOK

The global economy is set to grow by 3.4 % in 2014, compared with 3.2 % in the previous year, according to the IMF. The IMF particularly identifies growth drivers in the USA and Asian emerging economies, as well as Southern Sahara countries where economic output is forecast to advance by 5.4 %.

In its Europe segment, the Balda Group operates exclusively on the healthcare market. The acquisitions in the USA added further market areas that we discuss below.

Our new Internet presence with our new joint claim of "Solutions made in plastic" shows the result of this integration process: Balda has grown together and is presenting itself as an integrated company that is strong in different regions, thereby corresponding with its planned growing internationality. Our experience is that potential customers feel addressed by the Balda Group capabilities that are presented on the website, and that we are hitting the mark with our solution approaches.

WEBSITE WWW.BALDA-GROUP.COM PROVES: BALDA HAS GROWN TOGETHER AND IS PRESENTING ITSELF AS AN INTEGRATED COMPANY

Balda is well positioned in both its markets and sectors because the company possesses the know-how to deliver complete products: from development through to series production and delivery, and all the way through to constant product management, including ongoing efficiency improvements. This is primarily attributable to Balda's long and deep experience, starting with the production of cameras, as well as from the cellphone handset segment. Balda has the expertise to work with other components, and to combine electronics, mechanics and display technology into a finished product. Balda consequently possesses the potential for future international growth.

**Healthcare**
The diagnostics market is reporting strong growth worldwide. Our customers include leading providers of highly automated diagnostics robots and their related consumables. In this high-growth market, Balda is known as a reliable, efficient and high-quality supplier of consumables in both the Europe and America segments. We work permanently with our customers to improve and optimize products, as well as manufacturing and logistics processes. Our objective is to exploit this market's growth opportunities, and to position ourselves as a first choice global supplier. In consequence, the diagnostics area offers Balda the greatest development potential due to global demand and product deployment. Balda aims to offer solutions for international sales in the future that not only reduce currency risks but also significantly cut risks arising from logistics and transportation, as well as buffer stocks.

The requirements made of medical products, whether for treatment or patient medication, are growing constantly. Mechanical and electronic functions, including in combination with smartphones, will help us to realize these requirements better and more efficiently. With its many years of experience from its camera and cellphone period, Balda understands how to integrate mechanical and electronic components into products made of plastic. Our products today, which are primarily utilized to treat diabetics, already exploit this know-how. Demand for the supportive medical products is set to grow at an above-average rate due to demographic trends, as well as requirements in the treatment of Alzheimer's and dementia, for example. With the current positioning of the Balda Group, both segments will participate in this growth. However, development and approvals periods amount to two to three years in this area, and consequently lie beyond our planning horizons.

**Eyewear**
In our America segment, customers from the eyewear sector comprise globally operating groups that are benefiting from rising wealth in emerging economies and the high level of brand relevance, particularly in the case of fashion sunglasses. To the manufacturing of plastic components at our USA site we have now added and qualified the value creation steps of assembly and packaging, all the way through to display. With our experience in automation and quality assurance, in California we can manufacture complete products, ready packaged for retailers. This unique positioning makes Balda attractive in the USA for customers with sporty, high-fashion products in the upper price class.

**Europe Segment**

As far as the Eurozone is concerned, the European Commission forecasts 1.1 % GDP growth in 2014. These forecasts are nevertheless based on the assumption that member states and the EU implement the agreed policy measures, thereby fostering the requisite corrective process.

Our customers in Europe largely comprise internationally positioned groups in the sectors of medical technology, pharmaceuticals and diagnostics. In our Europe segment, we consequently also benefit from these global markets' growth.

At our production site in Bad Oeynhausen, we expanded our production area by around 25 % with cleanroom technology in the 2013 / 14 financial year in order to have the forthcoming capacities for our customers. The planned expansion of manual production capacity in Rumania will allow us to offer further value creation areas in Europe in the future, and significantly improve our positioning in the manufacturing of medical devices. The first orders for this production site are already on hand, which allows us to make an operational start there in 2016.

Industry has taken note of the Balda Group's repositioning, which has fed through to a higher level of inquiries for development and production in the pharmaceuticals and medical device areas over the last months. We can offer our potential customers first-class development and manufacturing conditions in Europe. The strength of our capital backing and our first-class infrastructure comprise further arguments.

By way of summary, we are assuming that the Europe segment will experience above-market-average organic growth over the coming years.

**America Segment**

In the USA, the plastics industry is the third most important manufacturing industry in the country, thereby having a major effect on the country's overall economic development and growth. For 2014, the Society of the Plastics Industry Inc. is assuming growth of 4 to 5 %.

In the America segment, the integration of the US companies that were acquired in December 2012 has been implemented and completed over the past months. Along with presenting Balda with locational and cultural challenges, this acquisition has also allowed the company to enter into new market segments and business areas. For this reason, it was extremely important during the integration to address all of the requirements of the customers, their markets, as well as local employees. As part of our integration project, together with all operating units we have analyzed our position in relation to our competitors and our capabilities in relation to our customers, adding or expanding qualifications in some areas in order to improve our competitiveness.

We face competition with local providers in the USA and Mexico with some of our products that we manufacture in the USA. Our high quality, reliability and efficiency enable us to exist and operate profitably in this intensely competitive environment. We anticipate growth in line with the market for this area.

For this reason, we are focusing on expanding our vertical depth of manufacturing and product responsibility. In the USA, too, we will need to expand our production capacities with cleanroom technology in order to meet our customers' requirements.

**Balda Group**

The Balda Group's new positioning as a system supplier for high-end product solutions made of plastics is garnering its first positive reactions. Balda AG with its products addresses global growth markets to the greatest possible extent. The Balda Group will participate in this growth. Our forecast sales revenue growth for the current financial year of around EUR 5 million (+ / – currency fluctuations arising from currency translation) is conservative, and primarily reflects the fact that some new products, especially in the healthcare area, will have long lead times. The advantage of these products is that, once they are installed, the risks of production being relocated are low for the supplier.



The fact that we have largely addressed the issues that arose from the turbulent past will provide us with great relief at the working level and in terms of costs during the coming financial year, allowing us to refocus on expanding the operating business and on further developing the company in strategic terms.

With the efficiency enhancement programs that we have launched and implemented, as well as a greater level of cost awareness, we are expecting a positive operating result (EBIT) in the 2014 / 2015 financial year, thereby forming the basis for healthy growth. The optimization of the Group structures form part of it. Especially with regard to our controlling company, we want to simplify our Group organigram and shape it as cost-effective as possible.

In the current financial year, the company had to incur a fall in revenue in both of its operating segments. In the previous year, the plant business in Europe was characterized by a singular proportion of revenue deriving from a fully automated production line. In the year under review, unfortunately, the resulting product revenues are falling short of expectations due to modest customer demand for deliveries.

In the America segment, customers migrated products to competitors, or to their own production sites. This resulted in a reduction of sales revenue that has been offset only slowly by the acquisition of new customers.

Balda is extending its international presence. The company is therefore expanding its network of specialists in order to meet demand in the future for products that integrate mechanics and electronics. The expansion of our expertise will bolster both the Europe and America segment.

Insofar as macroeconomic conditions do not change significantly, and no currently unforeseeable events occur, the Management Board of Balda AG expects sales revenue (on the basis of the current portfolio) to grow from EUR 70.5 million to around between EUR 73.0 million and EUR 78.0 million in the current 2014 / 2015 financial year: After a negative EBIT in the year under review, the Management Board is assuming a positive result before interest and taxes (EBIT) and consequently also a positive EBIT margin in the low single digit percentage range.

EUR 73 – 78 MILLION

REVENUES ARE EXPECTED WITH A POSITIVE OPERATING RESULT

Bad Oeynhausen, 29 September 2014

**DR. DIETER BRENKEN** MANAGEMENT BOARD MEMBER (CFO)

**OLIVER OECHSLE** MANAGEMENT BOARD MEMBER (COO)

# 03

## CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

OF BALDA AG AS OF 30 JUNE 2014

| ASSETS | | | CONSOLIDATED NOTES II | 30.06.2014 EUR THOUSAND | 30.06.2013 EUR THOUSAND |
|---|---|---|---|---|---|
| A. | NON-CURRENT ASSETS | | | | |
| | I. | Property, plant and equipment | 5.a. | 19,377 | 20,992 |
| | | 1. Land and buildings | | 10,002 | 10,206 |
| | | 2. Machinery and equipment | | 7,986 | 9,396 |
| | | 3. Fixtures, furniture and office equipment | | 951 | 1,390 |
| | | 4. Advance payments and construction in progress | | 438 | 0 |
| | II. | Goodwill | 5.b. | 14,023 | 14,710 |
| | III. | Intangible assets | 5.c. | 6,680 | 9,579 |
| | IV. | Financial assets | 5.d. | 3,234 | 5,191 |
| | | 1. Loans | | 3,234 | 5,191 |
| | V. | Deferred taxes | 5.e. | 4,222 | 4,423 |
| | **Non-current assets** | | | **47,536** | **54,895** |
| B. | CURRENTS ASSETS | | | | |
| | I. | Inventories | 5.f. | 10,052 | 10,402 |
| | | 1. Raw materials and supplies | | 3,170 | 3,181 |
| | | 2. Work in progress and finished goods and merchandise | | 5,475 | 6,942 |
| | | 3. Advance payments made | | 1,407 | 279 |
| | II. | Trade receivables | 5.g. | 8,541 | 10,222 |
| | III. | Other current assets | 5.h. | 36,197 | 215,134 |
| | IV. | Current tax assets | 5.i. | 489 | 863 |
| | V. | Cash | 5.j. | 160,518 | 68,153 |
| | **Current Assets** | | | 215,797 | 304,774 |
| TOTAL ASSETS | | | | **263,333** | **359,669** |

| EQUITY AND LIABILITIES | | | CONSOLIDATED NOTES II | 30.06.2014 EUR THOUSAND | 30.06.2013 EUR THOUSAND |
|---|---|---|---|---|---|
| A. | EQUITY | | | | |
| | I. | Subscribed capital | | 58,891 | 58,891 |
| | II. | Reserves | | 30,964 | 39,809 |
| | III. | Net retained profits | | 151,928 | 235,836 |
| | | 1. Consolidated net income | | 5,864 | 13,480 |
| | | 2. Retained profits brought forward | | 146,064 | 222,356 |
| | **Equity, Group** | | **5.k.** | **241,783** | **334,536** |
| B. | NON-CURRENT LIABILITIES | | | | |
| | I. | Bank loans | 5.l. | 465 | 763 |
| | II. | Non-current finance lease liabilities | 5.m. | 5,851 | 6,046 |
| | III. | Deferred taxes | 5.n. | 147 | 128 |
| | **Non-Current liabilities** | | | **6,463** | **6,937** |
| C. | CURRENT LIABILITIES | | | | |
| | I. | Trade payables | 5.o. | 5,539 | 6,283 |
| | II. | Other current financial/non-financial liabilities | 5.p. | 4,065 | 4,873 |
| | III. | Advance payments received | 5.q. | 2,995 | 3,119 |
| | IV. | Short-term bank borrowings and short-term loans | 5.r. | 285 | 968 |
| | V. | Current portion of finance lease liabilities | 5.s. | 799 | 2,843 |
| | VI. | Income tax liabilities | 5.t. | 1,404 | 110 |
| | **Current liabilities** | | | **15,087** | **18,196** |
| TOTAL EQUITY AND LIABILITIES | | | | **263,333** | **359,669** |

# CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM 1 JULY 2013 – 30 JUNE 2014 OF BALDA AG

| IN EUR THOUSAND | CONSOLIDATED NOTES II | 2013/2014 | 2012/2013 |
|---|---|---|---|
| Sales revenues | 6.a. | 70,517 | 59,906 |
| Changes in inventories of finished goods and work in progress | 6.b. | 348 | –2,852 |
| Total operating revenue | | 70,865 | 57,054 |
| Other operating income | 6.c. | 4,048 | 7,430 |
| Cost of materials | 6.d. | 26,935 | 23,829 |
| | | 38.0% [1] | 41.8% [1] |
| Staff costs | 6.e. | 29,253 | 21,207 |
| a) Wages and salaries including social securtiy costs | | 25,381 | 16,458 |
| b) Expenses for temporary employees | | 3,872 | 4,749 |
| | | 41.3% [1] | 37.2% [1] |
| Depreciation, amortization and impairment losses | 6.f. | 6,656 | 15,223 |
| Other operating expenses | 6.g. | 16,795 | 16,859 |
| **Profit/loss from operations [2]** | | **–4,726** | **–12,634** |
| Net interest income/expense | 6.h. | 1,579 | 2,386 |
| Other finance income (net) | 6.i. | 8,471 | 12,025 |
| Net gain/loss from the sale of TPK shares | 6.j. | 0 | 16,883 |
| **Earnings before taxes** | | **5,324** | **18,660** |
| Taxes on income | 6.k. | –540 | –2,131 |
| **Net profit/loss from continuing operations** | 6.l. | 5,864 | 20,791 |
| Net profit/loss from discontinued operations | 6.m. | 0 | –7,311 |
| Consolidated net income | 6.n. | 5,864 | 13,480 |
| **Consolidated net income, attributable to:** | | | |
| Shareholders of Balda AG | | 5,864 | 13,480 |
| of which from continuing operations | | 5,864 | 20,791 |
| of which from discontinuing operations | | 0 | –7,311 |
| **Earnings per share:** | **6.o.** | | |
| Number of shares, basic (in thousands) | | 58,891 | 58,891 |
| Earnings per share (EUR)—basic | | 0.100 | 0.229 |
| Number of shares, diluted (in thousands) | | 58,891 | 58,891 |
| Earnings per share (EUR)—diluted | | 0.100 | 0.229 |
| | | | |
| [1] Based on gross revenue. | | | |
| [2] Profit/loss from operations before extraordinary items. | | –908 | –1,890 |



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JULY 2013 – 30 JUNE 2014 OF BALDA AG

| IN EUR THOUSAND | CONSOLIDATED NOTES II | 2013/2014 | 2012/2013 |
|---|---|---|---|
| **1. Consolidated net income** | | **5,864** | **13,480** |
| **2. Other comprehensive income** | **7** | **–10,281** | **–11,614** |
| 2.1 Currency translation difference | | | |
| 2.1.1 Items that were reclassified to profit or loss | | 0 | –2,824 |
| 2.1.2 Items that will be reclassified to profit or loss | | –10,281 | –8,109 |
| 2.2 Change in fair value of available-for-sale financial assets | | | |
| 2.2.1 Items recognized directly in other comprehensive income | | 0 | 16,567 |
| 2.2.2 Items that were reclassified to profit or loss | | 0 | –17,248 |
| **3. Comprehensive income for the period** | | **–4,417** | **1,866** |
| | | | |
| **Comprehensive income for the period attributable to:** | | | |
| Shareholders of Balda AG | | –4,417 | 1,866 |
| Non-controlling interests | | 0 | 0 |

Futher disclosures on the consolidated statement of comprehensive income can be found in the consolidated notes under 5.k. "Equity, Group" and 6.o. "Earnings per share—basic and diluted"

