Annual Review 2003

Favourable development of portfolio

The European economy was characterised by diverging trends in 2003. While the year’s beginning had been rather gloomy due to the Iraq War, a looming recession in Germany and little growth in neighbouring countries France and the Netherlands, from mid-year onwards, the picture brightened.

For Halder, practising the usual caution again proved successful last year. Much of Halder’s focus during the year was on managing its existing portfolio. In spite of the difficult economic environment, the market value of Halder’s investment portfolio increased by nearly 40% last year. In 2003, the Group made add-on investments in three companies, acquired one company and invested a total of € 6.3 million, versus € 32.3 million in 2002. One portfolio company was divested.

Halder’s newly launched buy-out fund for Germany had a good start and at its first closing in the fourth quarter of 2003 had commitments of € 78 million.
Portfolio companies

Badenia Bettcomfort GmbH & Co. KG (D)
Bopack N.V. (B)
Essanelle Hair Group AG (D)
Euretco B.V. (NL)
FCS Control Systems B.V. (NL)
Gealan Holding GmbH (D)
Geka-brush GmbH (D)
GHE (Gruppo Happich-Ellamp) S.p.A. (I)
Holonite B.V. (NL)
Konrad Hornschuch AG (D)
Les Margerides Groupe (F)
Meister Benelux S.A. (B)
Novagraaf Holding B.V. (NL)
Pril B.V. (NL)
Single Temperiertechnik GmbH (D)
Wichard Groupe (F)

Duvets and pillows
Self-adhesive labels
Hairdresser’s salon chain
Wholesale cooperative for clothes and furniture
Test systems for aviation and car industry
PVC window profiles systems
Cosmetic brushes and packs
Interior parts for commercial vehicles
Composite stones
Foils, synthetic leather, laminates
Blades and accessories for lawn mowers
Precision components for car braking systems
Trademarks and patents advisor
DIY products wholesaler
Temperature control systems
Marine hardware and precision forgings
Investors

Adams Street Partners, LLC (US)
BankAmerica Capital Corporation (US)
Co-operative Insurance Society Ltd. (UK)
Dela Natura Uitvaartverzekeringen N.V. (Netherlands)
GIMV n.v. (Belgium)
NIF Ventures Co., Ltd. (Japan)
NORD KB Beteiligungsgesellschaft mbH (Germany)
N.V. Interpolis (Netherlands)
Stichting OZ Beheer (Netherlands)
Pensioenfonds Agfa-Gevaert vzw (Belgium)
PGGM (Netherlands)
Fondinvest VI (France)
ProLog Beteiligungsgesellschaft mbH (Germany)
RWB RenditeWertBeteiligungen AG (Germany)
Shell Pensioenfonds (Netherlands)
Stichting Levi Lassen (Netherlands)
Stichting Unilever Pensioenfonds “Progress” (Netherlands)
Verizon Asset Management Company (US)
Following difficult years for the capital markets, the most important indices for the global stock markets reached their low in March 2003 with the beginning of the Iraq War. The slow growth seen in almost all of the Eurozone countries during the last few years continued. In Germany, real gross domestic product fell for the first time since the recession of the early nineties. France and the Netherlands only attained marginal rates of economic growth.

In the second half of the year, the European economy showed signs of recovery. The revival of economic activity was mirrored by a more favourable stock market climate. The major indices of the global stock markets advanced by 30% to 40% until year-end.

Although only 143 companies went public in Europe in 2003, compared to 174 the previous year, a continuous upwards movement was seen during the last months of 2003. In the year’s last quarter, the number of IPOs exceeded the figure recorded in the same quarter of 2002.

Private equity: Slowly emerging from the trough

After a weak start, the private equity market, too, seemed to have bottomed out from March 2003 onwards. After losses due to insolvency in the amount of € 3.2 billion in 2002, accounting for 30% of total divestments, this proportion decreased to 15% of exits, or € 1.4 billion, in 2003. The currently more favourable stock market environment should reopen opportunities to sell portfolio companies via the stock exchange.

The fact that fundraising was difficult in 2003’s environment comes as no surprise. But the downward trend came to a halt here, as well. At € 27.7 billion, the 2003 capital raised slightly exceeded previous year’s level, but was far below the figures recorded in 2000 and 2001, when € 48.0 billion and € 40.0 billion, respectively, had been raised in the European market.

Investments also had a highly subdued start in 2003. A total of € 23.1 billion was invested in Europe in 2003, lagging behind the € 27.6 billion of 2002. Towards the end of the year, however, a marked upward trend became visible clear.

Holding up well in a difficult environment

In 2003, Halder remained cautious in making new investment commitments. The Group successfully focused on managing its existing portfolio. Despite weak economic conditions, the companies in the Halder portfolio developed favourably during the year. The majority of all portfolio companies recorded increases in earnings before interest and taxes, and some experienced strong growth. In 2003, the market value of Halder’s investment portfolio increased by 38%.