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 JULY 2013 – 30 JUNE 2014 OF BALDA AG

| | IN EUR THOUSAND | CONSOLIDATED NOTES II | 2013/2014 | 2012/2013 |
|---|---|---|---|---|
| | Net loss/income before income tax, net finance income and depreciation (EBITDA)—continuing operations | | 1,930 | 2,589 |
| | Net loss/income before income tax, net finance income and depreciation (EBITDA)—discontinued operation | | 0 | 3 |
| + | Interest received | | 687 | 1,173 |
| – | Interest paid | | –69 | –68 |
| – | Income taxes paid | | –151 | –281 |
| –/+ | Other non-cash expenses/income | | 965 | –2167 |
| + | Cash receipts from finance lease receivables | | 1,250 | 0 |
| +/– | Increase/decrease in tax assets and tax liabilities | | –780 | –895 |
| +/– | Increase/decrease in provisions | | 1,313 | –334 |
| + | Decrease in inventories, trade receivables and other assets not attributable to investing or financing activities | | 5,727 | 6,517 |
| – | Decrease in liabilities and other liabilities not attributable to investing or financing activities | | –3,158 | –5,140 |
| = | **Cash flow from operating activities** | **4.a.** | **7,714** | **1,397** |
| | of which discontinued operation | | 0 | 124 |
| | **Cash flow from investing activities** | | | |
| – | Cash payments for property, plant and equipment and intangible assets | | –2,754 | –4,191 |
| + | Cash receipts from the sale of property, plant and equipment and intangible assets | | 136 | 15 |
| + | Cash receipts from payment of loans | | 0 | 4,500 |
| – | Cash payment from purchase of shares in Group companies | | 0 | –37,564 |
| + | Cash receipts from the sale of TPK shares | | 0 | 242,939 |
| – | Cash payment from the sale of BSM | | 0 | –5,849 |
| + | Cash receipts from distributions, TPK | | 0 | 9,333 |
| – | Cash payments to secure bank guarantees | | –2,878 | 0 |
| +/– | Cash payments/receipts from a short term financial planning | | 179,659 | –41,659 |
| = | **Cash flow from investing activities** | **4.b.** | **174,163** | **167,524** |
| | of which discontinued operation | | 0 | –217 |



| | IN EUR THOUSAND | CONSOLIDATED NOTES II | 2013/2014 | 2012/2013 |
|---|---|---|---|---|
| | **Cash flow from financing activities** | | | |
| –/+ | Cash receipts from bank borrowings | | –981 | 44 |
| – | Dividend payments | | –88,336 | –117,781 |
| – | Cash payments for finance lease liabilities | | 0 | -74 |
| = | **Cash flow from financing activities** | **4.c.** | **–89,317** | **–117,811** |
| | of which discontinued operation | | 0 | 22 |
| | Net change in cash and cash equivalents | | 92,560 | 51,110 |
| + | **Cash and cash equivalents at the beginning of the financial year (previous year: including discontinued operation)** | | **68,153** | **17,776** |
| – | Effects of changes in foreign exchange rates on cash held in foreign currencies | | –195 | –733 |
| = | **Cash and cash equivalents at the end of the financial year** | **4.d.** | **160,518** | **68,153** |
| | Change in cash and cash equivalents from changes in the basis of consolidation | | 0 | –6,324 |
| | **Composition of cash and cash equivalents at the end of the financial year** | | | |
| | **Cash and cash equivalents** | | **160,518** | **68,153** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE 2013 / 2014 AND 2012 / 2013 FINANCIAL YEARS OF BALDA AG

| IN EUR THOUSAND | SUBSCRIBED CAPITAL | CAPITAL RESERVES | RETAINED EARNINGS | ADJUSTMENT ITEMS FOR THE FAIR VALUE MEASUREMENT OF AFS INSTRUMENTS | CURRENCY TRANSLATION RESERVE | NET RETAINED PROFITS | EQUITY OF SHAREHOLDERS OF BALDA AG |
|---|---|---|---|---|---|---|---|
| **Balance on 01.07.2012** | **58,891** | **34,555** | **1,881** | **681** | **14,306** | **340,137** | **450,451** |
| Consolidated net income | — | — | — | — | — | 13,480 | 13,480 |
| Other comprehensive income | — | — | — | –681 | –10,933 | — | –11,614 |
| Total comprehensive income | 0 | 0 | 0 | –681 | –10,933 | 13,480 | 1,866 |
| Distribution to shareholders | — | — | — | — | — | –117,781 | –117,781 |
| **Balance on 30.06.2013** | **58,891** | **34,555** | **1,881** | **0** | **3,373** | **235,836** | **334,536** |
| **Balance on 01.07.2013** | **58,891** | **34,555** | **1,881** | **0** | **3,373** | **235,836** | **334,536** |
| Consolidated net income | — | — | — | — | — | 5,864 | 5,864 |
| Other comprehensive income | — | — | — | — | –10,281 | — | –10,281 |
| Total comprehensive income | 0 | 0 | 0 | 0 | –10,281 | 5,864 | –4,417 |
| Distribution to shareholders | — | — | — | — | — | –88,336 | –88,336 |
| Reclassification change in functional currency | — | — | — | — | 1,436 | –1,436 | 0 |
| **Balance on 30.06.2014** | **58,891** | **34,555** | **1,881** | **0** | **–5,472** | **151,928** | **241,783** |

# NOTES

**TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BALDA AG, BAD OEYNHAUSEN, FOR THE FINANCIAL YEAR FROM 1 JULY 2013 UNTIL 30 JUNE 2014**

## I. GENERAL INFORMATION

### 1. GENERAL INFORMATION ABOUT BALDA

Balda Aktiengesellschaft (also referred to below as Balda AG) has its registered office in Bergkirchener Strasse 228, 32549 Bad Oeynhausen, Germany.

Balda AG with its subsidiaries (also referred to as the Balda Group) are a provider of premium-quality, high-end plastics solutions for the medical technology sector, and the eyewear, electronics and automotive industries. The company provides superior engineering services, products of the highest quality as well as a fast, flexible and tailored service for its customers.

The Balda Group with its operating segments is active internationally; the Group has five plants at four production sites in California, USA, and maintains production facilities at its headquarters in Bad Oeynhausen, Germany. Balda's customers are leading companies in the ophthalmic eyewear, consumer electronics, electronic communications, pharmaceutical and medical technology markets.

These consolidated financial statements were approved for publication by the Management Board on 30 September 2014.

The consolidated financial statements prepared as of 30 June 2014 and the Group management report were submitted to the operator of the Federal Gazette (Bundesanzeiger) for publication pursuant to Section 325 of the German Commercial Code (HGB).

### 2. PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS OF BALDA AG

These consolidated financial statements of Balda AG as of 30 June 2014 were prepared in accordance with Section 315a of the German Commercial Code (HGB) and in compliance with the provisions of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, as applicable in the European Union and in force on the reporting date, as well as the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC).

The consolidated financial statements have been prepared in euros. Unless indicated otherwise, all of the figures shown are in thousands of euros (EUR thousand). This may give rise to rounding differences. The separate financial statements of the consolidated companies prepared on the basis of the reporting date of the consolidated financial statements.

The consolidated financial statements were prepared on the basis of the 30 June reporting date.



Our US companies have been included for the first time in the consolidated financial statements as of 28 and 31 December 2012 respectively. As a consequence, the previous year includes the results of the US companies for only six months. The disclosures contained in the consolidated financial statements as of 30 June 2013 that concern the reporting period are therefore comparable with the disclosures for the reporting year from 01 July 2013 to 30 June 2014 to only a limited extent.

In accordance with IAS 1, Balda prepared its consolidated statement of financial position using a current / non-current classification. All assets and liabilities due in more than one year are classified as non-current.

The Group prepares a separate income statement using the nature of expense method as well as a statement of comprehensive income.

The financial statements of the companies included in the consolidated financial statements are based on uniform accounting policies that comply with IFRS, as applied in the EU.

The significant accounting policies used in the preparation of these consolidated financial statements are presented below. Unless otherwise specified, the accounting policies described were consistently applied to the reporting periods presented. The most important measurement base for the financial statements is amortized / depreciated cost. Some financial instruments are measured at fair value.

### 3. INFORMATION ABOUT CONSOLIDATION

**3. a. Scope of consolidation**

The consolidated financial statements include the financial statements of Balda AG and the companies it controls as of 30 June each year (its subsidiaries). Control exists if Balda AG has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In addition to Balda AG, four German (previous year: four) and seven foreign (previous year: eight) subsidiaries were included in full in the consolidated financial statements.

In the 2013 / 2014 financial year, the scope of consolidation changed as follows:

**NUMBER OF COMPANIES**

| | 2014 | 2013 |
|---|---|---|
| Consolidation scope as of 30.06. | 11 | 12 |
| German entities (excluding Balda AG) | 4 | 4 |
| Foreign entities | 7 | 8 |

Balda Solutions USA Inc., Morrisville, USA, was liquidated as of 27 May 2014. In the consolidated financial statements, the deconsolidation loss of TEUR 3 thousand is included in the income statement under the item "other operating expenses".

**3. b. Consolidation methods**

The purchase method is used for acquisition accounting. On the acquisition of a company, the assets and liabilities of the corresponding subsidiaries are measured at their fair values at the date of purchase. Where the acquisition costs exceed the fair value of the proportionate share of the assets and liabilities acquired, the Group recognizes the difference as goodwill.

The income and expenses of the subsidiaries sold in the course of a financial year are correspondingly included in the consolidated income statement up until the date of the loss of control.

Receivables and corresponding liabilities between the Group companies are set off against each other.

Sales revenues from intercompany deliveries and services and other intercompany income are set off against the corresponding expenses. Intercompany profits or losses from intercompany deliveries and services are eliminated.

The Balda Group held no shares in associated companies in either the 2013 / 2014 or the 2012 / 2013 financial year.

#### 3. c. Currency translation

All foreign operations of the Balda Group run the financial, economic and organizational aspects of their business independently. The Group companies prepare the financial statements that are included in the consolidated accounts in their respective functional currency, which is the national currency, with the exception of the companies in Singapore (where the functional currency is USD and EUR respectively).

The assets and liabilities of the Group's foreign operations are translated from their functional currencies (where they differ from the euro) into euros at the rate on the balance sheet date. Income and expense items are translated at the average rate for the period. Equity items of the foreign subsidiaries are translated at historical exchange rates. The Group recognizes the differences compared with the rate on the balance sheet date in other comprehensive income in the statement of comprehensive income or presents them as a separate component of equity in the currency translation reserve. The differences recorded in this reserve are reclassified to the income statement on the disposal of the subsidiary.

The Group recognizes goodwill arising on the acquisition of foreign operations as assets of the economically independent subsidiary and translates them at the closing rate (IAS 21.47). The resulting exchange differences are recognized in the currency translation reserve.

Foreign currency transactions are translated using the exchange rate at the date of the transaction.

The exchange rates taken as basis for the currency translation related to EUR 1.00 developed as follows:

**EXCHANGE RATE**

| | | Mid spot rate on balance sheet date | | Annual average rate | |
|---|---|---|---|---|---|
| | | 30.06. | | for financial year | |
| Currencies | ISO-Code | 2014 | 2013 | 2013 / 2014 | 2012 / 2013 |
| US dollar | USD | 1.3644 | 1.3007 | 1.3562 | 1.2925 |
| Malaysian ringgit | MYR | 4.3821 | 4.1051 | 4.3900 | 3.9667 |



## II. INFORMATION ABOUT THE CONSOLIDATED FINANCIAL STATEMENTS OF BALDA AG

### 1. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The amended standards that must be applied for the first time in the 2013 / 2014 financial year are listed below. All standards and interpretations that were in force at the reporting date and were effective for the 2013 / 2014 financial year were applied in the consolidated statements provided these had been endorsed by the EU.

**STANDARD OR INTERPRETATION**

| Standard or interpretation | Title (date of entry into force) |
|---|---|
| IAS 12 | Income Taxes: Amendment in relation to exceptions to the basic principles of IAS 12 for rental properties held as financial investments under the fair value model in accordance with IAS 40 |
| IFRS 1 | Amendments to IFRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, civil loans |
| IAS 19 | Employee Benefits: Amendments to the elimination of the corridor method, new format for the presentation of benefit-specific liabilities and new disclosures |
| IFRS 7 | Amendments to IFRS 7: Disclosures relating to the offsetting of financial assets and financial liabilities |
| IFRS 13 | Fair Value Determination |
| IFRIC 20 | Excavation material costs in the production phase of the open pit development of a mine |
| Various | Annual Improvement Project (AIP) 2009—2011 cycle |

With the exception of changes to the disclosures made in the notes to the financial statements, initial application of these new / revised IFRS / IAS / IFRIC does not have a material effect on the consolidated financial statements of Balda AG. IFRS 13 was applied prospectively in line with transitional regulations.

Below we present the following standards, which according to the IASB would be effective for the first time in the 2013 / 2014 financial year but whose date of initial application in the EU is not until later financial years and are therefore not yet applicable in these consolidated financial statements:

**STANDARD OR INTERPRETATION**

| Standard or interpretation | Title (date of entry into force) |
|---|---|
| IFRS 10 | Consolidated Financial Statements (01.01.2014) |
| IFRS 11 | Joint Arrangements (01.01.2014) |
| IFRS 12 | Disclosure of Shares in other Entities (01.01.2014) |
| IFRS 10, 11, 12 | Transitional provisions (01.01.2014) |
| IAS 27 | Financial Statements: As a consequence of the issue of IFRS 10, IAS 27 was amended and now comprises only the existing guidance for financial statements (01.01.2014) |
| IAS 28 | Investments in Associates and Joint Ventures was amended accordingly following the issue of IFRS 10 and IFRS 11 (01.01.2014) |

From today's perspective, we assume that the application of the standards has no significant effects on the consolidated financial statements of Balda AG.

New and amended standards as well as recently published interpretations that are not yet effective though earlier application is permitted, which are not yet applied by the company:

**STANDARD OR INTERPRETATION**

**APPLICATION FOR FINANCIAL YEARS THAT START ON THE DATE OF COMING INTO FORCE OR LATER**

| STANDARD OR INTERPRETATION | TITLE (DATE OF ENTRY INTO FORCE) |
|---|---|
| IAS 16 und IAS 38 | Amendments / clarification of accepted depreciation methods (01.01.2016) |
| IAS 16 und IAS 41 | Changes in accounting of fructiferous plants (01.01.2016) |
| IAS 19 | Amendments to defined benefit schemes—employee contributions (01.07.2014) |
| IAS 27 | Changes in relation to equity methods in financial statements (01.07.2016) |
| IAS 32 | Amendments to IAS 32: Offsetting financial assets and financial liabilities (01.01.2014) |
| IAS 36 | Disclosures relating to the recoverable amount for non-financial assets (01.01.2014) |
| IAS 39 | Amendments: Novation of derivatives and continuation of hedge accounting (01.01.2014) |
| IFRS 9 | Financial Instruments (01.01.2018) |
| IFRS 10, 12 und IAS 27 | Amendments: Investment Entities (01.01.2014) |
| IFRS 11 | Amendments relating to the accounting treatment of an acquisition of an interest in a joint operation (01.01.2016) |
| IFRS 14 | Regulatory Deferral Accounts (01.01.2016) |
| IFRS 15 | Revenue from Contracts with Customers (01.01.2017) |
| IFRIC 21 | Levies (17.06.2014) |
| Various | Annual Improvement Project (AIP), 2010 – 2012 cycle and 2011 – 2013 cycle (01.07.2014) |

In relation to the first-time application of these amended standards and interpretations, we are currently examining whether the changes have any significant effects on the consolidated financial statements of Balda AG.

## 2. ACCOUNTING PRINCIPLES

The accounting policies used in the preparation of these consolidated financial statements are described in the following sections.

### Use of estimates and discretionary decisions

All estimates and discretionary decisions are continuously reassessed and are based on historical experience and other factors, including expectations regarding future events that appear reasonable under given circumstances. The most important forward-looking statements, as well as the main sources of uncertainty regarding estimates that could create a significant risk requiring a material adjustment to the reported assets and liabilities within the next financial year are shown below in the relevant passages of the notes.

These mainly pertain to goodwill. To determine impairment, it is necessary to calculate the value in use of the cash-generating unit to which the goodwill is allocated. The calculation of the value in use requires an estimate of the future cash flows from the cash-generating unit and an appropriate discount rate for the present value calculation. We refer to our general explanations below and to the details on the calculation and the carrying amounts under II.5.b. "Goodwill".

The measurement of items of property, plant and equipment and intangible assets requires estimates of the expected useful lives of the assets. Balda reviews the estimated useful lives at the end of each financial year and adjusts them as necessary. We refer to our general explanations below and to the details on the calculation and the carrying amounts under II.5.a. "Property, plant and equipment" as well as under II.5.c. "Intangible assets".



Inventories are measured at the lower of cost and net realizable value, i. e. the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. We refer to our general explanations below and to the details on the calculation and the carrying amounts under II.5.f. "Inventories".

The maturity structure of the balance of receivables and customers' credit standing as well as changes in payment terms are taken into account for the allowance for doubtful accounts. The extent of the actual derecognitions may exceed the extent of the expected derecognitions if the customers' financial position deteriorates. We refer to our general explanations below and to the details on the calculation and the carrying amounts under II.5.g. "Trade receivables".

Assessments must be made for the calculation of current and deferred taxes. Deferred tax assets are recognized to the extent that it is probable that they can be utilized. A variety of factors such as past financial performance and tax planning must be taken into account in assessing the probability that particularly deferred tax assets on loss carryforwards can be utilized in the future. If the actual results deviate from these estimates, this could have adverse effects on Balda's financial position, cash flows or financial performance. We refer to our general explanations below and to the details on the calculation and the carrying amounts under II.5.e. "Deferred taxes".

Areas in which discretionary decisions with significance for the consolidated financial statements are made are primarily the classification of financial assets and financial liabilities in accordance with IAS 39 as well as the classification as non-current assets held for sale in accordance with IFRS 5.

The accounting policies were uniformly applied in the Group and unless otherwise noted are the same as in the previous year.

### Financial instruments

The financial instruments reported in the statement of financial position (financial assets and financial liabilities) as defined in IAS 32 and IAS 39 include cash, trade receivables and trade payables, lendings, financial investments, loans, non-current and current borrowings, as well as other specific receivables and payables based on contractual arrangements.

Fair value is defined as the price that would be received for the sale of an asset or paid for the transfer of a liability in a regular business transaction between market participants on the measurement date.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

Financial assets and financial liabilities are divided into the following categories:

— financial assets and financial liabilities at fair value through profit or loss,

— loans and receivables,

— held-to-maturity financial investments,

— available-for-sale financial assets,

— financial liabilities at amortized cost.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets upon initial recognition and reviews the classification at each reporting date. An assessment is made at each reporting date as to whether there are objective indicators that a financial asset or a group of financial assets has been impaired.

At the end of the reporting year, the Group holds financial instruments from the loans and receivables (LaR) and fromfinancial liabilities at amortized cost (FLAC).

Financial instruments are recognized in the statement of financial position if the company is party to a contract associated with the financial instrument. The instruments are always recognized at the trading date. The Group only derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset as well as substantially all the risks and rewards incidental to ownership of the asset to a third party. The Group derecognizes financial liabilities when the obligations specified in the contract have been settled, canceled or have expired.

These financial assets or financial liabilities are initially recognized at fair value plus transaction costs. This does not include financial assets designated as at fair value through profit or loss, which are recognized at fair value minus transaction costs. In this category, recognition is at fair value excluding transaction costs. Subsequent measurement there is for the different categories of financial assets and liabilities, and is described in detail as part of the accounting methods for the respective balance sheet items.

Loans and receivables (LaR) and financial liabilities (excluding derivatives and liabilities designated as at fair value through profit or loss) are generally measured at amortized cost. All other primary and derivative financial instruments are measured at fair value. Gains or losses are recognized in net profit or loss for the period or in other comprehensive income (AfS).

Primary and derivative financial instruments are measured according to the following levels:

Level 1: Fair value measurements are derived from listed prices (unadjusted) on identical markets for identical financial assets or liabilities.

Level 2: Valuation techniques based on observable inputs derived from quoted prices for assets and liabilities, either directly (i. e. as prices) or indirectly (i. e. derived from prices).

Level 3: Valuation techniques using inputs for the measurement of assets or liabilities that are not based on observable market data (unobservable inputs, assumptions).

The Group uses derivatives to hedge currency risks resulting from operating activities. In accordance with the IFRS, the derivatives are recognized in the "financial assets or financial liabilities measured at fair value through profit or loss" category. Accordingly, they are stated at fair value on initial recognition. The fair values are also relevant for measurement at subsequent reporting dates. Changes in value are immediately recognized through profit or loss.

Loans are recognized at amortized cost and allocated to the loans and receivables category. Insofar as the financial assets are not subject to market interest rates, they are discounted to the present value using the market interest rate.

Receivables and other assets (LaR) are carried at amortized cost, less directly attributable transaction costs, which corresponds to the fair value of the contribution. Receivables classified as available for sale are carried at their fair value. Through the recognition of appropriate specific valuation allowances, adequate provisions were made for estimated irrecoverable amounts from all identifiable risks.

In accordance with IAS 39, financial liabilities are carried at the acquisition-date fair value. Costs that are directly attributable to the purchase (transaction costs) are taken into account if the liabilities are measured at fair value through profit or loss. At subsequent reporting dates, these liabilities are measured at amortized cost using the effective interest method. Monetary liabilities in foreign currencies are translated at the closing rate.

Inventories are measured at the lower of cost and estimated net realizable value. Net realizable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. An average value or a value calculated using the first-in, first-out formula is carried. The cost of inventories includes all costs incurred in production.

Property, plant and equipment and intangible assets are carried at cost and reduced by straight-line depreciation and amortization plus any impairment losses. Depreciation and amortization are calculated using the following economic useful lives:

| | YEARS |
|---|---|
| Buildings | 33 to 50 |
| Machinery and equipment | 5 to 10 |
| Fixtures, furniture and office equipment | 3 to 10 |
| Software and other intangible assets | 3 to 10 |

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be recognized and depreciated separately. Depreciation commences when the assets have been completed and are ready for their intended use.

Leases in which the Balda Group is the lessee are classified as finance leases if substantially all the risks and rewards incidental to ownership are transferred to the lessee under the lease agreement. All other leases are classified as operating leases.

If the beneficial ownership of leased assets lies with the lessor (operating lease), the lessee recognizes the lease payments as an expense over the term of the lease. Where the Group is the lessor in an operating lease, the lease payments are recognized in profit or loss over the lease term.

The assets held under a finance lease, as Group assets, are recognized at the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is recognized in the statement of financial position as a liability from finance leases.

The lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. The items of property, plant and equipment held under finance leases are written down over the shorter of the economic useful life of the asset and the term of the lease.

In the case of assets leased under a finance lease, the amounts to be paid by the lessee are presented as receivables at an amount equal to the net investment in the Group's lease. The assets are reported among financial assets and other current assets separated according to their non-current and current portions. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

The useful lives of all intangible assets (other than goodwill) are limited.

To the extent required by IAS 36, items of property, plant and equipment and intangible assets were impaired to the lower recoverable amount.

The Group reviews the carrying amounts of its items of property, plant and equipment and intangible assets at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset to determine the extent of any impairment losses. If the recoverable amount cannot be determined for an individual asset, the Group calculates the recoverable amount of the cash-generating unit to which the asset belongs. The amount is allocated suitably and consistently to the individual cash-generating unit or to the smallest group of cash-generating units.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In measuring the value in use, the Group discounts the future cash flow estimates to the present value using the plan values with the current market interest rate before taxes that reflects the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the calculated recoverable amount of an asset (or a cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognized immediately in profit or loss.

If the impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the recalculated recoverable amount. The increased carrying amount of an asset (or cash-generating unit) attributable to a reversal of an impairment loss must not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss for an asset is recognized immediately in profit or loss.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets and liabilities of the acquired company at the date of acquisition. The capitalized goodwill is reviewed for impairment annually and measured at the amount initially recognized less cumulative amortization. Impairment testing is also performed if there are indications that a cash-generating unit may be impaired. If the calculated recoverable amount of the cash generating unit not exceeds the disordered carrying amounts, a proportional impairment of the carrying amounts of the allocated assets of the cash generating unit is applied equivalent to the level of the remaining impairment amount. Reversals of impairment losses of goodwill are not permitted. When an entity is sold, the share of goodwill attributable to this sub-unit is included in the calculation of the gain or loss on disposal. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units expected to benefit from the business combination which generated the goodwill being tested. The cash-generating unit must not be larger than the operating segment whose operating results are regularly reviewed by the Group's chief operating decision maker as part of the internal reporting (IAS 36.80 in conjunction with IFRS 8.5).

Balda modified its segmental structure again in the 2013 / 2014 financial year, and now reports on the basis of two operating segments that are split along regional lines. The CGUs were also restructured on this basis. At Balda, the individual subsidiaries now comprise the cash generating units. For the purposes of impairment testing, the goodwill acquired in the previous year was allocated to the subsidiaries and second-tier subsidiaries.

Non-current assets (or groups of assets and liabilities) are classified as held for sale and measured at the lower of carrying amount and fair value less costs to sell if their carrying amount will be realized principally through a sale transaction rather than through continuing use.

Deferred taxes are recognized for the expected tax losses and tax credits arising from temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, as well as on consolidation measures with a temporary effect. The balance sheet liability method is applied. In addition, deferred tax assets are recognized on tax loss carryforwards. Deferred tax assets and liabilities are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Deferred taxes on temporary differences arising from goodwill are not recognized.

Deferred taxes are measured at the tax rates that apply or are expected to apply in the relevant country to the period when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of the deferred tax assets is reviewed at the end of each annual reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax is recognized in profit or loss, except for items that are recognized either in other comprehensive income or directly in equity, in which case the deferred tax is also recognized either in other comprehensive income or directly in equity.

Provisions are recognized when an entity has a legal or constructive obligation to a third party as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation,



and a reliable estimate can be made of the amount of the obligation.

Non-current provisions are carried at their present value where the effect of the time value of money is material.

Provisions for warranty obligations are recognized at the time when the product in question is sold. This amount is based on the best estimate by management of the expense needed to settle the obligation.

Revenues from the sale of goods are recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. The amount of sales revenues is measured net of value-added tax and any trade discounts and volume rebates when the significant risks and rewards of ownership of the goods have been transferred to the buyer pursuant to the agreed delivery terms. If the service was not rendered in full, the service is recognized at cost under inventories.

Sales revenues from construction contracts are generated to a limited extent. IAS 11 defines a construction contract as a contract specifically negotiated for the construction of an asset.

The Group applies the percentage of completion method to calculate the contract revenue to be recorded in each financial year. In this context, the degree of completion is determined according to the production progress of the project. As the result of a construction order in the previous year could not be extrapolated reliably, the revenues were reported only to the level of the contract costs incurred (zero profit method).

Orders are reported among receivables and liabilities, within the trade receivables item and trade payables item respectively. A construction order is reported as an asset if the cumulative output (contract costs incurred and reported profits) exceeds the advance payments. If a negative balance remains after deducting the advance payments, this negative amount is reported among current liabilities.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable.

Research costs are recognized as an expense in the period in which they are incurred.

An intangible asset arising from development of a product is recognized if, and only if, the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for internal use or sale as well as its intention to complete the intangible asset and use or sell it. The Group must also demonstrate how the intangible asset will generate probable future economic benefits, the availability of resources to complete the development and its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Interest income and expense are recognized in profit or loss using the effective interest method when the amortized cost of a financial asset or a financial liability is calculated.

Contingent liabilities and assets are possible obligations or assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Balda AG. Contingent liabilities are also present obligations that arise from past events for which it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Neither contingent liabilities nor contingent assets are recognized.

The following reclassifications were applied in the income statement in the 2013 / 2014 financial year:

The currency gains arising from the translation of intercompany loans into the functional currency of the subsidiary, which were previously reported under the "other operating income" item, were reported for the first time in the net financial result (other finance income, net). The previous year was restated accordingly. Expenses from currency losses that were reported in the past among "other operating expenses" did not arise in the previous year. We are of the opinion that this modified reporting results in a more meaningful and consequently more transparent presentation of the operating result (EBIT).

The effects on other operating income, other operating expenses and EBIT are as follows:

| IN EUR THOUSAND | 2013/2014 | 2012/2013 |
|---|---|---|
| Other operating income before reclassifications | 4,048 | 9,702 |
| Reclassification of currency results | 0 | −2,272 |
| Other operating income after reclassification | 4,048 | 7,430 |
| | | |
| Other operating expenses before reclassifications | 17,966 | 16,859 |
| Reclassifications of currency losses | −1,171 | 0 |
| Other operating expenses after reclassifications | 16,795 | 16,859 |
| | | |
| EBIT before reclassifications | −5,897 | −10,362 |
| Reclassification of currency results | 1,171 | −2,272 |
| EBIT after reclassification | −4,726 | −12,634 |

## 3. SEGMENT REPORTING

At Balda, the Management Board as the chief operating decision maker makes decisions about resources to be allocated to the business segments and assesses their performance. The segmentation and disclosure of selected segment information are performed in line with the internal management and reporting systems (management approach) as well as the other required provisions of IFRS 8.

Balda redefined its operating segments in the 2013/2014 financial year in order to improve its planning and steering processes. With reporting for the month of December 2013, presentation is no longer according to the operating segments of Balda Medical and Balda Technical. Since then, Group planning, steering and reporting is based on allocating Group companies to geographic regions. The regions of America and Europe are defined as geographical segments. The Management Board is thereby realizing a clear demarcation of earnings responsibility within the individual companies, and consequently more effective international management for the Group. Segment responsibilities lie with the Management Board, which decides concerning the distribution resources, and monitors segment profitability on the basis of predetermined financial information. The previous year's figures were restated according to the new organization.

The America segment includes all companies that are headquartered in the USA at the sites of Irvine, Anaheim, Ontario, and Oceanside in California. This segment focuses on producing injection molded articles made of plastics for highly varied products from the sectors of medical technology, eyewear, electronics and automotive. This segment also comprises revenue from the development and production of tools for our customers. A minor level of revenue generated from turned parts is also reported in this segment.

The Europe segment comprises the production of complex plastic products for the areas of medical technology, pharmaceuticals and diagnostics at the company's site in Bad Oeynhausen, Germany, as well as the development of plants and tools required for production on the basis of customer orders. Plastic products are produced on the company's own injection molding machines. This segment's further spectrum of services includes service functions such as strategic development and other support as part of normal holding company functions.

The Other area includes the real estate company and financial holding companies in Asia that manage the Group's significant financial resources and a miscellaneous receivable arising from a property in Ipoh, Malaysia, which is rented as part of a finance lease.

Of the figures from the income statement of the company Balda Solutions Malaysia Sdn. Bhd., which was sold in April 2013, only the result is included in the segment reporting under the item "discontinued operations" for the comparable period.



In accordance with internal reporting, segment reporting includes disclosures on total operating revenue. In addition to sales revenues, total operating revenue includes changes in work in progress and finished goods and merchandise. The Group segments' sales revenue and profitability trends are presented in detail in the section "management report on business trends".

Revenues, total operating revenue, operating profit (EBITDA), profit/loss from operations (EBIT) and the pre-tax profit (EBT) are monitored by the Management Board of Balda AG separately for each segment in order to estimate the segment's profitability and decide on the allocation of resources. Further control quantities are investments and segment assets.

Segment reporting is performed in accordance with the general accounting principles of Balda AG out-lined in section II.2 "Accounting policies". Segment profit/loss corresponds to the profit/loss for the period in each case.

Transfer prices between the operating segments are calculated on an arm's length basis. Segment income and segment expenses are presented on a gross basis, and also comprise intersegment revenues that are eliminated as part of consolidation.

### CONSOLIDATED SEGMENT REPORTING OF BALDA AG
### FINANCIAL YEAR 2013 / 2014 (01.07.2013 – 30.06.2014)

| IN EUR THOUSAND | EUROPE | AMERICA | TOTAL SEGMENTS | OTHER | RECONCILIATION [3] | INTERSEGMENT CORRECTIONS [4] | GROUP |
|---|---|---|---|---|---|---|---|
| **External sales revenues** | **31,815** | **38,702** | **70,517** | **0** | **0** | **0** | **70,517** |
| **Internal sales revenues** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Sales revenues, total** | **31,815** | **38,702** | **70,517** | **0** | **0** | **0** | **70,517** |
| **Total operating revenue** | **32,343** | **38,522** | **70,865** | **0** | **0** | **0** | **70,865** |
| **EBITDA** | **−652** | **2,790** | **2,138** | **−208** | **0** | **0** | **1,930** |
| **EBIT** | **−3,513** | **−703** | **−4,216** | **−510** | **0** | **0** | **−4,726** |
| Interest income | 2,034 | 9 | 2,043 | 1,546 | **0** | −1,941 | 1,648 |
| Interest expenses | −489 | −1,521 | −2,010 | 0 | **0** | 1,941 | −69 |
| Other finance income (net) [5] | −27 | −1,223 | −1,250 | 9,721 | **0** | 0 | 8,471 |
| Dividend income | 30,000 | 0 | 30,000 | 0 | **0** | −30,000 | 0 |
| **EBT** | **28,005** | **−3,438** | **24,567** | **10,757** | **0** | **−30,000** | **5,324** |
| Taxes on income | | | | | | | −540 |
| **Net profit/loss from continued operations** | | | | | | | **5,864** |
| Profit/loss from discontinued operations | | | | | | | 0 |
| **Consolidated net income** | | | | | | | **5,864** |
| Investments | 1,094 | 1,669 | 2,763 | 0 | 0 | 0 | 2,763 |
| Depreciation and amortization | 2,193 | 2,762 | 4,955 | 0 | 0 | 0 | 4,955 |
| Impairment losses | 667 | 732 | 1,399 | 302 | 0 | 0 | 1,701 |
| Non-cash expenses/income | 70 | −2,320 | −2,250 | 11,069 | 0 | 0 | 8,819 |
| Segment assets [1] | 328,100 | 41,194 | 369,294 | 194,833 | 0 | −305,505 | 258,622 |
| Number of employees on 30 June [2] | 204 | 582 | 786 | 0 | 0 | 0 | 786 |

**CONSOLIDATED SEGMENT REPORTING OF BALDA AG**
**FINANCIAL YEAR 2012/2013 (01.07.2012 – 30.06.2013)**

| IN EUR THOUSAND | EUROPE | AMERICA | TOTAL SEGMENTS | OTHER | RECONCILI-ATION [3] | INTER-SEGMENT CORREC-TIONS [4] | GROUP |
|---|---|---|---|---|---|---|---|
| **External sales revenues** | **36,040** | **23,866** | **59,906** | **0** | **0** | **0** | **58,906** |
| **Internal sales revenues** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Sales revenues, total** | **36,040** | **23,866** | **59,906** | **0** | **0** | **0** | **59,906** |
| **Total operating revenue** | **33,845** | **23,209** | **57.054** | **0** | **0** | **0** | **57,054** |
| **EBITDA** | **–236** | **3,341** | **3,105** | **–238** | **–278** | **0** | **2,589** |
| **EBIT** | **–2,373** | **–9,745** | **–12,118** | **–238** | **–278** | **0** | **–12,634** |
| Interest income | 1,670 | 7 | 1,677 | 2,789 | 0 | –2,005 | 2,461 |
| Interest expenses | 1,231 | 849 | 2,080 | 0 | 0 | –2,005 | 75 |
| Result from sale of TPK shares | 0 | 0 | 0 | 16,883 | 0 | 0 | 16,883 |
| Other finance income (net) [5] | 140,976 | 300 | 141,276 | 11,235 | 0 | –140,486 | 12,025 |
| **EBT** | **139,042** | **–10,287** | **128,755** | **30,669** | **–278** | **–140,486** | **18,660** |
| Taxes on income | | | | | | | –2,131 |
| **Profit/loss from continuing operations** | | | | | | | **20,791** |
| Profit/loss from discontinued operations | | | | | | | –7,311 |
| **Consolidated net income** | | | | | | | **13,480** |
| Investments | 1,578 | 2,197 | 3,775 | 0 | 191 | 0 | 3,966 |
| Depreciation and amortization | 2,137 | 1,573 | 3,710 | 0 | 970 | 0 | 4,680 |
| Impairment losses | 0 | 11,513 | 11,513 | 0 | 0 | 0 | 11,513 |
| Non-cash expenses/income | 1,066 | 3,454 | 4,520 | 8,750 | –7.313 | 0 | 5,957 |
| Segment assets [1] | 337,869 | 45,639 | 383,506 | 224,422 | 0 | –253,543 | 354,386 |
| Number of employees on 30 June [2] | 205 | 651 | 856 | 0 | 0 | 0 | 856 |

[1] Segment assets = Non-current assets plus current assets excluding deferred tax assets and current tax assets.