<table>
<thead>
<tr>
<th>Key figures (€ million)</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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<tbody>
<tr>
<td>Investment volume (cumulative)</td>
<td>203.4</td>
<td>247.2</td>
<td>268.4</td>
<td>300.7</td>
<td>307.0</td>
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<tr>
<td>Divestment revenues (cumulative)</td>
<td>186.0</td>
<td>232.0</td>
<td>233.8</td>
<td>260.0</td>
<td>267.9</td>
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<tr>
<td>Investments (p.a.)</td>
<td>37.8</td>
<td>43.8</td>
<td>21.2</td>
<td>32.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Divestment revenues (p.a.)</td>
<td>40.6</td>
<td>46.0</td>
<td>1.8</td>
<td>26.2</td>
<td>7.9</td>
</tr>
<tr>
<td>Portfolio companies (at year-end)</td>
<td>22</td>
<td>23</td>
<td>24</td>
<td>21</td>
<td>20</td>
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A good time for investing
Halder’s many years of focusing on management buy-outs of solid small- and medium-sized enterprises (SME) is proving its worth. The market seems to confirm the success of this orientation. 67% of the capital European private equity funds invested in 2003 went into buy-outs of well-established enterprises, as this segment proved robust even in difficult market conditions. Buy-outs, for instance, over the last five years achieved a return of 9.3%, as compared to a return of 2.5% on investments in the venture segment.

**2003: One acquisition and one divestment**

In 2003, Halder acquired one new company and divested one portfolio company. In addition, Halder made add-on investments in three companies.

In November 2003, Halder invested in the Dutch composite stone manufacturer, Holonite Holding B.V. The company produces and supplies finishing and completion components for the building industry. Its product range extends from thresholds and window-sills to wall coverings for the residential, commercial and industrial building industry. The transaction is intended to support the expansion of the building materials manufacturer founded in 1969.

One Belgian portfolio company was sold. Halder divested its participation in the Belgian textiles manufacturer Tissage de Kalken by selling its 50% stake to a financial investor. Tissage de Kalken manufactures decorative interior textiles.

Among the companies benefiting from an add-on investment was Wichard S.A., a manufacturer of safety-critical forged parts for the leisure and other industries. Wichard acquired Simond S.A., a manufacturer of branded goods in the mountaineering equipment sector. FCS Control Systems B.V. also received additional capital. The manufacturer of test systems aims at further growth in the automotive industry.

In addition, Halder increased its stake in the Dutch trading company, Euretco and now holds the majority of this company’s equity, together with another financial investor.

**First closing of fund for Germany**

In spite of the reluctant mood of investors, the first closing of Halder’s fund for Germany has been carried out according to plan last year. € 78 million of capital was committed by institutional investors from Germany, Belgium, the US and Japan. The fund’s capital is to be invested in medium-sized companies. Further investors are currently in the due diligence phase. The fund is to be closed in the course of 2004. With the Germany fund, Halder intends to continue its proven strategy, mainly by way of buy-out transactions of family-owned “Mittelstand” companies.
Reversal of trend at year-end

Although the fundraising climate is difficult, it is currently an ideal time for making investments. In the second half of 2003, first signs of a more favourable economic climate became visible. Meanwhile, the economic revival seen in Germany for some months now is stabilising, and economic indicators in the Netherlands are showing marked rises for the first time since December 2000. On that basis, the market environment is becoming more attractive for sellers. There is a growing willingness to sell businesses or parts of businesses within the framework of ownership successions or group restructurings. But also the acquisitions and divestitures effected between the private equity providers themselves may lead to a new dynamism in the private equity sector.

The German Private Equity Barometer has been pointing upwards for several months now. Investors even take a renewed interest in technology start-up companies which had been such great disappointments before. An improved general economic setting also fosters the opportunities for investment.

The market observations coincide with the expectations of the Halder Group, based on its many years of experience in the German and Dutch SME sectors. It is a good time for acquiring companies. The setting is right, and the long-term perspectives are favourable. The market environment gains additional dynamism from the reopening of IPO opportunities, which means that an important divestment channel for portfolio companies has opened up again.

Halder expects more transactions

Halder sees 2004 as a good year for investments because the market is still far from a phase of exaggerated expectations and prices. At the same time, many of the former competitors in the private equity field have retreated from the German market during the recent market correction phase. Halder is currently seeing a very good deal flow and is examining several opportunities to invest in mid-market companies. For 2004 Halder expects to invest considerably more than in 2003.

The positive signs for 2004 have already been confirmed by the successful exit of Halder’s interest in Muelink & Grol B.V. of Groningen, a manufacturer of ventilation and flue gas systems for gas heatings. Halder sold the interest in this company, acquired five years ago, to a financial investor. Muelink & Grol is the European market leader in its field of business.

Further exits are expected to materialize during 2004.
Ownership succession, spin-offs and expansion

Halder provides medium-sized businesses with equity capital. Its focus is on firms with positive earnings and sales of between €20 million and €200 million, which are run independently by a professional management team. Management always holds a stake in the company.

Investments are geared towards ownership succession, the spin-off of business divisions from large companies, changes in the shareholder structure and expansion financing.

Focus on MBOs

Many investments take the form of a management buy-out. The total volume of such transactions may reach €125 million.

Long-term goals

The investment objective is to increase the portfolio company’s value over the long term. Halder puts no emphasis on current return such as dividend payments.

Advice based on experience

In addition to providing equity capital as a financial investor, Halder supports portfolio companies with advice and know-how gained from investing in more than 100 companies. Typically, Halder is represented on the supervisory board, but does not interfere in day-to-day management.

Active since 1983, Halder is part of the Euronext-listed GIMV Group since 2000. GIMV is Belgium’s most important venture capital provider and also an international market player. As at December 31, 2003, GIMV’s consolidated equity capital amounted to €625.4 million and its net asset value to €914.2 million. Within the GIMV Group, Halder is the specialist for mid-market buy-outs.

Mutual interests

In management buy-outs, the existing management takes ownership in the company in which they are employed by investing together with Halder.

Investment managers at Halder commit personal capital to every investment – thus ensuring parallel interests of all parties to the investment.
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