[2] Number of employees on reporting date = including temporary help workers and trainees (in previous year: only continuing operations).

[3] The amounts listed in the reconciliation relate to allocations to the discontinued operations.

[4] The intersegment corrections concern interest income and expenses as well as dividend incomegenerated between segments as well as intra-Group receivables.

[5] The net other finance income consists only of currency gains/losses.

Revenue with external customers in the 2013/2014 and 2012/2013 financial years is attributable to the individual segments' products in the continuing operations as follows:

| IN EUR THOUSAND | 2013/2014 | 2012/2013 |
|---|---|---|
| Injection molded articles | 58,694 | 49,413 |
| Plant and tools business | 11,462 | 10,384 |
| Services | 361 | 109 |
| **Total** | **70,517** | **59,906** |

Within the segment America, Balda generates revenues of about 14% (previous year: 14%) with one customer and within the segment Europe Balda generates with two customers revenues of about 28% (previous year: about 32%) and about 16% (previous year: about 22%) respectively of its total sales revenues.

Sales revenues and non-current assets are allocated to the following geographical regions:

| IN EUR THOUSAND | SALES REVENUE 2013/2014 | SALES REVENUE 2012/2013 | NON-CURRENT ASSETS 30.06.2014 | NON-CURRENT ASSETS 30.06.2013 |
|---|---|---|---|---|
| Germany | 27,457 | 26,906 | 13,016 | 14,895 |
| Foreign | 43,060 | 33,000 | 30,298 | 35,577 |
| **Groupwide** | **70,517** | **59,906** | **43,314** | **50,472** |
| of which in USA | 38,267 | 24,658 | 27,046 | 30,386 |

The criterion on the basis of which sales revenues and non-current assets are allocated to the geographical regions is the country in which the companies of the Group are domiciled.

The non-current assets reported comprise the property, plant and equipment, intangible assets, goodwill and financial assets. Deferred tax assets are not included.

## 4. STATEMENT OF CASH FLOWS

The statement of cash flows has been prepared in accordance with IAS 7 Statement of cash flows. Cash flows are divided into cash flows from operating, investing and financing activities.

The statement of cash flows shows changes in and the composition of cash flows. The cash flow from operating activities was calculated using the indirect method.

The company Balda Solutions Malaysia Sdn. Bhd. that was sold in the previous year has been included in the previous year's cash flow statement until its deconsolidation date. The US companies that were also acquired in the previous year have been included since they were acquired at the end of December 2012.

The individual items of the statement of cash flows are as follows:

### 4. a. Cash flow from operating activities

The Balda Group generated a cash inflow of EUR 7,714 thousand in the 2013/2014 financial year (previous year: EUR 1,397 thousand). Higher business volumes, among other factors, exerted a positive impact. Working capital reduction contributed positively to operating cash flow.

In the year under review, a new lease was signed for the rental of the real estate in Ipoh, Malaysia, which satisfies the criteria of a finance lease. In this instance, Balda is the lessor through the Malaysian subsidiary, and received lease payments of EUR 1,250 thousand in the year under review.

### 4. b. Cash flow from investing activities

The cash inflow from investing activities totaled EUR 174,163 thousand (previous year: EUR 167,524 thousand).

The cash inflows from investing activities arose primarily from the sale of purchased borrower's note loans and industrial bonds in an amount of EUR 179,659 thousand.

The Group has made short-term liquid funds available to secure guaranteed credit facilities, which resulted in a cash outflow of EUR 2,878 thousand. The cash deposit will be released in early 2015.

Capital expenditure on property, plant and equipment and intangible assets led to cash outflows of EUR 2,754 thousand (previous year: EUR 4,191 thousand).

#### 4. c. Cash flow from financing activities

The cash outflow from financing activities totaled EUR 89,317 thousand (previous year: EUR 117,811 thousand) and results in particular from the dividend payment of EUR 88,336 thousand to the shareholders of Balda AG in January 2014. In the previous year, Balda AG paid dividends of EUR 117,781 thousand to its shareholders.

#### 4. d. Cash and cash equivalents at the end of the financial year

The Group's total cash and cash equivalents at the 30 June 2014 reporting date amounted to EUR 160,518 thousand (previous year: EUR 68,153 thousand), corresponding to the cash reported in the consolidated statement of financial position.

## 5. NOTES TO INDIVIDUAL CONSOLIDATED BALANCE SHEET ITEMS

### Non-current assets

#### 5. a. Property, plant and equipment

The figures reported in the consolidated statement of financial position reflect the fair value at the date of initial consolidation or the cost at the date of initial recognition reduced by depreciation and impairment losses.

The changes in property, plant and equipment were as follows:

### COSTS FOR ACQUISTION OR PRODUCTION

| IN EUR THOUSAND | LAND AND BUILDINGS | MACHINERY AND EQUIPMENT | FIXTURES, FURNITURE AND OFFICE EQUIPMENT | ADVANCE PAYMENTS AND CONSTRUC-TION IN PROGRESS | PROPERTY, PLANT AND EQUIPMENT, TOTAL |
|---|---|---|---|---|---|
| Balance on 01.07.2013 | 32,519 | 31,364 | 8,983 | 0 | 72,866 |
| Currency differences | –21 | –421 | –35 | –13 | –490 |
| Additions | 361 | 1,029 | 608 | 648 | 2,646 |
| Additions from property dividend | 6,165 | 0 | 0 | 0 | 6,165 |
| Disposals | 6,165 | 159 | 168 | 0 | 6,492 |
| Reclassifications | 4,322 | -22 | –4,103 | –197 | 0 |
| Balance on 30.06.2014 | 37,181 | 31,791 | 5,284 | 438 | 74,694 |
| | | | | | |
| CUMULATIVE DEPRECIATION AND IMPAIRMENT LOSSES | | | | | |
| Balance on 01.07.2013 | 22,313 | 21,968 | 7,592 | 0 | 51,873 |
| Currency differences | –8 | –116 | –6 | 0 | –130 |
| Additions | 833 | 2,272 | 571 | 0 | 3,676 |
| Disposals | 0 | 65 | 36 | 0 | 101 |
| Reclassifications | 4,041 | –254 | –3,787 | 0 | 0 |
| Balance on 30.06.2014 | 27,179 | 23,805 | 4,334 | 0 | 55,318 |
| | | | | | |
| NET CARRYING AMOUNTS | | | | | |
| Balance on 30.06.2013 | 10,206 | 9,396 | 1,380 | 0 | 20,992 |
| Balance on 30.06.2014 | 10,002 | 7,986 | 951 | 438 | 19,377 |



### COSTS FOR ACQUISTION OR PRODUCTION

| IN EUR THOUSAND | LAND AND BUILDINGS | MACHINERY AND EQUIPMENT | FIXTURES, FURNITURE AND OFFICE EQUIPMENT | ADVANCE PAYMENTS AND CONSTRUC-TION IN PROGRESS | PROPERTY, PLANT AND EQUIPMENT, TOTAL |
|---|---|---|---|---|---|
| Balance on 01.07.2012 | 38,436 | 45,754 | 13,718 | 50 | 97,958 |
| Initial consolidation | 407 | 7,389 | 732 | 0 | 8,528 |
| Currency differences | 127 | 581 | 122 | 0 | 830 |
| Additions | 59 | 2,095 | 474 | 16 | 2,644 |
| Disposals | 0 | 53 | 194 | 0 | 247 |
| Deconsolidation | 6,511 | 24,403 | 5,880 | 0 | 36,794 |
| Reclassifications | 0 | 1 | 11 | –66 | –54 |
| Balance on 30.06.2013 | 32,519 | 31,364 | 8,982 | 0 | 72,865 |
| | | | | | |
| CUMULATIVE DEPRECIATION AND IMPAIRMENT LOSSES | | | | | |
| Balance on 01.07.2012 | 23,919 | 38,629 | 11,983 | 0 | 74,531 |
| Currency differences | 45 | 367 | 90 | 0 | 502 |
| Additions | 825 | 2,588 | 663 | 0 | 4,076 |
| Disposals | 0 | 52 | 168 | 0 | 220 |
| Disposal through deconsolidation | 2,576 | 20,865 | 5,027 | 0 | 28,468 |
| Balance on 30.06.2013 | 22,313 | 21,968 | 7,592 | 0 | 51,873 |
| | | | | | |
| NET CARRYING AMOUNTS | | | | | |
| Balance on 30.06.2012 | 14,517 | 7,125 | 1,735 | 50 | 23,427 |
| Balance on 30.06.2013 | 10,206 | 9,396 | 1,390 | 0 | 20,992 |

Property, plant and equipment decreased from EUR 20,992 thousand to EUR 19,377 thousand as of 30 June 2014. This decline is attributable to the application of depreciation and impairment losses. This was mainly offset by replacement investments in production plants at the American sites.

The "additions from property dividend" relates to the addition of real estate in Malaysia that the Group acquired at the end of August 2013 as part of the settlement of a non-cash dividend receivable. The property that was received was immediately disposed of as part of a lease, and is reported as a lease receivable. The lease receivables are reported among financial assets and other current assets.

Loans, guarantee facilities and lease agreements are collateralized through land charges and collateral assignment of property, plant and equipment in the amount of approximately EUR 10,000 thousand (previous year: EUR 10,000 thousand).

#### 5. b. Goodwill

The companies and the change in allocated goodwill are listed in the following overview and amount to EUR 14,023 thousand at the reporting date (previous year: EUR 14,710 thousand). These correspond to the smallest cash-generating units and—distributed across the operating segments—developed as follows:

## ACQUISITION COSTS

| | BALDA MEDICAL ADMINIS-TRATION | BALDA C. BREWER | BALDA PRECISION (FORMERLY: BALDA HK PLASTICS) | GOODWILL, TOTAL |
|---|---|---|---|---|
| SEGMENT | EUROPE | AMERICA | AMERICA | |
| IN EUR THOUSAND | | | | |
| Reclassifications | | | | |
| Balance on 01.07.2013 | 2 | 18,697 | 4,307 | 23,006 |
| Currency differences | 0 | –873 | –201 | –1,074 |
| Reclassifications | 0 | 3,495 | –3,495 | 0 |
| Balance on 30.06.2014 | 2 | 21,319 | 611 | 21,932 |
| CUMULATIVE IMPAIRMENT LOSSES | | | | |
| Balance on 01.07.2013 | 0 | 7,750 | 546 | 8,296 |
| Currency differences | 0 | –362 | –25 | –387 |
| Reclassifications | 0 | 442 | –442 | 0 |
| Balance on 30.06.2014 | 0 | 7,830 | 79 | 7,909 |
| NET CARRYING AMOUNTS | | | | |
| Balance on 30.06.2013 | 2 | 10,947 | 3,761 | 14,710 |
| Balance on 30.06.2014 | 2 | 13,489 | 532 | 14,023 |

## ACQUISITION COSTS

| | BALDA MEDICAL ADMINIS-TRATION | BALDA SOLUTIONS MALAYSIA | BALDA C. BREWER | BALDA C. BREWER | BALDA HK PLASTICS | GOODWILL |
|---|---|---|---|---|---|---|
| SEGMENT ALLOCATION 2013/2014 | EUROPE | – | AMERICA | AMERICA | AMERICA | |
| SEGMENT ALLOCATION 2012/2013 | BALDA MEDICAL | BALDA TECHNICAL | BALDA MEDICAL | BALDA TECHNICAL | BALDA MEDICAL | |
| IN EUR THOUSAND | | | | | | |
| Balance on 01.07.2012 | 2 | 16,784 | 0 | 0 | 0 | 16,786 |
| Additions of US companies | 0 | 0 | 10,776 | 7,628 | 4,238 | 22,643 |
| Currency differences | 0 | 0 | 170 | 122 | 69 | 361 |
| Disposals from deconsolidation | 0 | 16,784 | | 0 | 0 | 16,784 |
| Balance on 30.06.2013 | 2 | 0 | 10,947 | 7,750 | 4,307 | 23.006 |
| CUMULATIVE IMPAIRMENT LOSSES | | | | | | |
| Balance on 01.07.2012 | 0 | 16,784 | 0 | 0 | 0 | 16,784 |
| Additions of US companies | 0 | 0 | 0 | 7.800 | 549 | 8.349 |
| Currency differences | 0 | 0 | 0 | –50 | –3 | –53 |
| Disposals from deconsolidation | 0 | 16,784 | 0 | 0 | 0 | 16,784 |
| Balance on 30.06.2013 | 0 | 0 | 0 | 7,750 | 546 | 8,296 |
| NET CARRYING AMOUNTS | | | | | | |
| Balance on 30.06.2012 | 2 | 0 | 0 | 0 | 0 | 2 |
| Balance on 30.06.2013 | 2 | 0 | 10,947 | 0 | 3,761 | 14,710 |

When calculating both value in use and the fair value less costs of selling (using the DCF approach), estimation uncertainties exist for the underlying assumptions, especially in relation to:

1. Gross profit margins,
2. Discounting factor,
3. Trend in commodity prices,
4. Growth rates on which the extrapolation of the cash flow forecasts outside the budget period is based.

Goodwill is measured using the criteria outlined below:

In the previous year, the business activities of Balda C. Brewer Inc. were still split along the lines of its former segments of Balda Medical and Balda Technical. With the transition to segment reporting along regional lines, the splitting of operating activities according to the individual segments was discontinued. Balda C. Brewer, Inc. and Balda Precision each comprises one cash generating unit. This forms part of the America segment. Reporting occurs to the Management Board as chief operating decision-maker accordingly.

The recoverable amount of the cash-generating unit was calculated based on value in use. Measurement was performed by discounting the future cash flows of Balda C. Brewer, Inc. and Balda Precision. The detailed planning period comprises the years 2014/2015 to 2016/2017 and is based on assumptions about future sales prices or sales volumes and costs, taking the general economic conditions into account. For the years after 2016/2017, a perpetual return with a general growth rate of 1.0% was calculated.

### Balda C. Brewer, Inc.

The goodwill of Balda C. Brewer increased in the year under review from EUR 10,947 thousand to EUR 13,489 thousand, as assets as well as proportional goodwill of Balda Precision were transferred to Balda C. Brewer as part of an asset deal within the Balda Group. The Group calculated the level of proportional goodwill on the basis of the distribution of earnings as of the acquisition date in the 2012/2013 financial year.

The impairment test was based on a weighted average cost of capital before taxes of 14.3%. The value in use calculated in this way exceeds the carrying amount by EUR 1,663 thousand or 5,3%.

As part of a sensitivity analysis, the growth rate was reduced to 0.5%, and the discount rate was increased to 15.0%. Up to these boundary values, no impairments arose for the CGU.

### Balda Precision (formerly: Balda HK Plastics, Inc.)

The goodwill of EUR 532 thousand of Balda Precision remaining after the restructuring was based on a weighted average cost of capital before tax of 13.5% (previous year: 14.3%). The value in use calculated in this way exceeds the carrying amount by EUR 156 thousand or 8.1%.

As part of a sensitivity analysis, the growth rate was reduced to 0.5%, and the discount rate was increased to 14.1%. Up to these boundary values, no impairments arose for the CGU.

### 5. c. Intangible assets

Intangible assets primarily relate to purchased brand names, lists of customers and other intangible assets acquired as part of the acquisition of the US companies.

The change in intangible assets was as follows:

**ACQUISITION OR PRODUCTION COSTS**

| IN EUR THOUSAND | SOFTWARE | BRANDS, LICENSES, RIGHTS | INTERNALLY GENERATED INTANGIBLE ASSETS | ADVANCE PAYMENTS MADE | INTANGIBLE ASSETS, TOTAL |
|---|---|---|---|---|---|
| Balance on 01.07.2013 | 2,698 | 10,137 | 193 | 1,319 | 14,347 |
| Currency differences | 0 | –474 | 0 | 0 | –474 |
| Additions | 130 | 12 | 0 | 0 | 142 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 1,319 | 0 | 0 | –1,319 | 0 |
| Balance on 30.06.2014 | 4,147 | 9,675 | 193 | 0 | 14,015 |
| **CUMULATIVE AMORTIZATION AND IMPAIRMENT LOSSES** | | | | | |
| Balance on 01.07.2013 | 2,598 | 2,170 | 0 | 0 | 4,768 |
| Currency differences | 0 | –111 | 0 | 0 | –111 |
| Additions | 370 | 899 | 10 | 0 | 1,279 |
| Impairment losses | 667 | 732 | 0 | 0 | 1,399 |
| Balance on 30.06.2014 | 3,635 | 3,690 | 10 | 0 | 7,335 |
| **NET CARRYING AMOUNTS** | | | | | |
| Balance on 30.06.2013 | 100 | 7,967 | 193 | 1,319 | 9,579 |
| Balance on 30.06.2014 | 512 | 5,985 | 183 | 0 | 6,680 |

**ACQUISITION OR PRODUCTION COSTS**

| IN EUR THOUSAND | SOFTWARE | BRANDS, LICENSES, RIGHTS | INTERNALLY GENERATED INTANGIBLE ASSETS | ADVANCE PAYMENTS MADE | INTANGIBLE ASSETS, TOTAL |
|---|---|---|---|---|---|
| Balance on 01.07.2012 | 2,648 | 0 | 189 | 0 | 2,837 |
| Deconsolidations | 0 | 9,989 | 0 | 0 | 9,989 |
| Currency differences | 0 | 148 | 0 | 0 | 148 |
| Additions | 0 | 0 | 4 | 1,319 | 1,323 |
| Reclassifications | 50 | 0 | 0 | 0 | 50 |
| Balance on 30.06.2013 | 2,698 | 10,137 | 193 | 1,319 | 14,347 |
| **CUMULATIVE AMORTIZATION AND IMPAIRMENT LOSSES** | | | | | |
| Balance on 01.07.2012 | 2,465 | 0 | 0 | 0 | 2,465 |
| Currency differences | 0 | –15 | 0 | 0 | –15 |
| Additions | 133 | 472 | 0 | 0 | 605 |
| Impairment losses | 0 | 1,713 | 0 | 0 | 1,713 |
| Balance on 30.06.2013 | 2,598 | 2,170 | 0 | 0 | 4,768 |
| **NET CARRYING AMOUNTS** | | | | | |
| Balance on 30.06.2012 | 183 | 0 | 189 | 0 | 372 |
| Balance on 30.06.2013 | 100 | 7,967 | 193 | 1.319 | 9,579 |



At the European companies, the Management Board adapted the IT infrastructure to the strategic reorientation. For this reason, the existing ERP and reporting system includes impairment losses to a fair value of EUR 667 thousand.

Brands, licenses and rights include, inter alia, purchased customer lists (customer relationships) relationships and brand names arising from the acquisition of the US companies at the end of 2012. A review of the residual useful lives of the capitalized customer relationships of the US companies resulted in impairment losses to value in use of EUR 732 thousand. The residual lives of the customer relationships now lie between 3.5 and 10 years, and the residual carrying amounts stood at EUR 4,655 thousand on the balance sheet date. Future annual amortization amounts increased by EUR 40 thousand.

In the income statement, impairment losses are reported under the "depreciation, amortization and impairment losses" item.

Internally generated intangible assets principally concern costs for product design and prototype construction for a tablet dispenser in the medical segment. Once a patented is registered, the assets are considered completed and will beamortized over a five-year useful life. Future income is expected to cover the total costs of development.

Total research costs and development costs that cannot be capitalized amounted to EUR 1,189 thousand in the 2013 / 2014 financial year (2012 / 2013 financial year: EUR 438 thousand).

### 5. d. Financial assets

In the previous year, this item mainly comprised the receivable relating to a non-cash dividend (EUR 4,823 thousand) in connection with the sale of Balda Solutions Malaysia Sdn. Bhd., Ipoh, which in turn was transferred to the finance lease that was set up in the 2013 / 2014 financial year.

Financial assets as of 30 June 2014 concern the non-current portion of the lease receivable (EUR 3,234 thousand) arising from the aforementioned finance lease as per IAS 17.36. This lease results from the rental of the property in Malaysia. Once the contract was entered into, this matter added EUR 6,366 thousand to financial assets. After taking into account foreign exchange differences (EUR 80 thousand) and lease payments received (EUR 1,250 thousand), a carrying amount of EUR 5,036 thousand remained as of the balance sheet date. Of which EUR 1,500 thousand will be due within twelve months and are reclassified into current assets. Regarding the long-term lease receivables (EUR 3,536 thousand), credit risks are taken into account by the lessee in the amount of EUR 302 thousand.

Pursuant to IAS 17.47, we present below the reconciliation between the gross investment amount for the land and the present value of the minimum lease payments as of 30 June 2014:

| | RESIDUAL TERM | | |
|---|---|---|---|
| IN EUR THOUSAND | LESS THAN 1 YEAR | BETWEEN 2–5 YEARS | TOTAL |
| Gross investment as of 30.06.2014 | 1,500 | 3,536 | **5,036** |
| Unrealized finance income | 0 | 0 | **0** |
| Present value of minimum lease payments as of 30.06.2014 | 1,500 | 3,536 | **5,036** |
| Write-down to lease receivable | 0 | 302 | **302** |
| Carrying amount of lease receivable as of 30.06.2014 | 1,500 | 3,234 | **4,734** |

The current portion of the lease receivable amounts to EUR 1,500 thousand, and is reported among other current assets.

### 5. e. Deferred taxes

The following amounts for temporary differences were recognized under deferred tax assets as of 30 June 2014 and 30 June 2013:

**TEMPORARY DIFFERENCES**

| IN EUR THOUSAND | 30.06.2013 | RECOGNIZED THROUGH PROFIT OR LOSS | EFFECTS FROM CURRENCY TRANSLATION | ADJUSTMENT OF OFFSETTING WITH DEFERRED TAX LIABILITIES | 30.06.2014 |
|---|---|---|---|---|---|
| Tax losses (loss carryforwards) | 3,122 | 226 | 0 | 0 | 3,348 |
| Offsetting with deferred tax liabilities | -905 | 0 | 0 | -515 | -1,420 |
| Provisions | 710 | -270 | 0 | 0 | 440 |
| Liabilities | 0 | 668 | 0 | 0 | 668 |
| Inventories | 76 | -59 | 0 | 0 | 17 |
| Property, plant and equipment | 1,327 | -362 | 0 | 0 | 965 |
| Other | 93 | **111** | 0 | 0 | **204** |
| **Deferred taxes according to statement of financial position** | **4,423** | **314** | **0** | **–515** | **4,222** |

Deferred tax assets are recognized only when it is probable that at the reporting date taxable profits will be available against which the deductible temporary differences can be utilized. In the fiscal group of its US companies, the Balda Group has recognized EUR 1,387 thousand of deferred tax assets. The companies incurred losses in the last two financial years. Due to business trends and tax planning calculations, the Balda Group assumes that sufficient positive taxable result will arise to realize the tax claim.

As of 30 June 2014, deferred tax assets of EUR 13,091 thousand existed whose utilization depends on the availability of future taxable income that is higher than the effects on earnings from the reversal of existing taxable temporary differences. Based on the corresponding tax planning for a five-year period, it is probable that the tax assets will be realized.

As of the balance sheet date, tax loss carryforwards exist relating to German trade tax in an amount of EUR 78,315 thousand (previous year: EUR 73,942 thousand), and relating to both German and foreign corporation tax in an amount of EUR 88,937 thousand (previous year: EUR 83,321 thousand), for which no deferred taxes have been recognized. It is nevertheless assumed that it will be possible to offset these loss carryforwards against future profits.

However, since these profits are expected in periods that are outside the planning horizon, they are not recognized.

Deferred taxes with respect to the German companies are calculated at the tax rate of 30.3 % (previous year: 30.3 %). For the foreign companies, tax rates were determined that had been applied or were expected according to legal position on the reporting date.



## Current assets

### 5. f. Inventories

Impairment losses are recognized on the inventories disclosed at the reporting date in the amount of EUR 10,052 thousand (previous year: EUR 10,402 thousand). The impairment losses applied to inventories changed as follows:

| IN EUR THOUSAND | 2013 / 2014 | 2012 / 2013 |
|---|---|---|
| **Valuation allowances at start of financial year** | **616** | **707** |
| Additions to impairments | 538 | 161 |
| Reversal of impairments | 0 | –16 |
| Utilization of valuation allowances | –535 | –237 |
| Disposal due to change in scope of consolidation | 0 | –329 |
| Addition due to change in scope of consolidation | 0 | 330 |
| **Valuation allowances at end of financial year** | **619** | **616** |

In the 2013 / 2014 financial year, valuation allowances to inventories of EUR 893 thousand (previous year: EUR 992 thousand) were expensed.

### 5. g. Trade receivables

Trade receivables amount to EUR 8,541 thousand at the reporting date (previous year: EUR 10,222 thousand).

All receivables are due in less than one year.

The specific valuation allowances on trade receivables changed as follows:

| IN EUR THOUSAND | 2013 / 2014 | 2012 / 2013 |
|---|---|---|
| **Valuation allowances at start of financial year** | **131** | **393** |
| Additions to impairments | 22 | 23 |
| Addition from acquisition of US companies | 0 | 81 |
| Utilization of valuation allowances | –98 | 0 |
| Disposal due to change in scope of consolidation | 0 | –366 |
| Reversal of unused valuation allowances | –33 | 0 |
| Exchange rate difference | –5 | 0 |
| **Valuation allowances at end of financial year** | **17** | **131** |

Please also refer to our comments on credit risk in section II.5.ac. "Management of risks arising from financial instruments and capital management".

The maturities of the trade receivables that are not impaired are as follows:

| IN EUR THOUSAND | CARRYING AMOUNT | OF WHICH: NEITHER IMPAIRED NOR OVERDUE AS OF THE REPORTING DATE | OF WHICH: NOT IMPAIRED AS OF THE BALANCE SHEET DATE AND OVERDUE IN THE FOLLOWING TIME BANDS | | | | | IMPAIRED AS OF THE BALANCE SHEET DATE |
|---|---|---|---|---|---|---|---|---|
| | | | UP TO 30 DAYS | BETWEEN 31 AND 60 DAYS | BETWEEN 61 AND 90 DAYS | BETWEEN 91 AND 120 DAYS | MORE THAN 120 DAYS | |
| Trade receivables as of 30 June 2014 | 8,541 | 7,256 | 967 | 96 | 112 | 97 | 13 | 17 |
| Trade receivables as of 30 June 2013 | 10,222 | 8,357 | 1,462 | 215 | 35 | 23 | 0 | 131 |

With regard to the trade receivables that are neither impaired nor past due, there are no indications at the reporting date that the debtors will not meet their payment obligations.

The default risk for trade receivables for the current and the previous financial year is limited to the carrying amount of the receivables.

Applying the percentage of completion method (POC-method) revenues (EUR 2,490 thousand) excelled the associated accounting parts (EUR 1,904 thousand). The positive surplus of EUR 586 thousand that is reported as a trade receivable. The following list shows the level of partial revenues and the attributable costs:

| IN EUR THOUSAND | |
|---|---|
| Revenues as per POC method | 2,490 |
| Contract costs | 2,131 |
| Profit as per POC method | 359 |

### 5. h. Other current assets

Other current assets are comprised as follows:

| IN EUR THOUSAND | 30.06.2014 | 30.06.2013 |
|---|---|---|
| Financial assets | 35,827 | 214,794 |
| Non-financial assets | 370 | 340 |
| **Other current assets, total** | **36,197** | **215,134** |

Financial assets include:

| IN EUR THOUSAND | 30.06.2014 | 30.06.2013 |
|---|---|---|
| Current portion of lease receivables arising from rental of property in Malaysia | 1,500 | 0 |
| Bank deposits with restricted access | 2,878 | 0 |
| Fixed term deposits with a term of more than 3 months | 30,000 | 130,021 |
| Corporate bonds with a term of more than 3 months | 0 | 79,638 |
| Other | 1,449 | 5,135 |
| **Total** | **35,827** | **214,794** |

The bank deposits with restricted access relate to a cash deposit for an advance payment guarantee with a term until January 2015.

The fixed term deposits have terms until a maximum of May 2015. Depending on the investment volume and term, they carry interest rates of between 0.7% and 0.9% (previous year: interest rates between 0.72% and 1.28%). The deposited amounts are subject to the Private Banks' Deposit Protection Fund, and carry a good rating (investment grade). The corporate bonds reported in the previous year carried interest rates of between 0.45% and 0.8%.

The maturities of the financial assets were on balance dates 30 June 2014 as well as 30 June 2013 neither overdue nor debased.



There are no indications at the reporting date that the debtors will not meet their payment obligations.

The valuation allowances applied to other current financial assets have changed follows:

| IN EUR THOUSAND | 2013/2014 | 2012/2013 |
|---|---|---|
| **Valuation allowances at start of financial year** | **0** | **10,577** |
| Additions | 0 | 0 |
| Utilization | 0 | 10,577 |
| **Valuation allowances at end of financial year** | **0** | **0** |

Upon receipt of the purchase price in connection with the sale of the China business, the previous year's valuation allowance was utilized directly in equity. The purchase price was newly negotiated in 2012.

Other current non-financial assets are comprised as follows:

| | 30.06.2014 | | 30.06.2013 | |
|---|---|---|---|---|
| IN EUR THOUSAND | TOTAL | OF WHICH: CURRENT | TOTAL | OF WHICH: CURRENT |
| VAT reimbursement claims | 370 | 370 | 340 | 340 |
| **Total** | **370** | **370** | **340** | **340** |

### 5. i. Current tax assets

The tax assets solely relate to refund claims for income taxes in accordance with IAS 12.

### 5. j. Cash and cash equivalents

Cash and cash equivalents amounting to EUR 160,518 thousand (previous year: EUR 68,153 thousand) comprise cash and bank balances. For more information on the development of cash, please refer to our comments on the statement of cash flows in section 'II.4. Statement of cash flows'.

Cash and cash equivalents with restricted access existed in an amount of EUR 2,878 thousand (previous year: EUR 0 thousand). They were reported among "other current assets".

### 5. k. Consolidated equity

The changes in consolidated equity are presented in the statement of changes in equity.

The parent company's subscribed capital continued to amount to EUR 58,891 thousand as of the 30 June 2014 balance sheet date. It is split into 58,890,636 no par value bearer shares, which are fully dividend-entitled. One share represents a notional amount in the share capital of EUR 1.00. All shares fully paid in.

The Group's equity amounted to EUR 241,783 thousand as of 30 June 2014, compared with EUR 334,536 thousand as of the 30 June 2013 balance sheet date.

The Annual General Meeting on 11 May 2012 authorized the Management Board, with the approval of the Supervisory Board, to increase the company's share capital by a maximum of EUR 29,445,318 on one or several occasions up to 10 May 2017 by issuing up to 29,445,318 new no par value bearer shares against cash and/or non-cash contributions (Authorized Capital 2012).

The company's share capital will be contingently increased by up to EUR 17,667,190 through the issue of up to 17,667,190 new no par value bearer shares carrying dividend entitlement from the start of the financial year in which they are issued (Contingent Capital 2012). The contingent capital increase serves the purpose of granting shares to the holders of convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds (or combinations of these instruments) issued up to 10 May 2017 by the company or entities in which the company has a direct or indirect majority holding on the basis of the authorization by the Annual General Meeting on 11 May 2012, to the extent that these are issued for cash.

The company's Annual General Meeting on 11 May 2012 authorized the Management Board, with the approval of the Supervisory Board, to issue convertible bonds and/or bonds with warrants, profit participation rights and/or profit participation bonds or combinations of these instruments (together "bonds") with a total face value of up to EUR 100,000,000.00 with or without a maturity limit on one or several occasions up to 10 May 2017. The holders of the bonds may be granted conversion rights or warrants on no par value bearer shares of the company with a total stated value of up to EUR 17,667,190 in accordance with the details of the terms of the bonds on which the corresponding conversion or warrant obligations are based.

Neither authorized nor contingent capital had been utilized as of the balance sheet date.

In addition, the capital reserves include the statutory reserve of Balda AG. Up until the time the shares were sold, the TPK shares were recognized in equity under reserves in the item

Due to the sale of the remaining TPK shares in January 2013, in the previous year the offsetting item for the market valuation of AfS-instruments was released.

Differences arising from the translation of the statements of financial position and income statements of the foreign companies prepared in foreign currency are transferred to the foreign currency translation reserve under equity in accordance with IAS 21.

The currency translation reserve in equity changed as follows:

| IN EUR THOUSAND | 2013/2014 | 2012/2013 |
|---|---|---|
| **Reserve at start of financial year** | **3,373** | **14,306** |
| Change in foreign currency translation reserve reported in comprehensive income | | |
| Change in currency translation reserve recognized in equity | –10,281 | –8,109 |
| Disposal from sales and reclassification to income statement | 0 | –2,824 |
| Reclassification due to conversion of functional currency of a subsidiary | 1,436 | 0 |
| **Reserve at end of financial year** | **–5,472** | **3,373** |

On 01 June 2014, Balda AG converted the functional currency for Balda Investments Singapore Pte. Ltd., Singapore from US dollars to euros. This subsidiary is available to the Group as a financial holding company. The economic environment changed due to disposals, and the restructuring of companies dependent on this financial holding company. The subsidiary holds mainly euro-denominated financing positions.

This switch is accompanied by a change to the foreign currency translation method applied. The foreign currency translation differences which are carried directly to equity, and which are reported within other comprehensive income until 01 June 2014, remain within equity. Due to the translation of all balance sheet items at the exchange rate prevailing on the date of the change of the functional currency, a transfer between net retained profits and the currency translation reserve in an amount of EUR 1,436 thousand was conducted.

Net retained profits comprise the profit or loss generated by the Group to date, less any dividend distributions. As of 30 June 2014, net retained profits amounted to EUR 151,928 thousand, following EUR 235,836 thousand in the previous year.



In the 2013/2014 financial year, a dividend of EUR 88,336 thousand (EUR 1.50 per share) was distributed to shareholders for the 2012/2013 financial year.

### Non-current liabilities

#### 5. l. Bank loans

At the 30 June 2014 reporting date, bank loans of EUR 465 thousand (previous year: EUR 763 thousand) existed exclusively at the US companies. The loans still have a residual term of three years, and carry 3.36% interest. Redemption amounts under twelve months were reported among 5.r. "short-term bank borrowings and short-term loans".

#### 5. m. Deferred taxes

The deferred tax liabilities changed as follows in the 2013/2014 financial year:

**TEMPORARY DIFFERENCES**

| IN EUR THOUSAND | BALANCE ON 30.06.2013 | RECOGNIZED THROUGH PROFIT OR LOSS | EFFECTS FROM CURRENCY TRANSLATION | ADJUSTMENT OF OFFSETTING WITH DEFERRED TAX LIABILITIES | BALANCE ON 30.06.2014 |
|---|---|---|---|---|---|
| Property, plant and equipment, and intangible assets | 5,095 | –363 | –191 | 0 | 4,541 |
| Financial investments | 568 | 189 | 0 | 0 | 757 |
| Receivables | 1,264 | 706 | 0 | 0 | 1,970 |
| Offsetting with deferred tax assets | –905 | 0 | 0 | –515 | –1,420 |
| Other | 24 | -21 | 0 | 0 | 3 |
| **Deferred taxes according to statement of financial position** | **6,046** | **511** | **-191** | **-515** | **5,851** |

In the consolidated financial statements of Balda AG, deferred tax liabilities relating to outside basis differences are generally formed only if the management plans to distribute earnings within the foreseeable future (two years). At the reporting date, deferred tax liabilities of EUR 757 thousand (previous year: EUR 568 thousand) were recognized on temporary differences between the net assets of subsidiaries and the corresponding carrying amount of the investments for tax purposes. In accordance with Section 8b (1) in conjunction with (5) of the German Corporation Tax Act (KStG), this amount constitutes the tax charge in connection with the planned dividend distributions by subsidiaries to Balda AG. Besides this, no deferred tax liabilities were formed for taxable temporary outside basis differences in an amount of EUR 10,686 thousand (previous year: EUR 11,583 thousand), because on this scale it is unlikely that these temporary differences will reverse in the foreseeable future.

#### 5. n. Non-current provisions

Non-current provisions changed as follows:

| IN EUR THOUSAND | BALANCE 30.06.2013 | EXCHANGE RATE DIFFERENCES | UTILIZATION | DISPOSAL | ADDITION | BALANCE 30.06.2014 |
|---|---|---|---|---|---|---|
| Anniversary obligation provisions | 128 | 0 | 0 | 0 | 19 | 147 |
| **Total** | **128** | **0** | **0** | **0** | **19** | **147** |

Non-current provisions relate to deferrals for future obligations to employees arising from long-term service (anniversary obligations). The amount of the obligations depends on the length of the employees' service. An interest rate of 2.60% was applied for discounting to present value at the reporting date. The interest effect recognized in the 2013/2014 financial year is EUR 4 thousand (previous year: EUR 4 thousand). The claim occurred in dependance with the archievement of jubilees in a period of up to 45 years.

## Current liabilities

### 5. o. Trade payables

Trade payables principally result from deliveries of materials and services.

The decrease in "trade payables" from EUR 6,283 thousand as of 30 June 2013 to EUR 5,539 thousand as of 30 June 2014 is primarily attributable to the reduction in inventories.

### 5. p. Other current financial / non-financial liabilities

The other current financial liabilities mainly concern:

| IN EUR THOUSAND | 2014 | 2013 |
|---|---|---|
| Personnel obligations | 2,489 | 2,523 |
| Liabilities arising from the acquisition in the USA | 0 | 533 |
| Miscellaneous other current liabilities | 1,544 | 1,404 |
| **Total** | **4,033** | **4,460** |

All of the liabilities are due within one year.

The miscellaneous other current non-financial liabilities mainly concern:

| IN EUR THOUSAND | 2014 | 2013 |
|---|---|---|
| VAT obligations | 32 | 413 |
| **Total** | **32** | **413** |

### 5. q. Advance payments received

The advance payments received chiefly relate to payments received on account of orders for assembly lines and tools that are already being used in production.

### 5. r. Short-term bank borrowings and short-term loans

In addition to the credit lines that have been drawn down, this item includes the repayments from loans taken out that are due within the next twelve months. All of the amounts are therefore due within one year.

### 5. s. Income tax liabilities

The tax liabilities relate exclusively to obligations for income taxes in accordance with IAS 12.

### 5. t. Current provisions

The current provisions are composed as follows:

| IN EUR THOUSAND | BALANCE 30.06.2013 | EXCHANGE RATE DIFFEREN-CES | UTILIZA-TION | DISPOSAL | ADDITION | BALANCE 30.06.2014 |
|---|---|---|---|---|---|---|
| Warranty obligations | 110 | 0 | 0 | –5 | 0 | 105 |
| Personal obligations | 0 | 0 | 0 | 0 | 1,299 | 1,299 |
| **Total** | **110** | **0** | **0** | **–5** | **1,299** | **1,404** |

The warrenty obligations were built for customer obligations on the basis of past experience. The personnel obligation relates to a deferral for potential payments after the departure of the former Management Board member.



### 5. aa. Share-based compensation

The Group has no share-based compensation schemes.

### 5. ab. Additional information about financial instruments

Presentation by measurement category:

The carrying amounts andmeasurements by measurement category for the continuing operations are shown in the table below:

| 30.06.2014 IN EUR THOUSAND | MEASU-REMENT CATEGORY AS PER IAS 39 | CARRYING AMOUNT AS OF 30 JUNE 2014 | MEASUREMENT AS PER IAS 39 (AMORTI-ZED) COST | FAIR VALUE THROUGH PROFIT OR LOSS | FAIR VALUE DIRECTLY TO EQUITY | MEASURE-MENT AS PER OTHER IFRS |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | LaR | 160,518 | 160,518 | 0 | 0 | 0 |
| Trade receivables | LaR | 8,541 | 7,955 | 0 | 0 | 586 |
| Other current financial assets | LaR | 35,817 | 34,327 | 0 | 0 | 1,500 |
| Other non-current requirements (leasing) | LaR | 3,234 | 0 | 0 | 0 | 3,234 |
| **Liabilities** | | | | | | |
| Bank Loans | FLAC | 465 | 465 | 0 | 0 | 0 |
| Trade payables | FLAC | 5,539 | 5,239 | 0 | 0 | 300 |
| Current bank borrowings and loans | FLAC | 285 | 285 | 0 | 0 | 0 |
| Other current financial liabilities | FLAC | 4,033 | 4,033 | 0 | 0 | 0 |
| **Of which aggregated according to measurement categories as per IAS 39:** | | | | | | |
| Loans and Receivables (LaR) | LaR | 208,120 | 202,800 | 0 | 0 | 5,320 |
| Financial Liabilities Measured at Amortized Cost (FLAC) | FLAC | 10,322 | 10,022 | 0 | 0 | 300 |

| 30.06.2014 IN EUR THOUSAND | MEASU-REMENT CATEGORY AS PER IAS 39 | CARRYING AMOUNT AS OF 30 JUNE 2013 | MEASUREMENT AS PER IAS 39 (AMORTI-ZED) COST | FAIR VALUE THROUGH PROFIT OR LOSS | FAIR VALUE DIRECTLY TO EQUITY | MEASURE-MENT AS PER OTHER IFRS |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | LaR | 68,153 | 68,153 | 0 | 0 | 0 |
| Trade receivables | LaR | 10,222 | 10,222 | 0 | 0 | 0 |
| Other current financial assets | LaR | 214,794 | 214,794 | 0 | 0 | 0 |
| Other non-current requirements (leasing) | LaR | 5,191 | 5,191 | 0 | 0 | 0 |
| **Liabilities** | | | | | | |
| Bank Loans | FLAC | 763 | 763 | 0 | 0 | 0 |
| Trade payables | FLAC | 6,283 | 6,283 | 0 | 0 | 0 |
| Current bank borrowings | FLAC | 968 | 968 | 0 | 0 | 0 |
| Other current financial liabilities | FLAC | 4,460 | 4,460 | 0 | 0 | 0 |
| **Of which aggregated according to measurement categories as per IAS 39:** | | | | | | |
| Loans and Receivables (LaR) | LaR | 298,360 | 298,360 | 0 | 0 | 0 |
| Financial Liabilities Measured at Amortized Cost (FLAC) | FLAC | 12,474 | 12,474 | 0 | 0 | 0 |

Regarding the current financial assets and liabilities as well as long term bank loans, the carrying amount corresponds roughly to the fair value. Fair value from other non-current leases add up to EUR 2,985 thousand (Level 3) as of 30 June 2014. The measurement was conducted on the basis of customary interests and agreed deferred payments.

As of 30 June 2014 and 30 June 2013, the Balda Group held no financial assets or liabilities measured at fair value within the financial statement.

The net profit/loss of continuing operations classified by measurement category are as follows:

| | FROM SUBSEQUENT MEASUREMENT | | | | | |
|---|---|---|---|---|---|---|
| 30.06.2014<br>IN EUR THOUSAND | AT FAIR VALUE | CURRENCY TRANSLATION | IMPAIRMENT | FROM INTEREST PAYMENTS | FROM DISPOSAL | NET PROFIT/LOSS 2013 |
| Loans and Receivables (LaR) | 0 | 10,035 | –313 | 1,648 | 0 | 11,370 |
| Financial Liabilities Measured at Amortized Cost (FLAC) | 0 | 0 | 0 | –69 | 923 | 854 |
| **Total** | **0** | **10,035** | **–313** | **1,579** | **923** | **12,224** |

| | FROM SUBSEQUENT MEASUREMENT | | | | | |
|---|---|---|---|---|---|---|
| 30.06.2014<br>IN EUR THOUSAND | AT FAIR VALUE | CURRENCY TRANSLATION | IMPAIRMENT | FROM INTEREST PAYMENTS | FROM DISPOSAL | NET PROFIT/LOSS 2013 |
| Loans and Receivables (LaR) | 0 | 7,353 | –39 | 2,421 | 0 | 9,735 |
| Financial Assets (AfS) | | | | | | |
| Other comprehensive income | | | | | | |
| Income statement | 0 | 2,400 | 0 | 0 | 16,883 | 19,283 |
| Financial Liabilities Held for Trading (FLHfT) | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial Liabilities Measured at Amortized Cost (FLAC) | 0 | 0 | 0 | –61 | 3,867 | 3,806 |
| **Total** | **0** | **9,753** | **–39** | **2,360** | **20,750** | **32,824** |

### 5. ac. Management of risks arising from financial instruments and capital management

#### Currency risks

The Balda Group's international activities generate cash flows in euros as well as cash flows in other currencies, particularly US dollars.

Operating risks are nevertheless not regarded as high because the Group companies primarily carry out their activities in their respective functional currencies.

The objective of the currency management function at Balda is to minimize foreign currency risks. Where possible and expedient, hedging instruments are used to eliminate currency risks. Currency movements are continuously observed in conjunction with the banks. The Group does not have any foreign currency holdings. Where no hedging instruments can be used, foreign currency is exchanged immediately. For the reporting of market risks, IFRS 7 requires sensitivity analyses which show effects of hypothetical changes in relevant risk variables on profit/loss and equity. Balda Group companies are always exposed to foreign currency risk when their cash flows are denominated in a currency other than their functional currency. The foreign currency risk presented in the sensitivity analysis results from the following transactions:

Currency risks exist in the Group mainly as a result of the US-dollar liability to subsidiaries in connection with the acquisition of companies in the Unites States.



The periodic effects are determined by correlating the hypothetical changes in the risk variables to the holdings of financial instruments at the reporting date. Here, it is assumed that the holdings at the reporting date are representative for the entire year.

Currency risks as defined by IFRS 7 arise as a result of financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature; exchange rate-related differences arising from the translation of financial statements into the Group currency are not taken into account. All non-functional currencies in which the Group enters into financial instruments are considered relevant risk variables.

Transactions in foreign currency are primarily effected in USD for the Group's operating activities. The following table shows, from a Group perspective, the sensitivity of a rise or fall of the Euro against the foreign currency in question. The sensitivity analysis merely considers outstanding monetary items in foreign currency and adjusts their translation at the end of the period in accordance with a 5% change in the exchange rates. The sensitivity analysis includes transactions from the operating business if these transactions are denominated in a currency other than the company's functional currency. It therefore comprises the effects of a change in the exchange rate on the financial investments held. If the euro had been 5% stronger (weaker) relative to all currencies as of 30 June 2014, total comprehensive income and consolidated equity would have been around EUR 528 thousand (previous year: EUR 59 thousand) lower (higher).

| IN EUR THOUSAND | NOMINAL VOLUME AS OF 30.06.2014 | 2014 −5% | NOMINAL VOLUME AS OF 30.06.2013 | 2013 −5% |
|---|---|---|---|---|
| **Effects on comprehensive income** | | | | |
| from USD | 5.115 | 256 | 1.165 | 58 |
| from MYR | 5.185 | 259 | 0 | 0 |
| from other currencies | 269 | 13 | 14 | 1 |
| **Total** | | **528** | | **59** |

#### Credit risk

Actively pursued local debtor management is designed to ensure that the Group companies receive information on the creditworthiness of business partners in advance from corresponding credit bureaus and credit insurers. Moreover, customers' past payment behavior can provide additional insight. Where possible, receivables will also be hedged through credit insurance policies. In the Group's operations, receivables are continuously monitored at local level. Specific valuation allowances are recognized to make allowance for default risks. On the basis of these Group-wide regulations, the losses of the non-impaired assets are regarded as low. The maximum credit risk for all classes of financial assets according to IFRS 7.36 (a) represent the equivalent carrying amounts.

#### Interest rate risk

The Balda Group is subject to interest rate risk primarily in Europe and Asia. Operations are financed locally in close collaboration with the Corporate Finance department of Balda AG. Major interest rate transactions are negotiated directly with the Group finance function. On account of the uncertainty in the financial markets, the investment of excess liquidity reserves is focused on the preservation of assets rather than the maximization of profit.

The interest rate sensitivity analysis presents the effects of changes in market interest rates on interest payments, interest income and interest expense, as well as on equity. Sensitivity analyses for interest rate risk are based on the following assumptions:

— Primary financial instruments with fixed interest rates are only subject to a risk of changes in value in terms of their carrying amounts if they are measured at fair value. Such financial instruments are measured at amortized cost in the Balda Group.

— Primary variable-rate financial instruments whose interest payments are not included as hedged items in a hedge that has been recognized as a cash flow hedge are subject to interest rate risk both in terms of recognition in the income statement and in terms of cash flow.

As in the previous year, the Balda Group had no variable interest financial liabilities as of the balance sheet date. Apart from the borrower's note loan (EUR 32,878 thousand) in other current assets, the interest-bearing financial receivables also carry only fixed interest rates, and no variable interest rates. A quantitative presentation is not provided as a consequence. If the interest rates would change by 1 %, this would affect the result in the amount of EUR 329 thousand.

### Liquidity risk

Liquidity risk in the narrower sense of the word refers to the risk that there will not be sufficient funds available to meet all payment obligations punctually.

In the wider sense of the term, however, liquidity risk for the Balda Group also refers to any limitation to the Group's ability to raise debt or capital (e. g. rating), which could jeopardize the implementation of corporate strategies or the Group's general financial flexibility. Key factors of influence on liquidity risk (economic developments, assessment of the credit standing by external parties) are outside the control of the financial management function.

Liquidity risk management therefore concerns the analysis of the risk and the use of financial instruments (e. g. agreement of adequate credit facilities, diversification of lenders, definition of capital commitment) to hedge the risk in the environment over which the financial management function has no control. For more information, please refer to the following chapter "Objectives of capital and liquidity management".

The following table shows the contractually agreed (undiscounted) interest and principal repayments of the non-derivative financial liabilities:

| IN EUR THOUSAND | CARRYING AMOUNT 30.06.2014 | CASH FLOWS 2014/2015 INTEREST | CASH FLOWS 2014/2015 REPAYMENT | CASH FLOWS 2015/2016 INTEREST | CASH FLOWS 2015/2016 REPAYMENT | CASH FLOWS 2016/2017 – 2018/2019 INTEREST | CASH FLOWS 2016/2017 – 2018/2019 REPAYMENT | CASH FLOWS 2019/2020 ET SEQ. INTEREST | CASH FLOWS 2019/2020 ET SEQ. REPAYMENT |
|---|---|---|---|---|---|---|---|---|---|
| **Primary financial liabilities** | | | | | | | | | |
| Long-term bank loans | 465 | 15 | 0 | 11 | 298 | 1 | 167 | 0 | 0 |
| Short-term bank borrowings | 285 | 9 | 285 | 0 | 0 | 0 | 0 | 0 | 0 |
| Trade payables | 5,539 | 0 | 5,539 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial liabilities | 4,033 | 0 | 4,033 | 0 | 0 | 0 | 0 | 0 | 0 |

No variable interest rate existed as of the 30 June 2014 reporting date.

The previous year was as follows:

| IN EUR THOUSAND | CARRYING AMOUNT 30.06.2013 | CASH FLOWS 2013/2014 INTEREST | CASH FLOWS 2013/2014 REPAYMENT | CASH FLOWS 2014/2015 INTEREST | CASH FLOWS 2014/2015 REPAYMENT | CASH FLOWS 2015/2016 – 2017/2018 INTEREST | CASH FLOWS 2015/2016 – 2017/2018 REPAYMENT | CASH FLOWS 2018/2019 ET SEQ INTEREST | CASH FLOWS 2018/2019 ET SEQ REPAYMENT |
|---|---|---|---|---|---|---|---|---|---|
| **Primary financial liabilities** | | | | | | | | | |
| Long-term bank liabilities | 763 | 25 | 0 | 21 | 208 | 9 | 465 | 0 | 0 |
| Short-term bank borrowings | 968 | 29 | 968 | 0 | 0 | 0 | 0 | 0 | 0 |
| Trade payables | 6,283 | 0 | 6,283 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial liabilities | 4,460 | 0 | 4,460 | 0 | 0 | 0 | 0 | 0 | 0 |



### Objectives of capital and liquidity management

In terms of its accounting equity, the main objective of the Group's capital management function is to ensure that the Balda Group remains able to repay its debts and retains a capital structure with matching maturities. The Management Board is authorized to raise short-term debt to finance current assets. For its strategic investments, the Group has at its disposal, in addition to loans, a variety of equity instruments such as the issue of bonds. The Group has implemented a system with appropriate parameters for managing short-term, medium-term and long-term financing and liquidity requirements. The Group secures short-term solvency through holding sufficient cash and cash equivalents. Future and actual cash flows are monitored at the same time.

Important parameters of the company's capital management system are the optimization of net financial liabilities and net gearing. Net financial liabilities include all liabilities to banks, lease liabilities and payments received, net of cash. As a result of the sale of the TPK shares, the excess of cash over liabilities (= net financial receivables) increased to EUR 156,773 thousand (previous year: EUR 63,303 thousand). The ratio of net financial liabilities to the Group's equity led to a net gearing of –64.7 % (previous year: –18.6 %).

The following table provides an overview of the significant capital management parameters:

| IN % | 30.06.2014 | 30.06.2013 |
|---|---|---|
| Net financial receivables (in EUR thousand) | 156,773 | 63,303 |
| Net gearing (in %) | –64.7 | –19.0 |
| Equity ratio in % | 91.8 | 93.0 |
| Equity (in EUR thousands) | 241,783 | 334,536 |
| Return on equity (in %) | 2.4 | 3.6 |

As a consequence of the sale of TPK shares in previous years, the Group continues to hold very high cash and cash equivalents at the reporting date (bank balances as well as short-term fixed-term deposits in debt instruments). The Group's liquidity ratios at the reporting dates were as follows:

| IN % | | 30.06.2014 | 30.06.2013 |
|---|---|---|---|
| First-degree liquidity | Liquid assets + short-term money deposits / Current liabilities | 1,304,4 | 1,526,8 |
| Third-degree liquidity | Current assets / Current liabilities | 1,430,4 | 1,670,4 |

These figures illustrate the matched maturities in the Group's financing. Over and beyond the investments for strategic growth, the goal is to guarantee that the Group enjoys a healthy cash flow. Having a minimum reserve of cash is also designed to continue to prevent future liquidity bottlenecks for financing the Group's operations. Balda continuously exchanges information with the commercial banks. This aims to ensure the necessary provision of credit facilities to cover potential liquidity bottlenecks. At the current time, the Group wuth the US companies has credit lines at banks in the amount of USD 1,000 thousand. To secure advance payment guarantees, credit guarantee lines also exist in Europe in an amount of EUR 8,500 thousand.

## 6. NOTES TO INDIVIDUAL ITEMS OF THE CONSOLIDATED INCOME STATEMENT

For all notes below relating to changes to individual income statement items, it should be noted that the amounts can be compared to only a limited extent as the US companies that were acquired in the 2012/2013 financial year were included in the previous year's consolidated financial statements for only six months.

### 6. a. Sales revenues

Of the total consolidated revenue of the Balda Group in the financial year under review, an amount of EUR 27,457 thousand is attributable to Germany (2012/2013 financial year: EUR 26,906 thousand), and EUR 43,060 thousand is attributable to international sales (2012/2013 financial year: EUR 33,000 thousand). All of the sales revenues were generated from the sale of goods in the America and Europe operating segments. The higher level of sales revenue arises mainly from the inclusion on a full-year basis in the year under review of the US companies that were acquired in December 2012. In the previous year, the US companies were included for only six months.

Sales revenues include contract revenue from long-term construction contracts in accordance with IAS 11 in the amount of EUR 2,490 thousand in the financial year under review (2012/2013 financial year: EUR 2,106 thousand).

### 6. b. Changes in inventories of finished goods and work in progress

This item concerns the change in inventories of the goods produced or processed by the Group. An increase in inventories of EUR 348 thousand was reported in the 2013/2014 financial year (2012/2013 financial year: decrease in inventories of EUR 2,852 thousand).

### 6. c. Other operating income

Other operating income in the consolidated financial statements is comprised as follows:

| IN EUR THOUSAND | 2013/2014 | 2012/2013 |
|---|---|---|
| Rental income | 789 | 825 |
| Income from adjustment of variable purchase price payment | 503 | 3,332 |
| Insurance reimbursement payments | 489 | 10 |
| Income from insolvency proceedings | 447 | 836 |
| Income relating to other accounting periods | 420 | 1,171 |
| Sales of materials | 383 | 58 |
| Income from the invoicing of service charges | 188 | 0 |
| Income from charges passed on | 70 | 212 |
| Foreign exchange gains | 55 | 153 |
| Income from the reversal of allowances on receivables | 33 | 29 |
| Accounting profits from disposal of fixed assets | 14 | 0 |
| Miscellaneous | 657 | 804 |
| **Total** | **4,048** | **7,430** |

Income relating to other accounting periods concerns the release of deferred expenses from the previous year.

### 6. d. Cost of materials

The cost of materials of the Balda Group stood at EUR 26,935 thousand (2012/2013 financial year: EUR 23,829 thousand). The cost of materials ratio (the ratio of the cost of materials to sales revenue including changes in inventory) amounted to 38.0% in the 2013/2014 financial year (2012/2013 financial year: 41.8%). The American companies' higher proportion of the less materials-intensive injection molding business fed through to a fall in this ratio.

### 6. e. Personnel expenses

Personnel expenses in the Group amounted to EUR 29,253 thousand (2012/2013 financial year: EUR 21,207 thousand). The ratio of personnel expenses to total operating revenue was 41.3% in the 2013/2014 financial year (2012/2013 financial year: 37.2%). The absolute increase in personnel expenses arises mainly from the full-year inclusion for the



first time of the US companies. In addition, deferrals due to the departure from the company of staff, including the former Management Board member, totaling EUR 1,723 thousand (2012/2013 financial year: EUR 179 thousand) resulted in a both absolute and relative increase.

Personnel expenses in the reporting year include employer contributions to pension plans in the amount of EUR 675 thousand (2012/2013 financial year: EUR 658 thousand).

### 6. f. Depreciation, amortization and impairment losses

Depreciation and amortization amounted to EUR 4,955 thousand in the reporting period (2012/2013: EUR 3,710 thousand). This amount includes depreciation and amortization in the amount of EUR 1,912 thousand (2012/2013 financial year: EUR 1,145 thousand) recognized on the assets of the US companies identified as part of the purchase price allocations.

The company reports impairment losses of EUR 1,399 thousand on intangible assets as part of optimizing the costs of the IT infrastructure and reviewing the residual useful lives of capitalized customer relationships. Furthermore depreciations and financial assets for the provision of credit risks in the amount of EUR 302 thousand incurred.

The annual goodwill impairment test did not necessitate any impairment losses in the current financial year (2012/2013 financial year: EUR 11,514 thousand).

### 6. g. Other operating expenses

The other operating expenses mainly concern:

| IN EUR THOUSAND | 2013/2014 | 2012/2013 |
|---|---|---|
| Legal and consulting costs | 3,085 | 5,014 |
| Energy costs | 2,600 | 1,978 |
| Premises, maintenance and operating costs | 2,504 | 2,110 |
| Travel/vehicle/advertising costs and investor relations expenses | 2,286 | 1,964 |
| Rent and leasing expenses | 1,379 | 730 |
| IT costs | 1,128 | 1,022 |
| Outgoing freight and warehousing costs | 1,016 | 1,001 |
| Administrative costs | 471 | 385 |
| Insurance | 353 | 342 |
| Other taxes | 337 | 217 |
| Training courses/incidental personnel expenses | 310 | 211 |
| Supervisory Board compensation | 170 | 156 |
| Expenses for costs passed on | 138 | 525 |
| Currency losses | 45 | 5 |
| Loss on disposal of fixed assets | 30 | 61 |
| Bad debt allowance and bad debt losses | 13 | 149 |
| Miscellaneous | 931 | 989 |
| **Total** | **16,795** | **16,859** |

The decline in legal and consulting costs is due to the fact that the previous year included costs of EUR 1,893 thousand connected with acquisition activities, which were not incurred in the year under review.

Travel/vehicle/advertising expenses and investor relations expenses as well as legal and consultancy fees in the previous financial year also include the accrued costs for the extraordinary general meetings in July and September 2013 amounting to EUR 1,340 thousand.

### 6. h. Net interest income / expense

The interest result is made up as follows:

| IN EUR THOUSAND | 2013 / 2014 | 2012 / 2013 |
|---|---|---|
| Interest expenses | 69 | 62 |
| Interest income | 1,648 | 2,448 |
| Net interest income / expense | **1,579** | **2,386** |

### 6. i. Other finance income (net)

Other finance income is comprised as follows:

| IN EUR THOUSAND | 2013 / 2014 | 2012 / 2013 |
|---|---|---|
| Income from currency differences | 9,721 | 12,025 |
| Expenses from currency differences | 1,250 | 0 |
| **Total amount** | **8,471** | **12,025** |

Other (net) finance income includes foreign exchange gains arising from the measurement as of the reporting date of euro cash positions at foreign subsidiaries, and the measurement as of the reporting date of intercompany loans denominated in foreign currencies in an amount totaling EUR 8,471 thousand (2012 / 2013 financial year: EUR 12,025 thousand). The previous year also includes foreign exchange gains connected with the sale of the remaining TPK shares in February 2013 (EUR 2,400 thousand).

The previous years are restated to reflect the foreign exchange gains arising from the measurement as of the reporting date of intercompany loans (EUR 2,272 thousand). In the previous year, these were reported under the other operating income item (compare to explanation in section 2 accounting principles).

### 6. j. Net gain from sale of TPK shares

The previous year's figure related to the net gain / loss arising from the sale of the remaining TPK shares.

### 6. k. Taxes on income

The income taxes recognized in the income statement are made up as follows:

| IN EUR THOUSAND | 2013 / 2014 | 2012 / 2013 |
|---|---|---|
| Current income tax expense | 433 | 975 |
| Tax income / expense, previous years | –1,167 | –1 |
| Deferred tax income / expense from the origination or reversal of temporary differences | 421 | –3,985 |
| Change in the deferred tax assets recognized on loss carryforwards | –226 | 790 |
| **Total income tax expense** | **–540** | **–2,131** |

The applicable tax rate in Germany is composed of trade tax of 14.5 % (2012 / 2013 financial year: 14.5 %) and corporation tax of 15.8 % (2012 / 2013 financial year: 15.8 %) including the solidarity surcharge. The tax on the Group's earnings before taxes differs from the theoretical amount calculated on application of the theoretical income tax rate of around 30.3 % (2012 / 2013 financial year: around 30.3 %) on earnings before taxes, as follows:

| IN EUR THOUSAND | 2013 / 2014 | 2012 / 2013 |
|---|---|---|
| Earnings before taxes (EBT) | 5,324 | 18,660 |
| Theoretical tax expense 2013 / 2014: 30.3 % (previous year: 30.3 %) | 1,614 | 5,657 |
| Tax rate differences | –1,972 | –4,353 |
| Non-tax deductible income and expenses | –311 | –4,103 |
| Utilization of tax loss carryforwards | 1,183 | 672 |
| Tax effect from change in deferred taxes | 196 | –318 |
| Tax losses for which no deferred tax assets were recognized | 0 | 502 |
| Taxes for previous years | –1,167 | –1 |
| Other | –81 | –187 |
| **Total income tax expense** | **–540** | **–2,131** |

### 6. l. Profit / loss from continuing operations

The Balda Group generated a net profit from continuing operations of EUR 5,864 thousand (2012 / 2013 financial year: EUR 20,791 thousand).

The basic and diluted earnings per share for continuing operations are as follows:

| | 2013 / 2014 | 2012 / 2013 |
|---|---|---|
| Net profit / loss from continuing operations after taxes (EUR thousand) | 5,864 | 20,791 |
| Weighted average number of shares issued (in thousands) | 58,891 | 58,891 |
| **Basic and diluted earnings per share as per IAS 33 (EUR)** | **0.10** | **0.353** |

As in the previous year, no dilutive instruments existed in the 2013 / 2014 financial year.

### 6. m. Profit / loss from discontinued operations

The net profit / loss from the discontinued operation was comprised as follows in the 2012 / 2013 financial year:

| IN EUR THOUSAND | 2013 / 2014 | 2012 / 2013 |
|---|---|---|
| Sales revenues | 0 | 15,847 |
| Other operating income | 0 | 289 |
| Changes in inventories of finished goods and work in progress | 0 | –60 |
| Cost of materials | 0 | 9,732 |
| Personnel expenses | 0 | 4,329 |
| Depreciation, amortization and impairment losses | 0 | 970 |
| Other operating expenses | 0 | 2,458 |
| Net finance income | 0 | 142 |
| Earnings before taxes (EBT) | 0 | –1,271 |
| Taxes on income | 0 | –150 |
| Profit / loss from discontinued operations | 0 | –1,121 |
| of which attributable to other shareholders | 0 | 0 |
| Net profit / loss from discontinued operations attributable to the Group | 0 | –1,121 |
| Deconsolidation profit / loss on disposal | 0 | –6,190 |
| **Comprehensive profit / loss from discontinued operations** | **0** | **–7,311** |

The loss from the discontinued operations of the Asia region resulted in the previous year from the operating result and the deconsolidation result as part of the disposal of Balda Solutions Malaysia.

Basic and diluted earnings per share for the discontinued operations are as follows:

| | 2013/2014 | 2012/2013 |
|---|---|---|
| Net profit/loss from discontinued operation after taxes (EUR thousand) | 0 | –7,311 |
| Weighted average number of shares issued (in thousands) | 58,891 | 58,891 |
| **Basic and diluted earnings per share as per IAS 33 (EUR)** | **0** | **–0.124** |

As in the previous year, no dilutive instruments existed in the 2013/2014 financial year.

### 6. n. Consolidated net income

The consolidated net income of EUR 5,864 thousand (2012/2013: EUR 13,480 thousand) is attributable in full to the shareholders of Balda AG.

### 6. o. Earnings per share—basic and diluted

Basic and diluted earnings per share are as follows:

| | 2013/2014 | 2012/2013 |
|---|---|---|
| Group share of earnings after taxes for the year on basis of income statement (EUR thousand) | 5,864 | 13,480 |
| Weighted average number of shares issued (in thousands) | 58,891 | 58,891 |
| **Basic and diluted earnings per share as per IAS 33 (EUR)** | **0.10** | **0.229** |

As in the previous year, no dilutive instruments existed in the 2013/2014 financial year.

## 7. STATEMENT OF COMPREHENSIVE INCOME

The other comprehensive income (EUR –10,281 thousand) primarily includes the net gains/losses from the translation of the statements of financial position and income statements of the foreign companies prepared in foreign currency.



# III. OTHER DISCLOSURES

## A. AVERAGE NUMBER OF EMPLOYEES

The following figures relate to the average headcount in the Balda Group including temporary help staff and trainees from the continuing operations.

| | 2013/2014 | 2012/2013 |
|---|---|---|
| Management Board | 2 | 2 |
| Commercial employees | 70 | 67 |
| Technical and industrial staff | 496 | 556 |
| Temporarily help staff | 166 | 298 |
| **Subtotal** | **734** | **923** |
| Trainees | 3 | 2 |
| **Total (average) number of employees** | **737** | **925** |
| **Number of employees as of the balance sheet date** | **786** | **856** |

For further information please refer to our comments on employees in the management report.

## B. CONTINGENT LIABILITIES

As in the previous year, no contingent liabilities existed as of reporting date.

## C. OTHER FINANCIAL OBLIGATIONS

Other financial obligations of EUR 7,698 thousand (previous year EUR 1,359 thousand) are composed as follows:

| IN EUR THOUSAND | 2013/2014 | 2012/2013 |
|---|---|---|
| Order commitments for investments in property, plant and equipment and intangible assets | 0 | 170 |
| Binding orders for materials and commodities | 7,698 | 1,189 |
| **Financial obligations, total** | **7,698** | **1,359** |

For more information about the rental and leasing obligations, please refer to our comments in section III. D "Leasing".

## D. LEASING

**Lessee—operating lease**

As of 30 June 2014, rental and leasing obligations amounted to:

| MINIMUM LEASE PAYMENTS IN EUR THOUSAND | 2013/2014 | 2012/2013 |
|---|---|---|
| < 1 year | 1,643 | 913 |
| 2 to 5 years | 2,217 | 2,111 |
| > 5 years | 65 | 0 |
| **Total amount** | **3,926** | **3,024** |

Payments of EUR 1,379 thousand were expensed in the period under review (previous year: EUR 932 thousand), and relate exclusively to minimum lease payments.

The obligations under rental and lease agreements relate to agreements in which the Group companies are not beneficial owners in accordance with IFRS (operating leases). The rental and leasing obligations principally concern machinery. No contractual purchase options exist at the end of the lease term.

**Lessee—finance lease**

As in the previous year, no finance leases existed as of the 30 June 2014 reporting date.

**Lessor—operating lease**

In order to maximize capacity utilization at the Bad Oeynhausen manufacturing facility, production areas and office premises are leased to third parties until May 2018 and December 2019 respectively. This lease will generate the following lease payments for the Group:

| MINIMUM LEASE PAYMENTS IN EUR THOUSAND | 2013/2014 | 2012/2013 |
|---|---|---|
| < 1 year | 411 | 315 |
| 2 to 5 years | 1,143 | 323 |
| > 5 years | 23 | 0 |
| **Total amount** | **1,577** | **638** |

**Lessor—finance lease**

In Malaysia, a lease exists until December 2016 arising from the rental of the production site of the former Balda subsidiary Balda Solutions Malaysia in Ipoh. For further explanation refer to section 5.d. "Financial assets".



## E. CONTINGENT LIABILITIES AND ASSETS

When the convertible profit participation rights were converted in 2010, conversion costs were paid to the investors for early conversion. The Management Board considers these payments (EUR 8,105 thousand) operating expenses rather than interest-related payments subject to a capital gains tax deduction.

## F. LIST OF SHAREHOLDINGS

The following represents the list of shareholdings of Balda AG as of 30 June 2014:

### FULLY CONSOLIDATED EQUITY INVESTMENTS

| ENTITY | DOMICILE | EQUITY INVESTMENT | INTEREST HELD |
|---|---|---|---|
| Balda Medical GmbH & Co. KG | Bad Oeynhausen Germany | Direct | 100% |
| Balda Medical Verwaltungsgesellschaft mbH | Bad Oeynhausen Germany | Direct | 100% |
| Balda Solutions Deutschland GmbH | Bad Oeynhausen Germany | Direct | 100% |
| Balda Werkzeug- und Vorrichtungsbau GmbH | Bad Oeynhausen Germany | Direct | 100% |
| Balda Investments Netherlands B.V. | Hengelo Netherlands | Direct | 100% |
| Balda Investments Singapore Pte. Ltd. via Balda Investments Netherlands B.V. | Singapore Singapore | Indirect | 100% |
| Balda Investments Malaysia Pte. Ltd. via Balda Investments Netherlands B.V. | Singapore Singapore | Indirect | 100% |
| Balda Investments USA LLC via via Balda Investments Netherlands B.V. | Wilmington Delaware, USA | Indirect | 100% |
| Balda C. Brewer, Inc. Balda Investments USA LLC | Anaheim California, USA | Indirect | 100% |
| Balda Precisions, Inc. (formerly: Balda HK Plastics, Inc.) via Balda Investments USA LLC | Oceanside California, USA | Indirect | 100% |
| Widesphere Sdn. Bhd. via Balda Investments Malaysia Pte. Ltd. | Kuala Lumpur Malaysia | Indirect | 100% |

## G. CORPORATE BODIES OF BALDA AG

**Supervisory Board of Balda AG**

— Dr. Thomas van Aubel, Berlin, from 4 September 2013 (Chairman), lawyer, Kanzlei VAN AUBEL & PARTNER lawyers, Berlin
— Mrs. Frauke Vogler, Berlin, from 4 September 2013 (Deputy Chairman), lawyer / tax consultant, Rechtsanwälte Steuerberater VOGLER, ROESSNIK, CHALUPNIK, Berlin
— Mr. Klaus Rueth, Darmstadt, from 4 September 2013, pensioner, former CFO of EMD Chemicals, USA
— Dr. Michael Naschke, lawyer, Berlin (until 4 September 2013) (Chairman), NASCHKE & PARTNER legal practice, Berlin
— Mr. Wilfried Niemann, Pr. Oldendorf, (from 1 March 2013 until 4 September 2013) (Deputy Chairman), Managing Director of Karl. W. Niemann GmbH & Co.KG, Pr. Oldendorf
— Mrs. Irene Schetelig, Berlin, (from 1 March 2013 until 4 September 2013), Controller of Youtailor GmbH, Berlin

Dr. Thomas van Aubel is also
— Member of the Supervisory Board of
  — Rubin 33. AG, Berlin
  — Market Logic Software AG, Berlin
  — Enligna AG, Berlin (Chairman)
  — ALEA Energy Solutions AG, Berlin (Chairman)

**Management Board of Balda AG**

— Dr. Dieter Brenken, Hilden, from 5 September 2013, Management Board member Global Human Resources, Accounting, Controlling, Treasury, Audit, Legal, Tax, IT
— Mr. Oliver Oechsle, Düsseldorf, from 14 October 2013, Management Board member Global Sales, Global Supply Chain Management, Public and Investor Relations
— Mr. Dominik Müser, Ratingen, Chairman of the Management Board and Chief Financial Officer (CFO) / CEO until 14 October 2013 (from 1 January 2013 to 4 September 2013 as the sole member of the Management Board)

Dr. Dieter Brenken is also
— Chairman of the Board of Directors of
  — Balda Investments USA LLC., Wilmington, California, USA (from 15 October 2013)
— Member of the Board of Directors of
  — Balda Investments Singapore Pte. Ltd., Singapore, Singapore (from 15 October 2013)
  — Balda Investments Malaysia Pte. Ltd. Singapore, Singapore, (from 15 October 2013)
  — Widesphere Sdn. Bhd., Kuala Lumpur, Malaysia (from 14 October 2013)
  — Balda Solutions USA Inc., Morrisville, USA (from 15 October 2013)

Mr. Oliver Oechsle is also
— Member of the Board of Directors of
  — Balda C. Brewer, Inc., Anaheim California, USA (from 24 October 2013)
  — Balda HK Plastics, Inc., Oceanside California, USA (from 24 October 2013)
  — formerly: Balda HK Plastics Inc., Oceanside California, USA

Mr. Dominik Müser was also
— Chairman of the Board of Directors of
  — Balda Investments USA LLC., Wilmington, California, USA (from 12 December 2012)
— Member of the Board of Directors of
  — Balda Investments Singapore Pte. Ltd., Singapore, Singapore
  — Balda Solutions Malaysia Sdn. Bhd., Ipoh, Malaysia (until 26 August 2013)
  — Balda Solutions USA, Inc., Morrisville, USA
  — Balda Investments Malaysia Pte. Ltd., Singapore, Singapore
  — Balda C. Brewer, Inc., Anaheim California, USA (from 29 December 2012)
  — Balda HK Plastics, Inc., Oceanside, California, USA (from 1 January 2013)
  — Widesphere Sdn. Bhd., Kuala Lumpur, Malaysia (from 26 April 2013)

With the exception of his post at Balda Solutions Malaysia Sdn. Bhd., Ipoh, Malaysia (here: 26 August 2013), Mr. Dominik Müser resigned from all posts effective 14 October 2013.

**Management and Supervisory board compensation**

The compensation paid to managers in key positions that must be disclosed pursuant to IAS 24 comprises compensation paid to the Management and Supervisory boards at the Balda Group. These board members were granted the following (short-term payable benefits) compensations:

| IN EUR THOUSAND | 2013 / 2014 | 2012 / 2013 |
|---|---|---|
| Management Board | 752 | 613 |
| Supervisory Board | 170 | 156 |

Management Board compensation includes variable components in an amount of EUR 100 thousand. Along with this booked compensation, the Balda Group has also expensed provisions of EUR 1,299 thousand for potential payment obligations due to the departure of the former Management Board member.

As also in the previous year, no loans were granted, neither to the Management Board members nor the Supervisory Board members as of 30 June 2014; equally, no contingent liabilities were entered into on behalf of the Management and Supervisory boards.

The Management Board members receive no compensation for fulfilling their tasks at subsidiaries. Please refer to the remarks in the compensation report contained in the Group management report for individualized breakdown of pay and other detail relating to compensation.

### DIRECTORS´ HOLDINGS

| DIRECTORS' HOLDINGS | 30.06.2014 | 30.06.2013 | CHANGE |
|---|---|---|---|
| Dr. M. Naschke [1] | 0 | 44,000 | –44,000 |
| W. Niemann [2] | 0 | 0 | 0 |
| I. Schetelig [3] | 0 | 0 | 0 |
| Dr. T. van Aubel [4,5] | 17,331,689 | 17,632,808 | –301,119 |
| F. Vogler [6] | 100 | 100 | 0 |
| K. Rueth [7] | 0 | 0 | 0 |
| **Supervisory Board, total** | **17,331,789** | **17,676,908** | **–345,119** |

1 On Supervisory Board until 04.09.2013.
2 On Supervisory Board until 04.09.2013.
3 On Supervisory Board until 04.09.2013.
4 On Supervisory Board from 04.09.2013.
5 Shareholding via Elector GmbH, Berlin.
6 On Supervisory Board from 04.09.2013.
7 On Supervisory Board from 04.09.2013.

The Management Board members did not hold any shares in the reporting period as well as the previous year period.

The corporate bodies did not make any further purchases or sales in the 2013 / 2014 financial year.

## H. RELATED PARTY DISCLOSURES

Related parties as defined by IAS 24 are legal entities or individuals who control or exercise significant influence over Balda AG and its subsidiaries. This includes individuals and companies that are significantly influenced by Balda AG and / or its subsidiaries.

Only the members of the corporate bodies of Balda AG count as members of management in key positions within the Balda Group. Relationships with directors are presented in the compensation reports of the Management and Supervisory board in section III.g. 'Corporate bodies of Balda AG' in the notes to the consolidated financial statements and in the Group management report in section 4. Compensation report.

Supervisory Board Chairman Dr. Thomas van Aubel is the sole shareholder of Elector GmbH, Berlin, which exerts significant influence over the business of Balda AG with an approximately 29.4 % interest. Elector GmbH invoiced Balda AG for EUR 251 thousand for arranging the EGMs in July and September 2013 customary to the market. No open items due from Elector GmbH existed as of the balance sheet date.

From his function as Supervisory Board Chairman, Dr. Thomas van Aubel received fixed compensation and meeting fees of EUR 56 thousand. In addition to this, Dr. Thomas van Aubel received dividends in the amount of EUR 26,449 thousand in January 2014 on the basis of the general terms and conditions due to his shareholder position through Elector GmbH.

In the reporting period the Management Board initiated a review whether a dependency of Balda AG on Elector GmbH or Dr. van Aubel existed in the financial year 2012 / 2013. The review came to the conclusion that a dependency in terms of Section 17 of German Stock Corporation Act (AktG) had neither existed towards Elector GmbH nor Dr. van Aubel.

No other transactions occurred with related parties.

## I. EVENTS AFTER THE BALANCE SHEET DATE

**Changes to the Management Board**
Following the end of the period under review, on 28 August 2014, the Supervisory Board announced that the interim management agreement of Dr. Dieter Brenken would end at the end of October 2014, as planned. In this connection, Mr. Oliver Oechsle was appointed for a further two years to the Management Board of Balda AG.

**Counterclaim against former Managing Board member**
On 24 September 2014 the Supervisory Board of Balda AG has passed a resolution to put forward a lawsuit against a former organ. The subject matter of the counterclaim are the company's loss compensation receivables due to serious infringements of duty in 2013.

After the 30 June 2014 reporting date, no other events occurred of important significance for the Group's net assets, results of operations and financial position.



## J. AUDITORS' FEES

The following fees are expensed in the 2013 / 2014 financial year for the auditor:

| IN EUR THOUSAND | 2013 / 2014 | 2012 / 2013 |
|---|---|---|
| Audits of financial statements | 130 | 250 |
| Certification services | 42 | 0 |
| Tax advisory services | 111 | 0 |
| Other services | 33 | 0 |
| **Total amount** | **316** | **250** |

The services were rendered entirely for the 2013 / 2014 financial year.

The fees for audit services essentially consist of the fees for the audit of the consolidated financial statements as well as for the audit of the separate financial statements of Balda AG and Balda Medical GmbH & Co. KG as of 30 June 2014.

Certification services related primarily to the audit of the migration of the newly introduced ERP software at the Bad Oeynhausen location, and the auditor's reviews of interim financial statements. The preparation of tax declarations and advice in connection with the restructuring measures are aggregated within the tax consulting services. The other services contain expenses connected with the performance of due diligence audits as part of acquisition activities.

## K. APPLICATION OF EXEMPTIONS PURSUANT TO SECTION 264A OF THE GERMAN COMMERCIAL CODE (HGB) IN COMBINATION WITH SECTION 264B OF THE GERMAN COMMERCIAL CODE HGB

Balda Medical GmbH & Co. KG, Bad Oeynhausen, makes use of the exemptions from the duty to prepare a management report and notes to the financial statements, as well as their publication in accordance with Section 264 b of the German Commercial Code (HGB).

## L. CORPORATE GOVERNANCE

Balda follows and will follow the recommendations and suggestions of the German Corporate Governance Code as amended on 13 May 2013 with certain exceptions. 2013 / 2014 financial year in accordance with Section 161 of the German Stock Corporation Act (AktG) is permanently available to shareholders and the general public together with previous declarations of compliance on the Balda website under Investor Relations / Publication / Corporate Governance (www.balda-group.com). The most recent corporate governance declaration can also be downloaded from the corporate governance section of the Balda website.

Bad Oeynhausen, 29 September 2014

The Management Board

**DR. DIETER BRENKEN** MANAGEMENT BOARD MEMBER (CFO)

**OLIVER OECHSLE** MANAGEMENT BOARD MEMBER (COO)

# AUDITOR´S REPORT

We have audited the consolidated financial statements prepared by the Balda Aktiengesellschaft, Bad Oeynhausen / Germany, —comprising the balance sheet, the income statement and statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements—and the group management report for the business year from 1 July 2013 to 30 June 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB ("German Commercial Code") are the responsibility of the parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of the Balda Aktiengesellschaft, Bad Oeynhausen / Germany, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Frankfurt, 29 September 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

**WEGNER** GERMAN PUBLIC AUDITOR

**LÖSER** GERMAN PUBLIC AUDITOR



# RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the combined management report includes a fair review of the development and performance of the business and the position of the Balda Group, together with a description of the material opportunities and risks associated with the expected development of the Balda Group.

Bad Oeynhausen, 29 September 2014

The Management Board

**DR. DIETER BRENKEN** MANAGEMENT BOARD MEMBER (CFO)

**OLIVER OECHSLE** MANAGEMENT BOARD MEMBER (COO)

# 04

## MORE INFORMATIONS

## FINANCIAL CALENDAR

**12 November 2014**
Q1 report 2014 / 2015

**18 November 2014**
AGM 2014

**11 February 2015**
H1 report 2014 / 2015

**12 May 2015**
Q3 report 2014 / 2015

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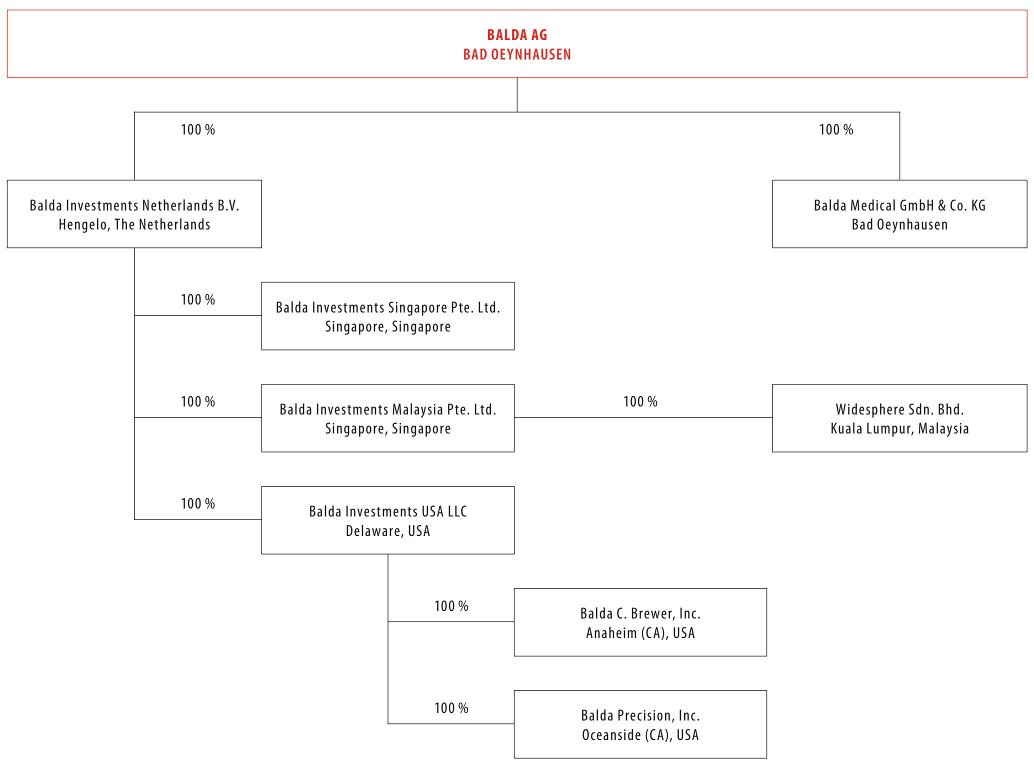
# GROUP STRUCTURE

The Group's legal structure with its significant Group companies is as follows:

**LEGAL STRUCTURE** OF BALDA GROUP




The allocation of the production locations and regions' holding companies is as follows:

**SEGMENTS** OF BALDA GROUP

Balda GROUP

*Solutions made in plastic*